INTERNATIONAL FINANCIAL REPORT STANDARD ADOPTION AND THE FINANCIAL PERFORMANCE OF SOME SELECT LISTED BANKS IN NIGERIA

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ABSTRACT

The study examined the influence of international financial report standard adoption on the financial performance of some select listed banks in Nigeria. The population of this study consisted of all the staff of some select banks in Akwa Ibom state of Nigeria, estimated to be 1645. The study adopted Expost-facto research design while simple random sampling technique was used in selecting the respondents. the instrument for data collection which was tagged "Adoption Of International Financial Report Standard And The Financial Performance" (IIFRSAFPQ) was administered to the respondents and used for the study. The instrument was vetted by expert in home economy and test and measurement before the reliability test was conducted with the use of thirty (30) respondents who did not form part of the main study which produced the reliability coefficient of 0.72 to 0.84 proving the instrument to be reliable for the study. Data collected were analyzed using descriptive statistics and pearson product moment correlation analysis. From the results of the data analysis, it was observed that there is significant relationship between the adoption of international financial reporting standards by banks and their financial performance with respect to net profit margin and loan to deposit ratio. It was recommended that government and the regulators should ensure that there is availability of training facilities and materials for professional accountants on the concept of international financial reporting standards and issues relating to it. Also, compliance with international financial reporting standards timetable should be mandatory and failure should be marched with appropriate sanctions.

INTRODUCTION

The widespread adoption of International Financial Reporting Standards (IFRS) heralded a new era in financial reporting. From 2005 onward, publicly traded firms in more than 100 countries have been progressively required to prepare consolidated financial statements under IFRS (IASB, 2011). Realization of the anticipated benefits to be derived as a result of the change from National Generally Accepted Accounting Principles (GAAP) to IFRS in terms of improved quality of financial reporting is the core motive of the proponents of general adoption of IFRS. Supporters of IFRS adoption argue that benefits will flow from expanded financial statement disclosures, improved measurement and recognition practices, and the narrowing of differences in company reporting arising when a variety of national GAAP is used (Schipper and Whittington, 2005).The

acceptance is also based on the concept of convergence of accounting standards to minimize areas of differences in reporting formats across international borders.

According to Hoti and Nuhiu (2011), The International Accounting Standards Board (IASB), the body that publishes International Financial Reporting Standards (IFRS), was established in 2001 as a successor to the International Accounting Standards Committee. In 2002 a meeting between IASB and FASB in Norwalk revealed that the two international organizations decided to work towards establishing uniformity between IFRS and U.S. GAAP. A Memorandum of Understanding issued by the two organisations in 2006 stated that the duo would seek convergence by 2008. Accounting Framework has been shaped by International Financial Reporting Standards (IFRS) to provide for recognition, measurement, presentation and disclosure requirements relating to transactions and events that are reflected in the financial statements. IFRS was developed in the year 2001 by the International Accounting Standard Board (IASB) in the public interest to provide a single set of high quality, understandable and uniform accounting standards. Users of financial statement worldwide require sound understanding of financial statement but this can only be made possible based on Generally Accepted Accounting Practice (GAAP). With globalization of finance gaining ground, convergence with IFRS will enable the world to exchange financial information in a meaningful and trustworthy manner (Ikpefan and Akande 2012). International Financial Reporting Standards adoption by Nigeria at this time is in phases, however, IFRS remains as a standard with high quality accounting reporting framework. Thus, the users of financial statements can easily compare the entity's financial information between countries in different parts of the world. Implications of adopting IFRS means adopting a global financial reporting language that would create a company globally understood financial statement. Despite the foregoing differences that exist between the Nigeria statement of Accounting Standard (SAS) and the International Accounting standard (IAS). Olowo-Okere et al., (2004) observed that there is a gap when statements of accounting are compared with their international equivalents. It was concluded that even though Nigeria statements of accounting standards are based on the international Accounting Standards, the accounting statements are outdated and does not meet with the needs of a modern financial system. This study therefore seeks to examine the influence of International Financial Report Standard adoption on the financial performance of some select listed banks in Nigeria,

Statement of Problem

As evident from the foregoing, a good number of studies carried out in different countries have highlighted the benefits of having a single set of financial reporting standards across the globe in support of the adoption of IFRS globally. Few of the studies had given contradictory views questioning the relevance of IFRS adoption in developing an emerging economy. The effect of the adoption of IFRS on the level of reliability and transparency in financial report has also been examined but the effect on the loan to deposit ratio, net profit margin, return on equity and asset turnover have not been empirically investigated thereby creating a research gap in this area which this research work intends to fill.

Purpose of the Study

The main objective of the study was to examine the influence of International Financial Report Standard adoption on the financial performance of some select listed banks in Nigeria, while the specific objectives were:

1. To examine the relationship between the adoption of International Financial Reporting Standards by banks and their financial performance with respect to loan to deposit ratio.
2. To examine the relationship between the adoption of International Financial Reporting Standards by banks and their financial performance with respect to net profit margin.

Research Questions

The following research questions will be answered:

1. What is the relationship between the adoption of International Financial Reporting Standards by banks and their financial performance with respect to loan to deposit ratio?
2. What is the relationship between the adoption of International Financial Reporting Standards by banks and their financial performance with respect to net profit margin?

Research Hypothesis

1. There is no significant relationship between the adoption of International Financial Reporting Standards by banks and their financial performance with respect to loan to deposit ratio.
2. There is no significant relationship between the adoption of International Financial Reporting Standards by banks and their financial performance with respect to net profit margin.

Literature Review

Adoption of International Financial Reporting Standard and Loan to Deposit Ratio 0069n Banks

Deposit-taking and lending by banks are closely related. Both activities reflect the liquidity transformation function of banks and share a similar overhead (Kashyap et al, 2002). Hence it is useful to analyze loans and deposits in tandem, as is done through the Loan-to-Deposit (LTD) ratio. It is a core indicator for liquidity mismatch risk. The LTD ratio measures the coverage of loans with stable funding, usually deposits from households and non-financial companies. When loans exceed the deposit base, banks face a funding gap for which they have to access financial markets. So a high funding gap implies a high dependence on market funding, which can be more volatile and/or expensive than retail funding, in particular if it concerns unsecured market funding.

The macro prudential dimension relates to the link between funding mismatches at the bank level and system wide liquidity risk. If a substantial share of banks operates with a funding gap, adverse shocks to market funding can strain the banking sector as a whole, affecting credit supply and economic growth. Some studies investigate the link between the liquidity ratios and stress, by using the LTD ratio among other variables as signalling indicator for liquidity problems at banks for instance Leslé, (2012) and Betz et al., (2010) goes one step further by linking the LTD ratio to macro prudential policy and funding restrictions in particular. For banks, the effect of IFRS adoption on the information environment most likely relates to changes in comparability.

According to Sanusi (2004) in a workshop on “Transparency of Financial reporting in the financial services industry”, the banking industry plays a central role in mobilizing resources for the promotion of economic growth and development of any nation. This underscores the two needs for

effective regulation and supervision to ensure soundness and stability: the rendition of accurate and timely returns to the achievement of the goal. In Nigeria, the Central Bank and other supervisory agencies are primarily responsible for the regulation and supervision of Banks and other financial institutions, the external auditors on their part are saddled with the role of reviewing the institution's records and preparing the financial statement from where opinion is formed on the accuracy and correctness of the financial statement. There is therefore the need for auditors to ensure that a system that engenders accurate and reliable record-keeping is put in place.

There are several factors that have been proposed in order to explain differences in financial reporting practices across countries. Nobes and Parker, (2000) identify four of these as the most important: the nature of the legal system, the information requirements of different providers of finance, the linkage between company taxation and disclosure in published financial reports and the degree of professionalization. Historically, the development of accounting standards in any country falls within the stakeholder model. IFRS are based on a conceptual framework similar to the shareholder model which is found in common law countries (Barth et al. 2007)

Adoption of International Financial Reporting Standard and Net Profit Margin.

According to Lang et al. (2010), the total net profit influences the return of equity (ROE), thereby reflecting the way the company manages its assets. A fast turnover means the possibility of achieving a higher margin of profit, using a lower volume of fixed assets and current assets. The return on sales reflects the profit margin of the business. The level of this rate depends not only on the marketing strategy adopted by the enterprise, but also on the specific features of the activity branch. In some industries, it is not possible to adopt a flexible pricing policy in order to increase profitability (by changing the profit margins) due to the reduced elasticity of demand to price change. The return on equity is one of the main indicators that a company annually publishes. Comparability, together with relevance and reliability, is a key qualitative characteristic of accounting information. Comparable financial statements are generally believed to facilitate investors' resource allocation and investment decisions (FASB 2008).

Capital market regulators further believe that a common set of accounting standards can lead to improved comparability (Atwood et al., 2011). The mandatory adoption of IFRS by Nigerian listed banks thus aims to enhance comparability (as well as financial reporting quality) across countries by introducing a single set of high quality accounting standards (Regulation (EC) No. 1606/2002). However, while comparability of accounting information is considered of paramount importance for facilitating investors' decisions and enhancing efficient asset allocation, Ahmed et al. (2010), and Landsman et al. (2011) focused on changes in financial reporting quality and this present an ambiguous picture about the quality effect of mandatory IFRS adoption. Yu (2010) showed that the IFRS mandate has increased cross-border equity holdings because of the joint effect of a reduction in foreign investors' information processing costs and a decrease in other barriers such as geographic distance, and Beneish et al. (2009) looked at the impact of IFRS on countries' ability to attract foreign capital and found no discernible effect for equity investments while they documented a positive effect on debt investments.

A related study that also uses an input-based comparability construct based on accounting method choice is Bradshaw et al. (2009). The authors capture comparability as the difference between a firm's accounting method choices and those of its industry peers and found that firms

with atypical accounting methods experience larger analyst forecast errors and increased forecast dispersion on average. Despite the growing literature on mandatory IFRS adoption, till date no published study has looked at the direct effect of the adoption on comparability. A potential reason for this gap in the literature may be the lack of established proxies for comparability. The operational activity influences ROE through the operating profit margin. The latter one is influenced, in turn, by the revenue management and the cost management. The revenue management is subject to price conditions, the actions of competitors and the market potential. The cost management is determined by the supply conditions, the labor market and the cost needs. The investment activity influences the return on equity by the return on invested capital. This is determined by the capital turnover, both the current and the fixed one. The current capital turnover is given by the management of stocks, of claims and of operating debts. The fixed assets turnover is determined by the investment budgeting and by the project management (Summers, 2007).

Obstacles to International Financial Reporting Standard Adoption in Nigeria

The challenges to IFRS adoption present opportunities for massive education and training of accountants, auditors, financial analysts, regulators, and all direct stakeholders in financial reporting. Apart from immediate changes in accounting curriculum in tertiary institutions offering accounting, increased seminars and workshops, as well as staff development programmes are critical awareness enhancement processes to a speedy development of IFRS convergence in Nigeria, and indeed any country. Intensification of IFRS education and creating proper awareness about the importance of IFRS to the economy will facilitate the rate at which market participants will embrace, transit, and implement it. Creation of awareness should start by making IFRS education compulsory in the curriculum of students both in colleges and universities. Training accountants, auditors, financial analysts, valuation experts through seminars, conferences will enlighten the mind of practitioners and lead to a successful implementation.

The large accountancy firms have not been of a great help in the training and education for IFRS preparation in Nigeria. For example, Diamond (1991) said that during interactions with some bankers as part of developing the topical interest, two things became apparent: The first was the absence of systematic awareness of IFRS. The second issue was that most of the bankers studied neither accountancy nor banking and finance but were graduates of engineering, law, agricultural science and other unrelated courses. This is a clear case of lack of knowledge by staff of a critical sector as the banking industry. This observation was not only unique to the banking sector. Interaction by Hail (2006) with students of other universities reveals the absence of knowledge of IFRS. Although a number of large foreign accountancy firms, like Deloitte Touché Tohmatsu, have been offering e-learning modules on IFRS on their websites upon registration, these cannot be a systematic national approach to sustain knowledge development of IFRS. Again, consistent interpretation and providing legal backing and consequences for non-compliance will facilitate implementation of IFRS in Nigeria.

METHOD

Research Design

This study adopted an Expost-Facto research design. This design was considered appropriate for the research as it attempted to check the already existing influence of the independent variable (IFRS) on the dependent variable (bank's financial performance).

Area of the Study

The area of this study was some selected banks in Nigeria. Nigeria is one of the countries in West Africa. It is popularly known as the giant of Africa with the population size about one hundred and fifty million (150,000,000) people.

Population of the Study

The population of this study consisted of all the staff of the following banks in Akwa Ibom State of Nigeria, estimated to be 1645

Sample and Sampling Technique

A sample size of 321 respondents was used for the study. This was obtained through simple random sampling techniques. The sample size was statistically determined using "Taro Yamane" formula for finite population.

Research Instrument

The instrument used by the researcher for this study was a research questionnaire. The questionnaire tagged **"ADOPTION OF INTERNATIONAL FINANCIAL REPORT STANDARD AND THE FINANCIAL PERFORMANCE" (IIFRSAFPQ)** was used to obtain data on the independent and dependent variables presented in both sections A and B of the questionnaire. While section A measured the demographic data of the respondents such as name, gender, age, educational qualification and marital status, section B measured the independent and the dependent variables.

Validation of the Research Instrument

The face-validation of the research instrument was made by the researcher's supervisor who is an expert in the field. The items in the questionnaire were properly worded to meet the respondent's level of understanding.

Reliability of the Instrument

The test-retest reliability study was conducted with the use of thirty (30) respondents who did not form part of the main study. The instrument was subjected to test – retest reliability study. The instrument was subjected to test – retest reliability study. This study was carried out in order to prove the level of reliability of the research instrument. The result the reliability coefficient test ranged from 0.72 to 0.84.

Administration of the instrument

The researcher used a letter of introduction and permission to gain access into the banks. On getting to the banks the researcher presented the letter to the manager of each bank, who assigned some assistant to the researcher.

Data Analyses and Results

Research Question One

The research question sought to find out the relationship between the adoption of International Financial Reporting Standards by banks and their financial performance with respect to loan to deposit ratio. In order to answer the research question, descriptive analysis was performed on the data collected (see table 1).

TABLE 1

Descriptive analysis of the relationship between the adoption of International Financial Reporting Standards by banks and their financial performance with respect loan to deposit

Variable	N	Arithmetic mean	Expected mea	R	Remarks
Adoption of IFRS		14.83	12.5		
	321			0.80*	*Strong to perfe relationship
Loan to Deposit		15.49	12.5		

Source: Field Survey

Table 1 presents the result of the descriptive analysis of the relationship between the adoption of International Financial Reporting Standards by banks and their financial performance with respect to loan to deposit. The two variables were observed to have strong to perfect relationship at 80%. The arithmetic mean for Adoption of IFRS (14.83) was observed to be greater than the expected mean score of 12.5. In addition to that, the arithmetic mean as regard loan to deposit (15.49) was observed to be higher than the expected mean score of 12.5 The result therefore means that there is remarkable relationship between the adoption of International Financial Reporting Standards by banks and their financial performance with respect to loan to deposit in banks.

Research Question Two

The research question sought to find out the relationship between the adoption of International Financial Reporting Standards by banks and their financial performance with respect to net profit margin. In order to answer the research question, descriptive analysis was performed on the data collected (see table 2).

TABLE 2
Descriptive analysis of the relationship between the adoption International Financial Reporting Standards by banks and their financial performance with respect net profit margin

Variable	N	Arithmetic mean	Expected mean	R	Remarks
Adoption of IFRS		14.83	12.5		
	321			0.87*	*strong to perfect relationship
Net Profit Margin		15.43	12.5		

Source: Field Survey
Table 2 presents the result of the descriptive analysis of the relationship between the adoption of International Financial Reporting Standards by banks and their financial performance with respect to net profit margin. The two variables were observed to have strong to perfect relationship at 87%. The arithmetic mean for adoption of IFRS (14.83) was observed to be higher than the expected mean score of 12.5 In addition to that, the arithmetic mean as regard net profit margin (15.43) was observed to be higher than the expected mean score of 12.5 The result therefore means that there is remarkable relationship between the adoption International Financial Reporting Standards by banks and their financial performance with respect to net profit margin.

Hypotheses Testing

Hypothesis One

The null hypothesis states that there is no significant relationship between the adoption of International Financial Reporting Standards by banks and their financial performance with respect to loan to deposit ratio. In order to test the hypothesis, Pearson Product Moment correlation analysis was performed on the data**.** (See table 1).

Table 3
Pearson Product Moment Correlation analysis of the relationship between the adoption of International Financial Reporting Standards by banks and their financial performance with respect to loan to deposit

Variable	$\sum X$ / $\sum Y$	$\sum X^2$ / $\sum Y^2$	$\sum XY$	**r**
Adoption of IFRS (X)	4759	71241		
			74238	0.80*
Loan to deposit (Y)	4972	77642		

*** Significant at 0.05 level; df =319; N=321; Critical r-value = 0.113**

The above table 3 presents the obtained r- value as (0.80). This value was tested for significance by comparing it with the critical r-value (0.113) at 0.05 levels with 319 degree of freedom. The obtained r-value (0.80) was greater than the critical r-value (0.113). Hence, the result was significant. The result of the data analysis therefore means that there is significant relationship between the adoption of International Financial Reporting Standards by banks and their financial performance with respect to loan to deposit ratio in banks.

Hypothesis Two

The null hypothesis states that there is no significant relationship between the adoption of International Financial Reporting Standards by banks and their financial performance with respect to net profit margin. In order to test the hypothesis, Pearson Product Moment correlation analysis was performed on the data. (See table 2).

Table 4

Pearson Product Moment Correlation analysis of the relationship between the adoption of International Financial Reporting Standards by banks and their financial performance with respect to net profit margin.

Variable	$\sum X$ / $\sum Y$	$\sum X^2$ / $\sum Y^2$	$\sum XY$	r
Adoption of IFRS (X)	4759	71241	74050	0.87*
Net profit margin (Y)	4953	77163		

*** Significant at 0.05 level; df =319; N=321; Critical r-value = 0.113**

The above table 4 presents the obtained r- value as (0.87). This value was tested for significance by comparing it with the critical r-value (0.113) at 0.05 levels with 319 degree of freedom. The obtained r-value (0.87) was greater than the critical r-value (0.113). Hence, the result was significant. The result of the data analysis therefore means that there is significant relationship between the adoption of International Financial Reporting Standards by banks and their financial performance with respect to net profit margin.

DISCUSSION OF THE FINDINGS

The result of the data analysis in table 3 was significant due to the fact that the obtained r-value (0.80) was greater than the critical r-value (0.113) at 0.05 level with (319) degree of freedom. This result implies that there is significant relationship between the adoption of International Financial Reporting Standards by banks and their financial performance with respect to loan to deposit ratio in banks. The significance of the result is in agreement with the findings of Wu and Zhang, (2010), who stated that financial reporting changes that enhance comparability alone are not likely to affect insiders' information advantage relating to access to firm-specific information only but also to promote loan to deposit ratio as it occurs in banks. The significance of the result caused the null hypotheses to be rejected while the alternative one was accepted.

The result of the data analysis in table 4 was significant due to the fact that the obtained r-value (0.87) was greater than the critical r-value (0.113) at 0.05 level with (319) degree of freedom. This result implies that there is significant relationship between the adoption of International

Financial Reporting Standards by banks and their financial performance with respect to net profit margin. The significance of the result is in agreement with the findings of De Franco et al. (2011) who proposed a measure of financial statement comparability that is firm-specific, output-based, and seeks to capture comparability from the perspective of financial statement users. Their construct, labeled "financial statement comparability", reflects the idea that if the same economic events are accounted for homogeneously by two firms (i.e., the two firms show a similar "mapping" of economic events into financial statements), the two firms should have comparable accounting systems. The significance of the result caused the null hypotheses to be rejected while the alternative one was accepted.

Conclusion:-

Based on the findings of the research, the researcher wishes to draw the following conclusions:-

1. There is significant relationship between the adoption of International Financial Reporting Standards by banks and their financial performance with respect to loan to deposit ratio in banks.
2. There is significant relationship between the adoption of International Financial Reporting Standards by banks and their financial performance with respect to net profit margin.

Recommendation of the study

Based on the findings of the research, the researcher wishes to present the following recommendations:-

1. Government and the regulators should ensure that there is availability of training facilities and materials for professional accountants on the concept of International Financial Reporting Standards and issues relating to it.
2. Compliance with International Financial Reporting Standards timetable should be mandatory and failure should be marched with appropriate sanctions.

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