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International Financial Reporting Standards Or Nothing How Prepared Is Nigeria?

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Abstract : *The study assesses the level of Nigeria's preparedness in adopting the new financial reporting language as an emerging capitalmarket. The paper is library based and relied extensively on secondary data obtained from literature search in the world wide wave on the current global trend sweeping the financial reporting land scape code named: International Financial Reporting Standards (IFRS). By adopting the standards, Nigeria has embraced IFRS in order to participate in the benefits it offers, including attracting foreign direct investment, reduction of the cost of doing business, reduction of information asymmetry and cross border listing among others. The challenges ahead for Nigeria include but not limited to the development of a legal and regulatory framework, awareness campaign for the perceive benefits in IFRS, and training of both academic and professional. Recommendations include the creation of conducive environment (physical and regulatory): objectivity in educational policy by government,' train the trainer' for Financial Reporting Council of Nigeria (FRCN) personnel, academicians and professional accountants, establishment of an independent body of experts to monitor and enforce compliance of accounting and auditing standards*
Keywords : *IFRS adoption; Nigeria*

I. Introduction

The introduction of International Financial Reporting Standards (IFRS) for companies around the world marks a turning point in accounting history (Daske, Hail, Leuz & Verdi, 2008). The adoption of IFRS framework according to Okpala (2012) has assume such universal relevance because of the anticipated benefits expected in terms of transparency, uniformity, reliability and comparability of the accounting numbers in financial statements of companies. Over one hundred international jurisdictions have either adopted or are in the process of adopting international financial reporting standards (IFRS) as the official reporting language for the preparation and presentation of their company's annual report. However, little research has directly addressed the impact of IFRS adoption on the quality(s) of financial reporting in an emerging market such as Nigeria.

Presentlyresearch seems to have focused on the effect of such adoption in developed economies. Only few studies in the vast literature on adoptiondocument someevidenceon emerging markets (e.g.Ismail, Kamarudin, Zijl & Dunstan, 2013; Madawaki, 2011; Lee, Walker & Zeng, 2013). This implies that, the benefits of mandating or converging with IFRS is concentrated in developed nations that are better economically withstrong legal and regulatory enforcement as well as investors' protection (e.g.UK &US) (Zakari, 2014).

Vast literatures point at the need for further studies on IFRS adoption in developing countries (Irvine & Lucas, 2006; Michas, 2010; Schachler et al., 2012; Zakari, 2013).As a result, the present study view that lack of adequate research on emerging markets such as Nigeria on the new principle based regulation resulted in the country's stunted economic growth (Ezeani & Rotimi, 2012). Consequently, the influence of IFRS adoption in Nigeria is an interesting but open question in academic research (Anyahara).This gap in in the accounting and finance knowledgeneeds to be filledin order to close the wide difference(s) whichexist between developed and developing countries.

II. Review Of The Related Literature

2.1 Meaning of adoption

IFRS adoption is an accounting process which goes far beyond an ordinary book keeping exercise. It rather represents reporting framework which requires a lotof professional inputs. These inputs include changes in design, program and data that are being reported. It entails re-evaluation and computation both to strategic plan and compliance. According to Mary, Okoye & Adediran, (2013) and Karampinis and Hevas (2013) the aim of adoption is to ensure re-alignment ofinternal and external governance and bring the needed corrections to internal audit. Globalization has necessitated the need for intensive research in both mandatory and voluntarily IFRSadoption so as to bring in the needed change in focus away from the old order to a more "value creation" regulation. The Findings of previous studies (Daske et al., 2008 & Hodgdon et al., 2008) suggest that compliance with IFRSs disclosure improve both financial reportingand shareholders wealth by bring in the much needed boost in the capital structure of companies.

2.2 Historical review

The International Accounting Standards Committee (IASC) is an accounting regulatory authority established in 1973 whose pronouncements are known as InternationalAccounting Standards (IAS). However, in April 2001, the rulemaking framework was taken over by a newly established body code named International Accounting Standards Board (IASB). This new body now describes its pronouncements under the label"International Financial Reporting Standards"(IFRS) while it continues to recognise the IASs issued by the defunct IASC (IFRS Foundation, 2010).

The global economy is still wearing a distress look following the universal financial meltdown, which led to the collapse of many high ranking financial institutions coupled with its associated losses. For example,the collapse of Enron, WorldCom, Merrill Lynch, and Xerox made frightened shareholders to such an extent that they lose confidence in the financial sector. These financial crises prove how difficult it is to retain investor confidencedue to their uncertainty about the adequacy of information available to them for decision making. IFRSs are adjudged to provide reliable and internationally acceptable financial information, which is a sine qua non in the progress of world market economy (Zakari, 2014).

2.3 Global IFRS adoption

The need for IFRS adoption started since the European Union (EU) decides to move away from the US Generally Accepted Accounting Principles (US GAAP) and converge with the new principles based accounting frame work known as IFRS (Latifah et al., 2012).The widespread adoption of international financial reporting standards (IFRS) is one of the most important scenarios in recent accounting history. The development has brought and upsurge in research intohow and why of adoption. Ng, Tsang and Yang (2013) argue that, IFRS is capable of financial transformation because it comes with it accountability and transparency in fair value measurement andinvestment efficiency. The authors further observed that reduced analyst forecast error, boost in foreign businesses, enhanced cost of capital due to improved liquidityand comparability of accounting figures of companies across jurisdictions are all possible with IFRS.

Prior research argued that accounting standard settersseems to be playing politics with the standard setting process (Epstein, 2009). The major arguerements is that users of financial reports such as tax authorities, banks, shareholders, managers and labour unions exert significant influence on the standard setting authorities. For instance Epstein (2009) posits that pension accounting issubjected to mismanagement especially in developing countries that have less mature pension schemes. In these jurisdictions, managers use various postulations to manipulate figures infinancial statements. However, it is less costly for investors to identify earnings managementusing a universal accounting language (Ezeani, 2012).Using IFRS, shareholders and prospective investors can easily compare different assumptions of pension and other accounting issues between firms and countries to evaluate the quality of financial reporting (Epstein, 2009). This awareness nowput pressure on management to report truthfully (Zakari, 2014).

2.4 IFRS adoption and related system

The adoption of IFRS involves wide ranging changes in technology and method of operation. This true because a country's accounting framework is closely relates its numerous laws and regulations (Anyahara, 2012). According to Soderstrom and Sun(2007), laws and regulations combined with other political and economic differences, create vast diversity of accounting systems. This bringing may about differences which impede comparison of financial reports across borders. In Nigeria for instance, unstable power supply, political instability, religious sentiments, ethnicity and most worrisome, corruption in governance continue to cast doubt on the benefits of IFRS adoption.

The mandatory adoption of IFRS is no longer an option as countries around the world have now become one due to technological advancement (Latifah et al., 2012). However, Nigeria's IFRS adoption process has not been an easy ride. The main issues relates to unexpected additional costs as a constraint to the already dwindling federal pose. Other related issues include lack of operational and professional accounting skills and the unwelcome public sentiment against a new regulation (Anyahara, 2012). Consequently, Nigeria discovered rather toolate that positivesteps are needed to promote the successful adoption of a new regime change especially in an emerging economy such as Nigeria. These steps include stimulating discussions about IFRS and the benefit of adoption among constituents at home and abroad (Oduware, 2012).

This is possible by preventing psychological stress in stakeholders from getting exaggerated by providing sufficient education to promote IFRS (Epstein, 2013). By so doing, the government of Nigeria may receive robust support from the IFRS foundation as an active promoter of the new reporting language. Hence IFRS adoption in Nigeria meanschanging the financial reporting landscape. Such a significant event can only be carried out without any hitch when it is administered by the sincerity of the adopting country.Issues needing government attention include overhaul of related systems and strong regulatory backing (Hodgdon et al., 2008).

Research found evidence that, IFRS may not necessarily be a more superior standard than the locally developed regulation hitherto used in most jurisdictions. However, nations decided to adopt in order to join the band wagon and remain relevant in the international financial arena. Hence at the end, the standards may not have any economic value to the adopting countries at least in the short run (Ramanna and Sletten, 2009).

2.5 IFRS adoption and legal implications

Large capital markets of the world have for long advocated for globally recognized accounting standards (Nnorom, 2013). Until quite recently, that common accounting framework has been a missing link. Today, policymakers, lawmakers and regulators are working alongside standard-setting bodies to ensure a single unified accounting principle. Thismove to IFRS which is the new standards set by IASB is no doubt a major initiative in accounting and reporting history. The impact of IFRS goes beyond financial reporting. It also borders on key decisions of company.

IFRSare sophisticated. However, more and more improvements are past evolving and are brought in on daily basis. Therefore, it is pertinent for practising and other professional accountants to take up the challenge and try to keep track in anticipation of the ever pressing demands for high quality report. Additionally, IFRS demand frequent review of the regulatory framework of firms across jurisdictions. The financial reporting council (FRC) in Nigeria is the regulatory body saddled with the responsibility of IFRS adoption, monitoring and implementation (FRCN, 2012).

According to Welch and Schizas (2013), even among countries with weak legal enforcement and investor protection such as in Nigeria, IFRS can lead to improved financial reporting. The main aim of IFRS adoption is accounting quality and comparability. These characteristics can only be determined by accounting standards in use, legal and political system and governmental incentives of a country (Soderstrom and Sun, 2007).

The quality of a company's accounting numbers is determined by the extent of accounting standards application. If the International Accounting Standards Board (IASB) continues to improve the quality of IFRS, we would expect financial reporting under IFRS to become increasingly value relevant and reliable (Mary et al., 2013). More efforts must therefore be put in place by Nigeria's regulatory authoritiesif the desire to catch up with advanced economiesis to bear any fruits. The findings from a research study by Soderstrom and Sun (2007) suggest that realization of the benefit of switching to IFRS may take time.

The preparations required include educating the upcoming accountants from the classroom on IFRS and training and re-training of the existing work force to move with the tide. According to Epstein (2013) IFRS training should to be given priority by the regulatory authorities and be intensified right from the classroom. Students need to be exposed as future accountants. In the same vein, the author suggests training and re-training of existing accountants to enhance their professional performances.

In addition, bothlegal and political enactments should be put in place as enabling laws for the realisation of IFRSbenefits.For instance, pipe borne water and electricity are two of the most pressing infra structural facilities militating against economic development in Nigeria. The provision of thisrequirements even if on public/private partnership basis will go a long way in the much awaited industrial development drive in that country (Mary et al., 2013).

2.6 The effects of IFRS adoption

One of the most notable impacts of IFRS adoption is that, senior management's awareness of the importance of financial reporting has considerably heightened. The 'principle-based' feature of IFRS is the main cause for such a change. However, with IFRS adoption in Nigeria, companies are now encountering many more problems than before (Bewaji, 2012). The major issue is on how to exercise judgement in determining significant accounting treatments that best conform to the economic substance. This may inevitably bring in the interest of senior managements in financial reporting.On this note, Anyahara (2012) in response to critics of IFRS adoption stated that the benefits of conforming with global trends considerably outweigh its rejection. The researcher observes that over (120+) countries accommodated the standards, so Nigeria also can. The main challenge is to find a way to overcome some of the problems' (Anyahara, 2012, p 25).

2.7 The challenges in IFRS adoption

The risk of diversity in practice has been increased because IFRS requires a considerable degree of professional judgement, which Nigeria lacked. Consequently, it is found that some companies continue to follow the accounting treatments under past Nigerian GAAP. Further it was observed that in some cases, auditors are having differing views and using different accounting treatments regarding exactly the same transactions. In particular, the issue of comparability among different financial statements arose after IFRS adoption. For example, past Nigerian GAAP considered profit and loss as highly important key performance indicator. In contrast however,such indicators are no longer required to be disclosed under IFRS.

2.8 Measures for adoption

It is necessary to understand the underlying conceptual framework andpurpose of IFRS. This call is imperative so as to nurture the professional judgement required for applying the 'principle-based' standards. To this end, Nigerian government should provide academicians, preparers and auditors relevant education on IFRS at a very low price, or even free of charge (Mary et al., 2013). Internet learning programmes to help disadvantaged workforce in firms on IFRS adoption and implementation, learning by illustration in financial statementsand practical case studies can assist greatly. With support from the central government, the fourprofessional accounting bodies in Nigeria, the Financial Reporting Council (FRC), the Institute of Chartered Accountants of Nigeria (ICAN), the Association of National Accountants of Nigeria (ANAN) and the Chartered Institute of Taxation of Nigeria (CITN) can be of immense assistance in this respect.

A study conducted by the Nigerian Accounting Standards Board (NASB) in 2008 on "Gap Analysis" in accounting curriculum content and statement of accounting standards in Nigerian Universities show low level of coverage of the local standards. This underscored the need for coordinated and concertedeffort in the introduction and sustenance of teaching and learning of IFRS in Nigerian tertiary institutions. In this regard, Ezeani and Rotimi, (2012) buttressed the above view by attesting that the Institute of Chartered Accountants of Nigeria (ICAN) braised the trail when it organized a one-day "interactive forum for Accountants in Education" free of charge in Lagos on the 8th of March, 2012.

2.9 Difficulties in IFRS adoption

As it is usually the case with a new system, difficulties unavoidably arise in the earlier phases of an adoption process. Thus, the hardship faced by the Nigerian constituents newly adapting to IFRS is almost pre-determined. Firms are required to leave the accounting practices they are so much familiar with and adapt to a new uncertain accounting paradigm. IFRS lays emphasis on principles rather than specific rules, economic substance rather than legal form. The framework laid emphasis on consolidated financial statements rather than individual financial statements and fair value measurementrather than historical cost measurement.

Despite the imperfections that arise from culture, language and political differences, the increasing global adoption of IFRS has provided accounting educators with a 'common language'. The standards have potential to strengthen accounting education across borders Nigeria inclusive. Jackling (2013) noted that "Today's students are the future of our profession. We need to educate them for the world they will live in, not the world we lived in. Their world is global. No single country can stand alone in such a world, not even the U.S."

Anyahara (2012) argue that, the transition to IFRShas some disturbing scenarios which people must internalize as they come to terms with the new situation that the change brings about. According to him since the relocation involves quite a good number of people, it behoves on all those involved (i.e. the stakeholders) to carefully and adequately plan and execute the relocation exercise to avoid chaos.

III. Methods

This study addresses IFRS adoption in the context of universal financial reporting quality. The paper adopted a pre-dominant review approach of existing literature. The research presented here builds on an analysis of discourses within the range of archival evidence. It is library and based on intensive examination of current international publications from highly reputable journals. Documentary materials from the internet often emanating from professional accounting bodies (PwC, Deloitte, Ernst & Young, and KPMG)particularly related to reporting regulations and in international conferences, training and education were also consulted.

IV. IFRS Adoption Process In Nigeria

International Financial Reporting Standards (IFRS) (issued by the IASB an independent organisation registered in the United States of America and based in London was used as a guideline for the preparation and eventual adoption of the principle-based standards in Nigeria. The adoption roadmap outlines specific milestones that if realized, could lead to the adoption of IFRS in three phases: (i) Public Listed Entities and Significant Public Interest Entities in Nigeria to adopt by 2012 (ii) Other public Interest Entities to adopt by 2013 and (iii) Small and Medium-sized Entities by 2014. The roadmap discusses various aspects for consideration by stakeholders in order to ensure effective adoption of IFRS in Nigeria.

4.1 Types of adoption

According to Juhmani (2012) adoption by companies can be done in either of two different ways; mandatory and voluntary. Mandatory adoption is a statutory requirement prescribed by regulatory authorities and it is the minimum level of information a company must provide to shareholders and other users. Many countries all over the worldhave adopted IFRSs. For instanceas of May 2014 over 120 countries adopted or require IFRSs for their domestic listed companies.

With mandatory adoption come some expected benefits to adopting countries which include efficient formulation of domestic accounting standards, improved international business image, and enhancement of the global rankings. Others include international competitiveness of local capital markets, better comparability between the financial statements of local and foreign companies and no restatement of financial statements when local companies wish to issue overseas securities, resulting in reduction in the cost of raising capital overseas. Moreover, firms do not have reason to incur conversion cost and have improved corporate efficiency for local companies with investments overseas.Although mandatory adoption is a regulators perspective, voluntary adoption by companies in Nigeria also took place.

4.2 Why IFRS adoption in Nigeria

The impacts of initial adoption of IFRS have both individual and overall significance.The impact differs between sectors of the economy. Countries with weaker investor protection mechanisms such as Nigeria are morelikely to adopt IFRS because itrepresents a vehicle through which they can improve investor protection and make their capital markets more accessible to foreign investors.

Nigeria as a developing economy has a lot to gain by going with the rest of the world in the adoption process. Besides, total adoption reduces the cost of hiring experts to prepare and map out an adapted version to be used in the adapting country. Fowokan (2011) argue that IFRS adoption have many objectives some of which include working actively with the national setter to bring about convergence of national accounting standards, develop a single set of high quality understandable and enforceable global accounting standard that requires transparent and comparable information in financial statements and helping participants in various capital markets across the globe to understand financial statements. Other benefits include designingIFRSs to assist profit-oriented entities and developing IFRS standards for the preparation of financial statementsto give a true and fair view of the financial health of entities so that reliance can be put on the firm by both current and potential investors.

The theoretical foundations underpinning Nigerian GAAP and IFRS are not altogether similar. These therefore call for increased responsibilities in setting accounting policies that fit business models. In doing so professional accountants and auditors must be ready to explain and justify these policies in the context of the IFRS framework to shareholders and other interested parties.

4.3 Policy statement on IFRS adoption in Nigeria

The Federal Government of Nigeria officially announces the adoption and subsequently launched the roadmap for its implementation on September, 2^{nd} 2010.The adoption road map gave three phased implementation stages:

Phase 1: Publicly Listed Entities and Significant Public Interest Entities

These entities are to prepare their financial statements using applicable IFRSs by December 31, 2012. Firms under this phase include government business entities, all entities that have their equities or debt instruments listed and traded in the public markets (a domestic or foreign stock exchange or an over-the- counter markets). Examples in this category include Nigerian National Petroleum Corporation (NNPC), banks and insurance companies.

Phase 2: Other Public Interest Entities

The entities in this phase are mandatorily required to adopt the IFRS for statutory purposes by December 31, 2013. Firms under this phase are unquoted, private companies which are of significant public interest because of their nature of business, size, and number of employees or their corporate status which requires wide range of stakeholders'. Entities in this group includecharities and pension funds.

Phase 3: Small and Medium-sized Entities (SMEs).

Firms under this category are to compulsorily adopt IFRS as statutory reporting language by December 31, 2014. These are entities that may not have public accountability and their debt or equity instruments are not traded in a public market.Their annual turnover is not more than N500 million and assets value is not more than N200 million or such amount as may be fixed by the Corporate Affairs Commission (CAC).The entities under this phase should not have foreigner(s) as board members, no member of the board should bein government or a government corporation or agency or its nominee and the directors among them cannot hold less than 51 per cent of its equity share capital.

Micro-entities that do not meet the IFRS for SME's criteria have been required by the Financial Reporting Council of Nigeria (FRCN) to report using the SMEs Guidelines on Accounting (SMEGA) Level 3 issued by the United Nations Conference on Trade and Development (UNCTAD).

4.4 IFRS compliance ranking in Nigeria

It is now three full years since the beginning of the first phase for listed and significant public interest entities. Hence, it is imperative to review current status of compliance with IFRS adoption in Nigeria. Oduware (2012) based on insights from his colleagues in the IFRS specialist group made a quick ranking of the visible sectors in IFRS transition in terms of compliance and risk rating for Nigeria with 5 as highest and 1 as lowest ranked. As per table 1 below:

Table 1: IFRS Compliance by Sector

SECTOR	RANKING	COMPLEXITY/RISK
Banking	5	High
Multinationals - oil and gas	4	Medium/High (entities with derivatives)
Multinationals – other sectors	3	Medium
Insurance	2	High
Manufacturing	2	Medium
Consumer Business	2	Low
Pension Funds	2	High
Construction	2	Medium
Telecommunication and Technology	1	Lowest

Source: Adopted from Oduware, 2012

Table 1 above shows the full ranking by sector of IFRS compliant firms in Nigeria. The table shows banking sector occupying the highest position in terms of compliance. This is closely followed by multinationals (oil and gas and others). The telecommunication and technology sector trailed behind the entire sectors under study. The mandatory IFRS adoption from the initial stage suggest some problem as it is mandatory for all listed and significant public interest entities which Telecommunication and Technology (T & T) is a part.

V. Conclusion And Recommendation

Theadoption of harmonised set of high quality accounting language is expected to foster trade and foreign direct investments (FDIs) due to an improvement in accounting information. This willin turnreflect financial transparency and comparability leading to information asymmetries reduction and unfamiliarity among principals &agents in different jurisdictions. IFRS has been recognised as a global reporting framework hence, it is wishful thinking to expect a reversal of events from over 120 countries that either require or permit its use. The conversion to IFRS in Nigeria is a huge task and a big challenge.

The revolutionary impact of the switch requires a great deal of decisiveness and commitment on the part of all and sundry. Given the experiences of other adopter nations, it is the best decision by Nigeria for adopting IFRS. Therefore what is needed now is a countrywide intensive capacity building program to facilitate and sustain the process of adoption as quickly as possible. The IFRS ship is already navigating around the globe as a single set of high quality universal accounting standards. It is either Nigeria go with it and be saved or refuse to follow it and sink with the tidal winds in oblivion.

The proposal of adopting IFRSs seems to be driven by the big four audit firms because literature documents their strong presence in the setting of IFRSs. The real issue in the case of Nigeria is that, our local accounting firms lack the expertise to foster the smooth transition to IFRS. What this means therefore is that organizations are to continue to hire the services of the big four audit firms at an astronomical costs. To address this challenge, the 94 small indigenous accounting firms should go into merger arrangements so as to be able to reasonably compete with the big four.

Finally, there should be a linkage programme between the NASB now Financial Reporting Council (FRC) and the Nigerian tertiary institutions' regulators, such as NUC, NBTE, and the Federal Ministry of Education as well asNigerian professional accounting bodies (ICAN , ANAN& CITN) to design a programme for fast tracking the teaching and learning of IFRS in Nigerian tertiary institutions of learning, so as to equip graduates of accounting with the required skills and knowledge to meet the expected surge in the demand for IFRS professionals (Ezeani and Rotimi, 2012).

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