

**ADOPTION OF INTERNATIONAL FINANCIAL REPORTING
STANDARD (IFRS) ON AUDIT REPORT QUALITY IN NIGERIA**

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CERTIFICATION

We, the undersigned hereby certify that this project titled “Adoption of International Reporting Standard (IFRS) on Audit Report Quality in Nigeria” was carried out by **OSUNDE EDGAL NWAMAKA** with Matriculation No: **SBS/2012010712** under our supervision in the department of Accountancy

We therefore certify that the project is adequate both in scope and quality for the partial fulfillment of the requirement, for the award of Higher National Diploma (HND) in Accountancy, school of Business Studies Auchi Polytechnic, Auchi

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DEDICATION

This work is sincerely dedicated to God Almighty for the spirit of determination, which he never allowed to depart from me.

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In producing this work, the research received the co-operation of many people whose contributions helped immensely to bring this study to its present stage.

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Abstract

This project work investigate the Adoption of International Financial Report Standard (IFRS) and Audit Reports Quality in Nigeria. The specific objectives of the study are; to determine if there is position relationship between adoption of IFRS and audit reports quality in Nigeria; to examine if there is significant relationship between adoptions of IFRS and credibility of audit report and found out if there is significant relationship between adoptions of IFRS and credibility and financial statement for the purpose of laying credium to the above objective, field survey research design method was adopted. The population of the study includes auditors in private practice in Lagos State, chartered accountants and graduate accountant. The sample size used for this research was 60 which were divided into three state; (20) audits firms (20) chartered accountant and (20) graduate of Accounting. Data were analyzed using inferential statistical tools of regression analysis in measuring the extent of the relationship between variables and to draw inferences with the aid of statistical package for social science (SPSS) version 2.1.0. The research found that there is a significant relationship between IFRS adoption and audit report quality in Nigeria. It was also found out that there is no significant relationship between IFRS adoption and credibility of audit report of financial statement. It was discovered that there is significant relationship between IFRS adoption and credibility of financial states. Based on the finding of their study, it was concluded that IFRS adoption will have position effect on audit report quality and will make international comparison of financial statements as easy as possible. The study therefore recommends that companies should adopt full set of IFRS in the preparation of their financial statements. There should be adequate training for preparers of financial statement on IFRS application. Still perelty should be imposed on non-compliance with IFRS as stipulated by the international accounting standard boards.

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CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

Accounting is the language of business while financial reporting is the medium through which the language is communicated. Accounting and financial reporting are regulated by Generally Accepted Accounting Principles (GAAP) comprising of accounting standards, company law, stock market regulations, and so on. GAAP for accounting and financial reporting gives answers to differences in business communication between countries. The global GAAP that is seeking to unite accounting and financial reporting world is the International Financial Reporting Standards (IFRS) issued by the international Accounting Standards (IASs; International Financial Reporting Standards (IFRSs); Standing Interpretations Committee (SICs) pronouncements; and International Financial Reporting Interpretations Committee (IFRICs) guidelines (Ikpefan & Akande, 2012).

Okpala (2012) opines that financial report apart from stating the financial position of an organization, provides other information such as the value added, changes in equity if any and cash flows of the enterprise within a defined period of time to which it relates. This information is useful to a wide range of users making informed economic decisions. The quality of financial reporting is indispensable to the need of users who requires them for investment and other decision making purposes. Financial reports can only be regarded as useful if it represents the

“economic substance” of an organization in terms of relevance, reliability, comparability and aids interpretation simplicity. He further stated that useful accounting information derived from qualitative financial report help in efficient allocation of resources by reducing dissemination of information asymmetry and improving pricing of securities. To prepare and audit financial statements, some accounting convention and principles known as standards have been put in place by appropriate bodies set up for the purpose to encourage uniformity and reliability. They added that, the implementation of IFRS would reduce information irregularity and strengthens the communication link between all stakeholders. It also reduces the cost of preparing different version of financial statements where an organization is a multi-national. Accounting standards ensures that important matters regarding preparation and presentation of financial statements as well as auditing same are not left to whim of the preparers and auditors. Before IFRS adoption era, most countries had their own standards with local bodies responsible for developing and issuance.

According to Tanko (2012), international financial reporting standards (IFRS) are a set of accounting standards developed by the International Accounting Standards Board (IASB) that is becoming the global standard for the preparation of public company financial statements. He observed that just like every other system, IFRS is a systematic approach that promotes understandability, reliability, relevance and comparability. He added that IFRS was founded by contributions from major accounting firms, private financial

institutions and industrial companies, central and development banks national funding regimes, and other international and professional organizations throughout the world. This study therefore intends to investigate the adoption of IFRS and audit report quality in Nigeria.

1.2 Statement of Problem

The adoption of IFRS tends to enhance transparency, disclosure and comparability. It is evident that the implementation of IFRS reinforces stock market liquidity and leads to lower cost of capital and transaction costs, higher market value and better reputation. The higher disclosure requirements and financial reporting quality that stem from IFRS imply that the adoption of IFRS would give a positive signal to investors as information asymmetry and agency costs tend to diminish. It appears, therefore, that firms that adopt IFRS would tend to display lower potential for earnings management. Less subjectivity would lead to fewer opportunities to influence reported earnings and bonuses and/or mislead investors. Hence, in countries with strong investor protection mechanisms, such as the UK, the costs of IFRS adoption would tend to be lower because the level of earnings management is lower as managers are less inclined to manipulate the reported accounting figures. In contrast, in countries with weak investor protection mechanisms, the scope for earnings management would tend to be higher and the quality of financial reporting lower, implying that the costs of adopting IFRS would be higher.

1.3 Research Questions

In the light of the above, the following research questions are raised:

- i. Is there positive relationship between adoption of IFRS and audit reports quality in Nigeria?
- ii. Is there significant relationship between adoption of IFRS and credibility of audit report?
- iii. Is there significant relationship between adoption of IFRS and credibility of financial statement?

1.4 Objectives of the Study

The objective of this study is to examine the adoption of IFRS and audit report quality in Nigeria.

The specific objectives are:

- i. To determine if there is positive relationship between adoption of IFRS and audit reports quality in Nigeria.
- ii. To examine if there is significant relationship between adoption of IFRS and credibility of audit report.
- iii. To find out if there is significant relationship between adoption of IFRS and credibility of financial statement.

1.5 Research Hypotheses

The following null hypotheses have been formulated to serve as a base for this research.

Hypothesis 1

Ho₁ There is no positive relationship between adoption of IFRS and audit reports quality in Nigeria.

Hypothesis 2

Ho₂ There is no significant relationship between adoption of IFRS and credibility of audit report.

Hypothesis 3

Ho₃ There is no significant relationship between adoption of IFRS and credibility of financial statement.

1.6 Significance of the Study

It is expected that this study would consolidate existing literature on the issues - surrounding the relationship between adoption of IFRS and audit report quality and thus boosting the empirical evidence from Nigeria. Furthermore, given the empirical nature of the study, the outcome of this study would aid policy makers and regulatory bodies in economic modeling and policy simulation with respect to the selected variables examined in the study.

The result of the study would be of benefits to investment analysts, investors and corporations in examining the effectiveness of IFRS on audit report quality.

It will also be useful in stimulating public discourse given the dearth of empirical researches in this area from emerging economies like Nigeria.

Finally, it would also add to the available literature on the area of study while also providing a platform for other researchers who may want to further this study.

1.7 Scope of the Study

The study is undertaken to examine adoption of IFRS and audit report quality in Nigeria. The population of the study is the entire quoted companies operating in Nigeria, while the sample size is restricted to some selected staff of five banks quoted in the Nigeria Stock Exchange.

1.8 Limitation of the Study

The major constraints of this project are sourcing enough materials for this buildup. This is as a result of newness of the subject of research the uncooperative attitude of some respondent greatly affected the adequate collection of data from the fieldwork. Unavailability of some relevant data in literature, also time constraints was another limiting factor of this research.

1.9 Operational Definition of Terms

Audit: Audit is a Latin word meaning “he hears”. It is a process which is carried out by qualified persons called auditors, whereby the account of business organization including charities, trust and professional firms are subjected to scrutiny in such details as to accuracy, truth and fairness.

Auditing: Auditing is an independent examination of and the expression of opinion on accounts of companies as presented by management to an appointed auditor in pursuance of that appointment, and in keeping with any reliant

legislature and other requirements, whether in his opinion the account show a true and fair view and had be prepared in accordance with Law.

Financial Statement: The term “financial statement” covers the Balance Sheet, Income Statement or Profit and Loss Accounts, Statements and explanatory materials, which are identified as being part of financial statement.

Culture: Culture is defined as the collective programming of the mind that differentiates one member of a group or society from the others.

Audit Report: This is the means by which the auditors express their opinion on the truth and fairness of the company’s financial statement.

Audit Report Quality: Audit report quality is the probability that financial statements contain no material misstatements. It is also an increasing function of an auditor’s ability to detect accounting misstatements and auditor independence as assessed by the market.

Auditor’s Quality: Auditor’s quality is defined as the overall audit service quality of a certain audit firm.

Accounting: This is concerned with the keeping of records of daily transactions entered into in the day-to-day management of a business organization.

CHAPTER TWO

REVIEW OF RELATED LITERATURE

2.1 Conceptual Review

The introduction of IFRS for listed companies is one of the most significant capital market and accounting regulation reforms in the developed and developing countries in recent years. Therefore, much attention has been given in the academic and professional accounting literature to this process and its effect either in the capital markets, the economic consequences of their voluntary and mandatory implementation, and so on. Many researchers have focused on studying if the international standards improve accounting quality, comparability and/or transparency, among other topics.

2.1.2 Overview of IFRS

The current issue in the developing countries accounting and financial reporting land scope is IFRS, its convergence, Adoption cross border listing tax implication and its effect on economic development. Scholars and researcher alike have at one point in time or the other limited at the possible effect of IFRS adoption on these indices.

“The business world is becoming more global hence the need for a global accounting language, IFRS, have been developed primarily to meet the information needs of shareholders lenders and the information needs of shareholders, lenders and other investors, Nigerian companies have and will continue to raise capital from domestic and global markets, market expectations and competitive pressures call for more transparency and better disclosures by Nigeria companies, Nigeria subsidiaries of multinationals already report under IFRS, companies like GTB, Oando already report under in accordance with JFRS.

Essentially, IFRS companies of four types of documents, namely, International Accounting Standards (IAS), International Financial Reporting standard, (IFRS), Interpretations of the International Financial Reporting Interpretation committee (IFRICs) formerly the Standing Interpretations Committee (SICs) and IASB framework for the preparation and presentation of financial statement.

By comparison, Nigerian GAAP is made up of the following, namely, the companies and Allied Matters Act (AMA) LFN 2004, Statements of Accounting standard Board (NASB). Other local legislation and industry specific Guide lies such as BOFIA i.e. Banks and other financial institutions, Prudential Guideline, Insurance Acts and SEC Rules and International best practices which is optional.

Fowokan, (2010) have posit that “the theoretical foundations under primary Nigeria Generally Accepted Accounting policies (GAAP) and International Financial Reporting Standards (IFRS) is not altogether similar. as such, there will

be increased responsibility in setting sound accounting policies that fits business models. On the part of the professional accountant, who must also be ready to explain and justify these policies in the context of IFRS frame work”.

Key drivers of IFRS adoption have been identified in accounting literature in recent times by several researchers, which includes:

The following key drives:

- “More efficient access to capital market for global corporations”.
- “Increasing demand for public accountability and transparency by all stakeholders”.
- “Need to attract international investors and to enable easy monitoring of overseas investment”
- “Facilitate comparison between public entities (IPSAS)”
- “Ability to analyze impact on tax-related issues”.
- Ability to understand interactions with strategic initiative to generate value from synergies”
- “Streamline M&A activity reporting for global companies”.
- “More room for management’s judgment and tuner reflection of economic reality with principles based GAAP”.
- “Improved transparency and comparability for investors and rating agencies”:

Fowokan, (2010) states that, the development of a single set of high quality, understandable and enforceable global accounting standard that require transparent and comparable information in financial statement and helping participants in various capital markets (investors, stock brokers etc) across the globe to understand financial statements are some of the key drivers of IFRS adoption” Fowokan,(2010) further posit that “IFRS, are designed for adoption by profit-oriented entities and that IFRS, require that financial statements give a true and fair view of the financial health of entities.

2.1.3 Adoption of IFRS in Nigeria

Recently there has been a push towards the adoption of IFRS developed and issued by the International Accounting Standards Board (IASB). The increasing growth in international trade, cross border financial transactions and investments which unavoidably involves the preparation and presentation of accounting reports that is useful across various national borders, has brought about the adoption of IFRS by both the developed and developing countries. Armstrong, Barth, Jagolinzer, & Riedl (2010). The process of adoption received a significant boost in 2002 when the European Union adopted a regulation 1606/2002 requiring all public companies in the territory to convert to IFRSs beginning in 2005 (Iyoha & Faboyede, 2011).

A number of African countries including Nigeria, Ghana, Sierra Leone, South Africa, Kenya, Zimbabwe and Tunisia among others have adopted or declared intentions to adopt the standards. In particular, Nigeria adoption of IFRS was launched in September, 2010 by the Honourable Minister, Federal Ministry of Commerce and Industry – Senator Jubriel Martins- Kuye (OFR) (Madawaki, 2012).

The adoption was planned to commence with Public Listed Companies in 2012 and by end 2014 all stakeholders would have complied. As at today, banking sector has fully implemented. This is considered a welcome progress for developing countries especially some of those that had no resources to establish own standards.

There are proponents as well as opponents who have arguments for and against the global adoption of IFRS. According to Barth (2007), the adoption of a common body of international standards is expected to have the following benefits: lower the cost of financial information processing and auditing to capital market participants as users, familiarity with one common set of international accounting standards instead of various local accounting standards by Accountants and Auditors of financial reports, comparability and uniformity of financial statements among companies and countries making the work of investment analysts easy, attraction of foreign investors in addition to general capital market liberalization.

Ball (2006) state that many developing countries where the quality of local governance institutions is low, the decision to adopt IFRS will be beneficial. FDI often generates somewhat higher-paying jobs than might otherwise be available to local citizens, it generates investment that may not be possible with the local resources only, it links the recipient economy into the world economy in manners that would be hard to achieve by new firms of a purely local origin. FDI alters country's comparative advantages and improves its competitiveness through technology transfer and effects myriad externalities, domestic investment which can alter a country's volume and pattern of trade in many income enhancing directions. Countries that suffer from corruption, slow-moving, or ineffectual government are likely to resistant the change (La Porta, Lopez-de-Silanes, & Shleifer., 1999) but in such countries, the opportunity and switching costs are lower which makes the possibility of adopting IFRS advantageous.

The foreign capital has the potential to deliver enormous benefits to developing nations. In addition to helping bridge the gap between savings and investment in capital-scarce economies, capital often brings with it modern technology and encourages development of more mature financial sectors. Capital flows have proven effective in promoting growth and productivity in countries that have enough skilled workers and infrastructure. Some economists believe capital flows also help discipline governments' macroeconomic policies.

2.1.4 Financial Statement Effects of IFRS Implementation

The implementation of IFRSs would reduce information asymmetry and would subsequently smooth the communication between managers, shareholders, lenders and other interested parties (Bushman & Smith, 2001), resulting in lower agency costs (Healy & Palepu, 2001). Lower information asymmetry would also lead to lower costs of equity and debt financing (Botosan and Plumlee, 2002). The benefits of implementing IFRSs include higher comparability, lower transaction costs and greater international investment. IFRSs also assist investors in making informed financial decisions and predictions of firm future financial performance and give a signal of higher quality accounting and transparency. IFRSs therefore, would tend to reduce earnings manipulation and enhance stock market efficiency (Leuz, 2003), while they would also tend to positively impact on firms' stock returns and stock related financial performance measure.

The adoption of IFRSs tends to enhance transparency, disclosure and comparability. It is evident that the implementation of IFRSs reinforces stock market liquidity and leads to lower cost of capital and transaction costs, higher market value and better reputation (Leuz & Verrecchia, 2000). The higher disclosure requirements and financial reporting quality that stem from IFRSs imply that the adoption of, IFRSs would give a positive signal to investors as information asymmetry and agency costs tend to diminish (Tarca, 2004). It is therefore, that firms that adopt IFRSs would tend to display lower potential for earnings management (Ashbaugh & Pincus 2001). Less subjectivity would lead to fewer opportunities to influence reported earnings and bonuses

and/or mislead investors. Hence, in countries with strong investor protection mechanisms, such as the UK, the costs of IFRS adoption would tend to be lower because the level of earnings management is lower as managers are less inclined to manipulate the reported accounting figures (Renders & Gaeremynck, 2007). In contrast, in countries with weak investor protection mechanisms, the scope for earnings management would tend to be higher and the quality of financial reporting lower, implying that the costs of adopting IFRSs would be higher (Ali & Hwang, 2000).

2.1.5 The Effect of IFRS Adoption on Financial Disclosure

It is widely accepted that accounting is the language of business that enables communication among financial information users and providers. Just as each nation has its own language, not surprisingly, different countries have different accounting standards. Gray (1988) among others, argue that social, political, economic and cultural environment of each country influence national accounting systems. The success of convergence of accounting standards depends to large extent on the sufficient understanding of the underlying reasons of national accounting differences.

Previous research on classification of countries according to accounting rules and practices shows that there are certain clusters that differ in terms of measurement and disclosure practices. (Douppnik and Salter, 1993) classification studies report two general clusters: Micro level countries under the influence of

Anglo-American practices and macro level countries under the influence of Continental Europe practices.

Furthermore, Douplik and Salter (1993) report more variety in accounting practices among macro level countries which in turn may impede the achievement of convergence in these countries. Increase in cross country capital transfers and foreign direct investments evolved the necessity of eliminating or minimizing the differences in accounting standards to enhance comparable financial information globally. Within this framework, convergence of financial reporting standards globally becomes one of the major tasks of accounting standard setters. Financial statements that is prepared in accordance with similar accounting standards are expected to improve comparability, and thus investors would be able to decrease investment risks by global diversification (Douplik & Perera, 2007). Although both preparers and users agree upon the benefits of similar accounting standards, some still argue that because of the environmental differences among the companies, convergence is bard to achieve. International Accounting Standards Board (IASB) leads the global convergence movement. IASB has no enforcement power on the use of IFRS, but the International Organization of Securities Commission's (IOSCO) endorsement of IASB standards has assisted in the implementation of those standards in different countries. Furthermore, EU required the companies that are traded in the stock exchanges to apply IFRS in preparation of consolidated financial statements effective from 1 January 2005. Along with the EU many other countries such as Australia, New Zealand, South

Africa, and Turkey have taken steps to use IFRS as third national accounting standards or revised their national standards to adapt IFRS. Convergence of IFRS and United States generally accepted accounting standards (US GAAP) is also an ongoing project which is expected to be completed by mid-2011 (Financial Accounting Standards Board, 2010).

Choi, Frost and Meek, (1999). study accounting within three functions: measurement, disclosure and auditing. Among these, this study focuses on financial disclosure which helps to achieve the goal of communicating financial information to decision makers. Previous Studies investigate the underlying reasons for different disclosure levels among companies and find that different environmental factors including cultural dimensions affect disclosure levels (Archambault & Archambault, 2003). Hofstede (1991) defines culture as the collective programming of the mind that differentiates one member of a group or society from the others. He groups cultural values in four dimensions as:

- 1. Individualism versus collectivism:** In individualistic societies the dependence of individuals among each other is low individuals are independent and self-sufficient. At the other extreme, in the collectivist societies that score low in individualism scale, collaboration among members of society is higher and there are strong cohesive in-groups.
- 2. High Power Distance versus Low Power Distance:** Power distance demonstrates the acceptance of equality and describes how inequality is perceived in a society. In high power distance societies, people accept hierarchy without questioning.

However, in low power distance society's unequal power thus hierarchy is not accepted as it is.

3. **High Uncertainty Avoidance versus Low Uncertainty Avoidance:** It is a measure of peoples discomfort arising from uncertainties. Societies with high uncertainty avoidance scores prefer to have rules and try to avoid foggy environment in which they feel threatened.
4. **Masculinity versus femininity:** Masculine cultures are more assertive and gender differences are more emphasized. Consequently, individuals are more success oriented and material in masculine societies. On the other hand, social welfare and care for others are more important in feminine societies.

In a later study Hofstede identifies a fifth value dimension as Long-term Orientation versus Short-term Orientation which he defined as the extent to which people favor a pragmatic future oriented perspective- fostering virtues like perseverance and thrift-over short-term thinking (as cited in Ding, Jeanjean, and Stolowy, 2007). This cultural dimension has not found as acceptance as the others, especially in accounting, and thus is not included in this study. Gray (1988) formulates an "accounting value model" based on Hofstedes cultural dimensions and proposes four accounting values; Professionalism versus Statutory Control; Uniformity versus Flexibility;

Conservatism versus Optimism; Secrecy versus Transparency. Jaggi and Low (2000) test the theory developed by Gray (1988) by linking the accounting values and the Hofstedes cultural dimensions. Among the accounting values,

Secrecy versus Transparency is related with financial disclosure, thus the following paragraphs summarize the expected relations among cultural dimensions and Secrecy versus Transparency as developed by Gray (1988) and the findings of studies that investigate the relation between cultural dimensions and financial disclosure.

i. **There is less secrecy and more competition in individualistic societies:**

Individualistic societies demand accountability and require extensive disclosure relative to collectivities societies. Accordingly a negative relation is proposed between secrecy and individualism. In other words, a positive correlation with individualism scores and financial disclosure is expected. Jaggi and Low (2000) report a significant negative relation between secrecy and individualism. Zarzeski (1996) investigates the effect of culture and financial disclosure in French, German, Hong-Kong, Japanese, Norwegian, British and US companies. Her findings show that there is a positive relation between individualism and financial disclosure. Companies that are members of individualistic countries disclose more information. Jaggi and Low (2000), Hope (2003), and Archambault (2003) use Center for International Financial Analysis and Research (CIFAR)s evaluations of corporate disclosure levels from more than 40 countries in the first half of the 1990's and their findings support the positive relation as well.

ii. **There is a negative correlation between power distance scores and**

financial disclosure: Gray (1988) proposes that power distance is positively

related with secrecy, as less information is expected to preserve power inequalities. However, Jaggi and Low (2000) and Hope (2003) report positive relation between financial disclosure and power distance. Archambault and Archambault (2003) find contradictory results and note the negative relation between disclosure and power distance. Jaggi and Low (2000) do not find significant relation between power distance and financial disclosure. Thus, research relating to this relation does not provide conclusive results.

- iii. **There is positive relation between secrecy and uncertainty avoidance:** Gray (1988) proposes that secrecy is positively related with uncertainty avoidance, as less information is expected to preserve security and avoid conflict and competition. In other words, a negative correlation between uncertainty avoidance and financial disclosure is expected. Jaggi and Low (2000) find significant positive relation between secrecy and uncertainty avoidance i.e. there is less financial disclosure in strong uncertainty avoidance countries. Furthermore, societies with low uncertainty avoidance scores would have more detailed reporting rules (as cited by Saad 2006). Zarzeski (1996), Jaggi and Low (2000) and Hope (2003) all report negative relation between uncertainty avoidance and disclosure. On the other hand Archambault and Archambault (2003) determine positive relation between uncertainty avoidance and financial disclosure. Again, there is lack of consensus in the direction of relation.

- iv. **There is negative relation between masculinity and secrecy:** Gray (1988) states that the lower a country ranks in masculinity; it is more likely that it ranks high in secrecy. More caring societies (i.e. feminine societies) will tend to be more open especially in disclosure or socially related information (Gray, 1988). Furthermore, propose that in masculine societies such as Germany, disclosures would include more economic and financial information, whereas in feminine societies, such as Sweden, social aspects would be emphasized in disclosures (as cited in Saad, 2006). According to Zarzeski (1996), masculine societies are more competitive and competition requires reduced costs, for that reason she expects a positive relation between masculinity and financial disclosure. Her findings support her expectations. On the other hand, Jaggi and Low (2000), Hope (2003) and Archambault (2003) determine a negative relation between masculinity and financial disclosure. However, do not find significant relation between secrecy and masculinity.

2.1.6 Meaning and Measurement of Audit Report Quality

Audit report quality has been a topic of significant interest in accounting research. In order to improve the understanding of Audit report quality, numerous studies have tried to detect the association between Audit report quality and other variables. However, since Audit report quality is difficult to observe, studies have operationalized it in different ways.

2.1.7 Definition of Audit Report Quality

One common definition of Audit report quality is provided by DeAngelo (1981). She defines Audit report quality as “the market-assessed joint probability that a given auditor will both (a) discover a breach in the client’s accounting system, and (b) report the breach.”

The probability that the auditor will report the detected misstatements is defined by De Angelo (1981) as auditor independence. Therefore, according to De Angelo’s (1981) definition, Audit report quality is an increasing function of an auditor’s ability to detect accounting misstatements and auditor independence as assessed by the market. De Angelo’s (1981) definition refers to “market assessed” or perceived Audit report quality. When applying this definition to actual Audit report quality, there is an underlying assumption that market perceived Audit report quality reflects actual Audit report quality. However, many studies (e.g., Krishnan, 2003; Krishnan and Schauer, 2000) adopt this definition without addressing the distinction between these two different concepts.

Palm rose (1988) defines Audit report quality in terms of level of assurance. Since the purpose of an audit is to provide assurance on financial statements, Audit report quality is the probability that financial statements contain no material misstatements. In fact, this definition uses the results of the audit, that is, reliability of audited financial statements to reflect Audit report quality. This definition leads to the following question: “How do financial statement users assess the level of assurance and reliability of audited financial statements?” This is a post hoc Audit report quality definition because the assurance level cannot be

assessed until the audit has been conducted. As a result, Palm rose's definition refers to actual Audit report quality.

Other researchers also have suggested definitions for Audit report quality. For example, Titman and Truernan (1986) define auditor quality in terms of the accuracy of information the auditor supplies to investors. Their definition is similar to the one provided by Palm rose (1988). Audit report quality definition that is based on the auditor's ability to detect and eliminate material misstatements and manipulations in reported net income. Audit report quality should be defined on an engagement-by-engagement rather than on a firm basis.

An important issue regarding the definition of Audit report quality is whether to distinguish auditor quality from Audit report quality. Many studies do not make this distinction and even use the concepts interchangeably. Under certain conditions, auditor quality and Audit report quality might be used interchangeably. For instance, according to assumptions underlying De Angelo's (1981) Audit report quality definition, when an auditor provides only one level of quality of audit service, auditor quality and Audit report quality can be used interchangeably. However, as stated earlier, this assumption may be problematic. Anecdotal evidence suggests that all of the largest audit firms have been associated with audit failures.

Therefore, auditor quality should be defined as the overall audit service quality of a certain audit firm. Meanwhile, have pointed out, Audit report quality should be defined on a service-by- service basis because an audit firm may not

conduct all its audits with the same level of quality. In other words, auditor quality is a firm-based concept and Audit report quality is a service-by-service based concept. Therefore, it is important to distinguish these two concepts based on the purposes of different studies. The current study focuses on the concept of Audit report quality rather than auditor quality.

Perceived Audit report quality and actual Audit report quality appear to be different concepts. Although it is more important to investigate actual Audit report quality issues because the goal is to better understand actual Audit report quality, it is usually difficult to measure it directly. Actual Audit report quality is unobservable and can be evaluated only after audits have been conducted. For example, Palmrose (1988) measures actual Audit report quality using auditors' litigation activities. De Angelo's (1981) analyze quality control reviews to get a measure of actual Audit report quality in the public sector. Krishnan and Schauer's (2000) measure of actual Audit report quality is based on how audited financial statements comply with eight specific GAAP reporting requirements. Krishnan and Sauer (2000) both measure actual Audit report quality in the not-for-profit sector. These two studies benefit from the availability of quality measures because of their context, but might suffer from generalization problems.

2.1.8 Measurement of Audit report quality

Despite the significant role of quality audit in enhancing quality corporate financial reporting, consensus has not been reached on how Audit report quality should be measured. It is often perceived that an unqualified audit opinion

describes the quality of audited financial statements implying that financial statements are free from material misstatements. Some observable proxies are used for financial statements credibility expected from high quality audit. These proxies include earnings response coefficient (Teoh & Wong 1993) and the magnitude of the discretionary accrual components of reported earnings (Becker, DeFond, Jiambalvo & Subramanyam 1998).

Catanach and Walker (1999) see Audit report quality as a Function of auditor's performance. They argue that Audit report quality is affected by the ability and professional conduct of auditors. Hence, auditors' failure to detect material misstatements or failure to report the misstatement would reflect poor Audit report quality. However, the quality of the audit work performed by auditors is not assessable for scrutiny by financial statements users because users are not privy to the working papers of the auditors nor can they observe what the auditors actually did. The question of what constitutes an Audit report quality remains unanswered. Therefore, some other indicators of Audit report quality have often been adapted to proxy for quality.

DeAngelo (1981) in her seminal work concludes that size of audit firm alone can be used as the proxy for quality. She suggests that the Big 8 (then.) supply better quality audit compared to the non-Big 8. Big 8 audit firms demonstrate the ability to provide quality audit in two dimensions. The first dimension is the ability to detect misstatement and the second is the reporting of the misstatement (DeAngelo 1981). According to DeAngelo (1981), auditors'

ability to detect misstatement is a function of technical competence whereas the willingness to report the misstatement is a reflection of the auditors' independence. A crucial attribute of Audit report quality is therefore the exercise of professional judgments by auditors in an independent manner because it essentially enhances the informational value of auditing to third parties.

The following is considered is means of measuring Audit report quality:

Earnings Quality Measures

Kinney and Martin (1994) show that auditors have a pervasive effect on pre-audit earnings. Specifically they review studies in which authors examine actual audit work papers to determine which earnings issues were identified by auditors and whether they were adjusted or waived. Accordingly it is common to use earnings quality measures to measure Audit report quality, although as Nelson, Elliott and Tarpley (2002) point out, reported earnings quality is the joint product of managers and auditors' behavior. That is, earnings quality may be high because managers never attempted to manipulate earnings, even though auditors were willing to acquiesce in earnings management. Similarly earnings quality could be poor because managers attempted a lot and auditors prevented much but not all.

Abnormal Accruals

Becker, DeFond, Jiambalvo and (1998) and Krishnan (1999) were among the first papers to use the Jones model abnormal accruals as a measure of Audit

report quality. Kinney and Martin's (1994) where an article was reviewed to justify the use of an earnings-based measure of Audit report quality

Francis, Maydew, and Sparks (1999) use absolute value of discretionary accruals, whereas Becker, DeFond, Jiambalvo and Subramanyarn (1998) use signed discretionary accruals. The evidence reviewed by Kinney and Martin (1994) does suggest that auditor adjustments typically result in a decrease in earnings, however, they also report that a substantial number of auditor adjustments do result in an increase in earnings. The ratio of earnings decrease to earnings increase ranges from 1.4 to 1.6 in most of the studies they reviewed thus 42 to 38 percent of the adjustments result in earnings decrease which is a substantial number.

The use of discretionary accruals is strengthened by other findings: Francis and Krislinan (1999) find that auditors modify their report (for asset realization uncertainties and going concern) more often when discretionary accruals are high. Similarly, Heninger (2001) finds that litigation is higher when accruals are high. Francis and Krislinan (1999) finds that the crosssectional Jones model performs better than its time series counterpart.

Apart from the limitation noted above, that earnings quality is the joint product of managers and auditors' decisions. there is another potential limitation of this measure.

That is the fact that discretion in accruals may be used by managers tobm communicate their information as Healy and Palepu (1995) argue. (Although

Grout, Jewitt, Pong and Whittington 1994) argue that auditors use their professional judgment to determine whether the financials presented by the clients agree with •the hard facts, as well as auditors' subjective, non-quantifiable, soft information. This fact is prominently recognized by Francis, Maydew and Sparks (1999). Under this view, auditors do not indiscriminately minimize accruals; they do so only when warranted by their soft information Grout et al. (1994) argue that imposing too strict a liability on auditors will induce them to practice defensive auditing and reporting which may be less informative).

Accrual Quality

A recent alternative that better captures the idea of professional judgment is the Dechow Dichev (2002) measure of accruals quality. They model cash flows as accruals plus error. Accruals are of high quality if the error is low. Thus high-quality accruals are not necessarily low accruals - they are accruals that are justified by subsequent cash flow realizations.

If one could observe the error directly, as is possible in certain settings such as the property and casualty insurance industry (Petroni, 1992), it would be easy to measure accruals quality. In general, however, one cannot. Therefore Dechow and Dichev measure the error as the residual from a regression of working capital accruals on current, past, and future cash from operations. Their measure of accruals quality is the time-series standard deviation of residuals from this regression. This measure distinguishes innate accruals quality (the component driven by economic fundamentals such as operating cycle), from discretionary

accruals quality (the residual). Srinidhi and Gul (2009) use discretionary accruals quality as their measure of Audit report quality, investigating its relation with audit and non-audit fees. Since the measure is relatively new, it would help to know how well it correlates with the known determinants of Audit report quality. An issue with the measure is that one needs a time-series average to measure audit report quality.

Restatements

DeFond and Jiambalvo (1991), use restatements of previously reported results for GAAP violations as their Audit report quality measure. Restatements are highly indicative of audit failure. The number of restatements has increased since the mid 1990s, giving much larger sample sizes for studies using this measure.

Despite these reasons to believe that restatements are a superior measure, there are issues.

First, some have argued that the recent restatements are occasioned not by client or auditor failure, but ex-post changes in interpretation of GAAP by SEC.

Second, granting that it reflects an audit failure, and despite the increase in their frequency, restatements remain an extreme case of audit failure. They are unlikely to reflect the consequences of day-to-day audit adjustment issues that are commonly placed for a broad cross-section of firms.

Nevertheless, the measure may capture certain dimensions of audit report quality and deserves to be used in appropriate contexts.

Earnings Response Coefficients

Teoh and Wong (1993) used ERC as a measure of Audit report quality. They argue that more skillful auditors will bring about better concordance between the reported numbers and GAAP, and thereby increase the credibility of the reported numbers: They develop a model in which ERC increase as a function of credibility of the numbers. Ghosh and Moon (2005) also use ERCs as a measure of perceived Audit report quality, i.e., independence in appearance. Some research design choices differ: they calculate annual ERCs as the sum of coefficients on earnings level and changes in a regression with market-adjusted returns as the dependent variable.

Both Teoh and Wong (1993) and Ghosh and Moon (2005) use ERC as a measure of perceived Audit report quality, and Ghosh and Moon in particular use it in a context where they explicitly wish to differentiate independence in appearance from independence in fact. It could be a measure of auditor independence in fact if one assumes that stock market perceptions are right on average.

Meet or Beat Benchmarks

While accruals may result from non-discretionary activities (Bernard and Skinner 1996), the striking evidence about frequencies of earnings just below and at the benchmark (last year's earnings, zero earnings, and analysts' forecasts) presented in Burgstahler and Dichev (1997), provides an approach to detecting

earnings management that does not rely on the researcher having to correctly separate discretionary from non- discretionary earnings.

However, it is not clear whether auditors can curb earnings management of this sort because the amount of manipulation required to meet benchmarks is likely small, and therefore immaterial. To my knowledge there has been no research that looks at actual audit working papers to study whether auditors actually prevent this form of earnings management affect. Behavioral experimental evidence Libby and Kinney (2000) indicate that auditors would not insist on managers correcting small misstatements, especially if they would lead to missed benchmarks. The auditor subjects in Libby and Kinney (2000) indicate that if they insisted on correction, managers would simply find offsetting amounts elsewhere in the financial statements. Subsequently SEC issued SAR 99 in which it specifically warned that an amount may be material regardless of its actual amount, if it could make the difference between meeting or missing the benchmark. A later study Ng and Tan (2003) does indicate that auditors would make corrections. The setting in Ng and Tan (2003) however involved a revenue recognition issue where the auditor was proposing a method different from the one the client proposed. It is not clear that the results would hold for subjective estimates such as for bad debts.

Non Earnings Measures

Going Concern Qualification

One of the most common non-earnings-based a measure is the propensity to issue going concern qualifications. As Define, this is a direct measure, i.e., unlike earnings quality which is a joint product of managers' and auditors' actions. However, it is too unlikely to reflect Audit report quality for a broad cross- section of firms.

Internal Control Studies

Sarbanes-Oxley Act, Section 404 required auditors to report on the quality of internal controls. Several studies have looked at it.

Other Approaches

Audit fees have been used to infer Audit report quality (Craswell, Francis, and Taylor 1995) but it is not clear that better auditors would charge more. The early literature began by using measures of IPO underpricing-Beatty (1989). Also, Palmrose (1988) shows that Non-Big-8 have higher litigation despite Big 8 being more attractive for lawsuits. Libby and Kinney (2000) look for stock price reaction to change from Non-Big-8 to Big 8 auditor and find nothing. But Teoh (1992) shows that reaction to change depends on pre-change auditor opinion.

2.1.9 IFRS and Financial Reporting Quality

Empirical studies have investigated the effects of adopting IAS/IFRS in Europe on investors' perception of accounting quality prior to Regulation 1606/2002, providing evidence in favour of their adoption. By means of disclosure quality scores provided by reputed experts, report, for instance, an increase in accounting quality for a sample of Austrian, German, and Swiss firms switching to

IAS/IFRS in the period prior to their mandatory adoption in Europe. Similar results are provided by value-relevance studies such as the ones, which document an increase in the value-relevance of earnings for German firms adopting IAS/IFRS. Barth et al. (2008) also compare domestic GAAP and IAS/IFRS across 21 countries, suggesting that firms applying IAS/IFRS exhibit less earnings management, more timely loss recognition, and more value-relevant accounting measures. However, all these studies refer to voluntary adoption of IAS/IFRS, which might be the result of corporate incentives to increase transparency. Ashbaugh (2001), for instance, documents that the decision to report under IAS/IFRS is positively related to corporate size, the number of foreign equity markets on which the firm's shares are traded and the additional issuance of equity shares. Similar findings are reported by Cuijpers and Buijink (2005) and Gassen and Selhorn (2006). For a sample of European non-financial firms that voluntarily adopted IAS/IFRS, Cuijpers and Buijink (2005) document that foreign listing and geographical dispersion of operations are important drivers. Gassen and Selhorn (2006) also show that size, international exposure, dispersion of ownership, and IPOs are important determinants of voluntary IAS/IFRS adoption by publicly traded German firms. Findings therefore suggest that companies voluntarily shifting to IAS/IFRS have incentives to improve transparency and the quality of financial reporting. Along the same lines, argued that foreign mutual fund ownership is significantly higher among IAS/IFRS adopters, which suggests a

voluntary switch to IAS/IFRS aimed at attracting foreign investors by providing them with both more information and information that is more familiar to them.

2.2 Theoretical Review

2.2.1 The Agency Theory

The agency theory is credited to Stephen Ross and Barry Mitnick who published their works in 1973 (Mitnick, 2006). As Mitnick (2006) put it “The first scholars to propose, explicitly, that a theory of agency be created, and to actually begin its creation, were Stephen Ross and Barry Mitnick, independently and roughly concurrently”. Ross is said to have originated the economic theory of agency while Mitnick is the first to propound the institutional aspect of agency theory. However, the basic concepts in the two approaches are considered similar. Some authorities such as Jensen and Meckling (1976) have also been credited with doing pioneering work on some aspects of the agency theory particularly in the area of conflict of interests in relation to the modern firm.

The Agency Theory focuses on the nature of the principal-agent relationship, the rights and duties of the parties involved, the agency problems and its mitigants using regulations, various corporate governance practices and observations aimed at controlling decisions and actions of the agents in the modern firm. The thrust of the agency theory is the problem of conflicting interests among the parties in the relationship/contract. With respect to the modern firm, the directors and managers are the agents of the shareholders- their principal. The divergence of interests between the principal (shareholders) and the agents

(directors and managers of the firms) is known as the agency problem which makes it necessary for the shareholders to adopt ways of monitoring the managers and motivating them towards maximizing interests of the shareholders. Many approaches open to the firms/owners towards monitoring the interests of directors/managers include among others, adoption and observation of national corporate governance codes, adoption and implementation of national and international accounting standards such as the International Financial Reporting Standards (IFRS) as made mandatory by legislation. These actions attract agency costs to the firm.

The agency problem tends to conflict with objective decisions that are in the best interest of the shareholders and other stakeholders because of likely personal interests of the agents. The agency problems are integral part of the agency theory which in turn intertwined with the firm theory. The Agency Theory is relevant to this study since the banks are typical modern firms with the owners/shareholders being clearly separated from the directors/managers who handle the daily running of the banks. With the management being handled by managers separate from the shareholders, principal-agent relationship is established with attendant agency problems. Mandatory adoption and implementation of International Financial Reporting Standards (IFRS) is obviously one of the ways the shareholders could mitigate divergent activities of the managers in areas of earnings management via loan loss provisioning. IFRS Standards promote transparency by improving the international comparability and

quality of financial statements (IFRS Foundation, 2020). Equally, the IFRS adoption could be employed by managers (agents) to exploit the allowable discretions to drive their interest through management of earnings in order for them to earn higher performance bonuses to the detriment of the shareholders.

2.2.2 Stakeholder Theory

Stakeholder theory was postulated by Freeman in 1984. The principle of stakeholder theory was gradually dragged into management theory since the 80s. Freeman, (1984), argued that corporate bodies have a wide coverage of accountability than the parochial representation of agency theory. Wheeler Colbert and Freeman (2003), support this argument by saying that stakeholder's theory is a product of sociology and organizational disciplines that identify a good array of other stakeholders in an organization. Stakeholder theory postulated that a stakeholder is 'any group or individual who can affect or is affected by the achievement of the organization's objectives. In other words, whoever is affected by failure or success of the enterprise is a stakeholder. Unlike the agency theory, stakeholder theory demonstrated that there are chains of parties who are affected by the management decisions such as suppliers, employees and business partners. Also, Clarkson (1995) argued that a firm is a system where there are stakeholders and the purpose of the organization is to create wealth for its stakeholders. In harmony with the Clarkson's submission of 1995, affirmed that this theory focuses on managerial decision making and the interest of all stakeholders have intrinsic value, and no sets of interests is assumed to dominate others. Therefore, this study

relied on stakeholder theory because all companies preparing financial statement in Nigeria are stakeholders aiming at maximization of corporate wealth through the adoption of IFRS in Nigeria towards successful quality of financial statement. As a result, adoption of stakeholder theory aligned with the objective and scope of this study.

2.2.3 The Firm Theory

The firm theory on the other hand, could be considered to involve a number of economic theories which explain and predict the nature of the firm, its existence, behavior, structure, and relationship with all stakeholders and the market. The traditional firm is a single business entity whose entire operations are carried out by an entrepreneur with profit maximization as the main objective. It measures profit as the difference between a firm's total revenue and total cost and maintains that for the objective of profit maximization to be realized, the firm is expected to maximize its revenues and minimize or stabilize its costs. The traditional firm is in contrast to the modern firms which are characterized by varied goals, separation of ownership from management, complex structures and stakeholders and naturally corporate politics. Modern firms are run by managers/directors while shareholders are the owners with separate roles and motives from those of the managers.

One of the key originators of the neo-classical firm theory is Ronald Coase who propounded the Transaction Cost Theory of the Firm. According to Ronald Coase, people are motivated to organize their production in firms when the

transaction cost of coordinating production through the market exchange, given imperfect information, is greater than within the firm. Transaction cost is the cost of providing for some good or service through the market mechanism rather than having it provided from within the firm. The need for a rethink of the neo-classical/ traditional firm theory was supported by the empirical studies of Adolf Berle and Gardiner Means, who observed that separation of ownership from control was a new feature of large American corporations then.

In the 1960s the profit maximization view of the neo-classical/traditional theory of the firm faced stiff challenge from alternatives theories of the firm notably, the managerial and behavioral theories. The managerial theorists consider that managers would seek to maximize their own interests- salary, prestige, status, power, job security, sales growth at the expense of the owners of the firm who are separate from the managers. Such actions of the managers would have implications for firm behavior in contrast to profit-maximizing goal. Some notable managerial theories of the firm include the theories developed by Marris (1964) and Williamson (1964).

The behavioral theories of the firm just as their managerial counterparts, faulted the neoclassical theory of the firm assumption of profit maximization as the main motive for the existence of the firm. The thrust of the behavioral theories is the explanation of how wide range of decisions are taken within the firm and the outcomes of such decisions in terms of contributions to value added among others. The decisions are influenced by varied and conflicting interests which derive from

ownership rights, responsibilities, control over resources and power among others. The rationality of the decisions is limited as the usual complexities and uncertainties under which firms operate constitute a barrier to the cognitive ability of the decision makers. Therefore, the rationality of the decisions can be described as bounded (Augier & Prietula, 2007). Key pioneers of the behavioral theories include.

Both managerial and behavioral theories of the firm recognize the separation of ownership from control, complexities, varied interests and motives and conflict of interests and the principal-agency issues associated with the modern firm. The relevancy of the Firm Theory to this study derives from the fact that managers could in pursuit of their interests exploit some discretionary aspects in the International Financial Reporting Standards (IFRS) as it is adopted, to report low quality but high earnings which do not serve the interests of the shareholders in the long run. According to Yahaya, Kutigi, and Mohammed (2015) empirical studies have documented that the extent of discretionary behavior by managers which give rise to earnings management depends on accounting regime (such as IFRS), the economic cycle, among others.

Equally, the mandatory adoption of the IFRS could limit the divergent activities of the managers and compel them to disclose more vital information about performance of the firm for the benefits of the owners. As noted by IFRS Foundation (2020) IFRS Standards strengthen accountability by reducing the

information gap between shareholders and the managers/agents and providing information required to hold management to account.

2.3 Empirical Review

Nyor (2012) expresses fears that the credibility crises suffered by financial statements of Nigerian firms may deepen in view of the flexibility that IFRS allows. They conclude that Nigerian companies should converge to IFRS in view of the fact that it will enhance better accountability and transparency and improve quality of reporting, despite its cumbersomeness and the initial anticipated problems.

Ezeani and Oladele (2012) examined the extent to which adoption of international financial reporting standards (IFRS) can enhance financial reporting system in Nigerian Universities. The findings indicated that there are a lot of accounting areas the accountants and auditors should focus in discharging their duties. And as well a lot of implications are also involved. Mostly accountants, auditors, bursars, financial analyst, etc, are the personnel involve in the IFRS financial instruments.

Demaki (2013) concludes that the goal of financial reporting is to make information available for decision making. Historically, there is diversity in financial reporting in different countries due to culture, legal systems, tax systems and business structures. International financial reporting standards (IFRS) harmonizes this diversity by making information more comparable and easier for analysis, promoting efficient allocation of resources and reduction in capital cost.

Rational utility maximization is the theoretical foundation on which this paper is rooted. The IFRS components are disclosed, the benefits and challenges together with the roadmap of its adoption in Nigeria are highlighted for the economic development of Nigeria.

Ikpefan and Akande (2012) State the benefits of adopting IFRS, obstacles and intrigues expected from the implementation of IFRS. They also analyzed the requirements that would assist in the implementation of IFRS in Nigeria. Using content analysis method, they recommend that a continuous research in order to harmonize and converge with the international standards through mutual international understanding of corporate objectives and the building of human capacity that will support the preparation of financial statements in organization.

Abdulkadir (2012) considers the adoption process of International Financial Reporting Standards (IFRS) on a developing economy, with particular reference to Nigeria. The study is based on the data obtained from literature survey and archival sources in the context of the globalization of International Financial Reporting and the adoption of International Financial Reporting Standards (IFRS). Nigeria has embraced IFRS in order to participate in the benefits it offers, including attracting foreign direct investment, reduction of the cost of doing business, and cross border listing. In implementing IFRS Nigeria will face challenges including the development of a legal and regulatory framework, awareness campaign, and training of personnel.

Leuz .C. (2003) investigate the converge impacts on reporting quality over 1999 to 2009, which divided into three timeframes: the U.S. GAAP-based era ranging from 1999-2005, the IFRS convergence era ranging from 2006-2007, and the preparation period of IFRS adoption ranging from 2008-2009. Two criteria of reporting quality is included: value relevance and the magnitude of earnings management. The empirical results show that the financial reporting quality got improvement under the amendment towards IFRS adoption.

Ojo (2012) conclude that improved transparency and comparability of accounting and financial information, as well as other benefits of high quality standards which should be derived from the adoption of IFRS: benefits such as improved attributes of information such as relevance, reliability, understandability), will certainly ensure that users of financial information benefit from better decision making as well as restoring the confidence of investors in the aftermath of economic, capital market and financial crises, which have damaged the credibility of audits, and financial reporting.

Isenmila and Adeyemo (2013) examine the perceived impact of Nigerian institutional infrastructure (i.e. Educational Institution, Professional Accounting Bodies, Legal Framework, SEC and NASI3 or FRCN) on the mandatory adoption of IFRS, which took effect from January 2012, The study adopts the questionnaire survey method to seek respondents' views on the subject matter. One of the major perceived differences between IFRS and Nigerian SAS is that the former allegedly provides more discretion (i.e., less specific standards and less implementation

guidance). Although more reporting discretion is not necessarily a challenge, firms' reporting incentives, which are shaped by Nigerian institutional framework, play a foremost role in how organizations would apply the discernment under IFRS. They therefore employed Multiple Regression techniques as well as One Way Repeated Measure Analysis of Variance, in testing the two hypotheses in the study. The result shows that four of the five institutions are ready and strong enough to support the mandatory adoption of JFRS.

Saad .C (2006) investigates the value relevance of accounting information in pre- and post-financial periods of International Financial Reporting Standards' (IFRS) application for Turkish listed firms from 1998 to 2011. The results show that value relevance of accounting information has improved in the post-IFRS period (2005-2011) considering book values while improvements have not been observed in value relevance of earnings.

CHAPTER THREE

METHODOLOGY

3.1 Research Design

For the purpose of this study, field survey research design method was adopted because of large population and in order to give every member of the population chance to respond. Field surveys are non-experimental designs that do not control or manipulate independent variables or treatments, but measure these variables and test their effects using statistical methods.

3.2 Population of the Study

Population of this study includes auditors in private practice in Lagos State, Chartered Accountants and graduates of Accounting. The justification for this study is that the auditors, chartered accountants are the examiners and preparers of financial statement while the graduates of accounting are also expected to have prerequisite theoretical accounting knowledge.

3.3 Sample size

The sample size used for this research was 60 which were divided into three strata, (20) Audit firms (20) Chartered Accountants and (20) Graduates of Accounting.

3.4 Sampling Technique

For the purpose of this research work, stratified sampling technique is used. In using this technique, the researcher divided the population into three strata- (1) Audit firms (2) Chartered Accountants and (3) Graduates of Accounting. The inferential statistical tools of regression were used analysis to measure the extent of the relationship between variables and to draw inferences with the aid of Statistical Package for Social Science (SPSS) Version 21.0.

3.5 Source of Data Collection

For the purpose of this study, primary data were collected. The study utilized structured questionnaire to generate the primary data for the study. The questionnaire consisted of 5-point Likert scale statement that explained key variables of the study

3.6 Method of data presentation

Data were analyzed using inferential statistical tools of regression analysis to measure the extent of the relationship between variables and to draw inferences with the aid of Statistical Package for Social Science (SPSS) Version 21.0.

3.7 Model Specification

$$\text{AIFRS} = f(\text{ARQ}, \text{CFS}, \text{CAR}) \dots \dots \dots (1)$$

$$\text{EY} = \beta_0 + \beta_1 \text{LogARQ} + \beta_2 \text{LogCFS} + \beta_3 \text{LogCAR} + \mu_t \dots \dots \dots (2)$$

$$\text{EPS} = \beta_0 + \beta_1 \text{LogARQ} + \beta_2 \text{LogCFS} + \beta_3 \text{LogCAR} + \mu_t \dots \dots \dots (3)$$

Apriori Expectation

Where,

AIFRS = Adoption of International financial reporting standards

ARQ = Audit Report Quality
 CFS = Credibility of financial statement.
 CAR = Credibility of audit report
 EY = Measures the potential yield on investment.
 EPS = Measures the percentage of earnings of a corporation assigned to each unit of outstanding shares.

IFRS adoption = $\beta_1, \beta_2, \beta_3 > 0$

3.8 Measurement of Variables

Table 1: Measurement of Variables and Abbreviation

Variables	How to measure	Abbreviation	Types
Adoption of International financial reporting standards	Tax Assessment	AIFRS	Dependent
Audit Report Quality	Accounting Information	ARQ	Independent
Credibility of audit report	Accounting Information	CAR	Independent
Credibility of financial statement	Accounting Information	CFS	Independent

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND HYPOTHESIS TESTING

4.1 Presentation of Data

The data collected will be presented in simple table. The data analysis was based on the answers to the key questions received from the various departments. The key questions in the questionnaires will be analyzed by the use of simple percentage. A total of 60 questionnaires were distributed and all were returned. So the analysis of data will be based on the returned questionnaires.

4.2 Data Analysis

Section A: personal data

Table 4.1: Sex Distributions of the Respondents.

Sex	Number	Percentage
Male	28	47
Female	32	53
Total	60	100

Source: Field Survey, 2022

Table 4.1 above shows that 28% of the respondents were males and 32% were females.

Table 4.2: Educational Qualification Distribution of the Respondents

Qualification	Number	Percentage
SSCE/WASC	0	0
OND/Diploma	4	7
HND/1 ST Degree	32	53
2 nd Degree	20	33
Ph.D	4	7
Total	60	100

Source: Field Survey, 2022

From the table above, 7% holds OND/Diploma, 53% are HND/1st degree holders, 33% possess 2nd degree while only 7% holds Ph.D.

Table 4.3: Working Experience

Qualification	Number	Percentage
0 - 5 years	4	7
6 – 10 years	26	43
11 – 15 years	18	30
16 – 20 years	10	17
21 years and above	2	3
Total	60	100

Source: Field Survey, 2022

Table 4.4: Marital Status

Qualification	Number	Percentage
Single	25	42
Married	11	18
Divorced	10	17
Widow/Widower	14	23
Total	60	100

Source: Field Survey, 2022

Table 4.5: Position in the Organization

Qualification	Number	Percentage
Management staff	18	30
Non-Management staff	42	70
Total	60	100

Source: Field Survey, 2022

Section B

Question 6: The complexity and structure of IFRS will have positive impact on audit report quality.

	No. of Response	Percentage (%)
Strongly agree	22	37
Agree	14	23
Undecided	4	7
Disagree	12	20
Strongly disagree	8	13
Total	60	100

Source: Field Survey, 2022

From the responses, 37% of the respondents strongly agreed. 23% Agreed, 7% were undecided, 20% disagree, while 13% strongly disagree that the complexity and structure of IFRS will have positive impact on audit report quality.

Table 4.7:

Question 7: There is a positive relationship between adoption of IFRS and audit reports quality in Nigeria.

	No. of Response	Percentage (%)
Strongly agree	26	43
Agree	18	30
Undecided	10	17
Disagree	4	7
Strongly disagree	2	3
Total	60	100

Source: Field Survey, 2022

The above table shows that, 43% of the respondents strongly agreed, 30% Agreed, 17% were undecided, 7% disagree, while 3% strongly disagree that there is a positive relationship between adoption of IFRS and audit reports quality in Nigeria.

Table 4.8:

Question 8: There is a significant relationship between adoption of IFRS and credibility of audit report.

	No. of Response	Percentage (%)
Strongly agree	24	40
Agree	16	27
Undecided	12	20
Disagree	5	8
Strongly disagree	3	5
Total	60	100

Source: Field Survey, 2022

The table depict that, 40% of the respondents strongly agreed, 27% Agreed, 20% were undecided, 8% disagree, while. strongly disagree that there is a significant relationship between adoption of IFRS and credibility of audit report.

Table 4.9:

Question 9: The implementation of IFRSs would reduce information asymmetry and enhance communication between managers and other stakeholder.

	No. of Response	Percentage (%)
Strongly agree	22	37

Agree	14	23
Undecided	12	20
Disagree	8	13
Strongly disagree	4	7
Total	60	100

Source: Field Survey, 2022

Table 4.9 shows that, 37% of the respondents strongly agreed. 23% Agreed, 20% were undecided, 13% disagree, while 7% strongly disagree that the implementation of IFRSs would reduce information asymmetry and enhance communication between managers and other stakeholder.

Table 4.10:

Question 10: The adoption of IFRS is likely to exhibit t favourable impact n audit report quality.

	No. of Response	Percentage (%)
Strongly agree	24	40
Agree	16	27
Undecided	12	20
Disagree	5	8
Strongly disagree	3	5
Total	60	100

Source: Field Survey, 2022

The responses shows that, 40% of the respondents strongly agreed, 27% Agreed, 20% were undecided, 8% disagree, while 5% strongly disagree that the adoption of IFRSs is likely to exhibit a favourable impact :n audit report quality.

Table 4.11:

Question 11: IFRS are shareholder-oriented and encourage the fair value approach to audit report presentation.

	No. of Response	Percentage (%)
Strongly agree	22	37
Agree	14	23
Undecided	12	20
Disagree	8	13
Strongly disagree	4	7
Total	60	100

Source: Field Survey, 2022

The above table shows that, 37% of the respondents strongly agreed, 23% Agreed, 20% were undecided, 13% disagree, while 7% strongly disagree that IFRS are shareholder-oriented and encourage the fair value approach to audit report presentation.

Table 4.12:

Question 12: Audit report under IFRS is likely to exhibit higher value relevance.

	No. of Response	Percentage (%)
Strongly agree	26	43

Agree	18	20
Undecided	10	17
Disagree	4	7
Strongly disagree	2	3
Total	60	100

Source: Field Survey, 2022

From the responses, 43% of the respondents strongly agreed, 20% Agreed, 17% were undecided, 7% disagree, while 3% strongly disagree that audit report reported under IFRSs are likely to exhibit higher value relevance.

Table 4.13:

Question 13: IFRS tends to enhance transparency, disclosure and comparability of audit reports.

	No. of Response	Percentage (%)
Strongly agree	25	42
Agree	18	30
Undecided	10	17
Disagree	5	8
Strongly disagree	2	3
Total	60	100

Source: Field Survey, 2022

From the responses, 42% of the respondents strongly agreed, 30% Agreed, 17% were undecided, 8% disagree, while 3% strongly disagree that, IFRS tends to enhance transparency, disclosure and comparability of audit report.

Table 4.14:

Question 14: IFRS will give its standards an authority and credibility that cannot be equaled by any other set of local standards.

	No. of Response	Percentage (%)
Strongly agree	22	37
Agree	14	23
Undecided	4	7
Disagree	12	20
Strongly disagree	8	13
Total	60	100

Source: Field Survey, 2022

From the responses, 37% of the respondents strongly agreed, 23% Agreed, 7% were undecided, 20% disagree, while 7% strongly disagree that IFRS will give its standards an authority and credibility that cannot be equaled by any other set of local standards.

Table 4.15

Question 15: The adoption of IFRS in Nigeria will create opportunities for a broader financial transformation for companies in Nigeria.

	No. of Response	Percentage (%)
Strongly agree	22	37
Agree	14	23
Undecided	12	20
Disagree	8	13
Strongly disagree	4	7
Total	60	100

Source: Field Survey, 2022

From the responses, 37% of the respondents strongly agreed, 23% Agreed, 20% were undecided, 13% disagree, while 18% strongly disagree that the adoption

of IFRS in Nigeria will create opportunities for a broader financial transformation for companies in Nigeria.

Table 4.16:

Question 16: IFRS will assist investors in making informed financial decisions and predictions of firm’s future financial performance.

	No. of Response	Percentage (%)
Strongly agree	26	44
Agree	18	30
Undecided	12	20
Disagree	2	3
Strongly disagree	2	3
Total	60	100

Source: Field Survey, 2022

From the responses, 44% of the respondents strongly agreed, 30% Agreed, 20% were undecided, 3% disagree, while 3% strongly disagree that IFRS will assist investors in making informed financial decisions and predictions of firm’s future financial performance financial decisions and predictions.

Table 4.17

Question 17: There is a significant relationship between adoption of IFRS and credibility of financial statement.

	No. of Response	Percentage (%)
--	------------------------	-----------------------

Strongly agree	28	47
Agree	14	23
Undecided	10	17
Disagree	6	10
Strongly disagree	2	3
Total	60	100

Source: Field Survey, 2022

From the responses, 47% of the respondents strongly agreed, 23% Agreed, 17% were undecided, 10% disagree, while 3% strongly disagree that there is a significant relationship between adoption of IFRS and credibility of financial statement.

Table 4.18:

Question 18: IFRS is likely to reduce the scope for audit report quality.

	No. of Response	Percentage (%)
Strongly agree	26	43
Agree	18	30
Undecided	10	17
Disagree	4	7
Strongly disagree	2	3
Total	60	100

Source: Field Survey, 2022

From the responses, 43% of the respondents strongly agreed, 30% Agreed, 17% were undecided, 7% disagree, while 3% strongly disagree that IFRS is likely to reduce the scope for audit report quality.

Table 4.19

Question 19: Professional bodies are adequately training their members on the technicalities of IFRS impact on audit report quality.

	No. of Response	Percentage (%)
Strongly agree	24	43
Agree	16	27
Undecided	12	20
Disagree	6	10
Strongly disagree	2	3
Total	60	100

Source: Field Survey, 2022

From the responses, 43% of the respondents strongly agreed, 27% Agreed, 20% were undecided, 10% disagree, while 3% strongly disagree that professional bodies are adequately training their members on the technicalities of IFRS impact on audit report quality.

Table 4.20:

Question 20: Harmonization of the accounting standard can reduce the level of earning management and improve audit report quality.

	No. of Response	Percentage (%)
Strongly agree	22	37
Agree	14	23
Undecided	4	7
Disagree	12	20
Strongly disagree	8	13
Total	60	100

Source: Field Survey, 2022

From the responses, 37% of the respondents strongly agreed, 23% Agreed, 7% were undecided, 20% disagree, while 13% strongly disagree that harmonization of the accounting standard can reduce the level of earnings management and improve audit report quality.

4.3 Test of Hypothesis

Hypothesis I

H₀: There is no positive relationship between adoption of IFRS and audit reports quality in Nigeria.

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.421 ^a	.177	.160	.48145

a. Predictors: (Constant), Financial statement prepared on timely basis

ANOVA^a

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	2.394	1	2.394	10.327	.002 ^b
	Residual	11.126	48	.232		
	Total	13.520	49			

- a. Dependent Variable: Quality of Financial statement can still be enhanced
b. Predictors: (Constant), Financial statement prepared on timely basis

Coefficients^a

Model		Unstandardized Coefficients		Standardized	t	Sig.
				Coefficients		
		B	Std. Error	Beta		
1	(Constant)	5.283	.295		17.904	.000
	FS on timely basis	-.249	.078	-.421	-3.214	.002

- a. Dependent Variable: Quality of financial statement can still be enhanced

Decision: The critical p-value used in these tests is 0.05. Thus the researcher accepts a given alternative hypothesis as being accepted if calculated p-value is less than or equal to 0.05, otherwise the researcher accepts the null hypothesis.

From the above result, we therefore reject the null hypothesis and accept the alternative hypothesis ($t = -3.214$, $\text{sig.} < 0.05$). Hence, there is significant relationship between IFRS adoption and audit reports quality of Financial Statement.

Hypothesis II

Ho: There is no significant relationship between adoption of IFRS and credibility of audit report.

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.260 ^a	.067	.048	.51252

a. Predictors: (Constant), necessary accounting information are gathered

ANOVA^a

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	.911	1	.911	3.470	.069 ^b
	Residual	12.609	48	.263		
	Total	13.520	49			

a. Dependent Variable: Quality of financial statement can still be enhanced

b. Predictors: (Constant), necessary acct information gathered

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	5.145	.428		12.028	.000
	necessary acct information	-.203	.109	-.260	-1.863	.069
	Gathered					

a. Dependent Variable: Quality of Financial Statement can still be enhanced

Decision: From the above result, we therefore reject the null hypothesis and accept the alternative hypothesis ($t = -1.863$, $\text{sig.} > 0.05$). Hence, there is no

significant relationship between IFRS adoption and credibility of audit report of Financial Statement.

Hypothesis III

Ho: There is no significant relationship between adoption of IFRS and credibility of financial statement.

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.300 ^a	.090	.071	.50631

a. Predictors: (Constant), tax ass confidence enhanced

ANOVA^a

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	1.215	1	1.215	4.740	.034 ^b
	Residual	12.305	48	.256		
	Total	13.520	49			

a. Dependent Variable: Quality of FS can still be enhanced

b. Predictors: (Constant), tax ass confidence enhanced

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	3.326	.480		6.922	.000
	tax ass confidence Enhanced	.251	.115	.300	2.177	.034

a. Dependent Variable: Quality of Financial Statement can still be enhanced

Decision: From the above result, we therefore reject the null hypothesis and accept the alternative hypothesis ($t=2.177 < 0.05$). Hence, there is significant relationship between IFRS adoption and the credibility of Financial Statement

4.4 Discussion of Findings

The following were found from the result of data analysis.

1. There is significant relationship between IFRS adoption and audit reports quality of financial statement. The significant relationship can be attributed to the requirements of IFRS which mandates early preparation of financial statement. This finding is consistent with the findings of Barth (2007) on accounting quality before and after the introduction of IFRS for a sample of 327 firms that voluntarily adopted IFRS between 1994 and 2003. The findings revealed that there was lower earnings management, higher value relevance and more timely recognition of losses after the introduction of IFRS, compared to the pre-transition local Generally Accepted Accounting Principles (GAAPs). The timely recognition of loss indicates that timely preparation of financial statement will also be enhanced.
2. There is no significant relationship between IFRS adoption and credibility of audit report of financial statement. This implies that accounting or financial statement credibility of audit report is not driven by IFRS adoption. This may mean that the old SASs (statement of Accounting Standards and its harmonization with international standards may be covering more relevance on financial statement than the IFRS. It can also be interpreted that regulatory bodies may be the major cause of financial statement relevance and not IFRS. However, this finding contradicts the finding of empirical study by Adebimpe, Umoren and Ekewere (2015) on IFRS adoption and value relevance of financial statement of Nigerian listed banks which implies that the value

- relevance of IFRS is significantly high compared to the Nigerian.
3. There is significant relationship between IFRS adoption and credibility of financial statement. This finding implies that as IFRS is adopted in the preparation of financial statement, it boosts users 'confidence in the financial statement and makes them to rely on them. This finding gained an empirical support from a study by Stacy (2011), which examined IFRS Challenges in Implementation and European Experiences in Overcoming Them; he found that IFRS adoption will add to financial reporting complexities and increase compliance with accounting standards in European countries. In terms of greater transparency, Stacy (2011) declared that implementation of IFRS would guarantee some level of confidence in the areas of common accounting system, better relationship with investors and stakeholders.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1 Summary of Findings

After testing the hypothesis and discussing the findings, the study concludes that IFRS adoption in Nigeria has improved the financial statement quality in Nigeria.

Based on the statistical test used in the testing of the hypotheses, it was observed that;

- i. There is a positive relationship between adoption of IFRS and audit reports quality in Nigeria.
- ii. There is a significant relationship between adoption of IFRS and credibility of audit report.
- iii. There is a significant relationship between adoption of IFRS and credibility of financial statement.

5.2 Conclusion

This research work has shown that IFRS adoption will have a positive effect on audit report quality. Adequate awareness have been created on IFRS among auditors, the study has been able to examine the benefits of IFRS adoption on the audit report quality.

International financial reporting standards (IFRS) is a set of international accounting standards relating how particular types of transactions and events should be reported in financial statements. It is now clear that IFRS adoption will make international comparison as easy as possible. Though there were some limiting factors, the research work still turned out successful.

5.3 Recommendation

Based on the finding of the study, the following are recommended

- i. Companies should adopt full set of IFRS in the preparation of their financial statement as it makes the financial statement to be readily available on time. Since

timeliness is one of the key information qualities.

- ii. The financial reporting council should be geared towards ensuring that there is proper monitoring and supervision of Companies to adopt full set of IFRS in preparation of financial statement
- iii. There should be adequate training for preparers of financial statement on IFRS application.
- iv. Stiff penalty should be imposed on non- compliance with IFRSs as stipulated by the International Accounting Standard Boards.

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APPENDIX I

Department of Accountancy,
School of Business Studies,
Auchi Polytechnic,
P.M.B 13,
Auchi,
Edo State.

Dear Sir/Madam,

REQUEST FOR YOUR CO-OPERATION IN COMPLETING THIS QUESTIONNAIRE

I am a final year student in Auchi Polytechnic, Auchi, as part of the requirements of my and programme. I am undertaking a study on Adoption of international financial reporting standard (IFRS) and Audit Report Quality in Nigeria.

Therefore, your organization is used as a case study in order to obtain all necessary information for the project. It will be highly appreciated if the questionnaire could be answered at your earliest convenience, therefore, be assumed that information given in this questionnaire will be treated in strict confidence and used for the stated academic purpose only.

Thanks for your corporation,

Yours faithfully,

Osunde Edgal .N

QUESTIONNAIRE

SECTION A

Instruction: please tick appropriately in the box/column as [].

Section A: personal data

1. Sex: (a) Male [] (b) Female []
2. Education qualification: (a) SSCE/WEAC [] (b) OND/NCE [] (c) HND/BSC [] (d) Ph.D. []
3. Work Experience? (a) 0-5 years [] (b) 6-10 years [] (c) 11-15years [] (d) 16-20 years [] (e) 21 years above []
4. Martial Status? (a) Single [] (b) Married [] (c) Divorced [] (d) Widowed []
5. Position in the organization? (a) Management Staff [] (b) Non-Management Staff []

Section B

Key:

- | | | |
|----|---|--------------------|
| AS | = | Agreed strongly |
| A | = | Agreed |
| U | = | Undecided |
| DS | = | Disagreed slightly |

SD = Strongly disagreed

S/N	ITEMS	AS	A	U	DS	SD
6.	The complexity and structure of IFRS will have positive impact on audit report quality.					
7.	There is a positive relationship between adoption of IFRS and audit reports quality in Nigeria.					
8.	There is a significant relationship between adoption of IFRS and credibility of audit report.					
9.	The implementation of IFRS would reduce information asymmetry and enhance communication between managers and other stakeholder.					
10.	The adoption of IFRS is likely to exhibit a favourable impact on audit report quality.					
11.	IFRS are shareholder-oriented and encourage the fair value approach to audit report presentation.					
12.	Audit report under IFRS are likely to exhibit higher value relevance					
13.	IFRS tends to enhance transparency, disclosure and comparability of audit report.					
14.	IFRS will give its standards an authority and credibility that cannot be equaled by any other set of local standards.					
15.	The adoption of IFRS in Nigeria will create opportunities for a broader financial transformation for companies in Nigeria.					
16.	Decision and predictions of time's future financial performance.					
17.	There is a significant relationship between adoption					

	of IFRS and credibility of financial statement.					
18.	IFRS is likely to reduced the earning manipulative ability of managers and thus improve the financial reporting quality of firms.					
19.	Professional bodies are adequately training members on the technicalities of IFRS on audit report quality.					
20	Harmonization of the accounting standard can reduce the level of earnings management and improve audit report quality.					