Reliance on the Credibility of Financial Reports Approved by Professional Financial Experts and Investment Decisions Making by Corporate Investors in Nigeria Commercial Banks

Ogwa Kelechi Beatrice
Department of Accounting, Federal Polytechnic, Oko, Anambra State.
E-mail: beatricekc1@gmail.com

Abstract

This paper is a critical investigation on the extent of investors' reliance on the credibility of financial reports approved by financial experts in investment decision making. The study adopted survey research design by which data were generated by means of questionnaire administered on one hundred and fifty (150) corporate investors and senior management officials of the selected banks. Descriptive statistics and percentage analysis were used for the data analysis. The hypotheses were tested using t-test statistics. The statistical package for social sciences (SPSS) software version 17.0 was employed in the analysis of data and test of hypotheses. The results revealed that investors depend heavily on the credibility of financial reports approved by financial experts in making investment decisions (t_{cal} (74.50)>t_{cri} (6.314). P< 0.05). It also shows that there is significant extent to which investors rely on financial reports in making investment decisions (t_{cal} (16.59) > t_{cri} (2.353). P<0.05). The result of the analysis also indicated that investors do understand the financial report well before making investment decisions (t_{cal} (17.306)>t_{cri} (2.353). P< 0.05) and as such the primary responsibility of management to investors is to give a standardized financial report evaluated and authenticated by a qualified financial expert (t_{cal} (4.592)>t_{cri} (2.353). P< 0.05). It hereby recommended that financial reports be subjected to statutory audit and endorsement

by professional financial experts in order to authenticate their contents and avoid faulty investment decisions.

Keywords: Financial reports, credibility, investment, decisions, corporate organization, Nigeria

Introduction

It is the duty of corporate organizations to fully disclose information relating to their operations in order to help investors make rational decisions. Accounting information according to the statement of accounting standard II (SAS 2), is the data found in the financial reports. Williams (2002) views financial information as the results of business operations expressed in monetary terms. Financial reports are prepared for the purpose of presenting information about the performance of organizations during the year, usually comparing the information with those of the previous years. Organizations prepare their financial reports to review the progress and decline achieved during the period under review. The notion of the financial information largely implies those concise aspects in the financial reports of an organization which could be used to ascertain the financial position of such organization for investment decision making. The financial information relating to business organizations is very important to both existing and potential investors to make better investment decisions.

The relevance of financial information is to provide credible information about the true financial position, profitability and changes in the financial position of a business investment opportunity that could be useful to potential investors, managers, directors, financial institution, financial analysts, regulatory agencies, government and the general public in making rational investment decision.

It is the responsibility of the management and directors to prepare financial reports. The content of the financial report is often expected to be prepared in accordance with national standards, professional ethics and the code of conduct specified by the Companies and Allied Matters Act (CAMA) of 2004 as amended, corporate governance, International Financial Reporting Standards (IFRSs) and the Nigeria Statement of Accounting Standards (SASs). The purpose of the standard and ethics in financial reporting is to re-orientate professional accountants, financial experts, auditors and corporate organizations on the need to abide by the code of conducts that facilitate public confidence in their services (Okafor, 2006). The financial reports are to be reviewed independently by external auditors and dully analyzed by professional financial experts prior to making investment decisions.

This study identifies one key aspect of financial report, the reliance on credibility of financial report approved by financial experts in investment decision making. Finally, it is discovered that investors do rely on the credibility of the financial report approved by financial experts. However, the extent to which it has influenced investment decision making is limited in literature. This study investigates to examine the extent of reliance on the credibility of financial reports approved by professional financial experts and investment decisions by corporate investors in Nigeria Commercial Banks.

Statement Of The Problem

Informed investment decision making is very crucial to the investors for the minimization of the risks involved in the loss of value in the capital invested. Some investors may have found themselves into investment projects before understanding other financial implications of such investment opportunities. For such investors, they may have considered more important, non-financial factors like demographic, face value, socio – political, etc into their investment decision process rather than the financial factor, while some other investors may have neglected the cost of engaging the services of professional financial experts for proper financial report analysis before making investment decisions. Thus, such investors have eroded the relationship existing between credible financial report approved by professional financial experts and investment decision making.

The main concern of this study is to critically examine the extent to which potential investors rely on the credibility of the financial report approved by professional financial expert in making investment decisions. Until now, empirical evidence on the reliance on credibility of the financial reports approved by professional financial experts prior to making investment decision is limited in literature indicating research gap. It is the need to re-direct investors' attention to credible information on the financial report approved by professional financial expert in investment decision making as well as the need to fill the perceived gap in the local literature that brought about this study. Hence, the specific objective of this study is to ascertain the extent of reliance on the credibility of financial reports approved by professional financial experts and investment decisions by corporate investors while the broad objectives of this study are to examine: the significant extent to which investors rely on financial report in making investment decision, how well the investors have understood the financial reports before making investment decisions and how well the investors know whose responsibility it is to prepare the financial reports.

The basic research question is: to what extent do investors rely on credibility of the financial reports approved by professional financial experts in making investment decisions? The study hypothesized that investors do depend on credibility of financial reports approved by professional financial experts in making investment decisions.

Qualitative Characteristics Of Financial Report

According to Okpe (2005), published financial report must possess among others the following qualities:

- Understandability: Financial report can be some how complicated to understand but users must be able to understand the information contained. This applies to the format, terms, policies, methods and the assumptions used in the preparation of the report.
- Relevance: Since financial information is used by the interested parties in making economic decisions, the information must be capable of being used for such decisions.
- Accuracy: Since false information could lead to wrong decision making and possible litigations, financial report should contain factual information.
- Reliability: Financial report should be free from errors and bias.
- Comparability: There should be transparency in the financial report by allowing comparison over time and among entities.
- Completeness: Financial report should be wholly delivered without any missing part.

Users Of Financial Report

The users of financial report are grouped into two (2) categories: internal and external users.

Internal Users

a. Management: The management need financial information in order to assess the progress, competence and evaluate the performance or profitability of the organization.

b. Employees: They are those engaged in the running of the business. Employees and other trade unions are more interested in the long-term survival and profitability of the organization such as the ability to pay high wages, salaries, bonuses and better working conditions.

External Users

a. Investors: This category of users is more interested in the profitability, growth potentials, stability and dividend policies of the reporting organization.

b. Financial institutions: These users are interested in the ability of the organization to pay interests and repay the principal sum on due dates, so that loans could be granted.

c. Competitors: The competitors ascertain the financial performance of other business to determine their competitive position.

d. Trade creditors: Are interested in the firm's ability to meet their claims over a short period.

e. Research institutions: This group needs the financial report for teaching and research purposes.

f. Government: Government is interested in the financial report of corporate organizations so as to assess the level of tax liabilities, survival of the company, policy formulation and the organization's remuneration ability.

g. General public: The general public is interested in the social responsibility and environmental protection policies in the published financial report.

Content Of Financial Report

According to section 334(2) of the Company and Allied Matters Act (CAMA) 2004 as amended, the financial statement of an organization shall include:

- Statement of the accounting policies: This statement sets out the specific principles and procedures implemented by an organization's management in the preparation of its financial reports.
- Statement of the accounting policy: This statement sets out the accounting methods, measurement systems and procedures for presenting disclosures.
- Statement of financial position: This is a statement that shows the company's asset, liabilities and equity at a given point in time.
- Statement of profit or loss and other comprehensive income: This is the statement that gives information on the financial performance of an organization.
- Statement of cash flows: This statement is concerned with the

flow of cash in and out of the business.

- Notes to the accounts: The purpose for notes to the accounts includes; to give detailed analysis of items already included in the statement of financial position and statement of profit or loss and other comprehensive income, to provide other qualitative information on items already included in the statement of position and to give information on relevant items that are not normally shown in the statement of financial position and comprehensive income.
- Auditor's report: This report contains the opinion of the auditor which he/she forms after the examination of a company's financial report.
- Directors' Report: This is a financial document produced by the board of directors under the requirement of Company and Allied Matters Act (CAMA) 2004 as amended which gives details of the state of the company and its compliance with a set of financial accounting and corporate social responsibility and corporate social responsibility standards.
- Value added Statement: This shows how much wealth that has been created by an organization through utilization of its capacity, capital, manpower and other resources and how it is allocated among different stakeholders in an accounting period.
- Five year financial summary: John (2005) stated that, the five year financial summary focuses on the statement of comprehensive income and financial position of an enterprise for the period and the proceeding four years in such that trends of the organization's performance can be easily revealed over a period at a glance.
- General Disclosure: Statement of accounting standard II (SAS2), provides that financial report of a company should contain the following: the nature of the enterprise, the period of time covered, the legal form, the reporting currency, its relationship with its significant local and foreign suppliers, the level of precision used in the figures in the financial report, etc.

Credibility Of Financial Report

Source credibility is the degree to which information is believed based on where it comes from. This study searches to enhance the understanding of the process by which financial report influences the behaviour of the investors in the Nigeria banking sector. This depends on the extent of the investors' appreciation and acceptance of the financial report which directly depends on the investors' perception of the source. For financial report to be credible for acceptance, it must be endorsed by a professional financial expert. Source credibility is very important to investors' reception of the financial report because the authenticity of the financial report is assumed to be the reliance of the investors.

Importance Of Financial Report

Financial report is the financial sources that is most directly related to the items of interest to both existing and prospective investors. According to Aroh J.C., et-al (2011), the most important purpose of the annual report is to get the shareholders informed about the financial status of his company, especially as to its income and financial position. The usefulness of financial report to existing investors is to assist them to assess the ability of an enterprise to pay dividend and interest when due while to the potential investors, it is used to decide on the types of security to invest in or which company to invest in.

According to Onyekwelu (2010), the satisfactory needs of the various users of accounting information as contained in the annual report can be accepted as the objective of financial statement. This objective of information is emphasized by the various accounting principles because investors and creditors use them in making rational investment and credit decisions.

Problems Of Published Financial Report

Accounting concepts do not rest on universal truth or general laws, therefore, judgment are applied to the interpretation of economic and social events and the subjective nature of these values implies that measurement process in accounting is not precise. Therefore, there is opportunity for controversy as regards to how to measure events. Moreso, financial reports do not reflect many factors such as reputation and prestige of the company, the credit rating of the company, efficiency, loyalty and integrity of management since they are cannot be expressed in monetary terms and these affect the financial condition of the company.

Remarkably, statement of Accounting Practice 7 or international Accounting standard 6 provides that financial statement should reflect the impact of changes in price level, yet in the current published financial reports, application of this standard is still a thing of doubt. In addition, the complexity and technicality of reported information including the highly technical language of accounting makes the qualitative aspect of company's report unsuitable source of knowledge for investors lacking the experience to make the best use of the report. This invariably places a considerable premium on the professional analysts upon whom the investors may largely rely in their investment decision making.

Investment And Decision Making

Investment according to Bodie, Kane and Marcus (2001) is the commitment of current funds or resources in the expectation of reaping future benefits. Investment therefore, involves the decision to commit funds in long-term assets.

Decision Making

According to stoner (2008), decision is the process of identifying and selecting a cause of action to deal with a specific problem or take advantage of an opportunity.

Pandey (2005) opined that investment decision has to do with an efficient allocation of capital.

Therefore, investment decision making according to Gavtan, U.S (2005) is a process of determining and interpreting the relationship between assets, liabilities and equity of financial statement to provide a useful understanding of the performance, solvency and profitability of an enterprise.

Tools For Investment Decision Making

The major tool for investment decisions is the ratio analysis. Ratio analysis is the judgmental process which aims at evaluating the current and past financial positions and the results of an entity with the sole aim of determining the best possible estimate about the future conditions and performances.

Empirical Framework

Michael (2013) in his critical investigation on the degree of reliance on the published financial statements by corporate investors, employed survey research design by which data were by means of questionnaire administered on one hundred and fifty (150) corporate investors and senior management officials of some selected banks. The descriptive statistic and percentage analysis were used for the data analysis and the hypotheses were tested using t-test statistic. The result revealed that one of the primary responsibilities of management to the investors is to give a standardized financial report evaluated and authenticated by professional financial experts. It is also showed that investors do understand the financial statement well before making investment decisions and therefore recommended that adequate and due diligence be maintained in the preparation of financial report to avoid faulty investment decisions which could lead to loss of funds and possible litigations.

Popoola, C.F., et-al (2014) investigated on published financial statement as correlate of investment decision among commercial bank stakeholders in Nigeria. A correlation research design was used in their study. One hundred and eighty (180) uses of financial report were purposively sampled from Lagos and Ibadan. Data generated were analyzed using person correlation and regression. The findings of their study showed that components of published financial statement significantly predicted good investment decision making for commercial banks stakeholders and therefore recommended that Nigeria banks and professional bodies should instigate programmes that increases the knowledge of stakeholders on published financial reports.

According to Mercy (2014) in her study to ascertain the role of financial statement in investment decision making through survey and questionnaire, gathered from the tested hypotheses that financial report is relied upon in investment decision making and financial reports are useful for forecasting company’s performance. Her conclusion was drawn based on the findings that financial report plays a vital role in investment decision making and recommends that no investment decision should be taking without considering the company’s financial reports.

Adebayo, M., et-al (2013) examined the impact of accounting information System in assisting organizations in making sound and effective investment decision their major source of data was primary data through questionnaires. Regression analysis and Karl Pearson’s correlation was used for the data analysis. Their findings showed that accounting information system is an indispensable tool in making investment decisions in today’s turbulent world. Therefore, organizations are recommended to invest more on information technology since it improve their efficiency, effectiveness and overall performance.

Methodology

This study investigated the reliance on the credibility of financial report by professional financial experts and investment decisions by corporate investors in Nigeria Commercial Banks. Data were generated from the primary source through questionnaires administered on a section of investors and senior bank management

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officials of some selected commercial banks in Nigeria. Survey method of investigation was employed. The questionnaire has five(5) point Likert Scale such as strongly Agree (SA)/very favourable (VF), Agree (A)/favourable (F), undecided (U) / Neutral(N), Disagree (D)/ unfavourable (UF),Strongly Disagree(SD)/ very unfavourable (VUF). A total of one hundred and seventy respondents were selected for the study and issued with the copies of the questionnaire of which one hundred and fifty (150) copies were correctly filled and returned. The tools used in analyzing the data include; tables, frequency, and sample percentage method and t-test statistic.

Data Analysis And Presentation

The data generated from the questionnaire are analyzed and presented in the tables below

Decision rule:

if mean < 2.5, the respondents agree.

If mean≥ 2.5, the respondents disagree.

Investors' reliance on the credibility of financial reports approved by professional financial experts in making investment decision.

Table 1.0. Responses and percentage on the investors' reliance on the credibility of financial reports approved by professional financial experts in making investment decision.

ITEM	SA (%)	A (%)
To what extent does the endorsement of a reputable financial expert influences your investment decisions?	80 (53.3)	70 (46.7)

Source: Field survey 2020

From the table 1.0, 80(53.3%) respondents strongly agreed, 70 (46.7%) agreed, no respondents neither undecided, disagreed nor strongly disagreed. The mean response of 1.47 reveals that endorsement of a reputable financial expert influences investors' investment decisions.

Significant extent to which investors rely on the financial reports in making investment decision.

Table 2.0: Responses and percentage on the significant extent to which investors rely on the financial reports in making investment decisions.

ITEM	SA (%)	A (%)	U (%

ITEM	SA (%)	A (%)	U (%)	D (%)	SD (%)	Mean	Std Dev.
Understanding of ratio analysis aids in interpreting published financial reports	75 (50.0)	60 (40)	5 (3.33)	5 (3.33)	5 (3.33)	1.70	0.94
There is significant extent to which financial reports are used to be relied upon in investment decision making.	92 (61.3)	48 (32)	4 (2.7)	4 (2.7)	2 (1.3)	1.5	0.79

Source: Field survey 2020

From the table 2.0, the respondents, 92 (61.3%) strongly agreed, 48 (38%) agreed, 4 (2.7%) undecided, 4 (2.7%) disagreed while 2 (1.3%) strongly disagreed and a mean of 1.5 shows that there is a significant extent to which financial reports are used to be relied upon in investment decision making.

Proper understanding of financial reports by investors before investment decision making.

Table 3.0: Responses and percentage on the proper understanding of financial reports by investors before investment decision making.

Source: Field survey 2020

From table 3.0, the respondents show that 75 (50%) strongly agreed, 60 (40%) agreed, 5 (3.33%) undecided, 5 (3.33%) disagreed while 5 (3.33%) strongly disagreed and a mean score of 1.7 shows that understanding of ratio analysis aids in the interpretation of financial reports.

Primary responsibility of management to give the investors a standardized financial report evaluated by a professional financial expert.

Table 4:0: Responses and percentage on the primary responsibility of management to give the investors a standardized financial report evaluated by a professional financial expert.

ITEM	VF (%)	F (%)	N (%)	UF (%)	VUF (%)	Mean	Std Dev.
How would you assess the attitude of management	92 (61.3)	48 (32)	4 (2.7)	4 (2.7)	2 (1.3)	1.5	0.79

Source: Field survey 2020

Table 4.0 shows that 92 (61.3%) believed that attitude of management towards financial report is very favourable, 48(32%) believed is favourable, 4(2.7%) is neutral, 4 (2.7%) said is unfavourable while 2 (1.3%) believed is very unfavourable. With a mean of 1.5, it is believed that the attitude of management towards financial report is favourable.

Test of Hypotheses

The mean responses were tested using the t-test statistics and results are presented below:

Test of hypothesis one

H0: Investors do not depend on the credibility of financial report approved by professional financial experts in making investment decisions.

H1: Investors do depend on the credibility of financial report approved by professional financial experts in making investment decisions.

Table 5.0: One – sample T- test Descriptive Statistic

N	Mean	Std. Dev.	Std Error Mean	T_{cal}	T_{cri}	df	Sig. 2 tailed
2	1.4900	.2828	.2000	74.500	6.314	1	.009

As presented in the table 5.0, the calculated t-test value 74.50 is greater than the critical t-test value of 6.314 i.e. t_{cal} (74.50)> t_{cri} (6.314). With $p<0.05$, the result is significant. Hence, the null hypothesis is rejected and the alternative hypothesis is accepted, that investors depend on the credibility of the financial report approved by professional financial experts in making investment decisions.

Test of Hypothesis Two

H0: There is no significant extent to which investors rely on financial reports in making investment decisions.

H1: There is significant extent to which investors rely on financial reports in making investment decisions.

Table 6.0: One – sample T- test

Descriptive Statistics

N	Mean	Std. Dev.	Std Error Mean	T_{cal}	T_{cri}	Df	Sig. (2 tailed)	95% Confidence Interval of the diff. Lower	upper	Remarks
4	1.54	.18565	.09283	16.590	2.353	3	.000	1.2446	1.8354	Rejected

As present in the table 6.0, the calculated t-test value of 16.59 is greater than the critical t-test value of 2.353 i.e t_{cal} (16.59)> t_{cri} (2.353). With p<0.05, the result is significant. Hence, the null hypothesis is rejected and the alternative hypothesis accepted. Therefore, there is significant extent to which investors rely on the financial reports in making investment decisions.

Test of Hypothesis three

H0: The investors do not understand the financial report well before investment decision.

H1: Investors do understand the financial report well before investment decision.

Table 7.0: One – sample T-test

Descriptive Statistics

N	Mean	Std. Dev.	Std Error Mean	T_{cal}	T_{cri}	df	Sig.	95% Confidence	Remarks
4	1.4725	.17017	.08509	17.306	2.353	3			

As presented in table 7.0, the calculated t-test value of 17.306 is greater than the critical t-test value of 2.353, i.e t_{cal} (17.36)> t_{cri} (2.353). With P<0.05, the result is significant. Hence, the null hypothesis is rejected and the alternative hypothesis accepted. Therefore, investors do understand the financial report well before investment decisions.

Test of Hypothesis Four

H0: The primary responsibility of management to the investors is not to give a standardized financial report evaluated by a professional financial expert.

H1: The primary responsibility of management to the investors is to give a standardized financial report evaluated by a professional financial expert.

Table 8.0: One – sample t-test

Descriptive Statistics

N	Mean	Std. Dev.	Std Error Mean	T_{cal}	T_{cri}	df	Sig. (2 tailed)	95% Confidence Interval of the diff.		Remarks
								Lower	upper	
4	2.0475	.89175	.44588	4.592	2.353	3	.019	.6285	3.4665	Rejected

As presented in table 8.0, the calculated t-test value of 4.592 is greater than the critical t-test value of 2.353 i.e t_{cal} (4.592)>t_{cri} (2.353). With p>0.05, the result is significant. Hence, the null hypothesis is rejected and the alternative hypothesis accepted. Therefore, the primary responsibility of management to investors is to give a standardized financial report evaluated by a professional financial expert.

Conclusion

The findings from the questionnaires, tested hypothesis and discussions above, suggest that there is a significant extent to which investors rely on the credibility of financial reports approved by professional financial experts. Hence, it can be concluded that

- ❖ Financial report is a vital source of financial information to investors and as such must be accurate, realistic, complete, timely and efficiently presented to induce appropriate investment decisions.
- ❖ The ability of investors to understand the financial report determines the level of influence (will the annual report will have on the investors investment decision making'
- ❖ Those who prepare the financial reports are mostly interested in following strictly accounting principles, ethics and technicalities that are mostly understood by people that are well versed in accounting.
- ❖ Endorsement on financial report by a professional financial expert increases the acceptance of credibility of financial report.

Recommendation

The following recommendations were made from this study:

- ❖ Financial reports should be prepared in simple, unambiguous and less technical language and terms that even a lay-man could understand always.
- ❖ Investors should attach much importance to the annual reports so that banks and organizations can really know the extent of their responsibility in preparing financial reports.
- ❖ Banks should subject their financial reports to statutory audit and endorsement by professional

financial experts in order to authenticate their contents.

- ❖ The independently reviewed financial reports should be fully analyzed by professional financial experts prior to making investment decisions.
- ❖ Investors should not undertake any investment decisions without first considering the financial reports of a corporate organization.

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