PERCEIVED CHALLENGES OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) ADOPTION IN NIGERIA

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ABSTRACT

The International Financial Reporting Standards (IFRS) has become a global financial standards in the accounting sector and industry of developed and developing countries. The spread of IFRS has seen its adoption by developed and developing countries (like Nigeria). This paper takes a critical look at the whole concept of IFRS, its benefits and the challenges associated with its adoption in Nigeria. It highlighted some of the challenges of adopting IFRS in Nigeria to include resistance and problem of acceptance, cost of conversion in terms of material and financial resources; leadership challenges, frequent regime changes, etc. Based on this, the paper recommends the need for government to support the conversion process by creating the necessary structures and making financial provision for its implementation. The paper also recommends the sensitization of the public of the benefits associated with IFRS.

Keywords*: Financial, Standard, Benefits, Problems, Nigeria.*

Introduction:

The International Financial Reporting Standards (IFRS) is a set of common accounting rules, standards rules and praxis developed by the International Accounting Standard Board (IASB) to promote transparency, efficiency, prudence in utilization of financial resources and accountability in the global financial markets and systems. As a financial globalization mechanism, IFRS seeks to promote a consistent global common accounting language for possible adoption by developed and developing countries. The understanding is that such adoption will facilitate the making of informed and useful financial analysis and economic decisions by countries and organizations.

The globalization of financial reporting standards under the International Financial Reporting Standards seeks to facilitate uniformity in financial reporting among nations to enable users of financial information to adequately compare and evaluate the financial performance of different companies globally. This is done by harmonizing the differences in the financial reporting patterns due to differences in existing laws, taxation and business structures of various nations.

A critical look at the existing literature on the experience of countries and organizations in the implementation and adoption of IFRS shows a vagaries of experiences and challenges. This paper is therefore written with the view to examining the challenges of adopting the tenets of International Financial Reporting Standards (IFRS) in Nigeria. Recommendations are also made in the paper as a way of overcoming the perceived challenges of adopting and implementing the tenets of IFRS in Nigeria.

Methodology:

The study adopted a descriptive research design to examine the perceived challenges associated with the adoption of International Financial Reporting Standards in Nigeria. Through a content analysis of published materials in the area, the paper was able to identify the problems of IFRS adoption in Nigeria and make recommendations.

The Watershed in the Adoption of the International Financial Reporting Standard (IFRS) in Nigeria:

The 28th of July, 2010 is often considered as the remarkable date in the "Financial Reporting Framework" of the country. This is because, it was this day, that the Federal Government of Nigeria in its Federal Executive Council approved the adoption of IFRS with effective date on 1 January, 2012. The Nigerian Accounting Standards Board (NASB) was mandated by the Federal Executive Council to take all necessary actions and make preparation for the smooth take-off of the adoption (IASplus, n.d; Okpala, 2012).

About a month after the Federal Executive Meeting of July 28, 2010, the Nigerian Accounting Standard Board (NASB) announced a three phase implementation of IFRS in Nigeria, namely:

a. Publicly listed organizations/entities and significant public interest organizations were required to adopt and implement IFRS by 1 January, 2012.

b. Other public interest organizations are also expected to comply by implementing IFRS by 1 January, 2013.

c. Small and medium-sized firms are also expected to implement the IFRS for SMES by 1 January, 2014 (IASplus, n.d; Okpala, 2012).

The above three years phase implementation of IFRS in Nigeria shows among others that the implementation of IFRS was not going to be easy and that the process of implementation was to be accompanied with learning, education and adjustments.

International Financial Reporting Standards (IFRS): Basic Tenets and Benefits:

As the name implies, the International Financial Reporting Standards is aimed at providing improved financial statements and reports that are grounded on standards and having global application and relevance. The world has become a global village demanding a unified set of rules and standards established to guide the preparation of financial statements and reports. These financial statements and reports as noted, presents the financial stand of an organization and contains useful economic information such as the cash flows of the organization within a specific period, value added and changes recorded in the equity of the organization (Romanna & Sletten, 2013; Iyoha & Faboyede 2011).

Established standards and principles (such as those promoted by IFRS) are central in accounting and do form the strong basis of measuring performance of workers, organizations and economic systems. As Okpala (2012) puts it, accounting standards provides the ethical guidelines for the preparation and presentation of financial statements/reports and ensures that the auditing of firms and public organizations are based on established standards and set rules and not whims and caprices of auditors and their associates.

Accounting standards are sometimes localized to meet local needs and consumptions of financial information. For instance, Okpala (2012) observes that before the adoption of IFRS in Nigeria, the Nigerian Accounting Standards Board (NASB) was mandated to develop and issue standards usually called Statements of Accounting Standards (SAS) and for want of a new name, in line with IFRS specifications, NASB has been renamed Financial Reporting Council of Nigeria (FRCN). As a regulatory body, FRCN is to oversee the adoption and implementation of IFRS in Nigeria (Okpala, 2012).

A brief history of the Financial Reporting Council of Nigeria is imperative. The Financial Reporting Council of Nigeria was established in 2011 by the Federal Government of Nigeria via the Financial Reporting Council of Nigeria Act, No. 6, 2011. As a Federal Government Agency, FRCN is placed under the guidance and supervision of the Federal Ministry of Industrial, Trade and Investment. The Financial Reporting Council of Nigeria is charged with the primary responsibility of initiating, "developing and publishing accounting and reporting standards" and guidelines to be followed in the preparation of public organizations in Nigeria; and for associated matters (FRC n.d). In other words, the council recognized the centrality of injecting integrity in the preparation and compilation of financial reports. Financial integrity is the bedrock of building a strong and reliable economy that will create job opportunities and build confidence in the financial transactions taking place in the country.

In specific terms, the Financial Reporting Council of Nigeria Act, 2011 stipulated the following functional activities of FRC:

a. Develop and publish accounting and financial reporting standards to be observed in the preparation of financial statements of public interest entities.
b. Review, promote and enforce compliance with the accounting and financial reporting standards adopted by the Council.
c. Receive notices of non-compliance with approved standards from preparers, users, other third parties or auditors of financial statements.
d. Receive copies of annual reports and financial statements of public interest entities from preparers within 60 days of the approval of the Board.
e. Advise the Federal Government on matters relating to the accounting and financial reporting standards.
f. Maintain a register of professional accountants and other professionals engaged in the financial reporting process, etc.
g. Monitor compliance with the reporting requirements specified in the adopted code of corporate governance.
h. Promote compliance with the adopted standards issued by the International Federation of Accountants and International Accounting Standards Boards, etc.

Benefits of IFRS Adoption in Nigeria and Africa:

The Committee on Road Map to the Adoption of IFRS in Nigeria reports the following as some of the benefits and advantages of adopting/implementing IFRS in Nigeria and other African countries:

1. Benefits to International Investors:
IFRS will enhance the ability to make vital and meaningful comparisons of investment portfolios in different nations and countries.

2. Benefits to Multinational Corporations (MCNs):
a. IFRS will make it easy to consolidate financial statements
b. IFRS leads to better management control as harmonization will enhance communication of financial information internally
c. IFRS makes it easy to comply with the reporting demands of overseas stock exchanges

3. Regional Economic Benefits:
a. The adoption of IFRS will help to promote trade within regional economic groups like ECOWAS via common accounting standards and practices
b. IFRS will enhance the ability to compile useful data on the actual performance of various organizations within the region.

4. Benefits to Governments and National Standard Setting Agencies
a. IFRS will assist governments and countries to attract international investors since the adoption of IFRS will enable international investors to monitor overseas investments easily.

5. Benefits to Local and Domestic Firms:
a. IFRS will grant local and domestic companies easy access to external capital and financial resources
b. IFRS will promote global comparability of financial statements
c. IFRS leads to transparency and enhance disclosures and seal of quality (see p. 39 of The Nigerian Accountant, 44(4)).

Perceived Challenges in the Adoption and Implementation of IFRS in Nigeria:
The adoption of new reforms, standards and strategies by organizations is always associated with challenges and problems emanating from internal and external environment of organizations. These internal and external environmental challenges if not properly managed and addressed can hamper the gains associated with the new the standards, reforms and strategies introduced by management. By application and implication, the adoption of the International Financial Reporting Standards (IFRS) in Nigeria is likely to be confronted with challenges and problems which demands proper measures in order to harvest the full benefits of IFRS. This paper sees the adoption of IFRS in Nigeria as an accounting reform measure to align accounting information with global standards. As Kenyan President has argued, the accounting profession and standards is key to conserving resources for infrastructural development in Africa (Kibak, 2011). We discuss the following as some of the challenges that might be perceptively associated with the adoption of IFRS in Nigeria:

1. Resistance and Acceptability Challenge:
The adoption of new accounting reform measures like the International Financial Reporting Standard (IFRS) in a developing country like Nigeria is usually associated with the problems of integration, resistance and acceptability. Accounting reforms that are geared towards promoting transparency in financial information being reported are bound to be resisted by those who are beneficiaries of the "old system". Implementing accounting reforms that emphases standards are usually perceived as pertinent mechanisms for making and encouraging transparency in government (Kettl, 2000) and private sector. Stakeholders in public and private organizations might question their "hope and future" in the adoption and implementation of IFRS. Where such "hope and future" are not bright enough to motivate support for IFRS, resistance and acceptability challenges might occur. As some studies have demonstrated, top management and executive may sometimes be less interested in accepting and implementing change (Ridder, Bruns and Spier, 2005).
The resistance in adopting IFRS and accepting its "tenets and prescriptions" is also connected to the mentality associated with colonization and recolonization of countries by the strong and clever countries. For instance, the International Financial Reporting Standards has not been adopted in the United State of America because IFRS is viewed by the operators of the US economy as an attempt by European countries to colonise and corrupt the US accounting sector with inferior/substandard set of accounting standards (Gelter and Kavane Eroglu, 2015). This debate has been on especially among radical political economists in developed and developing countries. Although the view has been on, Gelter and Kavanme Eroglu (2015) have countered it by arguing that it is a myth. According to them, the introduction of IFRS in Europe was strongly supported and backed-up by the United States especially following capital market internationalization in the 1990s. Speaking about the benefit of internationalization in the accounting sector Ball (1995:29) writes that "Internationalization will reduce some or much of diversity in accounting rules and practices across nations, it will not eliminate it. Nor should it".

2. **The Problem of Adaptability and leadership**

Similar to the challenge of resistance and acceptance is the problem of adaptability and leadership. Leadership has been a challenge in the implementation of policies and programmes in developing countries. In addition, the adoption of foreign based reforms and prescriptions like those advocated by IFRS is associated with variations and diversity. Ball (2016) shows this challenge and concern when he noted that the adoption of IFRS by countries and organizations will not be uniform and that this will impact on the reporting and perception of IFRS quality by users (Ball, 2006 cited in Odia and Ogiedu, 2013). IFRS poses the challenges of creating the necessary structures and institutions to support its adaptability. The adoption of IFRS by countries as observed by some scholars are sometimes not accompanied with complementary changes in enforcement structures and institutions (Ramanna and Sletten, 2013).

Change in leadership of public and private organizations are known to affect sustainability of new reforms. We see this challenge in the adoption of IFRS in Nigeria. Providing the right legal structures, addressing cultural and old traditions to align with the tenets/standards of IFRS are some of the implementation challenges that will affect the adoption of IFRS in Nigeria. In the light of the above, technical challenges, cultural and traditions, legal difficulties and requirements, educational and training needs, and politics are said to affect the implementation process of IFRS in countries of the world (Obazee, 2007, Odia and Ogiedu, 2013).

3. **Frequent Change in Government**

Most developing countries are prone to unconstitutional changes in government. When this occurs the policies and programmes of the "displaced" government might be changed by new government. The fear expressed is that IFRS will be negatively affected if implemented in such an uncertain environment that is susceptible to change. This therefore poses the challenge and concern that the adoption of IFRS will be associated with inadequate enforcement for emerging markets economies that are making efforts to harmonize with IFRS (World Bank cited in Ramanna and Sletten 2013). Frequent changes in government may be accompanied with undue political interference in the implementation process of IFRS.

4. **Bureaucratic Bottleneck**

Bureaucratic procedures could pose a threat to the implementation of IFRS. Most public and private organizations are established on strong and rigid norms and rules which sometimes constitute a strong opposition to the implementation of reforms.

5. **Other challenges**

Asein (2011) has listed the following challenges of adopting IFRS in Nigeria: governance challenge and responsibility (noting that the transition of IFRS involves governance issue); cost of conversion (the process of transition to IFRS is billed to be expensive in terms of financial and material resources); system and process challenges: cost of setting standards by corporate bodies; loss of sovereignty, etc.

Overcoming the challenges discussed above will facilitate the realization of the following benefits of adopting IFRS as presented by Asein (2011): comparability and efficient investment (p.18), ease of accessibility to funds (p.19), lower cost of preparing financial statements of Multinational Corporations (MNCs) (p.19), attraction of more foreign direct investments (p.19), uniformity in accounting languages (p.19), etc.

As organizations make efforts to address the challenges associated with the adoption of IFRS, there are other basic concerns that must be taken into considerations. According to Asein (2011), as countries move to adopt IFRS, affected corporate organization should take steps to address the following basic issues:

(i) First Time Adoption which spells out the procedures to follow when adopting IFRS for first time in financial statements published;
(ii) Presentation of comparative figures and statement as requires by IFRS;
(iii) Review of Accounting Policies, procedures and rules;
(iiii) Stating the standards to adopt;
(v) Functional currency peculiar to the area of operation;
(vi) Components of opening balance sheet;
(vii) Stating what exemptions are available

Conclusion and Recommendations:

To address the challenges discussed in this paper, government will have to provide the necessary financial resources fundamental in driving the effective implementation of IFRS in Nigeria. In order to combat the challenges of resistance and acceptance, there is need to sensitize people and organizations of the benefits of IFRS. The enabling environment in terms of personnel, structure and legal instruments for enforcement need to be provided. This will ensure sustainability even if there is change in government. There is also the need to implement IFRS with some flexibility to allow the accommodation of changes that may not have been noticed at its initial adoption. Finally, Government is also advised to consider the possibility of adopting the study of International Financial Reporting Standards (IFRS) as a course unit in the bachelor degree programmes in the department of Accounting of Nigerian Universities to acquaint accountants and auditors with the theory and practice of IFRS.

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