# FORENSIC ACCOUNTING AND FRAUD MANAGEMENT: EVIDENCE FROM NIGERIA

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## ABSTRACT

Fraudulent practices among Nigerians are major challenges facing the development of the country. The federal government has been making several efforts in tackling these dreadful menaces by setting up many anti corruption institutions to reduce cases of fraud and other activity of financial and economic crimes but the efforts seemed not to have yielded the desire results or have not been effective. No doubt, financial crimes have affected individuals and corporate organizations negatively. This has put accounting professional bodies into a new perception and paradigm that go beyond statutory audit. The objective of this study focus on forensic accounting and fraud management, evidence from Nigeria, primary sources of data were appropriately used. 572 questionnaires were administered. The Researchers Use SPSS 21 to test the

hypothesis to determine the F-value. The findings are that Forensic accounting significantly influences fraud detection and control, also, that there is significant difference between the duties of professional Forensic Accountants and that of traditional External Auditors. The researchers recommended that trained experts like the Professional Forensic Accountants should conduct the investigation, where there is evidence of fraud, appropriate disciplinary action in accordance with the Provision of rules should be implemented, and the restructuring of corruption agencies by the government for better performance. These agencies should have the will power and courage to perform optimally. The professional accountancy bodies in Nigeria should ensure that forensic accountants are trained with modern skills of forensic accounting procedures, the financial reporting council should ensure harmonization and unification of the conflicting regulatory codes that will guarantee best standards and regulations are established for best practice and service delivery.

**Keywords; forensic accounting, Financial/ Economic crimes, Fraud management, External Auditor**

## 1.0. Background to the Study

The widespread frauds in modern organizations have made traditional auditing and investigation inefficient and ineffective in the detection and prevention of the various types of frauds

confronting businesses world-wide. (Onuorah and Appah, 2012) The incidence of fraud continues to increase across private and public sector organizations and across nations. Fraud is a universal problem as no nations is resistant, although developing countries and their various states suffer the most pain. Today; modern organized financial crimes have appeared. Financial crimes such as employee theft, payroll frauds, fraudulent billing systems, management theft, corporate frauds, insurance fraud, embezzlement, bribery, bankruptcy, security fraud (EFCC, 2004), among others, have taken the centre stage in the scheme of things; and on the scale of private, public and governmental preference. Financial crimes today have grown wild, and the emergence of computer software coupled with the advent of internet facilities has compounded the problem of financial crimes. Besides, the detection or minimization of these crimes are made more difficult and committing these crimes much easier. (Izedonmi, and Ibadin, 2012**).** All these, no doubt, remain outside the ambit of the statutory auditor to report on except he is placed on inquiry. The statutory auditor is not primarily bound to detect fraud and errors. His responsibility is defined by Sec. 359 (CAMA, 2004) and the relevant auditing standards. (Uwojori and Asaolu, 2009) added that quite unfortunately, is the inability of the statutory auditor constrained by the relevant statutes and standards, to deal with financial crimes. Okunbor and Obaretin (2010) reported that the spates of corporate failures have placed greater

responsibility and function on accountants to equip themselves with the skills to identify and act upon indicators of poor corporate governance, mismanagement, frauds and other wrong doings. It has become imperative for accountants at all levels to have the requisite skills and knowledge for identifying, discovering as well as preserving the evidence of all forms of irregularities and fraud. Therefore, fraud requires more sophisticated approach from preventative to detection. One of the modern approaches that can be used from the prevention to detection is called forensic accounting.

Forensic accounting is a rapidly growing field of accounting that describes the engagement that results from actual or anticipated dispute or litigations. (Okoye and Gbegi, 2013) concur that "Forensic" means "suitable for use in a court of law", and it is to that standard that Forensic Accountants generally work. Forensic Accounting is an investigative style of accounting used to determine whether an individual or an organization has engaged in any illegal financial activities.

Professional Forensic Accountant may work for government or public accounting firm. Although, forensic accounting has been in existence for several decades, it has evolved over time to include several types of financial information scrutiny. Forensic accounting can, therefore, be seen as an aspect of accounting that is suitable for legal review and offering the highest level of assurance (Apostolou, Hassell & Webber, 2000). Also, forensic accounting encompasses three major areas, investigation,

dispute resolution and litigation support. Manning (2002) defines it as the combination of accounting, auditing and investigative skills to standard by the courts to address issues in dispute in the context of civil and criminal litigation. Ojaide (2000) noted that there is an alarming increase in the number of fraud and fraudulent activities in Nigeria, requiring the visibility of forensic accounting services. Also the recent happening in the forensic audit of the oil sector where the present government is demanding for another forensic audit exercises to be carried out after a Nigerian audit firm has presented a report to the authority. In the light of the above this study therefore looks into the relevance of forensic accounting and fraud management in the effective reduction of fraudulent practices in Nigeria.

### 1.1. Statement of the Problem

In recent times, series of fraud have been committed both in the public sector and private sector of the economy. These in no doubt are perpetrated under the supervision of the internal auditors of the organization. Ojaide (2000) added that there is an alarming increase in the number of fraud and fraudulent activities in Nigeria emphasizing the visibility of forensic accounting services. Okoye and Akamobi (2009) Owojori and Asaolu (2009), Izedomin and Mgbame ( 2011), Kasum (2009) have all acknowledge in their separate works, the increasing incidence of fraud and fraudulent activities in Nigeria and these studies have argued that in Nigeria, financial fraud is gradually

becoming a normal way of life. (Modugu and Anyaduba 2013) submitted that financial irregularities have becomes the specialty of both private and public sector in Nigeria as individual perpetrates fraud and corrupt practice according to the capacity of their office. Consequently, there is a general expectation that forensic accounting may be able to stem the tide of financial malfeasance witnessed in most sectors of the Nigerian economy. However, there has not been adequate emphasis, especially survey evidence on how forensic accounting can help curtail financial and economic crimes beyond the several unreliable views that abound. Consequently, the study fills this gap of forensic accounting and fraud management evident from Nigeria.

### 1.2. Objective of the study

The general objective of this study is to assess whether forensic accounting and fraud management help in the effective reduction and control of fraudulent practices in Nigeria.

The specific objectives of this study include:

i. To examine whether effective forensic accounting significantly influence fraud reduction control.

ii. To examine if there is significance difference between professional Forensic Accountants and traditional External Auditors.

### 1.3. Research questions

The study has the following research questions;

1. What is the extent of influence that effectiveness of forensic accounting has on fraud control and management
2. How significantly different are the duties of professional Forensic Accountants and traditional External Auditors.

### 1.4. Statement of Hypothesis

H01: Forensic accounting does not significantly influence fraud control and management.

H02: There is no significant difference between the duties of professional Accountants and that of traditional External Auditors.

## 2.0. Literature Review

### 2.1.Theoretical Framework

This study is anchored on the Operant condition theory. This theory was postulated by Skinner B. F. He asserts that behavior is determined by the environmental consequences it produces for the individual involved. (Hollin, 1998). This implies that, behavior that produces desirable consequences will increase in frequencies (Blackburn, 1993). The reverse will therefore be the case when the behavior produces undesirable consequences. Behavior therefore operates on the premise of reinforcing or punishing results. Conclusively therefore, Feldman (1993) posit that if criminal activities are rewarding (prestige, money or feeling of adequacies) there will be tendencies of continual increase of such crimes while the

reverse will be the case when the crimes are punished by arrest or shunned. Thus, this study aims to determine the role forensic accounting will play in ensuring crimes are punished in order to reduce its occurrences.

## 2.2. Related Literatures

### 2.2.1. Nature of fraud

The concept of fraud in itself disordered. But scholars vary significantly in their expressions about fraud. The cause is sometimes confused with effect. Defining fraud is as difficult as identifying it. Fraud is defined by EFCC (2004:46) as ". . . the non-violent criminal and illicit activity committed with objective of earning wealth illegally either individually or in a group or organized manner thereby violating existing legislation governing the economic activities of government and its administration . . ." Nwaze (2012) defined fraud as a predetermined as well as planned tricky process or device usually undertaken by a person or group of persons with the sole aim of cheating another person or organisation to gain ill-gotten advantage which would not have accrued in the absence of such deceptive procedure.

(Onuorah and Appah, 2012) as cited in Bello (2001) and quoting Russel (1978) remarks that the term fraud is generic and is used in various ways. Okafor (2004) added that fraud embraces all the multifarious means which human ingenuity can devise, which are resorted to by an individual to get advantage over another in false representation. No definite and

invariable rule can be laid down as a general proposition in defining fraud as it includes surprise, trick, cunning and unfair ways by which another is cheated fraudulently. Ojaide (2000) Ramamoorti (2007) argued that fraud is a human endeavor, involving deception, purposeful intent, intensity of desire, risk of apprehension, violation of trust, and rationalization. It is therefore important to understand the psychological factors that might influence the behavior of fraud perpetrators. The rationale for drawing on behavioral science built on evident from the intuition that one needs to think like a crook to catch a crook. Karwai (2002), Ajie and Ezi (2000) are of the view of fraud in organizations vary widely in nature, character and method of operation in general. Fraud may be classified into two broad ways: nature of fraudsters and method employed in carrying out the fraud. On the basis of the nature of the fraudsters, fraud may be categorized into three groups, namely; internal, external and mixed frauds. Internal fraud relates to those committed by members of staff and directors of the organizations while external fraud is committed by persons not connected with the organization and mixed fraud involves outsiders colluding with the staff and directors of the organization. Karwai (2002) reported that the identification of the causes of fraud is very difficult. He stated that modern day organizations frauds usually involve a complex web of conspiracy and deception that often maskthe actual cause.

### 2.2.2. Concept *of* Forensic Accounting

The term "forensic accounting was coined by Peloubet in 1946, he said, forensic accounting is the application of accounting knowledge and investigative skills to identify and resolve legal issues. It is the science of using accounting as a tool to identify and develop proof of money flow. These tools and/or techniques, skills and knowledge can be invaluable for fraud and forensic accounting investigators." Forensic accounting is the integration of accounting, auditing and investigative skills (Dada, Owolabi & Okwu, 2013), (Zysman, 2004). Dhar and Sarkar (2010) define forensic accounting as the application of accounting concepts and techniques to legal problems. It demands reporting, where accountability of the fraud is established and the report is considered as evidence in the court of law or in administrative proceedings. According to the Association of Certified Fraud Examiners (ACFE) forensic accounting is the use of skills in potential or real civil or criminal disputes, including generally accepted accounting and auditing principles; establishing losses or profit, income, property or damage, estimations of internal controls, frauds and others that involve inclusion of accounting expertise into the legal system (www.forensicaccounting.com/there.htm.)
(Okoye and Gbegi, 2013) agrees that forensic accounting also called investigative accounting or fraud audit is a merger of forensic science and accounting. Forensic science according to Crumbley (2003) "may be defined as application of the laws of

nature to the laws of man." He refers to forensic scientists as examiners and interpreters of evidence and facts in legal cases that also requires expert opinions regarding their findings in court of law. The science in question here is accounting science, meaning that the examination and interpretation will be of economic information. Joshi (2003) further sees forensic accounting as the application of specialized knowledge and specified skill to stumble up on the evidence of economic translations. Dhar and Sarkar (2010) defined forensic accounting as the application of accounting concepts and techniques to legal problems. While Degboro and Olofinsola (2007) in their view noted that forensic investigation is about the determination and establishment of fact in support of legal case. That is, to use forensic techniques to detect and investigate a crime is to expose all its attending features and identify the culprits.

In the view of Howard and Sheetz (2006), forensic accounting is the process of interpreting, summarizing and presenting complex financial issues clearly, succinctly and factually often in a court of law as an expert. It is concerned with the use of accounting discipline to help determine issues of facts in business litigation (Okunbor and Obaretin, 2010). Forensic accounting is a discipline that has its own models and methodologies of investigative procedures that search for assurance, attestation and advisory perspective to produce legal evidence. A forensic investigation may be grounded in

accounting, medicine, engineering or some other discipline. Forensic audit is an examination of evidence regarding an assertion to determine its correspondence to established criteria carried out in a manner suitable to the court.

It is concerned with the evidentiary nature of accounting data, and as a practical field concerned with accounting fraud and forensic auditing; compliance, due diligence and risk assessment; detection of financial misrepresentation and financial statement fraud (Skousen and Wright, 2008); tax evasion; bankruptcy and valuation studies; violation of accounting regulation (Dhar and Sarkar, 2010)

Gray (2008) believes that those qualified to handle forensic investigation are forensic accountants which are a combination of an auditor and private investigators. Knowledge and skills include investigative skills, research, law, quantitative methods, finance, auditing, accounting and law enforcement officer insights. A forensic accountant's primary duty is to analyze, interpret, summarize and present complex financial and business-related issues in a manner that is both readily understandable by the layman

### 2.2.3. Financial crimes

Financial crimes cannot be precisely defined but can be described. No one description suffices. Wikimedia dictionary describes financial crimes as crimes against property, involving the unlawful conversion of property belonging to another to

one‟s own. Williams (2005) incorporates corruptions to his description of financial crimes. Other components of FCs cited in William‟s (2005) description include bribes cronyism, nepotism, political donation, kickbacks, artificial pricing and frauds of all kinds.

The array of components of financial crimes, some of which are highlighted above, is not exhaustive. The EFCC Act (2004) attempts to capture the variety of economic and financial crimes found either within or outside the organization. The salient issues in EFCC‟s (2004) description include "violent, criminal and illicit activities committed with the objective of earning wealth illegally… in a manner that violates existing legislation… and these include any form of fraud, narcotic drug, trafficking, money laundering, embezzlement, bribery, looting and any form of corrupt malpractices and child labour, illegal oil bunkering and illegal mining, tax evasion, foreign exchange malpractice including counterfeiting, currency, theft of intellectual property and piracy, open market abuse, dumping of toxic waste and prohibited goods, damage to the environment, etc.

This description is all-embracing and conceivably includes financial crimes in corporate organization and those discussed by provision authors (William, 2005 and Khan, 2005). At the level of corporate organizations, financial crimes were known to have led to the collapse of such organizations. Cotton (2003) as cited in (Izedonmi, and Ibadin, 2012**)** attributes the collapse

of Enron, WorldCom, Tyco, Adelphia, to corporate fraud. $460 billion was said to have been lost. In Nigeria, Cadbury Nig Plc whose books were criminally manipulated by management was attributed to have lost 15 billion Naira. In the case of the nine collapsed commercial banks in Nigeria, about one trillion naira was reported to have been lost through different financial malpractice. This and other financial and economic crimes are being investigated by EFCC under the EFCC Act (2004).

### 2.3. Fraud management

An understanding of effective fraud and forensic accounting techniques will assist Professional Forensic Accountants in identifying illegal activity and discovering and preserving evidence (Houck et al 2006). Hence, it is important to understand that the role of a forensic accountant is different from that of regular auditor. Crumbley and Apostolou (2005) as cited by (Okoye and Gbegi, 2013) describes a forensic accountant as someone who can look behind the faced-out, accept the records, at their face value-someone who has a suspicious mind that (considers that) the documents he or she is looking at may not be what they purport to be and someone who has the expertise to go out and conduct very detailed interviews of individuals to develop the truth, especially if some are presumed to be lying.

Forensic accounting as a field of specialization that has to do with provision of information that is meant to be used as evidence especially for legal purposes. The persons practicing

in this field (i.e. forensic accountants) investigate and documents financial fraud and white-collar crimes such as embezzlement and investigate allegations of fraud, estimates losses damages and assets and analyses complex financial transactions. They provide those services for corporation, attorney, criminal investigators and the government (Coenen, 2005, Zysman, 2001) the forensic accountant's engagements are usually geared towards finding where money went, how it got there, and who was responsible. According to Bhasin (2007), forensic accountants are trained to look beyond the numbers and deal with the business realities of situations. Analysis, interpretation, summarization and the presentation of complex financial business related issues are prominent features of the profession. He further reported that the activities of forensic accountants involve: investigating and analyzing financial evidence; developing computerized applications to assists in the analysis and presentation of financial evidence; communicating their findings in the form of reports, exhibits and collections of documents; and assisting in legal proceedings, including testifying in courts, as an expert witness and preparing visual aids to support trial evidence. In the same vein Degboro and Olofinsola (2007) stated that forensic accountants provide assistance of accounting nature in financial criminal and related economic matters involving existing or pending cases.

In financial crimes scenarios, the forensic accountant must appreciate the seriousness of a situation and look beyond the game of numbers. It must go beyond being a detective or regular accounting. The field of forensic accounting is the product of forensic science and accounting, Crumbley (2003) describes forensic scientists as the examiners and interpreters of evidence and facts in legal matters. The science as used have according to Sadiq (2008) involves the examination and interpretation of economic information. Forensic accountant provides information that is used as evidence in the court of law. He investigates, appraises and documents financial fraud and white-collar crimes (such as embezzlement and frauds) by employees, management and other frauds or crimes in the organization. He estimates losses, damages and assets misappropriation and any other complex financial transaction. The whole process ends in the production of report which is tendered to assist in legal adjudication. The forensic accountants, in their investigation, use some investigative techniques in financial crimes.

### 2.4. Challenges of Forensic Accounting Application in Nigeria

With the increase rise in financial accounting fraud in the current economic scenario experienced, financial accounting fraud detection has become an emerging issue of great importance for academic, research and industries. The failure of

internal auditing system of the organizations in identifying the accounting frauds has led to use of specialized procedures to detect financial accounting fraud, collective known as forensic accounting (Sharma and Panigrahi 2012). As cited by (Modugu, and Anyaduba, 2013). Though financial fraud in Nigeria has witnessed highly publicized cases especially in the banking system, Enyi (2009) undertook a study to offer suggestions using real case problem on how to apply forensic accounting in investigating variances and suspected fraudulent activities in manufacturing processes and thus suggests that the application of forensic accounting applies to all scenes where fraud is a possibility.

Okoye and Akenbor (2009) commenting on the application of forensic accounting in developing economies like Nigeria, notes that forensic accounting is faced with so many bottlenecks. These includes inability to operate more independently and effectively, lack of technical capabilities and inability of gathering information that is admissible in a court of law, less focus on offering service quality, conflicting regulatory codes and standards, lack of harmonization and unification of all the existing sectoral corporate governance codes applicable in Nigeria (CBN, SEC, and PENCOM Codes).

Crumbly (2001), Grippo and Ibex (2003) added that the challenges confronting the application of forensic accounting is such that it lack the admissibility, of evidence in compliance with the laws of evidence which is crucial to successful

prosecutions of criminal and civil claims. Also, the globalization of the economy and the fact that a fraudster can be based anywhere in the world has led to the problem of inter-jurisdiction.

Degboro and Olofinsola (2007) note that an important challenge to the application of forensic accounting in financial fraud control and management in Nigeria is that the law is not always up to date with the latest advancements in technology. (Modugu, and Anyaduba, 2013) concur that forensic accounting is seen as an expensive service that only big organizations can afford. Thus, most organization prefers to settle the issue outside the court to avoid the expensive cost and the risk of bad and negative publicity on their corporate image. Furthermore, forensic accounting is a new trend particularly in developing economies. Hence, professional accountants with adequate skill and technical know-how on forensic issues are hardly available.

## 3.0. Methodology

The choice of design in any research depends on the purpose of the problem and variable alternatives for the problem of that nature. The survey research design is used in this study. The population of the study comprises four diverse groups; auditors (Internal and External), those involved in financial statement compilation, users, and academics. In considering sample size, Saunders and Thornhill (2003) suggest that a minimum number of thirty (30) for statistical analyses provide a useful

rule of thumb. Nevertheless, we adopted a sample of five hundred and seventy two (572) respondents which consist of the public and private companies' accountants, internal and external auditors, top management staff, shareholder as well as academician in Edo and Delta States.

The sampling was done using simple random sampling. Primary data was used in the study. The data were generated using well-structured likert scale questionnaire with 5 points scale, strongly agree-5, Agree-4, Undecided-3, disagree-2 and strongly disagree-1 are logically employed to quantitatively reflect this order of ranking and to ensure validity of the questionnaire used for the study.

## 4.0. Presentation of results and Discussion of findings

$H0_1$: Forensic accounting does not significantly influence fraud control and management.

**Model Summary**

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|---|---|---|---|---|
| 1 | .810[a] | .656 | .641 | .36092 |

Source: The researcher using SPSS 21

**Coefficients[a]**

| Model | | Unstandardized Coefficients | | Standardized Coefficients | T | Sig. |
|---|---|---|---|---|---|---|
| | | B | Std. Error | Beta | | |
| 1 | (Constant) | 3.271 | .176 | | 18.625 | .000 |
| | Forensic accounting can be used to uncover diverted fraudulent practices. | .516 | .085 | 1.165 | 6.094 | .000 |
| | Forensic accounting can Identify misappropriated assets and identify reversible insider transactions | -.198 | .090 | -.421 | -2.201 | .033 |

a. Dependent Variable: Forensic accounting is effective as a fraud detection tool

Decision Rule: If the F-value is greater than 5%, accept the null hypothesis otherwise reject if and accept the alternative.

The R-square of 65% shows that the independent variables can explain the dependent variable 65.5%. The regression result

shows that an effective tool in uncovering diverted fraudulent practices and can identify misappropriated asset and reversible insider transactions; this is shown in the F-value of 0.000 and 0.033 respectively. We therefore reject the null hypothesis and accept the alternative which states that Forensic accounting significantly influence fraud detection and control. However, the B-value shows that forensic accounting has a negative influence the identification of reversible insider transactions as evidenced by a B-value of -0.198.

H02: There is no significant difference between the duties of professional Forensic Accountants and that of traditional External Auditors

Paired Samples Test

| | | Paired Differences | | | | | T | Df | Sig. (2-tailed) |
|---|---|---|---|---|---|---|---|---|---|
| | | Mean | Std. Deviation | Std. Error Mean | 95% Confidence Interval of the Difference | | | | |
| | | | | | Lower | Upper | | | |
| Pair 1 | Forensic accounting is effective in designing internal control system - Auditors are effective in assessing, monitoring and evaluation of internal control systems | -.15686 | .50488 | .07070 | -.29886 | -.01486 | -2.219 | 50 | .031 |
| Pair 2 | Forensic accounting enhances the quality of financial reporting - Accountants/auditors will deliver more quality financial reporting. | -.19608 | .44809 | .06275 | -.32211 | -.07005 | -3.125 | 50 | .003 |
| Pair 3 | Forensic investigations deals directly with fraud investigation and this reduces financial reporting "expectations gap" - Traditional External Auditors are not influence by management | .13725 | .40098 | .05615 | .02448 | .25003 | 2.445 | 50 | .018 |

Source: The Researchers Using SPSS 21

Decision: Accept the null hypothesis if the F-value is greater than 5%. The result shows that there is a significant difference in forensic duties and that of Auditors as shown by the F-values

of 0.031, 0,003 and 0.018 respectively. We therefore reject the null hypothesis and accept the alternative which states that: there is significant difference between the duties of professional Forensic Accountants and that of traditional External Auditors.

## 5.1. Conclusions and recommendations

The study investigates forensic accounting and fraud management a way of effective reduction and control of fraudulent practices in Nigeria. Fraudulent practices are real and have become prevalent in contemporary business environment. This trend needs to be arrested before it is too late. This study found that forensic accounting is an effective tool in uncovering diverted fraudulent practices and can identify misappropriated asset and reversible insider transactions; this significantly influence fraud detection and control. Also, the study reveals that there is significant difference between the duties of professional Forensic Accountants and that of traditional External Auditors.

We therefore, conclude that accountants should be alert to potential fraud and other illegal activities while performing their duties. They can also be made to provide significant assistance in preventing, investigating and resolving such issues. On the basis of the above , the researchers suggests that trained experts like the Professional Forensic Accountants should conduct the investigation, where there is evidence of

fraud, appropriate disciplinary action in accordance with the Provision of rules should be implemented, and the restructuring of corruption agencies by the government for better performance. The current effort of the Federal government in fighting corruption should be encourage and sustained. The several professional accountancy bodies in Nigeria should ensure that forensic accountants are trained with modern skills of forensic accounting procedures, the financial reporting council should ensure harmonization and unification of the conflicting regulatory codes that will guarantee best standards and regulations are established for best practice and service delivery.

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***Section B: Questions to Test the Study Hypotheses***

***Section A:*** Forensic Accounting and Financial Fraud Control and management

**1.** Forensic accounting can be used to uncover diverted fraudulent practices.

(a)Strongly Agree (b) Agree (c) Undecided (d) Disagree (e) Strongly Disagree

**2.** Forensic accounting can Identify misappropriated assets and identify reversible insider transactions;

(a) Strongly Agree (b) Agree (c) Undecided (d) Disagree (e) Strongly Disagree

**3.** Forensic accounting is effective as a fraud detection tool

(a) Strongly Agree (b) Agree (c) Undecided (d) Disagree (e) Strongly Disagree

**4.** Forensic Accounting is solely enough as a tool to prevent suspicious or fraudulent transactions (a) Strongly Agree (b) Agree (c) Undecided (d) Disagree (e) Strongly Disagree

**5.** Forensic accountants do not bear any risk under forensic accounting practice; it specifically covers risk of fraud.

(a) Strongly Agree (b) Agree (c) Undecided (d) Disagree (e) Strongly Disagree

***Forensic Accounting, Internal Control Quality and Financial Reporting Credibility***

**6.** Forensic accounting is effective in designing internal control system

(a) Strongly Agree (b) Agree (c) Undecided (d) Disagree (e) Strongly Disagree

**7.** Forensic accounting is effective in assessing, monitoring and evaluation of internal control systems

(a) Strongly Agree (b) Agree (c) Undecided (d) Disagree (e) Strongly Disagree

**8.** Forensic accounting enhances the quality of financial reporting

(a) Strongly Agree (b) Agree (c) Undecided (d) Disagree (e) Strongly Disagree

**9.** Forensic accounting improves stakeholder trust and confidence in corporate financial statement (a) Strongly Agree (b) Agree (c) Undecided (d) Disagree (e) Strongly Disagree

**10.** Accountants/auditors with forensic accounting skills will deliver more quality financial reporting. (a) Strongly Agree (b) Agree (c) Undecided (d) Disagree (e) Strongly Disagree

**11.** Forensic investigations deals directly with fraud investigation and this reduces financial reporting "expectations gap" (a) Strongly Agree (b) Agree (c) Undecided (d) Disagree (e) Strongly Disagree

**12**. Traditional External Auditors are not influence by management (a) Strongly Agree (b) Agree (c) Undecided (d) Disagree (e) Strongly Disagree

Table 1: Forensic Accounting and Financial Fraud Control and management

| S/N | | SA | A | U | D | SD |
|---|---|---|---|---|---|---|
| 1 | Forensic accounting can be used to uncover diverted fraudulent practices. | 216 | 120 | 50 | 78 | 46 |
| 2 | Forensic accounting can Identify misappropriated assets and identify reversible insider transactions | 307 | 114 | 9 | 37 | 43 |
| 3 | Forensic accounting is effective as a fraud detection tool | 221 | 279 | 2 | 6 | 2 |
| 4 | Forensic Accounting is solely enough as a tool to prevent suspicious or fraudulent transactions | 43 | 37 | 44 | 189 | 197 |
| 5 | Forensic accountants do not bear any risk under forensic accounting practice; it specifically covers risk of fraud. | 55 | 35 | 62 | 157 | 201 |

Table 2 Forensic Accounting, Internal Control Quality and Financial Reporting Credibility

| S/N | | SA | A | U | D | SD |
|---|---|---|---|---|---|---|
| 6 | Forensic accounting is effective in designing internal control system | 189 | 242 | 9 | 28 | 42 |
| 7 | Forensic accounting is effective in assessing, monitoring and evaluation of internal control systems | 241 | 196 | 4 | 29 | 40 |
| 8 | Forensic accounting enhances the quality of financial reporting | 241 | 217 | 5 | 33 | 14 |
| 9 | Forensic accounting improves stakeholder trust and confidence in corporate financial statement | 311 | 94 | 7 | 67 | 31 |
| 10 | Accountants/auditors with forensic accounting skills will deliver more quality financial reporting. | 313 | 166 | - | 21 | 10 |
| 11 | Forensic investigations deals directly with fraud investigation and this reduces financial reporting "expectations gap" | 270 | 207 | 7 | 5 | 21 |
| 12 | Traditional External Auditors are not influence by management | 237 | 219 | 8 | 26 | 20 |

# THE IMPACT OF IFRS ACCOUNTING NUMBERS ON VALUE RELEVANCE IN NIGERIAN QUOTED COMPANIES

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## ABSTRACT

The study assessed the impact of IFRS accounting numbers on value relevance in quoted companies in Nigeria. The objective of this study is to determine if the adoption of lFRS has improved value relevance of quoted companies in Nigeria. The researchers adopted the use of secondary data by way of annual reports of the quoted companies in Nigeria. The Taro Yamani formula was used to derive the sample size from the population of one hundred and eighty-three quoted companies on the floor of the Nigerian Stock Exchange from which a sample size of one hundred and twenty-six companies with error limit of five percent appropriate for the study was adopted. We adopted the cross sectional and longitudinal design and thus compared the pre-IFRS and post IFRS financial

statements for over a period of six years (2008-2013). In analyzing, the regression analysis was used. Findings from the analysis showed that there is no significant impact on the value relevance of IFRS financial statement. The study therefore recommends that companies should ensure that reporting model is amended to suit disclosures and reporting requirements of IFRS.

**KEYWORDS: Value relevance, IFRS Financial statement, Pre-IFRS, Post-IFRS, Accounting numbers**

## 1.0. INTRODUCTION

Information emanating from financial reporting is regarded as useful when it faithfully represents the "economic substance" of an organization in terms of relevance, reliability, and comparability (Spiceland, Sepe & Tomassini, 2001). High quality accounting information is essential for well functioning capital markets and economy as a whole and as such should be of importance to investors, companies and accounting standard setters (Hellstron, 2005). Financial statements still remain the most important source of externally beneficial information in companies; it serves as a mirror to the investor. Investors are not in a position to directly access the performance of the company in which they are intended to invest, they usually depend on the financial statements prepared by the

management of the company. Rational investors use those financial reports and disclosures, among other publically available information to assess the risk and the value of the firm. Accounting data, such as earnings per share, is termed value relevant if it is significantly related to the dependent variable, which may be expressed by price, return or abnormal return (Gjerde, Knivsfla & Saettem, 2007). Nevertheless, financial statement is to provide information about a company in order to make better decisions for users particularly the investors (Germon and Meek, 2001). It should also increase the knowledge of the users and give a decision maker the capacity to predict future actions.

The concept of value relevance has been defined as the ability of accounting numbers to summarize the information underlying the stock prices, thus the value relevance is indicated by a statistical association between financial statement and prices or returns (Jianwei & Chunjiao, 2007) . Studies on value relevance of accounting information are motivated by the fact that quoted companies use financial statements as one of the major media of communication with their equity shareholders and public at large (Vishnani & Shah, 2008). Value relevance is seen as proof of the quality and usefulness of accounting numbers and as such, it can be interpreted as the usefulness of accounting data for decision-making process of investors and its existence is usually by a

positive correlation between market values and book values (Takacs, 2012).

This study investigates the value relevance of IFRS financial statement in quoted companies in Nigeria under the Nigerian stock exchange for over a period of 6 years in the pre and post financial periods of IFRS application from 2008 to 2013. Thus, the following questions drive the thrust of this study;

1. To what extent has the adoption of IFRS improved value relevance in quoted companies in Nigeria?
2. Is there a significant value relevance variable in the pre and post IFRS financial statement?

The central purpose of carrying out the research work is to capture the impact of value relevance on IFRS financial statements in quoted companies in Nigeria. To achieve this, the following strategic objectives are adopted:

1. To determine if the adoption of IFRS has improved value relevance in quoted companies in Nigeria.
2. To identify the most significant value relevance variable in pre and post IFRS financial statement.

The research question gave rise to the following hypothesis;

1. $H_0$: IFRS adoption has not improved value relevance in quoted companies in Nigeria.

   $H_1$: IFRS adoption has improved value relevance in quoted companies in Nigeria.

2. $H_0$: There is no significant value relevance variable in the pre and post IFRS financial statement.

   $H_1$: There is a significant value relevance variable in the pre and post IFRS financial statement.

Investors, capital market analyst and speculators are always concerned about the value relevance of financial statement especially in predicting the market value of firms. Therefore a study of this nature that examines the value relevance of accounting information will be immensely beneficial as it will help consolidate or refute where necessary whatever perceptions that investors have about the capital market.

## 2.0. THEORETICAL FRAMEWORK

From past experience, it is known that investors may temporarily pull financial price away from their long term trend level. Over reactions may occur, so that excessive optimism (euphoria) may drive prices unduly high or excessive pessimism may drive prices unduly low. New theoretical and empirical arguments have been put forward against the notion that financial markets are efficient. Market efficiency depends on the ability of traders to devote time and resources to gathering and disseminating information. Markets that are more efficient attract more investors, which translate into increased market liquidity (Osei, 1998). Investors care about market efficiency because stock price movements affect their wealth. More generally, stock market inefficiency may affect consumption and investment spending and therefore influence

the overall performance of the economy (Adelegan, 2009). A market is efficient with respect to publicly available information if it is impossible to make an economic profit by trading on the basis of the information set (Jensen, 1978). The efficiency tests, therefore, consist of measuring the ability of the market to anticipate new information and the speed with which it adjusts to such data. The efficient market hypothesis (EMH) has been the subject of consideration. Most evidence in Nigeria, however, indicates that the Nigerian capital market is efficient in the weak form efficient (Adelegan, 2004). The success or failure of management decision can be evaluated only in the light of the impact of firm stock prices (Remi, 2005). Moreover, Shiller (2000) supports that stock prices are very much uncertain and this may not be true because firm's fundamentals may to a great extent influence stock prices. This argument is supported by early rejection of a random walk theory by Porterba and Summer (2000) who argue that there is little theoretical basis for strong attachment to the null hypothesis that stock prices follow a random walk.

## 2.1 Related Studies

### 2.1.1 Share Price and Return on Equity (ROE)

Shareholders are concerned about their return on investment. Return on equity is the company's profit after tax divided by the percentage rate of net assets. The indicators reflect the level of shareholders' equity income, measuring the shareholders into

the company's unit capital receive profits, which companies create value for shareholders, to measure the efficiency of the companies using its own capital. In theory, the higher the modified index values, the better the performance of the company will be. However, Pratomo and Ismail (2006) stated that management that has the knowledge to make a company profitable also has the knowledge and understanding of financial reporting, which leads to more market share price. Galani, Gravas and Stavropoulos (2011) also stated that when performance is high and the company achieves a high margin of profit, the managerial groups are motivated to report more information in order to show off good reputation to the consumers, shareholders, investors and other stakeholders' stock prices. Similarly, the study of Azeem and Kouser (2011) showed significant positive relation with stock price and return on equity. Also, Liu and Hu (2005) study found that Return on equity is positively related with stock prices of the firms. They further explained that when management are performing efficiently and utilizing the resource powerfully and gives good returns on investment it will affect stock price positively otherwise it has negative effect on stock price. Zhao,(2013) revealed that in developed stock markets, investors fully obtain enterprise value on the basis of relevant information to invest in listed companies. In pursuit of maximization of investment wealth, the investors are driven by their preference for the good performance.

### 2.1.2 Share Price and Earnings per Share (EPS)

The term earnings per share (EPS) represents the portion of a company's earnings, net of taxes and preferred share dividends, which is allocated to each ordinary share holder. Earnings per share (EPS) is widely considered to be the most popular method of quantifying a firm's profitability and is the industry standard in determining corporate profitability for shareholders. EPS is a carefully scrutinized metric that is often used as a barometer to gauge a company's profitability per unit of shareholder ownership. As such, EPS is a key driver of share prices. The firm stock prices have direct purview in the managerial efficiency which is one of the signals of firm performances (Remi 2005). One of the components of this firm performance is earning per share (EPS). EPS is one of the measures of managerial efficiency as well as firm performance. Shiller (2000) argued that stock prices can be viewed as a prediction of investors earnings, therefore, it is reasonable that the variation in prices should be no greater than variation in firm EPS. Ball and Brown (2001) conducted a study to investigate the annual association between annual change in stock prices and annual changes in firms EPS. The result obtained shows that annual changes in stock prices cause firm EPS to change in the following year. Chang and Wang (2008) conducted a study using Ohlson (1995) model on Taiwan firms in 2004. The result indicates that firms' stock prices movement has a positive significant relationship with firm EPS. In the

same vein, Chetty, Rosenberg and Saez (2007) explained that stock prices change behavior when firms' EPS are announced.

### 2.3.3 Share Price and Return on Assets (ROA)

Another important measure of firm performance is return on assets (ROA). For firms with similar business risk profiles, pretax ROA is a useful statistic for comparing the performance of firms because it avoids distortions that are introduced by differences in capital structure and complications in the tax laws (Srijaroen & Jiang, 2011). In the stock market, Ghosh, Nag, and Sirnmans (2000) confirmed that ROA is widely used by market analysts as a measure of financial performance, as it measures the efficiency of assets in producing income. Mishra,Wilson and Williams (2009) indicated that returns on assets (ROA), a measure of financial performance commonly utilized in the firm management literature, is the ratio of net firm income plus interest payment to total assets.

Many studies that investigate performance are concerned with distinguishing between the effects of market concentration and stock efficiency on performance (Berger, 1995). Rao, and Syed (2007) confirmed negative relationship between financial market stock and performance. While, Quang and Xin, (2014) stated that capital structure is significantly inversely correlated with firms' financial performance (as a measure of ROA).

### 2.3.4 Share Price and Dividend per Share (DPS)

Dividend is a widely researched area but still its fathom has to be explored as numerous questions remain unanswered. The question of "Why do corporations pay dividends?" has puzzled researchers for many years. Despite the extensive research devoted to solve the dividend puzzle, a complete understanding of the factors that influence dividend policy and the manner in which these factors interact is yet to be established. Allen, Bernardo and Welch (2000) stated that although a number of theories have been put forward in the literature to explain their pervasive presence, dividends remain one of the thorniest puzzles in corporate finance. The dividend decision is taken after due considerations to number of factors like legal as well as financial. Garuba (2014), investigated the impact of dividend per share on common stock returns of some selected manufacturing firms listed on the Nigerian Stock Exchange (NSE), using linear regression model. The finding reveals that dividend-per-share affects the stock returns of the selected manufacturing firms listed on the NSE. He further explained that the powers for evaluating the impact of dividend-per-share on the stock returns of the manufacturing firms listed on the NSE relies on the appropriate linear and quadratic stock returns pricing models. Jirapon and Ning (2006) also find inverse association between dividends payout and shareholders' right, indicating that firms pay higher (lower) dividends where shareholders' rights are weak (strong). Firth

(1996) examines the effect of relatively large dividend changes on the stock market reactions and earnings forecast revisions of announcing companies and their rivals. His results show that dividend increase, produce a significant positive effect on stock prices while dividend reductions, produce negative effects on stock prices and forecast revisions of both the announcing companies and their rivals. While La Porta, Lopez-de-Silanes, Shleifer and Vishny (2000) explained that firms with weak shareholders' rights need to establish a reputation for not exploiting shareholders.

## 3.0. METHODOLOGY

The researchers made use of the cross sectional and longitudinal research designs this entails the comparison of the pre-IFRS and post-IFRS performance valuation in order to sort out the existence of casual effects of one or more independent variables upon a dependent variable of various companies at a given point of time. This design is best suitable for this study as a cross section of Nigerian listed companies will be selected for the analysis over a period of time.

The population of the study consists of all quoted company on the floor of the Nigerian stock exchange. The researchers were able to collect complete data for 29 companies for the periods of interest. The variables obtained includes earnings per share, return on equity, dividend per share, return on asset from 2008-2013.

Model 1: Value relevance of IFRS financial statement

$MKTPjt = \alpha_0 + \alpha_1 ROE_{jt} + \alpha_2 EPS_{jt} + \alpha_3 DPS_{jt} + \alpha_4 ROA_{jt} + e_{jt}$ ---------- (1)

Where

MKTPjt = the market price per share (SP) of firm j at time t

$\alpha_0$ = Constant or intercept.

$ROE_{jt}$ = return on equity of firm j at year t

$EPS_{jt}$ = Earnings per shares of firm j at year t

$DPS_{jt}$=dividend per share of firm j at year t

$ROA_{jt}$=return on assets of firm j at year t

$\varepsilon_{jt}$ = Error term

## 4.0. Data Presentation

The descriptive result of the data collected is shown in table1.

**Table1: Descriptive result of data collected**

| | PRE-SP | POST -SP | PRE-DPS | POST-DPS | PRE – EPS | POST-EPS | PRE-ROA | POST - ROA | PRE-ROE | POST-ROE |
|---|---|---|---|---|---|---|---|---|---|---|
| MEAN | 44.79 | 65.10 | 91.82 | 102.26 | 180.38 | 207.56 | 0.34 | 0.35 | 0.30 | 0.25 |
| MEDIAN | 21.03 | 26.06 | 41.67 | 66.67 | 110.33 | 138.67 | 0.18 | 0.2 | 0.24 | 0.22 |
| MAXIMUM | 266.5 | 664 | 720 | 575 | 953.67 | 1023.33 | 1.64 | 1.82 | 0.82 | 0.6 |
| MINIMUM | 1.7 | 1.46 | 0.1 | 0.1187 | 0.02 | 0.05 | 0.02 | 0.01 | 0.09 | 0.04 |
| STD.DEV | 66.51 | 128.4 | 154.60 | 145.08 | 234.43 | 266.64 | 0.45 | 0.47 | 0.19 | 0.15 |
| SKEWNESS | 2.16 | 3.77 | 2.91 | 2.39 | 2.20 | 1.95 | 2.08 | 1.99 | 1.48 | 0.70 |
| KURTOSIS | 6.60 | 17.72 | 11.25 | 8.17 | 7.53 | 6.40 | 5.91 | 5.72 | 4.50 | 2.51 |
| JARQUE-BERA | 38.12 | 330.4 | 123.11 | 59.85 | 48.25 | 32.35 | 31.01 | 28.05 | 13.33 | 2.68 |
| PROBABILITY | 5.28 | 0 | 0 | 0.00 | 0.000 | 9.46 | 1.85 | 8.11 | 0.001 | 0.26 |
| OBSERVATION | 29 | 29 | 29 | 29 | 29 | 29 | 29 | 29 | 29 | 29 |

From table 1 above, the result shows that POST IFRS companies share price, DPS, EPS, and ROA on the average is

higher than those of the PRE IFRS (***POST IFRS α= ₦65.10; ₦102.26; ₦207.56; & ₦0.35*** respectively against ***PRE-IFRS α =₦44.79; ₦91.82; ₦180.38 &₦0.34*** respectively).however the pre-IFRS return on equity is higher than those of the post IFRS (i.e. pre-ifrs α***=₦0.30 against ₦0.25*** of post ROE).From the observations, the researchers decided to carry out other analysis to further observe the characteristics of the data generated.

### 4.1 Data Analysis

The data collected were analyzed using correlation analysis. This is to ascertain if the pre and post data associate positively or not.

Table 2: Correlation Analysis of dependent and independent variables

| | PRE SP | POST SP | PRE DPS | POST DPS | PRE EPS | POST EPS | PRE ROA | POST ROA | PRE ROE | POST ROE |
|---|---|---|---|---|---|---|---|---|---|---|
| PRE SP | 1 | | | | | | | | | |
| POST SP | 0.8609 | 1 | | | | | | | | |
| PRE DPS | 0.4290 | 0.1886 | 1 | | | | | | | |
| POST DPS | 0.4025 | 0.2099 | 0.9362 | 1 | | | | | | |
| PRE EPS | 0.3751 | 0.1831 | 0.9172 | 0.9738 | 1 | | | | | |
| POST EPS | 0.3610 | 0.191 | 0.901 | 0.9689 | 0.9708 | 1 | | | | |
| PRE ROA | 0.0735 | 0.0318 | 0.0743 | 0.0278 | 0.0542 | 0.0445 | 1 | | | |
| POST ROA | 0.0319 | 0.0189 | 0.0223 | 0.0889 | 0.1204 | 0.0945 | 0.0945 | 1 | | |
| RE ROE | 0.3785 | 0.5244 | 0.0441 | 0.0908 | 0.1822 | 0.1241 | 0.1212 | 0.1636 | 1 | |
| POST ROE | 0.5190 | 0.5466 | 0.2264 | 0.1363 | 0.1267 | 0.1578 | 0.0045 | 0.0308 | 0.4827 | 1 |

Source: fieldwork (2015) Eviews result

The key variables from the above table are the post-share price and pre-share price. The result shows that there is a positive association between both variables implying that, as the share price of the pre-IFRS increase, the share price of post-IFRS also increased across the periods. This association i.e. represented by r =0.8609 i.e. 86% of the company's share price in both pre and post increased. Based on this analysis, we cannot say any of these periods affected the value relevance of financial statement.

## 4.2 Test of Hypothesis

The first hypothesis of this study was tested using the regression analysis. This is because it enables the study to ascertain whether IFRS adoption influenced value relevance of financial statement.

1. Ho: IFRS adoption has not improved value relevance in quoted companies in Nigeria.

   $H_1$: IFRS adoption has improved value relevance in quoted companies in Nigeria.

The researcher tested the hypothesis above using the following model:

*PRESP= f pre (ROA, ROE, DPS, EPS)----------Eq I*

*POSTSP= f post (ROA, ROE, DPS, EPS)----------Eq II*

$PRESP = \alpha + \beta 1\ (ROA) + \beta 2\ (ROE) + \beta 3\ (DPS) + \beta 4\ (EPS)$

$POSTSP = \alpha + \beta 1\ (ROA) + \beta 2\ (ROE) + \beta 3\ (DPS) + \beta 4\ (EPS)$

**Table 3: OLS Result**

Dependent Variable: PRESP (POSTSP)

| Variables | Coeff | T-stat | Prob. | PRE-IFRS | | POST-IFRS | |
|---|---|---|---|---|---|---|---|
| | | | | $R^2$ (Adj $R^2$) | F-Stat. $R^2$ (Prob.) | (Adj $R^2$) | F-Stat (Prob) |
| Coef. | -13.62 (-57.33) | -0.5155 (-1.2310) | 0.6109 (0.230) | | | | |
| PPREROA (POSTROA) | -20.66 -61.98 | -0.8214 (-0.1620) | 0.4195 (0.873) | | | | |
| PREROE (POSTROE) | 151.60 (465.13) | 2.5334 (3.1803) | 0.0182 (0.004) | 0.37 (0.27) | 3.5304 (0.02) | 0.33 (0.22) | 2.9450 (0.04) |
| PREDPS (POSTDPS) | 0.13 (-7.40) | 0.6796 (0.8156) | 0.5033 (0.423) | | | | |
| PREEPS (POSTEPS) | 0.05 (-0.21) | 0.3710 (-0.6352) | 0.7139 (0.531) | | | | |

**Source**: Fieldwork (2015) Eviews Results

From table 3 above, we discover that pre & post ROA have negative impact on value relevance and post-IFRS DPS & EPS have negative impact on value relevance. The implication is that, the higher these variables the lower the companies share prices, which means that, the adoption of IFRS has not affected investors to demand for companies' shares which would have increased the share price. Although these observations are not significant since the probability of these variables are all above 5 % (i.e. prob for ROA is pre=0.4195 post = (0.873) while post

EPS&DPS are (0.531) & (0.423) respectively. On the other hand the pre-IFRS EPS, DPS; ROE are all positively impacting on value relevance (i.e. 0.05, 0.13& 151.60) respectively. This is because as they increase in value the companies' share prices also increased. By implication, they affect the share prices positively.

Also from $R^2$ and (Adjusted $R^2$) showed the extent to which the systematic variation in value relevance is explained jointly by the predictive variables. Therefore, this study's result shows that there is 22% to 33% impact (adj $r^2$ =0.22 and $r^2$ =0.33) for the post-IFRS period while the pre-IFRS shows 27% to 37% impact (adj $r^2$ =0.27 and $r^2$ =0.37). This result has shown that the financial statement variables explained value relevance more in the pre-IFRS era more than in the post era.

OLS is based on ordinary linearity assumption. The test for linearity is shown in the F test and its probability result. The result on table 3 shows that there is a linear relationship between the variables which are significant at 5% (F=3.5304; Prob = 0.04). This result shows the Pre-IFRS era as having a better explanatory effect on value relevance.

2. $H_0$: There is no significant value relevance variable in the pre than in the post IFRS financial statement.

$H_1$: There is a significant value relevance variable in the pre than in the post IFRS financial statement.

We intend to find the variable that has the highest effect on value relevance on both periods. To achieve this objective, the

regression analysis lays an important role, since it reports the effect of the independent variables on the dependent variable. From the result in table3 above, we observe that the variable ROE has positive impact on the value relevance during both periods under study (PREROE =151.60; POSTROE =465.13) and they are both significant at 5% (i.e. 0.0182 (0.004) respectively). Thus, ROE is the most impacting variable. However it had the greater impact in the post-IFRS period. In view of the above, we refuse to reject the $H_0$ while $H_1$ is rejected, this means that return on equity is significantly greater upon the adoption of IFRS.

3. $H_0$: There is no difference in the value relevance of the pre and post IFRS financial statement.

   $H_1$: There is a difference in the value relevance of the pre and post IFRS financial statement.

   We conducted a t-test to ascertain whether there is a difference between the value relevance of the financial statement of both periods. Table 4 below shows the result.

**Table 4 Result of t-test statistic**

| | N | α | Std.dev | Std Error Mean | tcalc | Df | significance |
|---|---|---|---|---|---|---|---|
| Postsp | 29 | 65.0952 | 128.3906 | 23.8415 | 1.389 | 28 | 0.176 |
| Presp | 29 | 44.7866 | 66.5164 | 12.3518 | | | |

Source: Fieldwork (2015) Eviews Results

From the table, the test result shows that $t_{calc}$ = 1.389 while the critical value of 2-tailed t = 2.0484. The decision therefore is that we fail to reject the null hypothesis hence, we say, there is a difference between the value relevance that investors attach to pre-IFRS financial statement than that of the post-IFRS financial statement. Though this finding is not statistically significant at 5% (i.e. prod = 0.176). Thus, $H_1$ is accepted while the $H_0$ is rejected, indicating that there is a difference in the value relevance of the pre and post IFRS financial statement.

## 5.0. FINDINGS, CONCLUSION AND RECOMMENDATONS

From the result of the analysis, it was discovered that IFRS has not improved value relevance in quoted companies in Nigeria. Table 3 showed that the pre & post ROA have negative impact on value relevance (i.e. Prob for ROA is Pre= 0.4195,Post=0.873), this finding is not consistent with Garuba (2014), Jirapon and Ning (2006) .While on the other hand the pre-IFRS EPS, ROE are all positively impacting on the value relevance (i.e. 0.05,0.13 & 151.60). Also, the result has shown that the financial statement variables explained value relevance in the pre-IFRS era more than the post-IFRS in findings of Takacs (2012), it was discovered that during IFRS era, firms tend to exhibit higher values on a number of profitability measures such as EPS, DPS, ROA this tends to show

disagreement with the researchers findings and this is explained by a number of factors such as quality of management, global and local economic conditions, business performance during the years under review (2008-2013). The test for linearity is shown in the f-test and its probability results. The result on table 3 shows that a linearity relationship exist between the variables and significant at 5 % (F =3.5304; prob = 0.02) in the pre-IFRS while it is also 5% significant in the post IFRS (F =2.945; Prob = 0.04). This result showed the pre era as having a better explanatory effect on value relevance.

Also the result shows that there is a significant value relevance variable in the pre and post IFRS financial statement. From the table 3 it was observed that the ROE has positive impact during both periods under study (PREROE =151.60; POSTROE =465.13) and they are both significant at 5% (i.e. 0.0182 (0.004) respectively). Thus, ROE is the most impacting variable but had the greater impact in the post-IFRS periods. This finding is consistent with liu and Hu (2005).

The study also shows that from t-test statistic result in table 4 the result showed a lesser $t_{calc}$ = 1.389 while the critical value of 2-tailed t = 2.0484. The decision is that we fail to reject the null hypothesis hence there is a difference between the value relevance that investors attach to pre-IFRS financial statement than that of the post-IFRS financial statement though this finding is not statistically significant at 5% (i.e. prob = 0.176).

## 5.1 Conclusion

This research work examines the value relevance of IFRS financial statement in quoted companies in Nigeria. Value relevance is seen as a proof of the quality of accounting numbers and as such it can be interpreted as the usefulness of accounting data for decision making process of investors. The study has made an immense contribution to the value relevance literature by examining the value relevance of IFRS financial statement in quoted companies in Nigeria. The results demonstrate that, so far, there has been no impact of IFRS financial statement in quoted companies in Nigeria. Four variables were used to ascertain their impact on share price in quoted companies in Nigeria. Among the four variables, return on equity is the most significant value relevant variable in the pre and post IFRS financial statement. Therefore, we conclude that IFRS has not improved value relevance in the country.

## 5.2 Recommendation

Following the study's findings, these recommendations are presented which may be of use to National Standard Setters, preparers of accounting information and investors;

1. Companies should ensure that existing business reporting model is amended to suit disclosure and reporting requirement of IFRS.
2. National accounting standard setters and preparers of accounting information should make effort toward

improving the quality of DPS & EPS information which is the most widely used performance variable in Nigeria for investment decision.

3. The accounting standards setters should enhance the compliance of the financial reporting standard requirements in order to increase the value relevance of IFRS financial statements.

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