THE CHALLENGES OF ADOPTING INTERNATIONAL FINANCIAL REPORTING SYSTEM IN NIGERIA

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Abstract
Nigeria is going to adopt International Financial Reporting Standard (IFRS) from 1st January 2012. Globalization and Information and Communication Technology (ICT) has reduced the world to a global village. This has given rise to the continuous integration of the world economy and capital markets which has in turn given rise to increase in the interdependence of international financial markets. As a result of this, there is increased mobility of capital across boundaries of the globe. Therefore, in order to ensure and sustain investors' confidence in the capital market, the issue of corporate governance has now been brought to the front burner because that is the only way corporate financial reporting can be seen to be transparent. However, to operate in the global financial markets there is the urgent need for a uniform global financial reporting, hence most countries have embraced IFRS either by adoption, adaptation or convergence. It is therefore, the intention of this paper to critically examine the adoption of IFRS, its challenges and to proffer solutions that would ensure seamless transition in Nigeria.

Keywords: Investors, international standards, globalization and financial statements.

Introduction

The move towards developing an acceptable global high-quality financial reporting standards started in 1973 when the International Accounting Standards Committee (IASC) was formed by 16 professional accounting bodies from Canada, United States of America, United Kingdom, Germany, France, Netherlands, Australia, Mexico and Japan. The IASC was reorganized into the International Accounting Standards Boards (IASB) in 2001. To date, the IASB has developed accounting standards and related Interpretations that are collectively known as the International Financial Reporting Standards (IFRS).

According to Adam (2009) " the standards set by the IASB began to gain dominance when the International Organization of Securities Commissions (IOSCO) in 2000 endorsed the then IASC standards. This was further boosted when in 2002; the European Commission approved a regulation requiring that listed companies in EU countries prepare consolidated financial statements in accordance with IFRS. The dominance of IFRS further improved in September 2002, when the United States'.

Financial Accounting Standards Board (FASB) and IASB signed the Norwalk Agreement. By this agreement, the bodies undertook to work closely to develop high quality compatible accounting standards that could be used for both domestic and cross-border financial reporting. These bodies have so far met their commitment and are far advanced in the IFRS-US Generally Accepted Accounting Principles, GAAP, convergence."

Other countries especially the developing ones who do not want to be left behind took a cue from the world's major economies to either adopt, adapt or converge the IFRS. Notable among these countries are Sierra Leone, Malawi, Zambia, Kenya, and Ghana.

Countries use different approaches in adopting IFRS based on their need and ability to adopt. For example, in countries like United States, Canada, Japan and India, IFRS financial statements are not permitted for listing without reconciliation to local GAAP.

However, significant gains have been made in these countries to bring domestic standards in line with IFRS. While in the European Union (EU), listed companies are required to use IFRS in preparing consolidated financial statements. It therefore, means that a listed company that has no subsidiary is not required to use IFRS. Non-listed companies in the EU are required by law or allowed in some cases to file financial statements prepared in accordance with the local GAAP applicable in their respective jurisdictions. EU member states may however, permit non-listed companies in their jurisdiction to use IFRS. This has been the practice in EU countries like the United Kingdom, Australia, Ireland, Slovenia and France. While in countries such as Malta, Slovakia and Cyprus which are EU member states, non-listed entities are required to prepare IFRS based financial statements. Other EU member states likePoland, Lithuania and Latvia require non-listed companies to use local GAAP and prohibit them from using IFRS. This goes to show the extent to which countries are careful about adopting IFRS in its totality.

Countries that have adopted IFRS in its totality have done so in a gradual and coordinated manner, allowing for transition periods. For example in Brazil financial institutions had between 2007 and 2010 to comply with IFRS. As for Korea, the Financial Supervisory Commission and the Accounting Standards Board of the Republic of Korea, after years of consultations and ground work, announced in 2009 to permit all companies other than financial institutions to apply IFRS as adopted by Korea, but set 2011 for IFRS to become mandatory in the country. In the case of India, it commenced IFRS transition in early 2007 when the Institute of Chartered Accountants of India formed an IFRS convergence task force to look into the various convergence issues and prepare a road map for full convergence in 2011. In neighboring Ghana, the Institute of Chartered Accountants of Ghana has commenced the IFRS transition project in earnest; but it was only in 2007, that the Minister of Finance and Economic Planning of Ghana formally launched the adoption of IFRS in that country.

In Nigeria the government has taken its time to involve all stakeholders before it finally decided to adopt the IFRS on a gradual basis as from 1st January 2012. Umoru and Ismail (2010), stated that " as part of plans to meet international standards, the Federal Government has disclosed that new accounting system, the International Financial Reporting Standard (IFRS) will take off in Nigeria on 1st January 2012.

According to the government, the choice of the date is anchored on the need to effectively transit to IFRS over a three year period. Unveiling the IFRS road map, Minister of Commerce and Industry, Senator Jubril Martin-Kuye noted that the search for global accounting standard as captured by the IFRS became imperative following the collapse of US energy giant, Enron when accounting profession came under scrutiny and led to global questioning of accounts experience, integrity and existence of standards in corporate governance. According to the Minister, all other public interest entities are expected to mandatorily adopt IFRS for statutory purposes by January 1st 2013, while Small and Medium sized entities, SMEs shall mandatorily adopt the system on January 1st 2014; adding that with this, all SMEs in Nigeria will statutorily be required to issue IFRS based financial statements for the year ended 31st December 2014. He warned that entities which fail to meet the IFRS for SMEs criteria shall report using Small and Medium-sized Entities Guidelines on Accounting (SMEGA) level three issued by the United Nations Conference on Trade and Development (UNCTAD)."

From the foregoing, it is glaring that to operate in the modern day world economy and to realize the full gains of international listing, no individual country can act alone in its financial reporting standards. In recent times, a number of Nigerian companies (especially financial institutions) had raised capital from international stock markets while others established significant presence in other parts of the world.

This calls for a better understanding and appreciation of the risks involved and would necessitate that financial statements prepared in Nigeria use global financial reporting benchmarks. Therefore, the Nigerian government must be commended for taken a wise decision to adopt the IFRS as from 1st January, 2012. In his contribution, Board member, International Accounting Standards Board (IASB), Kalavacherla(2010) said that "with Nigeria's latest move, it would serve as a lesson to other African countries and to a large extent, the rest of the world, adding that the IFRS would help to create jobs and alleviate poverty in Nigeria…"

Annual Reports in the IFRS

The annual report is a publication that fulfils the regulatory requirements of reporting the performance and situation of a reporting entity and, at the same time, is also used for wider corporate communication purposes.

IFRS-based financial statements are prepared based on two main underlying assumptions; accrual basis and going concern. Under the accrual basis, the effects of transactions and other events are recognized as at when they occur (and not as at the time of cash receipt) and they are recorded and reported in the period to which they relate. While the going concern basis assumes that a reporting entity will continue to operate in the foreseeable future and without any threat to liquidate or curtail materially its scale of operations. According to Mongiello (2009) "… the expressions "IFRS" and "IAS" are intended to refer to the whole body of standards that are under the names of International Accounting Standards (IAS) and the newer International Financial Reporting Standards (IFRS). Many IAS are still valid insofar they have not been replaced by new IFRS. When the International Accounting Standard Board intervenes in the body of accounting standards it :

(a) Either modifies IAS or IFRS (b) Or issues new standards (IFRS), which are added to the existing list of standards superseding existing IAS, which are then no longer used. (c) Or issues new standards (IFRS), which address completely new areas of accounting. This is the reason why both IAS and IFRS are coexisting and make, together, the whole body of international accounting standards".

The annual reports produced under the IFRS normally include:

Chairman's letter to the shareholders

This letter is meant to represent the chairman's opinion and his/her view and may be devoid of objectivity.

The operational review

The operational review varies widely in formats and approaches from industry to industry and from entity to entity. However, no matter the format adopted by an entity, the review should contain: the description of the main product lines and services, their contribution to the overall performance of the entity and the operational point of view of the main innovations embarked on during the year.

The Directors' Report

The Directors' report is normally divided into business review and corporate governance. The business review part of the directors' report consists of the analysis and review of the directors on the situation and performance of the entity, as a result of their decisions in the past year. This report together with the operational review is the main tool the directors can use to convey the image of the entity's strength and strategy.

Accounting policies

Accounting policies are the bases, rules and assumptions applied in preparing financial accounts of an entity. Many of the policies are dictated by the IFRS and do not have much room for interpretation.

Financial statements

Financial statements are prepared based on a number of accounting policies and assumptions usually referred to as Generally Acceptable Accounting Principles (GAAP). In applying these GAAPs, accountants generally make some judgments, which are expected to be logically deducible from the relevant GAAPs.

Income statement

Income statement shows the performance of the entity in terms of profit.

Balance sheet

The balance sheet reports the financial condition of an entity at a particular point in time, by showing its assets, liabilities and equity. IFRS-based financial statements place more emphasis on fair value than historical cost.

The cash flow statement

The Cash Flow statement of an entity shows the performance of the entity in terms of cash flows during a given period. The statement shows from where the cash inflows have come and where the cash outflows have gone.

Statement of changes in equity

The statement of changes in equity shows in detail the changes that had taken place in the equity from the beginning to the end of the financial year.

The notes to the accounts

The notes to the accounts are integral part of the financial statements and they represent explanatory remarks about how certain figures and values were arrived at.

The Auditors' Report

The Auditors' report represents the opinion that the auditors have stated about the validity of the accounts and their compliance with the relevant IFRS and local legislation.

The IFRS in Nigeria

Now that Nigeria has decided to adopt IFRS as from 1st January 2012, the transition needs to be carefully executed in a logical manner to ensure smooth transition. It must be stressed that the transition process should involve key stakeholders such as educators, professional bodies, preparers, users, regulators and auditors. The ability to identify the challenges that are likely to be faced and how to address such challenges would ensure seamless transition. First and foremost, government must clearly define the role of the Nigerian Accounting Standard Board (NASB) in the post adoption era. Presently, NASB is charged with the responsibility of issuing, interpreting and ensuring compliance of Accounting standards in Nigeria. However, one would suggest that NASB should be retained to play supervisory role and to ensure that reporting entities comply with IFRS. Some of the challenges and suggested solutions are:

Educators

The question one may ask is : how well informed are educators in institutions (especially tertiary) that provide accounting education in our country? The fact remains to impact knowledge, one must be knowledgeable. Therefore, there is an urgent need to train the educators so as to be abreast with the IFRS. It is only when they are well equipped that they will be able to impact knowledge to others. The government, professional and corporate bodies have a great role to play in this regard especially in subsidizing the training costs of the educators. The Institute of Chartered Accountants of Nigeria (ICAN) braised the trail in this regard when it organized a one-day "interactive forum for Accountants in Education" free of charge in Lagos on the 8th of March 2010. The curricula of our tertiary institutions should be reviewed to incorporate IFRS.

The Accounting professional bodies should not be left out because they are responsible for training their students before they are certified as accountants. Such professional bodies would also need to urgently review their syllabi to be in line with current global benchmark. existing professionals accountants in the country will equally need training for the IFRS transition to be successful and sustainable. Their training needs can be addressed through Mandatory Continuous Professional Education (MCPE). This is the way that our educators, professional accountants and potential accountants that are being churned out in our institutions would be up to date with the new accounting world and discharge their duties effectively.

Preparers

It is the responsibility of professional accountants to prepare the financial statements of a reporting entity. Although the preparation of IFRS based financial statements in any organization is the responsibility of the Accounts or Financial control department, the nature of IFRS-based financial statements will necessitate the active involvement of certain departments in the financial statements preparation process. For instance, making decisions on accounting policies requires the active involvement of top management and those charged with corporate governance.

Users

Ideally users of financial statements such as investors, lenders, financial analysts and other interested parties should be able to read and interpret any annual report based on international accounting standards. Even though, they might still lack the full knowledge of unusual or very technical information, they should be able to make their own well informed opinion about the financial performance, situation and prospective of the reporting entity. However, one of the challenges in Nigeria is that most users do not have a good understanding of the IFRS and would find it difficult to appreciate the financial statements presented to them. Interestingly, the IASB has identified 'understandability' as one of the qualities of

IFRS-based financial statements. But the complex nature of IFRS-based financial statements and the comprehensive disclosure requirements, make the financial statements to be very technical and bulky for non-accountants users to read and understand. It therefore, means that a reader would need the services of a professional accountant to interpret the contents of IFRS-based financial statements. To address this challenge a lot of enlightenment programmes and symposia should be organized for users on how to read and interpret IFRS-based financial statements.

Regulators

The regulatory bodies such as the Central Bank of Nigeria (CBN), Nigeria Deposit Insurance Corporation(NDIC), Securities and Exchange Commission(SEC), Nigerian Stock Exchange (NSE), National Insurance Commission (NAICOM) and others have a great role to play to ensure that the transition to IFRS is seamless and sustainable in the post-adoption era. The challenge here, is how prepared are our regulatory bodies? The regulatory bodies would need to train and re-train their staff to be able to carry out their supervisory roles effectively. They must be able to decide and know what to do with the impact of IFRS on the various regulatory parameters they are interested in. They must keep pace with the global trend and ensure that they work together as a team. They also have to carry the relevant industry players along including the Small and Medium Enterprises (SMEs) in tackling the issues of IFRS.

Auditing

In the last decade the auditing environment has changed dramatically. Perhaps the biggest single catalyst for the change was the failure of Enron, although other corporate scandals in the US and Europe also led to serious concerns about the quality of financial reporting and corporate behavior. Inadequate audits, poor corporate governance, lax standards and insufficient regulatory oversight were to varying degrees, blamed for the problem.

Therefore, no auditor worth its salt would toy with its job under the present circumstances.
External auditors have a great role to play in the IFRS transition and implementation process. They must bring to bear their wealth of experience in this process. It is expected that before expressing opinions and making categorical statements that a set of financial statements comply with IFRS or otherwise, the external auditors must understand, not just the various IFRSs but also how they are expected to be applied or how those standards have been interpreted by IFRIC. This set the basis for the auditor to guide and support the reporting entities in implementing the IFRS properly.

The challenges to the auditing firms in Nigeria ranges from attracting and retaining the required expertise, training them, getting clients to be up and going with IFRS, and acquiring and deploying the necessary information technology (IT software and hardware). One of the ways to address these challenges is for the auditing firms to have a platform where they can always meet, share ideas and experiences as regards IFRS.

Conclusion

In this paper we have been able to explore the informational value of financial statements under the IFRS. Globalization and Information and Communication Technology(ICT) has made it possible to share financial information globally hence investors can invest in any part of the globe. We also established the need for uniformity in financial reporting which is the main objective of IFRS. Finally, we were able to identify some of the challenges that Nigeria is likely to face in adopting IFRS and proffered solutions which if implemented will ensure seamless transition to IFRS.

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