
*INTERNATIONAL FINANCIAL REPORTING STANDARD AND THE
QUALITY OF FINANCIAL STATEMENT*

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Abstract

Nigeria adopted international financial reporting standard (IFRS) from 1st January, 2012. This study seeks to investigate whether the International Financial Reporting Standards (IFRS) in Nigeria has improved the quality of financial reporting in Nigerian Banks. It is phenomenon for every organization (including banks) to adopt (IFRS) as it ensures transparency, accounting quality and reduced cost of capital, the aim being to examine the impact of IFRS on quality of financial statement in First Bank of Nigeria Plc, Awka. To achieve this objective, four research questions and four research hypotheses were formulated to guide this study. The population of the study comprised of 50 staff and personnel of First Bank of Nigeria, Plc, Awka and a sample size of 44 was randomly selected. The data collected through the primary source were presented in tables and analyzed using simple percentages while the Chi-square statistical tool was used for testing the hypotheses. It was discovered among others that there is no proper knowledge and commitment among preparers of financial statement towards IFRS implementation in First Bank of Nigeria Plc, Awka and that accounting education and training among regulatory authorities and stakeholders have significant effect on the practical implementation of IFRS in Nigeria. Researchers thereafter recommended among others, that there should be awareness for the professionals, regulators and preparers to improve their knowledge gap on IFRS, that professional education and training should be strengthened and that the capacity of regulatory bodies should be strengthened and the adequacy of statutory enforcement provisions reviewed.

Keywords: IFRS, Transparency, Accounting Quality, Cost of Capital, Financial Statement

Introduction

Globalization of capital markets is an irreversible process, and there are many

potential benefits to be gained from mutually recognized and prospected International Accounting Standards.

The move towards developing an acceptable global high quality Financial reporting standards started in 1973 when the International Accounting Standards Committee (IASC) was formed by professional accounting bodies from Canada, United States of America, United Kingdom, Germany, France, Netherlands, Australia, Mexico and Japan. The IASC was to formulate uniform and global accounting standards aimed at reducing the discrepancies in international accounting principles and reporting practices. In this light, the IASC was established and has actively been championing the uniformity and standardization of accounting principles for over two decades, Carson in Madawaki, (2012). In April 2001, the IASC was reorganized into International Accounting Standards Boards (IASB). Thenceforth, the IASB has updated the already existing

International Accounting Standards and referred to them as International Financial Reporting Standards (IFRS).

IFRSs are a single set of high-quality; understandable standards for general purpose of financial reporting

which are principles-based in contrast to the rules based approach. IFRS comprises of IAS (41); IFRSs (18); the Standard Interpretation Committee Statements, SICs (11); and the International Financial Reporting Issues Committee Statement, IFRICS (18), Azobu in Akhidime (2011). Much of the world is moving in the direction of International Financial Reporting Standards (IFRS). While some countries have been using these standards for decades, they are however new for transition economies like Nigeria. In Nigeria, implementation of IFRS was launched in September 2010, by the Honorable Minister, Federal Ministry of Commerce and Industry, Senator Jubril Martins-Kuye(OFR). **The adoption was organized such that all stakeholders use the IFRS by January 2014.** The adoption was scheduled to start with Public Listed Entities and Significant Public Interest Entities who were expected to adopt the IFRS by January 2012. All Other Public Interest Entities are expected to mandatorily adopt the IFRS for statutorily purposes by January 2013 and Small and Medium-Sized Entities shall mandatorily adopt IFRS by January 2014. However;-the- successful adoption and implementation of these standards will remain a mirage in any country including Nigeria, Chamisa in Madawaki (2012). In

the light of this therefore, this study focused on the process of adopting the IFRS in Nigeria and the quality of financial statement in first bank of Nigeria Plc, the benefits and challenges of IFRS, bearing in mind the prevailing domestic legal and regulatory framework of accountancy.

Statement of the problem

In Nigeria, the greatest challenge facing companies is access to finance. Banks as the engine that drives the economy have the full potentials to turn around for the better, but their greatest challenge still remains under finance. Since the introduction of the international financial reporting standard in Nigeria, its adoption and implementation by the preparers of financial statements have been a difficult task. It is discovered that most of the preparers of financial statements including professional accountants - lack proper knowledge of the procedure and implementation of the standards. This lack of proper knowledge is claimed to be the consequences of low level of awareness of the standards by regulators and other stakeholders on the application of the standards. Also, there are insufficient existing law on the transition Process to IFRS. Stakeholders are not aware of any existing law on the implementation of

this standard. It was also discovered that there is low level of education on the operation and impact of these standards to firms. This study will therefore evaluate these facts to know how they have contributed to the slow adoption and implementation of IFRS in Nigeria.

Objectives of the study

The main objective of this study is to appraise the international financial reporting standards and the quality of financial statement in Nigerian banks. The researcher is also motivated to embark on this research to achieve the following specific objectives:

1. To find out if there is proper knowledge and Commitment of the preparers of financial statements on IFRS in Nigerian banks.
2. To examine the level of public awareness by regulators and other stakeholders in the use of these standards.
3. To determine the effect of accounting education and training among regulatory authorities and stakeholders.
4. To ascertain the impact of IFRS on the quality of financial statement in banks in Nigeria.

Research Questions

Researcher questions are those questions put forward to be addressed by the researcher in the treatment of the major topics. The following research questions are formulated to guide the researcher.

1. To what extent is there knowledge and commitment among the regulatory authorities and the preparers of financial statements towards IFRS in Nigerian Banks?
2. What is the level of public awareness by regulators and other stakeholders on these standards?
3. To what extent is there significant effect of accounting education and training among regulatory authorities and stakeholders in the practical implementation of IFRS in Nigeria?
4. What is the impact of the IFRS on the quality of financial statements of banks in Nigeria?

Statement of the Hypotheses

Taking into consideration the nature and extent of the problems started so far, the researcher sees it necessary to formulate the following hypotheses:

H₀₁ There is no proper knowledge and commitment among the regulatory authorities and the preparers of financial statements towards IFRS in Nigerian banks.

H₁ There is proper knowledge and commitment among the regulatory authorities and the preparers of financial statements towards IFRS in Nigerian banks.

H₀₂ There is low level of public awareness by regulators and other stakeholders on the use of IFRS.

H₂ There is high level of public awareness by regulators and other stakeholders on the use of IFRS.

H₀₃ Accounting education and training among regulatory authorities and stakeholders have no significant effect in the practical implementation of IFRS in Nigeria.

H₃ Accounting education and training among regulatory authorities and stakeholders have significant effect in the practical implementation of IFRS in Nigeria.

H₀₄ IFRS has a negative impact on the quality of financial statements of banks in Nigeria.

H₄ IFRS has a positive impact on the quality of financial statements of banks in Nigeria.

Methodology

Sources of Data

Data for this study were collected through primary and secondary sources.

Primary

Primary data were collected through the

Sources:

administration of questionnaire, oral interview and observation.

Secondary sources:

- i. Secondary sources of data presented in this research builds on an analysis of discourses within the range of archival evidence, based on examination of major publications.
- ii. Documentary materials emanating from the professional accounting bodies (in particular relating to regulation, conference, training and education).

Sampling Size and Techniques

The population of this study comprises of 50 personnel of First Bank of Nigeria Plc, Awka. Emphasis was placed on staff knowledge and information concerning the subject matter.

According to Maduegbuna (2018), sampling means representing the population in microsm. The sample for this study was obtained using the Taro Yameni statistical formular which is stated below:

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

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N=populati
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e = level of significance (or stand error)

1 = constant

$$n = \frac{50}{1+50(0.05)^2}$$

$$n = \frac{50}{1+0.125}$$

$$n = \frac{50}{1.125}$$

1.125

n = 44.44 approximately

Therefore, the sample size is

44

The sampling technique employed by the researcher is simple random sampling technique where the researcher ensures that each respondent is given equal opportunity of being part of the sample.

Validity and Reliability Study

The term validity refers to the degree of stability and consistency that is attributable to the conclusions drawn from a study which is likely to be confirmed by a different researcher. (Yin, 1994).

In ensuring that a researcher study is reliable, a researcher is attempting to avoid being bias and to confirm that similar conclusions is possible when the study is replicated, the researcher relied on the opinions and views of the diverse renowned authors of accounting on the review of relevant literature.

Comparisons of conclusions made in various studies were carefully examined.

Method of Data Collection Analysis

The researcher developed the questionnaire on IFRS and the Quality of Financial Statement as the major instrument for data collection.

The questionnaire was divided into two sections "A" and "B". Section "A" sought to collect information on the respondents' personal data while Section "B" sought to collect information on IFRS and the quality of financial statement. Thus, the research instrument was first submitted to the supervisor who read through, vetted, scrutinized, and made comments(s) before approval for distribution. This was done to ensure that the contents conform to the subject of the study.

The researcher personally administered the research instrument (questionnaire) to the target population in first bank of Nigeria Plc, Awka. This was done to ensure that atleast 95% of the total population sampled with research instrument was collected. Besides, the respondents were given instructions on how to complete the questionnaire for possible collection of data for analysis.

Method Of Data Analysis

In this analysis of data, the information obtained was first edited in order to

bring error in the raw data to a manageable level of bearest minimum. After edition, the data were subjected to some statistical test to make them useful and meaningful.

The following statistical were used

- (a) Relative frequency or simple percentage
- (b) Chi-square test

The responses from the respondent and was contained in the administered questionnaire.

Chi-square test is a statistic that gathers together all the discrepancies between the observed performance and the expected value and is given by the test statistics χ^2 .

Chi-square is given by

Formula
$$\chi^2 = \frac{\sum n(fo-fe)^2}{Fe}$$

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fe = Expected frequency

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Decisi on Rule

This is the final step in the research where such tests are applied. Decision rule addresses itself to the fact that statistically hypotheses are formulated with the fundamental aim of either accepting or rejecting them. For a significant test of null hypotheses to be carried out, we must obtain the critical value (chi-square from the table) of the chi-square statistic.

- (a) If the χ^2 is equal to zero, it follows that the theoretical value and the null hypotheses is accepted. If chi-square is not equal to zero, the theoretical value do not agree. The greater the value of χ^2 the greater the discrepancy between the observed and the expected values.
- (b) If the calculated χ^2 is greater than the χ^2 from the table, the hypotheses is rejected and alternative hypotheses accepted.

- (c) The value of χ^2 is given under a significant level of α and degree of freedom (df). The degree of freedom is given by the number of observed values less than one. For the purpose of this research work, all the hypotheses were tested at 50% level of significance, The level of significance was chosen because it approximately settles on the average of the normally allowable level of significance is between 10% and or accepting a false alternative hypotheses, is reduced to a manageable minimum.

Result And Discussion

At this point the data collected in the course of this study is analyzed. These data are presented in form of observed table, while the response rate to the sample size were presented in expected (percentage) analysis. Out of 44 copies of questionnaire distributed, 30 questionnaires were returned representing 68% while 14 questionnaire representing 32% were not returned. The following are the presentation and analysis of the sought data derived from the survey.

Demographic Analysis

Table 4.1 Gender of the Respondents.

The table below represents the gender of the respondents.

Gender	Response Rate
Male	10
Female	20
Total	30

The above table shows that 10 respondents representing 33% are male while 20 respondents representing 67% are female.

Table 4.2 Marital Status

The table below represents the marital status of the respondents.

Status	Response Rate	Qualification	% of Response	Response Rate
Married	11	OND/HND/NCE	37%	10
Single	19	B.A/B.Sc	63%	15
Others	-	MBA/M.Sc/Ph.D		5
Total	30	Total	100%	30

The table above shows that 11 respondents representing 37% were married, while 19 respondents representing 63% were single.

Table 4.3 Age Bracket of Respondents

The table below represents the age distribution of the respondents.

Age Bracket	Response Rate
30-35	5
35-40	10
40-45	5
45-above	10
Total	30

From the table above, 5 respondents representing 17% are in the age bracket of 30-35 years, 10 respondents representing 33% are between the age bracket of 35-40 years, 5 respondents representing 17% are in the age bracket of 40-45 years, 10 respondents representing 33% are in the age bracket of 45 years and above.

Table 1 Educational Qualification of Respondents

The table below shows the educational qualification of respondents.

The table above indicates that 10 respondents representing 33% are OND/HND/NCE holder, 15 respondents representing 50% are B.A/B.Sc holder, while 5 respondents representing 17% are MBA/M.Sc/Ph.D holder.

Table 4.5 The distribution of Questionnaire to the Respondents

The table below shows the rate of response to the questionnaire distributed.

100%

Respondents	Number of Questionnaire Distributed	Number of Respondents Retrieved
Management/Top officials	30	20
Auditors	14	10
Total	44	30

Table 2

The table above shows that 30 copies of the total questionnaire representing 68% were distributed to the Management/Top officials while 14 copies of the questionnaire representing 32% was distributed to the auditors. Also revealed that out of the Forty-four (44) questionnaire distributed, only Thirty (30) were duly retrieved and completed.

Table 3 Academic Field of Respondents

The table below shows the academic field of respondents.

Field	Response Rate	% of response
Accounting	10	33%
Finance	5	17%
Banking	5	17%
Marketing	5	17%
Business	5	17%
Total	30	68%

From the table above, 10 respondents representing 33% Major in Accounting, 5

respondents representing 17% Major in Finance, 5 respondents representing 17% Major in Banking, 5 respondents representing 17% Major in Marketing, 5 respondents representing 16% Major in Business.

Findings of the Study

Testing of Hypothesis

The test of statistics used for testing the hypothesis of this study is chi-square.

This is given as:

$$X^2 = \frac{\sum(O-E)^2}{E}$$

Where \sum = Summation

O = Observed Frequencies

E = Expected Frequencies

Note: Expected frequencies is derived by dividing the total frequency by the number of response options.

Assumption: The researcher assumed the level of significant of 5% (i.e. 0.05). This means that 95% assurance of the outcome of the test is guaranteed.

Degree of freedom (D.F): The degree of freedom is dependent on the numbers of columns and numbers of rows in the response table. Thus $DF = (R-1) (C-1)$

Where $R =$ Number of Rows

$C =$ Number of Columns

Decision Rule: In order to take decision on each hypothesis after computation, the researcher determines the critical value of the test statistics used (X^2). This is done with reference to statistical table, using the assumed level of significances (0.05) against the degree of freedom (DF). The researcher therefore compares the calculated value of X^2 with the critical value of X^2 and decides thus:

- (i) Accept null hypothesis (H_0) if calculated value of X^2 is less than critical value of X^2
- (ii) Reject null hypothesis (H_0) if calculated value of X^2 is greater

than the critical value of X^2 .

Hypothesis 1

H_0 : There is no proper knowledge and commitment among the preparers of financial statement towards the adoption and implementation of IFRS in First Bank of Nigeria Plc.

H_1 : There is proper knowledge and commitment among preparers of financial statements towards the adoption of IFRS in First Bank of Nigeria Plc. Calculation of the test statistics using table 4.13.

Option	Observed Frequencies (O)	Expected Frequency (E)	O-E
Yes	12	15	-3
No	18	15	3
Total	30	30	

$E = 30 / 2 = 15$

Calculated value of $X^2 = 1.2$

The degree of freedom = $(2-1) (2-1) = 1$

Assumed level of freedom = 0.05

Critical value of $X^2 = 3.841$

From the above

X^2 calculated < X^2 critical value

Decision

Since the calculated value of X^2 is less than the critical value. The null hypothesis (H_0) is accepted. We therefore conclude that there is no proper knowledge and commitment among the preparers of financial statements towards the adoption and implementation of IFRS in First Bank of Nigeria Plc.

Discussion and Findings

This study was carried out to examine IFRS and the quality of financial statement of Banks in Nigeria, using First Bank of Nigeria Plc, Awka as a case study. To achieve this objective, four research questions and four research hypotheses were formulated to guide this study. A structured questionnaire was used as the main instrument to gather data from 44 personnel in First Bank of Nigeria Plc, Awka. Out of this number, 30(68%) copies of questionnaire were appropriately completed and returned for data analysis while 14(32%) copies of questionnaire not completed and returned.

The data collected from the respondents were analyzed using simple percentage and tables to analyze the research questions while chi-square (X^2) statistical tool were used to test the hypotheses. The findings revealed that:

- a) There is no proper knowledge and commitment among the preparers of financial statements in First Bank of Nigeria Plc, Awka.
- b) There is low level of public awareness by regulators and other stakeholders on the use of IFRS.
- c) Accounting education and training among regulatory authorities and stakeholders have significant effect in the practical implementation of IFRS in Nigeria.
- d) IFRS has a positive impact on the quality of financial statements in First Bank of Nigeria Plc, Awka.

Conclusion

There is no doubt that conversion to IFRS of Banks in Nigeria is a huge task and a big challenge Viz; Environmental influences, culture, economic, political, legal, Users of accounting information, regulatory bodies, information technology etc. Its revolutionary impact requiring a great deal of decisiveness and commitment. IFRS is in the best interest of Nigeria. A country wide intensive capacity building program to facilitate and sustain IFRS is needed as early as possible. The IFRS is already

making its way around the world as a single set of high quality global accounting standards.

Recommendations

Based on the study undertaken on IFRS and the quality of financial statement of Banks in Nigeria, the following recommendations are hereby advanced. These recommendations may serve as useful inputs for improving a country action plan for accounting reforms in Nigeria.

- (i). Raise awareness of professionals, regulators and preparers to improve the knowledge gap. Issues to be addressed include the importance of financial statements prepared under IFRS framework and importance of compliance with accounting and auditing requirements.
- (ii). Improve the statutory framework of accounting and auditing to protect public interest. This recommendation might necessitates amending the Nigerian Accounting Standards Board Act (2003) into Financial Reporting Act. Various laws and regulations should be revised to conform to the proposed acts.
- (iii). Strengthen profession education and training. The professional accountancy bodies should align their continuing professional education requirements with IFAC guidelines. Business ethics should be taught as separate subject in undergraduate accounting and business programs and revision to universities accounting curricular should enable students to gain exposure to practical IFRS application.
- (iv). Strengthen capacity of the regulatory bodies and review adequacy of statutory enforcement provisions. Take necessary steps to strengthen capacity of regulators including Corporate Affairs Commission, Securities and Exchange Commission, National Insurance Commission, Central Bank of Nigeria that enable them to effectively deal with accounting and financial

Establish an independent body to set monitor and enforce accounting and auditing standards and code. The proposed body should be empowered to monitor and enforce accounting and auditing requirements with respect to general purpose of financial statements.

reporting practices of the regulated entities.

- (v). NASB should set up as a committee charged with the responsibility to ensure that this project is not derailed.

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