ABSTRACT
Annual reports are primarily prepared to provide information to fund providers for decision-making, and as a means of stewardship accountability. In recent years however, there has been a paradigm shift to cover interest of other stakeholders as well. Consequently, there has been increase in information disclosure requirements by regulatory authorities, especially in the wake of reporting and corporate failures. This research work aims at determining the causes of increasing complexity and decreasing relevance of corporate reporting in Nigeria. It also seeks to establish the varying perspective of both the Users and Preparers of Annual Reports, as to whether or not the reports contain clutters and how it can be reduced. Clutter in annual reports obscures relevant information and makes it harder for users to identify the key points about a business’s performance. A substantial cause of clutter in annual reports according to the research is the vast array of requirements imposed by regulations, laws, and financial reporting standards. Therefore, over-regulation and over-supervision with too many rules are the main cause of increasing complexity and decreasing relevance of corporate reporting. We used SPSS statistical software to analyse data collected from both Users and Preparers of Annual Reports. They both agree that there are clutters in the reports. Increasing pressure to comply with rules and regulations leads to inclusion of redundant information in the reports. Regulators and standard setters have a key role to play in cutting clutter both by cutting the requirements that they themselves already impose and by guarding against the imposition of unnecessary new disclosures.

Keywords: Cut Clutter and Annual Reports

Introduction
The increasing complexity and declining relevance of corporate reports in recent years have posed growing concern to many stakeholders. This problem can be observed with the increasing lengthy requirements of detail annual reports, as well as increase in regulation and supervision. We are concerned here that the central messages of the reports are lost in the clutter of disclosure. This is evident with corporate report failures in recent times. There is therefore the need to advocate for proper coordination to restore confidence, relevance, and credibility in corporate reporting. According to Holt G. (2012) clutter in annual reports obscures relevant information and makes it harder for users to identify the key points about a business’s performance. A substantial cause of clutter in annual reports is the vast array of requirements imposed by regulations, laws, and
financial reporting standards. Standard setters and regulators both have roles to play in cutting clutter, both by reducing or cutting the reporting requirements that they themselves already impose, and to guard against the imposition of new disclosures that are not necessary. A quoted company for instance will have to comply with listing requirements, international financial reporting standards, company law, the corporate governance codes, and if it has a cross-border listing, the local requirements abroad, while serving different parties with varying disclosure interests. The combined effect of these constitutes the major sources of clutter in the reports. Another problem is that different regulatory and supervisory bodies have different audiences in mind for the requirements they impose on annual reports. Where regulators try to cover a wider range users, can lead to a loss of structure and focus in reports. “The International Accounting Standard Board (IASB) has recently issued a request for views regarding its forward agenda in which it acknowledges that stakeholders have said that disclosure requirements are too voluminous and not always focused in the right areas” (Holt, 2012).

The main objective of this paper is to determine the causes of increasing complexity and decreasing relevance of corporate reporting in Nigeria. It also seeks to establish the varying perspective of both the Users and Preparers of Annual Reports, as to whether or not the reports contain clutters.

**Literature Review**

**Users of Corporate Reports**

There are many different users of corporate reports. Consequently, regulatory authorities, supervisory bodies, and standard setters are altogether under pressure to make the report preparers meet all the needs of every stakeholder. This lead to increasing unnecessary disclosures which makes the report okay in meeting reporting requirements, but ideal for no one.

This call for a need to re-establish the rationale for design of corporate reports, primarily for the purpose of providing relevant information to investors useful for making their resource allocation decisions and assessing management’s stewardship. Consistent with the IASB thought on the conceptual framework for financial reporting, the primary users of corporate reports are identified as ‘present and potential equity holders, lenders, and other creditors’. The relevance of information to this category of users suggests that report preparers and regulators should reconsider where, how and when the needs of other stakeholders are addressed.

According to Hua M, and Huang Q. (2011) “The evolving nature of financial reporting identified several trends of financial reporting disclosures: Increasing length and complexity of financial statement disclosures - the disclosures which were once primarily related directly to further explanations of line items on the face of the financial statements, but are now more likely to include a variety of disclosures in addition to the traditional disclosure items, such as factual information about the entity; judgments made in the process of applying accounting policies and management decisions, and reasons for the policies or decisions selected; assumptions, models and inputs to the calculations of items in the financial statements; sources of estimation uncertainty and sensitivity
analysis disclosures; descriptions of internal processes, and so on.” They further stated that “there is increasing use of objective-based disclosure requirements where IFRS states that an entity shall disclose information that enables users of its financial statements to evaluate the significance of financial instruments for its financial position and performance. This objective-based disclosure requirement creates particular challenges for preparers and emphasizes providing users with information useful for decision-making.” Financial statements apart from stating the financial position of an organization, provides other information such as the value added, changes in equity if any and cash flows of the enterprise within a defined period of time to which it relates (Iyoha and Faboyede, 2011). This information is useful to a wide range of users making informed economic decisions. The quality of financial reporting is indispensable to the need of users who requires them for investment and other decision-making purposes. Financial reports can only be regarded as useful if it represents the “economic substance” of an organization in terms of relevance, reliability, comparability and aids interpretation simplicity.

Bartlett and Chandler (1997) reveal that according to private shareholders, little has changed over recent years despite the efforts of the accounting professions and the corporate communities to improve the communication between management and shareholders. Although, corporate governance and the process of preparing financial reports were clearly improved during the last five years, the financial reports did not become more useful according to the perceptions of its users. Thus, the usefulness of annual report remains an issue, despite the increased disclosure requirements and the increased information contents contained in annual reports. In order to improve the usefulness of annual reports, the International Federation of Accountants (IFAC) calls for cutting clutter in annual reports. Changes in the annual reports disclosures, however did not seem to have improved the usefulness of annual reports. Similar conclusion was reached by IFAC. It carried out a global survey in the year 2007 towards all parts of the financial supply chain including users, preparers, auditors, standard setters, and regulators, on the resulting significant efforts placed on change and improvement of financial reporting in recent year. The study showed that although corporate governance and the process of preparing financial reports were clearly improved in the last five years, the financial report did not really become more useful according to the perceptions of its users.

**Reducing Regulatory Clutter**

Larry D.W. and Robert A.E. (1999) assert, “Where several agencies are involved in a particular regulatory function there is the possibility of omissions, inconsistencies, and conflicting policy.” They further stated, “Most of the current debate about the future of the financial regulatory structure is being conducted by the regulatory agencies primarily because the scope of their authority and constituencies are at stake.” Horvitz (1983) points out that, Lawmakers have assigned multiple goals to the financial regulators and that oftentimes these goals have inconsistent implications for regulatory policy. He suggests that Lawmakers often deliberately assigns these goals to different agencies. As a
result, jurisdictional conflicts between the regulatory agencies over the form, substance, and implementation of regulations arise that are often a logical by-product of differences in their responsibilities. Kane (1984) argues that government regulatory agency heads tend to over-regulate due to their desire to avoid problems during their, usually short, tenure. Competition between regulatory agencies for regulatees counteracts this incentive, since over-regulated firms tend to be less competitive and to shrink in the face of less regulated competition. Consequently, an over-regulating agency that wants to retain its regulatees must either change its policy or attempt to persuade Legislators to force competing agencies to adopt more costly regulation.

One way of reducing the potential for harmful policy conflict is to separate supervision from regulation. Such separation, where feasible, could be a low-cost way of inducing public debate while insuring that policies ultimately adopted do not conflict. Another way of reducing the potential for harmful conflicts is to place a coordinating board above the respective agencies. The use of a coordinating board has the potential for allowing public debate on important conflicts while insuring that a coordinated solution is ultimately adopted. However, a coordinating board is not a “third” approach to resolving conflicts that is distinct from internal and external resolution. Rather it may best be thought of as providing a point on a continuum from pure internal to pure external resolution (Larry and Robert, 1999). It is not necessarily the length of the report that is the problem but the way in which it is organised. The inclusion of immaterial disclosures will usually make this problem worse but, in a well-organised report, users will be able to bypass much of the information they consider unimportant especially if the report is online. It is not the length of the disclosure of accounting policies that is itself problematic, but the fact that new or amended policies can be obscured in a long note running over several pages. A further problem is that accounting policy disclosure is often boilerplate, and provides little detail of how companies apply their general policies to particular transactions (Holt, 2012). Disclosure of significant accounting policies does not require disclosure of insignificant or immaterial accounting policies. Omissions in financial statements are material only if they could individually or collectively influence the economic decisions that users make.

**Regulatory and Supervisory Bodies with too many rules**

A significant cause of clutter in annual reports is the vast array of requirements imposed by laws, regulations and financial reporting standards (Holt, 2012). One major problem is that different regulators have different audiences in mind for the requirements they impose. Their attempts to reach more actual or potential users can lead to a loss of focus and structure in reports. As a result, preparers of annual reports are likely to err on the side of caution and include more detailed disclosures than strictly necessary to avoid challenge from auditors and regulators. Removing disclosures is seen as creating a risk of adverse comment and regulatory challenge. Disclosure is the safest option and therefore often the default position. Preparers and auditors may be reluctant to change this unless the risk of regulatory challenge is reduced. There is also a tendency for companies to repeat disclosures simply because they were in the annual report last year. Materiality
should be seen as the driving force of disclosure, as its very definition is based on whether an omission or misstatement could influence the decisions made by users of the financial statements. The assessment of what is material can be highly judgmental and can vary from user to user. One problem may be that disclosures are being made because a disclosure checklist suggests they may need to be made, without assessing whether disclosure is necessary in a company’s particular circumstances. However, the whole point of such checklists is to include all possible disclosures that could be material (Holt, 2012). However, the UK’s Financial Reporting Council (FRC), among other organizations, has called for reduced ‘clutter’ in annual reports. Additionally, the Institute of Chartered Accountants in Scotland (ICAS) and the New Zealand Institute of Chartered Accountants (NZICA) were commissioned by the IASB to make cuts to the disclosures within a certain group of IFRSs, and produce a report (Holt, 2012). The Financial Reporting Council of Nigeria is charged with the responsibility for, among other things, developing and publishing Accounting and Financial Reporting Standards to be observed in the preparation of Financial Statement of public entities in Nigeria; and for related matters. These authorities together with their various legislative jurisdictions can work together to cut the clutters in corporate reports. The Nigerian financial system for instance has witnessed tremendous changes in terms of size, structure, organization and scope. These changes could take the form of regulation, deregulation, liberalization and internationalization. The above changes have both structural and behavioural implications in the three assessment parameters of stability, efficiency, and fairness. Vittas (1992) posit that such changes are reflections of paradoxical development, which engenders growing concentration of markets and growing competition. Itsede (2002) suggest the existence of a single legislation that stipulates the capital adequacy of financial supermarkets, taking cognizance of the scope of activities and product mix of the institution. He further stressed the need for a composite license that would obviate the need for sector-specific licensing. Eatwell (1998) argue that in view of the emergence of financial Supermarkets and internationalization of the financial system, regulations should be conceived in conjunction with macroeconomic policy, as the consequences of unstable macroeconomic instability would unsettle the system. Theoretical argument suggests that adoption of International Financial Reporting Standards (IFRS) will enhance the quality of financial reporting. The argument is based on the notion that using a common accounting standard is expected to improve the quality of financial reporting. On the other hand, several studies have argued that the adoption of IFRS will create room for manipulating accounting numbers, because IFRS is a principle-based set of standards. In other words, IFRS encourages managers to be creative and to use professional judgment, which will decrease the comparability, transparency, relevance and reliability of financial information, and hence have an impact on the quality of reporting (Aljifri, 2012). IFRS have been developed by the IASB and are to be implemented without regard for differences in socio-economic and political environments between different countries. IASB has no power in any country and the adoption of IFRS depends on national regulatory bodies. These bodies are supposed to monitor and enforce the implementation of IFRS to ensure and maintain full IFRS compliance (Aljifri, 2012). The IASB has asked
for comment on its forward agenda in which it acknowledges that stakeholders have said that disclosure requirements are too voluminous and not always focused in the right areas. However, the drive by the IASB has been to increase disclosure to address comparability between companies. Therefore, in the short to medium term, a reduction in the volume of accounting disclosures does not look feasible (Holt, 2012). Ashbaugh and Pincus (2001) note that international accounting standards are superior to domestic accounting standards of certain countries in that they lead to increased disclosure and/or a restricted set of measurement methods. Furthermore, it can serve to limit managerial discretion by improving outside investors’ ability to monitor managers. Limiting managerial discretion relating to accounting alternatives could eliminate the firm’s ability to report accounting measurements that are more reflective of its economic position and performance. Conversely, IFRS, which is principles based, may provide more discretion than that afforded by domestic GAAP. This increase in reporting discretion, without the necessary constraints of enforcement, can be abused and hence result in a decline in reporting quality. Besides limiting reporting discretion and requiring greater disclosure, proponents of IFRS also point to the benefit stemming from accounting harmonization. The argument is that uniform accounting standards across countries improve firm comparability and this in turn improves capital flows. However, mere adoption of high-quality accounting standards does not automatically translate into a higher-quality financial reporting. Opponents argue that the quality of firms’ financial statements depends on not only high-quality accounting standards but also firms’ legal and institutional environments and the incentives of managers, investors, and auditors. Proponents claim that the worldwide mandatory IFRS adoption reduces the costs that multinational firms incur in preparing and auditing their financial statements, increases firms’ financial reporting quality and decreases firms’ cost of capital. In a study carried out by Nwakaeze, E. and Olamide, F. (2010) on regulation of financial reporting for accountability in public companies in Nigeria, sought to correlate the non compliance with the financial standards and governance code in 20 selected public quoted companies on the Nigerian stock exchange. In another study by Nwakaeze, E. and Olamide, F. (2010) sought to ascertain the effect of corruption on corporate accounts and behavioural accounting as a measure to achieving public objective. Kerr M. (2009) accounted that numerous reports have documented an acceptance that corporate reporting regulations should become more ‘principles-based’. Given this consensus, shouldn’t those setting the regulations and standards also do so within a principles-based framework? In addition to principles for technical content in standards and regulations, we need some principles for those standards and regulations themselves. There is a tendency to focus on the technical merit or theory behind each regulation and accounting standard. While this is clearly important, there needs to be more emphasis on understanding the problem being addressed, determining the most efficient regulatory solution for the problem and delivering this solution in an understandable way. We believe that if regulators use a framework for considering these issues, then over time complexity in corporate reporting will be reduced. Regulators should understand what other national and international regulators are doing in a particular area. Wherever possible, they should be consistent
with one another and work together in a joined-up way. The number of different sources of corporate reporting regulations makes life challenging for preparers of corporate reports, due to the sheer volume of requirements and the difficulty in tracking down which regulations apply to them. There is significant overlap between the different sources of requirements, which adds unnecessarily to the total regulatory burden. To reduce complexity, it is important to focus on good communication as well as simplifying regulations. Regulations tend to lag behind what companies are actually doing, so companies need to focus on communicating important messages rather than ticking regulatory boxes if investors are going to gain a full understanding of the business. Corporate reports are not just about the numbers. There is also need to focus on providing a high quality narrative that supplements and complements the numbers. Generally, if regulations require a disclosure, it goes in the report – regardless of the materiality or importance to the business. This means that reports are full of immaterial clutter that can obscure key messages or make information that is more important harder to find. In order to cut clutter we need to work on making better materiality judgments and to consider whether various sources of regulation are contributing to the problem. Corporate reports contain information, which is relevant, reliable, understandable, and comparable, and are useful for decision-making, including stewardship decisions (Kerr M. 2009).

**Methodology**

The study is exploratory and employed a convenience sample survey. A total of 100 questionnaires were administered to users and preparers of annual reports, with a response rate of 25%. The questionnaires were designed to take account of the different subgroups in the population. Hence, the study employ stratified random sampling survey to ensure that all parts of the population are represented in the sample, to increase its efficiency. Information on clutter in annual reports can only be reliably obtained by focusing on both quantitative and qualitative factors (Garbarino & Holland 2009). Therefore, the researcher considered primary sources of data most appropriate due to the need to tailor specific questions in order to address the peculiarities of the research questions and to exercise greater control on the research design to accomplish the research objective. First-hand information from users and preparers of company annual reports were obtained and recorded and clearly demarcated interests were identified based on the specific characteristics of the respondents. The population of users of annual reports was divided into homogeneous subgroups to ensure that not just the overall population is represented, but also key subgroups of the population. In order to ensure that equal sample size is drawn within each stratum, proportionate stratified sampling was used in each subgroup. Stratified sampling has been adjudged to have lower variance due to the homogeneity of elements within the strata (Lehtonen & Pahkinene 2004).

The study also employs the use of SPSS statistical analysis software, with linear regression models. The linear regression model assumes that there is a linear, or "straight line," relationship between the dependent variable and each predictor. This relationship is described in the following formula:

\[ Y_i = b_0 + b_1 X_{i1} + \ldots + b_p X_{ip} + e_i \]
where;
\( Y_i \) is the value of the \( i \)th case of the dependent scale variable
\( P \) is the number of predictors
\( B_j \) is the value of the \( j \)th coefficient, \( j=0,\ldots,p \)
\( X_{ij} \) is the value of the \( i \)th case of the \( j \)th predictor
\( e_i \) is the error in the observed value for the \( i \)th case

The model is linear because increasing the value of the \( j \)th predictor by 1 unit increases the value of the dependent by \( b_j \) units. Note that \( b_0 \) is the intercept, the model-predicted value of the dependent variable when the value of every predictor is equal to 0.

For the purpose of testing hypotheses about the values of model parameters, the linear regression model also assumes the following:

- The error term has a normal distribution with a mean of 0.
- The variance of the error term is constant across cases and independent of the variables in the model. An error term with non-constant variance is said to be heteroscedastic.
- The value of the error term for a given case is independent of the values of the variables in the model and of the values of the error term for other cases.

Discussion of Results

The research work aims at determining the causes of increasing complexity and decreasing relevance of corporate reporting in Nigeria. It also seeks to establish the varying perspective of both the Users and Preparrers of Annual Reports, as to whether or not the reports contain clutters and how to reduce it. The results based on empirical evidence shows that there are clutters in the Annual Reports.

Research Findings

They are summarized below:

- Over-regulation and over-supervision with too many rules are the main cause of increasing complexity and decreasing relevance of corporate reporting
- Both User and Preparers of Annual Reports agree that there are clutters in the reports
- Increasing pressure for compliance lead to inclusion of redundant information.
The model summary table (Table 1 above) reports the strength of the relationship between the model and the dependent variable. \( R \), the multiple correlation coefficients, is the linear correlation between the observed and model-predicted values of the dependent variable. Its low value of 0.284 indicates a weak relationship. \( R^2 \), the coefficient of determination, is the squared value of the multiple correlation coefficients. It shows that only a small portion 0.080 of the variation in opinion is explained by the model.

The ANOVA table above tests the acceptability of the model from a statistical perspective.

The Regression row displays information about the variation accounted for by the model. The Residual row displays information about the variation that is not accounted for by the model. The regression and residual sums of squares are widely apart with 0.145 as against 1.655, which indicates that a significant portion of the variation in response opinion is explained by the model.

The coefficients table above provides the unstandardized and standardized coefficients for each predictor in the model. The standardized coefficients allow for comparison between predictors, with a Beta value of around 0.247 for Users indicating a moderate effect.
Table 3 above shows the coefficient of the regression line. It states that the expected response outcome for users of Annual Reports is equal to -0.155 x Users + 1.103. There are 20 respondents in this case, and predicted outcome is -0.155 x 20 + 1.103 = -1.997. Similarly, it states that the expected response outcome for Preparers of Annual Reports is equal to -0.121 x Preparers + 1.103. There are 20 respondents in this case, and predicted outcome is -0.121 x 20 + 1.103 = -1.317.

**Figure 1**

![Histogram](image)

The residual is the difference between the observed and model-predicted values of the dependent variable. It is the observed value of the error term for that product. The histogram or P-P plot of the residuals helps to check the assumption of normality of the error term. The shape of the histogram approximately follows the shape of the normal curve. This histogram is not close to the normal curve.

**Figure 2**
The P-P plotted residuals should normally follow the 45-degree line. Both the histogram and the P-P plot indicate that the normality assumption is violated.

Figure 3
As shown on Figure 3 above, the plot of residuals by the predicted values shows that the variance of the errors increases even without increasing predicted values. There is, otherwise, no good scatter.
Conclusions and Recommendations
The study aimed at determining the causes of increasing complexity and decreasing relevance of corporate reporting in Nigeria. It sought to establish the varying perspective of both the Users and Preparers of Annual Reports, as to whether or not the reports contain clutters how to reduce it. The empirical evidence based on our analysis shows that there are clutters in the Annual Reports. It is however important for the efficient operation of the capital markets that annual reports do not contain unnecessary information. However, it is equally important that useful information is presented in a coherent way so that users can find what they are looking for and gain an understanding of the company’s business and the opportunities, risks and constraints that it faces. A company, however, must treat all of its shareholders equally in the provision of information. It is for each shareholder to decide whether they wish to make use of that information. It is not for a company to pre-empt a shareholder's rights in this regard by withholding the information. We recommend that Regulators and standard setters should play a key role in cutting clutter both by cutting the requirements that they themselves already impose and by guarding against the imposition of unnecessary new disclosures. We also recommend for further studies that the independent variable “Regulators” be regressed with the dependent variable “Clutter in Annual Reports”, to establish the relationship between the Regulators’ action and increase in clutter in the Reports.

References


