ACCOUNTING STANDARD AND QUALITY OF FINANCIAL REPORTS OF QUOTED DEPOSIT MONEY BANKS IN NIGERIA

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Abstract

Banks play important roles in promoting national development. In order to provide efficient services and to perform their statutory roles effectively, banks are required to comply with established standards. This study empirically examined the relationship between accounting standards and quality of financial reports in Nigeria. Five (5) banks out of twenty two quoted banks were randomly selected for analysis over the period covering 2010 to 2017. Data used in the study were sourced from the financial statements of the selected banks for the period under study. Panel data analysis in the form of pooled OLS analysis, fixed effect analysis and random effect analysis alongside post estimation test such as restricted f-test and Hausman test were used. The results revealed that accounting standards measured in terms of IFRS13 ans IAS18 exert positively on quality of financial reports of quoted banks. The result also revealed that Quality of Financial reports such as Timeliness, Relevance, and Faithful Representation exert significant influence on financial reporting quality of quoted bank's with reported coefficient estimates and probability values of 0.084159(P=0.0000), 059716(P=0.0009), 0.084159(P=0.0000) for Timeliness, Relevance, Faithful Representation respectively. The study concluded that the relationship between accounting standards and quality of financial reports of quoted banks in Nigeria cannot be undermined, The study recommended that in order to enhance performance, Nigerian banks must maintain adequate compliance with accounting standards, and take dose cognizance qualities of financial reports of as their relative significance on performance of Nigerian Banks cannot be undermined.

Key Words: Timeliness. Relevance. Faithful representation**.**Quoted Deposit Money Banks.

Introduction

Financial statements apart from stating position of an organization, provides other information such as the value added, changes in equity if any and cash flows of the enterprise within a defined period of time to which it relates (Iyoha&Faboyede, 2011).Financial reports can only be regarded as useful if it represents the "economic substance" of an organization in terms of relevance, reliability, comparability and aids interpretation simplicity (Penman, 1984).Accounting Standard can be defined as an information system through which financial and monetized information is generated for economic, social and political decision (Izedonmi, 2001).Accounting standards were introduced to serve as a guide and to provide a framework in preparing and presenting financial reports and statements, The Accounting standards are aimed at providing creditors and investors with quality information in relation to the IASB for the preparation and presentation of financial statement. The major objective of Accounting Standards is to ensures that important matters regarding preparation and presentation of financial statements as well as auditing same are not left to whim of the preparers and auditors. However, it is important to state that the rate at which existing and potential investors and business practitioners are disappointed in their investment decisions/ventures following corporate failures especially in the banking sector has raised unusual concerns among business practitioners. The general objective of this research is to examine the relationship between accounting standards and quality of financial reports of quoted banks in Nigeria.

Literature Review

Theoretical Framework

The decision usefulness theory

This theory places that the best accounting standards are the ones giving the most valuable financial reports to clients in order to aid them in decision making. It endeavours to build up a logical and target strategy to help standard setters and clients in their decision of the best option of the estimation and presentation of accounting information. Basically, this hypothesis expresses that accounting information should help providers in their capital allocation choice.

Accounting Standards

Accounting Standards can be defined as an information system through which financial and monetary information is generated for economic, social and political decision (Izedonmi, 2001).According to the institute of chartered accountants of India, Accounting Standards (ASs) are written policy documents issued by expert accounting body or by government or other regulatory body covering the aspects of recognition, measurement, presentation and disclosure of accounting transactions in the financial statements. The main purpose of the standard setting bodies is to promote the reporting of timely and useful financial information to investors and certain other parties having an interest in the company's economic performance.

Quality of financial reports

Ofurum et al, (2014) in accordance with the IASB stated that the qualitative characteristics of financial statements are understandability, relevance, reliability, and comparability. These qualitative characteristics are the attributes that makes the information provided in the financial statements useful to users. The usefulness of financial reports is confirmed when they can embody the economic realities of the organization in terms of relevance, reliability, comparability, and presented in a form that can be easily understood. (IASB, 2015). Glautier&Underdown (2001) posited that the primary objective of financial reporting is to communicate information about the resources held by entity and performances of the reporting entity, useful to those having right to such information. Nzotta (2008) opined that financial reports assist the users in evaluating the past and present performance of the organization and its ability to maximize the wealth of the shareholders. The primary objective of financial reporting is to provide high quality financial reporting information concerning economic entities, primarily financial in nature, useful for economic decision making (FASB, 1999; IASB, 2008). Providing high quality financial reporting information is important because it will positively influence capital providers and other stakeholders in making investment, credit, and similar resource allocation decisions enhancing overall market efficiency (IASB, 2006; IASB, 2008).The importance of financial reports is affirmed when they can incorporate the economic realities in terms of relevance, reliability, timeliness and comparability and displayed in a form that can be readily understood. (IASB, 2015).

Empirical Reviews

Biddle et al. (2009) evaluated the connection between financial reporting quality and investment productivity and found that organizations with higher communication quality had to bring down levels of mutilation from the anticipated business and were less touchy to changes in macroeconomic conditions (Biddle et al. 2009). Bushman & Smith (2001) and Lambert et al. (2007) looked at the connection between financial related reporting quality and investment and found that expansion in the financial reporting quality prompted increment in business proficiency (Bushman & Smith, 2001). Jensen (1986) explored the financial related reporting quality and found that financial communication quality affected the attributes of firms, including financial use, business, evaluating quality and financial structures (Jensen, 1986). Li Fengchen (2010) opined that the effect of financial communication quality on business costs, information vulnerability and organisation and found that brilliant financial related reporting lessened investment and office costs (Fengchen et al. 2010). Sajjadi et al. (2009) directed a review titled exploring the effect of non-financial related attributes on the financial reporting nature of recorded firms in Tehran Stock Exchange and presumed that firm size, firm life and kind of industry had huge and positive organisation with the financial reporting quality and financial communication quality was adversely identified with the possession structure (Sajjadi et al. 2009).

Methodology

Research design

A total of twenty two commercial banks operate presently in Nigeria, out of which five banks were selected for this study. The selected banks include First of Nigeria Bank Pic. (FBN), United Bank for Africa Pic. (UBA), Fidelity Bank Pic. (FB), Zenith International Bank Pic. (ZIB), and Access Bank Pic (ABP). The basis for the selection rests on the facts provided by Kolapo, Ayeni and Oke (2012) that these banks have been rated as the topmost five Nigerian banks by Fitch rating and Bankers' Magazine of July 2012, they account for over fifty per cent of deposit liabilities in the Nigerian banking sector, they have made the list of the first 25 and 500 banks in Africa and the world respectively, their credit rating by Fitch, Standard and Poors, and Agusto and Co have moved from stability to positive as at January 2012, they all have a large customer base and participate actively on the Nigerian Stock Exchange (NSE). The study made use of data obtained from the audited financial reports of the banks for a period of eight years (2010- 2017).

Population for the Study

The population of this study covered 5 selected quoted banks listed on the Nigerian Stock Exchange (NSE) for the period of 8years (2010-2017).Secondary data was extracted from the published financial statements/reports of the organisations as well as the banks' websites.

Nature/ Sources of Data

Secondary data was collected for the purpose of analysis from the published financial statements of the 5 selected quoted Banks, UBA, First Bank, Access Bank, Fidelity Bank, Zenith Bank, listed on the Nigerian Stock Exchange as well as the banks websites.

Method of data analysis

This study adopted the Pooled Ordinary Least Square (panel least squares) regression technique to determine the relationship between the independent variables and the dependent variables. The choice of the pooled ordinary least squares is mainly because it minimizes the error sum of squares and also it has a number of advantages such as unbiased, consistency, minimum variance and efficiency. This analysis was done by the use of E-views 8 software.

Model Specification

Model specification is the expression of a relationship into precise mathematical form and then into an econometric form, capturing the effects of stochastic factors. The dependent variable .is Financial Reporting with its proxies as Faithful Representation, Relevance and Timelines while the Independent variable also known as predictor variable is Accounting Standards, with its proxies as IFRS13 and IAS18. In order to examine the functional relationship between the variables the model is expressed as follows:

Functional Form

DTM = F(REV, FVL) ....(i).
DRV = f(REV, FVL) .... (ii)
DFR = F(REV, FVL) ....(iii)
These are then transformed into mathematical models:

DTM = A_0+ AiREV + A_2FVL............... (iv)
DRV = B_0+ Bi REV + A_2FVL............. (v)
DFR = d_0 + ciiREV + a_2FVL .... (vi)
Further transformed into econometrics model:
DTM ^ = Aoit+ AiREVit + A_2FVLjt +//t (vii)
DRV_{it} = B_{0it}+ BiREVit + B_2FVL_{it} +$£_{it}$ ... (viii)
DFR$|_t$—Ooit + Qi REV_{it}+a_2FVLjt+fiit . .. (ix)
Where:
DTM_{it}=Dummy Variable for Timeliness at time and across banks
DRVit= Dummy Variable for Relevance at time and across banks
DFR_{it}=Dummy Variable for Faithful Representation at time and across banks
REV_{it}= Revenue Standard (IAS 18) at time and across banks
FVL_{it}= Fair Value Standard (IFRS 13) at time and across banks
u,£,h= Error Terms
A_0, Bi, a_0 = Constant

Results and Discussion

Table IPanel Least Squares Result of Accounting (Revenue) Standards and Quality of Financial Reports (Timeliness).

Dependent Variable:' DTM				
Method: Panel Least Squares				
Date: 09/12/18 Time: 17:15				
Sample: 2010 2017				
Periods included: 8				
Cross-sections included: 5				
Totaljjanel (balan	ced) obser	•vations: 40		
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.139480	0.026055	5.353263	0.0000
REV	0.084159'	0.001983	42.44040	0.0000
FVL	0.005086	0.001083	4.696937	0.0000
	Effects Specification			

Cross-section fixed (dummy variables)				
—				
R-squared	0v985926	Mean var	dependent	0.9500
Adjusted R-squared	0.983368	S.D. var	dependent	0.220721
S.E. of regression	0.028466	Akaike criterion	info	4.122599
Sum squared resid	0.026740	Schwarz criterion		3.827046
Log likelihood	89.45199	Hannan-Quinn criter.		4.015737
F-statistic	385.3012	Durbin-Watson stat		1.372940
Prob(F-statistic)	0000			

Source: Eviews 8 computation

Table 5 above is the panel least squares result for the first model of the implication of accounting standards and quality of financial reports of quoted banks in Nigeria. From the table above, it is could be observed that revenue (IAS 18) has a positive and significant relationship with timeliness as its coefficient is 0.084159 and its P-value is less than 5% level of significance (0.0000). However, the R-squared and Adjusted R- squared are 0.985926 and 0.983368 respectively implying that about 98.33% of changes in timeliness (DTM) is explained by IFRS, While the other percentage is explained by other variables not captured in the model. A further investigation reveals the F-statistics of 385.3012 at a probability level of 0.000 which is lower than 0.05 level of significance shows that the goodness-of-fit of the model is acceptable. Although, the Durbin-was ton statistic is below the benchmark of 2 but could still be acceptable as it is clpse to 2 (1.372940).

Hausman test is done to select the appropriate model between the fixed effects and the random effects model. The value of chi-square statistics was 15.427378, Chi-Square d.f provided a value of 2,with a probability value of 0.0004. The null hypothesis is that the random effects model is appropriate and the alternate hypothesis is that the fixed effects model is appropriate.

Decision Rule: If the chi-square probability value is less than 0.05 reject null hypothesis and accept alternate. From the table above it is observed that the chi-square statistics is 15.427378 and its probability value is 0.0004 which is less than 0.05 we reject the null hypothesis and accept the alternate hypothesis of fixed effects mode being appropriate.

Discussion Of Findings

The hypothesis seeks to examine the relationship between accounting standards and qualities of financial reports using E-Views 8to test the null hypothesis. Statistical evidence proves that the relationship between independent and dependent variables are significant and positive therefore, leading to the rejection of the null hypothesis and acceptance of the alternate hypothesis.

Conclusion

In accordance with the research findings of the study, we can therefore conclude that Accounting Standards has the potential of increasing the Quality of Financial Reports in Nigeria. The overall empirical evidence generated from the findings showed that quoted banks do comply with the requirements of the accounting standards at different levels. There is a positive relationship between Accounting Standards and quality of financial reports of quoted banks in Nigeria.

Recommendations.

0. In the long and short run, there should be enhancement of new standards and review of old standards with would bring about a positive effect on the qualities of financial reports.
1. In order' to .enhance performance, Nigerian Banks must maintain adequate compliance with the statements of accounting standard especially those that enhance effective bank performance.
2. The Nigerian Stock Exchange should ensure compliance with the accounting standards by suspending erring banks from trading on the Stock Exchange market for two consecutive years.
3. There should be regular training and re-training programs organized for staff on efficient and effective preparation of statements of accounts in line with national and international standards.

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