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The Adoption Of International Financial Reporting Standard (IFRS) To Economic Development In Nigeria: Challenges And Opportunities

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Abstract
The aim of financial reporting is to make information available for decision making. Historically, there is diversity in financial reporting in different countries due to culture, legal systems, tax systems and business structure. International Financial Reporting Standard (IFRS) harmonize this diversity by making information more comparable and easier for analysis, promoting efficient allocation of resources and reduction in capital cost. The adoption of International Financial Reporting Standard (IFRSs) in Europe and around the world represents perhaps the most important accounting regular change in recent years. The use of IFRS as a universal financial reporting language is gaining momentum across the globe as more countries are adopting IFRS or converting their local standards with it. Nigeria has set a roadmap towards the adoption of IFRS from January, 2012. This paper discussed the brief background of IFRS, conceptual framework, the roadmap for the adoption together with the challenges and opportunities were highlighted for the economic development of Nigeria.

Keywords: Financial Reporting, IFRS, Challenges and Opportunities & Economic Development.

In an increasingly interconnected global economy, many market participants are considering the question of whether it is possible or desirable to move towards a more uniform global "language" for financial reporting. The proponents of this idea argue that a uniform set of global accounting standards, supported by strong governance, independent standard setting and a sound regulatory framework could benefit investors and business alike. Others suggest that trying to establish a uniform set of global standards would run the risk of overlooking the unique economic, political, cultural, legal and regulatory realities that exist in different nations and regions.

International financial Reporting Standard (IFRS) refers to a series of accounting pronouncements published by the International Accounting Standards Board (IASB) to help preparers of financial standards throughout the world produce and present high quality, transparent and comparable financial information. The term "International Financial Reporting Standards (IFRSs) are interpretations approved by IASB and International Accounting Standards (IASs) and interpretations issued by IASB's predecessor, the Board of International Accounting Standards Committee (IASC) (Ball, 2006).

Currently, financial statements prepared for reporting in Nigeria are drawn up in accordance with requirements laid down by Companies and Allied Matters Act (CAMA) and pronouncements issued by the Nigerian Accounting Standards Board. These Nigerian requirements are, in most cases based on pronouncements issued in the past by the IASB, but are not necessarily fully aligned with the current pronouncements of the IASB (for example certain financial instruments are required to be measured and reported at their fair value under IASB guidelines, whereas under Nigerian requirements these might be measured at historical cost, (if any).

If IFRSs were to be adopted in Nigeria, Nigerian reporting entities would be using the same reporting framework as their peers worldwide which would enhance the relevance of their reports in the international arena. In addition, the greater precision of IFRS would improve the comparability of reports between different entities in Nigeria and could act as a catalyst to further develop the quality and transparency of financial reporting in the country.

Consequently, on 28 July 2010, the Nigerian Federal Executive Council approved 1st January 2012 as the effective date for convergence of accounting standards in Nigeria with IFRS. The council directed the Nigerian Accounting Standards Board (NASB) under the supervision of the Nigerian Federal Ministry of Commerce and Industry, to take further necessary actions to give effect to council's approval (Barth, Landsman & Lang, 2011).

Brief Background of IFRS

The IFRS was developed by International Accounting Standard Board (IASB) as part of the standard to harmonize accounting standards worldwide. Many of the standards forming part of IFRS are known by the old name of International Accounting Standards (IASs). IASs were issued between 1973 and 2000 by the board of the International Accounting Standards Committee (IASC). In April 2001, the IASB adopted all IASs and continued their development, calling the new standards "IFRS" (Ajibade, 2011).

According to Alistair (2010), this process received a significant boost in 2002 when the European Union (EU) adopted a regulation requiring public companies to convert to IFRSs beginning in 2005. The EU now accounts for more than a third of the countries that prescribe application of IASB standards. The major EU objectives in requiring the use of IFRS is the harmonization of accounting standards for listed companies in Europe. Since there are approximately twenty-five (25) countries that make up the EU, most of the publicly traded companies reported their financial statements based on standards set in their individual countries which made interpretation of the financial standards difficult beyond their boundaries.

The primary differences in the financial statements reported by these EU countries were in recognition, valuation, and disclosure issues because they varied significantly amongst countries. It is due to these differences in accounting reporting that the EU decided that the adopting of IASs is the best path to successful accounting harmonization for publicly traded companies in the European Capital Markets.

Conceptual Framework

Financial Reporting: This is also called financial statement. This is a formal record of the financial activities of a business, person, or any other entity. Financial reporting is presenting financial data of a company's operating performance, position and funds flow for an accounting period. Financial statements alongside related information/documents may be contained in various forms mainly for external party use such as in the annual report. It is basically financial information that companies give about their activities, including how they prepare and show it (htt://en.wikipedia.org/wiki/financialreporting). Financial reporting is to provide current and potential investors and creditors with useful information that can guide them in making decisions on investments, lending and other "resource allocation" matters.

IFRS: This is a set of International Accounting Standards (IAS) stating how particular types of IFRSs are issued by the International Accounting Standard Board (IASB). IFRSs are sometimes confused with IAS, which is the older standard that IFRS replaced (IASs were issued from 1973-2000) (www.investopedia.com/terms/frsasp). IFRS represent a set of generally accepted accounting principle (GAAP) used by companies to prepare financial statement, a critical source of information, published annually, at a minimum, and useful to various stakeholders (shareholders, debtors, clients, employees, and governments) in understanding a company's financial performance and management stewardship of the company's resources (Barth, Landsman & Lang, 2011).

The goal of IFRS is to improve financial reporting internationally by establishing a single set of high-quality, consistent, and converged reporting standards. While, IFRS promotes a principle-based set of standards that establish broad rules, it often dictates specific accounting treatments. Unlike the GAAP, IFRSs offer less specificity and less application and implementation guidance (Ball, 2006).

The Relevance of IFRS to Economic Development

It was argued that countries with better developed financial systems experience faster economic growth. Financial development varies sharply around the world, with large difference among countries at similar level of income (Easterly & Levine, 2003).

Porter and Rey (2005) opined that most stock market investors prefer domestic asset but despite this, a geographical pattern of international asset transaction proves that financial information is not equally available to all market participants but where they are readily available in easily understood format, there have been significant consequence on the level of investors' activities. UNCTAD, (2011) report shows that Foreign Direct Investment (FDI) inflow to Africa declined by 9% between 2010($50 billion) and 2009($55billion).

Mangena and Tauringana (2006), suggested that firm level evidence for a Sub-Saharan African country, Zimbabwe, of positive effect of government on the fraction accounted for by Foreign Share Ownership of Companies. They contended and postulated that because greater disclosure reduces information asymmetry for foreign investors, there should be a positive relationship between foreign share ownership in a listed company and firm level disclosure, especially due to the fact that the foreign investors portfolio are usually minority shareholders and therefore more susceptible to expropriation by local managers or controlling shareholders. They investigated foreign share ownership in Zimbabwe by examining whether differences in foreign share ownership (i.e. percentage shareholding owed by foreign investors) across companies listed in the country's stock exchange are related to the country-specific difference in disclosure and corporate governance mechanisms.

It was discovered that foreign share ownership is positively associated with high standard of disclosure and audit committee independence.

Roadmap for the Adoption of IFRS and the Implications in Nigeria

According to Ewoma (2013), the adoption of IFRS is more than just an accounting exercise. This is because it represents approximately a quarter of conversion efforts. The roadmap for the phase transition to the adoption of IFRS proposed by the Financial Reporting Council (FRC) is outlined thus:

Phase1: Publicly Listed Entities and Significant Public Interest Entities.

Publicly listed entities and significant public interest entities are to prepare their financial statements using applicable IFRS by January 1, 2012. The choice of January 1, 2012 is anchored on the need to effectively transit to IFRS over a three year period. Any entity that star preparation for transiting would need to convert its closing balance at December 2010 to IFRS-based figures which then become the opening balances as at January 1, 2011 for IFRS-based financial statements as at December 31, 2011. This provides opening balances for January 1, 2012 which are the first IFRS full financial statements as at December 31, 2012 (with 2011 as comparative year).

Phase 2: Other Public Interest Entities

All other public interest entities are expected to mandatorily adopt IFRS for statutory purposes by January 1, 2013.

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

IFRS for SMEs shall mandatorily be adopted as at January 1, 2014. This means that all Small and Medium-sized Entities in Nigeria will statutorily be required to issue IFRS based financial statements for the year ended December 31, 2014. Entities that do not meet the IFRS for SME'S criteria shall report using small and Medium-sized Entities Guidelines on Accounting (SMEGA) Level 3 issued by the United Nations Conference on Trade and Development (UNCTAD).

Phase 4: Public Sector will similarly adopt International Public Sector Accounting Standard (IPSAS) from January 1, 2015.

The implication of the schedule of adoption of the IFRS in Nigeria is the harmonization of the disparity of the existing Nigeria's standards with that of IFRS together with the necessity to develop new skills. A transition programme from Nigeria Accounting standards to IFRS will be designed to ensure consistency in the application of standards (Ball, Kothari & Robin, 2000).

In 2010, the Central Bank of Nigeria (CBN), in a bid to integrate the banking system into the global best practices in financial reporting and disclosure, commenced partial adoption of the IFRS in the Nigerian banking system. The move, according to the CBN, was to enhance market discipline and reduce uncertainties which limit the risk of unwarranted contagion. To achieve full adoption of the IFRS, the Nigerian Accounting Standards Board (NASB) inaugurated a Roadmap Committee of Stakeholders on its adoption. Members of the committee are NASB, Federal Ministry of Finance (FMF), NDIC, NASB, NAICOM, SEC, PENCOM, Federal Inland Revenue Services (FIRS), and Institute of Chartered Accountants of Nigeria (ICAN) (Adams, 2011).

There is no doubt that the adoption of the IFRS for the first time will prove a herculean task for the operators as this will have serious impact on reporting globally. This is why all effort should be on ensuring the collaborative effort of the committee, with the hope of having a common approach among banks and between companies. At the end of the day, it is the same companies that will be better for it as it will engender confidence together with the attendant increased patronage that will positively impact on the bottom-line. The implication of the new reporting format is that banks and quoted companies are at the end of the financial year expected to embark on full disclosure of their activities to the extent that it should be understandable to both the shareholders and investors, while at the same time be in compliance with international best practice (Oyedele, 2011).

Oduware (2012) argued that this is so because while the banks and firms were able to evade the full disclosures in their balance sheet in the past, depending on the performance of some of the securities like bonds, the new IFRS requires the banks to be transparent in their reporting format, irrespective of the performance of the securities so as to bring out the real performances of the companies. Interestingly, the issue formed the major fulcrum of discussion at the last expressed the need to develop a framework for common reporting among banks under the IFRS.

The Challenges and Opportunities of IFRS

Since 2001, IFRS has become accepted and been adopted for public reporting purposes in over 100 countries, including the 27 member states of the European Union. Other countries scheduled to follow in the next few years include Argentina, Brazil, Canada, Chile, India, Korea, Singapore and Mexico. In addition, in June 2009, Japan approved a roadmap for the adoption of IFRS which includes an election for Japanese companies to be voluntarily using IFRS immediately. As more and more countries adopt IFRS, a robust conversation has begun about whether the United States should take this step or otherwise participate in a process that leads to the acceptance of a more uniform global accounting standard for use in the U.S. (Soderstorm & Sun, 2007).

Challenges

There are important considerations that need to be evaluated prior to the potential adoption of IFRS in most of the countries. These include the following:

IASB's Fund, Staffing and Governance

The success of IFRS as a high-quality set of global accounting standards depends upon the IASB functioning as a truly independent standard-setting body that enjoys the confidence of market participants around the world. To assure that confidence, the IASB needs to have a secure and stable funding mechanism, expert staffing and appropriate governance structure to ensure the standard-setting process is free from undue influence from various constituents.

Consistent Adoption, Application and Regulatory Review

While a significant number of nations have adopted or accepted IFRS, in order to achieve the true benefits of a uniform set of accounting standards, it is important that IFRS is adopted by nations in a manner consistent with those issued by the IASB. In addition, it is equally important that they are applied and enforced in a consistent manner. Therefore, there must also be a mechanism to ensure that auditing standards and the practices of auditors facilitate consistent application of IFRS. Similarly, over time there must be improved coordination of global regulatory review. Absent from those changes, the adoption of IFRS may mean substantial investment, but without realization of all the benefits that could be achieved from a more uniform global reporting system.

Cultural and Structural Changes in Various Countries

In order for the countries to successfully transit to IFRS, it will require a significant effort and investment from virtually all market participants in the capital markets system. Some of the changes that would be required:-

Transition to IFRS would increase the need for training and education for investors, accountants, auditors and others involved in the preparation and use of financial statements. This would require, for example, the development of curricula on IFRS and increased efforts by the accounting profession to expand the ranks of say ACA members trained in IFRS;

Businesses would need to integrate new software platforms and adjust their reporting processes to reflect the requirements of IFRS – this will include changes to internal control requirements and data gathering systems that currently are designed to meet current standards;

Regulators would need to adjust oversight and disclosure requirements from the current system to new standards based on IFRS and put a new emphasis on international cooperation and coordination;

Investors (both individuals and institutions) and lenders would need to become familiar with financial reports prepared in accordance with IFRS. For example, lending agreements would need to be modified to allow for and consider reporting under IFRS; and

Members of the legal system, including lawyers, judges and lawmakers, would need to work through a variety of tax issues and other applications of law. In order to effectively navigate the considerations outlined above, there would need to be a clear national "blueprint" for achieving such transition.

Opportunities

While the concerns outlined above warrant further consideration, there are a number of factors that support the idea of adoption or acceptance of IFRS in member countries:

Facilitate More Efficient Capital Allocations

A single set of high-quality global accounting standards would increase the ability of companies to raise capital in multiple jurisdictions around the world while at the same time allowing investors to more efficiently compare global investment opportunities.

Align the Member Countries with the Rest of the World

Already, more than 100 nations have adopted or accepted IFRS, including most of the world's developed economies. At this point, it is fair to say that IFRS is becoming the global norm.

Protect Long-term Competitiveness of Capital Markets

Cross-border investment and the integration of capital markets may be easier among those nations that adopt IFRS. By choosing not to adopt IFRS, Nigeria may run the risk of seeing investors and businesses shift to financial centers in those nations that use IFRS.

Promote Increased Transparency

IFRS is a more “principles-based” set of accounting standards. As such, it may allow companies and auditors to focus less on strict adherence to detailed requirements and “bright lines,” and instead concentrate on providing a clear statement of an entity’s assessment of the economic realities of its business activities. Some studies have suggested that this principles-based approach allows for, and in fact, incentivizes companies to provide financial reports that offer a more transparent picture of the firm’s economic conditions.

Reduce Complexity in Financial Reporting

The principles-based nature of IFRS standards may facilitate an enhanced focus on the economic purpose of a company’s business activities in its financial reports. This may make it possible for businesses to produce financial reports that are less complex for investors and other users of financial information.

Increase Efficiency for Companies

Adoption of IFRS offers potential cost savings for companies operating in multiple countries around the world by making it less costly to find local accountants, as the acceptance of IFRS worldwide may reduce the number of accountants with knowledge of the current system in addition, it may help reduce the costs associated with maintaining multiple sets of books, as well as reduce the chance of errors associated with translating financial information from IFRS to current standards. Moreover, the transition to IFRS could lessen costs for investors by eliminating many of the adjustments that analysts and other users currently must take in order to compare financial results and financial conditions in different countries.

Conclusions

It has been argued that quality information (financial report) is the bedrock of effective management function. Without appropriate and reliable IFRS based financial statement, management cannot plan well, hire the right manpower, provide effective control and leadership, identify managerial problem, find solutions and take quality decision.

The looming decision about the future of accounting standard in most countries involves complex and challenging questions. While there are significant benefits for investors, businesses, and the entire economy of having all nations’ move to a single and uniform set of high-quality accounting standards, there are a number of considerations that need to be evaluated in making such a transition. As this paper demonstrates, IFRS is a dynamic – and fast evolving – issue. The assessment of how successful the movement towards IFRS has been can be measured by the level of convergence between IFRS and the NASB.

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