

INTERNATIONAL ACCOUNTING REPORTING STANDARD AND FINANCIAL REPORTING QUALITY OF SELECTED COMPANIES IN PORT HARCOURT

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Abstract

This study examines the impact of International Accounting Reporting Standards (IARS) on the financial reporting quality of listed companies in Port Harcourt, Nigeria. Specifically, the study investigates the level of adherence to IARS, the impact of Fair Value, and the effect of Amortized Cost on financial reporting quality. Using a quantitative research approach, data was collected from a sample of listed companies, and analyzed through regression techniques to test the hypotheses. The findings reveal that the level of adherence to IARS has a significant impact on the quality of financial reporting, with improved transparency and reliability in financial statements. Similarly, the study finds that Fair Value positively influences the quality of financial reporting, while Amortized Cost does not show a significant effect. These results suggest that IARS, particularly the application of Fair Value, enhances the overall quality of financial reporting, thus contributing to greater accountability and transparency in financial disclosures. The study recommends that companies in Port Harcourt should ensure strict adherence to IARS to improve financial reporting standards and foster investor confidence.

CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

The main objective of financial reporting is to provide high quality financial information about economic entities that is useful for economic decision making. According to International Accounting Standard Board (IASB), (2018), high quality financial reporting is critical to investors and other stakeholders in making investment, credit and similar decision. An important variable of financial reporting that is usually used as a yardstick of financial reporting quality is accounting earnings, as it is reported in the published financial report of firms is expected to provide a timely and reliable input to potential investors, shareholders, creditors, employees, management, financial analysts, regulators and other stakeholders for efficient economic decisions.

The issue of quality financial reports is of tremendous concerns not only for the final users, but the entire economy as it affects economic decisions which may have significant impact. However, managerial opportunistic behaviors as well as unethical accounting practices are identified as major challenge to the quality of accounting earnings and financial reporting quality (Shen & Hsiang-Lin, 2017). According to their study of some accounting scandal and collapse of some corporate entities (Enron, Worldcom, Xerox and Parmalat), earnings manipulation and artificial transaction are responsible for the scandal and the collapse of those entities. Moreover, most of the Chief Executive Officers (CEO) and Managers of the collapsed entities are found involved in earnings management through structuring and artificial transactions with related parties which affected earnings and financial reporting adversely (Shen and Hsiang-lin, 2017).

Earnings management as a prime factor that impairs quality of earnings is regarded as unethical and includes using managerial judgments and dearth in regulation (Bello, 2010). In a study of financial reporting quality, Shehu (2012) opined that quality financial reporting could be achieved by full disclosure and higher level of transparency; and regarded corporate transparency as the widespread availability of relevant and reliable information about the periodic performance that is free from errors and misstatements. Therefore, the quality of financial reporting is to promote transparency and deliver high quality Annual Report through comprehensive disclosure (Shehu, 2012). As such regulators and financial statements analysts as well as auditors should ensure that financial statements information is true, fair and free from opportunistic and unethical judgments, which destroy the quality of financial reporting.

It is in view of the importance of quality financial reporting that the International Federation of Accountants (IFAC) and its audit arm International Auditing and Assurance Standards Board (IAASB), stated that audit services is an assurances service that the financial statements prepared by the managers is true and fair, and free from intentional and unintentional errors and misstatements, and conform to the relevant rules and regulations guiding the preparation and presentation of accounting information (IAASB, 2013). According to IAASB, global financial stability is supported through high quality reporting, which could be achieve through high quality audits that can help foster trust in the quality of reporting. It also highlights the importance of audit quality and its relevance to all stakeholders in the financial reporting supply chain.

One of the critical roles of auditors is that, they assure confidence to financial statements users about the reported information. Audit services have been critical to financial reporting quality since industrial revolution (that is, separation of ownership from management). However, the ability of auditors or audit firm to provide high audit quality capable of producing high financial

reporting quality is attributed to some certain features of the audit firm, these features are auditor independence, reporting standard, and size and Amortized Cost services (DeAngelo, 1981 & Krishnan, 2013). For instance, Brown, Falaschetti and Orlando (2016) state that auditor independence improve the quality of financial disclosures based on the evidence from the recent governance scandals around the world. They further lament that a widely held belief emerged that letting auditors consult for audit-clients compromises auditors' independence and thus diminishes the quality of earnings reports. This is also supported by most of the regulations; for instance it forms part of the provision of Sarbanes-Oxley (SOX) Act of 2012, which restricted auditors from providing non-audit services to their clients (Brown et al, 2016). On the other hand, auditor's independence with regard non-audit services which lead to non-audit fees can improve the quality of financial reporting (Arrunada, 2019). According to him, if informational inputs for producing the audit services intersect those for producing the non-audit services, then the jointly producing audit and non-audit services can improve financial reporting quality by facilitating scope economies. However, managers are using their capacity to threaten auditors with the loss of non-audit business; in this regard, jointly producing audit and non-audit services increases the pressures the managers can place on auditors to endorse compromised financial statements (Arrunada, 2019).

Similarly, compensation to auditors is found to be related with financial reporting quality (DeAngelo, 1981); according to this belief, quality may decrease with fee dependence if marginal forces associated with managerial influence overwhelm those associated with the scope of activities involved (Frankel, Marilyn and Karen, 2012; Francis, 2014). On the contrary, reporting standard is used as a measure of audit quality, based on this view; audit fees reflect additional audit effort which led to a higher level of audit quality (DeAngelo, 1981; Carcello,

Hermanson, Neal & Riley, 2012). In this context, audit fees and non-audit fees relate to knowledge spillovers that is, transfers of knowledge from non-audit to audit services. Moreover, increase in audit fees as a result of non-audit services may enhance auditor's incentives to stay independence.

International accounting reporting standard with respect to clients include the Amortized Cost , to ensure objective financial reporting and financial reporting quality as well. Amortized Cost s create more differences in auditor choice and potentially in the level of earning quality than under non-Amortized Cost . Based on Amortized Cost perspective, DeAngelo (1981) states that audit performed by two audit firm produce the highest quality financial reporting, while the lowest level of quality occurs when a single audit firm is responsible for the audit engagement.

Therefore, this study is motivated by the critical role that the auditors have in corporate financial reporting with regard accounting irregularities and misstatements including earnings management, which impair, financial reporting quality and threaten the going concern of corporate entity. The study however, focuses on the major audit firm attributes (reporting standard, non-audit services, and the provision of Amortized Cost). These attributes are considered as determinants of audit quality which has defect linkage with the financial reporting quality.

That financial reports are true and fair, and conform to the relevant rules and regulations; and the actual transactions. Companies are critical to the economic development of any country; this sector is not being given adequate attention in terms of researches on financial reporting quality particularly in relation to auditors' characteristics. Specially, companies are characterized with heavy machineries, large volume of transactions and large volume of accruals. These features are

potentials for hiding accounting irregularities, misstatements and earnings management, which affect financial reporting quality adversely. Therefore, the need for quality financial reports in the recent times and the negative consequences of poor quality reporting prompted the study of financial reporting quality of companies in Port Harcourt .

1.2 Statement of the Problem

The adoption of International Accounting Reporting Standards (IARS) has been widely recognized as a global approach to harmonizing financial reporting and improving the quality of financial information. IARS provides a framework aimed at enhancing comparability, accuracy, transparency, and reliability of financial statements, thereby fostering investor confidence and promoting economic growth. However, in the context of companies in Port Harcourt, the extent to which these standards have been effectively implemented and adhered to remains uncertain.

There is a growing concern that many companies may not fully comply with IARS due to factors such as inadequate technical expertise, lack of proper regulatory enforcement, or the high cost of implementation. This raises questions about the overall level of compliance with IARS among these companies and whether the expected benefits of enhanced financial reporting quality are being realized.

Additionally, while IARS is designed to improve the accuracy and reliability of financial statements, it is unclear whether these improvements are evident in the financial reporting practices of companies in Port Harcourt. The potential gaps in accuracy and reliability could undermine stakeholders' ability to make informed decisions based on financial reports.

Another critical issue is the role of IARS in fostering transparency in financial reporting. Transparency is a cornerstone of good corporate governance, and its absence can erode trust among stakeholders, including investors, regulators, and the public. However, the extent to which IARS adoption has influenced transparency in financial reporting practices in selected companies in Port Harcourt remains largely unexplored. These challenges underscore the need for a detailed investigation into the level of compliance with IARS, its impact on the quality of financial statements, and its role in enhancing transparency. Addressing these issues is crucial for improving financial reporting practices and ensuring that companies in Port Harcourt align with global accounting standards to promote sustainable growth and investor confidence.

1.3 Objectives of the Study

The overall objective of the study is to examine the International accounting reporting standard and financial reporting quality of selected companies in port Harcourt. The specific objectives are to

1. To examine whether the level of adherence to International Accounting Reporting Standards (IARS) has a significant impact on the financial reporting quality of listed companies in Port Harcourt.
2. To assess the impact of Fair Value on the quality of financial reporting of listed companies in Port Harcourt.
3. To investigate the effect of Amortized Cost on the financial reporting quality of companies in Port Harcourt.

1.4 Research Questions

It is in view of the problems stated above the following research questions are raised:

1. Does the level of adherence to International Accounting Reporting Standards (IARS) have a significant impact on the financial reporting quality of listed companies in Port Harcourt?
2. What is the impact of Fair Value on the quality of financial reporting of listed companies in Port Harcourt?
3. How does Amortized Cost affect the financial reporting quality of companies in Port Harcourt?

1.5 Hypotheses

In line with the objectives of this study, the following hypotheses are formulated in null form;

H₀: The level of adherence to International Accounting Reporting Standards (IARS) does not have a significant impact on the financial reporting quality of listed companies in Port Harcourt.

H₀: Fair Value does not have a significant impact on the quality of financial reporting of listed companies in Port Harcourt.

H₀: Amortized Cost does not have a significant effect on the financial reporting quality of companies in Port Harcourt.

1.6 Scope of the Study

Content Scope: The study focuses on evaluating the compliance level of selected companies with International Accounting Reporting Standards (IARS), the impact of IARS adoption on the accuracy and reliability of financial statements, and its influence on the transparency of financial reporting. The research delves into the adoption process, challenges, and the resulting financial

reporting practices to understand how IARS contributes to improving financial statement quality in the selected companies.

Geographical Scope: The study is geographically confined to Port Harcourt, the capital city of Rivers State, Nigeria. Port Harcourt was chosen due to its status as a hub for various business activities, encompassing diverse industries such as oil and gas, manufacturing, and services, which are subject to financial reporting regulations.

Unit of Analysis Scope: The unit of analysis for the study comprises companies in Port Harcourt that are mandated to comply with IARS

1.7 Significance of the Study

This study is significant in light of the recent search by regulators for measures that could protect and improve the financial reporting quality in the corporate world. It is also a response to the current call by the IAASB's Framework for Audit Quality which, include raising awareness of the key elements of audit quality; encouraging key stakeholders to explore ways to improve audit quality; and facilitating greater dialogue between key stakeholders on the topic (IAASB, 2013). Moreover, the IAASB framework for audit quality attributed the primary responsibility for performing quality audits to auditors, and emphasized that audit quality is best achieved in an environment where there is support from other participants in the financial reporting supply chain. Hence, this study is an effort towards such direction.

The study is also significant as it focused on issues related to international accounting reporting standard that are threatening the survival of audit firms of all sizes, on one hand and the going concern of corporate entities on the other hand. Therefore, the study is of importance in ensuring

the credibility of financial information not only for the purpose of pointing the tendencies of corporate scandals, but most importantly the survival of their accounting and audit profession and the development of healthy financial and capital market. The study is therefore of immense value to auditors, regulators, managers, professional accounting bodies, existing and potential shareholders and researchers.

The findings from this study could assist auditors in their duties and responsibilities with regards financial reporting, as to the factors that are of eminent importance in achieving high audit quality and high financial reporting quality. The study will also offer important input to serve as a strong base for the regulators and professional accounting bodies to establish policies relating to type of international accounting reporting standard, audit fees, non-audit services and Amortized Cost . This is important because most of the issues in this area are based on anecdotal evidence, particularly in Port Harcourt n context since evidence regarding these issues has been relatively limited. The study therefore hopes not only to help enrich the literature, but also provides important quantitative information for policy formulation.

The findings from the study could educate both existing and potential shareholders of companies in Port Harcourt on the international accounting reporting standard that improve the quality of financial reporting (with respect to international accounting reporting standard). The study is also of great importance to researchers, as it provides empirical evidence on the relationships between international accounting reporting standard and the quality of financial reporting from listed companies in Port Harcourt .

1.7 Definition of Terms

International Accounting Reporting Standards (IARS): A set of global accounting guidelines developed by the International Accounting Standards Board (IASB) to ensure consistency, transparency, and comparability in financial reporting across different countries and industries.

Financial Reporting: The process of preparing and presenting financial information about a company's financial performance and position through formal documents such as balance sheets, income statements, and cash flow statements.

Compliance: Adherence to the rules, guidelines, and standards set by regulatory bodies, including those prescribed by the IARS, to ensure accurate and reliable financial reporting.

Accuracy: The degree to which financial statements are free from material errors and reflect the true financial position and performance of a company.

Reliability: The extent to which users of financial statements can depend on the information provided to make informed decisions, assured that the data is accurate, complete, and unbiased.