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IMPACT OF ADOPTING INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) ON THE FINANCIAL PERFORMANCE OF LISTED DEPOSITS MONEY BANKS IN NIGERIA.

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ABSTRACT

This study examines the impact of adopting international financial reporting standard (IFRS) on financial performance of Deposit money banks in Nigeria. The study made use of secondary data collected from annual report and account of First Bank, UBA Bank and Zenith Bank of Nigeria for the period of 10 years ranging from 2010 to 2019. The data collected was analyzed using descriptive statistics and multiple regression analysis. The study established that there is a significant relationship in the post adoption period. Finding from the study equally shows that all the dependent variables in the models was found to have a weak or insignificant impact on financial performance of the selected DMBs in Nigeria before IFRS adoption, the study concludes that IFRS adoption has improved the decision making capability of various stakeholders, thus increasing investors' confidence and the inflow of capital in the country through foreign direct investment. The study recommends that adequate resource should be in place to support the sustainable implementation and application of IFRS.

INTRODUCTION

In recent times, there have been a concerns among financial statement users, regulators, investors and the general public as to the quality of financial reports produced by the banks in Nigeria and all over the world. It is in this regard that Nigeria has adopted International Financial Reporting Standards (IFRS) in 2012. Furthermore, improvement in technology and globalization of the capital market has increased the inflow of capital in different counties through foreign direct investment. It is therefore important to understand the effect of this changes in accounting standards on the earning of banks in Nigeria.

Similarly, in analyzing the financial performance of DMBs in Nigeria, ratio analysis was used as a tool for the judgmental process which aim at evaluating the current and past financial performances and result of the banks taken into consideration period before and after adoption of IFRS in Nigerian banking sector. Moreover, prior to the adoption of IFRS, studies on earnings of firms were carried out around the world using various generally accepted Accounting Principles (GAAP), which were embedded in traditional, legal, economic, socio-cultural and regulatory peculiarities of these nations. It was also believed that the introduction of IFRS will improve international trade, investment decisions, and globalization of businesses as well as enhance the Nigerian stock market and ultimately increase foreign direct investment.

Although, there seem to be a general view that regulatory provisions (IFRS) have the tendency to positively affect financial performance of an organization, contrarily, there are also claims that regulatory provisions may still have negative effect on the financial performance of organizations due to cross-country differences in the provisions, (Edirisi, Jeroh, 2015). Thus this study is designed to evaluate whether or not the adoption of international financial reporting standard (IFRS) has negative or positive impact on the financial performance of deposits money banks in Nigeria.

STATEMENT OF THE PROBLEM

IFRS become a global issue resulting from a desire of company's financial statement to be uniform, reliable and comparable. However, owing to globalization and the associated integration of the capital market all over the world, the need for IFRS adoption for comparing financial statement became necessary. The level of understandability, relevance and comparability which financial statement is designed to achieved has been threatened, this is because in a situation where various countries prepare financial statements following the requirement or provisions of different accounting standards e.g. (local GAAP and SAS) will render many users of financial statements to be making wrong comparison, thus, with the application of different standards in various countries will render financial statement of these countries to be communicating different language of accounting, thereby creating a problem of understandability. This has also affected the level of reliance on the information content of financial statements, which lead to the development of International Financial

Reporting Standard (IFRS) which is now a global standard that now guarantee a common language of business across the world.
However, giving the role banking sector plays in the growth and development of every country, there is an enhanced demand for high quality accounting standard to provide managers and business owners with necessary resources in making vital decisions as such, the subject matter of IFRS does not overstretched. To this effect there have been a number of studies that mixed outcomes on the impact of IFRS adoption in Nigeria. Most of the empirical studies have been carried out in developed countries but relatively few studies in developing countries like Nigeria (Abolaji 2015).Therefore, this establishes an important gap in the literature, making a research of this kind significant.

Research Objectives

The main objectives of this research study is to investigate the impact of adopting the international financial reporting standards (IFRS) on the financial performance of DMBs in Nigeria while the specific objectives are to:

1. Examine the impact of IFRS adoption on return on asset (ROA) of DMBs.
2. Evaluate the effect of IFRS adoption on the return on equity (ROE) of DMBs.

Research Questions

1 To what extent does IFRS adoption affect return on asset (ROA) of DMBs

2 How does IFRS adoption affect return on equity (ROE) of DMBs.

Research Hypotheses

In line with the above research objectives, three hypotheses are formulated to guide the study.

Ho_1: IFRS adoption has no significant effect on the return on asset (ROA) of DMBs.

Ho_2: IFRS adoption has no significant effect on the return on equity (ROE) of DMBs.

LITERATURE REVIEW

This section reviewed various literatures relating to IFRS and financial performance of DMBs in Nigeria, thereby narrowing the study to focus on first bank, Zenith bank and UBA bank of Nigeria as well as the theoretical and prior empirical reviews. Hence from the review of literature the researcher identified the existing gap, thereby directing the study towards filling the identified gap.

Conceptual Issues

Here, the general concept of IFRS and its linkage with banks financial performance was discussed, the purpose of which is to give readers an insight of what IFRS is all about, the road map toward its adoption in Nigeria, its key benefits and challenges and some other specific features that makes IFRS different from other local regulatory standards.

The Concept of IFRS

Alistair (2010) defined IFRS as a series of accounting pronouncements published by the International Accounting Standard Board (IASB) to help prepare financial statements throughout the world, to provide and present high quality, transparent and comparable financial statement. (Modugu and Eragbhe,2012). Define IFRS as the sets of high quality principles based standards designed by the International Accounting Standards Board (IASB) for general purpose financial reporting.

Oyedele, (2011), views IFRS as a single set of high quality, globally accepted accounting standards that can enhance comparability of financial reporting across the globe. IFRS Standards constitute a globally recognized set of standards for the preparation of financial statements by business entities. IFRS Standards prescribe:

- The items that should be recognized as assets, liabilities, income and expenses,
- How to measure those items.
- How to present them in a set of financial statements, and Related disclosures about those items, (pocket guide to IFRS standards: the global financial reporting language, 2017).

However, the objectives and importance of introducing IFRS according to (Fowokan, (2012) are:

1. To work actively with the national setters to bring about convergence of national accounting standards. It requires that financial statements give a true and fair view of the financial health care.

2. To develop a single set of high quality understandable and comparable global accounting standard that requires transparent information in financial statements.
3. To help participants in various capital markets (investors, stock brokers, etc.) across the globe to understand financial statements.

According to Essien-Akpan, (2011), as a result of increasing globalization and therefore competition, it becomes imperative that countries and companies address issues that will make them become more attractive, widely known and famous to investors, which can only be achieve through the adoption of IFRS

Road Map to the Adoption of IFRS

The roadmap to the adoption of the IFRSs in Nigeria was announced on 2/9/10 by the Federal Government of Nigeria disclosing the schedule for the implementation as follows:

1. All companies listed on the Nigerian Stock Exchange (NSE) and significant public entities are expected to have complied with IFRS on 1st January, 2012.
2. Other public interest entities will commence with effect from 1st January, 2013.
3. The commencement year for small and medium size entities will be with effect from 1st January, 2014.
4. The implication of the schedule of adoption of the IFRS in Nigeria is the harmonization of the disparity of Nigeria's standards with that of IFRS together with the necessity to develop new skills. A transition programmed from Local gap to IFRSs required Systems and controls to be design to ensure consistency in the application of the standard, (Ajibade, 2011).

Benefits and Challenges of the Implementation of IFRS in Nigeria

Results arising from investigation conducted on the European Union member states highlighted how IFRS has benefited European countries in terms of attracting Foreign Direct Investment (FDI). IFRS will position Nigerian companies in the accountability and integrity in financial reporting which is a prerequisite for the attraction of investment that will promote economic development, (Mohammed Tanko 2012). It will provide international investors the ability to make well-informed, useful and meaningful comparison of investment portfolio in Nigeria and other countries. Multinational companies with the aid of IFRS financial statement provide for easy consolidation of financial statements. IFRS standard are easier to comply with the financial requirements of overseas stock. It also facilitates ease of cross border transactions and trading within the region through common accounting practice especially in underdeveloped regions of the world like the Economic Community of West African States (ECOWAS) members.

It will help to facilitate compilation of meaningful data on the performance of enterprises within the ECOWAS and other regions of the world. It will assist Nigeria, the federal and state government, local governments inclusive, in attracting international investors as the adoption of IFRS financials promotes easy monitoring of overseas investments. Transparency and better accountability in government Ministries, Departments and Agencies (MDA) will be promoted through the IFRS adoption in the public sector accounting and management of resources. It will also lead to increase in government revenue as a result of transparency and integrity in reporting. Easier access to capital is also facilitated through IFRS. (Martin, 2011).

Despite the aforementioned envisaged benefits of adopting IFRS there are still challenges such as the urgent need to improve the level of public awareness especially among investors and regulatory authorities in Nigeria, (Oyedele, Taiwo, 2010). There is also chronic shortage of professionals that are competent to implement the IFRS within the given time frame as contained in the schedule of the Nigerian roadmap for its adoption (i.e. January 2012 - January 2014).

Review of Empirical Studies

Yahaya, and Mohammed, (2015), investigated the post adoption off IFRS and value relevance of accounting information of quoted banks in Nigeria. Using the price model and the return model, the study found that the EPS increased in the post adoption than in the pre adoption periods. The study recommended that investors should understand the IFRS adoption process so as to avoid overvaluation of the economy when the financial markets are doing well.

Iorpev, (2012) investigated the qualities of IFRS adopters and non-adopters on the Nigerian stock exchange from 2008 to 2011. Using exploratory research design of a sample of ten banks quoted in Nigeria, the study found that EPS are not significantly related with the adoption of IFRS. The study suggested that only specific firms listed on the NSE should adopt IFRS.

Umoren (2012), investigated how the mandatory adoption of IFRS enhanced the value relevance as measured by earning of financial information of banks in Nigeria. Using a sample of 12 quoted banks from 2010 to 2013, the study found that the earnings of banks in Nigeria were more value relevant in the post IFRS periods than under the Nigeria SAS. The study suggested that accounting standard setters should include more measures to enhance the qualities of accounting information to its users.
Zango and Ishak, (2015), examined the level of compliance obtained in the financial reporting of fourteen (14) DMBs in Nigeria in line with the provisions of IFRS 7 for the years 2012 and 2013. Using a Mandatory Disclosure Index (MDI) measurement technique, it was observed that some improvements were made by most of the banks in their compliance with the requirements of IFRS 7 in 2013 compared to 2012. This attributed to the enlightenment programs that have boosted the knowledge of IFRS among bankers through trainings, conferences, seminars and workshops (National & International) by boards of directors, management and line staff of the banks.

Sherman and de Klerk (2015) examined the relationship between mandatory FIRS adoption and equity foreign ownership levels in top 40 listed companies in South Africa. The study which adopted ex-post factor research design covered the period from 2003-2007 and used multiple regression model for the analysis. The finding showed that the adoption of IFRS has no significant positive association with foreign ownership/direct investment level during the sample period.
Abata (2015), surveyed fifty (50) employees of KPMG (Auditing Division) using a five point Likert scale structured questionnaire with the intent of ascertaining comparatively the contributory effect of IFRS and the local GAAP to financial reporting quality in Nigeria. His findings, after subjecting the respondent's views to the Chi square statistical tool analysis, showed that a greater percentage of the respondents believe that IFRS provides better information for regulators than the local GAAP, thereby increasing the transparency and comparability of financial statements among corporate organizations in Nigeria.

Bhargava (2013), discuss the impact of IFRS on financial statements and some significant ratios using a case study. The consolidated financial statements as per GAAP were compared with the consolidated financial statements under IFRS. Some selected ratios were being analyzed to indicate the differences between two sets of statements. They findings from the research was that there is a variation in total assets and liabilities because of the difference in the concept of revenue recognition and depreciation of property plant and equipment. Moreover, Lantto and Sahistrom (2009) study the effect of IFRS adoption and financial reporting in Finland. The study was based on financial ratios. They found out that, the selected financial ratio was significantly affected as the result hof IFRS adoption. They concluded that fair accounting rules and other important rules were the reason of fluctuation.

Similarly, Onipe, et-al (2015) examine the IFRS adoption and financial statement effect, evidence from listed deposit money banks in Nigeria. The findings show that IFRS adoption have positively impacted on the overall financial performance and position of banks. This because under IFRS, important financial statement figures such as profitability and growth appeared to be higher. The research further suggests that given the fair values perspective of IFRS, its adoption is likely to introduce volatility in income statement of financial position figures. The research has shown the overall effect of mandatory IFRS adoption on the financial measures of banks in Nigeria.

Research Gap in Literature

It is evident from the above empirical reviews that a strong gap exists, this is because most of the highlighted studies in the literature review do not explicitly address the effect of IFRS on the financial performance of deposits money Banks in Nigeria. Hence, a scarcity of literature in the area of this study exists. On the other hand, few relevant studies that have been conducted on this topic by the developed Nations have eluded criticism in the criteria, title, scope and methodology used, hence a research gaps are identified in terms of literature. To fill this gap, this study reviews relevant literatures that are pertinent to the research objectives and highlights a number of theories in relation to the study variables (independent and dependent) and the conceptual framework of the variables by analyzing the relationships between them.

Theoretical Framework

Two theory would be relevant for the study. Value maximization theory and modernization theory.

Value Maximization Theory

This theory states that the primary objective and purpose of a firm being in existence is to get the most out of shareholder's wealth in the long run. According to the theory, all activities of the organization weather charitable or otherwise, is basically seeking to make profit. The theory also states that at the long run there will be profit maximization of other stakeholders and financial claimants like debt and warrant holders (Abdul-Baki, Uthman & Sanni 2014). Therefore, this implies that the fundamental reasons or essence of a firm's financial statement being disclosure in compliance with IFRS is to maximize managers' and firm's value at the long run.

Modernization Theory

Modernization theory explains the process of modernization within societies. Modernization refers to a model of a progressive transition from a 'pre-modern' or 'traditional' to a 'modern' society. Modernization theory originated from the ideas of German sociologist Max Weber (1864–1920), which provided the basis for the modernization paradigm developed by Harvard sociologist Talcott Parsons (1902–1979). The theory looks at the internal factors of a country while assuming that with assistance, "traditional" countries can be brought to development in the same manner more developed countries have been. Modernization theory was a dominant paradigm in the social sciences in the 1950s and 1960s, and then went into a deep eclipse.

RESEARCH METHODOLOGY

This study adopted ex-post facto research design as the study is historical in nature. The population of this study consisted of all DBMs with international, national regional authorization in Nigeria including non interest bank whose shares are listed on the Nigeria stock exchange as at February 2019 which are 21 deposit money bank operating in the country (CBN disclosure 2019). The study employ probability sampling. The sample was drawn from the total population of 21 DBMs that are quoted on the Nigerian stock exchange as at September 2019 where first bank, zenith bank and UBA bank where selected for the study. This study used secondary source of data such as the published annual report and financial statement of the banks, component of IFRS such as IFRS 1, 13 and 14 that deal with regulatory performance and fair valuation measurement will be used for analysis.

The data collected for this study was be derived from the audited financial statement of the selected banks for the period of ten (10) years ranging from (2010-2019) to cover for both pre and post adoption periods of IFRS in Nigerian banking sector. Some proxies of financial ratios such as ROA and ROE were calculated, presented and compare for these periods.The study employed descriptive and inferential statistics for data analysis. The research questions were analysed using descriptive statistics (mean and standard deviation) while inferential statistics (Multiple Linear Regression Analysis) were used to test the hypotheses.
The model attempt to explain the separate influence of the independent variable's in order to establish the effect of IFRS on bank performance. The expected relationship of the above mention variable is a linear relationship of which one determines the other. However, in order to capture the relationship that exist between IFRS and bank performance. This study adapts the model in Muhammad Tanko (2012) in his work "the effect of international reporting standards (IFRS) adoption on the performance of firms in Nigeria". The multiple regression formula is expressed implicitly as;

$Y = ß_{0+} ß_1 X_{1+} ß_2 X_2 + ß_3 X_3 ... X_{n+} e$ (multiple regression model). Where
Y = Dependent variable
$X_{1-} X_n$= Independent variables
e = error term
B_0 = Constant or intercept of the regression line
B_1-B_n = Estimates or slopes of the regression line

DATA PRESENTATION AND ANALYSIS

This study examined the effect of adopting international financial reporting standards (IFRS) on financial performance of DMBs in Nigeria. The study employed descriptive and inferential statistics for data analysis. The research questions were analysed using descriptive statistics (mean and standard deviation) while inferential statistics (Multiple Linear Regression Analysis) were used to test the hypotheses. The results were presented in tables and discussed according to the research questions and hypotheses.

Research Question One: To what extent does IFRS adoption affect return on asset (ROA) of DMBs?

Table 4.1:Extent to which Adoption Affect Return on Asset (ROA) of DMBs

	N	Minimum	Maximum	Mean	Std. Deviation
ROA	30	-23.27	1801.45	86.4837	326.90505
NCF	30	0.00	34.35	6.3037	5.97468
TURN	30	0.00	7.87	1.0607	1.65626
LEV	30	-921619.00	303451.00	-26311.5000	251864.67746
GROWTH	30	-1.59	3.88	1.8353	1.48443
∆AE	30	-11.30	24.51	10.1547	8.50480

Sources: Field Survey, 2019

Table 4.1 shows the extent to which IFRS adoption affect Return on Asset (ROA) of DMBs. ROA recorded mean value of (86.4837), standard deviation of (326.90505), minimum value of (-23.27) and maximum value of (1801.45). NCF recorded mean value of (6.3037), standard deviation of (5.97468), minimum value of (0.00) and maximum value of (34.35). TURN recorded mean value of (1.0607), standard deviation of (1.65626), minimum value of (0.00) and maximum value of (7.87). LEV recorded mean value of (-26311.5000), standard deviation of (251864.67746), minimum value of (-921619.00) and maximum value of (303451.00). GROWTH recorded mean value of (1.8353), standard deviation of (1.48443), minimum value of (-1.59) and maximum value of (3.88). ∆AE recorded mean value of (10.1547), standard deviation of (8.50480), minimum value of (-11.30) and maximum value of (24.51) respectively.

Research Question Two: To what extent does IFRS adoption affect return on equity (ROE) of DMBs?

Table 4.2: Effect of IFRS Adoption on Return on Equity (ROE) of DMBs

	N	Minimum	Maximum	Mean	Std. Deviation
ROE	30	-24055728.00	25859744.00	405805.9000	6626938.93070
NCF	30	0.00	34.35	6.3037	5.97468
TURN	30	0.00	7.87	1.0607	1.65626
LEV	30	-921619.00	303451.00	-26311.5000	251864.67746
GROWTH	30	-1.59	3.88	1.8353	1.48443
∆AE	30	-11.30	24.51	10.1547	8.50480

Sources: Field Survey, 2019

Table 4.2 shows the extent to which adoption affect Return on Equity (ROE) of DMBs. ROE recorded mean value of (405805.9000), standard deviation of (6626938.93070), minimum value of (-24055728.00) and maximum value of (25859744.00). NCF recorded mean value of (6.3037), standard deviation of (5.97468), minimum value of (0.00) and maximum value of (34.35). TURN recorded mean value of (1.0607), standard deviation of (1.65626), minimum value of (0.00) and maximum value of (7.87). LEV recorded mean value of (-26311.5000), standard deviation of (251864.67746), minimum value of (-921619.00) and maximum value of (303451.00). GROWTH recorded mean value of (1.8353), standard deviation of (1.48443), minimum value of (-1.59) and maximum value of (3.88). ∆AE recorded mean value of (10.1547), standard deviation of (8.50480), minimum value of (-11.30) and maximum value of (24.51) respectively.

DISCUSSION OF FINDINGS

The first finding revealed a significant effect of IFRS adoption on the return on asset (ROA) of DMBs. This finding supports the finding, Onipe, et-al (2015) which examine the effect of IFRS adoption on financial statement, evidence from listed deposit money banks in Nigeria. The findings show that IFRS adoption have positively impacted on the overall financial performance and position of banks because under IFRS important financial performance figures such as profitability and growth appeared to be higher than period before IFRS adoption. The research further suggests that given the fair values perspective of IFRS, its adoption is likely to introduce volatility in income statement of financial position figures. The research has shown there is a significant effect on mandatory IFRS adoption on the financial performance of banks in Nigeria.

The second finding revealed a significant effect of IFRS adoption on the return on asset (ROA) of DMBs. This finding agrees with the finding of Yahaya, and Mohammed, (2015), which investigated the effect of post adoption of IFRS and value relevance of accounting information of quoted banks in Nigeria. Using the price model and the return model, the study found that the EPS increased in the post adoption than in the pre adoption periods. The study recommended that investors should understand the IFRS adoption process so as to avoid overvaluation of the economy when the financial markets are doing well.

CONCLUSION AND RECOMMENDATIONS

The study employed IFRS on the financial performance of DMBs in Nigeria. Two financial ratios and five economic models were considered and the effect on transition were analyzed on three sample banks. The result of the study was that the adoption of IFRS caused a significant effect on ROA and ROE of the Nigerian banks in the post adoption period. However, it is concluded that, the transition from local GAAP to IFRS provided the opportunity for bank improvement in term of profitability as well as shareholder's wealth.

Having conducted the appropriate analysis which resulted to the drawn conclusions. The following recommendation were proffered:

1. It is recommended that banks should endeavor to use the opportunity presented by the adoption of IFRS to improve their documentation of transition and procedures.
2. There should also be enlighten campaigns on the potential impact of adopting IFRS by the regulatory authorities presently in Nigeria.
3. IFRS should also be included in the accounting syllabuses of tertiary institution of accountancy institute in Nigeria to enhance massive educational training through continual professional development program.
4. Strong adoption the standard should also be maintained by banks to ensure increase in profitability and shareholders wealth. Moreover, for effective adoption the following are suggested:

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