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IFRS Adoption and Financial Reporting Quality in Nigeria: A Conceptual Approach

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ABSTRACT: *The adoption of International Financial Reporting Standards (IFRSs) in different countries of the world have become a contemporary issue 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 evidences 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.*

KEYWORD: IFRS adoption, financial reporting quality, SAS, Nigeria

INTRODUCTION

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 been that IFRSs differ from the standards of those countries adopting it (Uwuigbe et al., 2016). For instance, Statement of Accountant Standard (SAS) in Nigeria to the Adoption of IFRS in 2012. The International Financial Reporting Standards (IFRS) adoption is an issue of global relevance among countries due to the quest for standardization, reliability, uniformity, transparency and comparability of financial reports of companies (Mensah, 2020).

IFRSs is a set of international accounting standards stating and reporting rules that defines how transactions in a business should be collected, recorded and reported and what information a company expected to disclose in its financial reports (Desalegn, 2020). Hence, financial reporting is a report that provide financial information that is useful to users in making decisions. Financial reporting quality represent the degree to which financial reports provide truthful, relevant, understandable, verifiable and unbiased information about core financial positions and financial performance (Bala et al., 2018).

Financial reporting quality is helpful in making decisions regarding resource allocation in a company (Kaawaase et al., 2021). Accordingly, it is vital to provide superior financial reporting quality to protect users of financial report in making rational investments decision, and to improve the 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 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 that of the United States, and those in the United States differ from those in Japan and those in Japan differ from those in emerging market (Masoud, 2017). Today, the standard setting body responsible for this convergence effort is the International Accounting Standards Board (IASB). In a similar way, this organization functions like the FASB. In 2002, the FASB and IASB signed the Norwalk Agreement, formalizing their commitment to convergence of US and international accounting standards. The standards being developed and promoted by the IASB are called International Financial Reporting Standard (IFRS).

Prior research on international accounting has focused more on developed countries, particularly Europe, America, and Middle Eastern while Nigeria (and the African region) has been neglected due to its poor economic analyses and accounting regulatory environments. Because financial reporting information is extremely important to shareholders, analysts and other interested group formal reporting standards. Therefore, the adoption of accounting standard with the aims of establishing a clear global rule within the Nigeria to draw up comparable and transparent annual reports and financial statements.

In the context of Nigerian, the internationalization and globalization of trading activities, reported cases of corporate failure of some blue-chip firms and the quest by some firms to raise capital or fund internationally beyond their shore of business environment has called for its full adoption. Prior to IFRS adoption, every country has its own local reporting standards set by its local accounting body; in Nigeria, the Nigerian Accounting Standards' Board (NASB) was responsible for the setting of local standards called 'Statement of Accounting standards' (SAS) used in the preparation and reporting of financial statement by companies in Nigeria.

Subsequent to the adoption of IFRS in Nigeria, the NASB was renamed financial reporting council of Nigeria as the regulatory body charged with overseeing the adoption and implementation of IFRS (Sanyaolu et al., 2017). This implies that standards setting are no more done locally in Nigeria; rather the global adoption and implementation of IFRS is what is obtainable all over the world. Some countries prior to IFRS adoption have harmonized their local standards with GAAP (generally acceptable accounting principles). In line with this, the international financial reporting standard was adopted in Nigerian in the year 2012 by and all companies listed on the Nigeria exchange group and were required to compulsorily adopt these standards in the preparation of their annual reports and account.

The motivation behind this study is due to the perceived benefits of the implementation and adoption of IFRS, the adoption is wrought with challenges. These benefits and challenges could lead to favorable/unfavorable implications at both the micro and macro-economic levels. It becomes an interesting source for stakeholders to determine whether the standards are achieving their primary objectives (Aderin & Otakefe, 2016). For instance, IFRS adoption is perceived to engender improvements in financial reporting quality due to increased stringency in its usage and application, and one wonders if this is really the case. It is also argued that implementing IFRS enhances earnings quality by reducing information asymmetry, decreasing earnings management, providing more value relevant financial information to shareholders. Furthermore, Nigeria is one of the largest developing countries in Africa, characterized by concentrated ownership structures, weak legal systems and highly politicized institutional structures. These peculiarities could inform a level of variance in the results obtained in the study.

The fundamental objective of IASB is to develop IFRS that bring transparency, reliability, relevancy, reduce cost of capital, accountability and efficiency to financial and capital markets around the globe (Charles, 2017). In line with its fundamental objective, the stated vision of the IASB is to develop, in the interest of the general public, a single set of high quality, understandable and enforceable global accounting standards that require high quality, transparent and comparable information in financial statements and other financial reporting to help participants in the world's capital markets and other users to make economic decisions.

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 financial report is determined by its decision usefulness. However, it remains uncertain as to whether the objectives of IFRS adoption have been achieved, particularly about the qualitative characteristic of financial reports (Osasere & Ilaboya, 2018). Hence, this study aims to assess whether financial reporting quality of Nigeria listed companies was substantially improved after the IFRS adoption.

LITERATURE REVIEW

Financial Reporting Quality

There is no definite definition of the term Financial Reporting Quality. Most studies describe financial reporting quality in terms of accounting report reflecting the true and fair value of a company. Uwuigbe et al., (2016) opined that financial reporting quality should be discussed in terms of the shareholders' interests and the usefulness of accounting information in assisting the shareholders and other stakeholders. According to Bala et al., (2018) financial reporting quality signifies the extent to which accounting reports provide truthful and unbiased information about main financial positions and economic performance of company. Hence, understanding financial reporting quality is important to the shareholders, who needs to effectively and efficiency evaluate investment risk in the international capital markets.

IFRS Framework

According to the IASB's conceptual framework, a key prerequisite for quality in financial reporting is the adherence to the objective and the qualitative characteristics of financial reporting information which are comprised of relevance, faithful representation, understandability, comparability, verifiability, and timeliness. According to Sanyaolu et al., (2017) the acronym of IFRS means International Financial Reporting Standard. IFRS are international Accounting Standard used as guidelines for the preparation of financial report by companies. To ensure that the financial reporting and statements prepared by Nigerian companies are of quality standards which can be relied upon by the numerous users of the reports and to also protect public interests. According to International Accounting Standards Board (2018), the 2018 revised *Conceptual Framework* sets out the following guideline:

a) The objective of general-purpose financial reporting;
b) The qualitative characteristics of useful financial information;
c) A description of the reporting entity and its boundary;
d) Definitions of an asset, a liability, equity, income and expenses and guidance supporting these definitions;
e) Criteria for including assets and liabilities in financial statements (recognition) and guidance on when to remove them (derecognition);
f) Measurement bases and guidance on when to use them;
g) Concepts and guidance on presentation and disclosure; and
h) Concepts relating to capital and capital maintenance.

IFRS Adoption and Financial Reporting Quality

The influence of adoption of IFRS on financial reporting quality could vary across different countries due to diversity among the countries. The mixed and divergent findings documented in the earlier studies can be explained by countries institutional structures. Severally, studies argue that developing and transitional economies still have ineffective institutions and infrastructure; though their capital market may be developing fast (Aderin & Otakefe, 2016). The adoption of

IFRS has been examine in relation to the improvement in quality of financial statements. It is generally stated that IFRS impose relatively more disclosure requirements in financial statement in the process of improving financial reporting quality and addressing information asymmetry (Nijam & Jahfer, 2016).

Mensah (2020) examine the pre- and post-IFRS adoption effects on the financial reporting quality (FRQ) of eleven (11) manufacturing firms listed on the Ghana Stock Exchange (GSE) over the period 2001 to 2006. The study used a correlation analysis and regression analysis using a standard Fixed Effect (FE) model and the Ordinary Least Squares (OLS) technique. Data was sourced through the audited annual reports of the observed firms. The earnings management was used as measured by modified Jones' discretionary accruals, as a proxy for FRQ. The regression results revealed a significant negative effect of IFRS adoption on earnings management, thus indicating an improvement in the FRQ. Also, the extent of earnings management practices both pre- and post-IFRS adoption, the study finds a decrease in the post-adoption era as against the pre-adoption era, also signifying an improvement in accounting quality after the adoption of IFRS. The findings of the study indicate that, IFRS adoption enhances the quality of firms' financial reports within the Ghanaian capital market. Base on the reviewed study, the study is limited to Ghana, therefore the findings and recommendation may not be applicable to Nigeria due difference in the regulatory body policy and law.

Desalegn (2020) analyze the impact of International Financial Reporting Standard (IFRS) adoption on quality of financial reporting of seven (7) commercial banks in Ethiopia. The study used a qualitative characteristics of accounting information such as (Relevance, Understandability, Comparability, and Faith Representation). The study used the perceptions of preparers of banks financial reports (accounting & finance officer, finance managers as well as IFRS implementation team members) to analyze about IFRS adoption in commercial banks. The study adopted mixed research approach and descriptive research design. The study used a purposive sampling technique and the data was collected through the primary and secondary source. The finding of the study reveals that the quality of financial report which is measured through (relevance, understandability, comparability and faith representation) was improved after adoption of international financial reporting standards. However, the limitation of the study is that the research focused on only 7 banks from the population of 17 banks, therefore, the findings and recommendation of study may be generalized to all the banks in Ethiopia because the study banks is 41% which is less than 50% of the population. Furthermore, using primary data for FRQ may not be as reliable as qualitative approach of study which my study intend focus on.

Osasere and Ilaboya (2018) investigate the impact of adoption of IFRS on the change in financial reporting quality of Nigeria money deposit banks (MDBs) using the operationalized qualitative characteristics of financial reports by IASB conceptual framework. The study used operationalized the Fundamental and Enhancing Qualitative Characteristic measurement scale. A census approached was used where the population formed the sample in the study. The study data were obtained from the annual reports and accounts of the sample banks and Mann-Whitney statistics was used for the analysis. From the findings of the study, it was revealed that there is a statistically significant difference in the quality of financial reporting between the pre and post IFRS adoption in Nigeria. The study revealed that financial reporting quality increased in the post-IFRS adoption across the five qualitative features (relevance, faithful representation, comparability, understandability and timeliness). Based on the research study, it was established that the study is limited the Financial Reporting Quality (FRQ) in terms of measurement through the used of 33 conceptually-based measurement indices as indicated in International Accounting Standard Board's Conceptual Framework, as against the accrual model. More so, the period of study is limited to 4 years from 2013 to 2016 for the post- IFRS regime, however, my study will be extended to 2021. In addition, the study suffers from the problem of the micro numerosity of data, having focus only on Nigerian money deposit banks. Therefore, the study will be extended to all listed companies on the Nigerian Exchange Group.

Ajekwe et al. (2017) examine the effects of International Financial Reporting Standards (IFRS) adoption on the audit fees payable and financial reporting quality of 15 listed Deposit Money Banks (DMB) in Nigeria. The study period spanned two accounting standard regimes: the Nigerian Statements of Accounting Standards (SAS) from 2009 to 2011 and the IFRS adoption from 2012 to 2014. The study data was analyzed in two ways: first to compared audit fees and the known determinants (audit task complexity and reporting quality) under the two standards regimes using a paired-sample t-test. Secondly, the study employed multivariate analysis to examine and explain the combined effect of audit task complexity, financial reporting quality and IFRS in explaining the change in audit fee following IFRS adoption. The findings from the revealed that IFRS adoption has significantly increased audit complexity and improved financial reporting quality, also audit fees are significantly higher under the IFRS than under the SAS. The study concludes that less than 50% of the significant increase in audit fees following IFRS adoption is explained by IFRS task complexities. Based on the findings of the study, the limitation of the study is that the period of study is small which is 3 years from 2012 to 2014 and this may not be too adequate to determine the level of IFRS adoption on quality of financial statement. Moreso, the study is limited to banking sector and the findings from this study may not be used generalized on other sector like the manufacturing sector, industrial sector among others. Therefore, studying all sectors of the economy will assist in determining the level of IRS adoption and its impact on quality of financial reporting.

Yuk and Leem (2017) investigates the influence of IFRS adoption on earnings quality of Korean listed firms from the period of 2006 to 2015. Specifically, the study was covered from 2006–2010 as pre-IFRS period and 2011–2015 as post-IFRS period, respectively. The study used a long-term based approach and comparative analysis on each Korean stock market. Findings from the study shows a significantly improvement during 5 years after the IFRS adoption on the earnings quality of Korean listed firms. In addition, earnings quality on consolidated financial statements of KOSDAQ listed firms has improved more than that of KOSPI listed firms. From the review study, there was a limitation of insufficiency of research periods. Also, the study is limited to non-financial firms and this create a gap to focus on financial firms.

Sanyaolu et al. (2017) examine the impact of IFRS adoption on quality of financial statement from the perspective of Auditors, chartered accountants and accounting graduates. The study used IFRS adoption as independent variable while timely preparation of financial statement, relevance and reliability of financial statements are used as dependent variables to proxy quality of financial statement. 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 study data were sourced through primary source by well-structured questionnaires of 60 distributed equally among each member of the population out of which 50 were fully filled and returned by the respondents. The collected data were analyzed by inferential statistics. The of the study revealed that there is significant impact of IFRS adoption on the timeliness of financial statement and that there is significant influence of IFRS adoption on the reliability of financial statement. Also, the study also revealed that there is no significant impact of IFRS adoption on the relevance of financial statement. Based on the findings, it is shows that the study is limited to only qualitative study which is primary data, and this result findings base on primary data may be reliable, efficient and transparency enough to conclude on the quality of the financial statement, also the study sample size is small and this can not be used to generalized on the opinion of the auditor and accountant in Nigeria. It is expected that the observation should be larger in size.

Uwuigbe et al. (2016) examine the impact of mandatory adoption of IFRS on accounting quality of listed banks on the Nigerian Stock Exchange from 2010 – 2013. The study uses secondary data that was extracted from financial statements of the study banks. The sourced data were analyzed using Ordinary Least Square (OLS) through the use SPSS statistical package. The findings of the study revealed that after the adoption of IFRS, the rate at which Nigerian banks engage in income smoothing increased, while earnings management towards small positive earnings reduced, thus reducing the quality of accounting amount disclosed in the financial statements. The findings of this study have effect on the efficiency of the stock market. Based on the review, the study is found to be limited to banking sector, there findings, conclusion and recommendation of the study cannot be generalized to other sector of the economy. More so, the regulatory body of banks differ from other sectors, this can be a determinant factor of varies in IFRS adoption. It is therefore advisable to study the entire sector of the economy and do a comparative analysis among the sector base on their regulatory bodies that ensure compliance of IFRS. In addition, the period of study is 2010 to 2013 which is not realistic on the findings and recommendation for policy implementation. The study did not indicate that nature of data use for the study.

Aderin and Otakefe (2016) examines the impact of the International Financial Reporting Standards (IFRS) adoption on the quality of financial reporting in Nigeria. The study used a period-based approach to analyses changes in the degree of financial reporting quality (FRQ) that hinges on three proxies: Value Relevance, Earnings Quality and Earnings Management. The study measure of financial reporting quality (value relevance, measured by market value of the firm. earnings quality; measured by accrual quality, earnings management; represented by discretionary accruals). Three models were developed in the study to capture each proxy, and the models were analyzed using regression analysis to evaluate the R2 statistics; which captured the direction of change in the reporting quality. The results of the findings showed that financial reporting quality increased after the adoption of the IFRS for all the relevant proxies. The study concludes that the adoption of IFRS to enhance financial reporting quality while reducing the probability of earnings management practices could be beneficial in the long run to the Nigerian financial landscape. The limitation of the study is that the researcher did not specify the firms or sector for the study, therefore, the study lack a domine. Furthermore, the three models used in the study may give a conflicting result in terms of quality of financial report and this will give a mixed conclusion and recommendation. This therefore, necessitate a further study to finding support research finding. In addition, the research did not disclosure period covered in the study.

Yurt and 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 reviewed 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 base 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.

DISCUSSION AND CONCLUSION

The review concept and empirical evidences of IFRS and Financial reporting quality from many countries reveals that economic consequences of IFRS adoption significantly differ across jurisdictions though being its impact reported to be positive in majority of studies. There are also few studies that report indifferent and negative effects of IFRS adoption. The IFRS adoption effects are determined by comparing the parameters concerned between pre and post IFRS regimes in given jurisdictions.

It is found that the five qualitative features (relevance, understandability, comparability and faith representation, and timeliness) (Osasere & Ilaboya, 2018; Desalegn, 2020) also the quantitative factors such as earnings management, income smoothing and stock market, value relevance, earnings quality (Yuk and Leem 2017; Aderin and Otakefe, 2016; Mensah 2020; Uwuigbe et al., 2016), audit fee and audit task complexity (Ajekwe et al. 2017), are some of the key financial reporting quality that have been used for testing the influence by IFRS adoption. It is observed that conclusions in different jurisdictions with respect to the influence of IFRS adoption on financial reporting quality are relatively more divided. Conclusions of majority of studies support that IFRS adoption increases the quality of financial reporting and information content of accounting information. There are yet some studies that do not find any improvements in quality of financial reporting after IFRS adoption.

It is also found that when IFRS studies report mixed evidence with respect to financial reporting quality. This may be attributed to the argument 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 in Nigeria. Though there are few evidences to the contrary, as the IFRS are more of principle based thereby permitting more of professional judgement that may not be possible under the rule-based systems under local or domestic standard. Furthermore, based on the reviewed literature the IFRS adoption reported a significant difference between pre and post IFRS adoption periods and concluded that post IFRS adoption is found to established a significant financial reporting quality.

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