Developing Country Studies
ISSN 2224-607X (Paper) ISSN 2225-0565 (Online)
Vol.4, No.6, 2014

Problems and Prospects of Adopting International Financial Reporting Standards in Nigerian Corporate Organization A Study of First Bank of Nigeria PLC, Enugu

Ovute F. E.[1],Eyisi A. S.[2]
1 Department of Accountancy, Faculty of Management and Social Science,Caritas University Amorji-Nike,Enugu-Nigeria
2 Department of Accountancy, Faculty of Business Administration, University of Nigeria Enugu Campus, Enugu-Nigeria
E-mail: gabby complex @ yahoo.com

Abstract
The technical difficulties in the application of International Financial Reporting Standard (IFRS) have made most Nigerian firms to persist in using statement of Accounting Standards, SAS in preparing their financial statement. The study investigated the interest of international investors in investing into Nigerian firm who observed the principles of SAS rather than IFRS and to examine the challenges imposed on international investors in evaluating their overseas investment and global comparability of financial statement. A survey research design was adopted for the study, Z-test was used to test the hypotheses. The study found that adoption of international financial reporting standard will attract more interest of international investors in investing into Nigeria firms. The result calls for technicalities of IFRS in preparing financial report shall benefit accounting practice in Nigeria and broader the capacity of enlisting Nigeria firms into global capital market. The study recommended among others that the enforcement of IFRS should be vested in one body such as the proposed financial reporting council for Nigeria and that the Nigerian Accounting Standard Board NASB should provide platform for ensuring the enforcement and monitoring of IFRS.
Keywords:IFRS, SMEs, SAS,IPSAS

1. Introduction:

Nigeria with an estimated population of 2144 151 .541 million is the largest market for goods and services in Africa. Its gross Domestic product was US$214.4 billion in 2008. There are 864,902 companies registered with the Corporate Affairs Commission under part of these, 26 are licensed commercial banks, 49 are insurance companies and 2 are reinsurance companies. The Nigeria stock exchange has 216 listed companies with a combined market capitalization of N5.4 trillion about US$35billion) as at January 13, 2010 (Asein 2010) despite is neither satisfying the need of people nor increasing growth.

A key policy strategy in repositioning the Nigerian Economy is the attraction of foreign direct investment into the Economy to provide investible funds foreign direct investments in Nigeria have been declining from US$6.9billion in 2007 to about US$4.602 billion in 2008 and US $3.94 billion as at September 30, 2009 primarily due to perceptions of risk in Nigeria (Obazee, 2010). The risk is grossly exaggerated because the federal government has committed itself to programmers including scientific risk management approaches, which will ensure that Nigeria offers good opportunity for investors to create wealth.

The perception of Nigeria as a risky country for the flow of foreign direct investments can in part be attributable to the limited financial reporting and disclosure made by reporting entities in Nigeria. This owns to the fact some of these entities cannot provide investors with sufficient Economic information that will enable them to understand the risk profiles of such entities and permit informed judgement and decisions.

Nigerian Market is increasingly becoming sophisticated. Customers are becoming more discerning and government framework is gradually being improved through various codes of corporate governance which has been introduced. The competitive environment which now exists as a result of market-oriented Economic policy reforms enacted by the government of Nigeria further creates opportunities for potential investors (Greuning, 2010).

Nowadays, business has become more global and this has a significant part of its national identity. Indeed Nigeria is part of this globalization. Nigeria companies have raised capital from international stock markets. Also a good number of Non-Nigeria issuers. For a better information which is comparable between countries competition for foreign investments.

Asein (2009) to this end concluded that the global adoption of a single set of financial reporting standard will in no small measure enhance comparability and create an enabling environment for all investors to be able to compare effectively investment opportunities across the global market. It will be in the interest of the Nigerian

Economy for listed companies to adopt global accepted high-quality accounting standard by fully converging Nigeria national accounting standards with International Financial Reporting Standard (IFRS) over the earliest possible transition period given the increasing globalization of capital markets.

A good number of small indigenous accounting firms are now seeking international networks because businesses are engaging in more international transactions cross-border listing is now common place and accounting firms are beginning to follow their growing corporate clients into other countries in order for these firms to continue to provide services to these clients wherever they may be.

Based on the above issues, this study stands to examine the possible problems and prospects in adopting IFRS for corporate organization.

2. Statement of problem

The survival of any business organization to a large extent depends on the quality of the management decision of such firms. To this end, Management decision making is not possible without the aid of accounting information. The non-adoption of International Financial Reporting Standard in reporting financial statement over the years might have resulted to the following specific problems.

- Loss of interest from international financial investors in investing into Nigerian firm who observed the principles of SAS rather than IFRS.
- Difficulty in consolidation of financial statement of multi-national companies.
- Problem of international investors in monitoring of overseas investment and global comparability of financial statement
- Problem of the level of Awareness of International Financial Reproting standard in Nigeria.

3. Objective of the study

The general objective of this paper is to examine the prospects of adopting the IFRS in a corporate organization while the specific objectives are:

- To investigate the loss of interest from international investors in investing into Nigerian firm who observed the principles of SAS rather than IFRS.
- To investigate the difficulty in consolidation of financial statements of Multi-national companies.
- To examine the difficulty of international investors in monitoring of overseas investment and global comparability of financial statements.
- To evaluate the level of awareness put in place in adopting the international financial Reporting Standards (IFRS) in a co-operate organization.

4. Literature Review

The year 2012 marked significant water shed in Nigeria's financial reporting as the country wholly adopts international Financial Reporting Standards (IFRS) as its financial reporting framework with effect from January 1st , 2012. In line with recommendations of the committee on the Roadmap for the adoption of IFRS in Nigeria which were accepted by the government and officially unveiled on September 2nd , 2010 at Transcorp Hilton Hotel, Abuja, as listed companies and significant public interest entities in Nigeria must adopt IFRS by January 1st , 2013 while small and medium-sized Enterprises (SMEs) will key into the initiative by January 1st , 2014. By implication, all SMEs will statutorily be required to issue IFRS based financial statements for the year ending 31st December, 2014. Entities that do not meet the IFRS criteria for SMEs shall prepare and issue their report using SMEs Guidelines on Accounting (ie Tier 3 or Micro-GAAP) issued by the GENEVA-based united nations conference on Trade and development (UNCTAD) (Asein 2010)

The public sector, the chief driver of the nation's economic activities will similarly adopt international public sector Accounting Standards (IPSAS) from Jan. 1st, 2013. The delay in the sector commencement is explained fact that will have first former transit from current cash accounting to modified accrual accounting. The compliance by the sector will complete the entire trade circle. The view is rife that this strategy no doubts, enhances Nigerian's percept foreign investors, reduce its risks and provide a reliable, comparable investment destinations on the continent. The Readings is composed of Nigeria Accounting Standard Board (NASB), the institute of chartered accountants of Nigeria (ICAN), Central Bank of Nigeria (CBN), Securities and Exchange Commission (SEC) and other stakeholders in the financial reporting process (Mackenzio Bruce et al (2011).

According to NASB (2010), the federal government of Nigeria responded to many significant accounting and reporting inadequacies and departures from norms passed unnoticed by the promulgation of the Nigeria Accounting Standard Board (NASB) inspectorate unit as a better version of an evolutionary approval by the government to strengthen compliance with accounting standards and to enhance reliance.

Added to this, the Nigerian government introduced major reforms aimed at promoting confidence in corporate reporting and governance. The pursuit of these reform mandates gave rise to such measures in government as the fesh-oning of the fiscal responsibility bill, implementation of the new oil and has unit, parastatatal support unit, the setting up of Economic and Financial Crimes Commission (EFCC), the Independence and Corrupt Practices Commission (ICPC) and the Nigeria extractive industries transparency initiatives. It also attracted development partners coordination flag bearers such as the World Bank group and Department for International Development (DPID).

In the midst of these developments, it becomes clear that the Nigerian government needed to engage in wide ranging views that recognize corporate reporting knowing full well that the world. Economies are how inter connected symbiotic them every one really understand.

Judging from the global financial crisis, it is obvious to all that nations have strained the present system of differential national financial standards to its limit. Nations that are truly desirous of attracting more foreign direct investment, enhancing job opportunities and economic transformation are now aiming to free their countries from the limits of the present system.

This requires re-appraisal of legal framework, institutional framework, human capacity building. The FRC Act 2011, ensured from the re-appraisal of the legal and regulatory framework with regard to the financial reporting regime in Nigeria.

Corporate governance failures have now been proved to be at the heart of the current financial crisis. This is owing to the fact that corporate boards did not live up to their responsibilities and the gatekeepers we financial analysts and prudential regulators did not draw the investing public attention to systemic risks.

The solution to all these is the internalization of financial reporting benchmarks and hence the adoption of international Financial Reporting Standards

5. What are IFRS

IFRS are defined to include:

- All international financial Reporting standards so far issued by IFRS foundation.
- All subsisting international Accounting standards (IAS) previously issued by IASB and its predecessor, IASC.
- All subsisting statements of interpretations committee (SIC).
- All international financial reporting interpretation committee (IFSIC) now called IFRS interpretation committee.

IFRS encompass standards which unambiguously define the treatment of various accounting issues and have stated to significantly impact .the process, quality and rehabilitee of financially statements globally.

The IFRS do not wear any racial or Jurisdictional coloration and therefore will continue to set the appropriate tone for financial reporting and corporate governance.

That is why IFRS have fully replaced SAS as a basis for financial reporting in Nigeria.

6. Why IFRS?

Greuning(2010) said that given the nations drive towards achieving its vision 2020 goals, it was expedient and in the best interest of the nation to raise and bacchant the quality of financial reporting on a goal best practices by adopting IFBS. Today, global commerce is increasingly polarized into multinational corporations (MCS) and national companies. Actually, financial reporting is responding to this business dynamics by following in this direction. Thus the adoption of IFRS will be beneficial in the following ways;

6.1 Comparability And Efficient Investment

-Investors are driven by the quality of market formation which make investment decision efficient, relevant, reliability, and comparability and understand ability. Thus the use of IFRS will facilitate greater acceptability of financial reports by regulators and this can enhance secondary hissings of companies in global stock markets.

6.2 Uniformity in Accounting Language

-Developing a universally recognized financial reporting language is an inevitable response to the globalization of business, financial investment with primary objective of eliminating the unnecessary co-plexity that exists with multiple reporting languages.

6.3 Lower Cost of Preparing Financial Statements

-Adoption of IFRS will make internal audit activities easier; preparing internal accounting manuals will be more logical and there can be economies .in staff training.

6.4. Attraction of More Foreign Direct Investments (FDIS)

To quest for more foreign direct investments and the need to be more relevant in the global economy have necessitated the move towards full scale adoption of IFRS. With more retable and credible financial statements, the propensity to attract foreign direct investments will increase as the nations risk profile would be known and predictable. In other words, investors are attracted to environments where the rewards are high relative to risks, availability of reliable information contributes to the lowering of this risk.

7.0. Methodology:

The research design adopted is the survey research design. A set of research structured questionnaire was administered after establishing its validity and reliability on a sample of 52 staff of first bank of Nigeria plc (FBN) made up of professional accountants, Auditors and managers of the bank in Enugu. Oral interviews were also conducted to obtain further clarifications where necessary. The data gathered were analyzed using percentage. A parametric statistical testing tool Z-test was used to test hypotheses about the difference between the mean groups. The mean of each questionnaire item were interpreted using likert 5 points scale.

8.0. Conclusion

It is in best interest of Nigeria to adopt IFRS. The adoption of IFRS will have profound implications for financial reporting practices in Nigerian Organization. which to embrace changes in investment will benefit from the new financial reporting framework which has the capacity to widen and enhance their accessibility to global capacity markets. Also Nigeria Accounting standard Board (NASB) should set up a committee charged with the responsibility to ensure that this profit is not erased out. IFRS is principally to promote the interest of corporate entities and in particular to enhance their access to cheaper funds from international capital markets through the presentation of crucibles, reliable and comparable financial statements hinged in full disclosures. The corporate entities need to own the transition process as well as work closely with professional boshes, regulation and FRC so that they can positively impact the standard setting process.

9.0. Recommendations

Based on the facts and findings of this study, the following recommendations are made.

- This paper recommends that the enforcement of IFRS should be vested in one body eg: the proposed financial reporting council.
- Professional boches should embark on massive sensitization of their members and users of accounting in order to apprise them of the fundamental change that will occur in financial reporting literature.
- The institute must expeditiously arrange to train the trainers programme for its accounting teachers, assessors and examiners who are the vehicle for the implementation of certification processes of IFRS.
- There is need for tertiary institutions to collaborate with the national Universities commission (NUC) and the National Board for Technical Education (NBTE) in order to spread the promulgate knowledge of IFRS through the review of their curriculum.

REFERENCES

Asein, A.A. (2001); “The accounting concept of true and fair”, ICAN news, Vol. 6, No.2, April/June, 2001.

Asein, A.A. (2009), “UNCTAD discusses financial stability”, The Nigeria Accountant, Vol. 42, No.3, July/Sept., 2009.

Asein, A.A. (2010), “Africa’s standards setting initiatives”, the Nigerian Accountant, Vol.43, No.4, Oct/Dec. 2010.

Asein, A.A. (2010), “Avoiding the Next Global economic crises “, The Nigerian Accountant, Vol.43, No.2, April/June, 2010.

Choi, F.D.S (1998), Global consequences of International Accounting Diversity, Accounting and Business, October 1998 pp 18-20.

Asein A.A (2011) “International Financial Reporting Standards: Imperative of the New Financial Accountant 44(4) April

Delintte (2005), “Differences between Australian Equivalent to international financial reporting standards (A-IFRS) and international financial reporting standards” A-IFRS vs IFRS.

Fay, R.G; Brozousky, J.A; Edmonds, J.E; Lobingier, R.A and Hicks, S A (200 8) “incorporating international financial reporting standards (IFRS) into intermediate accounting” Virginia Tech: Invent the future.

Financial Reporting Council of Nigeria Acct. No.6 of 2011.

Greening, H.V. (2010), International financial reporting – A practical guide. The world Bank, 5th Edition.

ICAN Journal (2011), international financial reporting standards. Imperatives of the New financial reporting frame work. Oct/Dec, 2011, Vol.44, No.4.

NASB (2010), Report of the committee on the road map for the adoption of IFRS in Nigeria. (Online) accessed on September 21, 2011, Global convergence, www.nasb.org.

Mackezie, Benice (2011) Interpretation and Application of International Financial Reporting Standards"

Obazee, J.O (2010), "Acceptance speech" chairman, committee on the roadmap for the adoption of IFRS in Nigeria seminar for lectures of Accounting and Relate by Nigeria Accounting Standards Boards pp 74-79. Transcript Hilton Hotel Abuja

Oyedele, T. (2011), "Tax implications of IFRS" ICAN 2011 MCPS

Oyedele, T. (2011), Taxation implications of IFRS conversion for companies operating in Nigeria Price water House Coopers.

Smith, N.J. (2012), Constant Item purchasing Power Accounting per IFRFS, Ch.1,22,2 three concept of capital maintenance.

UNCTAD, (2007), International Accounting and Reporting issues, 2007 review, United Nations, New York.

Walton, P. (2003), "European Harmonization" in Choi, F.D.S International
accounting and financial Handbook, 2nd edition, John Wiley and Sons New York.

Walton, P. (2004), "As 39: when different Accounting models collide. Accounting in Europe.

Walton, P. (2011), An executive Guide to IFRS – content, costs and Benefits to Business. John Wiley and Sons Ltd, Uk publication.