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# SIGNIFICANCE OF FINANCIAL REPORTING TO STAKEHOLDERS IN NIGERIA- INVESTORS' PERSPECTIVE

BUSINESS ECONOMICS AND TOURISM
2010

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**ABSTRACT**

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| Author | David Olugbenga Wilson |
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This research seeks to determine the significance of financial reporting in Nigeria with focus on investors and other users of financial report and how influential is the information given to it users, ranging from Government, shareholders, tax authorities, foreign investors, suppliers, employees, financial analyst and accounting firms etc. It investigates whether financial report met with the lay down standard by the Nigeria accounting standard board (NASB).

The relationship which exists between Investors and management called "Principal-agency relationship" is also examined in the study. The relationship which demonstrates that many stakeholders are affected both formally and informally by the corporate decisions made by its agent (management).

The empirical findings show that financial reporting has a great impact on decision making as it assist investors to review and evaluate the financial position and performance of a firm and as well forecast future performance.

Keywords: Stakeholders, Principal-agency, Financial reporting, regulatory Bodies.

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**TIIVISTTELMÄ**

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| Tekijä | David Olugbenga Wilson |
| Opinnäytetyön nimi | Taloudellisen raportoinnin merkitys osakkeenomistajille nigerialaisten sijoittajien näkökulmasta |
| Vuosi | 2010 |
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| Ohjaaja | Niklas Kallenberg |

Tutkimus keskittyy päättelemään taloudellisen raportoinnin merkitystä Nigeriassa keskittymällä sijoittajiin ja muihin toimijoihin, jotka käyttävät taloudellista raportointia. Tutkimuksen tarkoitus on myös arvioida tiedon merkityksellisyyttä sen käyttäjien kannalta, joita ovat esimerkiksi maan hallitus, osakkeenomistajat, veroviranomaiset, ulkomaiset sijoittajat, työntekijät, rahoitusanalyytikot, ja kirjanpitotoimistot jne. Tutkimus selvittää ovatko taloudelliset raportit Nigerian kirjanpitolautakunnan asettamien standardien mukaisia.

Sijoittajien ja yrityksen johdon väliset suhteet, joita kutsutaan sijoittajasuhteiksi, ovat myös osa tutkimusta. Sijoittajasuhteet osoittavat että osakkeenomistajiin vaikuttavat sekä muodolliset että epäviralliset yritysjohdon tekemät päätökset.

Empiiriset tulokset osoittivat että taloudellinen raportoinnilla on suuri vaikutus sijoittajien päätöksentekoon, koska se auttaa sijoittajia tarkastelemaan ja arvioimaan yrityksen taloudellisen aseman ja ennustamaan yrityksen tulevaa toimintaa.

Asiasana: osakkeenomistajat, sijoittajasuhteet, taloudellinen raportointi, oimeenpanoviranomaiset.

ABBREVIATIONS

| | |
|---|---|
| NASB | Nigerian Accounting Standard Board |
| NSEC | Nigerian Securities and Exchange Commission |
| ICAN | Institute of Chartered Accountant of Nigeria |
| IFRS | International Financial Reporting Standard |
| IAS | International Accounting Standard |
| CAMA | Company and Allied Matter Act |
| CAMD | Company and Allied Matter Decree |
| CBN | Central Bank of Nigeria |
| SPSS | Statistical Package for the Social sciences |

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David Olugbenga Wilson

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# 1. INTRODUCTION

## 1.1 Background of the study

This study is made out of the zeal I have for accounting as a whole and keen interest for investment, as said by Sam Adeyemi a renowned success motivational speaker ***Investment is the key to achievement.*** The focus of the research is to find out the significance of financial reporting to stakeholders in Nigeria and in which investors are the major focus but for a clear analysis it is pertinent to know why financial reporting is important, the need to understand financial statement, various regulatory body guiding and monitoring the preparation and publishing annual reports so as well it various users.

A company's annual reports are published to protect the interest of shareholders. Owners of the business, even minority shareholders have the right to look at the financial performance of the directors and manager of the firm to ascertain their performance on bi-annual basis and in terms that conform to standard stated by governing body of the country. They also need the assurance of the company's auditor that the report shows a fair and true view of the affairs of the business. However the annual report came as result of struggle between the shareholders and auditors on the one hand and company's director on the other, development of standards and regulations added to its development, during the course of writing this research study, the research stated will make us to know and understand the meaning of financial report, types of financial statement, reason for financial statement and different standards used in writing a financial reports in an organization.

The report also point out the users of financial report and how important it is to it users, ranging from Government, shareholders, tax authorities, foreign investors, suppliers, employees, financial analyst and accounting firms etc. The study will investigate whether financial report met with the lay down standard by the Nigeria accounting standard board (NASB). The board was established by law with sole responsibility of making sure that financial reports are drawn in accordance with financial reporting standard and regulations. My emphasis is not really on preparing financial statements but would be mentioned; instead I recognised that financial reports are a key source of information for making different decisions by stakeholders (users).

The relationship which exists between Investors and management called "Principal-agency relationship" is also examined in the study. The relationship which demonstrates that many stakeholders are affected both formally and informally by the corporate decisions made by its agent (management). Disagreements arise in principal-agent relationships when decision made by the agent (management) does not go along with the interest of owners (principal). Many times, the principal try as much as possible to monitor and limit the power of the agents to ensure the interest.

## 1.2 Aims and Objective of the study

The aim of this study is to ascertain whether making a financial report available by a company to its user has an influence on the decision to invest, trade or have business relationship with an organisation or not. Additionally, the aim is to find out what users consider important, like a supplier needs to know the solvency of the company he wants to supply to and be assured of the capability to pay after supplies, shareholders need to know how profitable it is to invest in a company as they will expect a return on investment after a certain period. The target audience will be persons within the age of 18 to 60 who are independent in taking a decision.

Stakeholders' decision will be examined theoretically and empirically and by using the findings of the research, the usefulness of financial reports will be made known to investors.

The main research objectives are:

- Why is financial report important?
- What are the major financial records/books to look into before making financial/investment decision in a firm

## 1.3 Theoretical and Empirical Framework

The theoretical parts of the study consist of theories of accounting/financial reporting and regulations. These theories were selected because of the opportunity to link and investigate these theories with the empirical part of the study. The empirical part will highly be connected to the theoretical framework, as all issues covered in the theoretical part will be examined also in the empirical part.

The method to be adopted for this research will be quantitative, as quantitative research methodology seeks to quantify the data, and typically, applies a form of statistical analysis. (Malhotra 2007: 143)

The empirical research of the study will be conducted by using a questionnaire for the research and structured data collection as a tool to investigate how relevance is financial reports are to stakeholders when making a financial/investment decisions (Malhotra 2007: 183).

## 1.4 Limitations

This thesis is limited to the information provided by the selected stakeholders and case company annual report, besides the information that decision makers rely upon in their judgements is limited and the information emphasized clearly changes depending on the financial decision being made. Lack of adequate fund for making contact with several stakeholders could pose a challenge in the success of this work so as the results and recommendations are confined within the data collected and also the study is confine only to the shore of Nigeria. A more analytical result could have been achieved if the study had been extended to at least West Africa Territories.

## 1.5 Significance of the study

The study is highly significant in the sense that, stakeholders need accurate information to predict future performance by identifying the key factor in financial reports. This piece will broaden, open and enlighten stakeholders to determine whether financial reports are drawn in accordance to accounting standards and guidelines.

# 2 THEORETICAL BACKGROUND

## 2.1 Principal-Agency relationship

For investors to make good and crucial investment decisions, it is pertinent to understand the theory of principal-agency relationships. This theory is crucial for this study because provide investors with adequate information as regards financial reporting. Principal-agency relationship exists between two contractual parties in business terms. These arrangements occurs when a person (an agent) work on behalf of another (the principal). Example, owners of a company (the principal) engage management (an agent) to act on their behalf and full authority are delegated to the management to carry out the intention of the shareholders. Most agents are expert at taking important decisions but when the decisions are conflicting with the interest of the principal there is bound to be problem arising in this relationship because the principal is unable to check the agent's activities perfectly and get the exact information as the agent without expending any cost, there is a risk of opportunistic behaviour on the side of the agent (Garger, 2010).

Agency conflicts are thus due to information asymmetry, it is the interest of the owner of a firm to acquire high profit while mangers prefer looking at various aspects of the firm as well to maximise, such as their own utility, suppliers, costs, employees, customers or other investors (Garger, 2010, Reekie, Crook & Jonathan, 1998: 8-10).

## 2.2 Principal-agency problems

Many times, management (agent) are often accused of being short-term focused with respect to their firm's profit in contrast to shareholders. Frankly speaking, it is sure that shareholders have long-terms intentions whereas management rather think of maximizing the firm's profitability in the near future to satisfy the owners' expectations. Principal (Shareholders/investors) have long-term intentions because capital market theory states that the value of a company signifies the future earning which one can get out of it and these symbolized either as a dividend or an increase in the stock price. i.e this means that every activity to increase profit would result in more future value for the firm (Wolf, 1999).

Problems which occur in agency is typical in which there is conflict of interest in the owner-management constellation in Nigerian firms which are listed at the stock market mostly arise when it is difficult or at high cost for investors to monitor and check management's (agents) activities and efforts in pursuing their interests. The interest of investor (shareholders/investor) and management (agent) are rather not the same in many cases, the management (agent) are at advantage in the sense that they possess certain information in contrast to the principal (shareholders/investor) concerning everyday business make things to be worse. Another problem or conflict of interest which always erupts is when management (agent) has to do a huge risk investment whereas the Principal (shareholders/investors) often stand aloof and management rather to be from averse the risk.

It should be noted that agency problem occurs in every sector of today's business world, most especially between Governments representatives and the people whom they governed but those concerning the financial areas are most easy to detect during a thorough checking (Wolf, 1999).

## 2.3 Agency cost

These are the costs which the principal incurred by attempting to avoid a moral hazard on the part of the agent. Although this cost might be expected but not to a large extent and it could be reduced through strict monitoring measures. For effective reduction in agency cost, the principal has to enforce their interests, certain actions such as monitoring and controlling the agent. Monitoring simply means the gathering of additional information about the firm's current and future financial and economic possibilities and other information which are considered necessary for shareholders meetings. And control on the other hand signifies restrictions of certain management activities like decisions about the amount of retained earnings. However, it might not be completely possible for the principal to effect this monitoring measure due to high cost involved and shareholders are indeed never able to replace management completely. So there always remains a certain level of risk of opportunistic behaviour from the agent’s side due to principal’s financial limitations.

# 3 ANNUAL REPORTS

Annual report evolved from the needs of stakeholders to check the performance of their company, check managers' accomplishments, compare previous year performance to current year.

An annual report is a detailed report on a company's operations throughout the preceding year. This is intended to give shareholders and other stakeholders information about the company's activities and financial performance. The Nigeria Accounting standard board which is the regulatory body empowered by law requires companies which are listed on the stock exchange to prepare and disclose their annual reports. Typically, an annual report will contain the followings:

- Financial Highlights
- Letter to the shareholders
- Narrative text
- Management's discussion and analysis
- Financial statements
- Notes to financial statements
- Auditor's report
- Summary financial data
- Corporate information

The report could as well contain information which is considered relevant to stakeholders such as report on manufacturing operations for manufacturing firms or corporate social responsibility reports for companies with environmental/social operations. In the case of multinational companies, it is usually a colourful publication. The information provided in the report is of great use to stakeholders so as to understand the company's financial position towards future direction (http://www.investopedia.com/terms/a/annualreport.asp).

## 3.1 Financial statement

As the name implies it is a statement that provides an overview of financial activities of a company. It is a standard practice for companies to prepare and present financial statements in a clearly and concisely manner for both entity and stakeholders in compliance with regulations of the locale accounting board authority to maintain continuity of information and presentation across borders. Financial statement is most times audited by government agencies, accountants and firms etc to ensure accuracy and for tax purposes (Kothari & Barone, 2006: 38).

There are four basic financial statements:

- Income statement
- Cash flow statement
- Statement of retained earnings
- Balance sheet

### 3.1.1 Income statement

The main objective of the income statement is to report the company's earnings to stakeholders over a particular period of time. Years ago, the income statement was referred to as the profit and loss (or P&L) statement, and since evolved into the most well-known and widely used financial report by companies. Most of the time, stakeholders make decisions based entirely on the reported earnings from the income statement without checking the balance sheet or cash flow statements (which, while a mistake, is a testament to how influential it is) (Kothari & Barone, 2006: 69).

For every investment analysis, it important for stakeholder to know that income statement analysis shows much more than a company's earnings. It gives good insights into how effectively management is controlling expenses, the amount of income and expenses, and the taxes paid. Investors can use the information provided in an income statement to analyse and calculate company financial ratios which will in turn reveal the percentage of returns on company's earning retained ( in other words, how well they are investing the money under their control).

It is important that investors, creditors and other stakeholders be able to read and understand this document in order to understand the company's financial position. Income statement should assist stakeholders to determine the past financial performance of a company, forecast future performance, and assess the capability of generating future cash flows through report of the income and expenses stated in income statement (Kothari & Barone, 2006: 69-74).

3.1.2 Cash Flow statement

All entities that prepare financial statements in conformity with IFRSs are required to present a statement of cash flows [IAS 7.1]. "The statement of cash flows analyses changes in cash and cash equivalents during a period. Cash and cash equivalents comprise cash on hand and demand deposits, together with short-term, highly liquid investments that are readily convertible to a known amount of cash and that are subject to an insignificant risk of changes in value. Guidance notes indicate that an investment normally meets the definition of a cash equivalent when it has a maturity of three months or less from the date of acquisition. Equity investments are normally excluded, unless they are in substance a cash equivalent (e.g. preferred shares acquired within three months of their specified redemption date). Bank overdrafts which are repayable on demand and which form an integral part of an entity's cash management are also included as a component of cash and cash equivalents." [IAS 7.7-8] (www.iasplus.com).

Cash flow statement may provide considerable information about what is actually happening in a company beyond that contained in either the income statement or the balance sheet. Analyzing this statement should not present an intimidating task rather it will sharply become obvious that the benefit of understanding the sources and uses of a company's cash far outweigh the costs of undertaking some very straightforward analyses (Kothari & Barone, 2006: 234-237).

### 3.1.3 Need for cash flow

- Management will want to know if the cash generated by the company will be sufficient to fund their activities.
- Stockholders need to know if the firm is generating enough cash to pay dividends.
- Suppliers want to know if their customers will be able to pay if offered credit.
- Investors want to evaluate future growth potential.
- Employees are interested in the overall viability of their employer as indicated by its ability to fund its operations.

The cash flow statement is divided into three segments; namely: Cash flow from operating activities, cash flow resulting from investing activities and cash flow resulting from financing activities (Kothari & Barone, 2006: 234).

- Cash flow from operating activities show results of cash inflows and outflows related to the fundamental operations of the basic line or lines of business in which the company engages. (example: cash receipts from the sale of goods or services outflows for purchasing stock and paying rent and taxes. These majorly record what comes in and out of the company operations.

- Cash flow from investing activities are the acquisition and disposal of long-term assets which are not current in nature and other investments that are not cash classified (example: building and equipment purchases or sales of investments or subsidiaries, loans made to suppliers or customers.

- Cash flow from financing activities reports the financing activities which include proceed from investors such as banks and shareholders, as well as payment to shareholders as dividends as the company generates income.

Other activities which impact the long-term liabilities and equity of the company are also included in the financing part of the cash flow statement. (Example: income from issuing a short or long term debt, repayment of capital lease, sale of stock etc.) (Kothari & Barone, 2006: 234-257).

### 3.1.4 Balance sheet

Simon Stevin the Flemish mathematician was the man who encouraged the Italian merchants to make it a rule to summarize their accounts at the end of every year in a chapter named Coopmansbouckhouding op de Italiaensche Wyse (Dutch: ``Commercial Book-keeping in the Italian way``). Although the balance sheet Stevin agitated for merchants to prepare every year was based on record made in the ledger, besides it was prepared separately from the major books of account. East Indian company semi-public balance sheet was the oldest recorded dated 30 April 1671 which was submitted at the company’s general meeting. The audit publicized copy of the balance sheet was still a rarity in England until the passing of the bank charter act 1844 ( Devreese & Berghe, 2008).

The accounting balance sheet is one of the most important financial statements tool used by investor and other stakeholders and it is also referred to as the statement of financial position. It shows the financial position of the company as at a specific point in time. The balance sheet has been compared to a photograph. A photograph ``freezes´´ a particular moment in time and will not represent the position at that moment in time. Hence, events may be quite different immediately before and immediately after the photograph was taken. Similarly, the balance sheet represents a snapshot of the company at a particular moment in time. When examining a balance sheet, therefore, it is important to establish the date at which it was drawn up. This information should be prominently displayed in the balance sheet heading. The more current the balance sheet dates the better when you are trying to assess current information on a company financial position. (Mclaney & Atril, 1999: 41).

Balance sheet give a deep insight to the reader of a company's financial position as of one moment in time, it helps someone like a shareholder to see the profit a firm realized for the particular year, a creditor to see and know what the company owns (Assets) as well what it owes (Liabilities) to other parties as of the date indicated in the heading. This is valuable information to the banker who wants to determine whether or not a company qualifies for additional credit or loans. Another stakeholder who would be interested in the balance sheet is: potential investors, Government agencies, competitors, labour unions company management, suppliers, and some customers. From the basic financial statements, the balance sheet is the only statement that applies to a particular time.

# 4 PURPOSE OF FINANCIAL INFORMATION

This section intends to elaborate on the reasons why financial information is so important to stakeholders. Many authors and researchers have written on the subject matter but for the purpose of this study it would be relevant to explain the reasons for financial information.

The objective of financial statements is to give accurate information about the financial position of a company (strengths and weaknesses) which will be useful to a wide range of users for assessment of management stewardship to company over a period of time. The reason for this information is to gain an understanding of the firm's current financial condition, which in turn can serve as the basis for decision making (Bowlin, 1990:13). Financial statement is expected to be reasonable, relevant, reliable, comparable and understandable. Assets, liabilities and equity reported in the accounting books for the period must be related to company's financial position so as income and expenses reported should be directly related to the company's financial performance (Elliot & Elliot, 2004: 155-159).

Financial statements are intended to be understandable by readers who have a reasonable knowledge of business, economic activities, accounting and are willing to study the information at their disposal diligently.

One cannot totally claim financial information provided by management of company ultimately meet the need of the various users. Nevertheless, the information contained within the accounting reports should reduce uncertainty in the minds of users over the financial position and performance of company at a particular point in time. The report should help to a certain level in the decision making process of it users and not put stakeholders in a position of risk.

## 4.1 Users of financial information

Information contained in the annual reports is used by a wide range of users; these users of financial information are observed closely and in particular, at the reasons why they need the information relating to the firm. Users of Financial statements comprises of present and potential investors, employees, lenders, suppliers, competitors, investment analysts, managers and other trade creditors, customers, governments and their agencies and the public/community. These users need the financial statement to satisfy some of their different needs for information (Kothari & Barone, 2006: 13-15). The figure 1 below shows a diagram illustration of a business and users of financial information.

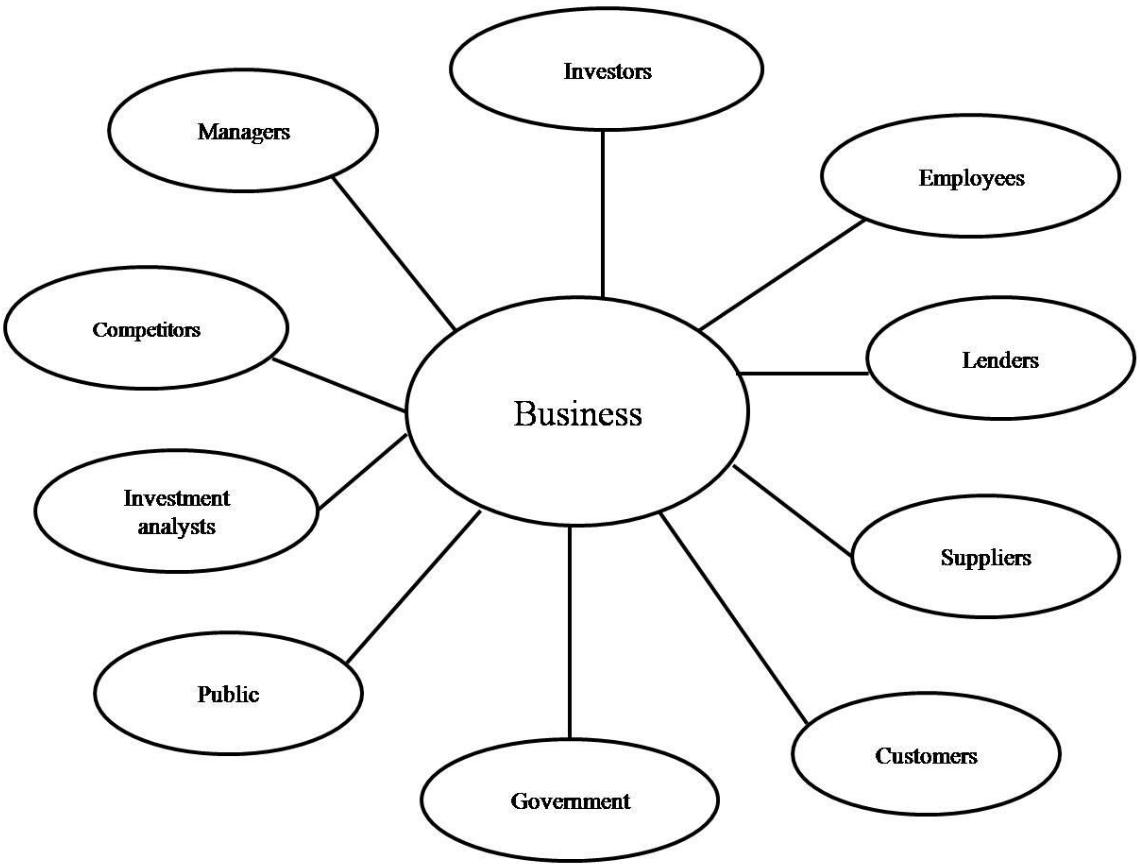


Figure: 1 A business entity and the users of its financial information (Re-designed) (Kothari & Barone 2006)

### 4.1.1 Investors

They are the owner of the business and they need financial information to assess the effectiveness of the management in running the business and the likelihood of risk if any. Shareholders need information to assess the ability of the firm to pay them dividend in return of their investments so as potential shareholders

### 4.1.2 Employees

Workers are interested in the information provided in the financial statement to know the stability and profitability of their employer. This group needs information to make collective bargaining agreements in terms of remuneration, retirement benefits, and employment benefits with the management.

### 4.1.3 Lenders

Financial houses use the information to assess the company's ability to meet its obligations, like paying interest on loans granted and repayment of the amount loaned. Banks use the information at their disposal to determine whether to grant a company a new working capital or extend their debt securities (like debenture) to finance expansion or promotion of new products.

### 4.1.4 Supplier

Trade creditors need the information to enable them assess whether the amounts owed to them will be cheque. This information will give them the confidence to make more supplies as they are assured of getting paid for their supplies. Trade creditors are more likely to show more interest in the firm over a short period than lenders unless they are convinced on the continuity of the firm.

### 4.1.5 Customers

This group needs assurance of regular supply of their needs especially when they have entrusted their loyalty on the product of the company and changing to a competitor might never be an option for them. Most especially when customers have a long-term involvement with, or are dependent on, the firm.

### 4.1.6 Government

Several governmental agencies need information to properly regulate the activities of firms and assess whether standards are been adhered to in terms of pricing, or to know if a firm needs financial support, and most importantly to know how much tax the firm should pay. This information is of utmost value to government agencies in carrying out their operations for determination of tax policies so as to form a strong base for national income and statistics.

### 4.1.7 Public

Financial information provides the community with their corporate social responsibilities as the public are affected in so many ways with the firm's operation. The presence of a firm in a particular environment tends to bring development for example a firm may make a substantial contribution to a community in many ways by employing some members of the community, patronising local suppliers and funding environmental improvements, this could bring a win-win situation for both the community and the firm as cost are reduced in a way that brings effectiveness in their supply chain. Financial statements may assist the public as they give useful information on the recent trends and developments of the smooth operation of the firm and its range of activities in the community.

### 4.1.8 Investment analysts

For them to provide their client with rightful information on potential investment available they need information to assess the availability of prone risks and returns associated with the firm in order to determine its investment potential if available and to advice clients according to the information available to them.

### 4.1.9 Competitors

Firms in the same line of business operation need financial information in relation to a firm to assess the threat to sales and profits posed by those firms and provide a benchmark against the performance of such competitor.

### 4.1.10 Managers

Managers are steward to the firm as they manage the affairs of the firms. They need financial information to make important decisions that will affect continued operations of the firm. For the firm to exercise total control and gain high market share, plans that will yield fruition need to be made.

There are needs which are common to all users because all the information needs of these users cannot be fully met in the financial statements. As investors are the one who provide the firm with its capital, making the financial information available in public meets their needs so as other users. However, it should be noted that users such as supplier, competitors, public and customers use financial information, but they do not have any right to lay claim of this information as other users have as they have a high risk and responsibility to the firm (Kothari & Barone, 2006: 13-15).

## 4.2 Qualitative attributes of financial information

According to Kothari & Barone (2006), the fundamentals of accounting are attributes which make the information given in the financial statements useful to users. The major qualitative features are: understandability, relevance, reliability and comparability. Figure 2 shows diagram of a qualitative attributes of financial information for users.

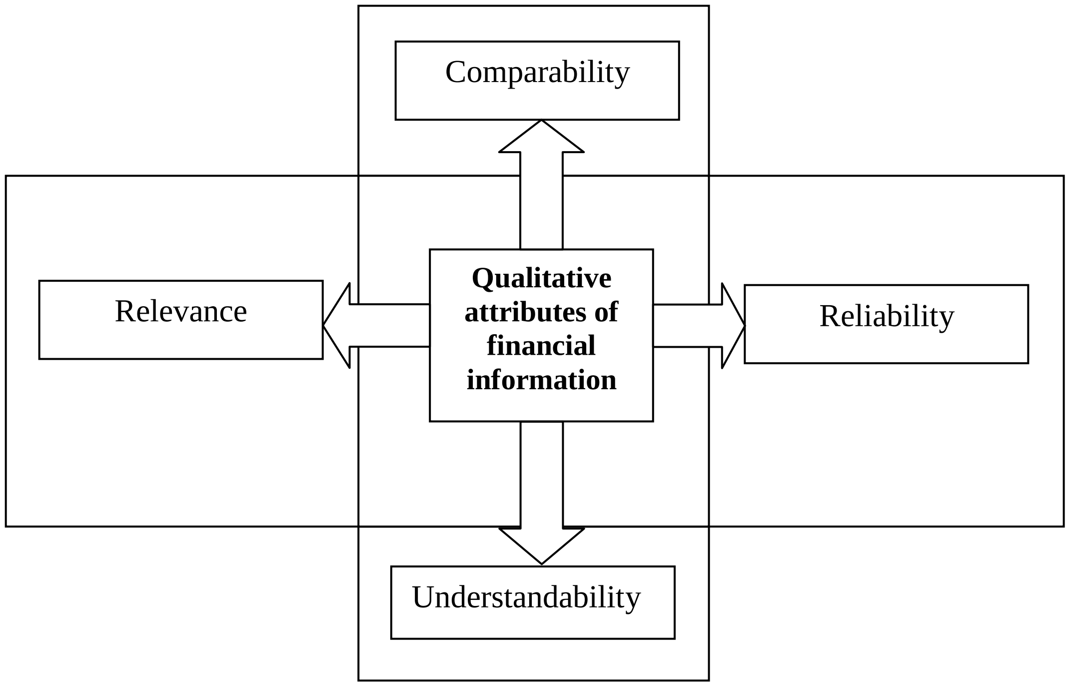


Figure: 2 Qualitative attributes of financial information (Re-designed) (Kothari & Barone 2006)

4.2.1 Understandability

The basic quality of the information provided in financial statements is that it should be readily understandable by users. Due to this, users are assumed to have a reasonable knowledge of the business and economic activities and accounting, and the ability to study the financial information diligently. However, Information which is relevant but seems complex for users to make good economic decision should not be excluded due to it ambiguity rather it should be understandable to users.

4.2.2 Reliability

To be useful, information must also be reliable. Information has the quality of reliability when it is free from material error and bias and can be depended upon by users to represent faithfully that which it either means to represents or could reasonably be expected to represent. There have been several arguments on the relevancy and reliability of information by accounting scholars in that information may be relevant but so unreliable in nature or representation that its recognition may be potentially misleading.

### 4.2.3 Comparability

Users should be able to compare and distinguish items in a financial statement in order to identify trends in its financial position and performance. Users should at all time be able to compare the financial statements of different firms in order to evaluate their relative financial position, performance and changes in financial position. An important implication of the qualitative characteristics comparability is that users should be informed of the accounting policies which are used in the preparation of the financial statements, and also changes in the policies so as the effects of such changes. Users need to be able to differentiate between accounting policies for like transactions and other events used by the same from period to period and different firms. Comparability concept is due to that fact that investors are so sensitive and concerned and they wish to compare the financial position, performance and changes in financial position of a firm over time, which is why it is important that the financial statements show corresponding information for the following period.

### 4.2.4 Relevance

For every information to be useful, it must be relevant to it users. Information has the quality of relevance when it influences the economic decisions of users in such a way that it help to evaluate past, present and future events or correcting their past evaluations. Financial analyst has severally proved that information about the financial position and past performance is usually or always used to predict future financial position and performance and other matters in which users are directly interested such as dividend, wages payments etc. As a matter of fact, the relevance of information is affected by its nature and ***materiality.*** In most cases, the nature of information alone is enough to determine its relevance. Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements.

### 4.3 Reliability of financial information

Whenever a firm approaches a bank for a loan, they are required to provide information about the current state of their finances such as income, current outstanding loans etc. They do not find this offensive rather is expected to be asked for this information. It is the responsibility of the banker to know their customer's financial position before granting a loan, it is just the way business is done.

It is important to know that all financial information is not equal, so before a bank can make a decision on how credit worthy a firm is, they need to assess the reliability of their financial information provided (Afterman & Jones, 2003: 33). There are several ways in which this can be assessed but for the benefit of the study, two types of financial statements would be examined.

#### 4.3.1 Management Prepared financial statements

As the implies, this is financial information provided by the firm's management and finance department staff, the reliability is as trustworthy as the company and the employees who put together this information. The management shoulder the responsibility of making sure the financial information is reliable and an accurate record of transactions as they know they will be held responsible for any financial errors if they occur (Afterman & Jones, 2003: 38).

#### 4.3.2 Audited Financial statement

Before the establishment of Securities and Exchange Commission across the globe, firms are not obliged to submit annual reports audited or otherwise to the government or shareholders. But after the establishment of SEC, all firms which are publicly traded at the stock exchange market are required to submit an annual report which must be audited by an independent external auditor.

An audited financial statement offers the most reliability for stakeholders, who make a valuable use of such report and such statements of publicly traded companies are available freely. In Nigeria, certified accountants from Institute of

Chartered Accountant of Nigeria (ICAN) mostly perform an audit work through a registered auditing firm such as; KPMG, Akintola Williams Deloitte & Touche, price water house coopers. The Auditors audit the account of the firm and give their opinion on whether or not the financial statements are relevant, accurate, complete and fairly presented in conformity with Nigerian accounting standard board. The opinion of the independent auditor is provided in a cover letter along with the financial statements (Afterman & Jones, 2003: 47).

4.4 Audit and financial report

Auditing of financial reports have been on century past, the origin of audits of financial reports is not actually certain but have been on in century past, is well known that as early as the fifteenth century auditors were invited to ensure that records kept by merchants are fraud free. It should be noted that audit origin is ancient and its development has been rapid.

Frankly speaking, auditing is an independent investigation of some particular activity, although auditing has a precise meaning only when used with a limiting modifier such as tax auditing or financial auditing but for the purpose of this work a general definition of the term is: ´´A systematic process of objectivity obtaining and evaluating evidence regarding assertion about economic actions and events to ascertain the degree of correspondence between those assertions and established criteria and communicating the results to interested users´´ (Carmicheal&Willingham 1995:2, Hermanson & Strawser 1983). It must be noted that there is a clear distinction between an accountant and an auditor, the task of an accountant is to prepare financial statements which is at all times carried out on behalf of the management while an auditor’s work is carried out for the benefit of investors to whom they have a legal responsibility. Thus an audit does not entail the preparation of financial statements at all but rather is concerned only with their examination for the purpose of expressing an opinion thereon.

4.4.1 Why Audit financial report?

Goals of firms are mostly achieved by the use of human and economic resources, the resources which are entrusted to the management of the firm by owners. Frequently, owners are quite remote from internal operations. Thus, management must give stewardship reports on resources administration, source, quantity, allocation, accumulation and depletion. Different firms render reports on the administration of their resources such as banks, airlines, insurance, hospitals, and industrial corporations, etc.

Despite the fact that their activities vary from industry to industry, they all issue some sort of report as regards their accomplishments to outside parties. The report which is commonly associated with the work of an independent auditor is the report to investors and creditors. These reports are the representations of management about its effectiveness in administration of resources to investors and creditor, the supplier of resources.

The auditor-client-public relationship is complicated and delicate as the client firm engages the auditor and pays the fee. The external auditors are always critical in their duty as the law empowers and protects their profession. Thus they do not risk their integrity for favourism. Professions other than auditing confine their responsibilities almost solely to clients. However, independent auditors in Nigeria have for many years acknowledged responsibilities to several parties other than those who directly engage and pay their fees.

The need for an independent auditor is the inherent potential conflict between the management of a firm and the users of its financial statements. Management could by the mean of their administrative power bias the information presented in financial statements because financial statements are one of the means used to evaluate management performance. Management carries out a great deal of discretion in preparing financial statements and in using resources entrusted to it in operating the entity. An audit provides reasonable assurance that management's representations on these activities are reliable. Thus, an audit has value because management's representations on its performance and stewardship are examined and reported on by an expert outside the management control (Hermanson & Strawser 1983: 3-17). Figure 1.2 shows a detailed communication of accounting information of an audit report.

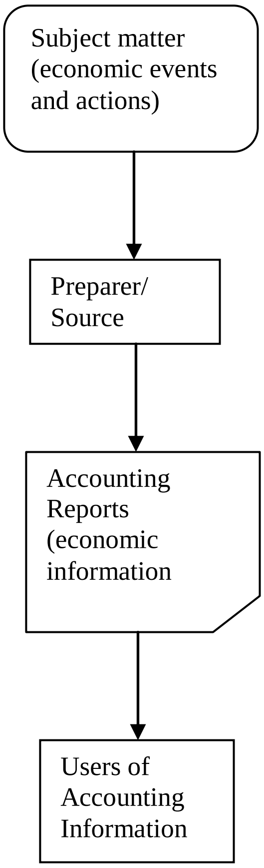


Figure 3 Communication of accounting information (Re-designed) Hermanson & Strawser 1983.

Users of accounting information are concerned with both the information content of the subject matter and the quality of the information that is made available to them. Auditing assists users in evaluating the quality of the accounting information given to them (Hermanson & Strawser 1983).

The independent auditor issues a communicated statement of opinion based on the convincing evidence by a competent person concerning the degree of correspondence in all material respects of accounting information communicated by an entity (individual, firm, or governmental unit) with concrete criteria.

### 4.5 Audit Committee

Audit Committee activities in Nigeria has been in existence since the promulgation of the Companies and Allied Matters Decree (CAMD 1990) which is now Company and Allied Matters Act (CAMA 2004). The committee is very important in a firm where it exist, members of audit committee are usually drawn from management and shareholders in which its chairman is chosen from top management in compliance with the provision of CAMD 1990 (Now CAMA 2004). The committee objective is to meet and check corporate failure and malpractices if any in the affairs of a firm ((Esang, Ogbada & Orok-Duke, 2009).

#### 4.5.1 Reason for the establishment of audit committee

The committee was established statutorily to:

- Raise the level of confidence in the organization by the public.
- Empower and strengthen the activities of non-executive directors.
- Ensure that audit fees are reasonable.
- Improve the quality of audit within the organization.
- Give room for an independent review of whole audit.

#### 4.5.2 Functions of audit committees

The major responsibilities of audit committees as contained in the Act are; to examine the auditors' report and make proper recommendations thereafter to the annual general meeting as it may deem fit (Esang, Ogbada & Orok-Duke, 2009).

The function of audit committee is stated in section 359 of CAMD 1990 (Now CAMA 2004) which is at the same time subject to more function and power that the firm's article of association may stipulate. The functions stipulated by CAMD 1990 (Now CAMD 2004) are as follows:

- Ascertain whether the accounting and reporting policies of the company are in concordance with legal requirements and agreed ethical practice.
- Review the scope and planning of audit requirements.

- Review the findings of management matters in conjunction with the external auditor and department responses thereon.
- Keep under review the effectiveness of the company's system of accounting and internal control.
- Make recommendations to the Board with regard to the appointment, removal and remuneration of the external auditors of the company.
- Authorize the internal auditor to carry out investigations into any activities of the company which may be of interest or concern to the committee.

Audit committee in Nigeria have been able to achieve their objectives effectively and companies have been adhering with their reportorial function as pronounced in section 359 of CAMD 1990 (Now CAMA 2004). These make it mandatory for all published financial reports of public firms to include the report of audit committee in their annual reports (Esang, Ogbada & Orok-Duke, 2009). With the empowerment of the Act, audit committee in Nigeria are able to accomplish its assignment through the following:

- By acting as an advisory committee to the board.
- Making a change at interval based on the effectiveness on the accounting system and internal control.
- Creating a forum for discussion with the board and the auditors on the importance of any issues as may be reported by external auditors thereby making an appropriate recommendation to the board.
- Check the findings of external auditor and make suggestion on any lack of cooperation which may have occured during the audit period.
- Ensure compliance of ethical accounting standard and policies as appropriate and the need for accounts to review a true and fair view.
- Make a critical review of financial statements and implication before its been forwarded to the board.
- Check the effectiveness of internal audit and making sure its reports has not been compromised and stating the scope of internal audit (Esang, Ogbada & Orok-Duke, 2009).

# 5 ACCONTING STANDARDS AND REGULATIONS IN NIGERIA

Every country designs and develops her own accounting standards and policies with comparison to international standards. In order to ensure uniformity and comparability between financial statements prepared by different firms, certain guidelines and rules which are mostly acceptable by different accounting bodies in preparation of uniform financial statement is International financial reporting standards under the auspices of International Accounting Standard Board which promote the use and application of these standards. In Nigeria the body responsible for developing and issuing a high quality accounting standard is called Nigerian accounting standard board (NASB) (http://www.nasbnigeria.org).

## 5.1 Nigerian Accounting Standard Board (NASB)

This is the board responsible for accounting regulations in Nigeria. The Nigerian Accounting Standards Board (NASB) came into existence on September 9, 1982 with the responsibility of issuing and developing accounting regulations in the interest of the public. The board issues a set of high quality accounting standards that require transparent and comparable information in a general purpose. (http://www.nasbnigeria.org).

The Institute of Chartered Accountant of Nigeria (ICAN) a professional body for Accountant in Nigeria introduces the initiative for setting up of the board. ICAN was for many years a member of the formal international Accounting standards Committee. ICAN accommodated the board in its secretariat for many years of it existence. ICAN is presently one of the member bodies of the board and has continued to perform its function as such. Although, the two bodies perform their operations independently.

However, the work of NASB is parallel to those of other National Accounting standards bodies like accounting standard board United Kingdom, Financial Accounting Standards Board of USA, Australian Accounting Standards Board so as Malaysian Accounting Standards Board etc.

NASB became a federal parastatal in May 1992 under the then Ministry of Trade and Tourism now Federal Ministry of Commerce and later became autonomous in its activities on the 10th of July 2003 after the signing of Nigerian Accounting Standard Board Act, 2003 which establishes the NASB and gives full legal backing to all its activities by the President. The Board has an inspectorate unit which monitors and enforces compliance of the Statements of Accounting Standards (http://www.nasbnigeria.org/).

5.1.1 Functions of NASB

- The board shall develop and publish in the public's interest, accounting standards to be observed in the preparation of financial statement.
- To promote the general acceptance and adoption of such standards developed or received by the board.
- To promote and enforce compliance with the accounting standards developed or received board.
- To review from time to time the accounting standards developed in line with the prevalent social, economic and political environment.
- To receive from time to time notices of non- compliance with its standards from the preparer, user or auditor of an account.
- To receive copies of all qualified reports together with detailed explanations for such qualification form auditors of the accounts with a period of 60days from the date of such qualification.
- Advise the minister on the making of regulations under section 356 of the companies and allied matters act 1990.
- Advice the federal government on matters relating to accounting standards.
- Perform such duties in the opinion of the council that are necessary or expedient to ensure the efficient performance of the function of the board under this act (http://www.nasbnigeria.org/).

### 5.1.2 NASB Governing Council

The board has eighteen council members which direct and oversees the affairs of the NASB. The eighteen members were drawn from different sectors of the country to function appropriately.

The Chairman of the governing council being a professional accountant with considerable experience in accounting practices is appointed by the President of the Federal Republic of Nigeria, two representatives from the two accounting body in Nigeria: Institute of Chartered Accountant of Nigeria and Association of National Accountant of Nigeria. Other representative is chosen from each of the Federal parastatal and association (http://www.nasbnigeria.org/).

### 5.1.3 Standard setting for Statement of Accounting Standard in Nigeria

NASB designed the Statements of Accounting Standards and it is developed through a formal system of due process involving board national consultation and a thorough consideration of local laws together with current practices and standards of other countries' accounting rules, most especially those of International regulations.

Ordinarily, the standard setting for development and issue of a statement of accounting standard involves choosing a topic to be standardized which tends to be in response to suggestion from the business community, academia, member of organisations or member of staff and council of the NASB. Steering committees which consist of experts from the public, private and professional sectors of the economy are set up. The committee working in collaboration with NASB secretariat, drives the project up till the preparation of a preliminary Exposure Draft, and then later presented to the Governing Council of NASB for consideration and approval (http://www.nasbnigeria.org/).

## 5.2 Nigeria Securities and Exchange Commission

The Commission was a government agency responsible for regulation and development of the Nigerian capital market. It is the highest regulatory institution of the Nigerian capital market and its activities are being supervised by the Federal Ministry of Finance. Barely one year after the establishment of the Lagos Stock Exchange, had the Central Bank of Nigeria (CBN) established an adhoc consultative and advisory committee which was called the Capital Issues Committee. The Committee was non-statutory which later metamorphosed into the Securities and Exchange Commission in 1978, after a comprehensive review of the Nigerian financial regulation, with the promulgation SEC Decree NO 71 of 1979. The reviews of this earlier enactment led to the initiation of a new legislation, the Investments and Securities Act (ISA) No 45 of 1999 which was the beginning of democratic government in Nigeria (Securities and exchange Commission, 1999).

The legislation largely enlarged the powers of the Nigerian Securities and Exchange Commission, while compounding the Commission with double responsibilities of:

- Regulating the capital market with a view to fortify the interest of all investors participating in the market.
- Developing the capital market in order to boost its allocative efficiency, and pave the way for a private sector led economy.

The commission undertakes several activities in regulating the market and this is meant to protect investors, market operators and to ensure that market integrity is maintained (Securities and exchange Commission, 1999).

Nigeria's capital market has experienced a decade of unprecedented growth. Market capitalization in the past five years has increased by over 90.0%. Howbeit, from a peak in March 2008, capitalisation went into a cycling decline, dropping 45.8% by the end of the year. Beyond doubt, Nigeria's capital market is at a crossroads.

Although the recent fall in capitalisation comes about with the global financial crisis, external factors were not the sole cause (Maitama, 2009). Other contributors to the general decline in the investor confidence included were:

- Ineffective market regulation and supervision
- Weak institutions and corporate governance
- Lack of regulatory pro-activity and cohesion
- Unregulated margin financing
- Concerns about transparency
- Uncompetitive cost structures
- Inefficient, cumbersome processes

Despite these weaknesses, the inherent potential for growth in Nigeria's capital market is unprecedented. The country has a rapidly diversifying economy, strong entrepreneurial spirit and use the global language of commerce: English. Building on these strengths, Nigeria could become a world class capital market that is efficient, transparent, innovative and attractive to investors both local and foreign while contributing to and facilitating the growth and development of Nigerian and African economy (Maitama, 2009).

# 6 EMPIRICAL STUDY

## 6.1 Research Methodology

Chapter one focuses on the subject of the research, aims and objectives, limitations and contribution of the study to clarify and widen our knowledge on the subject matter of the study and other information. This chapter concentrates on research methods, research design, and data collection and analysis to be used for this study.

## 6.2 Research design

This is the general plan relating the conceptual research problem to relevant and practicable empirical research. The research design provides information on the framework of the research, methods of collecting data, instrument to be used in collection e.g (questionnaire, sampling plan, sampling size) and the specify the type of the research in use (Ghauri, Gronhaug & Kristianslund, 1995: 26).

Research design is classified into three parts according to Ghauri, Gronhaug and Kristianslund (2005), namely; exploratory, descriptive and casual. Whenever a research is badly understood it is said to be (more or less) exploratory research design which is adequate. Besides, the key elements in exploratory research are mostly the ability to observe, extract information and make a meaningful explanation i.e theorizing. For descriptive research, the problem is structured and well understood and the key features of descriptive research are that it is well structured, precise rules and procedures. In casual research, the problems under scrutiny are structured as well. However, in contrast to descriptive research, the researcher is also confronted with “cause and effect problems” (Ghauri, Gronhaug & Kristianslund, 1995: 26-29).

For this study, the descriptive research design will be adopted. The questions are well structured, direct and prearranged in which respondents have fixed-response alternatives, following precise rule and procedures in relevance to the problem of stakeholder in taking decision based on the information available to them.

## 6.3 Qualitative versus Quantitative research method

Research methods can be categorized into basic types, qualitative and quantitative research. In respective of the method used in a research, the main interesting thing for the researcher is to gain knowledge about the research.

### 6.3.1 Qualitative research

It is a method of collecting, analysing and interpreting data by paying strict attention to respondents. It is open-ended, in-depth and seeks an unstructured response that reflects the person’s thought on the subject matter. The method seeks to interpret what the people in the sample are like, their feeling, attitude and opinions as well as their resulting actions. This method of research is used mostly in international marketing research to formulate and define a problem more clearly and to determine relevant questions to be examined in subsequent research. It is highly useful in revealing the impact of socio cultural factors on behavioural patterns and to develop research hypothesis that can be tested in following studies design to quantify the concepts and relevant relationships uncovered in qualitative data collection. The most commonly used forms of qualitative questioning are interviews, focus groups and case studies. The main difference between qualitative and quantitative research is not of quality but procedures. In qualitative research, findings are not arrived at by statistical methods or other proceeedures of quantification (Ghauri, Gronhaug & Kristianslund, 1995: 83, Zikmund, 2003: 110)

### 6.3.2 Quantitative research

In quantitative research, a large number of respondents are usually asked to reply either verbally or in writting to a structured question that uses a specific response format, like yes/no, or select a response from a set of choices made available by the researcher. Questions are designed in such a way that specific responses regarding aspects of the respondents’ behaviour, intentions, attitudes, motives and demographic characteristics are obtained. Quantitative research provides the researcher with answers that can be presented with precise estimations. The structured responses received are collated and summarized in graphs, percentages, charts, averages or other statistical representations (Waters, 2001: 14, Cateora & Graham 2002:214)

## 6.4 Data collection

Data is said to be fact or recorded measures of certain event. Data sources are the carriers of data (information). Data can be categorised into two: primary and secondary data. Primary data are information gathered or collected directly from a certain source for a particular purpose. Primary data could be collected either internally or externally from the source, an internal data is obtained from an organization in question while external data is obtained outside the organization. The most reliable source of obtaining a primary data is through interviews, direct representation in an event or using a questionnaire to obtain information. Secondary data are information collected by others for the purpose which might be different from ours but could be used to get an understanding in a research. The advantage of using a secondary data is enormous, e.g it saves time and energy. The researcher only needs to go and locate the data and utilize the source. This does not only help the researcher to formulate and understand the research problem, rather it widens the base from which scientific conclusion can be drawn. Examine this fact, many scholars recommend that all research should in actual fact start with secondary data sources. In such case there is less need to collect primary data. Thus in most research we need to begin with literature review i.e earlier studies on the subject matter / topic of research which include books, articles, journals, firms , governmental organizations, catalogues and web pages (Ghauri, Gronhaug & Kristianslund, 1995: 54-58).

Secondary data are usually developed for a particular purpose other than for helping solve the problem at hand. Internal secondary data are normally available within the organization e.g financial and annual reports etc. in which external data are provided by services outside the organization. It should be noted that secondary data has some disadvantages as well. The availability, accuracy, sufficiency and relevance of secondary data could pose a threat to a research.

In a situation whereby secondary data are unable to answer the research questions, then the researcher has to source and collate the data which will be relevant to his study. The data could be primary data which include observations, experiments, surveys (questionnaires) and interviews.  The main merit of primary data is that they are collected for the particular study. In other words, they are more consistent with the research question and research objectives. The major demerit of primary data is that the process takes a lot of time and it is cost effective to obtain the desired information. Moreover, it may be difficult to get quick access to the information required. Other demerit is that the researcher needs to be careful in using proper tools, procedure and method of analysis, as otherwise the reliability and applicability of the study will be jeopardized (Ghauri, Gronhaug & Kristianslund, 1995: 87).

For this study, primary source of data was chosen in which information were obtained directly from stakeholders (investors) of a target group within the age of 18 to 60 years of age because this age range are able to decide on their investment or potential investment. A sample size of sixty (60) questionnaires which is well structured, direct and easy to fill for respondents was sent through email to respondents to obtain the views and opinions of respondent as related to the study. The questionnaire was carefully designed to yield valid information from selected respondents and to add value to the theory of the study. The result is analysed critically with the use of statistical package for the social sciences (SPSS).

## 6.5 Reliability, Validity and sensitivity

There are three major criteria for evaluating measurements in a research and they are; reliability, validity and sensitivity. The idea of the research of what to be measured must be given in an operational definition which states how it will be measured. The reason for this is that many corporate research problems require an appropriate measuring system.

Reliability is said to be the degree of to which measures are free from errors and therefore yield consistent results. Reliability could be estimated through a variety of methods that fall into two types; Single-administration and multipleadministrations. Multiple-administration methods require that two assessments are administered. Reliability has to do with the quality of measurement and in actual sense, reliability is the consistency and repeatability of the measures. For reliability to be defined precisely it must have a groundwork laid. The first is needs for information about the foundation of reliability, the true score theory of measurement and along with that is the need to understand the different types of measurement error because errors in measures play a vital role in degrading reliability (Zikmund, 2003: 299-302).

Sensitivity of a scale is an important measurement concept, particularly when changes in attitudes or hypothetical constructs are under investigation. Sensitivity refers to an instrument’s ability to accurately measure variability in responses (Zikmund, 2003: 299-304).

In this study, reliability is guaranteed because data are carefully selected and the sources are listed alphabetically in detailed list of references. The validity is based on critical investigation and not assumptions when writing about the facts and as regards the publications the concept of the authors were not changed.

# 7 ANALYSIS OF EMPIRICAL PART

## 7.1 Research Findings

This chapter expatiates a statistical analysis of the research in which 60 questionnaires were sent out to investors from various field while 31 were answered and returned and this constitutes 50.9% of the total questionnaires sent to the respondents. The questionnaires which were returned are used in making a critical analysis of the significance of financial reporting to stakeholders in Nigeria. The respondent gives different opinions about the questions asked and also an open question which require the respondent to give a special opinion on the discrepancies of financial reports which can help the study. Some of the respondents do not consider this important while a small number of the respondents give their opinion on this open question and the results from the question were interesting and relatively surprising in some point.

Hoyer and McInnis (2001) express in their behavioural notes that age is one of the segments that affect research. People of the same age range are usually sharing common thoughts, needs, symbols, memories and at the same time going through similar life experiences. These characteristics could lead to similar opinions and views when answering the questions.

The target age group for this research are investors aged between 18 and 60 years old. The reason for choosing this particular target age group is because this age group are able to decide on their investment or potential investment. According to the figure 4 below the age groups were divided into four in which 51,6 percent of respondents are between 18-30 years of age, 32,3 percent are between 31-40 years of age,  9,7 percent are between 41-50 and 6,5 percent are between 51-60.

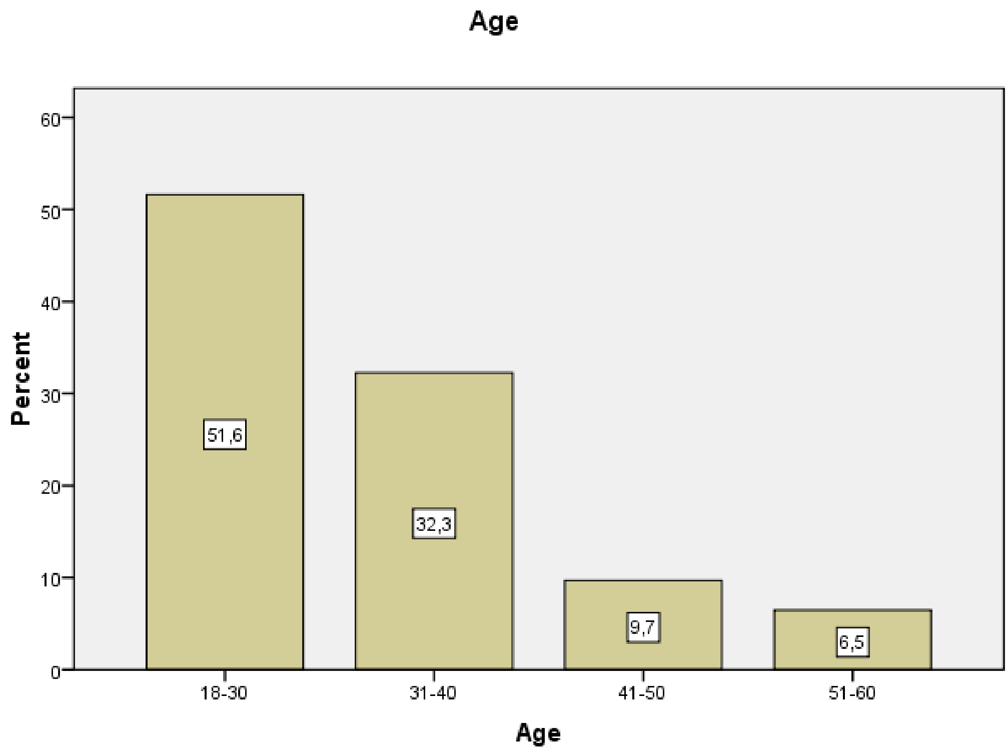


Figure 4: Age range of respondents

The age range which forms the highest percentage for this research is between 18 to 60 (83,9 percent) )as they are the people who use their investment to determine their future and they are very sensitive and cautious in monitoring their portfolios with a close watch. .

### 7.2 Experience as an investor

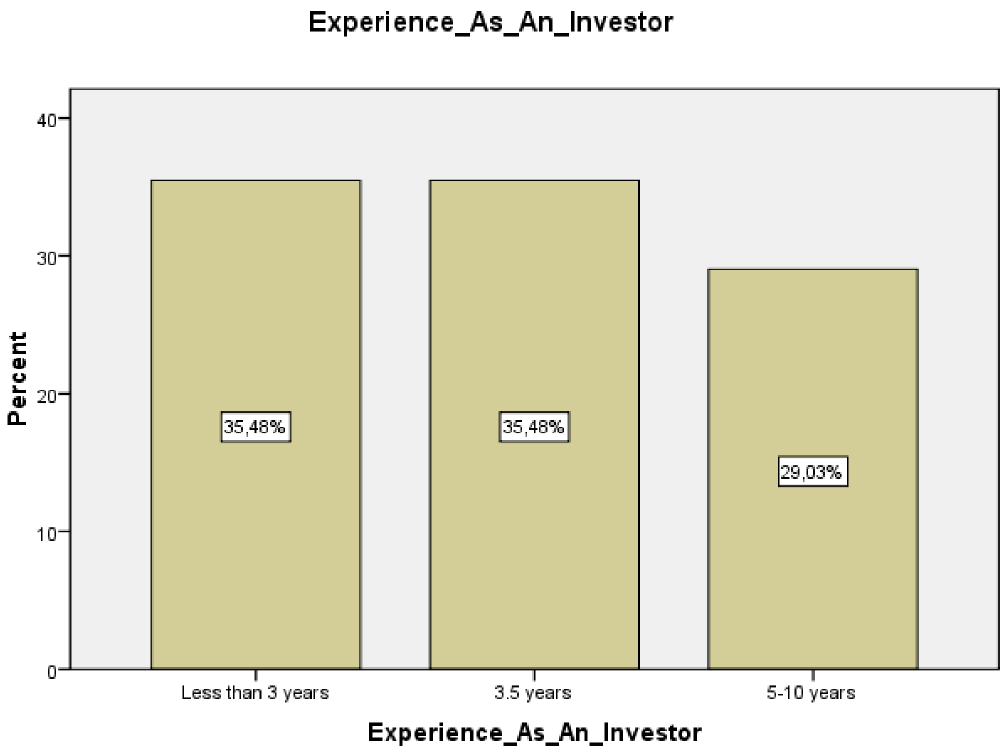


Figure 5: Experience as an investor

figure 5 depicts the experience of investors in years. The question was designed to survey the level of experience of respondents on their investment and the aim was to know the number of years that respondent have been an investor. 35.48 percent of the investors who answered the questionnaire have less than 3 years experience whiles 35.48 percent have 3-5 years of experience and 29.03 percent have 5-10 years experience respectively. While none of the respondent have more than 10 years investment experience. This shows how respective respondents are abreast with the Nigerian financial reporting issues/system as they must have been conversant with several reports thereby justifying their answers.

7.3 **Reliability of Annual report**

As discussed in chapter four, reliability of financial information is crucial to a firm as it form the basis for investor to either invest in a firm or not, the result from the respondents shows that the respondents critically evaluate the financial report of the firm before making a decision on their investments. As shown in the figure 6, 80.65 percent of the respondents are of the view that financial report is reliable prior to investment decision, the finding affirms that stakeholders are assured that the information provided is reliable and could be used in making a decision.

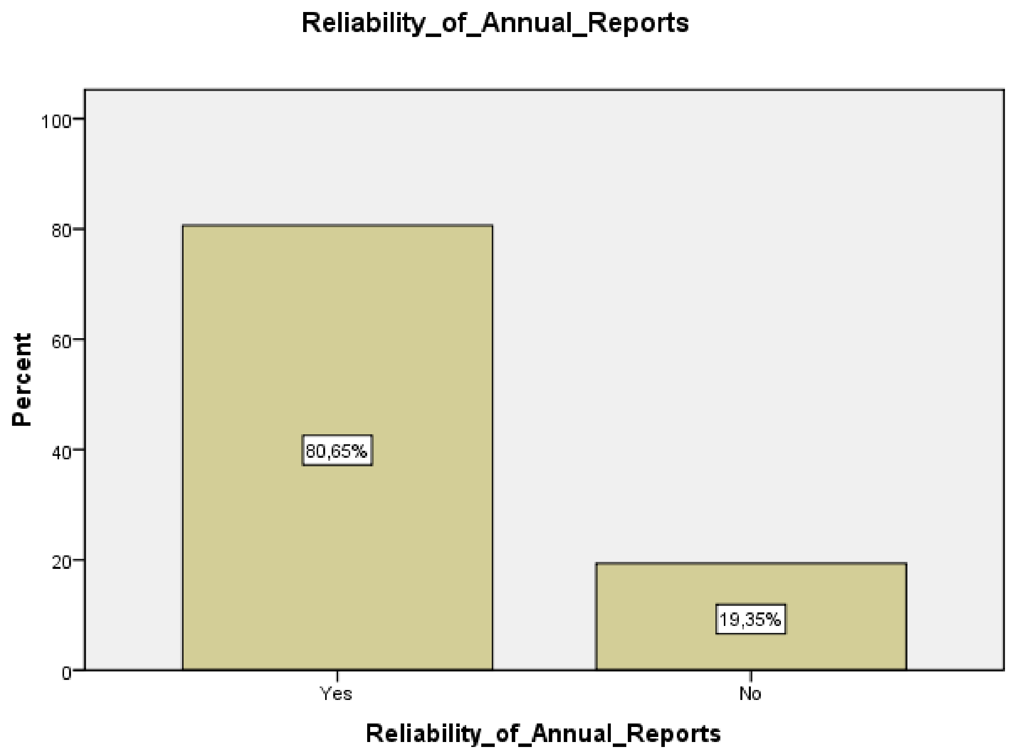


Figure 6: reliability of Annual report

The result also shows that stakeholders trust the view of the auditor who after an audit process expresses an opinion on the state of the financial position of the firm, this gives a strong reliability to stakeholders in considering and evaluating the information provided in the financial report. The finding is consistent with Afterman and Jones theory (2003) on the reliability of financial information.

19.35 percent of respondents feel that the financial report cannot be totally trusted. This could be as a result of some firms which an audit opinion has been expressed in the annual report and discrepancies were later discovered. It is not a common phenomenon but occurs everywhere even in the develop world.

**7.4 Most considerable financial record**

Question four of the questionnaire was a multiple choice which requests respondents to rank in numbers from 1-3 the importance accordingly, the financial records which they considered to be the most important when making an investment decision. The financial records specified are; cash flow statement, income statement and balance sheet. Microsoft excel was used to analyse this multiple choice question since the answers generated could not be analysed using statistical package for the social sciences (SPSS) as applicable to the rest of the question.

7.4.1 Cash Flow Statement Analysis

Figure 7 shows that 29,03 percent of the respondents agree that cash flow statement analysis is the most important, 16,13 percent find it just important but not very important, 22,58 percent find it less important while 32,26 percent are indifferent to its importance.

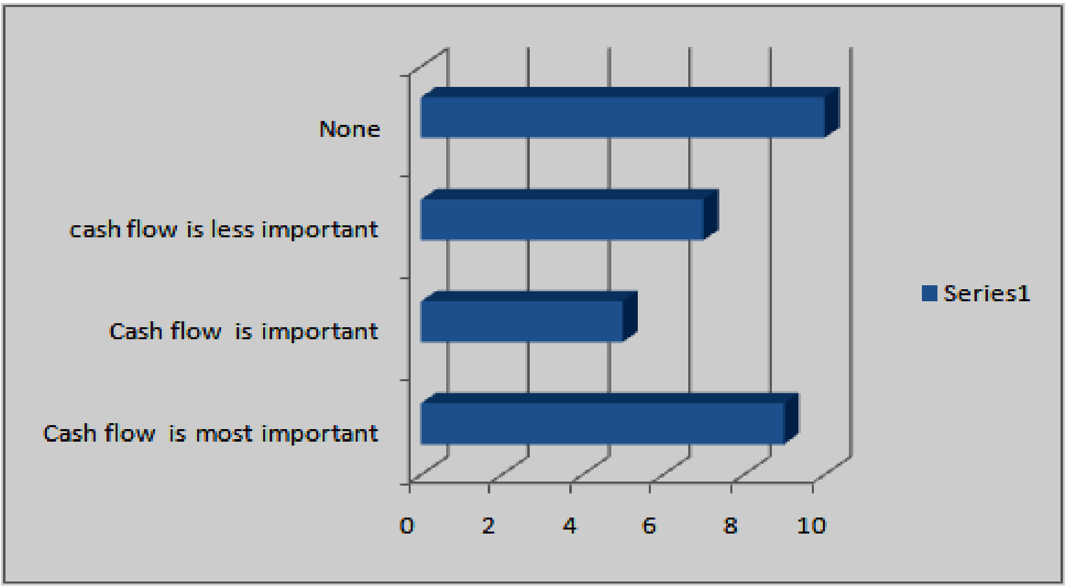

Figure 7: Cash flow analysis importance

### 7.4.2 Income statement analysis

Figure 8 shows the result for multiple responses on income statement in which 19,35 percent agree to the fact that income statement analysis is most important, 35,48 percent think it is important as other accounting records, 19,35 percent of the respondent are of the opinion that the analysis cannot be regarded at all i.e is less important to them, while 25,81 percent are indifferent in thinking that it is neither most important, important nor less important.

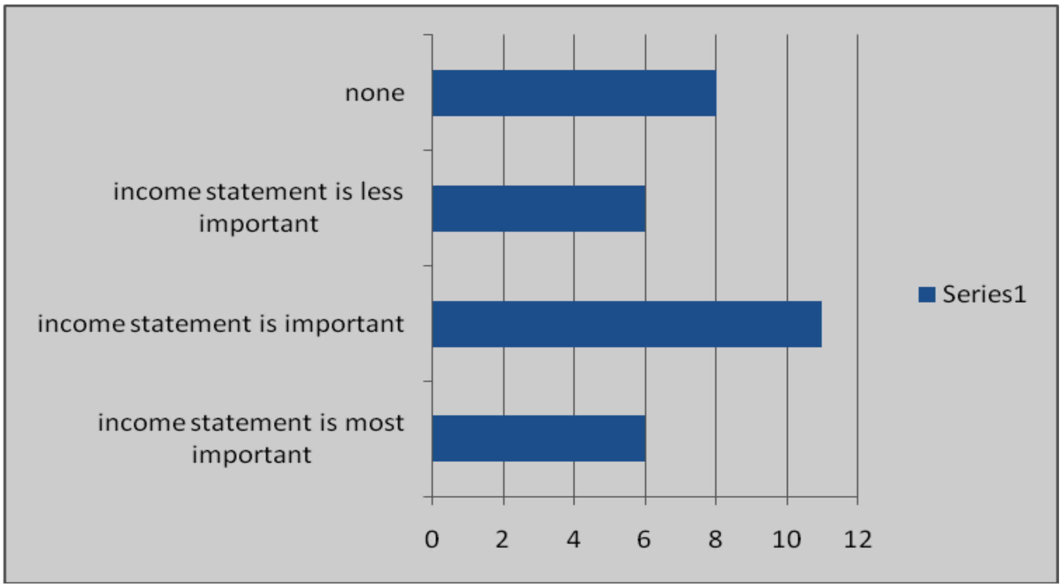


Figure 8: Income statement analysis importance

### 7.4.3 Balance sheet analysis

As shown in figure 9 25,81 percent find the balance sheet analysis most important to check before deciding on investing in a firm, 16,13 percent consider it is important and 25,81 find it least important while 32,26 percent do not consider the balance sheet analysis as an important record when making a decision. This could be as a result of difficulty in interpreting the content of the balance sheet and for this reason the respondents do not consider it useful to them.

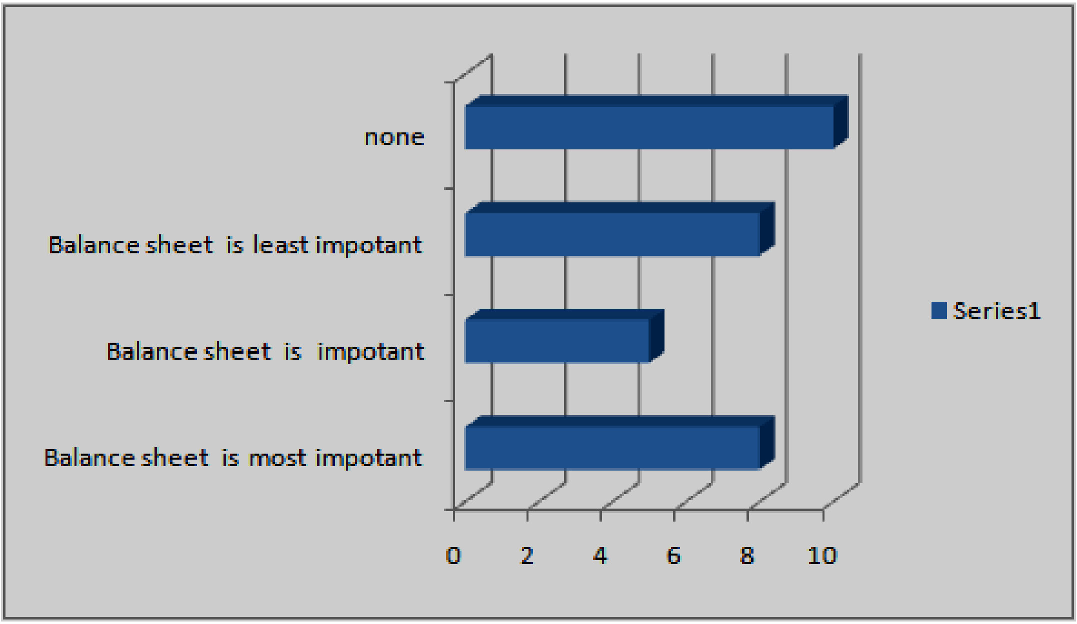


Figure 9: balance sheet analysis importance

From the result generated from the figures 9 above, the respondents rank cash flow statement analysis as the most important record with the highest percentage of 29,03 percent, then balance sheet with 25,81 percent and lastly income statement with 19,35 percent respectively. The cash flow statement is mostly important because it provides more information than income statement and balance sheet. The cash flow statement is a major concern not only to the firm's management but to all stakeholders like stockholders, suppliers, investors and employees as it records consist of analysis from operations, investments and finances.

## 7.5 **Audit committee Activities**

This question was asked to gain an in-depth opinion from the respondents whether the activities of audit committee are of any value to management effectiveness. The result shown in figure 10 reveals that 96,77 percent of respondents give applaud to audit committee activities as this raised the level of confidence of stakeholders in a firm due to the fact that the audit committee serve as a check. This is a very important question to find out as many could have thought that the establishment of the audit committee is of no importance to a firm in Nigeria. This study shows that stakeholders have a high degree of confidence in a firm with the presence of an audit committee in firm as they are statutorily established to independently review the whole audit and improve the quality of audit within a firm. The result does not conform to the research of Essang, Ogbada & Orok (2009), which posited that the sound philosophy of the concept has not made appreciable impact in Nigeria due to many encumbrances surrounding its functionalities.

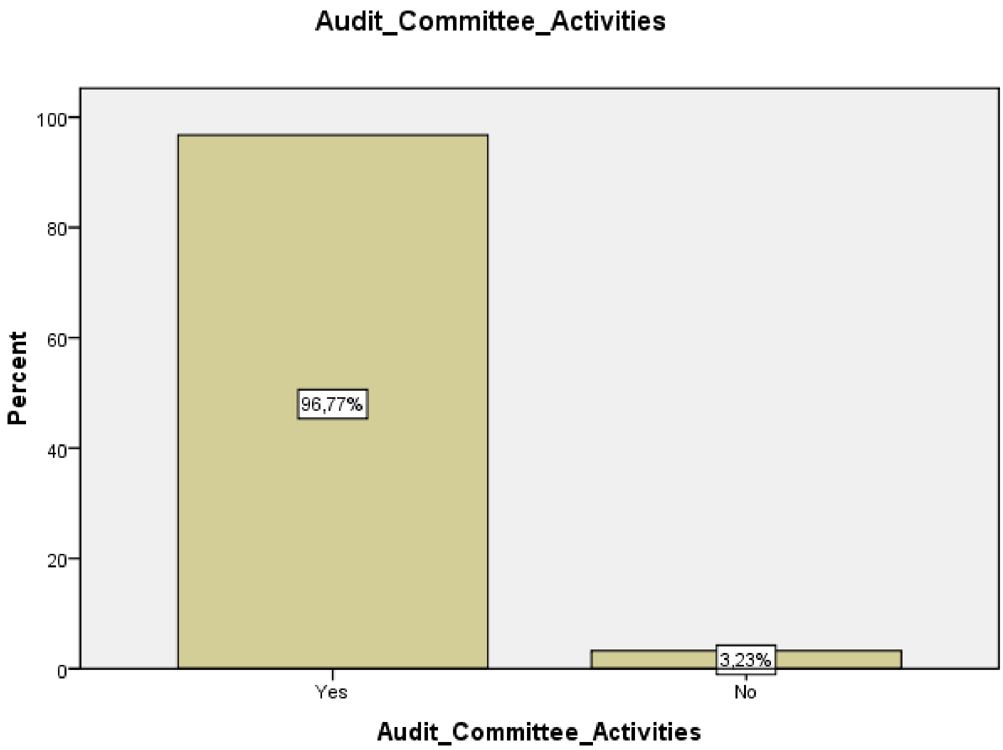


Figure 10: Audit committee activities

On the other hand just 3,23 percent of the respondents believe that the presence of the audit committee in a firm is no assurance that management could be effective in acting with the view of faithful representation, this is as a result of several reports on alleged financial fraud among directors of some firms but this study shows that the audit committee plays an important role in making sure that financial reporting policies of firms are in accordance with legal requirements and ethical practise as specified.

**7.6 Level of confidence**

With this question, the intention was to find out whether auditing a financial statement increase the level of confidence of stakeholders or not with a yes/no affirmation. But surprisingly, the result shown in Figure 11 depict the opinion of respondents as a large proportion of the respondents agree to the fact that auditing a financial statement boost the level of confidence of stakeholder in a firm. The result could refer to the fact that an auditor could be held responsible if stakeholders are being mislead as a result of their action. 93,55 percent of respondents are of the view that auditing a financial statement assures stakeholders that the information provided in the financial report is accurate which is why auditing financial is important.

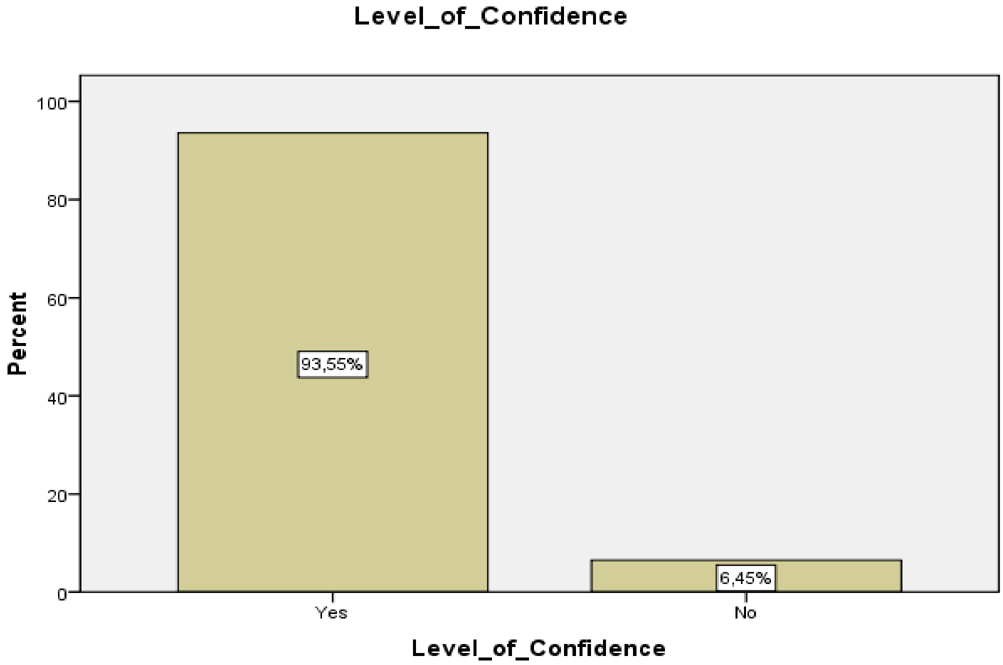


Figure 11: Level of confidence

The above suggests that the respondent tends to invest in a quoted firm as its reports are made available to the public, this is for the fact that publication of quoted firms is a statutory requirement by law in Nigeria and the information therein must not mislead users. Nevertheless, 6,45 percent of respondents do not agree with the fact that auditing financial statement has a positive influence on the report given by firms, this could be a result of some fraud which have been recorded in time past in some firm despite the fact that the auditor expressed a true and fair view in their annual report.

## 7.7 External auditors

The question asked on external auditor independency is connected to the previous question about auditing financial statement, the question used in arriving at this question which requests the  respondent who answered ‘yes’ to previous question to rate the role of external auditor in delivering their duty under the control of management who engaged them. The response reveals that 64,52 percent of the respondent think it is reliable and that management has no influence on external auditor activity, these respondents are of large proportion of the sample size. 16,13 percent of the respondents are of the view that external auditor activity is highly reliable irrespective of management control, 16,13 percent rate the role of external auditor to be average which means external auditors neither deliver their duty autonomously nor work with the influence of management which does not conform with ethical standard as external auditors are to be autonomous in delivering their duty as regards ethical rule. There were only 3,23 percent of respondents who assume that the role of an external auditor in assuring reliable financial reporting is not reliable.

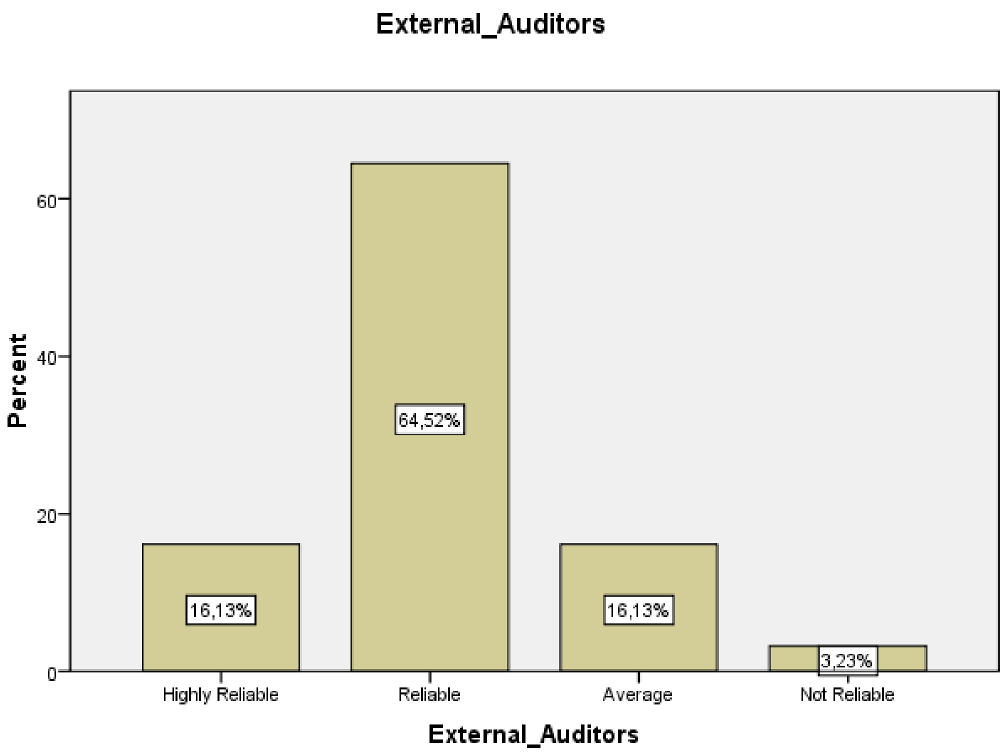


Figure 12: External auditor’s activities

Hence, if the number of the respondents that think is highly reliable (16,13 percent) are added to 64,52 percent that agree it is reliable it results that 77,65 percent of the respondent agreed with the statement. The response received is shown in figure 12.

**7.8 Regulatory body**

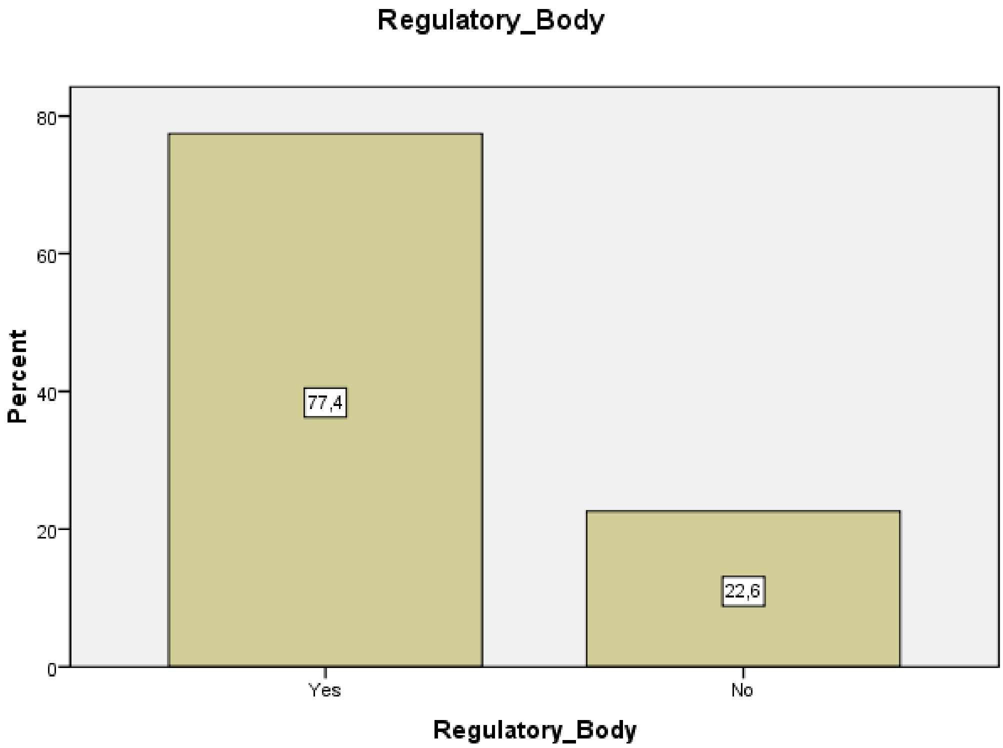


Figure 13: Regulatory bodies

Figure 13 shows the responses, for the question if Nigeria's regulatory body has been helpful in any way to investors and potential investors in ensuring good accountability. The intention of the researcher here is to know if various regulatory authorities in Nigeria have in actual fact played any role as they are supposed. Their responses show that 77,4 percent agreed with the fact that regulatory body has been a great source of assistance in ensuring optimum accountability as they are working earnestly to rank at the same level of standard with regulatory bodies in developed world. 22,6 percent of the respondents feel the Nigerian regulatory body has not been performing to expectation in order to assure good accountability by firms, this could be as a result of not enforcing sanctions on defaulting firms who do not adhere with the requirements of the regulatory authorities.

### 7.9 Impact of financial reports on earnings

The ninth question was ‘in your opinion, do you think financial report can boost and increase a firm’s earnings?’ The purpose of this question was to know how investors feel and react whenever the report of their firm has been published. The question seeks to know which impact a financial report has on their investment, does it attract new investors which will definitely result in series of expansion for the firm or not? The result in figure 14 shows that 48,4 percent of respondents are really undecided i.e ( sitting on the fence) by saying ‘maybe’ which means that financial reports may and may not make an impact while 41,9 percent confirmed that a financial report which comprises the financial performance  of a firm have a great impact on earnings in such a way that a potential investor will really want to know the performance of a firm and evaluate future growth before investing in such. The study concurs with the report of Biddle, Hilary and Verdi (2009) on how financial reporting relates to investment efficiency.

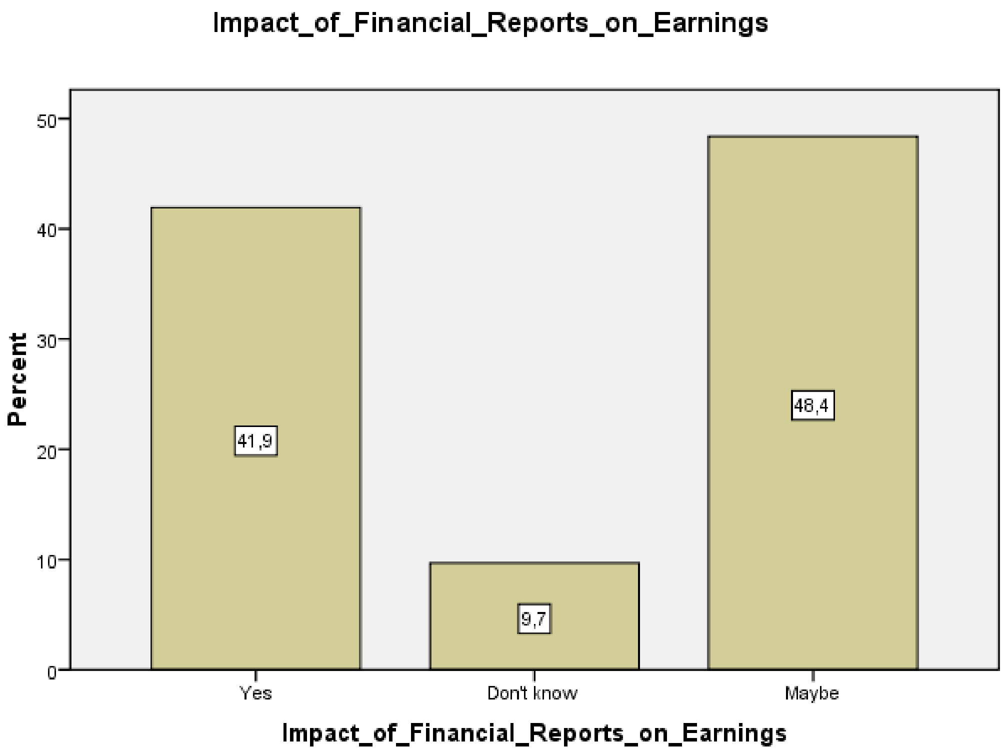


Figure 14: Impact of financial reports on earnings

Only 9,7 percent of the respondents do not know whether financial reports have any impact on earnings. This implies they neither care less of the performance of their firm nor their investment.

### 7.10 Discrepancies in financial report

In this part of the question the researcher wants the respondent to give a general opinion which could help this study in terms of financial report discrepancies they might have experienced, heard or read about. The researcher does not generate any option for answering the question rather it is left open for respondents to fill in their views. Most of the respondents do not consider it important to answer thereby leaving the space blank while other respondents give their opinion as stated below.

There is always hidden information which are not disclosed to external auditor which may mislead an investor as a matter of fact, a respondent cited a case of one of Nigerian bank director who acquired considerable personal property with the bank’s name using his/her position to award huge sum of contracts to relatives and these were not recorded in the financial report but was discovered when some of the shareholders questioned the report and ordered an investigation. Firms should clearly explain each section of the financial reports; adhere to the principle of utmost good faith in their reporting. The guidance of financial reports should be based on three principles covering the process which managements should follow when assessing. Going concern, the period by the assessment and the disclosures of ongoing liquidity risk should be known to investor.

As a means to attract an investor, Nigeria should as a matter of urgency adopt and implement with strict compliance the international financial reporting standard to improve her reporting standard as some of its standards are feeble.

# 8 **CONCLUSION AND RECOMMENDATION**

This is the final part of the research and it contains the major findings of the entire study which include; summary, recommendation for an upcoming researcher who will like to make some kind of research in this area and personal suggestions to all stakeholders and users of financial report.

## 8.1 Summary

At the beginning of this study, the theory of principal-agency relationship was examined literally but not in depth as it is not the main focus of the study rather it gives an overview of principal-agency relationship by enlightening to stockholder the applicability of this theory which is total delegation authority as regards their investment, the conflicts which emanated between principal and the agent were also discussed so as the cost involved in the relationship. The study went further to look into the development of annual reports in Nigeria, information contained in the reports and its relevance to stakeholders.

The study reveals how annual reports emanated in Nigeria to the point it became a component of corporate financial reporting of all firms as a detailed report in a firm’s operation throughout the preceding year to give shareholders information about the firm’s activities and financial performance over a period of time. Information contained in the report is used by different users, these users are observed closely at the reason they need the information. The basic financial statements used to analyse a firm’s performance during a period were explained for it is important that investors, creditors and other stakeholders be able to read and digest these documents in order to know the financial position and performance of a firm. Users of Financial statements comprise of present and potential investors, employees, lenders, suppliers, competitors, investment analysts, managers and other trade creditors, customers, governments and their agencies and the public/community. These users need the financial statement to satisfy some of their different needs for information in which it was discovered that the needs of users differ but there needs which are common to all due to the fact that financial information provided by firms cannot ultimately satisfy the needs of all users rather it gives a clue and overview of the current position of a firm. The study reveals how financial reports are made reliable, the two reliabilities model used in the study were; management prepared financial statement and audited financial statement which offers the most reliability for shareholders and other users. Another reliability model which was emphasized is the audit committee, the committee which was established to examine the auditor’s report and make proper recommendations thereafter to the annual general meeting as necessary.

Regulatory authorities which were considered relevant for this study are Nigeria Accounting Standard Board and Nigeria Securities and Exchange commission. The authorities who are responsible for issuing, modifying and developing guidelines of operations for firms were critically mentioned. There regulations have been of immense benefit in shaping and developing Nigeria financial standards.

The study also came up with a research model of the significance of financial reporting to stakeholders in Nigeria. A model which was adapted from previous research with well structured questions aimed at adding values to the theory described in the study. The empirical findings show that financial reporting has a great impact on decision making as it assist investors to review and evaluate the financial position and performance of a firm and as well forecast future performance. Also reveals cash flow statement as the most important records to look into by investors’ prior making financial/investment decisions, these achieves the aim of the study. This report concurs with some financial theory and research but declined others because the result shown in the empirical analysis duly reveals the opinion of selective respondents.

## 8.2 Suggestion for Nigeria regulatory authorities

The research uses a descriptive method and so discovered that the Nigerian regulatory authority need to modify some of it policies and regulations by introducing a more structured legal framework for financial accountability as it presently achieves a very low overall compliance with international standards and codes. It is of the opinion of the researcher that Nigeria would attract more investors around the globe if she can adopt international accounting and auditing standards which will give more confidence to stakeholders.

## 8.3 Recommendation for further research

There have been several researches on financial report but factors influencing the decision of investors have not been researched, more focus is needed on stakeholders' protection and regulatory bodies in Nigeria. There are many areas that this research was unable to cover; they are equally important and further studies are needed in this area. The more important reason for further research is that this research needs to be validated with a case study analysis and wide range of respondents. The subject matter is applicable even in the developed world but this study is limited to the geographical zone of Nigeria.

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# APPENDICES

## Appendix 1: Questionnaire

I am Wilson David, and I am studying on the Degree programme in International Business at Vaasa University of Applied Sciences, Vaasa, Finland. This survey is to study the extent at which financial reporting influence stakeholders' decision in Nigeria. I would be glad if this questionnaire is returned back to me for analysis at the latest 2nd of May 2010.

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1. Age 18-30 ☐ 31-40☐ 41-50 ☐ 51-60 ☐
2. How long have you been an investor in the Nigerian capital market?

   Less 3years ☐ 3-5years ☐ 5-10years ☐ More than 10 years ☐
3. Do you consider the annual report reliable in any case prior to investment decision either to increase or reduce your investment strength/ earnings?

   Yes ☐ No ☐
4. Which of the financial records can you rank as most important base on it analysis to you as a stakeholder? Rank the importance. 1 2 3

   (1= most important, 2= Less important, 3=least important

   Cash flow statement income statement balance sheet
5. As a stakeholder, do you think the activities of audit committee add value to the effectiveness of management and does it keep them on their toe?

   Yes ☐ No ☐
6. Do auditing financial statements increase the level of confidence of stakeholders in a firm? Yes ☐ No ☐
7. If your answer is yes above, how would you rate the role of an external auditor in delivering their duty under the management?

   Highly reliable☐ Reliable ☐ Average ☐ Not reliable ☐
8. Has Nigeria's regulatory body been helpful in any way to investors and potential investors in ensuring good accountability? Yes☐ No☐
9. In your opinion, do you think financial report can boost and increase firm's earnings?

   Yes ☐ don't know ☐ maybe ☐ No ☐
10. Is there any special opinion that can help in this study in terms of financial reports discrepancies you would like to provide as a stakeholder? Comment in the box below.

I am grateful for your time and contributions in achieving the aim of this survey with regards to the deadline of $2^{nd}$ may, 2010. Please use the same email to return the questionnaire.

Appendix 2: Auditor’s report (Sample)

# Annual Report for 2007

| | 30 September 2007 | 30 September 2006 | 29 December 2005 | 30 June 2005 | 30 June 2004 |
|---|---|---|---|---|---|
| | N'000 | N'000 | N'000 | N'000 | N'000 |
| **PROFIT AND LOSS ACCOUNT:** | | | | | |
| Gross earnings | 21,057,246 | 12,444,596 | 1,611,280 | 5,486,630 | 5,507,724 |
| Profit/(Loss) before tax | 605,277 | 429,357 | (4,968,377) | 298,554 | 461,573 |
| Taxation | 15,381 | 532,288 | 147,819 | (121,709) | 1,083,504 |
| Profit/(Loss) after tax | 620,658 | 961,645 | (4,820,558) | 176,845 | 1,545,077 |
| **GROUP:** | | | | | |
| **Total Assets** | **156,735,855** | **111,765,461** | **21,341,796** | **45,252,654** | **28,778,214** |
| Financed by | | | | | |
| Share capital | 5,276,423 | 5,276,423 | 2,386,986 | 1,873,254 | 1,243,294 |
| Reserves | 22,665,101 | 20,773,818 | 246,546 | 4,128,388 | 4,636,357 |
| Deposits | 99,218,069 | 68,945,862 | 12,315,216 | 17,186,620 | 16,494,429 |
| Other Liabilities | 27,809,404 | 10,527,029 | 4,998,704 | 21,366,298 | 5,515,574 |
| Deposits for Shares | 481 | 5,880 | - | - | 99,747 |
| Funds under management | 1,456,913 | 6,098,771 | 1,006,946 | 439,446 | 524,266 |
| Deferred taxation | 24,203 | 3,823 | 286,240 | 182,744 | 194,181 |
| Minority interest | 285,261 | 133,855 | 101,158 | 75,904 | 70,366 |
| | **156,735,855** | **111,765,461** | **21,341,796** | **45,252,654** | **28,778,214** |
| Profit and Loss Account | | | | | |
| Gross earnings | 23,864,197 | 12,857,675 | 1,823,659 | 5,942,609 | 6,588,800 |
| (Loss)/Profit before tax | 2,226,708 | 728,181 | (5,593,599) | 337,101 | 686,846 |
| Taxation | (288,699) | 345,601 | 191,603 | (172,302) | 982,893 |
| (Loss)/Profit after tax | 1,938,009 | 1,073,782 | (5,406,450) | 164,799 | 1,669,739 |
| Minority | (64,984) | (20,122) | (4,454) | (31,222) | (12,154) |
| Profit attributable to Group | 1,873,025 | 1,053,660 | (5,410,904) | 133,557 | 1,657,585 |

| | 30 September 2007 | 30 September 2006 | 29 December 2005 | 30 June 2005 | 30 June 2004 |
|---|---|---|---|---|---|
| **BANK:** | N'000 | N'000 | N'000 | N'000 | N'000 |
| **ASSETS:** | | | | | |
| Cash and short-term funds | 44,633,790 | 22,639,039 | 5,003,948 | 4,430,560 | 7,251,399 |
| Short-term investments | 13,721,471 | 17,038,334 | 12,175 | 1,099,394 | 789,134 |
| Loans and advances | 45,957,835 | 38,945,949 | 1,722,851 | 305,813 | 916,105 |
| Advances under finance lease | 2,222,007 | 1,590,466 | 989,887 | 502,749 | 563,115 |
| Other assets | 4,760,856 | 5,555,186 | 5,661,262 | 15,114,624 | 6,767,872 |
| Investment property | 5,602,394 | 6,877,448 | 222,489 | 385,129 | 238,635 |
| Long-term investments | 19,173,155 | 4,137,000 | 1,737,456 | 17,645,037 | 1,568,194 |
| Investment in subsidiary | 1,550,405 | 1,550,405 | 1,728,677 | 2,357,531 | 2,441,374 |
| Deferred tax asset | 376,326 | 40,831 | 204,093 | 157,293 | 157,293 |
| Fixed assets | 4,864,389 | 7,217,445 | 2,152,451 | 2,124,684 | 1,891,425 |
| Equipment on lease | 30,053 | 42,025 | - | - | - |
| Goodwill | 3,081,993 | 4,030,299 | - | - | - |
| **TOTAL ASSETS** | 145,974,674 | 109,664,427 | 19,435,289 | 44,122,814 | 22,584,546 |
| **LIABILITIES:** | | | | | |
| Deposits and other accounts | 106,933,727 | 75,026,350 | 12,379,926 | 17,746,570 | 12,383,402 |
| Other liabilities | 11,634,139 | 7,634,014 | 3,633,951 | 20,292,808 | 3,851,375 |
| Deposits for shares | 606,413 | 684,735 | - | - | 99,747 |
| Taxation payable | - | - | 168,446 | 100,568 | 153,066 |
| Deferred tax liability | - | - | 286,240 | 182,744 | 194,181 |
| Dividend payable | - | - | - | 20,904 | 273,714 |
| **TOTAL LIABILITIES** | 119,174,279 | 83,345,099 | 16,468,563 | 38,343,594 | 16,955,485 |
| **NET ASSETS** | 26,800,395 | 26,319,328 | 2,966,726 | 5,779,220 | 5,629,061 |
| **CAPITAL AND RESERVES:** | | | | | |
| Share capital | 5,276,423 | 5,276,423 | 2,386,986 | 1,873,254 | 1,243,294 |
| Share premium | 13,319,141 | 13,319,141 | 1,886,937 | 569,484 | 569,484 |
| Share reserve | 5,276,423 | 5,276,423 | - | - | 629,960 |
| Other Reserves/(Deficit) | 2,928,408 | 2,447,341 | (1,307,197) | 3,336,482 | 3,186,323 |
| **SHAREHOLDERS' FUND** | 26,800,395 | 26,319,328 | 2,966,726 | 5,779,220 | 5,629,061 |
| Other Committments and contingents | 54,121,619 | 34,437,199 | 9,991,073 | 5,751,977 | 11,136,329 |