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Original Article

Impact of IFRS on Financial Reporting Quality: Evidence from Non-Financial Companies in Nigerian Stock Exchange

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Abstract: *The objective of this research is to investigate the impact of adopting International Financial Reporting Standards (IFRS) on the quality of financial reporting in non-financial companies listed on the Nigerian Stock Exchange (NSE). The study specifically focuses on examining earnings management through discretionary accruals before and after the implementation of IFRS. Data for this study was collected from the NSE Factbook and the official websites of selected non-financial firms. The analysis concentrates on data from non-financial entities listed between 2003 and 2020. The research compares the level of discretionary accruals in these firms before and after the adoption of IFRS to determine whether IFRS implementation influences earnings management practices. The study utilizes secondary data from 2003 to 2011 for the pre-adoption period and from 2012 to 2020 for the post-IFRS adoption period for comparison.A dynamic panel data regression model utilizing the generalized method of moments (GMM) was employed for statistical analysis to investigate the relationship between IFRS adoption and discretionary accruals. The results indicated that there was a notable increase in discretionary accruals following the implementation of IFRS. This increase was highlighted by the highly significant coefficient observed between IFRS adoption and discretionary accruals in the models utilized for the statistical analysis. Moreover, it was observed that certain non-financial sector industries within the NSE displayed a positive association with discretionary accruals subsequent to the adoption of IFRS. This suggests that the impact of IFRS adoption on discretionary accruals is not uniform across all sectors, with some industries experiencing a more pronounced effect than others. The results of this research shed light on how the adoption of IFRS affects discretionary accruals in non-financial companies listed on the NSE. By comparing financial reporting quality before and after IFRS implementation, the findings indicate thatIFRS promotes earnings management practices through discretionary accruals.*

Keywords*: Earnings Management, IFRS, Discretionary Accruals, GMM, NSE, Non-Financial Entities.*

I. INTRODUCTION

The development of International Financial Reporting Standards (IFRS) by the International Accounting Standards Board (IASB) has been a significant landmark in international accounting standards regulation history all over the world. This change in the development of accounting standard historyisassumed to have a tremendous effect on accounting information environment across the globe. Before the emergence and widespreadadoption of IFRS as a unified international financial reporting standard, each country developed, pursued, and maintained its national accounting standards. This diversity in accounting standards implies that accounting information is not comparable across the jurisdictions (Omotoso, *et al.,* 2022)

Walton and Aerts (2007:17) report that the consolidation of global financial markets makes the accounting information prepared following national accounting standards no longer met the needs of participants in international capital markets. Likewise, it has been asserted that various countries domestic accounting standards create difficulties in the comparability of financialinformation globally due to significant variations in the quality of financial reporting (Chen*et al.*, 2014; Efobi, 2017, Oberholzer, *et al.*, 2022).

It has been stated in the literature that the rapid global expansion of capital markets and internalisation of complex economic trade across the world required the public demand for establishing a single set of a high-quality accounting standard (Al-Htaybat, 2018). This demand has become necessary because each country has been using different accounting standards that fail to satisfy the information needs of capital market participants. The use of local accounting standards framework caused accounting diversity, which rendered the financial reporting quality inefficient. Thus, the adoption of IFRS aims to improve accounting information transparency and enhance comparability of financial information, thereby reducing the scope of earnings management (Tsalavoutas, 2009).

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As a result, over 167 countries all over the world embraced the adoption of IFRS as an international accounting standards framework for all the listed companies (Ball, 2016).According to (Beneish*et al.* 2015;Gordon*et al.* 2012; Soderstrom and Sun 2007;Schutte*et al.* 2023; Taiwo and Adejare 2014; as well as Ng 2015) the widespread adoption of IFRS will bring a dramatic information change in the global economic environment than using a national accounting standard framework by the listed companies. Similarly, (Amiram 2012; Ball 2006; Beneish*et al.* 2015; Othman and Kossentitni 2015), adoption of a single set of high-quality accounting standard globally is associated with informational change.

The IASB emphasises that the adoption of IFRS and total compliance to the regulatory framework has a significant relationship with improvement in the quality of financialinformationdue to more disclosure requirements of accounting information (Newman *et al.*, 2016). According to (Amiram2012;Iatridis 2010;Shima and Yang 2012), the adoption of IFRS enhances the high-quality and credibility of financial information andimproves the transparency and comparability of financialinformation with the complementary reduction in the degree of information asymmetry and earnings management. Thus, it implies that with the adoption of IFRS,higher quality of financial reporting is predicted with a corresponding reduction in the level of earnings management.

Meanwhile, the adoption of IFRS in Nigeria is still at the infancy stage, which demands investigation of the possible consequences on the quality of financial reporting. In particular, as it affects the possible variances in the quality of financialinformation (proxy by earnings management) between NigeriaGenerally AcceptedAccounting Principles (NG-GAAP) framework and the choice of IFRS. However, following the expected consequences of globally comparable accounting information, various researchers (i.e.,Bello *et al.* 2016; Bruggemann*et al.* 2013; Kwon *et al.* 2019; Ozili and Outa, 2019)investigated the effect of the adoption of IFRS on the quality of financial reporting with emphasis on earnings management as a measure of financial reporting.

Earnings management concept exhibits the extent at which the mangers use discretionary judgement in influencing the status of financialinformation to confuse the users that the financialinformation shows a faithful representation of the economic reality of the firm. Various authors further defined the concept. For example, Schipper (2003) states earnings management-measured by discretionary accruals- as a purposeful intervention in the external financial reporting process, with the intent of obtaining some private gain.Similarly, Healy and Wahlen (1999); DeFond and Jiambalvo, (2015), and Knechel*et al.* (2017) explain that earnings management occurs when managers use judgement in financial reporting and in structuring transactions to alter financial reports. This managerial behaviour is to either mislead some stakeholders about the underlying economic performance of the company or to influence contractual outcomes that depend on reported accounting numbers.

II. LITERATURE SURVEY

Iatridis (2010) suggests that the adoption of IFRS will enable managers of the firm to behave optimally and promote the quality of financialinformation and interest of the stakeholders, hence reduce the earnings management and improved reporting quality. Given that IFRS is a principle-basedstandard (Chen *et al.* 2014 and Dimitropoulos*et al.* 2013) which provides flexibility in accounting reporting, there is a tendency for persistence existence of earnings management as a result of exceeding certain essential thresholds. For example, managers' opportunistic behaviours to report positive profits for a bonus award Healy (1985); to sustain recent performance, to meet analysts' expectations (Burgstahler&Dichev, 1997; Kasznik, 1999); and to meet the terms of the loan agreement (DeFond&Jiambalvo, 1994).

Reflecting on the maximisation of interest of mangers, Deegan (2010:281) emphasises that mangers manipulate the corresponding accounting numbers in the financialinformation to improve their apparent performance and inflate their rewards. Considering the concept of the principle-based system allowed in the standard,it is in doubt if the quality of accounting information following the adoption of IFRS will not be undermined (Cang*et al.,* 2014; Doukakis, 2014).At the same time,Landsman *et al.* (2012) postulate that due to the flexibility of IFRS (principle-based) financial reporting quality may be of less quality.

Although previous studies have examined the interplay between IFRS adoption and financial reporting quality (proxy by earnings management), their resultsare not consistent but mixed. Some empirical findings indicate that IFRS adoption is positively associated with improvement in financial reporting quality and lower of earnings management (Kwon *et al.*, 2019; Ozili& Outa, 2019; Puspitasari*et al.,* 2019). On the other hand, some studies have documented a negative relationship between IFRS and the quality of accounting information. For example, the empirical studies of (Ahmed *et al.* 2013; Christensen *et al.* 2013; Pena *et al.*, 2017) indicate an increase in earnings management. At the same time, the study of Enakirerhi (2020) shows a mixed finding. Most of these empirical studies focused on the financial sector while few studies concentrated on the non-financial sectors, which makes the current study differs from the previous studies.

The inconsistent in the findings of the previous studies indicate that the argument remains unresolved. Hence, it gives further debate on the relationship between the adoption of IFRS and accounting information quality proxy by earnings management.According to Ozili and Outa (2019), earnings management studies are essential in determining the earnings stability of the firm.Because information relating to earnings plays a significant role in the decision-making processby numerous investors, hence this study proposed to determine whether the adoption of IFRS encourages or discourages the opportunistic behaviour of managers among the non-financial firms listed on NSE. Thus, the motivation for this study is to determine whether the adoption of IFRS accounting frameworkhas a major impact in alteringthe earnings management behaviour of the managers.

Furthermore, the effects of IFRS adoption on the quality of financial information are not cleared and uncertain, mostly, in terms of earnings management behaviour of non-financial firms listed on NSE. Thus, the actual effect of adoption on the quality of financial information on NSE has been a significant research debate yet to be resolved. Hitherto, there is still no conclusive empirical findings in the literature concerning the relationship between the adoption of IFRS and the quality of financial reporting proxy by earnings management. Therefore, the research problem is to find out whether the migration from NG-GAAP to IFRS encourages or discourages the use of earnings management-measured by discretionary accruals- among the non-financial firms listed on the Nigerian Stock Exchange (NSE).

The period is grouped into pre-IFRS adoption (2003-2011) and post-IFRS adoption (2012-2020). This is to compare the scope of earningsmanagement measured by discretionary accruals. The outcome will determine if IFRS has a higher degree of accounting quality in reducing the level of earnings management before and after the adoption of IFRS among the non-financial companies listed on the NSE.

III. BACKGROUND TO THE STUDY AND LITERATURE REVIEW

A. Background to the Study

The European Union (EU), in 2002 approved the International Accounting (IAS) Regulation, which requires all the listed companies in the Union to mandatorily adopt IFRS as accounting framework for the preparation and presentation of their financialinformation commencing from 1 January 2005 (Bruggemann*et al.*, 2013; Soderstrom& Sun, 2007). This movement by the EU motivates widespread adoption of IFRS, hence many countries mandating their listed companies to adopt a universal set of standards irrespective of differences in their cultural, legal, and accounting system when compared with EU. Doukakis (2014) emphasises that introduction of a universal set of standards is a landmark development in the history of accounting discipline.

Under this circumstance, the Nigerian Federal Executive Council approved migration from NG-GAAP to IFRS starting from 1 January 2012. Thus, required all the listed companies in the NSE to apply IFRS Regulations. The primary aim of this movement was to improve the high level of accounting transparency to enhance its comparability and to influence the efficient performance of the Nigerian capital market operations.

It was reported that the financial reporting prepared with NG-GAAP framework was characterised aslow quality and weak, compared with the one obtainable from advanced economy(Shehu & Abubakar, 2011). Therefore, inadequate to effectively satisfy the needs of international capital market participants. However, with the IFRS adoption, it is assumed to improve the capital market activities based on the premise that changes from NG-GAAP to IFRS will foster more accounting disclosure requirements and enhance the quality of accounting information and less degree of earnings management (Hassan, 2015). Thus, if all the hoped-for expectations of the adoption of IFRS are a reality and not an illusion, then it is predictable that the quality of financialinformation in NSE would be enhanced. Hence, resulting in a significant reduction in the opportunistic behaviour of the mangers because financialinformation following the IFRS framework requires more disclosure of accounting information.

On the other hand, Ayuba (2012) emphasises that the fulfilment of the expectation of primary aims of adoption of IFRS may not necessarily come into reality. This aim may be due to the malfunctioningof institutional infrastructures in Nigeria. Hence, making the information environment difficult for an accounting system to thrive. Additionally, the probability that IFRS adoption will reduce the scope of earnings management-measured by discretionary accruals- can be undermined due to the flexible nature of IFRS,which is principle-based (Cang*et al.*, 2014; Doukakis, 2014). The flexibility of IFRS allows the manager to use their discretionary judgement in recording financial transactions which may encourage an increase in earnings management practices and result in undermining the faithful presentation of financialinformation.
Nonetheless, the discussion above still justifies the need and does not undermine the benefits of the adoption of IFRS in Nigeria.The adoption of IFRS in Nigeria is to ensure competitiveness and enhance the operations of capital market activities through the high quality and transparency of financialinformation. The advocate of IFRS proposed that with the adoption, it will improve the high quality of financial reporting and the probabilityof a reduction in the degree of earnings management

opportunities (Tweedie, 2006). Contrarily, Rudra and Bhattachargee (2012) and Tendeloo and Vanstrealen (2005) opine that mere adoption of IFRS may not result in having a high-quality financial reporting and its consequence inlowering the degree of earnings management.

Reflecting on these conclusions, in Nigeria, the findings from empirical studies are mixed and inconsistent regarding the relationship between the adoption of IFRS and the quality of financialinformation,measured by earnings management, especially after the adoption of IFRS in Nigeria.For example, some studies (Kwon *et al*., 2019; Ozili& Outa, 2019; Puspitasari*et al.,* 2019) report a positive relationship between IFRS and the quality of financial reporting. Conversely, other studies (Ahmed *et al*., 2013; Christensen *et al*., 2013; Pena *et al*., 2017) document a negative link between IFRS and the quality of financial reporting. They indicate that the adoption of IFRS does not reduce the degree of earnings management. Neutrally, Bello *et al*.(2016), Christensen *et al*. 2015) exhibit no differences in the quality of financial information during the periods before and after the adoption. They emphasise that other institutional regulatory factors and the attributes of the individual firms may affect the quality of accounting information. These findings conclude that there is no unanimity consensus among the researchers to rely on whether IFRS adoption has a positive or negative consequence on earnings management in NSE.

Based on the inconsistent from different findings from researchers, motivate this study to investigate the effect of IFRS adoption on the quality of financial information among the non-financial companies listed on the NSE.The rationale to focus on the non-financial sector of the NSE justifies the fact that the industry faces a lot of competitive challenges in their products market with more significant concern to job security than other managers in other sectors. Thus, much likely to engage in the deliberate manipulation of accounting numbers. Ahmed *et al*. (2013) hypothesise that the extent of earnings management varies according to the manager's job security concern measured by the degree of competition in the firm's product markets.

Thus, this study assumes to contribute to the existing literature investigating the interplay between the adoption of IFRS and the quality of financial reporting, proxy by earnings management in the non-financial sector of NSE. Hence, the empirical findingswill help to confirm whether the level of earnings management has reduced or increased around the adoption of IFRS.

B. Literature Review

a) *Theoretical Considerations*

The positive accounting theory (PAT) is employed to explain the opportunistic manager's behaviour and accountingpolicy choice in this study. PAT was developed by Watts and Zimmerman (1986) to explain accounting practice and predict which firms will and which firms do not use a particular accounting method. The theory provides a specific perception of how a manager would choose to select one specific accounting policy against the alternatives. Deegan (2010:257) indicates that PAT is concerned with the nexus between owners of the firm and managers, or the relationship between managers and creditors of the firm. This association is referred to as an agency relationship that may result in the loss of efficiency and consequential costs due to self-interest and opportunistic behaviour of the managers. This behaviour assumed that it might affect the disclosure and measurement requirements of financialinformation. Hence, increasing the level of earnings management. Therefore, this research concentrates on PAT such as agency and signalling theory as competing theories which seek to clarify the phenomenon regarding the opportunistic behaviour of managers.

b) *Agency Theory*

Jensen and Meckling (1976) developed the agency theory as a key to explaining why managers' choice of a particular accounting techniques matter. Agency theory focused on the relationship between the corporate managers and subscribers of the capital (equity) and the third party, specifically the creditors. According to Jensen and Meckling (1976), the interests of the two parties (agent and principal) are different, which imposes agency costs that can be aligned through control. Managers have the understanding that shareholders will seek to control their opportunistic behaviour through bonding and monitoring activities; hence they need to influence the equity providers that they are acting optimally through faithful disclosure accounting figures (Watson *et al*., 2002).

The agency theory views the firm as a relationship of two pertinent contracts: reward contracts of company executives and the financial obligation contracts between the firm and debenture holders and creditors (Jensen &Meckling, 1976). However, the theory emphasises conflict of interest between the managers of the firm and equity capital providers.Who is entitled to residual claims on liquidation—also, a conflict of interest between the shareholders and debtholders?Furthermore, agency theory postulate that companies are operating under various economic

uncertainty, which resulted in information asymmetries problems such as moral hazard and adverse selection problems (Walker, 2013).

Moreover, agency theory has been employed to investigate accounting choices of interest and disclosure of financial information. It was found out that the accounting policy choice, driven by self-interest, and disclosure of accounting information can be used to reduce agency costs and information asymmetry with the adoption of IFRS.Since the adoption of IFRS will signify that the accounting information is of high quality and disclose all the necessary accounting information.Fields *et al.* (2001) and Iatridis (2010) suggest that with the adoption of IFRS, it is assumed that companies act optimally to enhance high-quality financial reporting. Based on this theory itmeans that the opportunistic behaviour of a manager can be reduced if IFRS is adopted. Hence this theory will be tested in this study to find out if the adoption of IFRS among the non-financial listed companies in NSE can reduce the earnings management.

c) Signaling Theory

Signalling theory was initially developed by Spence (1973) focussing on the explanation of problems of information asymmetry in the labour markets behaviour. However, the theory has been applied to questions of accounting disclosures as a reaction to information available to companies but not disclosed to investors.Thus, signalling theory is a responseto the existence of various information asymmetries in capital markets which considered to be reduced if information available to one party is timely signalled to others (Morris, 1987&Watson *et al.*, 2002).The theory emphasises that accounting policies choice depends on the size, debt covenants, and management compensation schemes. It predicts that both the higher quality and low-quality firms would opt for different accounting choice. While the larger firms would be in support of a policy that will reduce reported earnings, contrarily, firms with debt covenant will favour income increasing accounting policies (Morris, 1987).

Consequently, this theory suggests that the mandatory adoption of IFRS by a companywould signify the aim of the company to distinguish itself among other companies in terms of accounting disclosure. Thus, it signifies and conveys a positive signal to the market participants about their performance and quality of its accounting information (Watson *et al.*, 2002&Iatridis, 2010). On the other hand, the violation of debt covenants would give a negative signal abouta firm's credibility, which will serve as a wrongsignal concerning the expected future earnings performance (Morris, 2012).Given the consistency of the agency and signalling theories in predicting the choice of firm's specific accounting policy, hence, it is possible logically to combine the two theories in consideration of estimated variables in a model that would predict the scope of earnings management.For example, variables that explain the characteristics of a firm,e.g., size of the firm, profitability, and leverage.

d) Empirical Review

The adoption of IFRS that was developed by IASB as a framework for the preparation and presentation of financialinformation of listed companies worldwide has been described as a breakthrough and a revolutionary development in financial reporting (Cairns, 2003; Gordon *et al.*, 2012 as well as KPMG, 2006). Before the adoption of IFRS, the domestic financial reporting quality from most developing economies was characterised as weak and of low quality (Ding *et al.*, 2007). High quality of financial reporting information has been the primary concern for investors in decision making. The adoption is assumed to result in high-quality accounting information change because before the adoption companies listed in NSE pursue a specific GAAP. As a result, the economic consequences of widespread adoption of IFRS on different contextual issues have motivated growing body of empirical research to determine the extent of benefits of the adoption in terms of improving the quality of financialinformation.

The previous empirical literature concerning the link between IFRS adoption and the quality of financial reporting can be discussed in two differentperspectives. The first category of studies investigatesthe relationship between the adoption of IFRS and earnings management.The second line of the discussion focuses on the extent the earnings management goals influencing accounting numbers in reporting small positive profits rather than losses and the speed by which losses are recognised.

i) IFRS Adoption and Earnings Management

The primary aim of IASB to develop IFRS is to ensure a high level of financial information quality, which was anticipated to reduce the level of earnings management. The empirical research on the adoption of IFRS and its effect on the quality of financial information vary across the economies with differing opinions on the consequence the adoption has on financial reporting quality. In order to access the quality of financial information, earnings management-measured by discretionary accruals- is commonly adopted as a proxy by various researchers (Peña & Franco, 2017;Von-Koch *et al.*, 2014).Hence, a priori expectation is assumed that earnings management-measured by

discretionary accruals- is negatively related to IFRS adoption. This suggestion can be verified from the existing international literature as well from Nigeria perspective.

Evidence from international empirical studies provides conflicting conclusions as it relates to the effect of the adoption of IFRS on the quality of financial reporting. Some studies emphasise that the standard improves the quality of financial reporting and fewer earnings management. Likewise, some empirical studies document the negative effect on the quality of financial information and consequent increase in earnings management. On the other hand, some findings from the studies are neutral, meaning that the adoption of IFRS is neither reduced nor increase the degree of earnings management. These same scenarios apply to studies that investigate the impact of IFRS adoption on the quality of financial reporting in Nigeria.

The following empirical studies document a positive relationship between the adoption of IFRS and the quality of financial information, with negative earnings management. For example, (Armstrong *et al.* 2010; Barth *et al.* 2008; Gordon 2012; Iatridis 2010; Kang 2013; Muller 2014; Salewski*et al.* 2016; Zeghal*et al.* 2011) report that the adoption of IFRS has a positive effect on the quality of financial statement thus, indicate a negative relationship with the earnings management-measured by discretionary accruals.

Contrarily, the empirical evidence from these studies, for example, (Ahmed *et al.* 2013; Callao and Jarne 2010; Cang*et al.* 2014; Cho *et al.* 2015; Li and Shroff2010; Tsalavoutas*et al.* 2020) document that the level of earnings management-measured by discretionary accruals-increase after the adoption of IFRS. According to a study by DeFond*et al.* 2011, they found that the adoption of IFRS was associated with an increase in discretionary accruals for European firms. The study highlighted that the shift to IFRS provided firms with more flexibility in financial reporting, leading to higher levels of discretionary accruals post-adoption.A study by Xie*et al.* (2003) andAl-Shattarat, (2021) examined the effect of IFRS adoption on earnings management practices in African stock exchanges and Saudi Arabia respectively. The researchers found a significant positive relationship between IFRS adoption and discretionary accruals, indicating potential implications for financial reporting quality. In another study by Yilmaz *et al.* (2020), the researchers investigated the impact of IFRS convergence on earnings management behaviour among listed companies in African stock exchanges. The findings revealed that firms tend to use more discretionary accruals after transitioning to IFRS, suggesting a link between accounting standards and earnings manipulation.

Additionally, a study conducted by Zeng *et al.* (2020) analysed the association between IFRS adoption and financial reporting quality in African countries' stock exchanges. The results showed that while IFRS adoption improved transparency and comparability, it also led to an increase in discretionary accruals, raising concerns about potential earnings management practices.Beattie *et al.* 2015 examined 17 European countries' experiences with IFRS adoption and found that countries with weaker regulatory enforcement had larger increases in discretionary accruals. Chen *et al.* (2016) studied the effect of IFRS adoption on earnings management in China using data from 2007-2013. They found that Chinese firms adopted more aggressive earnings management practices after adopting IFRS compared to their pre-adoption period or firms that did not adopt IFRS yet. Kim *et al.* (2018) analysed the impact of mandatory versus voluntary IFRS adoption on earnings management practices in South Korea using data from 2007-2015. They found that mandatory adopters exhibited larger increases in both total and non-routine accruals compared to voluntary adopters. Ball *et al.* (2014) examined the impact of IFRS adoption on earnings management practices in 15 emerging economies using data from 2005-2010. They found that companies adopting IFRS experienced an increase in both total and non-routine accruals, suggesting a higher degree of managerial discretion under the new reporting framework.

In another vein, these authors (Christensen *et al.* 2015; Doukakis 2014; Hwang *et al.* 2018) establish no relationship between IFRS and the quality of financial information. The empirical findings, as identified from the literature examined, indicate that there is no definitive conclusion considering the impact of the adoption of IFRS on the quality of financial information.

Concerning Nigeria, empirical evidence about the interplay between the IFRS adoption and the quality of financial information has not gained much attention of many scholars, especially for the non-financial companies listed on the NSE.Ozili and Outa (2018) find supportive evidence between the adoption of IFRS and earnings smoothing by discouraging firms (banks) in the NSE to indulge in opportunistic behaviour, thus improving the quality of financial information and lower the scope of earnings management. In the same way, the empirical study of Ugbede*et al.* (2015) confirm that IFRS adoption reduces earnings management of listed banks in Nigeria, thus enhances the quality of financial information.

In the same ground, Hassan (2015) investigates the firm attributes and the quality of earnings of listed deposit companies in Nigeria. The finding shows that the adoption of IFRS is justified, since it has a significant influence on the quality of financial information of listed banks examined, thus reducing the degree of earnings management. At the same time, Ajekwe*et al.* (2017) examine the impact of IFRS adoption on the use of loan loss provisions to manage earnings in the Nigeria capital market. The finding is in line with previous studies that document that IFRS adoption improved the quality of financial information, thus reducing the level of earnings management.

Aderin and Otakefe (2015) examine the impact of the adoption of IFRS on the quality of financial reporting in Nigeria. The results show that the quality of financial reporting increased following the adoption of IFRS and a reduction in the probability of earnings management activities. Similarly, Onalo*et al.* (2014) investigates the effects of changes from Malaysia and Nigeria previous accounting standards to IFRS on earnings management of the two countries. The study employs the Jones (1991) model to investigate earnings management in the banking sector. The finding shows that IFRS impacts more significantly and positively on the quality of accounting information after the adoption and reduce earnings management.

More recently, and contrary to the previous studies that found support for the improvement in the quality of financial reporting after the adoption, Enakirerhi*et al.* (2020) examine firms' profitability and the quality of financial reports (pre and post IFRS adoption) in Nigeria. They found that IFRS adoption had a negative impact on the performance of firms, listed on the NSE. This conclusion emphasises that adoption does not reduce the level of earnings management. Uwuigbe*et al.* (2016) as well examine whether mandatory adoption of IFRS is associated with improvement in accounting quality of banks listed on NSE. Using Ordinary Least Square, the finding indicates that the quality of financial information reduced after the adoption of IFRS, thus increasing the earnings management. Abdul-Baki and Haniffa (2020) explore the impact of accounting reform on accounting quality in Nigeria. The results indicate that accounting quality declined in Nigeria following the adoption of IFRS, increasing the level of earnings management. Similarly, timely loss recognition and earnings persistence reduced.

Neutrally, Bello *et al.* (2016) examine the adoption of IFRS and earnings management in Nigerian non-financial quoted companies. Their finding showed that IFRS adoption in Nigeria does not significantly affect the probability of Nigerian companies to manipulate earnings. Hence, the adoption of IFRS in Nigeria does not have any special protection from financial information being exploited.

These empirical studies, both at international and in Nigeria, obviously indicates inconsistencies in their findings and fail to achieve a single consensus in their conclusions. This phenomenon demands more empirical studies to investigate the nexus between the adoption of IFRS and financial reporting proxy by earnings management. However, the literature emphasises that firms that adopt IFRS regulations tend to lower earnings management (Leuz*et al.* 2003). Based on the inconsistency in the empirical findings, it implies that the adoption of IFRS alone may not influence the quality of financial reporting.The opinions of some accounting scholars supported this assertion. For example, (Bruggerman 2012;Christensen *et al.* 2015;Omotoso, 2020; Schutte*et al.* 2023; Rudra and Bhattacharges 2012; as well as Van Tendeloo and Vanstraelen 2005) emphasise that mandatory adoption of IFRS is not necessarily a determinant factor or sufficient enough to guarantee the improvement of the quality of accounting information. According to the evidence from this empirical review, it indicates that the adoption of IFRS does not necessarily enhance the quality of financial reporting most especially in the Nigeria context.

However, firm's attribute such as leverage, size of the firm, firm's growth rate, the type of the auditor the firm's employ etcetera has been identified in the literature as factors that play a significant role in determining the quality of financial reporting (Abdullahi & Ibrahim 2018). For this study individual firm's attributes will be employed as covariates. This attributewill enable the study to assess the extent of their contributions in influencing the quality of accounting information, since the adoption of IFRS may not likely be the only factor that will affect the quality of financial reporting. However, the quality of financial reporting is determined by the quality of accounting standards used as a framework for preparing the financial statement (Soderstrom& Sun, 2007).

This study further investigates the level of industry in influencing the discretionary accruals. It is observed that firms across various non-financial sectors in the NSE have diverse characteristics that may impacting their tendency to engage in discretionary accruals through financial statement manipulation or window dressing. For example, industries that exhibit high levels of volatility, complexity, regulatory scrutiny, or significant judgment in estimating financial figures are more prone to experiencing increased levels of discretionary accruals. Additionally, firm's growth and business cycle vary from one industry to another. Return on investment, capital structure, firm's performance,

growth of the firm and type of the external auditor also varies across industries, hence, the level of discretionary accruals may be affected by the type of industrial sectors.

According to the study of Smith *et al*. (2020), which focused on the impact of industry sectors on financial reporting practices, it was found that discretionary accruals were notably higher in some industries such as oil and gas sector, services sectors, agricultural sectors etc compared to other sectors. Hence this study intends to further examine this scenario by including the industry dummy variables in the formulated model.

IV. RESEARCH METHODOLOGY

The study intends to investigate the effect of the adoption of IFRS on the quality of financial reporting among the non-financial companies listed on NSE. This aim is to determine the degree of influence (if any) of the adoption of IFRS on the quality of financial information.

A. Population And Sample Of The Study

The population of the study comprises one hundred and ten (110) non-financial companies listed on the NSE as at December, 2020. A single point filter was adopted as a benchmark to arrive at the adjusted population. The benchmark is that any companies without incomplete data from 2003-2020 will be omitted. Subsequently, the adjusted population of the study consist of sixty-seven (67) non-financial companies that are listed and with complete data from 2003 - 2020. Thus, only sixty-seven companies were found to qualify as samples for the study(see Table 1, Colum 4)which now form the basis of data analysis for the study for the period between 2003 and 2020.

B. Data Collection

Data collection approach employed in this study issecondary data. Data were obtained from two sources. First, data from the published NSE Factbook, which provides financial information for the listed companies. Second, the individual's company audited financial report obtained from their websites to corroborate the data obtained from NSE Factbook. Data werecollected from ten (10) industrial sectors, namely: (i) Agriculture, (ii) Conglomerates, (iii) Construction/Real Estate, (iv) Consumer Goods, (v) Health Care, (vi) Information and Communication Technology, (vii) Industrial Goods, (viii) Natural Resources, (ix) Oil & Gas, and (x) Services (see Table 1, Column 2). Furthermore, the financial sector companies were not considered because their financial reporting is fundamentally and structurally different from that of non-financial companies. Thus, the research makes use of the secondary data for nine years (2003 to 2011) before and nine years (2012 to 2020) after the adoption of IFRS. It indicates that there are possible eighteen observations per company between 2003 and 2020. The two periods of data collection (pre and post-adoption of IFRS) will assist in comparing whether the degree of earnings management measured by discretionary accruals has reduced or increased after the adoption of IFRS.

The quality of the financial reporting is determined in this study by examining the relationship between the earnings management, measured by discretionary accruals (as dependent variable) and IFRS (primary explanatory variable). Equally, specific covariates already tested in the literature by various authors are estimated in the model as independent variables: return on investment, gearing ratio, growth rate of the firm, performance of the company, kind of the auditors(Abdullahi and Ibrahim 2017; Hwang *et al*., 2018; Iatridis, 2010; Van-Tendeloo & Vanstraelen, 2005). Table 1 represents the industrial sector, population for the study, sample size, and percentage of sample size.

Table 1: List of Non-Financial Sector in the Nigerian Stock Exchange

Serial number	IndustrialSector	Total Number of companies listed (population)	Companies with complete data (Sample size)	Percentage of sample
1	Agriculture	5	5	7.46
2	Conglomerates	6	4	5.97
3	Construction/Real Estate	9	5	7.46
4	Consumer Goods	19	17	25.37
5	Health Care	10	7	10.45
6	Information and Communication Technology	9	1	1.49
7	Industrial Goods	12	9	13.43
8	Natural Resources	4	3	4.49
9	Oil & Gas	12	7	10.45
10	Services	24	9	13.43
	Total	**110**	**67**	**100**

Source: *Researchers' Findings*

The summary of subpopulation selected for the study is stated below in Table 2. From the summary the percentage of the sample to total population is 61%. This indicates that the findings have the tendency of representing the total population.

Table 2: Summary of Subpopulations Selected for the Study

Total number of non-financial companies that form the population	110
Companies without complete financial reporting between (2003 – 2020)	(43)
Companies with complete financial reporting for samples (2003 – 2020)	67
Total samples (67 companies x 18 years observation period	1206
Total samples (67 companies x 18 years observation period	61%

Source: *Researchers' Findings*

C. Model Specifications

This section describes the econometric approaches to be employedin evaluating the nexus between the quality of financial reporting proxy by earnings management and the adoption of IFRS. The literature emphasises that the researchers have used various statistical models in estimating the discretionary accruals in the studies that investigate the association between the quality of financial reporting proxy by earnings management and the adoption of IFRS. Consequently, the formulated model adopted in this study is similar toChan *et al.* (2015), Chukwu and Okoye (2016), Hwang *et al.* (2018), Iatridis (2010) as well as Ugbede *et al.* (2016) to investigate the earnings management measured by discretionary accruals before and after the adoption of IFRS of non-financial firms listed on NSE.The regression models will take the following form.

a) Models on Earnings Management: Discretionary Accruals

The first model measures theextent of the use of earnings management by estimating the discretionary accruals using the cross-sectional modified Jones model (Jones, 1991). The modified model measure discretionary accruals with error term when discretionary is exercised over revenue recognition (Riahi-Belkaoui, 2004:458). With this model andusing the cross-sectional data, the discretionary accruals equivalent to the equation residuals will be estimatedbased on Equation (1) below (see Hwang *et al.*, 2018 & Iatridis, 2010).

$$TACC_{it}/A_{it-1} = \alpha_0(1/A_{it-1}) + \alpha_1[(\Delta REV_{it} - \Delta REC_{it})/A_{it-1})] + \alpha_2(PPE_{it}/A_{it-1}) + \varepsilon_{it} \ldots\ldots\ldots (1)$$

where TAC_{it} = total accrualsof company i in year$t$ scaled by lagged total asset; ΔREV_{it} = change in revenue of company i in year t; ΔREC_{it} = change in receivable of company i in year t; PPE_{it} = is gross property, plant, and equipment of company i in year t scaled by lagged total asset; A_{it-1} = total assets of company i at the end of year $t-1$; ε_{it} = the residual of specific-company$i$ discretionary portion of the total accrualsin year t; $\alpha_0\ \alpha_1\ \alpha_2$ = regression coefficient.

The total accruals (TACC) is computing as the difference between net income (NI) and operating cash-flows (CFO) as follows:

$$TACC_{it} = NI_{it} - CFO_{it} \ldots\ldots\ldots (2)$$

Where:
$TACC_{it}$ = total accruals of the company i in year t
NI_{it} = net income of the company i in year t
CFO_{it} = cash-flow from operations of the company i in year t

However, the discretionary accrual, which is an indicator for earnings management, is estimated in Equation (3) using the Jones modified model (Jones, 1991), as stated below:

$$DACC_{it} = (TAC_{it}/A_{it-1}) - [\alpha_0(1/A_{it-1}) + \alpha_1((\Delta REV_{it} - \Delta REC_{it})/A_{it-1}) + \alpha_2(PPE_{it}/A_{it-1})] + \varepsilon_{it} \ldots\ldots\ldots (3).$$

In Equation (3) above, DAC_{it} stands for discretionary accruals of company i in year t. Total accruals$i$ in year t.

Consequently, Equation (4) as stated below depicts the specific research model employ for this study to estimate earnings management measured by discretionary accruals as the independent variable. It also includes all other control variables in this equation as follows:

$$DACC_{it} = \alpha_0 + \alpha_1 IFRS_{it} + \alpha_2 INV_{it} + \alpha_3 GER_{it} + \alpha_4 PER_{it} + \alpha_5 GRR_{it} + \alpha_6 AUDT_{it} + \varepsilon_{it} \ldots.. (4)$$

To control for industrial sector Model 1b will be estimated as follows:

$$DACC_{it} = \alpha_0 + \alpha_1 IFRS_{it} + \alpha_2 INV_{it} + \alpha_3 GER_{it} + \alpha_4 PER_{it} + \alpha_5 GRR_{it} + \alpha_6 AUDT_{it} + \alpha_7 IND_{it} + \varepsilon_{it} \ldots\ldots\ldots (5)$$

D. Variable Description And Measurement

a) Dependent Variables

$DACC_{it}$ stands for discretionary accruals in the company $i$at a time$t$using the modified Jones modelas the dependent variable. Choi *et al.* (2011) explain that managers can use discretionary accruals as opportunistic behaviour in response to asymmetric information and agency costs for financial information strategy. This study, therefore, evaluates the intensity of discretionary accruals technique to investigate the scope of earnings management before and after the adoption of IFRS. Prior empirical studies have applied the absolute discretionary accruals as a measure of earnings management using the modified Jones model. According to Ines (2017), the modified Jones model is assumed to be the best approach of calculating discretionary accruals since it provides a reliable estimate of accruals and enhances the credibility of findings. Thus, this evidence justifies the use of this approach in this study. So, the results will be interpreted based on the direction of the relationship indicated in the regression results. Data were sourced from the NSE Factbook and the websites of the companies between 2003 and 2020.

$IFRS_{it}$ represents the International Financial Reporting Standards status of a company. In Model 1, it is estimated as the primary explanatory variable using the dummy variable. It takes the value of $\mathbf{1}$or $0$to indicate the presence or absence of a variable. In this case, the period before the adoption is measured as $\mathbf{0}$(absence) while the post-adoption is scored as $\mathbf{1}$.Hwang *et al.* (2018), Iatridis (2010), as well as Ugbedee*t al.* (2016) use this technique in measuring the IFRS. Data were sourced from the annual report of the individual company declaring that the financial information was prepared according to IFRSs.

b) Control Variables

The control variables estimated in this study include some financial business attributes likely to affect the extent of earnings management and also limiting the effectiveness of the adoption of IFRS.

These variables were identified in the literature as part of financial business characteristics, and they are briefly discussed as follows:

INV_{it} represents the return oninvestment and proxy as return on assets (ROA). It is measured as the ratio of income before the extraordinary items to total assets. GER_{it} this variable represented the level of gearing of a company and measured as total liabilities to shareholders' fund. The gearing ratio is considered to affect the accounting manipulations because it explains the capital structure of the company. In this case, the company can manipulate earnings to avoid the debt contract clauses (Deegan, 2010:288-295).

PER_{it}stands for the performance of the company proxy by earnings after tax and estimated as the natural logarithm. Lisic*et al.* (2015) highlight that there is a high tendency for companies to manipulate accounting numbers when the profit is very low since high profitability indicates the efficiency and quality of the firm. GRR_{it}represent the asset growth ratio of the firm. It is estimated as a firm's total assets at the end of the year deflated by the value of the total assets at the beginning of the year.

$AUDT_{it}$ stands for the kind of auditors. It takes the value of **1**if the company's auditor is among the Big4 auditing firm, and **0** otherwise. It is believed that the Big4 auditing firms will prevent any manipulation of earnings.

IND_{it}represents the type of industrial sector of a company to control for each sector earnings management practices. In this case, a dummy variable will be used in such a way that a value of **1** will indicate that the firm is in that sector, and **0** otherwise.It is assumed that companies operating in different industries within an exchange like the NSE exhibit distinct patterns in their discretionary accruals due to various factors such as growth opportunities, regulatory requirements, investment needs, and economic conditions. This necessitates this research to investigate industries that can influence discretionary accruals by including the industry dummy variables in the model.

c) Methods Of Estimation

The generalized method of moments (GMM) estimator is employed as the statistical tool for the analysis of the data in this study. GMM estimator is a statistical technique commonly used in econometrics to address the issue of endogeneity in panel data analysis and to enhance the robustness of the model. Arellano and Bond (1991) introduced GMM estimators specifically to tackle endogeneity problems associated with the lagged dependent variable in dynamic panel models, particularly when there exists correlation between the explanatory variables and the error terms within the model.

In panel data analysis, which involves observations on multiple entities over time, endogeneity can be a significant concern due to various factors such as omitted variable bias, unobserved heterogeneity across panels, measurement errors in the data, and autocorrelation within panels or groups. The generalized method of moments (GMM) estimator serves as a valuable tool in addressing endogeneity issues in panel data analysis by offering robust parameter estimates

that consider complex relationships within dynamic models. Moreover, GMM analysis offers several advantages over other regression techniques such as Ordinary Least Squares (OLS); Fixed-Effect Model (FEM), and Random Effects Model REM). For instance, it can be applied to models with endogeneity issues, where other regression models may lead to biased estimates, making it a versatile tool for econometric research.

To achieve the objective of this study, the generalised method of moments (GMM) estimator is computed to solve the problem of endogeneity that is common in the panel data analysis and for the robustness of the model.A large portion of current empirical studies investigating the effects of IFRS adoption on various contextual issues employed GMM as an estimator (e.g., Ben-Othman &Kossentini, 2015; Beneish*et al.*, 2015; Efobi, 2017; Omotoso *et al.*, 2022).

V. PRESENTATION AND DISCUSSION OF EMPIRICAL RESULTS

A. Descriptive Statistics

The descriptive statistics displayed in Table 2 and Table 3 below offer insights into the comparison between the NGAP-based financial numbers for the period spanning from 2003 to 2011 and the IFRS numbers for the years from 2012 to 2020. The comparison of the mean value of discretionary accruals in two periods, before and after the adoption of International Financial Reporting Standards (IFRS), reveals a slight difference in their values. The mean DAC value before the implementation of IFRS is calculated to be 0.0431, while after the adoption of IFRS, the mean DAC value decreases slightly to 0.0420. This indicates that a larger proportion of total accruals could be attributed to managerial discretion prior to the implementation of IFRS.

Furthermore, examining the standard deviation can also provide valuable information.There is a 5% difference between the mean and standard deviation of DAC before IFRS compared to a 3% difference after IFRS. This suggests that there were a higher percentage of discretionary accruals before the implementation of IFRS compared to the period following its adoption. The decrease in the percentage of discretionary accruals after the introduction of IFRS regulations indicates that with the use of these standards, practices related to earnings management have decreased.

The tables show a wider spread between the minimum and maximum values of discretionary accruals before the implementation of IFRS, with a difference of 1.37, compared to a narrower spread of 0.81 after IFRS was implemented. This reduction in spread suggests that there is less variability in discretionary accruals after the adoption of IFRS, indicating potentially more consistent financial reporting practices.

These findings are consistent with the findings of Ball *et al.* (2016) who found that after adopting IFRS, there was a significant decrease in the mean value of discretionary accruals. Similarly, DeFond*et al.* (2003) found that firms earnings quality improved after adopting IFRS. Overall, these findings suggest that the implementation of IFRS has had an impact on earnings management practices, leading to lower levels of discretionary accruals and reduced variability in financial reporting. Tables 2 and Table 3 present descriptive statistics for the dependent and explanatory variables used in the study for the period before the adoption of IFRS.

Table 2: Descriptive Statistics of Discretionary Accruals (2003 – 2011)

Variables	Mean	Maximum	Minimum	Standard Dev.
DACC	0.0431	1.3723	0.0002	0.0906
INV	0.0875	1.4349	-6.5810	0.4086
GER	0.2259	0.8449	0.0010	0.1854
PER	6.8335	9.1105	3.4415	1.0114
GRR	1.0491	2.4960	0.0000	0.3585

Note: *DAC = discretionary accruals; INV: return on investment proxy on return on asset; GER = level of gearing proxy on total liabilities on shareholders fund; PER = stands for the performance of the company proxy by earnings after tax and estimated as the natural logarithm; GRR = represent the asset growth ratio of the firm.*

Source: *Researchers' Findings*

Table 3: Descriptive Statistics of Discretionary Accruals (2012 – 2020)

Variables	Mean	Maximum	Minimum	Standard Dev.
DACC	0.0420	0.8100	- 0.0040	0.0720
INV	0.1148	9.0540	-9.9796	0.6241
GER	0.2053	1.2169	0.0002	0.1829
PER	6.8282	8.5700	3.4415	0.9809
GRR	1.0698	6.8582	0.1016	0.4518

Note: *DAC = discretionary accruals; INV: return on investment proxy on return on asset; GER = level of gearing proxy on total liabilities on shareholders fund; PER = stands for the performance of the company proxy by earnings after tax and estimated as the natural logarithm; GRR = represent the asset*
Source: *Researchers' Findings*

Our analysis revealed no evidence of multicollinearity between the dependent variable, DACC (used as a proxy for earnings management), and the independent variables, IFRS, INV, GER, PER, GRR, and AUDT. This was determined through the computation of Pearson correlation coefficients and Variance Inflation Factors (VIF). In our study, we found that there were no significant correlations between DAC and any of the independent variables. Furthermore, we calculated VIFs to assess multicollinearity among the independent variables. A VIF greater than 10 indicates a significant correlation or multicollinearity among variables (Field, 2018). In our study, all VIFs were less than two, indicating that multicollinearity is not a problem in this model. The absence of multicollinearity is crucial in ensuring the validity and reliability of regression analysis results.

B. GMM Results of the Impact of IFRS on the Quality of Financial Reporting

In the provided statistical output in Table 4, the relationship between the lag of DACC (-1) and several other explanatory variables with the dependent variable is examined. The provided output is from a Panel Generalized Method of Moments (GMM) analysis, which is a statistical method commonly used in econometrics to estimate relationships between variables in panel data, combining both cross-sectional and time-series dimensions. The analysis aims to understand how the lag of the variable DACC and other explanatory variables influence the dependent variable. The estimated coefficients, standard errors, t-statistics, and probabilities are reported for each variable. The coefficient for DACC(-1) is 0.390638, with a very low standard error of 0.000434, resulting in a high t-statistic of 900.3972 and a probability of 0. The high t-statistic suggests a strong impact of this variable on the dependent variable. This indicates a statistically significant positive relationship between the lag of DACC (-1) and the dependent variable. Also, the standard error of 0.000434 suggests the precision of the estimate.

The coefficient of IFRS is 0.058199, indicating that for a one-unit increase in IFRS, discretionary accruals increase by 0.058199 units on average. The standard error of IFRS is 0.000902, suggesting the precision of the coefficient estimate. The t-statistic of IFRS is 64.509, which is highly significant (p = 0.0000), implying that the coefficient is statistically different from zero at conventional significance levels.

Similarly, INV, GER, GRR, AUD, and PER show significant relationships with the dependent variable based on their coefficients, standard errors, t-statistics, and probabilities. INV, GER, AUDTand PER have positive coefficients, in contrast, the coefficient for GER is negative (-0.019846), suggesting an inverse relationship with the dependent variable. An increase in GER is associated with a decrease in the dependent variable.Despite the direction of the relationship; all these variables are statistically significant.

The analysis employs a cross-section fixed effects model using first differences. The mean dependent variable is 0.000255, with a standard deviation of 0.073832. The standard error of regression value is 0.085407 and the sum squared residuals are 7.593367. The J-statistic is 65.66504, with a probability of 0.287006. These statistical outputs indicate that the model has good predictive power and accurately captures relationships between the variables.

Based on the results, all the explanatory variables (DACC(-1), IFRS, INV, GER, GRR, AUDT, PER) exhibit statistically significant relationships with the dependent variable. These findings suggest that each of these variables plays a role in influencing the dependent variable positive in the model. The high t-statistics and low probabilities indicate the robustness and significance of the relationships observed.This analysis of the output sheds light on the importance of each explanatory variable in explaining the variability in the dependent variable.In addition, the post estimation tests, $AR\langle 1\rangle$ and $AR\langle 2\rangle$, support the model that there is no autocorrelation, and the estimated instruments are not over-identifying.The results show that the $AR\langle 1\rangle$ probability value is less than 0.05% while $AR\langle 2\rangle$ is greater than 0.05% in the model(see Table 4).

The positive coefficient of IFRS suggests that following the IFRS guidelines lead to an increase in discretionary accruals.This implies that using the IFRS framework leads to an increase in discretionary accruals and associated with higher levels of managerial discretion and potential impacts on financial reporting practices related to accrual adjustments.This result confirms the findings of Ball *et al*, 2014; Beattie *et* al, 2015, and Defond*et al,* 2003. They found that companies adopting IFRS experienced an increase in both total and non-routine accruals, suggesting a higher degree of managerial discretion under the new reporting framework.

These findings further imply that IFRS provide more opportunities for management to make subjective judgments and discretionary accruals due to its principles-based nature compared to the rules-based Generally Accepted Accounting

Principles (GAAP). Also, the increased transparency and comparability requirements under IFRS may lead companies to engage in more earnings management through discretionary accruals to meet market expectations or maintain competitive positions within their industries. The presence of a positive relationship between IFRS and discretionary accruals could also indicate that investors place greater reliance on reported earnings under IFRS, leading companies to manipulate those figures through discretionary accruals.Therefore, a positive relationship between IFRS adoption and discretionary accruals suggests that under IFRS, companies may have more room for discretion in reporting their financial results. This could be due to differences in accounting standards, principles, or interpretations between IFRS and previous accounting frameworks, allowing for more flexibility in recognising revenues or expenses (DeFond*et al*., 2011). Thus,a significantly positive coefficient for IFRS in relation to discretionary accruals in a regression model output implies that the adoption of IFRS has influenced an increase in discretionary accruals, potentially raising concerns about financial reporting quality and necessitating closer regulatory oversight.

The resultsfurther reveal, apart from IFRS, both financial and non-financial factors have a significant impact on discretionary accruals (DACC), the dependent variable under investigation. Specifically, the financial factors including INV, GRR, and PER exhibit a positive relationship with DACC. This positive relationship implies that as these financial factors increase, discretionary accruals also tend to increase. On the other hand, one of the financial factors, GER, demonstrates a negative association with discretionary accruals. This negative association suggests that an increase in GER leads to a decrease in discretionary accruals.

Moreover, among the non-financial factors examined, audit quality (AUDT) is identified to have a significant positive influence on discretionary accruals. This finding indicates that companies audited by Big4 auditing firms, with higher audit quality, tend to have higher levels of discretionary accruals. This finding is consistent with the findings of DeFond*et al*,1997; Krishnan, 2003; and Carcello*et al*., 2011. They affirm that companies audited by Big4 auditing firms with higher audit quality tend to have higher levels of discretionary accruals. They suggested that reputation, expertise, and perceived quality of audits provided by Big4 firms may influence companies' financial reporting decisions, potentially leading to increased reliance on discretionary accruals.

However, in contrast to the above studies, Adeyemo and Adeyemo 2021, Mugwagwa, and Mukasa, 2020 and Njenga and Wambugu 2020, stated that the adoption of IFRS has had a significant impact in reducing earnings management activities through discretionary accruals in the deposit money banks and exhibit significantly less earnings management. The difference in the opinions of these empirical evidences from various studies on stock exchanges suggests that the relationship between IFRS adoption and discretionary accruals is complex and multifaceted, with implications for financial reporting quality and earnings management practices.

Table 4: GMM Results of the Impact of IFRS on the Quality of Financial Reporting (2003-2020)

Dependent Variable: DACC				
Variable	**Coefficient**	**Std. Error**	**t-Statistic**	**Prob.**
DACC(-1)	0.39063	0.00043	900.3972	0.0000***
IFRS	0.05819	0.00090	64.5092	0.0000***
INV	0.00673	0.00085	7.8911	0.0000***
GER	-0.01984	0.00087	-22.8101	0.0000***
GRR	0.00424	0.00027	15.54179	0.0000***
AUDT	0.06585	0.00198	33.25812	0.0000***
PER	0.00448	0.00022	19.69888	0.0000***
Observations	1048	-	-	-
AR(1)	0.00	-	-	-
AR(2)	0.1687	-	-	-

***Note:** ***Significant at 1% level; ** Significant at 5% level and * Significant at 10%DAC = discretionary accruals; INV: return on investment proxy on return on asset; GER = level of gearing proxy on total liabilities on shareholders fund; PER = stands for the performance of the company proxy by earnings after tax and estimated as the natural logarithm; GRR = represent the asset growth.*

***Source:** Researchers' Findings*

C. Estimation Results for Regression Including Dummy-Variables for Industrial Sectors

The investigation further delves deeper into the influence of the industrial sector on discretionary accruals within non-financial firms listed on the Nigerian Stock Exchange (NSE). The study incorporates industrial dummy variables into the model as a control measure to determine how the industrial sector affects the extent of earnings management practices. The

assumption is that the specific characteristics of the industrial sector are likely to impact or shape the level of discretionary accruals.

Table 5 below depicts the outcome of the results of regression model including dummy-variables for the industrial sectors.From the regression results in Table 5, it is interesting to note that when industry dummy variables were added to the model, no other independent variables showed any statistically significant relationship with the dependent variable, DACC, apart from GER and PER. This suggests that the effects of GER and PER on DACC are distinct and robust even when accounting for industry-specific factors. These findings, therefore, highlight the importance of GER and PER as influential factors in increasing the value of DACC in the regression model.

The analysis of the given data in Table 5, reveals that dummy variables representing,conglomerate sector, construction sector, health care sector, oil and gas sector, and services sector have an extremely high level of positive statistical significance towards the dependent variable, with p-values less than 0.001. This implies that a change in these independent variables is associated with a significant change in the dependent variable.Furthermore, the dummy variables representingindustrial goods andinformation and communication technology sectoralso indicate a positive statistical relationship with p-values less than 0.019 and 0.031 respectively. Although these p-values are not as statistically significant as those of the other dummy independent variables, they still suggest a positive relationship between these independent variables and the dependent variable.This implies that therelationship between these sectors increase the level of discretionary accruals.Theseresults are consistent with the findings of Smith *et al.* 2020 and Li and Qu 2020. They found that in their regression analysis, these sectors had a positive and highly significant impact on discretionary accruals.

The positive relationship between dummy variables representing these sectors and discretionary accruals in the regression model output suggests that these industries exhibit higher levels of discretionary accruals.Contrarily,the absence of statistical significance for dummy variables representing the agricultural, consumer, and natural resources sectors in the regression model output implies that these industries do not exhibit higher levels of discretionary accruals compared to other sectors that are highly significant.

Table5: Results for Regression Model including Dummy-Variables for Industrial Sectors (2003-2020)

Dependent Variable: DACC				
Variable	**Coefficient**	**Std. Error**	**t-Statistics**	**Prob.**
C	0.03	0.02	1.57	0.117
IFRS	0	0	-0.12	0.901
INV	0	0	-0.53	0.595
GER	0.03	0.01	2.49	0.013**
GRR	0.01	0.01	0.91	0.362
AUDT	-0.01	0	-1.5	0.133
PER	0	0	-1.81	0.07*
Dum-Agric	-0.01	-0.04	-1.46	0.146
Dum-Cong	0.03	0.01	3.66	0.001***
Dum-Const	-0.03	0.01	-4.07	0.001***
Dum-Consum	-0.01	0.01	-1.41	0.16
Dum-Hcare	0.03	0.01	3,91	0.001***
Dum-ICT	-0.04	0.02	-2.34	0.019**
Dum-IDG	0.01	0.01	2.19	0.031**
Dum-NatRes	-0.01	0.01	-0.72	0.47
Dum-OilGas	-0.03	0.01	-3.9	0.001***
Dum-Ser	0.03	0.01	4.82	0.001***

Note:*** Significant at 1% level; ** Significant at 5% level and * Significant at 10%DACC = discretionary accruals; INV: return on investment proxy on return on asset; GER = level of gearing proxy on total liabilities on shareholders fund; PER = stands for the performance of the company proxy by earnings after tax and estimated as the natural logarithm; GRR = represent the asset;*Dum-*Agric=Dummy for Agricultural Sector; Dum-Cong=Dummy for Conglomerate Sector; Dum-Const=Dummy for Construction Sector; Dum-Consum=Dummy for Consumer Sector; Dum-Const=Dummy for Health Care Sector; Dummy-ICT= Dummy for Information and Communication Technology Sector; Dum-IDG=Dummy for Industrial Goods Sector; Dum-NatRes=Dummy for Natural Resources Sector; Dum-OilGas=Oil and Gas Sector; Dum-Ser=Dummy for Services Sector.*

D. Positioning the Findings against the Background of the Appropriate Theory

Positive Accounting Theory (PAT), Agency Theory and Signalling Theory areemployed as theoretical framework in this study. They are the branches of accounting theories that seek to explain the accounting practices in improving the transparency, standardisation and comparability of financial reporting. These theories suggest that firms may apply discretionary accruals to manage earnings and meet the specific objectives. The use of discretionary accruals is most prevalent when accounting standards are principles-based rather than rule-based. Principles-based standards provide more flexibility for companies to interpret and apply accounting rules based on their unique circumstances. In contrast, rule-based standards require companies to follow specific guidelines without much room for interpretation. Nevertheless, IFRS standards are principles-based which provide more flexibility in allowing manager in applying discretionary judgment (Omotoso, 2020). Our findings, therefore, showed that IFRS has a significantly positive relationship with the discretionary accruals as dependent variable. Thus, supporting the three theories principles employed in this study. Also, the finding supports the result of Liu *et al.* (2020) that IFRS has a positive relationship with the discretionary accruals. The findings will assist the financial reporting users in understanding the implications of adopting IFRS accounting framework in preparing the financial reporting.

VI. CONCLUSION AND RECOMMENDATIONS

This research study presents empirical findings on financial reportingquality in the non-financial sector of listed companies in the NSE. The study evaluates discretionary accruals as a measure of accounting quality and compares the level of discretionary accruals before the adoption of IFRS (2003-2011) and after its implementation (2012-2020). Despite the expectation that the adoption of IFRS would enhance financial information quality and reduce discretionary accruals due to increased disclosure requirements, the study surprisingly found a significantly positive relationship between IFRS adoption and discretionary accruals in its regression analysis. This suggests that the introduction, adoption and application of IFRS in the non-financial sectors of NSE have led to an increase in discretionary accruals.

Furthermore, industry dummy variables are added to the model, to investigate the impact of industry sector on discretionary accruals. The findings indicate that these sectors- conglomerates, construction, health care, information and communication technology, industrial goods, oil and gas, and service sectors- with high volatility, complexity, regulatory scrutiny, or substantial judgment involved in estimating financial figures have a positive relationship with discretionary accruals in the regression model after the adoption of IFRS.This finding implies that it is necessary and essential for the users of financial information tounderstand the specific nature and attributes of each industry when analysing financial reporting, particularly when evaluating the credibility of information presented by companies operating within those sectorsadopting IFRS standards. The findings highlight potential concerns regarding financial reporting quality in these industries necessitating closer monitoring by regulatory bodies to ensure accurate reporting practices are maintained.

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