RESEARCH ARTICLE

The Role of International Reporting Standards (IFRS) in Financial Reporting Quality: Evidence from Nigeria

Egiyi, Modesta Amaka
Department of Accounting, Godfrey Okoye University, Enugu

Citations - APA

The purpose of this study is to explore the role of International Reporting Standards (IFRS) in financial statement quality. Financial reporting is increasingly viewed as a vital tool that contributes to a firm's growth if properly carried out. IFRS will however improve the quality and reliability of these financial reports, this is the core of the research. Data were gathered from all listed money deposit institutions in Nigeria, we conducted a census survey to prevent the mistake sometimes associated with sampling. Data was sourced from the content analysis of annual reports and accounts of the selected commercial banks for ten years from the year 2003 to 2011 for the pre-IFRS period and from 2013 to 2021 for the post-IFRS period. The year 2012 was excluded as it was the year of adoption. The research strategy is a panel design because it is a combination of longitudinal and cross-sectional data. The Mann-Whitney test was used to evaluate the data. It is a non-parametric test designed to evaluate any issue's initial and subsequent effects. In this instance, the test was run to confirm our hypotheses and ascertain whether there was a statistically significant difference in the quality of financial reporting prior to and following the introduction of IFRS at the 5% level. The theory on which this research was based is the Stakeholder's theory. The findings of the research work show that IFRS play a very significant role in the quality of financial statements being prepared.

ABSTRACT

Keywords: *IFRS Adoption, Financial Reporting Quality, Reliability of Financial Statement*

Introduction

The financial reporting standards in the United States (US) was established by Financial Accounting Standards Board (FASB). However, not all countries follow the US accounting and reporting standards. Thus, the accounting practices in the United Kingdom differ from those in the United States, and those in the United States differ from those in Japan and those in Japan differ from those in emerging markets (Najeb, 2017). Today, the standard-setting body responsible for this convergence effort is the International Accounting Standards Board (IASB). Similarly, this organization functions like the FASB. In 2002, the FASB and IASB signed the Norwalk Agreement, formalizing their commitment to the convergence of US and international accounting standards. The standards being developed and promoted by the IASB are called International Financial Reporting Standard (IFRS). IFRSs is a set of international accounting standards stating and reporting rules that define how transactions in a business should be collected, recorded, and reported and what information a company is expected to disclose in its financial reports (Desalegn, 2020). Hence, financial reporting is a report that provides financial information that is useful to users in making decisions. Financial reporting quality represents the degree to which financial reports provide truthful, relevant, understandable, verifiable, and unbiased information about core financial positions and financial performance (Bala, 2018).

The Financial Statement's objective is to provide information about the financial position, financial performance and cashflows of an entity that is useful to a wide range of users in making economic decisions. In other to ensure comparability, uniformity, and quality of financial statements, the IFRS (International Financial Reporting Standard) was introduced. The International Reporting Standard (IFRS) adoption is an issue of global relevance among countries due to quest for standardization, reliability, uniformity, transparency, and comparability of the financial report of companies (Mensah, 2020). The demand for transparent, comparable, reliable financial information in the markets caused by the high-profile corporation scandal in the U.S and that acclaimed to have contributed to the economic meltdown triggered off the quest for international financial reporting standards (hereafter IFRS) (Adwan, 2016). Hence the need for harmonization of accounting reporting standards and other measures to mitigate such occurrences. The inevitability of globalization occasioned the unavoidable increased integration and adoption of IFRS (Ozcan, 2016), its drive to economic growth (Semba, 2016) and integration of African stock markets to aid informational efficiency (Ntim, 2012). International Financial Reporting Standards (IFRS) are standards by the International Accounting Standard Board (IASB) to serve as a guide to companies for preparation of financial statements that will give true financial and non-financial information (integrated financial reporting) to investors and other stakeholders who use them for economic decisions (Brabec, 2014). The change from local accounting standards to International Financial Reporting Standards (IFRS) has generated a lot of attention, debates and controversies around the world, the reason being that IFRSs differ from the standards of those countries adopting them (Uwuigbe, 2016). For instance, the statement of Accounting Standard (SAS) in Nigeria to the adoption of IFRS in 2012. However, IFRS Accounting standards contribute to economic efficiency by helping investors to identify opportunities and risks across the world, thus improving capital allocation. For businesses, the use of a single, trusted accounting language lowers the cost of capital and reduces international reporting costs. Financial reporting quality helps make decisions regarding resource allocation in a company (Kaawaase, 2021).

Accordingly, it is vital to provide superior financial reporting quality to protect users of the financial report in making rational investments decision and to improve market efficiency. Thus, the frequent demand by shareholders for quality information and greater disclosures is often one of the reasons advanced for the adoption of International Financial Reporting Standards (IFRS). The main objectives of general-purpose financial reporting are to provide relevant information about the reporting entity that is useful to shareholders, potential investors, lenders, and other stakeholders in making informed decisions about the available resources to the entity ((International Accounting Standard Board). Thus, the quality of a financial report is determined by its decision usefulness. However, it remains uncertain as to whether the objectives of IFRS adoption have been achieved, particularly regarding the qualitative characteristic of financial reports (Ilaboya, 2018). Hence, this study aims to assess whether the financial reporting quality of companies was substantially improved after the IFRS adoption.

Theoretical Literature Review

The theory upon which this study is based is the stakeholders' theory. The justification for this is that since there are more than one or two parties that are affected by the operation of a company, then considering their interest is worthwhile. More so, the IFRS has been developed to improve the reporting quality of the financial statement to different stakeholders such as shareholders, investors, government, lenders etc. Stakeholder theory was postulated by Freeman in 1984. The principle of stakeholder theory was gradually dragged into management theory since the 80s. Freeman, (1984), argued that corporate bodies have a wide coverage of accountability than the parochial representation of agency theory. Stakeholder theory postulated that a stakeholder is 'any group or individual who can affect or is affected by the achievement of the organization's objectives. In other words, whoever is affected by failure or success of the enterprise is a stakeholder. Unlike the agency theory, stakeholder theory demonstrated that there are chains of parties who are affected by the management decisions such as suppliers, employees, and business partners. Therefore, this study relied on stakeholder theory because all companies preparing financial statement are stakeholders aiming at maximization of corporate wealth through the adoption of IFRS towards successful quality of financial statement. As a result, adoption of stakeholder theory aligned with the objective and scope of this study.

Empirical Literature

International Financial Reporting Standards (IFRS) and Financial Reporting Quality

In line with the IASB goal to develop the global acceptable set of high-quality IAS/IFRS that reflect current and potential investors as the primary users of financial statements (IASB, 2010) which are often described as a principle-based system, and are anticipated to ensure a high level of transparency of financial reporting to get better quality financial reporting. It is then expected that IFRS earnings management must be of better quality than local standards.

Sanyaolu (2017) carried out research on IFRS adoption and quality of financial statement: Perspective of Auditors, Chartered Accountants and Graduates of Accounting. Primary source of data was used by well-structured questionnaires and data were analyzed by inferential statistics. The study employed a survey research design. The population of the study was the entire Auditors in the private audit firms in Lagos, the chartered accountants in Lagos State and post graduate students of Accounting in Olabisi Onabanjo University. The result stated that there exists significant relationship between IFRS adoption and the timeliness of financial statements and that there is significant relationship between IFRS adoption and the reliability of financial statements.

Mustapha (2022) Conducted research on the adoption of International Financial Reporting Standards (IFRSs) in different countries of the world particularly with regard to the reliability of financial reports. The conceptual and empirical examination of the IFRS adoption and financial reporting quality across different sectors and countries. The study established that some studies used positive approach, and some used positive paradigm. Studies used either of primary or secondary source of data, while some used mixed approach. The study found that IFRS adoption are determined by comparing the parameters concerned between pre and post-IFRS regimes in given jurisdictions. The review concept and empirical evidence of IFRS adoption and financial reporting quality from many countries reveals that economic consequences of IFRS adoption significantly differ across jurisdictions though its impact has been reported to be positive in majority of studies. Also, few studies report indifferent and negative effects of IFRS adoption on financial reporting quality. The study found that it is argued that IFRS is more financial position focused. It is also observed that the impact of mandatory adoption of IFRS tends to be greater disputed than that caused by voluntary IFRS adoption. In addition, IFRS adoption are found to supersede many other domestic financial reporting standards such as Statement of Accounting Standard (SAS) in Nigeria.

Ergun (2015) examine the impact of International Financial Reporting Standards' adoption on accounting quality of 19 largest companies listed in Borsa Istanbul in Turkey from 2005 to 2011. The study uses accounting quality metrics and trend analysis. Findings from the study revealed that there is significant evidence that the implementation of International Financial Reporting Standards helps to improve accounting quality of the sample companies in Turkey. The re viewed study is limited to only 19 companies in Turkey and the findings of the study cannot be generalized to all company in Turkey on the extend or degree to which IFRS adoption determent the extend of accounting quality of the study companies. Therefore, it is important to study all companies in either

based on sector or all sector to determine the role of the regulatory body IFRS compliance and the impact of firm accounting quality and this will lead to avoiding detrimental effects of asymmetric information to the whole economy.

Hakim (2015) carried out research on underlying assumption of economic development theories that may support or constrain accounting standard. Setting strategies related to IFRS adoption and their potential effects on emerging stock markets (ESMs) development. The empirical analysis is based in a dynamic panel model using the generalized method of moments for 50 emerging economies over a period spanning from 2001 to 2007. The findings of this research were that a higher level of IFRS adoption affects positively and significantly stock market development (SMD).

Ofoegbu (2018) carried out a study on disclosure practices under IFRS on the performance of firms listed on the Nigerian stock exchange for a period of six years, from 2012 to 2017. Data was gotten from 384 from-year observations across 64 sampled companies listed in the Nigeria Stock Exchange (NSE). Content analysis and multiple regression technique was used in analyzing the research data and the association of disclosure and performance of the firms expressed return on capital employed (ROCE) as a performance index. The study also examined the relationship between market-based performance, company attributes and overall disclosure. The result indicates that the extent of overall disclosure does not associate with the financial performance of the listed Nigerian firms. The result suggests that share price, size and audit firm size significantly and positively related to the overall disclosure of firms. The association between leverage, company age and overall disclosure index.

Oueku (2016) carried out research on the empirical measure of compliance in accounting literature with special reference to international financial reporting standards (IFRS). This paper sought to review the existing methods for estimating IFRS compliance. The paper is purely a review study and relied on in-depth evaluation of secondary documents on the subject matter. The review revealed that the existing empirical studies measure IFRS compliance as single construct. This paper proposes that IFRS compliance should be measured as a multi-dimensional construct which could be: Two-factor construct; three – factor or four-factor construct. It is recommended that further empirical tests should be conducted to check statistical validity of these alternative measures. Future studies may test the statistical difference between the existing single construct and the multi-dimensional construct as well as between the multi-factor constructs.

Methods
This current contribution to small but burgeoning research on the qualitative characteristics approach to financial reporting quality is anchored on the agency theory. Agency theory is the relationship between the principals and agents where shareholders are the principals, and the company executives and managers are the agents. The research strategy is a panel design because it is a combination of longitudinal and cross-sectional data. There were 32 quoted deposit banks in Nigeria as of December 31, 2022, making up the entirety of the country's commercial banks. As data were gathered from all listed money deposit institutions in Nigeria, we conducted a census survey to prevent the mistake sometimes associated with sampling. Data will be sourced from the content analysis of annual reports and accounts of the selected commercial banks for ten years from the year 2003 to 2011 for the pre-IFRS period and from 2013 to 2021 for the post-IFRS period. The year 2012 was excluded as it was the year of adoption.

Variable Selection
Financial Reporting Quality (FRQ), the response variable, is measured using 25 functionally based measurement criteria. These criteria are comprehensive and multifaceted quality assessment tools for determining the expediency of financial and non-financial reporting information in annual reports encompassing both vital and enhancing qualitative characteristics specified by the International Accounting Standard Board's Conceptual Framework (IASB, 2010). In other words, these conceptually based 25-item criteria are intended to process decision usefulness regarding the essential and enhancing qualitative characteristics as defined in the IASB's conceptual framework (2010). Fifteen of the items relate to relevance, nine items relate to understandability/faithful representation, and one item relates to timeliness. Apart from Timeliness which is expressed in the natural logarithm of the number of days, all other items used 5-point Likert type scales. In two separate steps, we evaluated the financial reports' overall

quality using the 25-item index. To begin with, we employed content analysis to grade each item according to its specific measuring scale. The quality (average) for each qualitative parameter was then calculated.

Data Analysis Technique
The Mann-Whitney test was used to evaluate the data. It is a non-parametric test designed to evaluate any issue's initial and subsequent effects. In this instance, the test was run to confirm our hypotheses and ascertain whether there was a statistically significant difference in the quality of financial reporting prior to and following the introduction of IFRS at the 5% level.

Results and Discussion
We presented the result in three different forms, firstly the significance of the financial statement and IFRS Adoption, secondly the faithful representation of the financial statement and IFRS Adoption and thirdly the timeliness of financial information and IFRS adoption.

1. **International financial reporting standard (IFRS) Adoption and the Significance of Financial Statements:**

Table 2: Mann-Whitney Test Statistics of Significance of IFRS financials (Pre & Post Period)

	N	MEAN RANKING	SUM OF RANK	U	Z	Prob
Before (Pre) IFRS	90	66.78	3245.8719			
After (Post) IFRS	90	143.91	7618.2120	429	10.981	0.000

The difference is significant since P = 0.000.

Table 2 shows the Mann-Whitney test statistics for the relevance of pre and post-IFRS financial information. The value of the Rank Mean of the (PRE-IFRS) period (66.78) and the (POST-IFRS) period (143.91) shows that the relevance of financial information in the Post-IFRS period is statistically, significantly higher than in the Pre-IFRS period at the 5% level of significance. The result ((U = 429, Z = 10.981, and P = 0.000 0.05) demonstrates that the qualitative characteristic of relevance is better in the post-IFRS period than in the pre-IFRS period. The analysis results did not support the hypothesis that there was no significant difference in the relevance of financial information between the pre and post-IFRS financial reporting periods. The result is consistent with the work of Yurisandi and Puspetasari (2015) who reported that the qualitative characteristics of the relevance of financial information increased after the adoption of IFRS. This means that, the qualitative characteristics of financial information which are relevance, faithful representation, comparability, verifiability, timeliness and understandability improved after the adoption of IFRS.

2. **IFRS Adoption and the Faithful Representation of Financial Information:**

Table 3: Mann-Whitney Test Statistics for a faithful representation of IFRS financials (Pre & Post Period)

	N	MEAN RANKING	SUM OF RANK	U	Z	Prob
Pre-IFRS	90	59.31	2812.431			
Post-IFRS	90	141.81	5982.132	341	9.231	0.002

The difference is significant since P = 0.002.

Table 3 presents the results of the analysis of the clarity and conciseness of financial information of Banks in both the pre-IFRS and the post-IFRS reporting periods. The result of the Rank Mean of 59.31 pre-IFRS period and 141.81 post (IFRS) period shows that there is a substantial difference between these variables in both periods. The Mann Whitney test statistics of (U = 341, Z = 9.231, and P = 0.002 < 0.05) shows that the result is statistically significant at the 5% level. That is the clarity and conciseness which collectively measures the understandability of financial information are better in the IFRS reporting period compared to the pre-IFRS reporting period. The result is consistent with the position of Yurisandi and Puspitasari (2015) who reported an increase in the understandability of financial information after the adoption of IFRS. This implies that the clarity and succinctness which collectively measures the understandability of financial information is better in the IFRS reporting regime compared to the GAPP reporting regime.

3. **IFRS Adoption and the Timeliness of Financial Information:**

Table 4: Mann-Whitney Test Statistics and the timeliness of IFRS financials (Pre & Post Period)

	N	*MEAN RANKING*	*SUM OF RANK*	*U*	*Z*	*Prob*
Pre-IFRS	90	34.09	1541.901			
Post-IFRS	90	88.45	2232.441	214	6.981	0.000

The difference is significant since P = 0.000 at 5% level of significance

Table 4 displays the findings of the examination of the timeliness of financial data during the pre-IFRS and post-IFRS financial reporting periods. There is a difference in the time lag of financial information, with a larger lag in the post-reporting period, as shown by the value of the Rank means (34.09) of the pre-IFRS reporting period and (88.45) in the post-IFRS reporting period. The results of the Mann-Whitney U test statistics ((U = 214, Z = 6.981, and P = 0.000< 0.05) show that there is a statistically significant difference in the time lag between the two reporting periods at the 5% level of significance. The finding is consistent with that of Sanyaolu (2017) who explored IFRS adoption and the quality of financial statements. Their result stated that there exists a significant relationship between IFRS adoption and the timeliness of financial statements. This means that more time is required to prepare financial statements using IFRS guidelines, and audit lag will increase with the mandatory adoption of IFRS. It supports the view that IFRS reporting consumes more audit time than the reporting regime based on domestic standards.

Conclusion and Recommendation

The study aims at investigating the role of International financial reporting standards in financial reporting quality. The research strategy is a panel design because it is a combination of longitudinal and cross-sectional data from the content analysis of annual reports and accounts of selected commercial banks for ten years from the year 2003 to 2011 for the pre-IFRS period and from 2013 to 2021 for the post-IFRS period. These data were evaluated using the Mann-Whitney test. After the test was carried out, it was confirmed that the qualitative characteristics of the relevance of financial information increased after the adoption of IFRS. The result stated that there exists a significant relationship between IFRS adoption and the timeliness of financial statements and that there is a significant relationship between IFRS adoption and the reliability of financial statements.

The study, therefore, recommends that financial reporting councils and other accounting standards-setting bodies globally should support the effort to ensure improved compliance with IFRS as a matter of policy. This should be done by organizing compulsory training and re-training programs for the management and members of staff of different organizations.

References

Adwan, S. (2016). Value Relevance of IFRS and the Effect of the Financial Firms,(January). Retrieved from http://repository.essex.ac.uk: http://www.researchgate.net/publication/334943066

Bala, H. (2018). Audit Fees and Financial Reporting Quality: A study of Listed Companies in Nigeria. *International Review of Management and Business Research*, 482-489.

Brabec, Z. (2014). The use of International Financial Reporting Standards by Selected Companies Listed on the Prague Stock Exchange. *Segem 2014 Confrence on Political Sciences, Law, Finance, Economics and Tourism*, (pp. 809-816).

Desalegn, G. (2020). Does IFRS Adoption Improve Financial Reporting Quality? Evidence from Commercial Banks of Ethopia. *Research Journal of Finance and Accounting*, 18-24.

Ergun, U. (2015). The IFRS Adoption and Accounting Quality: A Comprehensive Trend Anaysis. *International Journal of Academic Research in Economics and Management Sciences* , 11-19.

Freeman E. (1984). *Strategic Management: A Stakeholder Approach.* Boston, Pitman Press.

Hakim, B. (2015). IFRS Adoption Strategies and Theories of Economic Development . *Journal of Accounting in Emerging Economics*, 70-121.

Ilaboya, J. (2018). IFRS Adoption and Financial Reporting Quality: IASB Qualiitative Characteristics Approach. *Accounting and Taxation Review*, 30-47.

Kaawaase, T. (2021). Corporate Governance, Internal Audit Quality and Financial Reporting Quality of Financial Institutions. *Asian Journal of Accounting Research* , 2443-4175.

Mensah, E. (2020). The Effect of IFRS Adoption on Financial Reporting Quality: Evidence from Listed Manufacturing Firms in Ghana. *Economic Research- Ekonomska Istrazivanja*, 1-6.

Mustapha, O. (2022). IFRS Adoption and Financial Reporting Quality in Nigeria: A Conceptual Approach. *European Journal of Accounting, Auditing and Finance Research*.

Najeb, M. (2017). The Effect of Mandatory IFRS Adoption on Financial Analysts' forecast: Evidence from Jordan. *Cogent Business & Management*, 1-18.

Ntim, C. (2012). Why African Stock Market Should Formally Harmonise and Integrate their Operations. *African Review of Economics and Finance*, 53-72.

Ofegbu, G. (2018). International Financial Reporting Standards (IFRS) Disclosure and Performance of Nigeria Listed Companies. *Cogent Business & Management*

Ozcan, A. (2016). Assessing the Effects of IFRS Adoption on Economic Growth: A Cross Country Study. *ACU International Journal of Social Sciences*, 70-86.

Sanyaolu, W. (2017). IFRS Adoption and Quality of Financial Statement: Perspective of Auditors, Chartered Accountants and Graduates of Accounting. *International Journal of Innovative Finance and Economics Research*, 1-10.

Semba, H. (2016). Can Overseas Investment Improve Earnings Quality? *The Journal of Developing Areas*, 27-40.

Uwuigbe, U. (2016). IFRS Adoption and Accounting Quality: Evidence from the Nigerian Banking Sector. *Corporate Ownership and Control*, 287-294.