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International Financial Reporting Standard (IFRS) Adaptation in Nigeria: Challenges and Prospects

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Abstract
The adoption of International Financial Reporting Standards (IFRSs) in Europe and around the world represents perhaps the most important accounting regulatory change in recent years. The use of IFRSs as a universal financial reporting language is gaining momentum across the globe as more countries are adopting IFRS or converging their local standards with it. Nigeria had set a road map towards the adoption of IFRS from January 2012.The main objective of this research is to survey literature and identify the challenges of International Financial Reporting Standards (IFRS) adoption and limitations faced by Nigeria in the process of implementing it. Nigeria has embraced IFRS in order to gain the benefits it offers; including attracting foreign direct investment, reduction of the cost of doing business, and cross border listing. In implementing IFRS Nigeria is facing challenges including the development of a legal and regulatory framework, awareness campaign, and training of personnel. Strengthening education and training at all levels of governance, establishment of an independent body to monitor, enforce, and advise on accounting and auditing standard, efficient capacity building programme to prepare the various stakeholders for the imminent transition and challenges are the key recommendations from the study.
Keywords: International Financial Reporting Standards, adoption, adaptation, challenges.

Preamble

The process of international convergence towards a global set of accounting standards started in 1973 when 16 professional accounting bodies from Australia, Canada, France, Germany, Japan, Mexico, Netherlands, United Kingdom and the United States of America agreed to form the International Accounting Standard Committee (IASC). International Accounting Standards (IAS) which was issued by IASC came as a child of necessity due to unprecedented growth in trade and investment between countries of Europe, America, Asia and Australia. It led to a search by investors for new destinations for surplus funds. But companies that started going abroad to become multinational soon faced the problem of consolidating their financial statements due to differences in the General Acceptable Accounting Principles (GAAPs) of parent and subsidiary companies.

In 2001, the IASC was reorganized into International Accounting Standard Board (IASB) with an objective to develop global standards and related interpretations that are now collectively known as International Financial Reporting Standard (IFRS). The need for the reorganization is that, if accounting is the language of business, then, business enterprises all over the world cannot continue to be speaking in different languages to each other while exchanging financial numbers from their international business activities. Thus, a single set of worldwide accounting standards will simplify accounting procedures by allowing the use of a common reporting language across the globe.

With the advent of globalization, global capital markets have witnessed rapid expansion, diversification and integration. This has brought about a shift away from local financial reporting standards to global standards. In the wake of this transformation, the European Commission issued a legislation to require the use of IASB standards for all listed companies in 2005, thus making IFRS mandatory. The adoption and implementation of the IFRS in the EU and over 120 other countries is associated with a lot of challenges for countries (developing and developed) which are contemplating IFRS adoption or faced with the problems of whether to and why, when and how to converge or adopt IFRS .Nigeria has equally taken steps to converge to IFRS by adaptation. In 2011, Government signed into law, the Financial Reporting Council of Nigeria Act, 2011, with the emphasis that the country's road map to stage adoption of IFRS started on 1 January, 2012 beginning with publicly quoted companies. Other Public Interest Entities (PIEs) converged to IFRS on 1 January, 2013 and small and medium size entities converged on 1 January, 2014 (NASB, 2011). However, the Central Bank of Nigeria (CBN) had directed all banks to comply with IFRS in 2010. The legislation (Financial Reporting Council of Nigeria Act, 2011) is to create an enabling environment for the implementation of IFRS and to guarantee credible financial reporting regime in both private and public sector entities in Nigeria. Government has equally empowered the Financial Reporting Council of Nigeria to issue and regulate accounting, actuarial valuation and auditing standards. What this means is that, the Nigerian Accounting Standard Board (NASB) together with the Statement of Accounting Standards (SAS) issued is now replaced. Several studies have been conducted recently to ascertain the acclaimed benefits of IFRS after the Nigeria adoption. However, instead of certifying the benefits most of these studies lists the difficulties Nigeria faced in adopting or implementing the road map and attaining the benefits, there is need therefore to provide a detailed catalogue of these challenges and to provide the full understanding of what ought to be done for the benefits to be attained. Hence, the objective of this research is to survey literature and identify the challenges of IFRS adaptation.

2. LITERATURE REVIEW

IFRS Adoption and Implementation in Nigeria:

The Nigeria's Federal Executive Council (FEC) gave approval for the convergence of Nigerian SAS with the IFRS from January 1, 2012. The adoption was organized such that all stakeholders use IFRS by January 2014. According to the IFRS adoption Roadmap Committee (2010), Public Listed Entities and Significant Public Interest Entities are expected to adopt the IFRS by January 2012. All Other Public Interest Entities are expected to mandatorily adopt the IFRS for statutory purposes by January 2013, and Small and Medium-sized Entities (SMEs) shall mandatorily adopt IFRS by January 2014. Nigerian listed entities were required to prepare their closing balances as at December 31, 2010 according to IFRS. The closing figures of December 31, 2010 will become the opening balances as at January 1, 2011 for IFRS based financial statements as at December 31, 2011. The opening balances for January 1, 2012 will be the first IFRS full financial statements prepared in accordance with the provision of IFRS as at December 31, 2012.

"It will be in the interest of the Nigerian economy for listed companies to adopt globally accepted, high quality accounting standards, by fully converging Nigerian national accounting standards with International Financial Reporting Standards (IFRS) over the earliest possible transition period, given the increasing globalization of capital markets". (IFRS Adoption Roadmap Committee, 2010: p.10)

Institutions fostering IFRS Adoption

On the international front, the World Bank, the International Monetary Fund (IMF), the G8, the G7 Finance Ministers and Central Bank Governors, International Organization of Securities Commissions (IOSCO), Basel Committee on Banking Supervision, the United Nations (UN) and the Organization for Economic Co-operation and Development (OECD) have publicly recommended the adoption of a single set of global accounting standards or the IAS. The US SEC Concept released in 2000 on the International Accounting Standards also encouraged the convergence towards a high quality global financial reporting framework internationally that will enhance the vitality of capital markets. The European Commission saw in 2002 a common set of accounting standards as a critical pillar in building a united capital market in Europe (Mc Creevy,2006). On the national level many government and tax authorities want a global accounting standards to regulate and tax businesses that operate within their countries. In Nigeria, besides the government's readiness, the Nigerian Accounting Standards Board (NASB) now the Financial Reporting Council (FRC), Nigerian Stock Exchange, (NSE) and Central Bank of Nigeria (CBN) were among the major agents for IFRS adoption in 2012.

Basically, a country's accounting and disclosure system is part of its financial system and more generally its institutional infrastructure. This is geared towards the informational and contracting needs of the key parties in the economy and its role in corporate governance and the capital market. Since the accounting system is complementary to other elements in the institutional framework, a fit between them is likely what result in different accounting system and infrastructural regimes across countries (Obazee, 2007). The institutional framework impacts on the form and content of financial reporting (Zeff,1972) and the use of international standard (Nobes &Parker,1998, Zarzeski,1996).Stock exchange requirements form part of the institutional framework which impacts on the use of international standards; others are company's choice of foreign exchange and level of disclosure. Cross-border listing makes reporting with IFRS very necessary for companies listed in stock exchanges under IFRS jurisdictions.

3. Benefits of Adopting IFRS in Nigeria

The adoption of IFRS has several benefits as evidenced by previous studies carried out by several scholars some of which include the following: (Leuz and Verrecchiia, 2000): decreased cost of capital, (Bushman and Piotroski,2006): efficiency of capital allocation, (Young and Guenther, 2008): international capital mobility, (Ahmed,2011): capital market development (Adekoya,2011): increased market liquidity and value (Okere,2009):enhanced comparability (Bhattacharjee and Hossain 2010): cross border movement of capital, (Mike,2009):improved transparency of results. The potential benefits that Nigeria stands to gain after IFRS adoption are seen in the light of: Promotion of the compilation of meaningful data on the performance of various reporting entities at both public and private levels in Nigeria thereby encouraging comparability, transparency, efficiency and reliability of financial reporting in Nigeria.

i. Assurance of useful and meaningful decisions on investment portfolio in Nigeria. Investors can easily compare financial results of corporation and make investment decisions.
ii. Attraction of direct foreign investment. Countries attract investment through greater transparency and a lower cost of capital for potential investors. For example, cross-border listing is greatly facilitated by the use of IFRS.

iii. Assurance of easier access to external capital for local companies.
iv. Reduction of the cost of doing business across borders by eliminating the need for supplementary information from Nigerian companies.
v. Facilitation or easy consolidation of financial information of the same company with offices in different countries. Multinationals companies avoid the hassle of restating their accounts in local GAAPs to meet the requirements of national stock exchange and regulators, making the consolidation of accounts of foreign subsidiaries easier and lowering overall cost of financial reporting.
vi. Easier regulation of financial information of entities in Nigeria.
vii. Enhanced knowledge of global financial reporting standards by tertiary institutions in Nigeria.
viii. Additional and better quality financial information for shareholders and supervisory authorities.
ix. Government to be able to better access the tax liabilities of multinational companies.

Challenges of Implementing IFRS in Nigerian Banking Sector

The experiences of deposit money banks in Nigeria that were mandated to adopt IFRS in 2010 show that there are a lot of difficulties in converging to IFRS. They include cost, training and education, differences between local standards (Statement of Accounting Standards; SAS) and IFRS, software problems etc.

Converging to IFRS has a huge cost outlay which include the cost of training personnel to understand the new global standards, cost of acquiring new accounting packages that are needed for the implementation, cost of discarding former accounting packages that are not compatible with IFRS. Cost is the price tag of the forgone SAS to adopt the new IFRS. In this case, it includes the cost of starting new invention (IFRS) and abandonment of the former (SASs).

Training and educating personnel and management saddled with the responsibility of preparing financial statement compliant to IFRS implementation is another problem that is not only costing the banks but also taking away huge man hours. The banks have to organize in-house training, sponsor staff to attend conferences and seminars, both for the purpose of understanding the new global standards.

Another challenge faced by banks in adopting IFRS is that of changing accounting packages that are not compatible with IFRS and acquiring new ones that can enable IFRS implementation. The challenge faced here is not only in terms of cost but training personnel to use new packages. Differences exist between local standards (SAS) and IFRS, which constitute another challenge that is being faced in the process of converging to IFRS by Nigerian banks. IFRS is less prescriptive than SAS. An example is SAS 10- Accounting by Banks. Some standards in IFRS differ considerably from the local GAAP. Besides, IFRS has more accounting policy choices and may be inconsistent with local legislations of Companies and Allied Matters Act (CAMA) 1990 and Banks and Other Financial Institutions Act (BOFIA) 1991. In addition, IFRS demands more disclosure requirements than SAS and also differ in application and interpretation. Implementation of IFRS has increased the need within the organization to gather analyze and report more data for compliance.

4. Major challenges of IFRS Adoption

The principal impeding factors in the adoption process of IFRS in Nigeria, and the rest of the developing country are technical, cultural issues, mental models, legal impediments, educational needs and political influences (Obazee, 2007). According to Rong- Ruey Duh (2006), the implementation challenges include: timely interpretation of standards, continuous amendment to IFRS, accounting knowledge and expertise possessed by financial statement users, preparers, auditors and regulators, and managerial incentive (Ball, Robin & Wu 2000). The historical differences in accounting thought, context, ethos and practice in the broad divides: Anglo-Saxon, Continental Europe and Southern American (Nobes, 1983., Ball, 1995) make harmonization and moving from one tradition to another difficulty.

Although IFRS has the potentials to facilitate cross-border comparability, increase reporting transparency, decrease information costs, reduce information asymmetry and thereby increase the liquidity, competition and efficiency of markets (Ball 2006, Choi & Meek 2005), Armstrong et al.,(2007) and Soderstrom & Sun (2007) have found that cultural, political and business differences may also continue to impose significant obstacles in the progress towards a single global financial communication system because a single set of accounting standards cannot reflect the differences in national business practices arising from differences in institutions and cultures. The perception of IFRS quality by users is critical to IFRS adoption. For instance, in a recent survey by McEnroe & Sullivan (2011), individual investors felt satisfied with the current US accounting model and do not desire movement towards IFRS adoption. Similarly, Winney et al (2010) found that small businesses in the US were not prepared for IFRS because they do not see benefits in switching from GAAP to IFRS.

Other challenges to IFRS adoption include:

i. IASB funding, staffing and governance structure, consistent adoption.

Adopters need assurance of IASB true independence with stable funding, expert staffing, appropriate governance to ensure standards setting process is free from undue influence and politicization manoeuvres.

This will ensure IASB legitimacy and assure the confidence of market participants and adopting nations around the world (Saudagaran, 2006).

ii. Dominance of the developed countries and Political lobbying.

The developed countries want to dominant the IASB structure and standards setting process to the detriments of the developing countries. There is also strong lobbying and opposition by these groups to IASB's standards (Ball, 1995, Nobes & Zeff,2008).

iii. Consistent adoption, application and regulatory review.

Presently most IFRS adoptions are in labels (Daske et al ,2007) and with various versions which are inconsistent with IASB's prescription (Ball,2006).Besides there are lots of uneven applications, breeding different IFRS versions (Tsakumis et al, 2009). Nobes (2006) has indicated the motivations and opportunities for different IFRS to continue. There must a coordinated regulatory review and enforcement mechanism to facilitate consistent application. The complexity of certain IFRSs and tax orientation of most nations have been identified as the two most significant impediments to convergence (Larson & Street, 2004).

iv. Compliance issues and enforcement mechanisms.

There have been varying levels of compliance with IFRS despite claims by companies that their financial statements complying with IFRS. Equally disturbing is auditors who failed to express opinion on IFRS compliance or non-compliance (Cairns, 2001). A major challenge is enforcement mechanisms of IFRS especially in jurisdictions with weak institutions and enforcement agencies.

v. Cultural and structural changes in the various institutions in a country.

The challenges face in adopting IFRS in terms of changing culture and developing systems of regulation and accountability are quite enormous. There are cultural, language, regulatory and accounting profession challenges as well as demands for greater accountability and wider political participation and embracing of necessary political reforms faced by Nigeria in adopting IFRS. In fact embracing globalization and adopting IFRS has challenges as it makes necessary reforms to a country's regulatory, legal and economic structures and adaption of its culture to the West. There is increased need for training and education for investors, accountants, auditors, preparers and users of financial reports etc, development of IFRS curricula at the university and other levels, adjustment of the accounting training and education to incorporate IFRS. The legal system must be conversant with the new IFRS standards as it applies to tax issues and other applications of laws. The adoption of IFRS must involve the strengthening of the various institutions which will enhance its effective implementation such as: preparers (managers) and enforcers (auditors (status, independence, training, compensation, and tough judgment), legal systems and courts, regulators, accounting boards, ownership structure/block shareholders, politicians, law-makers, analysts, rating agencies, accounting professional bodies, tax authorities and capital market regulators),corporate governance structure, the press, public, educational institutions and business schools, financial market (structure, depth and intermediation) etc (Ball; 2006).

5. CONCLUSION AND RECOMMENDATIONS

The paper reveals that Nigeria has agreed to adapt IFRS but in a gradual manner, in view of the anticipated problems that the standards may create. Consequently, the study concludes that Nigerian companies should converge to IFRS in view of the fact that it will enhance better accountability and transparency and improve quality of reporting. However, owing to the fact that IFRS being a principle based standards, allows companies to utilize only the methods they wish, thus allowing the financial statements to show only desired results and leading to revenue or profit manipulation and hiding of financial problems in the company, the paper recommends that Nigeria should borrow the wisdom of the Germans by making IFRS mandatory only for group accounts of listed companies leaving Nigerian GAAP to still be mandatory for individual company's accounts of listed companies. Also, IFRS should be optional for group accounts of non-listed companies but prohibited for individual company's account. Other recommendations are stated below:

a. Effective implementation of IFRS requires careful planning and extensive public education, the allocation of resources towards training and re-training of to build capacity, a legal and regulatory support system and institutional support with strong management systems. Unless the various stakeholders are integrally involved and included in development plans and how they are affected, they will be reluctant to support the change and IFRS adoption may not succeed.
b. The communications system for informing users of the changes in reporting requirements must be effective and responsive. Users of financial statements have to be able to interpret financial reports and raise questions about an entity's performance. Efforts to build good corporate governance and enhance corporate transparency will be successful only when the key stakeholders have the desired knowledge to understand the financial reports and interrogate reported information. Also, the transition plans to IFRS and its implications for preparers, users, educators and other stakeholders have to be effectively communicated.
c. Suitable standards must be developed to facilitate recognition of the small and medium scale enterprises

(SMEs) because most of the standards include complex and detailed disclosure issues applicable to larger companies which are listed in the stock exchange.

d. In view of the fact that the adoption of IFRS will impact significantly on Nigeria's national statistics, the overall data should be re-enforced and strengthened in terms of collection, collation, processing, storage, and availability in the public domain. Besides, regulatory agencies in Nigeria like the CBN, ICAN, FIRS, SEC and NSE should work jointly to design an awareness programme on the importance of compliance with accounting requirements of IFRS. On the basis of proper compliance of IFRS, the regulatory authorities can provide significant benefits for firms reporting regularly and complying with IFRS and other necessary requirements like relaxing the listing criteria or providing incentives in either monetary or non-monetary forms.
e. Where the conceptually superior accounting treatments prescribed in various IFRS are in conflict with the corresponding legal requirements of the local GAP , the standard lays down the approach recommended by the IFRS, while recognizing that until a change is made in the relevant legal requirements, the law will prevail. This makes the correct accounting treatment gets recognized in an accounting standard in the country, it also gets recognized that a change in law is imperative. There must be sufficient legal backing of IFRSs as reporting standards in a country.
f. There should be integration of IFRS into university education and updating the curricula for the training of accountants and other auxiliary professionals by tertiary institutions in Nigeria.

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