CORPORATE FINANCIAL REPORTING: ADOPTING THE INTERNATIONAL FINANCIAL REPORTING STANDARD IN NIGERIA FIRMS

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Abstract
Corporate Financial Reporting is one of the petal issues in corporate financial existence. It provides an insight into the viability of a company’s corporate existence. Corporate financial reporting is aided by proper auditing practices, hence the need to address the challenges facing the auditing practice such as lack of auditors independence. Ninety four copies of questionnaire were administered on branch managers, auditors, investors and financial analysts within Delta State but only 82 were retrieved. Likert attitudinal form ranging from 1-5 scale was used. Pearson Product Moment Correlation Co-efficient statistical tool and the t-test at 0.05 was adopted for the analysis. The paper discovered that there are significant differences between IFRS financial reports and those prepared under Nigeria Generally Accepted Accounting Principles (GAAP). The adoption of IFRS is a right set in the right direction. The study recommends that the Financial Reporting Council in Nigeria should be on the alert to the best international accounting practice (IFRS) to guide them in the establishment of highly improved practices in Nigeria.

Background of the study
In many business-entity, whether profit or non-profit making there are set of objectives. It mobilizes resources from various sources to achieve set goals at the end of the period. This is necessary to determine how well these resources have been fully utilized. Where there is discharged from the presentation of a report of the activities to owners from management, the owners will want to know how judiciously these resources have been used; this is the stewardship function of accounting. This function is discharged by the presentation of a report of the activities to owners by management. Such reports are usually conveyed by means of financial statements. The primary objective of a primary report is to provide high quality financial reporting information concerning economic entities, primarily financial in nature, useful for economic decision making (FASB, 1999; IASB, 2008). Providing high quality financial reporting information is important because it will positively influence capital providers and other stakeholders in making investment, credit and similar resource allocation decisions enhancing overall market efficiency (IASB, 2006, IASB, 2008).

Although both FASB and IASB stress the importance of corporate financial reporting, it is however affected by the quality of auditing. There have been theoretical arguments on how IFRS could potentially affect accounting policy and comparability. Edogbanya & Kamardin (2014), defined two of such theories as harmonizing
accounting standards by establishing one uniform sets of standard which has direct effects on the property of the firm financial statement information and that IFRS provides more quality reporting than the local (GAAP) accounting. This quality reporting usually lead to better informed valuations in equity markets thereby lowering investors’ risks. This could in turn lead to an impact on the financial statement. With Nigeria GAAP converging with the international Financial Reporting Standards (IFRS), most accounting areas will undergo a significant change. This in turn paves way for a comparative empirical analysis of the impact of IFRS adoption of financial statements. Corporate financial reporting is a communication of relevant qualitative and quantitative information for decision making. In line with this, there is need to have quality financial reports, this International Financial Reporting Standards (IFRS) proposes to the accounting profession and the world in general (Tarca, 2012).

Management is entrusted with the legal responsibility of preparing and communications such relevant information to the users. However, the management does not independently carry out this task, but it is the joint effort of accounting researchers, management, auditors and the government. Oladele and Ezeani (2012) opined that “the board of directors is supposed to be accountable to shareholders in any company for the effective monitoring; hence there must be an independent relationship between the board and management.

**Statement of the Problems**

Principally management activities are conveyed by means of financial statements. Where these financial statements introduce elements of doubts in the mind of the share holders and potential investors, the effect is that the continued survival of the firm threatened as it is starved by needed funds. Preparers of financial statements are yet to understand how to prepare accounts in line with IFRS.

Financial statements make a case for reporting entity in their quest for invisible funds. Where a reporting unit creates uncertainty in the minds of investors, it is perceived as risky. The effect is that investors demand a compensation for a perceived level of risk. This results to an increase in the cost of capital of such economic unit. This is known as “Capital Need Hypothesis”. Disclosure in financial statement determines the level of transparency of such entities. Hitherto poor response of international investors has been adduced to lack of transparency not only of government but also of private economic sectors.

**Objectives of the Study**

The study will generally seek to evaluate corporate financial reporting and to determine the extent to which the adoption of International Reporting Financial Standards (IFRS) can enhance financial reporting system in Nigeria. Specifically, the study seeks to:

1. Assess if corporate financial reporting using the IFRS can provide superior information to participant.
2. Find out if the introduction of IFRS is widely accepted in Nigeria.
3. Ascertain whether the adoption of IFRS will increase the level of confidence of financial statement users.

**Research Questions**

1. Does the adoption of IFRS provide superior information to market participants?
2. To what extent does the adoption of IFRS led to acquisition of funds from foreign sources?
3. Will the adoption of IFRS increase the level of confidence of financial statement users?

**Research Hypotheses**

The following hypotheses guided the study:

1. \( H_0: \) The adoption of IFRS does not provide superior information to market participants.
2. \( \text{H}_0: \) There is no relationship between the adoption of IFRS and acquisition of funds from foreign sources.

3. \( \text{H}_0: \) There is no significance difference between the adoption of IFRS reporting system and the level of confidence of financial statements.

**Review of Literature**

**Theoretical Framework**

This was anchored on the theory of Pure Impression Management Model (PIMM) of accounting which was propounded by Keppler (1995). The theory, according to Keppler state that accountability serve as a linkage construct by continually reminding of the need to act in line with the prevailing form and content of financing reporting. The theory further argues that users justify non-compliance with the conduct that deviate from the form and content of financial reporting. It must be noted that the theory of PIMM recognizes the fact uniformity and strict compliance with relevant standards are meant for the smooth functioning of the public companies. This theory is relevant to the present study in that it focuses on behavioural aspect of accounting. Accountability is the missing link in the seemingly perpetual level of analysis controversy, the connection between individual decision makers and the collectives within which they live and work. The PIMM recognizes that a large measure of trust and self accountability is necessary for the smooth functioning of institutions in Nigeria. Therefore, if PIMM of accountability is properly utilized by the management of companies or institutions in Nigeria it will fetch a good result on public accountability (Ezeani and Rotini 2012).

**Corporate Financial Reporting**

Corporate financial reporting has to do with the manner in which companies are managed and how resources used are often reported to the person or group for whom this corporate report should be prepared. Corporate report is done through the means of financial statement. Higson (2003), opined that financial statements are periodical financial report and accounts and others related document that highlights the financial position of an enterprise as well as its profitability. The financial report can be seen as a status report of the firms’ current performance and future expected performance, which are both reflected in the income statement as well as the balance sheet statement. Hence all financial report independent of accounting regime include both observable and unobservable elements of information.

The need for financial reporting cannot be overemphasized. It is a realizable source of information that helps to allocate capital more efficiently. It reduces information asymmetry between company insiders and outsiders (investors). It enables shareholders and investors to judge based on the reports of the bank if their current interests are protected.

Due to recent activities and reforms that have affected the Nigerian banking sector, this study focuses on the corporate reports of financial institution and the challenges of auditing practice and how presumably they work to create a financial reporting process of unparalleled integrity.

The issue of corporate financial reporting has become a global concern particularly financial reporting due to the reported cases of corporate failures (such as Enron in the United States of America) arising from improper false financial reporting in companies. Financial reporting are formal records of financial activities of corporate entities showing their financial condition for a given period of time. Therefore corporate financial reporting should furnish information about the firm’s claims against those resources. Owner’s equity and changes in resources should provide information about financial performance during a period and management’s discharge of its stewardship to responsibility to owners.
Quantitative Financial Statement

Effective use of audited financial statement requires a basic accounting standard, the relative concept of financial measurement and disclosure and the inherent limitations of financial statements caused by the use of accounting estimate judgment and various principles and methods. Financial Accounting Standard Board (FASB) objective focused on the users of financial statement and financial information and posits that this information should be presented so that it can be understandable to people who have knowledge of business and economic activities and that overall information presented in financial statement must have decision usefulness. Accounting is viewed as having a hierarchy of qualities with usefulness for decision taken as the most important. Thus the information is expected to be simple, clear and easy to understand by all users and also it is expected to be quantitative and qualitative in nature to be able to aid its users in making an informed economic decision.

From November 2003 to March 2004, the World Bank conducted a review of accounting and auditing practices in Nigeria in order to evaluate the weakness and strengths of the accounting and auditing requirement and or review the reporting requirement against actual practices. The International Financial Reporting Standards (IFRS) and International Standard on Auditing (ISAs) were used as the benchmarks for assessing National Standards.

Qualitative Characteristics of Information in Financial Report

Information, which is reported to facilitate economic decisions, should possess certain qualitative characteristics. Qualitative characteristics are the attributions that make the information provided in the financial statement useful to the users.

International Financial Reporting Standard (IFRS)

In Nigeria, financial regulators gave 2010 as the deadline within which the banks and other corporate organizations operating in Nigeria were deemed to migrate to IFRS from the current General Accounting Principles (GAP). Some banks in Nigeria have started preparing their financial report according to International Financial Reporting Standard (IFRS). This study, with particular focus on Nigeria is important because institutional constraints vary from country to country in their impact on organizations and the situation in Nigeria cannot be overlooked. Commander and Svejnar, study (as cited by Edesiri 2013).

In order to fully grasp what the International Financial Reporting Standards (IFRS) brings some of the list of IFRS and their effective dates.

Table 1: List of IFRS 1 -9 and effective dates

<table>
<thead>
<tr>
<th>IFRS</th>
<th>Adoption</th>
<th>Effective Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>IFRS 1</td>
<td>First time adoption of IFRSs</td>
<td>1 July 2009</td>
</tr>
<tr>
<td>IFRS 2</td>
<td>Share – based Payment</td>
<td>1 January 2010</td>
</tr>
<tr>
<td>IFRS 3</td>
<td>Business Combinations</td>
<td>1 July 2009</td>
</tr>
<tr>
<td>IFRS 4</td>
<td>Insurance Contracts</td>
<td>1 January 2005</td>
</tr>
<tr>
<td>IFRS 5</td>
<td>Non- currents Assets Held for Sale and Discounted Operations</td>
<td>1 January 2110</td>
</tr>
<tr>
<td>IFRS 6</td>
<td>Exploration for and Evaluation of Mineral Resources</td>
<td>1 January 2009</td>
</tr>
<tr>
<td>IFRS 7</td>
<td>Financial Instruments: Disclosures</td>
<td>1 July 2009</td>
</tr>
<tr>
<td>IFRS 8</td>
<td>Operating Segments</td>
<td>1 July 2010</td>
</tr>
<tr>
<td>IFRS 9</td>
<td>Financial Instruments</td>
<td>1 January 2015</td>
</tr>
</tbody>
</table>

Objectives and Importance of IFRS
Fowokon (2011) identify the following objectives and importance of introducing IFRS.

1. To work actively with the national setter to bring about convergence of national accounting standards.
2. IFRSs are designed for adoption by profit oriented entities.
3. IFRSs require that financial statements give a true and fair view of the financial health of entities.
4. Develop a single set of high quality understandable and enforceable global accounting standards that requires transparent and comparable information in financial statements.
5. To help participants in various markets (investors, stockbrokers, etc.) across the globe to understand financial accounting.

Compliance and Post Adoption Issues with IFRS in Nigeria
Nigeria’s fast growth in the global business community necessitated that regulators and operators in the Nigeria Financial system take proactive steps to ensure a seamless migration to IFRS reporting framework. As a result of the global acceptance of IFRS, some developing nations who considered the global impact it would have on their economies either through foreign aids, foreign direct investment or the development of the capital market in term of capital inflow decided to go For IFRS. Many of the developing countries took that cue from the world leading nations whether to adapt, adopt or converge to IFSR. Different countries however use different approaches in adopting IFRS abased on their need and ability to adopt Azobi study (as cited by Ojeka, Kanu & Owolabi, 2013).

Though, the impact of IFRS on the economic growth in the developing nations is still subject to empirical questions.

In Nigeria, there are different positions the various stakeholders and concerned professional have taken towards the implementation of IFRS. The first school of thought maintained that, the not too good financial reporting in the country is not about the adoption of accounting standards but is all about full implementation of such standards. However, the second school of thought believed that, Nigerian cannot isolate itself from the world. So, this is the time to take a serious look at IFRS in order to take full advantage of what it has to offer which is primarily that the financial reporting meet international standards for other attendant benefits.

Research method
The target population is made up of the branch manager, head business service, auditors, and investors in 3 commercials banks in Delta State: Guarantee Trust Bank, Access Bank, and Zenith Bank. A sample size of 94 respondents was selected from a population of 122 using Yaro Yamane formula given below;

\[ n = \frac{N}{1 + N(e)^2} \]

Where;
\[ n = \text{sample size} \]
\[ N = \text{population size} = 122 \]
\[ e = \text{sampling error} \]

\[ n = \frac{122}{1 + 122(0.05)^2} \]
\[ = 94 \text{ respondents representing 95% confidence level.} \]

The likert –scale was used to measure the variables.
SA – Strongly Agree
A – Agree
U – Undecided
SA – Strongly Disagree
D - Disagree

The hypotheses were tested using the descriptive statistical methods such as the simple percentage, the Pearson product moment correlation coefficient and the t–test so as to determine whether to accept or reject the hypotheses.

Data Analysis/Results
A total of ninety–four (94) questionnaires were administered and only eighty–two (82) were retrieved back.

Table 2: Analysis of Returned Questionnaire

<table>
<thead>
<tr>
<th>Number of questionnaire</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Returned</td>
<td>87.23</td>
</tr>
<tr>
<td>Not returned</td>
<td>12.77</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: field work 2016

Test of Hypothesis

Hypothesis 1

H_0: The adoption of IFRS does not provide superior information to market participants.

Table 3: Calculation of Pearson Product Moment Correlation Analysis

<table>
<thead>
<tr>
<th>Option</th>
<th>X</th>
<th>Y</th>
<th>XY</th>
<th>X^2</th>
<th>Y^2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly Agree</td>
<td>5</td>
<td>38</td>
<td>190</td>
<td>25</td>
<td>1444</td>
</tr>
<tr>
<td>Agree</td>
<td>4</td>
<td>22</td>
<td>88</td>
<td>16</td>
<td>484</td>
</tr>
<tr>
<td>Undecided</td>
<td>3</td>
<td>10</td>
<td>30</td>
<td>9</td>
<td>100</td>
</tr>
<tr>
<td>Disagree</td>
<td>2</td>
<td>8</td>
<td>16</td>
<td>2</td>
<td>64</td>
</tr>
<tr>
<td>Strongly Disagree</td>
<td>1</td>
<td>4</td>
<td>4</td>
<td>1</td>
<td>16</td>
</tr>
<tr>
<td>Total</td>
<td>15</td>
<td>82</td>
<td>328</td>
<td>55</td>
<td>2108</td>
</tr>
</tbody>
</table>

Source: Field work 2016

\[
r = \frac{n \sum XY - \sum X \sum Y}{\sqrt{n \sum X^2 - (\sum X)^2} \sqrt{n \sum Y^2 - (\sum Y)^2}}
\]

\[
r = \frac{5(328) - (15)(82)}{\sqrt{5(55)(15^2)(82^2)} - 82^2}
\]

\[
r = \frac{1640 - 1230}{436.81}
\]

\[
r = 0.420
\]
The calculated value of \( r \) is 0.96 which indicates strong positive correlation. This implies that the adoption of IFRS provides superior information to market participants. In order for justification of the stated hypothesis, the test of significance will be employed.

\[
T_{\text{cal}} = \frac{r}{\sqrt{\frac{1 - r^2}{n-2}}}
\]

\[
T_{\text{cal}} = \frac{0.96}{\sqrt{\frac{1 - (0.96)^2}{5 - 2}}}
\]

\[
T_{\text{cal}} = \frac{0.96}{0.0252}
\]

\[
T_{\text{cal}} = 38.1
\]

\[
T_{\text{tab}} = n-2 ; 5 - 2 = 3 @ 0.05 = 2.35
\]

**Decision**

Reject \( H_0 \) if \( T_{\text{cal}} \) is greater than \( T_{\text{tab}} \).

The calculated value of 38.1 is greater than the table value of 2.35 @ 0.05 level of significance which implies that the null hypothesis is rejected. Therefore, the alternative hypothesis is accepted which state that the adoption of IFRS provides superior information to market participants.

**Hypothesis 2**

\( H_0 \): There is no relationship between the adoption of IFRS and acquisition of funds from foreign sources.

**Table 4: Calculation of Pearson Product Moment Correlation Analysis**

<table>
<thead>
<tr>
<th>Options</th>
<th>X</th>
<th>Y</th>
<th>XY</th>
<th>X²</th>
<th>Y²</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly Agree</td>
<td>5</td>
<td>45</td>
<td>225</td>
<td>25</td>
<td>2025</td>
</tr>
<tr>
<td>Agree</td>
<td>4</td>
<td>24</td>
<td>96</td>
<td>16</td>
<td>576</td>
</tr>
<tr>
<td>Undecided</td>
<td>3</td>
<td>6</td>
<td>18</td>
<td>9</td>
<td>36</td>
</tr>
<tr>
<td>Disagree</td>
<td>2</td>
<td>3</td>
<td>6</td>
<td>2</td>
<td>9</td>
</tr>
<tr>
<td>Strongly Disagree</td>
<td>1</td>
<td>4</td>
<td>4</td>
<td>1</td>
<td>16</td>
</tr>
<tr>
<td>Total</td>
<td>15</td>
<td>82</td>
<td>349</td>
<td>55</td>
<td>2662</td>
</tr>
</tbody>
</table>

**Source: Field work 2016**
The relationship between the adoption of IFRS and the acquisition of funds from foreign sources can be quantified using the correlation coefficient (r). The formula for calculating r is:

\[
r = \frac{n\sum XY - \sum X \sum Y}{\sqrt{n\sum X^2 - (\sum X)^2} \sqrt{n\sum Y^2 - (\sum Y)^2}}
\]

Using the provided data:

\[
r = \frac{5(349) - (15)(82)}{\sqrt{5(55)\sqrt{15^2 x 5(2662) - 82^2}}}
\]

\[
r = \frac{515}{573.85}
\]

\[
r = 0.89
\]

From the above analysis, the result implies that there is a relationship between the adoption of IFRS and the acquisition of funds from foreign sources. In order to justify the formulated hypothesis, we have to test further using the test of significance.

The test statistic (T) is calculated as:

\[
T_{cal} = \frac{r}{\sqrt{\frac{1 - r^2}{n - 2}}}
\]

Using the calculated value of r:

\[
T_{cal} = \frac{0.89}{\sqrt{\frac{1 - (0.89)^2}{5 - 2}}}
\]

\[
T_{cal} = \frac{0.89}{0.065}
\]

\[
T_{cal} = 13.69
\]

The critical value (T_{tab}) is calculated as:

\[
T_{tab} = n - 2 ; 5 - 2 = 3 \@ 0.05 = 2.35
\]

Decision:

Reject H_0 if T_{cal} is greater than T_{tab}.

Because the T_{cal} is greater than the T_{tab} the null hypothesis is therefore rejected. Hence, we accept the alternative hypothesis which states that there is a relationship between the adoption of IFRS and the acquisition of funds from foreign sources.

Hypothesis 3

H_0: There is no significance relationship between the adoption of IFRS reporting system and the level of confidence of financial users.
Table 5: Calculation of Pearson Product Moment Correlation Analysis

<table>
<thead>
<tr>
<th>Options</th>
<th>X</th>
<th>Y</th>
<th>XY</th>
<th>X²</th>
<th>Y²</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly Agree</td>
<td>5</td>
<td>30</td>
<td>150</td>
<td>25</td>
<td>900</td>
</tr>
<tr>
<td>Agree</td>
<td>4</td>
<td>28</td>
<td>112</td>
<td>16</td>
<td>784</td>
</tr>
<tr>
<td>Undecided</td>
<td>3</td>
<td>9</td>
<td>27</td>
<td>9</td>
<td>81</td>
</tr>
<tr>
<td>Disagree</td>
<td>2</td>
<td>10</td>
<td>20</td>
<td>2</td>
<td>100</td>
</tr>
<tr>
<td>Strongly Disagree</td>
<td>1</td>
<td>5</td>
<td>5</td>
<td>1</td>
<td>25</td>
</tr>
<tr>
<td>Total</td>
<td>15</td>
<td>82</td>
<td>314</td>
<td>55</td>
<td>1890</td>
</tr>
</tbody>
</table>

Source: Field work 2016

\[ r = \frac{n\sum XY - \sum X \sum Y}{\sqrt{n \sum X^2 - (\sum X)^2 \cdot n \sum Y^2 - (\sum Y)^2}} \]

\[ r = \frac{5(314) - (15)(82)}{\sqrt{5(55) - 15^2 \cdot 5(1890) - 82^2}} \]

\[ r = \frac{1570 - 1230}{\sqrt{(275 - 225) \cdot (9450 - 6742)}} \]

\[ r = \frac{340}{369} \]

\[ r = 0.92 \]

The calculated value of \( r \) is 0.92 which indicates strong positive correlation. This implies that there is a significance relationship between the adoption of IFRS and the level of confidence of financial users. The test of significance will still be employed to justify the stated hypothesis.

\[ T_{cal} = \frac{r}{\sqrt{1 - r^2}} \]

\[ T_{cal} = \frac{0.92}{\sqrt{1 - (0.92)^2}} \]

\[ T_{cal} = \frac{0.92}{0.045} \]

\[ T_{cal} = 20.44 \]

\[ T_{tab} = n - 2 ; 5 - 2 = 3 @ 0.05 = 2.35 \]
Decision
Reject $H_0$ if $T_{cal}$ is greater than $T_{tab}$.
The calculated value of 20.44 is greater than the table value of 2.35 @ 0.05 level of significance which implies that the null hypothesis is rejected while the alternative is accepted. This means that financial users have more confidence on financial statement prepared under the IFRS. Therefore, the alternative hypothesis is accepted which state that the adoption of IFRS.

Findings
The paper perused the adoption and the effectiveness of IFRS towards corporate financial reporting. The following are the findings of the study are;
1. The adoption of IFRS will provide superior and useful information to market participants.
2. IFRS adoption by corporate entities will led to raising capital (or more funds) from foreign sources.
3. The confidence level of investors, shareholders and business analysts will be boosted up on the adoption of IFRS.

Conclusion
Taking a clue from the above discussion, it has become obvious that the firms adopting IFRS in the Nigeria have made the good choice because IFRS will help them to raise capital from abroad. The adoption of IFRS will boost investors’ confidence to invest in the company. It will also make their financial statements comparable, transparent and rich in quality. Based on the findings it was concluded that the adoption of IFRS is a right step in the right direction.

Recommendation
Having analysis and discussed inferences from this research, it is necessary to make recommendation on the way forward.
It is recommended that in order to provide superior information to market participant, to acquire high confidence level of financial sources and achieve high confidence level of financial users companies should adopt the International Financial Reporting Standards. The financial reporting council in Nigeria should be on the alert to the bets international accounting practices (that is IFRS) to guide them in the establishment of highly improved practices in Nigeria.
The study also recommends that companies (including financial institution) should be provided with technical and financial support in converting to the IFRS. Finally, the study recommends that there is the need for institutions that provide accountancy education at tertiary and professional – qualifying level review their curricular to include models on the international standards given the complexities that come with them. This is to ensure that professional accountants have requisite knowledge to practice accountancy under the dispensation of IFRS in view of harmonization of financial reporting.
References


