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INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs) AS A REPORTING FRAMEWORK IN NIGERIAN BANKING INDUSTRY: AN ASSESSEMENT OF LEVEL OF COMPLIANCE WITH IFRS 1

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ABSTRACT This study assesses the level of compliance with IFRS1 as a reporting framework in the Nigerian banking industry. The study adopts an ex post facto research design. The population of the study comprises all the banks operating in the Nigerian banking industry as at 31stDecember 2014. The study samples ten banks out of the larger population which were drawn using judgmental sampling technique. The technique of analysis adopted is Qualitative grading system (QGS). The study finds that the sampled banks complied with the requirements of the IFRS 1, except for Requirement 3 (business combination) where Access bank, Fidelity Bank, Stanbic IBTC and FCMB that do not apply exactly what is contained in the Standard, rather take the provision for exemption as provided in IAS 36 Impairment of Assets and IAS 38 Intangible Assets as an option provided in the standard. Based on the finding the study concludes that, the Nigerian banking industry has complied with IFRS 1 as a first time adopter. Therefore, the study recommend among others that Banks should put more effort and resources in training and sustaining qualified accountants on international financial reporting standards issues

KEYWORDS : .international financial reporting standards banks.

1.0 INTRODUCTION

International Financial Reporting Standards (IFRS) is becoming increasing the global standard for the preparation and presentation of public company financial statement established by International Accounting Standards Board (IASB) and International Financial Reporting Interpretation Committee (IFRIC) which was actually created as a common global language for accountants all around the world and it was expected to become the key financial reporting standards for all business entities. The fundamental objective of IFRS is to develop, in the public interest, a single set of high quality, globally accepted financial accounting standards based upon clearly articulated principles (IASB, 2012). Thus, international Financial Reporting Standards set standards, broad rules as well as dictate specific treatments. The whole essence of financial reporting is to ascertain and objectively present the result of the economic activities and justified financial position in monetary terms. It's also expected to show how organizations strive to achieve their goals in the period under review. Thus, Mayer (1990) believes 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 is operation with the like company.

However, Mainoma (2005) pointed out 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 the firms that report good performances and soon collapse without notice. Although some argued that, it is either falsification or creative accounting practices were involved or the basis upon which the report was prepared is faulty. Corporate financial reporting should be highly regulated practice in which ethics of best conduct must be observed.

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 must be complied with in the preparation and presentation of banks' financial reports. For instance, section 27 (1) of BOFIA 1999 as amended requires that, subject to prior approval in writing from CBN, a bank shall not later than four months after the end of its financial years, 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 forward to the CBN, copies of its balance sheet and profit and loss account duly signed and containing full and correct names of the directors of the bank. In the same vein, part 1, schedule 2 of CAMA 1999 as amended, spells out the form and content of what should be published in the corporate financial reports.

Necessity for full disclosure in corporate financial reporting thus arose for the simple reason that, the information contained in the financial statements brings in clear terms the position of a particular firm at a point in time (Wahlen, 1995). In agreement, Mainoma (2005) added that, only through the position statement, one is expected to determine the capital formation of a firm.

Not just a sector in an economy, the decision to adopt IFRS by some countries arose from the understanding that IFRS is a product with network effect. Network effect is said to exist where users find a product or service more valuable, as additional users use the same product or service. As more and more countries adopt IFRS, it becomes more appealing to others that are yet to consider the adoption.

Due to quest for uniformity, reliability and comparability of companies' financial statements, Nigerian banks have adopted and produced IFRS based result for the year 2012.The adoption of the IFRS in the Nigerian Banking sector ensures transparency, accountability and integrity in financial reporting necessary for addressing the crisis in the financial sector in Nigeria (Nyor 2012). Moreover, researches (Oduware, 20l2) have also shown that the adoption of superior accounting standards is of significant benefit to national economies. Therefore, The main of this study is to assess the level of compliance with IFRS1 as a reporting framework in the Nigerian Banking industry. To achieve this objective the study hypothesized that Nigerian banks do not comply with the requirements of IFRS1 as a reporting framework

SECTION TWO
IFRS 1 AND THE FIRST-TIME ADOPTERS

IFRS 1 is the very first standard that was developed and issued immediately after the emergence of IASB in 2001, purposely to provide guidance and ensure that, the first financial statements under IFRS of an entity contain high quality information and be transparent to users for comparability of periods under consideration. IFRS 1 is also expected to provide an appropriate starting point for accounting under International Financial Reporting Standards (IFRS) obtainable at an appropriate cost not exceeding the benefits provided to users. Below are the major reporting issues that each entity which decided to embrace IFRS-Framework for the first time must consider, except where the standard (IFRS 1) specifically allowed exemption;

R1: Accounting Policies.

The entity must use the same accounting policies in' its opening balance sheet of IFRS and throughout all periods presented in its first financial statements under IFRS. These Accounting policies must comply with each IFRS in force at the reporting date for its first financial statements according to IFRS, except as specified in paragraphs 13 to 34.

R2: Recognition and Measurement of opening balances

The entity shall prepare an opening balance sheet of IFRS at the date of transition to IFRS. Although this is the starting point for accounting under IFRS, but the entity need not to submit this opening balance sheet in its first financial statements under IFRS. However, it can be included in the notes to the account as workings on how the affected figures were arrived at.

R3: Business Combination

An entity shall apply the requirements of Appendix B of IFRS 1 to business combinations which it recognized prior to the date of its transition to IFRS. However, it should be noted that, this appendix is an integral part of IFRS framework. It requires that an entity that adopts IFRS for the first time may choose not to apply retroactively to IFRS 3 Business Combinations to combinations made in the past (i.e. business combinations that occurred before the date of transition to IFRS). In contrast, if the adoptive parent for the first time made any business combination and restated to comply with IFRS 3, then the, firm shall also restate all business combinations after the same and also apply IAS 36 Impairment of Assets (revised 2004) and IAS 38 Intangible Assets (revised 2004) from the same date.

R4: Cumulative Differences from forex

It's obvious that, IAS2 1 classifies some differences of conversion from foreign exchange as a separate component of equity which can be transferred (to reserves), abandoned or dispose. However, the entity that is taking first step to embrace IFRS does not need to comply with this requirement on the cumulative differences that existed at the date of transition to IFRS 1f the adoptive parent for the first time makes use of this exemption or in a situation where the cumulative differences of all businesses abroad were considered invalid on the date of transition to IFRS.

In addition to that, there is Financial Instrument Compounds as per 1AS32, and it requires an entity to decompose the compound financial instruments, from the beginning, in its separate components of liabilities and net worth. But a first-time adopter of IFRS need separate these two portions if the liability component has ceased to exist on the date of transition to IFRS.

R5: Assets and liabilities of subsidiaries, associates and joint ventures

Unlike before, if a dependent entity adopts IFRS after its parent, the subsidiary will assess the assets and liabilities in its financial statements, choosing from the following treatments. However, if an entity adopts IFRS for the first time after her dependent (or associate or joint venture), it will assess, in its consolidated financial statements, assets and liabilities of the subsidiary (or associate or joint venture) the same carrying amounts contained in the financial statements of the subsidiary (or associate or joint venture), after making adjustments as appropriate to consolidate or apply the equity method, as well as those relating to the effects of business combination in which such an entity acquired the subsidiary. Likewise, if a dominant adopts IFRS for the first time in their individual financial statements, sooner or later that their consolidated financial statements, assess their assets and liabilities for the same amounts in both financial statements, except for the consolidation adjustments.

R6: Hedging

Just as required under 1AS39, the entity shall on the date of transition to IFRS measure all derivatives at fair value and remove all deferred gains and losses from derivatives, which had been registered under previous GAAP as assets or liabilities.

R7: Estimates

Estimates according to IFRS, on the date of transition, will be consistent with estimates made by the same date under previous GAAP (after making the necessary adjustments to reflect any differences in accounting policies), unless there is objective evidence that these estimates were wrong.

R8: Assets held for sale and discontinued operations

IFRS 5 requires that, assets held for sale and discontinued operations shall take prospective application to and, be classified, as non-current assets (or groups disposition of elements) that meet the criteria for classification as held for sale.

R9: Disclosure and Presentation

There is no exemption relating to Disclosure and Presentation of all other IFRSs to the first-time adopter except where IFRS1 specifically addresses an issue to that effect. Thus, uniform application of the latest version of each IFRS issued to date is required.

R10: Comparative Report

To comply with IAS 1 Presentation of Financial Statements, the first financial statements under IFRS of the entity will include at least one year of comparative information in accordance with IFRS. However, exemption from the requirement to restate comparative information relate only to 1AS39 and IFRS 4.

R11: Explanation of the transition to IFRS

The entity will explain how the transition from previous GAAP to IFRS framework has affected the previously reported as financial position, results and cash flows. This shall be in statement purposely devoted for that.

R12: Reconciliations

To comply with paragraph 38 of IFRSI, the first financial statements of an entity under IFRS shall include: reconciliations of its equity, under previous GAAP, with the resulting IFRS report, each for the date of transition to IFRS and the date which marked the end of last year as contained in the most recent financial statements that the entity has submitted applying the previous GAAP.

R13: Interim financial reporting

If the entity provides an interim financial report, according to IAS 34 interim financial reporting, that is for part of the year covered by its first financial statements presented in accordance with IFRS then, it need to satisfy the following requirements additional to those contained in IAS 34:its net assets be stated at the end of the interim period comparable under previous GAAP, with equity IFRS at that date and that 'any loss or gain obtained in this period comparable (both the data in the current year as the year's accumulated so far), using the previous GAAP.

R14: Effective Date

The entity shall apply the IFRS if its first financial statements according to IFRS relate to a period beginning on or after January 1, 2004. However, earlier application is encouraged. If first financial statements of the entity IFRS relate to a financial year beginning before January 1, 2004, and the entity apply the IFRS instead of SIC-8 applications for the first time as the basis of IAS of Accounting, the fact must be disclosed.

2.7 THEORETICAL FRAMEWORK

Several theories have emerged in accounting about corporate reporting each explaining different issue about firms' relationships with their stakeholders. Al-Shammari, 2005 and Schipper, 2007 argued that, there is no generally accepted theory governing financial reporting disclosure and compliance. Notwithstanding, Accounting theory as a whole provides a general frame of reference by which accounting practices can be judged. More importantly it guides the way to the development of new practices and procedures., enterprises theory appeared to be more relevant to this study as it consider the relationship between the firms and their stakeholders of which financial report is the only medium through which most of these stakeholders are informed about the operations of the entities in which they have a stake. The efficient allocation of capital heavily depends on financial reports as they provide a realistic picture of companies past performance and future prospects. The implication of misleading financial information cannot be overemphasized because, it is always devastating and often results in Investors paying huge opportunity costs by investing in companies with unrealistic or inflated values.

The enterprise theory is based on a broader concept than either proprietary or entity theory. The firm may be thought of as a social theory of accounting, that is, the firm is considered to be a social institution operated for the benefit of many interested groups. From an accounting point of view, this would mean that the responsibility of proper reporting would not only extend to stockholders and creditors, but also many other groups and the general public. This concept of the firm is, most applicable to the large modem corporation has been obliged to consider the effect of its action on various groups and on society as a whole (Donaldson and Davis 2001).

3.0 METHODOLOGY

This study adopts an ex-post facto research design via published reports of the sampled banks as prepared and presented based on the IFRS framework. The population of the study comprises all the banks operating in the Nigerian banking industry as at 31st December 2014 as shown in table 3.1. the study utilized ten banks as the sample out of the population using judgmental sampling. These ten banks (Access Bank plc, Diamond Bank plc, Fidelity, FCMB plc, First Bank plc, Union Bank plc, Skye Bank plc, Stanbic-IBTC plc UBA plc and Zenith Bank plc) were selected from the population, since all the banks were screened using the same procedures during the consolidation exercise of 2004 in the sector. Hence, it was assumed that, the 24 standing banks

shared many attributes in common. However, the choice of these banks using judgmental sampling were inclined to a report published by FSDH-Securities in December 2011; the report assessed the performance of these ten banks based on their latest audited financial reports as of then and rated them in terms of their potentials to the equity investors. Data was generated under secondary source using 2012 published annual reports of the banks, which were prepared and presented using IFRS framework. It involved a comparative analysis of the reports against the requirements of IFRS 1 (First Time Adaption of IFRS) with a view to identify adherence and level of observance to such requirements Qualitative grading system (QGS) was employed to assess the compliance level of the sampled banks with the IFRS framework in their financial reporting.

Table 3.1 Population of the study

	Bank	Constituents	Capital Base in N (billion)
1	First Bank Group	First Bank, MBC International, FBN, Merchant Bankers Ltd	44.62
2	Diamond Bank Group	Diamond Bank, Lion Bank	33.25
3	Intercontinental Bank Group	Intercontinental Bank, Global Bank, Gate way Bank, Equity Bank	51.70
4	Fidelity Bank Group	Fidelity Bank, FSB International Bank, Manny Bank	29.00
5	UBA Group	UBA, Standard Trust Bank	50.00
6	FCMB	FCMB, Coop Dev. Bank, Nig. American Bank Ltd	30.00
7	Spring Bank Group	Citizen Bank International, ACB International, Guardian Express Bank, Oceanic Bank, Trans-international Bank, Fountain Trust Bank	25.00
8	Access Bank Group	Access Bank, Marina International Bank, Capital Bank International	28.50
9	Unity Bank Group	Intercity Bank, First Interstate Bank, Tropical Commercial Bank, Centre Point Bank, Bank of the North, SocieteBancaire, Pacific Bank, NNB	30.00
10	Equatorial Trust Bank Group	Equatorial Trust Bank, Devcom Bank	26.50
11	Union Bank Group	Union Bank of Nigeria, Union Merchant Bank, Broad Bank, Universal Trust Bank	58.00
12	First Inland Bank Group	First Atlantic Bank, Inland Bank, IMB, NUB	28.00
13	Afribank Group	Afribank International (Merchant) Bank, Afribank of Nigeria, Trade Bank	29.00
14	Chartered Bank Group	IBTC, Chartered Bank, Regent Bank	35.00
15	Skye Bank Group	Prudent Bank, EIB, Bond Bank, Reliance Bank, Cooperative Bank	37.00
16	Wema Bank Group	Wema Bank, Lead Bank, National Bank of Nigeria	26.20
17	Starling Bank Group	Trust Bank, NBM Bank, Magnum Bank, NAL Bank, Indo, Nigeria, Bank	25.00
18	Platinum Bank Group	Habib Bank, Platinum Bank	26.00
19	Oceanic Bank Group	Oceanic Bank International, International Trust Bank	33.10
20	Zenith Bank Group	Alone	38.00
21	Nigerian International Bank	Alone	25.00
22	Ecobank Group	Alone	25.00
23	Standard Chartered Bank Group	Alone	26.00

Qualitative Grading System

Qualitative Grading System (QGS) is a tool for grading compliance which allows for uniform structure and consistent procedures to be developed for all the variables involved. The application of this system requires that, requirements of IFRS 1 be classified depending on the aggregate percentage of compliance index which is given by: ranked, and will be used in qualitative judgment of assessing the degree of Compliance. The variables in this study are the requirements of IFRS 1 for the First-Time adopter. The variables (requirements of IFRS 1) are then compared with the disclosures in the financial statements of the sampled banks and ranked each appropriately using the qualitative grading system.

The grading is in range which is between 0% - 100%. That is to say, any of the requirements disclosed by a bank in its financial report and accounts attract between 1 - 100% or 1- 10 points. Sampled banks are graded on the number of items observed as per the requirements of the standard (IFRS 1). If on the overall grading, a bank was able to score 10 into thirteen places, then it is graded as having made an 'A' or scored 150 points or has excellently applied or complied with the requirements of IFRS 1. Alternatively, a sampled bank that scored zero (0) will be graded as having an extremely poor compliance with the requirements. The criterion for grading the adoption is presented in table 3.2 below.

Table 3.2: Criteria for grading compliance using QGS

S/N	LATTER GRADE	PARCENTAGE	FORM	GENERAL REMARK
1	A	80-100%	STRONGLY COMPLIED	EXCELENT
2	B	60-79%	SEMI STRONGLY COMPLIED	GOOD
3	C	40-69%	POORLY COMPLIED	POOR
4	D	0-39%	NON-COMPLIANCE	EXTREAMELY POOR

SOURCE: Adopted from Kantudu A. S. The Degree of Compliance with the Requirements of Information to be disclosed in Financial Statements by listed firms in Nigeria (2005)

4.0 DISCUSION OF RESULTS

It is important to recap that, an objective was proposed for this study and all the analysis is tailored toward achieving the objective. Thus, this segment presents objective, the required data, analysis involved, hypothesis testing and discuss issues arises in relation to previous positions in the literature.

Objective one: To determine whether Banks in Nigeria significantly comply with the provisions of IFRS1.

In achieving this objective, point of 0-10 was used against the recent audited financial reports of the sampled Banks. It is primarily to assess the compliance of the Banks with the IFRS framework and the level at which each complied. Fourteen basic requirements of IFRS 1 as discussed in section two were first considered as the influential variables from which the required data was extracted.

Below are the scores of the compliance

Table 4.1: Scores of IFRS 1 application in the financial reports of some Nigerian Banks

VARs	AcB	DmB	FmB	FdlB	FiB	UtB	StB	SkB	UnB	ZnB	OSS	%OSS
R1	10	10	10	10	10	10	10	10	10	10	**100**	**100**
R2	10	10	10	10	10	10	10	10	10	10	**100**	**100**
R3	0	10	0	0	10	10	0	10	10	10	**40**	**40**
R4	10	10	10	10	10	10	10	10	10	10	**100**	**100**
R5	10	10	10	10	10	10	10	10	10	10	**100**	**100**
R6	10	10	10	10	10	10	10	10	10	10	**100**	**100**
R7	10	10	10	10	10	10	10	10	10	10	**100**	**100**
R8	10	10	10	10	10	10	10	10	10	10	**100**	**100**
R9	10	10	10	10	10	10	10	10	10	10	**100**	**100**
R10	10	10	10	10	10	10	10	10	10	10	**100**	**100**
R11	10	10	10	10	10	10	10	10	10	10	**100**	**100**
R12	10	10	10	10	10	10	10	10	10	10	**100**	**100**
R13	10	10	10	10	10	10	10	10	10	10	**100**	**100**
R14	10	10	10	10	10	10	10	10	10	10	**100**	**100**
Total Score	**140**	**140**	**140**	**130**	**130**	**140**	**140**	**130**	**130**	**130**	**1,340**	**95%**

SOURCE: Survey of the researcher via 2014 annual reports of the sampled banks

Table 4.2: Key to table 4.1

VARs	=	Variables (Requirements of IFRS1): R1-R14
OSS	=	Overall Sample Scores
% OSS	=	Percentage of Overall Sample Scores
AcB	=	Access Banks
DmB	=	Diamond Bank
FmB	=	FCMB
FdlB	=	Fidelity Bank
FiB	=	First Bank
UtB	=	Union Bank
StB	=	Stanbic IBTC
SkB	=	Skye Bank
UnB	=	UBA
ZnB	=	Zenith Bank

Source: Researcher's design 2014

Table 4.1 above shows how the sampled banks complied with all the requirements of IFRS 1 except for R3: Business Combination where only five banks complied as it affected their operations. Reasons advanced for that are contained in the exemptions provided explicitly in the standard being entities that meet the conditions attached. In testing this hypothesis for decision, Qualitative Grading System (QGS) was employed to determine the Degree of Compliance (DOC) which will be used to accept or reject the hypothesis developed. If the computed value is C or D, that signals an automatic acceptance of the hypothesis. On the other hand, the hypothesis will be nullified and rejected if the computed value is A or B.

Using QGS, Degree of Compliance (DOC) = No. of points earned from the compliance Maximum core required from the compliance

No. Of points earned from the compliance = 1,350

Number of points earned from the compliance = Sample size (No. of Points earned x Variables) = [10(13 X14) = 1,274

Thus, DOC = 1,340/1,820 = 74%

The summary of the compliance with the 14 requirements of the standard (IFRS 1) by the sampled Nigerian Banks and the result of QDS which was used in testing hypothesis 1 show a result of 74%, which is a semi-strong compliance as per table 3.2. Therefore, the null hypothesis is hereby rejected, which implies that, the sampled banks as the representative of the entire population complied with the requirements of IFRS 1..

5.0 CONCLUSION AND RECOMMENDATIONS

Based on the analysis of result of the QGS in section four , the study finds that, all the sampled banks complied with the requirements of the IFRS 1, except for Requirement 3 (business combination) where Access bank, Fidelity Bank, Stanbic IBTC and FCMB that do not apply exactly what is contained in the Standard, rather take the provision for exemption as provided in IAS 36 Impairment of Assets and IAS 38 Intangible Assets as an option provided in the standard. it can be concluded that, the Nigerian banking industry has complied with IFRS 1 as a first time adopter. This is highly impressive and encouraging despite the initial worry raised by some researchers concerning the extent to which IFRSs can be adopted by developing nations, as environments vary from country to country and for the fact that, adoption of these standards may be detrimental, because they claimed that, the whole framework has been developed based on capital markets in developed countries. Therefore, on the basis of the findings and conclusions of the study, the paper recommends that banks should put more effort and resources in training and sustaining qualified accountants on IFRS issues. They should also source, update and promote the use of publications on IFRS among their staffs more especially those involved in financial reporting system. This will surely keep them abreast on the current happenings about the framework.

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