Evaluating the Compliance of Nigerian real estate professionals to International Financial Reporting Standards

*Chibuike R. Emele and Abiodun B. Jogunola

Department of Estate Management, University of Lagos, Nigeria .
Corresponding author: jumboemele2001@yahoo.com, +2348067303182

ABSTRACT

Changes in the global business environment have become constant, affecting all spheres of business activities and the service providers. The dictates of such global practices are hinged on the principles and guidelines encapsulated in standards. International financial reporting standard has become a globally recognized standard that countries around the world have adopted including Nigeria through the Financial Reporting Council of Nigeria Act 2011. This study investigated the compliance of real estate professionals in Nigeria to the Financial Reporting Standard. The study adopted a mix approach that involved a questionnaire survey of 132 estate surveyors and valuers in Lagos State and a content analysis of 88 valuation reports also sourced from estate surveying and valuation firms in Lagos State. The chi-square goodness of fit was used to test if there is any significant association between the years of professional experience with compliance to the FRCN Act among others. Result revealed that 58.8% of the respondents have not complied with the Act. One major result is that there is no statistically significant association or relationship between years of professional experience and compliance with IFRS Act ($\chi2 = 19.318$, $p < 0.05$). The study recommended among others that further research should be carried out by academics on the impact of financial reporting standard on the practice of real estate valuation and that the inspection and monitoring directorate of the Financial Reporting Council of Nigeria should be strengthened to carry out strict enforcement of the FRCN Act 2011.

Keywords: Compliance, International Financial Reporting Standard (IFRS), Nigerian real estate professionals

INTRODUCTION

Globalization and innovation in information and communications technology have brought about radical changes in the way businesses are carried out. The growing awareness and sophistication of investors have also necessitated that transparency is enshrined in professionalism. The globalized business world has placed enormous responsibility on professionals all over the world to be unified by adopting a common reporting and disclosure standards as it relates to accounting for assets and liabilities. As Liu *et al*. (2007) submitted, globalization and information technology are two forces that create changes in the capital markets resulting in the emergence of global capital and a new set of investors operating in a knowledge-based economy. Therefore, professionals have a very big role to play through financial reporting, in the convergence of global clients with global capital. According to Achu (2011), property valuations are important in investment decision-making especially in the mortgage sector, financial reporting and asset or portfolio management. Thus, capital flows are increasing and foreign direct investment is also on the rise as investment opportunities widen in emerging markets.

These require that accounting reporting issues are standardized. International Financial Reporting Standards (IFRS) represent the current globally recognized standard. According to Oseni (2013), IFRS was put in place and approved by the International Accounting Standards Board (IASB) as the unified global standard for financial reporting to be adopted by professionals who provide services that are very vital to the financial statements of companies in member countries. The major objective of the IFRS is to create a unified, high-quality and enforceable financial reporting standards that are premised on

clearly defined and articulated principles accepted globally and that can be understood by every stakeholder in the investing world. Nigeria, in a bid to keep pace with development in the world economy migrated to the financial reporting framework of the IFRS.

According to RICS (2014), international financial reporting standards are very important because they create improved transparency, lead to investor confidence with the overall positive effect on economic growth and development. Financial reporting is hinged on three basic fundamental principles of consistency, objectivity and transparency which ensure the sustenance of public trust and accurate valuation and the adoption of global standards must be of primary importance to property professionals (RICS, 2014).

In Nigeria for instance, increasing attention has been given to the property professionals' response to the adoption of IFRS in their valuations by the professional association, the Nigerian Institution of Estate Surveyors and Valuers (NIESV). Several seminars and engagements have been organized by the NIESV but it appears that understanding and adoption of the IFRS is still very poor among Nigerian property professionals. As Babawale (2012) observed, professionals providing valuation services in the Nigerian real estate industry practice within a regulatory framework that was characterized by weakness in enforcing minimum standards and inability to keep pace with current trends, global best practices and international standards. Following the formal adoption of IFRS in Nigeria and statutory inclusion of estate surveyors and valuers as part of the service providers in the preparation of valuation for balance sheet and other accounting purposes, there is a dearth of research on the level of knowledge and compliance of Nigerian professionals to the requirements of IFRS.

In addition, there is a growing demand for improved quality and transparency in valuations and adopting IFRS and international standards aids in strengthening and enforcing the disclosure of valuation assumptions and thereby increasing market confidence on the valuation process. These issues have created a gap to be filled by appropriate research from the perspective of the Nigerian real estate industry. The question that this research addresses is as follows: What is the compliance level of the estate surveyors and valuers with the Financial Reporting Council of Nigeria Law?

This study also tests the following hypotheses:

H1: Years of professional experience has a significant relationship with compliance to IFRS.

H2: The level of compliance to IFRS is higher for older firms than for other firms with few years of existence.

The objective of this study is to carry out an empirical examination on the compliance of Nigerian estate surveyors and valuers with IFRS standard as stipulated by the Financial Reporting Act of 2011. The significance of compliance with IFRS standard are many which includes reduction in valuation inaccuracies, improved quality, market transparency of the real estate professionals and alignment with global real estate market rating indices.

MATERIALS AND METHOD

This study adopted a mix approach in the methodology. This involved both survey approach by carrying out questionnaire survey and content analysis of valuation reports. This study was conducted in Lagos because Lagos metropolis occupies a central place in Nigeria's socio-economic development. Also, the stock of real estate investment in Lagos State is the highest, most diverse, active in terms of market activities; and has the highest values; and Lagos is the hub of the Nigerian real estate market comprises very large portfolio of real estate investments (Babawale and Omirin, 2011). It has the highest concentration of commercial activities, financial services and majority of conglomerates and multinationals are headquartered in Lagos (Emele *et al.*, 2014). The population of study is the Estate Surveyors and Valuers in Lagos State. The questionnaire survey was administered on a sample of the Estate Surveyors and Valuers who converged on Thursday, June 5th 2015 for the Annual General Meeting of the Lagos State Branch of NIESV. The AGM is the most important meeting of NIESV both at the national and state levels because annual reports of the running of the association are rendered, issues and regulations affecting the profession of Estate Surveying and Valuation at the different levels are also deliberated and major decisions or amendments of the association's constitution at the national level or bye laws at the state levels are carried. Only registered estate surveyors participate in the AGM.

This implies that the questionnaires are filled by the targeted respondents thereby excluding the possibility of a graduate estate surveyor or probationer filling the questionnaire which could have been possible if the questionnaires were sent to their respective offices. The attendance record of the AGM showed that 132 registered estate surveyors were in attendance which constitutes the sample size. This number is representative of the 238 registered Estate Surveying and Valuation firms in Lagos metropolis according to NIESV website and is already simply randomized given the wide publicity and notice of the AGM to every qualified member and the fact that any decision or resolution emanating from the AGM becomes binding on all the members and therefore constitutes the sample size. This sample size of 132 estate surveyors and valuers which is approximately 56% of the population is in line with the stipulated minimum size of 40% of the total population recommended by Nwana (1981) if the population is in few hundreds. This sample size is also in agreement with the model of Bartlett *et al*. (2001). Out of the 132 questionnaires administered, 85 of them responded which constitutes a response rate of 64%. The questionnaire contained structured questions in ordinal scale (Likert type) to address the core objective of the study. Data was analyzed with the aid of Statistical Package for Social Sciences (SPSS).

Data used for the content analysis were gathered through the analysis of the content of valuation reports of the different registered estate surveying and valuation firms in the Nigerian property market. Content analysis is gradually gaining prominence in property valuation studies in Nigeria and is adjudged to be one of the best approaches in studies involving compliance with property valuation regulatory requirements having been used by Babawale (2013). In all, 88 valuation reports, one from each firm were collected with the help of research assistants. Ladki *et al*. (2009) provided guidelines in research involving content analysis and these have been adopted in this study. Therefore in line with Emele *et al,* (2014) and guided by Ladki *et al*. (2009) the content analysis was carried with particular attention to compliance with IFRS as it concerns property valuation and the issues connected thereof.

RESULTS AND DISCUSSION

The basic professional profile of the estate surveyors and valuers which are significant to the study is shown in Table 1. Under the years of professional experience, that associate members below 10 years were 64.7% of the sample, while associate members above 10 years constituted 35.3%.

Table 1: Basic descriptions of the respondents

Options	Frequency	Percentage
Years of professional experience		
Below 10 years	55	64.7
Above 10 years	30	35.3
Total	85	100
Position in the organization		
Partner	60	70.6
Head of department	15	17.6
Manager	10	11.8
Total	85	100
Age of firm in years		
0-10	55	64.7
11-20	10	11.8
21-30	10	11.8
31-40	5	5.9
Above 40	5	5.9
Total	85	100
No. of qualified estate surveyors in the firm		
1-3 Estate Surveyors	65	76.5
4-6 Estate Surveyors	15	17.6
7-9 Estate Surveyors	5	5.9
Total	85	100
Registration with FRCN		
Yes	35	41.2
No	50	58.8
Total	85	100
No. of qualified Estate surveyors with FRCN registration		
1-3 Estate Surveyors	30	35.3
4-6 Estate Surveyors	5	5.9
All estate surveyors in my firm	5	5.9
None of the Estate surveyors	45	52.9
Total	85	100

The positions or roles of the respondents in their organizations show that they were decision makers in the firms. Partners comprise 70.6%, heads of departments 17.6%, while managers represent 11.8% of the responses. In terms of age of existence of the firms, 55 firms have existed for less than 10 years old (64.7%), 10 responses for both 11-20 years and 21-30 years existence (11.8% each), and 5 responses each for 31-40 years and above 40 years of existence (both 5.9%). Number of estate surveyors and valuers employed in the firms were 65 responses for 1-3 Estate Surveyors employed in the firms, 4-6 Estate surveyors were employed in 15 firms and 7-9 Estate surveyors in the firms had 5 responses. The respondents were asked whether they have registered with the FRCN. Majority of the respondents which is 50 (58.8%) have not registered or complied with the FRCN Act while 35 (41.2%) have registered. The respondents were further asked to state the number of qualified Estate surveyors in their firms who have FRCN registration. The response shows that 1-3 Estate Surveyors were registered by 30 respondents (35.3%), 4-6 Estate surveyors by 5 respondents (5.9%), all estate surveyors in the firm are registered had 5 responses (5.9%), while the firms having no Estate surveyor in the firm with FRCN registration were 45 (52.9%) (Table 2).

Test of hypothesis

This study employs the chi square test in order to validate the hypotheses stated earlier. The first hypothesis is thus:

H1: Years of professional experience has a significant relationship with compliance to IFRS.

In order to test this hypothesis, years of professional experience is taken as the number of years following the conferment of the associate grade of membership to any member of NIESV.

From the result of the Chi-Square test (Table 3), $\chi 2 = 19.318$, at the $p < 0.05$ level of significance shows that there is no statistically significant association or relationship between the years of professional experience and compliance with IFRS Act. That is, estate surveyors with both few years of experience and those with more years of experience have not

complied. This means that the years of professional experience has no bearing on the decision to comply with IFRS standards. Therefore the null hypothesis is rejected.

H2: The level of compliance to IFRS is higher for older firms than for other firms with few years of existence (Table 4).

From the result of the Chi-Square test (Table 5), $\chi 2 = 40.899$ at the $p < 0.05$ level of significance, there is no statistical significant to support the association between the age of firms and compliance with IFRS Act. Thus, one would have expected that the more the years of existence of the estate surveying and valuation firms in which the estate surveyors are practicing, the higher the degree of compliance due to the goodwill and reputation that have been built over the years.

Table 2: Cross tabulation table (grade of membership and registration with FRCN)

			Registration with FRCN		
			Yes	No	Total
Grade of membership	Associate below 10 years	Count	15	40	55
		Expected Count	22.6	32.4	55.0
	Associate above 10 years	Count	20	10	30
		Expected Count	4.1	5.9	20.0
Total		Count	35	50	85
		Expected Count	35.0	50.0	85.0

Table 3: Chi-Square Test for hypothesis 1

	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	19.318[a]	2	.000
Likelihood Ratio	22.993	2	.000
Linear-by-Linear Association	18.137	1	.000
N of Valid Cases	85		

[a]1Cell (16.7%) have expected count less than 5. The minimum expected count is 4.12.

Table 4: Cross tabulation table (Age of firm and registration with FRCN)

			Registration with FRCN		
			Yes	No	Total
Age of firm in years	0-10 years	Count	10	45	55
		Expected Count	22.6	32.4	55.0
	11-20 years	Count	5	5	10
		Expected Count	4.1	5.9	10.0
	21-30 years	Count	10	0	10
		Expected Count	4.1	5.9	10.0
	31-40 years	Count	5	0	5
		Expected Count	2.1	2.9	5.0
	Above 40 years	Count	5	0	5
		Expected Count	2.1	2.9	5.0
Total		Count	35	50	85
		Expected Count	35.0	50.0	85.0

Table 5: Chi-Square Tests for hypothesis 2

	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	40.899[a]	4	.000
Likelihood Ratio	49.156	4	.000
Linear-by-Linear Association	35.969	1	.000
N of Valid Cases	85		

[a] 6 cells (60.0%) have expected count less than 5. The minimum expected count is 2.06.

Content analysis

The summary of the content analysis carried out is shown in Table 6. Out of the 88 valuation reports, 69 (78.4%) of the reports indicated that they were carried out for financial institutions (Commercial banks and Asset Management Company of Nigeria). This clearly shows that financial institutions are the major clients of real estate valuation in Nigeria. These entities are also the major stakeholders in IFRS issues and as such are at the forefront of IFRS implementation in their financial dealings including real estate valuation.

In addition, the number of valuations carried out among the 88 valuation reports within the implementation period of the IFRS in Nigeria was 48 (53.6%). It is an accepted norm that reports submitted by registered professionals by the FRCN Act 2011 include their FRC registration number as an indication of compliance to the law. In this regard, only 3 (3.4%) of the analysed valuation reports had FRC Registration numbers included. This confirms that out of the 48 valuation reports carried out within the implementation period of the law, only 6.3% of the valuation reports actually were compliant. In an interview, a Fellow of NIESV confirmed that during a particular selection process by a regulatory agency in the financial services industry for a real estate valuation brief involving 5 estate surveying and valuation firms represented by their Head of Practices, only one of them was then registered with FRCN and was eventually commissioned for the real estate valuation contract. Other important disclosure issues observed from the valuation reports show that 13 (14.8%) of the reports omitted statements on the nature and source of information relied upon in their valuations, 2 (2.3%) included analysis of passing rent per square meter, estimated rental value (market rent per square meter, actual vacancy rate and long term growth trend in the real estate markets of the residential and commercial property subsectors. Market research and analysis in the light of global best practice should be a key section in all real estate valuation assignment but in the case of the analysed valuation reports, it remains a big challenge to some

Table 6: Content analysis table

Content analysed	No. of valuation reports, N = 88	Percentage (%)
Valuation for reporting entities (financial institutions)	69	78.4%
Mix up of purpose of valuation with basis and method of valuation	31	35.2%
No of valuations carried out within the implementation period.	48	53.6%
No of valuations undertaken that had IFRC Registration number	3	3.4%
Omission of Nature and source of information to be relied on	13	14.8%
Important disclosures		
Passing rent per square meter	0	
Estimated rental value (market rent per square meter	2	2.3%
Actual vacancy rate	2	2.3%
Long term growth trend	2	2.3%

Nigerian professionals. While some of the reports did not differentiate between forced sale value and open market value, others adopted depreciated replacement cost (DRC) method for both open market valuation and mortgage valuation. In addition, there was also a mix up in some reports (31 out of the 88 valuation reports) where the purpose of valuation was stated as the determination of open market valuation and the basis of valuation also was open market valuation.

CONCLUSION AND RECOMMENDATION

Adopting IFRS has been observed to contribute significantly to professional development of the various stakeholders while at the same time have multiplier effect on sustainability and transparency in the global market of which real estate is a major segment (Hanefah and Singh, 2012). Therefore, compliance to such laws and regulations should ethically not present a challenge to real estate professionals. Foreign Direct Investment and deepening of the real estate market is dependent on how well the professionals comply to world best practices. As this study has revealed, majority of the Nigerian real estate surveyors practicing in Lagos are yet to register with the Financial Reporting Council of Nigeria as specified in the FRCN Act. This is a clear case of non-compliance or violation of the provisions of the Act.

In order to be professionally relevant in the complex business environment, estate surveyors and valuers must change their attitude to become proactive instead of reactive to global trends. The NIESV has done a lot to organize Mandatory Continuing Profes-

sional Development seminars especially in the emerging trends of issues that directly affect the profession of estate surveying and valuation. However, the implementation of such programmes, workshops and seminars both at the individual level is a subject of investigation and debate. Compliance to regulations is one of the ways to remain professionally competitive.

This study has contributed to the IFRS discourse because no studies were found explaining compliance of real estate surveyors and valuers to legislations most importantly financial reporting. Given the growing attention given to accountability and transparency in the world of business, the quality of reporting valuation assignment is gradually improving and this improvement must be sustained.

In view of the forgoing, this study therefore makes the following recommendations:
There should be strict enforcement of the FRCN Act 2011. The Act has already provided for a Directorate of Inspection and Monitoring in Section 28 and also specified the process of inspection and monitoring as well as the powers of inspectors. The only missing gap is the inspectors to monitor compliance in the real estate sector. It is not yet clear if this provision of the Act is fully implemented. In addition, it is very important that scope of the training of students at the higher institutions should be expanded to include some of these ethical issues on standards and compliance. The curriculum review should also include the impact of the Financial Reporting Standard on valuation because the understanding of IFRS is an important requirement for any professional whose

service offering is impacted by global standards. Secondly there should be regular consultations, collaboration and cooperation (the 3Cs model) by the real estate professional practice regulatory body and the professional association (NIESV and ESVARBON) with all the relevant stakeholders in the Financial Services and other key sectors in the economy in order to equip the real estate professionals with the necessary skills and specialist knowledge as it affects estate surveyors role in financial reporting.

Lastly, academics and researchers should conduct further research and consultation with estate surveyors and other key stakeholders to address the following questions: How has the adoption of the financial reporting standard impacted the valuation profession in Nigeria?

What specific areas of valuation are affected by the IFRS and what changes are expected to be made by the new guidelines in reporting valuation assignments for the affected entities?

REFERENCES

Achu, K. (2011). Do Clients Influence Valuations Carried Out For Financial Reporting Purposes? Some Evidence from Malaysia. 17th Pacific Rim Real Estate Society Conference.Proceedings from the PRRES Conference - 2011 17th Annual Pacific Rim Real Estate Society Conference Gold Coast, Australia, January 16-19.

Babawale, G.K. & Omirin, M.M. (2011). Valuers' and Valuation Firms' Characteristics as Causes of Inaccuracy in Valuation in Nigeria. *Mediterranean Journal of Social Sciences, 2*(3), 12-23.

Babawale, G.K. (2012). An assessment of the current standard of real estate valuation practice in Nigeria. *Elixir Social Science Journal, 47*, 9094-9102.

Babawale, G. K. (2013). Emerging Issues in Compensation Valuation for Oil Spillage in the Niger Delta Area of Nigeria. *Journal of Reviews on Global Economics,2,* 31-45.

Bartlett, J.E., Kotrlik, J.W. & Higgins, C.C. (2001 spring).Organizational Research: Determining Appropriate Sample Size in Survey Research, *Information Technology, Learning, and Performance Journal, 19*(1), 43-50.

Emele, C.R., Okpaleke, F. C. & Umeh, O. L. (2014 September). Commercial Real Estate Market Forecasts: Complexities, methodologies and opportunities in the Lagos Mega City. Paper presented at the 14th AfRES annual conference held at the University of Cape Town, South Africa.

Hanefah, H. M. M. & Singh, J. (2012). Convergence towards IFRS in Malaysia: Issues, Challenges and Opportunities. *International Journal of Business, Economics and Law, 1*, 43-47.

Ladki, S. et al (2009). Assessment of the lebanese real estate market: a content analysis approach. *Romanian Economic and Business Review*, 3(4),84-96.

Liu, S., Wang,M., Tang, B.,&Wong, S. (2007). What we do and can do for a living. Expanding the role of the real estate profession. *Journal of Property Investment & Finance, 25*(5), 468-481

Nwana, O.C. (1981). *Introduction to Educational research for Students-Teachers*. Ibadan: Hienemann Educational Books, (Nig.) Ltd.

Oseni, M. (2013). Application and Challenges of International Financial Reporting Standards In Nigeria. *Arabian Journal of Business and Management Review (OMAN Chapter) 3*(2), 72-79.

RICS (2014). RICS response to EU consultation on International Financial Reporting Standards. Retrieved from rics.org.