

Perceived Effects of International Financial Reporting Standards (IFRS) Adoption on Quality Financial Reporting of Quoted Companies in Nigeria

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Abstract

This study examined the effectiveness of IFRS on financial reporting quality of quoted companies in Nigeria. Five research questions were formulated and tested in this study. The study involved a sample of 150 respondents. A self-designed questionnaire was used, descriptive statistics and chi-square analysis at 0.05 level of significance was used to analyse the data gathered. Result showed that IFRS adoption would have significant positive effects on capital markets stability and efficiency. IFRS adoption would significantly improve the transparency and usefulness of account to investors. IFRS adoption would significantly improve public confidence in market and it will significantly enhanced the uniformity, comparability and reliability of the financial statements. Based on the findings, it was recommended among others that Standard setter such as financial reporting council should integrate the knowledge on the adoption of international financial reporting standard more in our institution curriculum. Regulatory authority such as security and exchange commission Nigeria Stock Exchange, Federal Board of Inland Revenue service should encourage all members and stakeholders to adopt as single financial reporting standard that will reduce information asymmetry in our economy.

Keywords: Effectiveness, IFRS, Financial, Quality, Information and Reporting

INTRODUCTION

International Accounting is a field of academic interests which has significantly risen in the last couple of years. This becomes important especially in emphasized conditions of international integration of firms, which in turn, provides them with more opportunities to approach new markets and therefore to increase their sales, and, of course, to obtain financing from the multinational financial markets.

Prior research concludes that firms competing for foreign resources tend to expand their financial and accounting disclosure. This expanded disclosure is assumed to reduce resource providers' uncertainty about transactions with the firm and, in turn enable the firm to obtain resources at lower cost. Improved information reduces uncertainty about a company and therefore, potentially the risk premium required by investors (Zarzeski, 1996). Choi and Levich (1991) argued that diversity in accounting reporting (measurement, presentation, and disclosure) affects capital market participants. In an extensive survey of capital market regulators and rating agencies, almost one-half of the respondents stated that their capital market decisions were affected by accounting diversity. In the absence of common accounting principles and disclosure practices, analyzing foreign financial statements is difficult for investors. International Financial Reporting Standards, though, create a common language for defining, interpreting and publication of financial statements in the whole world (Blanc, 2003).

Currently, Nigeria has just moved from practicing an accounting reporting system known as the Generally Accepted Accounting Principles (GAAP) to International Financial Reporting standards (IFRS). GAAP refers to the standard framework of guidelines for financial accounting used in any given jurisdiction which are generally known as Accounting Standards. According to Hamed, (2010) the adoption of the International Financial Reporting Standard (IFRS) by companies operating in both the public and private sectors would boost the investment climate in Nigeria particularly the capital market. He noted that the adoption of the accounting standards would also reduce information asymmetry which would in turn lead to lower costs of equity and financing. Countries like China, Hong Kong, Russia, Kenya, Zimbabwe Zambia, South Africa, Ghana, Sierra Leone and all European countries have adopted the standards; While these countries have started enjoying the adoption of IFRS, Nigeria adoption of IFRS was launched in September, 2010 and was planned to commence with Public Listed Companies in 2012 and by end 2014 all stakeholders would have complied. As at today, banking sector has fully implemented (Okpala, 2012). But is Nigeria prepared for International Financial

Reporting Standards? Are the stakeholders of financial information aware of the benefits of these International financial Reporting standards? The above question becomes relevant especially now that about 100 countries from Africa, Europe and other continents have adopted and are practicing International Financial Reporting Standards (IFRS). Now that Nigeria has join the league of IFRS users, how effective is IFRS adoption in achieving the objectives of financial reporting standards. Understanding the potential effects of IFRS on a company's accounting process is critical to accountants, auditors, corporate management, investors, lenders, financial analysts, regulators, and others connected to corporate financial reporting. The overall objective of this paper is to provide a better understanding of the effectiveness of IFRS on financial reporting quality of quoted companies in Nigeria.

Research questions

To achieve the objectives study, the following research questions are raised;

1. Will IFRS have significant effects on capital markets stability and efficiency?
2. Will IFRS significantly improve the transparency and usefulness of account to investors?
3. Will IFRS significantly improve public confidence in market?
4. To what extent will IFRS adoption enhanced the uniformity, comparability and reliability of the financial statements?

LITERATURE REVIEW

Concept of International Financial Reporting Standards

International Financial Reporting Standard (IFRS) is a global agenda to foster common benchmark in financial information across international borders with the aim of generating greater momentum for economic development (Onafalujo, Eke & Akinlabi, 2011). The IFRS (International Financial Reporting Standards) consist of a set of international accounting principles, the adoption of which aims at establishing clear rules within the European Union to draw up comparable and transparent annual reports and financial statements. Their adoption represents an essential element to obtain an integrated, competitive and attractive capital market. The transition to IFRS has meant fundamental changes for many companies.

IFRS conversion has not been viewed simply as an accounting exercise, but as a change in national GAAP (generally accepted accounting principles) and in whole basis of financial reporting. IFRS information has affected the perception of firm's business performance, and firms have been enabled to produce IFRS financial statements that allow them to adopt a global financial reporting language as well as to be evaluated in a global marketplace (PricewaterhouseCoopers, 2004). Communicating in one language to stakeholders enhances confidence in the business and improves finance-raising capabilities. IFRS allows companies to benchmark themselves against their peers, and allows investors to compare firm performance with competitors globally. Accounting practices have historically varied by country (Nobes & Parker, 2000).

Bloom (1997) argues that "accounting is very much a function of a country's culture. Since each county has a unique culture, each has a somewhat different accounting system." Therefore, making informed investment decisions across borders is often a difficult task due to the lack of uniformity in generally accepted accounting principles. A move toward a set of global accounting standards and practices was made in 1973 starting with the formation of the International Financial Reporting Standards Committee (IASC) which promulgated International Financial Reporting Standards (IASs). The IASC was replaced by the International Financial Reporting Standards Board in 2001 which issues International Financial Reporting Standards (IFRSs). Approximately 100 countries currently require or have a policy of convergence with IFRSs (Deloitte Touche Tohmatsu, 2007). These standards are not identical to generally accepted accounting principles in the United States, but have many similar provisions (Houston & Reinstein, 2001; Reason, 2002; Blanco & Osma, 2004).

There has been considerable focus in recent years on the convergence of national accounting standards to a single set of global accounting standards. Much of the emphasis has been on the activities of the United States' Financial Accounting Standards Board (FASB) and its potential convergence and influence on the standards established by the International Financial Reporting Standards Board (IASB) (Business Wire, 2002; Goldberg, Grant and Stovall, 2006; Taub, 2006). With the mandatory adoption of IASB standards by public companies in the European Union and other parts of the world, such as Australia, there is increasing demand for FASB and IASB standards to converge towards a "gold standard" that would apply in the world's major capital markets (Hague, 2004). However, De Lang and Howieson (2006) believe that although the convergence of the two sets of standards has been formally agreed upon by FASB and IASB, "the final outcome of that arrangement remain highly uncertain". Other are of the opinion that harmonized accounting standards will not necessarily lead to harmonized accounting practices or won't be successful due cultural influences (Business Europe, 1994; Chen, Sun and Wang 2002; Fisher, 2005).

According to Barth, Wayne and Mark (2007) the goal of the International Financial Reporting Standards Committee (IASC), and its successor body the International Financial Reporting Standards Board (IASB), is to develop an internationally acceptable set of high quality financial reporting standards. To achieve

this goal, the IASC and IASB have issued principles-based standards, and taken steps to remove allowable accounting alternatives and to require accounting measurements that better reflect a firm's economic position and performance.

Advantages of Adopting International Financial Reporting Standards

Choi, Frost and Meek (1999) opined that the benefits of International Financial Reporting Standards include the reduction of investment risks and cost of capital worldwide. They considered three main advantages that result from accounting harmonization:

- a) The ability to compare international financial information, allowing enhanced credibility in the comparison of profits and losses around the world;
- b) Savings in costs and time consolidating accounts result from different accounting systems. Leuz and Verrecchia (2001) determine the savings to investors and to stockholders resulting from accounting harmonization;
- c) A stronger consistence concerning economic, social and legal factors across different countries of the world.

The greatest benefit that would flow from harmonization would be the comparability of international financial information. Such comparability would eliminate the current misunderstandings about the reliability of foreign financial statements and would remove one of the most important impediments to the flow of international investment. (Choi *et al.*, 1999) Harmonization would save time and money that is currently spent to consolidate divergent financial information when more than one set of reports is required to comply with the different national laws or practice. It will also improve the tendency for accounting standards throughout the world to be raised to the highest possible level and to be consistent with local economic, legal and social conditions (Nobes and Parker 2000). It would be beneficial to those countries which still do not have adequate codified standards of accounting and auditing and to international accountancy firms with clients of firms which have at least one foreign subsidiary. It would also help in raising foreign capital as investors, financial analysts and foreign lenders will be able to understand the financial statements of foreign companies and they would be able to compare the investment opportunities which will help them to make the right investment decision.

The benefit International accounting firms will have with the harmonisation of accounting practices will be the movement of staff across national boundaries will become easier and it will be less expensive to provide training to their staff (Lawrence 2000). Global accounting and disclosure standards would make it easier to conduct the competitive and operational analyses needed to run businesses. It will also make it easier for financial executives to manage critical relationships with customers, suppliers and others. The group that would benefit the most out of the harmonisation of accounting standard would be the Multi-national companies (Lawrence, 2000) as the communication of financial information within the groups would become easier. With the harmonization of reporting standards it would be easier for Multi-national companies to fulfill the disclosure requirement for stock exchanges around the world.

Cheung and Lee (1995) in their study discovered that differences in disclosure levels affect a firm's decision to list on a foreign stock exchange. Choi and Levich (1991) found that diversity in accounting affects capital market decisions (such as the geographic spread of investments, the types of securities selected, and information processing costs) of a significant number of market participants regardless of nationality, size, experience, scope of international activity, and organizational structure. Perhaps a quick solution to alleviate the problem of accounting diversity for users would be to restate foreign accounting information. Choi and Levich (1990) also found that accounting differences significantly affect a firm's capital market decisions. According to them, nationality seemed to play an important role in issuer behavior. They concluded that since U.S. and U.K. firms have to comply with fairly high disclosure standards at home, they appear to have greater flexibility in tapping international capital markets.

Ashbaugh and Pincus (2001) research shows that the association of the differences between domestic accounting standards and IAS with analysts' forecasts of earnings is positive and significant, and the convergence in accounting policies by applying IAS can reduce the financial analysts' errors and increase the quality of earnings.

Eccher and Healy (2003) compares accounting amounts based on IAS and Chinese standards and finds that those based on IAS are not more value relevant than those based on Chinese standards for firms that can be owned by foreign investors. However, the study finds that accounting amounts based on IAS are less value relevant than those based on Chinese standards for firms that can only be owned by domestic investors.

Barth, Landsman, Lang and Williams (2006) find that an international sample of firms that voluntarily adopted IFRS up to 2003 exhibits lower levels of earnings management and more timely loss recognition than a matched sample of firms using local GAAP. As an extension of these findings, Daske, Hail, Leuz and Verdi (2007) focus on the heterogeneity in the consequences of voluntary IFRS adoption and find that on average capital markets respond modestly to voluntary IFRS reporting. However, consistent with their predictions, they find that "serious" adopters experience significantly stronger effects on their cost of capital and market liquidity than "label" adopters, suggesting that for some firms the quality of financial reporting improves in association

with voluntary IFRS adoption.

METHODOLOGY

Design

The research design that was adopted for this study is the descriptive research design of ex-post facto type. This offered the researcher opportunity to collect data without manipulating any of the variables of interest in the study.

Population and Sample

The population of this study consist of preparers and users of financial reports of quoted companies in Nigeria. The preparers are represented by Accountants and Managers who are responsible for the preparation of financial statements. The users of financial reports are Investment analysts, they are selected because they are principal users of financial reports which have good investment knowledge which aids analysis of financial reports and decision making. A sample of 150 respondents, comprising of 75 preparers (Accountants and Managers) and 75 Investment analysts was selected at random.

Instrument

A questionnaire constructed by the researcher, was used to collect data for this study. The questionnaire was titled 'Questionnaire on the effectiveness of IFRS on financial performances' which was used to measure the effectiveness of IFRS in achieving the objectives of financial reporting standards. This questionnaire was divided into two (2) sections (i.e. Section A & B). Section A requests for the personal information of the respondents e.g sex, age, designation etc Section B contains 10 items designed to measure effectiveness of IFRS in achieving the objectives of financial reporting standards. Each of the items in this section is rated on a 4-point likert scale type ranging from strongly from not effective, somewhat effective, effective and highly effective. The responses were scored 1, 2, 3 and 4 respectively. The validity of the questionnaire was confirmed by the Experts. Pilot survey was adopted for the reliability test and it yielded correlation coefficient of 0.85.

Administration of the Instrument

The scales was administered by the researcher to the respondents in the selected working place and it was collected back after completing the filling immediately.

Method of Data Analysis

The statistical method used in analyzing the research questions in this study were descriptive statistics and chi-square analysis. Research question one was analysed with descriptive statistics of Mean and standard deviation with 2.50 cut-off point, mean score above 2.50 were accepted while mean score below 2.50 were rejected. Research question two-five were analysed with the use of chi-square analysis at 0.05 level of significance.

Results

Preliminary Result on how effective is IFRS adoption in achieving the objectives of financial reporting?

Table 1: Descriptive statistics of the stakeholders' perception of the effect of IFRS on financial reporting

s/n	Statement	Mean	Std	Remark
1	Promote cross border investment and global comparability of financial statement	2.697	1.046	Agreed
2	Provide information for business control and decision making	2.579	1.035	Agreed
3	Increase access to global capital market	2.784	1.184	Agreed
4	Increases stability of capital markets	2.496	1.140	Disagreed
5	Increases comparability of corporate information	2.724	1.118	Agreed
6	Enhances market efficiency	2.655	1.111	Agreed
7	Provide a level playing field internationally for companies	2.779	1.105	Agreed
8	Improves the transparency and usefulness of accounts	2.560	1.189	Agreed
9	Improves public confidence in the market	2.413	0.795	Disagreed
10	Enables multi-national companies to consolidate their financial statement	2.860	1.062	Agreed

Table 1 above shows that the stakeholders agreed that IFRS adoption is effective in promoting cross border investment and global comparability of financial statement (2.697), providing information for business control and decision making (2.579), increasing access to global capital market (2.784), increasing comparability of corporate information (2.724), enhancing market efficiency (2.655), providing a level playing field internationally for companies (2.779), improving the transparency and usefulness of accounts (2.560) and enabling multi-national companies to consolidate their financial statement (2.860) since their mean score is above the cut-off point of 2.50, while they believed that IFRS adoption will not increase the stability of capital markets (2.496) and improves public confidence in the market (2.413) because their mean score is below the cut-off point of 2.50.

Research question one

Will IFRS have significant effects on capital markets stability and efficiency?

Table 2: Chi-Square value of the effect of IFRS on capital markets stability and efficiency

Status	Effect of IFRS on capital markets stability and efficiency				χ^2	df	p	Remark
	Not Effective	Somewhat Effective	Effective	Highly Effective				
Preparers	9	8	22	36	9.692	3	.021	Significant
Users	7	8	8	52				
Total	16	16	30	88				

Table 2 presents the result of chi-square test on the effect of IFRS on capital markets stability and efficiency. Chi-square value obtained in the test was significant because the p-value is greater than 0.05 ($\chi^2 = 9.692$, $P < 0.05$). It can therefore be concluded that IFRS would have significant effects on capital markets stability and efficiency.

Research question two

Will IFRS significantly improve the transparency and usefulness of account to investors?

Table 3: Chi-Square value of the effect of IFRS on transparency and usefulness of account to investors

Status	Effect of IFRS on transparency and usefulness of account to investors				χ^2	df	p	Remark
	Not Effective	Somewhat Effective	Effective	Highly Effective				
Preparers	22	17	21	15	16.837	3	.001	Significant
Users	5	12	36	22				
Total	27	29	57	37				

Table 3 presents the result of chi-square test on the effectiveness of IFRS on transparency and usefulness of account to investors. Chi-square value obtained in the test was significant because the p-value is greater than 0.05 ($\chi^2 = 16.837$, $P < 0.05$). It can therefore be concluded that IFRS adoption would significantly improve the transparency and usefulness of account to investors.

Research question three

Will IFRS significantly improve public confidence in market?

Table 4: Chi-Square value of the effectiveness of IFRS on public confidence in market

Status	Effect of IFRS on public confidence in market				χ^2	df	p	Remark
	Not Effective	Somewhat Effective	Effective	Highly Effective				
Preparers	14	12	39	10	10.266	3	.016	Significant
Users	12	17	23	23				
Total	26	29	62	33				

Table 4 presents the result of chi-square test on the effectiveness of IFRS on public confidence in market. Chi-square value obtained in the test was significant because the p-value is greater than 0.05 ($\chi^2 = 10.266$, $P < 0.05$). It can therefore be concluded that IFRS adoption would significantly improve public confidence in market.

Research question four

To what extent will IFRS adoption enhanced the uniformity, comparability and reliability of the financial statements?

Table 5: Chi-Square value of the effectiveness of IFRS on financial statements' uniformity, comparability and reliability

Status	Effect of IFRS on uniformity, comparability and reliability of the financial statements				χ^2	df	p	Remark
	Not Effective	Somewhat Effective	Effective	Highly Effective				
Preparers	10	10	35	20	10.623	3	.014	Significant
Users	9	11	18	37				
Total	19	21	53	57				

Table 5 presents the result of chi-square test on the effectiveness of IFRS on financial statements' uniformity, comparability and reliability. Chi-square value obtained in the test was significant

because the p-value is greater than 0.05 ($\chi^2 = 10.623$, $P < 0.05$). It can therefore be concluded that IFRS adoption would significantly enhanced the uniformity, comparability and reliability of the financial statements.

Discussion of findings

This study examined the effectiveness of IFRS adoption on financial reporting quality of quoted companies in Nigeria. Research question one stated that how effective is IFRS adoption in achieving the objectives of financial reporting? The result of the analysis in Table 1 revealed that the stakeholders agreed that IFRS adoption is effective in promoting cross border investment and global comparability of financial statement, providing information for business control and decision making, increasing access to global capital market, increasing comparability of corporate information, enhancing market efficiency, providing a level playing field internationally for companies, improving the transparency and usefulness of accounts and enabling multi-national companies to consolidate their financial statement. This corroborates the assertion of Choi, Frost and Meek (1999) that the benefits of international financial reporting standards include the reduction of investment risks and cost of capital worldwide. The ability to compare international financial information, allowing enhanced credibility in the comparison of profits and losses around the world; and Savings in costs and time consolidating accounts result from different accounting systems. This result corroborated the assertion of Healy and Palepu (2001) that IFRS also reduces the cost of preparing different version of financial statements where an organization is a multi-national.

The result of research question two states that IFRS adoption would have significant positive effects on capital markets stability and efficiency. According to Barth, Wayne and Mark, (2007), the adoption of a common body of international standards is expected to have the following benefits: lower the cost of financial information processing and auditing to capital market participants as users, familiarity with one common set of international accounting standards instead of various local accounting standards by Accountants and Auditors of financial reports, comparability and uniformity of financial statements among companies and countries making the work of investment analysts easy, attraction of foreign investors in addition to general capital market liberalization. Ball (2006) stated that many developing countries where the quality of local governance institutions is low, the decision to adopt IFRS will be beneficial. Barth, Landsman, Lang and Williams (2006) find that an international sample of firms that voluntarily adopted IFRS up to 2003 exhibits lower levels of earnings management and more timely loss recognition than a matched sample of firms using local GAAP. As an extension of these findings, Daske, Hail, Leuz and Verdi (2007) focus on the heterogeneity in the consequences of voluntary IFRS adoption and find that on average capital markets respond modestly to voluntary IFRS reporting. However, consistent with their predictions, they find that "serious" adopters experience significantly stronger effects on their cost of capital and market liquidity than "label" adopters, suggesting that for some firms the quality of financial reporting improves in association with voluntary IFRS adoption. Okpala (2012) also revealed that the adoption of IFRS will promote companies' access to global capital markets thereby exposing them to cross-border investments.

The result of research question three indicated that IFRS adoption would significantly improve the transparency and usefulness of account to investors. The quality of financial reporting is indispensable to the need of users who requires them for investment and other decision making purposes. Financial reports can only be regarded as useful if it represents the "economic substance" of an organization in terms of relevance, reliability, comparability and aids interpretation simplicity (Penman, 1984). Ashbaugh and Pincus (2001) research shows that the association of the differences between domestic accounting standards and IFRS with analysts' forecasts of earnings is positive and significant, and the convergence in accounting policies by applying IFRS can reduce the financial analysts' errors and increase the quality of earnings.

The result of research question four indicated that IFRS adoption would significantly improve public confidence in market. Research by Armstrong, Barth, Jagolinzer and Ried (2010), corroborated the result of this findings when they compared pre-IFRS adoption data with post-IFRS adoption data and found that investor reaction to adopting firms was generally positive. Research by Byard, Li and Yu, (2011) also found that analysts' forecasts errors and dispersions were lessened during the period of IFRS adoption in those European countries with strong enforcement regimes. According to Okpala (2012) the implication of IFRS on the economy is the fact that financial reporting among the countries that have adopted standards is uniformity and comparability as well as the ease on interpretation of financial statements. This will in many ways boosted the investors' confidence and leads to cross border financial transaction.

The result of research question five indicated that IFRS adoption would significantly enhanced the uniformity, comparability and reliability of the financial statements. This result corroborated the assertion of Spiceland, Sepe, Tomassini (2001) that useful accounting information derived from qualitative financial reports help in efficient allocation of resources by reducing dissemination of information asymmetry and improving pricing of securities. It also reduces the cost of preparing different version of financial statements where an organization is a multi-national (Healy and Palepu, 2001). Accounting standards ensures that important matters regarding preparation and presentation of financial statements as well as auditing same are not left to whim of

the preparers and auditors.

CONCLUSION AND RECOMMENDATIONS

It can be concluded that the increasingly global nature of business environment coupled with the complexity of financial dealings propelled the adoption of IFRS. There have been some successes achieved in respect of IFRS adoption in countries like Ghana and Zambia. It is an obvious fact that the adoption of IFRS is being pursued in order to provide effective quality financial information.

Based on this conclusion, the following recommendations are made

1. Standard setter such as Nigeria accounting standard board, financial accounting standard board and international financial reporting standard board should integrate the knowledge on the adoption of international accounting standard more in our institution curriculum. Accounting trainer should incorporate the teaching of this standard into all levels of accounting education for proper awareness of the standard.
2. Regulatory authority such as security and exchange commission Nigeria stock exchange federal board of Inland Revenue service should encourage all members and stakeholders to adopt as single financial reporting standard that will reduce information asymmetry in our economy.
3. All accounting information stakeholders are to be educated on the importance of adopting international accounting standard before it can be made mandatory for them and how it could help to ascertain corporate performance sustainability.

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