



The Implementation of Provisions of IFRS Framework and Financial Performance of Banks

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ABSTRACT

The need for global financial language gave birth to International Financial Reporting Standards (IFRS). The adoption of IFRS has been argued to have changed the manner in which the financial statements are prepared, presented and reported. IFRS represents a single set of high quality, globally accepted accounting standards that can enhance comparability of financial reporting across the globe. The significant disparities between the Nigerian Statement of Accounting Standards and International Financial Reporting Standards have resulted in the Statement of Accounting Standards being regarded as outdated and incomplete as an authoritative and internationally accepted guide to the preparation of financial statements. The study however examined the extent to which Nigerian banks have implemented the provisions of IFRS frameworks. The sample comprises of fourteen quoted deposit money banks in Nigeria. Specifically, financial statement figures of 2007 – 2011 (pre-adoption period) and 2012 – 2016 (post-adoption period) were utilized. The study adopted the ex-post facto research design. Annual panel data were collected from the financial statements and accounts of 14 deposit money banks quoted on the Nigerian Stock Exchange as well from the Securities and Exchange Commission statistical bulletin from 2007 to 2016. The findings revealed that the return on shareholders' funds has improved since implementation of International Financial Reporting Standards (IFRS) on Nigerian banks. IFRS implementation has significant effect on the profitability of quoted banks in Nigeria. The implementation of International Financial Reporting Standards (IFRS) has significantly influenced banks' earnings and it was concluded that IFRS has positive impact on equity and earnings of banks. It was

recommended that government and regulatory authorities should organize more quality training to get bankers informed.

KEY WORDS: *IFRS, Financial Performance, Banks*

INTRODUCTION

The worldwide economic system is almost interdependent. The economic interdependence is such that no country of the world is an island unto itself. What affects or influences one country economically indirectly affects or influences the other (Appah, 2010 & Ezejulue, 2008). Wilson, Tsegba, Adeaze and Anyahara (2013) state that the fast pace of globalisation with the integration of national financial markets has stimulated the need for a common financial language, because good financial reporting makes investment and financial decisions more efficient. According to Adegite (2009) the globalisation and rapid advancement in information and communication technology had resulted in the emergence of borderless business entities and growth of multinational corporations. She said Nigeria as a member of the international community could not but conform to international standards and practices in its business dealings in order to continue to benefit from the enormous economic gains derivable there from. Any company that involved in international business must of necessity hold and own assets, owe liabilities, and deal in transactions that are denominated in other countries' currencies. These brought about international accounting standards (Appah, 2010). International accounting standards that provide a common accounting language are spreading up as global investing and lending has grown enormously. Adejoh and Hasnah (2014) opined that the need for

harmonization of financial statements and single set of consistent high quality financial reporting standard gained wide spread acceptance amongst policies makers, standard setters and preparers of financial statement. The need for quality and uniformity in the preparation and presentation of financial reports gave birth to International Financial Reporting Standards (IFRSs).

According to Nyor (2012) the process of international convergence towards a global set of accounting standards started in 1973 when 16 professional accounting bodies from Australia, Canada, France, Germany, Japan, Mexico, Netherlands, United Kingdom and the United States of America agreed to form the International Accounting Standard Committee (IASC). International Accounting Standards (IAS) which was issued by IASC came as a child of necessity due to unprecedented growth in trade and investment among countries of the world. It led to a search by investors for new destinations for surplus funds. But companies that started going abroad to become multinational soon faced the problem of consolidating their financial statements due to differences in the GAAPs of parent and subsidiary companies. The IASC was in 2001 reorganized into IASB (International Accounting Standard Board) with a sole arm of developing a global standards and related interpretations that are generally known as International Financial Reporting Standards (IFRSs). The reason is that, if accounting is actually the language of business, then, companies all over the world cannot continue to be speaking in different languages to each other while exchanging financial figures from their international business activities. Thus, a single set of high quality and globally accepted accounting standards will simplify accounting procedures by allowing the use of a common reporting language across the globe. Different countries of the world have had their respective accounting standards, developed, issued and regulated by their respective local bodies before the global convergence to IFRS. Recently, globalisation of the capital market have increased awareness of IFRS across globe. The standards which have now become a globally accepted standard is a set of principles-based accounting standards developed and issued by IASB for the preparation of financial statements of a public companies. Countries all over the world is expected to converge to IFRS to be able to gain from the numerous benefits it carries, over 150

countries had adopted IFRS as their reporting standard.

The recent adoption and implementation of International Financial Reporting Standards (IFRS) in Nigeria has been intensified due to the forces of globalisation which are guiding the regulation of the world financial markets and economies. In spite of the opportunities from the adoption of IFRS by most countries, Ali-balogun (2014) opined that the procedure for adoption of IFRS suffers a setback in Nigeria. These include; cost implication suffered by the users of IFRS, technicality in the method and strategy for adoption, inadequate capacity building for transition, all of which reflected the low level of preparedness by government and users of the standards for smooth transition. A special study conducted by the world bank group on the observance of standards of codes for Nigeria, revealed that Nigerian Accounting Standards are inadequate as authoritative guide for preparation of financial statement in Nigeria (world Bank 2004). More so, the rampant cases of banks that reported good performance and soon collapsed without notice, raised a lot of concerns about the integrity of the financial statement of banks reported under Nigerian statement of accounting standards (SAS). However, implementation of IFRS in Nigerian banks has been motivated due to many problems associated and envisaged in the banking system. These problems are: inaccurate reporting and non-compliance with regulatory requirements, decrease in bank earnings and poor revenue generation, poor return on shareholders' funds due to operating losses, late or non-publication of annual accounts, lack of comparability of financial statements of different banks, falsification or creative accounting practices, weak corporate governance and falling ethics. In view of the above problem, the study is geared towards examining the extent to which Nigerian banks have implemented the provisions of IFRS framework and its effect on financial performance of banks.

Hypotheses

In order to achieve the purpose of the study, the following hypotheses were formulated:

H₀₁ : The return on shareholders' funds has not improved since implementation of International Financial Reporting Standards (IFRS) in Nigerian banks.

- H₀₂** : Implementation of IFRS has no significant effect on the profitability of quoted banks in Nigeria
- H₀₃** : The implementation of International Financial Reporting Standards (IFRS) has not significantly influenced banks' earnings.

REVIEW OF THE RELATED LITERATURE

The Concept of International Financial Reporting Standards (IFRS)

International financial reporting standards are accounting standards developed by the International Accounting Standard Board (IASB) for the preparation of public financial statement. The IASB is an independent Accounting standard- setting body that is the international equivalent to FASB which sets U.S. generally accepted accounting principles. Like the FASB, the IASB follow rigorous and open due process to develop standards and cooperates with national accounting setters around the world (Ezejulue 2008). The IASB consists of 16 members from nine countries, including the United States. It is funded by contributions from major accounting firms, private financial institutions and industrial companies, central and development banks, national funding regimes, and other international and Professional organization throughout the world. The IASB is governed by the international Accounting standards committee foundation (IASCF). The IASB stated that all of the international accounting standards issued by the IASC would continue to be applicable unless and until they were amended or withdrawn by the new body. According to the mission statement of the IASB, its objectives are according to Adegite (2009):

1. to develop, in the public interest, a single set of high quality, understandable and enforcement global accounting standings that require high quality transparent, and comparable information in financial statement and other financial reporting, thereby helping participants in the world's capital and other users to make economic decisions.
2. to promote the use and rigorous application of those standards
3. to bring about convergence of national accounting standards with international Accounting standards and international financial reporting standards.

IFRS Adoption and Nigerian Banking Industry

The Nigerian banking sector is made up of commercial banks and other financial institutions such as finance companies, micro-finance companies, discount houses and mortgage institutions. The

Central Bank of Nigeria (CBN) regulates their activities. The CBN has authorized only 21 commercial banks to transact business in Nigeria. Out of these banks, only 15 are listed in Nigeria Stock Exchange (NSE). Nigerian listed banks and other public and significant public interest entities were required to adopt IFRS for years beginning on or after January 1, 2012. Among the listed companies, the listed banks were the first to complete the transition and have adopted the standard for their reporting (Adebimpe & Ekwere, 2015). Many countries of the world have made the decision to adopt IFRS given by the understanding that IFRS is a product with network effect. As more countries adopt IFRS, it becomes more appealing to others that are yet to consider the adoption. Ball (2011) in his work was of the view that, complying with the IFRS cannot be considered in isolation to any relevant institutions because its effectiveness will depend on the understanding of any given industry and the economic and institutional factors that affect that industry reporting incentives. Banks all over the world have long had major issues with recognition of asset and liability. The issue of disclosure rules in IAS 32 and IAS 39 dictating measurement rules for financial assets and liabilities was thus mired in controversy; so IFRS 9 has now solved the problem and meet the user needs. According to Akpan-Essien (2011) the adoption of the IFRS in the Nigerian Banking sector will ensure transparency, better accountability and integrity in financial reporting necessary for addressing the crisis in the financial sector in Nigeria which was responsible for the Nigeria loss of the Foreign Direct Investment (FDI) in the oil and gas sector to countries such as Ghana who have begun oil production in commercial quantity and who are perceived to have better financial reporting standards in place.

Disclosure in Corporate Financial Reporting of Nigerian Banks

The main reason for financial reporting and disclosure is to present the result of the economic activities of companies and justified financial position in monetary terms. It shows how organizations strive to achieve their objectives in the period under review. Thus, Mayer (1990) opined that, the financial report of one organization if honestly and sincerely prepared, could serve as the basis in making a comprehensive comparative assessment of it operation with the like company. Wahien (1995) stated that the Necessity for full disclosure in corporate financial reporting arose for a reason that, the information contained in the

financial statements brings in clear terms the position of a particular firm at a point in time. In agreement with the above statement, Mainoma (2005) added that, only through the position statement, one is expected to determine the capital formation of a firm. However, Mainoma (2005) stated that, there is a lot of concern in today's world about the integrity of financial statements. This view can simply be supported with the rampant cases of companies that report good performances and soon collapse without trace. Although some researchers argued that, it is either falsification or creative accounting practices were involved or the basis upon which the report was prepared is faulty. However, Nigerian Corporate financial reporting should be a highly regulated practice in which ethics of best conduct must be observed and followed. In Nigeria, Companies and Allied Matters Act (CAMA 1999) as amended, Banks and Other Financial Institution Act (BOFIA 1999) as amended, Central Bank of Nigeria Act (CBN Act 1999), Nigerian Security and Exchange Commission Act of 2003 in addition to local and international Standards (SASs and IFRSs) and professional pronouncements according to Sani and Dauda (2014), must be complied with in the preparation and presentation of financial reports of banks. For example, section 27 (1) of BOFIA 1999 as amended states that, a bank shall not later than four months after the end of its financial years, subject to prior approval in writing from CBN, publish in a daily newspaper printed in and circulated in Nigeria and approved by the CBN; exhibit in a conspicuous position in each of its offices and branches in Nigeria; and

Challenges of IFRS Adoption in Nigeria

The adoption of IFRS is known to be a herculean task owing to the fact that several challenges are often encountered in the cause of implementation. These challenges are not peculiar to Nigeria but are common in most countries that are in the process of adopting the global standard, although there are some unique challenges that are specific to particular countries (Robyn & Graeme, 2009). According to Oduware (2012), the challenges include:

1. **Cost of Implementation:** The first time adoption of IFRS framework is perceived by most entities as costly, the existing accounting system to effect the change. This challenge has propt management of most firm to be reluctant in embracing the change which invariably resulted in mellow attitude by staff on IFRS issues and therefore, contributed immensely to retardation in IFRS conversion process in Nigeria (Oduware, 2012).
2. **Amendment of Existing Laws:** IFRS adoption in Nigeria has resulted in the amendment of different tax laws as well as numerous tax considerations (Ernst & Young, 2013). These tax considerations are complex and therefore arise from the computation of deferred tax attributed to IFRS adjustments effect. With the adoption of IFRS, the basis for computation of deferred tax varies from how it was previously computed during SAS regime. IFRS involves the use of the balance sheet liability method and therefore focused on temporary differences, while Nigerian SAS dwells on income statement method which focus on timing differences. In this respect, the use of the balance sheet liability method will demand full deferred tax provision which is more complex when compared to the income statement method (Oduware, 2012).
3. **Education, skills and Experience:** IFRS implementation is strategic and a critical decision that requires a high level of education, adequate skills, expertise and competence to enable users to understand, interpret and effectively use the standards in financial reporting (Adeyemo, 2013). Therefore, lack of adequate education and skills, and weak experience in IFRS reporting in Nigeria has become a barrier to successful implementation of IFRS framework.
4. **Awareness level:** The IFRS transition process and its implication for preparers and other stakeholders including regulators and educators need to be effectively coordinated and communicated. But despite effort made by different regulatory bodies and stakeholders through organizing series of sensitization workshop and other means of reaching out to targeted audience across the country, the level of awareness among entities' executives is relatively low, and managers of most firms tends to look at the transition process as a means of increasing cost of reporting ignoring the benefit to be derived from the entire process (Oduware, 2012).
5. **Inadequate Technical Capacity:** the adoption of IFRS framework demands adequate technical capacity within the various stakeholders including the preparers, auditors, regulatory authorities and users of financial reports (Madawaki, 2012). Therefore, one of the main challenges of implementing IFRS in Nigeria is a shortage of skilled Accountants and Auditors in IFRS

reporting. According to Oduware (2012), in most firms, an average accountant does not have the knowledge of advanced financial management techniques which includes forecasting, impairment analysis and financial instruments. Hence, this had been a setback on IFRS implementation process in Nigeria.

6. **Technology:** the level Technology has a major effect on IFRS implementation. Therefore, Information Technology (IT) is definitely a key factor in IFRS transition process considering the important role played by Enterprise Resource Planning (ERP) systems in companies operational, accounting and reporting processes (Uzor, 2011). Therefore, for firms to achieve a seamless conversion to IFRS; there is a need to be familiar with specific IT challenges and issues confronting their organization. In Nigeria, organisations give less emphasis on information technology which is invariably affecting the pace with which implementation of IFRS is going on in the country (Oduware, 2012).
7. **Enforcement Mechanism:** The IFRS transition in Nigeria has a serious implication for financial regulators, and it requires extensive use of judgments and assumptions that need to be considered by relevant regulatory authorities (Ehijeagbon, 2010). The slow legal process in Nigeria has discourages regulators from taking legal recourse as regards enforcing compliance with accounting and financial reporting requirements. This state of affairs is affecting seriously on the ongoing IFRS implementation process in Nigeria.

THEORETICAL REVIEW

This study was built on Conservative Method Theory. The principle of conservatism is a pervasive concept in modern accounting theory, and is probably a carryover from the days when banks were the primary users of firm's financial statements. Conservatism reflects the idea that, given two equally likely outcomes, a firm should use accounting language that results in smaller reported income or smaller reported assets. The accounting concept of conservatism has crossed into the analysis arena. Ejike (2012) implies in his wall street journal that conservative accounting is necessary when he states that low quality means the bottom line is padded with paper gain such as the profit fattening effect of inflation on a company's reported inventory values, or gains produced by under

depreciation when the company does not write off plant and equipment as their real value is falling.

EMPIRICAL REVIEW

Nigeria has since decided to adopt IFRS frameworks for private and public sectors respectively. In line with this, and as recommended by the committee on road map to adaptation of IFRS in Nigeria, all listed and significant entities are to present their financial reports using IFRS-framework by 2012. Many researchers had embarked on empirical study about IFRS adoption/implementation these includes: Iyabo and Jafaru (2011), which examined the institutional infrastructure and the adoption of IFRS in Nigeria using survey method with questionnaires to elicit the perception of users and preparers of accounting information, and descriptive statistics was used in analyzing data and which showed that, only professional accounting institutions have the relevant infrastructure to cope with the adoption of IFRS in Nigeria. Kenneth (2012) investigated the effect of IFRS adoption on Foreign Direct Investment and Nigeria economy. He found out that IFRS implementation in Nigeria is significant and would promote FDI inflows and economic growth. Nonetheless, he concluded that only few have adopted the framework in Nigeria. Wong (2004) in his work suggested frequent dialogue between regulators, international standard setters, and national standard setters and that these groups continue to listen to the concerns and needs of those who will have to implement the standards. He also added that significant consideration should be given to the effect of international convergence on small and medium-sized entities and accounting firms. Most importantly, he concluded by saying that convergence to a single set of globally accepted high quality standards is ultimately in the best interests of the public, contributing to efficient capital flows within countries and across borders. In the views of the majority of participants, international convergence is vital to economic growth. Thus, while the challenges are great, the rewards are potentially even greater (Wong, 2004). A research work conducted by Nyor (2012) on the topic "Challenges of converging to IFRS in Nigeria". The study found out that Nigerians agree to adopt IFRS but in a gradual manner, in view of the anticipated problems that the adoption may create. Consequently, the study concludes that Nigerian firms should adopt IFRS hoping that it will enhance better accountability and transparency and improve quality of reporting in the country. In a more recent work

conducted by Adebimpe and Ekwere (2015) on IFRS adoption and value relevance of financial statements of Nigerian listed banks. The sample comprises of twelve listed banks in Nigeria. Using descriptive statistics and least square regression for the analyses. It was reveal that the equity value and earnings of banks are value relevant to share prices under IFRS than under Nigerian SAS. The study recommends that Financial Reporting Council of Nigeria (FRCN) and other accounting standards setters should incorporate more measures to enhance the quality of the financial reporting in order to increase the value relevance of financial statements. Chua Deong and Gould (2012) examine the IFRS impact on the accounting quality by focusing on three perspectives: the earnings management, timely loss recognition and value relevance. Using four years of adoption experience since the mandate was first made effective in Australia for a wide range of accounting based metrics and market based information. The study finds that the mandatory adoption of IFRS has resulted in better accounting quality than previously under Australia GAAP. The study indicates that the pervasiveness of earnings managements by way of smoothing has reduced while the timeliness of loss recognition has improved post adoption. Additionally, the study finds that the value relevance of financial statement information has improved, especially for non- financial firms.

Amahalu et al (2015) investigate the effect of the adoption of IFRS on the financial performance of selected banks quoted on the Nigeria stock exchange. The sample comprises of fifteen quoted banks, using paired t-test statistics to analyze hypotheses. It was

Presentation and Analysis of Data

The study explored t-test model to test the linear relationship between dependent and independent variables. The outcome of the analysis is show on the tables below as thus:

Hypothesis one:

The return on shareholders' funds has not improved since implementation of International Financial Reporting Standards (IFRS) in Nigerian banks.

revealed that IFRS has effect on the reported net income and equity of banks. It was concluded that IFRS raises the level of confidence of global investors and analysts in the financial statements of companies in Nigeria.

A study conducted by jermakowicz (2004) on the effects of adoption of IFRS in Belgium: the evidence from BEL-20 companies identified that the adoption of IFRS by listed companies in Belgium has cause a significance rise in shareholder's equity and decrease in net income. Another researcher conducted by Hung and subramanyam (2004) on the effect of IAS on financial statement of German firms, finds that the adjustments related to financial instruments on the average increase equity by 7 million. This is because German GAAP requires lower of cost or market values for financial instruments, while IAS applies fair values. A study by Lantto & Sahlstrom (2009) on the IFRS transition effects on financial reporting in Finland. Having calculated the companies' ratio under IFRS and Finland GAAP it was found that the liquidity ratio decreased under IFRS while leverage and profitability ratio increased.

METHODOLOGY

The design used in this study is Ex Post Facto design. It is established to predict and envisage the extent to which Nigerian banks have implemented the provisions of IFRS framework and its effect on financial performance of banks. The population of the study was obtained from the quoted banks in Nigerian Stock Exchange (NSE). Since not all the listed banks on NSE make public its annual reports online, only 14 banks were selected and utilized in the data analysis.

Table 4.1 Paired sample Correlation for Return On Equity (ROE)

	N	Correlation	Significance
Before and after implementation of IFRS	3	0.674	0.0446

Source: Statistical computation using SPSS version 20

Hypothesis two:

Implementation of IFRS has no significant effect on the profitability of quoted banks in Nigeria

Table4:2 Paired sample Correlation for Net Profit Margin (NPM)

	N	Correlation	Significance
Before and after implementation of IFRS	3	0.735	0.043

Source: Statistical computation using SPSS version 20

Hypothesis three:

The implementation of International Financial Reporting Standards (IFRS) has not significantly influenced banks' earnings.

Table 4.3 Paired sample Correlation for Return on Assets (ROA)

	N	Correlation	Significance
Before and after implementation of IFRS	3	0.584	0.031

Source: Statistical computation using SPSS version 20

Discussion of Findings

The findings of the study revealed that:

On the issue of whether implementation of IFRS has improved return on shareholders' funds of Nigeria banks, it was gathered that reported net income and equity of banks has improved since implementation of IFRS in Nigeria going by the return on equity calculated. This is in agreement with the study conducted by Amahalu et al (2013), who indicates that IFRS has positive effect on the reported net income and equity of banks. Jermakowicz (2004) also identifies that the adoption of IFRS by listed companies in Belgium has caused a significant increase in shareholders' equity and decrease in net income.

Furthermore, on the effect of IFRS implementation on the reported profitability of banks, it was discovered that IFRS has positive effect on the profitability of banks going by the net profit margin calculated. This was in agreement with the study of Lanto and Sahlstrom (2009) on the impact of IFRS in Finland by company ratio calculated under IFRS and Finland GAAP for the same time period year 2004. The auditors found that the liquidity ratio decreased under IFRS while leverage and profitability ratio increased. Profitability ratio increases because gross earnings of banks are higher under IFRS due to business combination (IFRS3) and the combined effect of several other stands.

Lastly, it was gathered that the implementation of International Financial Reporting Standards (IFRS) has significantly influenced banks' earnings going by the return on assets calculated. This was in line with

the study conducted by Adebimpe and Ekwere (2015) on IFRS adoption and value relevance of financial statements of Nigerian banks. They found out that equity value and earnings of banks are value relevance to share prices under IFRS than under the previous Nigerian SAS.

Conclusion

The study reveals that Nigerian listed deposit money banks have implemented the provisions of IFRS framework. The study however concludes that:

1. IFRS implementation in Nigerian banks has a significant effect on the shareholders' equity. This was based on the return on equity of banks calculated
2. IFRS has a positive effect on the reported profitability of banks. This was based on the net profit margin of banks calculated. The changes occurred as a result of the introduction of the fair value in IFRS. This concept has a significant effect on the reported profitability of banks, because with fair value, you have impairment losses both on assets and financial instruments. The loan loss provision under IFRS also contributed to changes in the profitability of banks. Under NGAAP, loan losses were provided for using cost model. This makes the managers of these banks not to engage in income smoothening.
3. IFRS has a significant effect on the earnings of banks. This was in line with the return on assets calculated. It showed a positive effect on the return on investment of banks. This will boost the level of confidence of global investors and investment analysts in the financial statements of Nigerian banks.

Recommendations

Based on the research findings, the following recommendations are proffered to address the research problem:

1. Banks should be aware that IFRS is a standard which will enable them prepare a more comparable, transparent and reliable financial statement. They should know that IFRS does not guarantee better profit. Banks should be more cautious in applying IFRS because loan provision under IFRS has a very significant effect on the reported profit of the company and most of banks assets are made up of loans.
2. The implementation of IFRS in other sectors of Nigeria economy should be encouraged because IFRS will help firms to raise capital from abroad. IFRS will boost investors' confidence to invest their capitals by increasing the reliability and comparability of financial statements.
3. Bankers should be trained to get acquainted with IFRS, so as to make them well informed on the issues of IFRS.

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