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Adoption and implementation of International Financial Reporting Standards (IFRSs) in Nigeria: Enduring challenges and implications

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Abstract

Although the adoption and implementation of International Financial Reporting Standards, IFRS, are receiving the serious attention of the Nigerian Government, efforts towards full transition from her local version of Generally Accepted Accounting Principle, GAAP, to IFRS are considered to be fraught with several challenges that appear to threaten the success of such efforts. This paper relies on extensive literature in identifying and discussing key IFRS enduring challenges and their implications on the success of Nigerian full transition to IFRS. The identified and discussed subsisting challenges include: the non-inclusion of IFRS in the curricula of Nigerian educational institutions, inadequate IFRS capacities by Nigerian auditors and accountants in and the non- amendment of Nigeria's corporate financial reporting statutes to accommodate IFRS requirements. This paper recommends an extension of the transition period to allow for the fixing of the identified challenges if Nigeria is to be successfully IFRS compliant.

Keywords: IFRS compliant; IFRS awareness; IFRS enduring challenges; IFRS road map; IFRS capacities

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1. Introduction

International Financial Reporting Standards (IFRS), are a single set of understandable and high-quality standards for general purpose financial reporting that are principles- based in contrast to the rules-based Generally Accepted Accounting Principle GAAP) approach. IFRSs are designed to discourage over reliance on detailed rules and encourage professional judgment.

The adoption and implementation of International accounting standards were more through persuasion and never mandatory on any country's professional accountancy bodies who are members of the International Accounting Standard Board, IASB. These standards have the problem of automatic adoption by all countries on account of differences in background and tradition of countries, differences in the needs of various economic environment and the perceived challenges to sovereignty of states in making and enforcing standards (Fantl, 1971).

As part of the plans to meet international standards, the Government of Nigeria disclosed a "road map" of full transition to International Financial Reporting Standards IFRS over three years period beginning from January 2012" (Umoru and Ismail 2012, p.26). By this directive, all public interest entities are to mandatorily adopt the IFRS by January1, 2013, while Small and Medium –sized entities , SMEs shall mandatorily adopt the system on January 1,2014 while all SMEs in Nigeria will statutorily be required to issue IFRS based financial statements for the year ended December 31, 2014.

This article adopted a predominantly literature review approach which builds on the analysis of wide range discourses and the examination of major publications, and documentary materials emanating from the governments, professional and academic accountants, regulatory accounting bodies and conference proceedings. The paper reviews the common challenges against the transition to IFRS, and is structured along the following sections: the first section incisively discusses major commonly held criticisms and challenges from global perspective against the transition to IFRS. The second section reviews the real and enduring key Nigeria- specific challenges considered enduring threats against full and complete transition to IFRS alongside their implications. The paper ends with conclusive remarks and recommendations on ways the identified challenges against the adoption and implementation of IFRS in Nigeria can be overcome.

2. Common global challenges against the adoption and implementation of IFRS

The identified common global challenges against IFRS are reviewed as follows:

2.1. Economy

A significant obstacle to international financial reporting standardization is that accounting regulations whether national or international can and do have economic consequences (Nobles & Parker, 2004). Governments of individual countries may be unwilling to give up control over a process which has real economic consequences to an international body over which they have little or no influence. This position conforms to the private *interest theory* or the *economic interest group theory,* as proposed by researchers such as Stigler (1971) and Peltzman (1976). Stigler (1971) posits that governments are made up of individuals who are self-interested and will introduce, or support the adoption and implement of international regulations that are more likely to lead to their economic wellbeing and resist those regulations that will be against their economic interest. Example of how economic considerations can impact on the process of international standardization is demonstrated by the difficulties which have been experienced with the refusal of some EU countries to fully endorse the provisions of the revised lAS 39, partly because of the potential negative economic impact these provisions might have on banks in their countries (Deegan & Unerman 2006*).* In the same vein, many eastern European countries, notably enterprises in transition economies would not adopt the IFRS on asset impairment on the excuse that writing down market value of their over-valued assets would destroy the equity in their balance sheets (Mcgee, 2006).

The level of economic resources of a country can also affect its preparedness towards the adoption and implementations of the international accounting standards in question. Poor developing countries like Nigeria and transitional eastern European countries fall within this category.

2.2. Politics

The effect of politics on the adoption and implementation of international accounting standards is directly derivable from the effect of economic factors on accounting regulations. Economic consideration whether on industry- level or at national level reflect on governments' attitude towards international standards, much so as no governments wants to be seen as acting against the interest of those in the position to vote them out of office. Stigler (1971) explains that governments are made up of individuals who are self-interested and will introduce regulations more likely to lead to their re-election. The powers behind standards setting are the special interest groups and lobbyists that could be advocates for the banks, the investors, companies, stakeholders or other political groups or sub-divisions (Enofe et al., 2013). When an important accounting issue is at stake those who are less favored by the outcome of the event turn to lobbyists to seek for redress. In the past, these lobbying groups have put so much pressure on politicians to prevent standard setters from finding adequate solution to important technical accounting problems.

While the adoption and implementation of international accounting standards will enjoy faster pace in countries that had closer or similar socio-political culture with the Anglo-Saxon /America countries, the same cannot be expected of former communist and socialist USSR and European countries. Some countries have nationalistic difficulties in abandoning their national standards for foreign ones. This is argued to form the basis of the US and some other countries' lukewarm attitude towards keying in fully into the adoption of international accounting and auditing standards. In the wake of the global market crisis, the European Commission (EU) pushed for the implementation of IFRS.9, valuation of financial instruments. This, according to Enofe et al. (2013), make the politics of accounting standard setting even more pronounced because while the United States preferred the fair value measurement, the Germans preferred different method because of the negative impact of the fair value measurement on the balance sheet of the major banks in their country.

2.3. Culture

One key factor that adversely affects the adoption and implementation of international accounting and auditing standards is cultural differences that are differences in accounting reporting culture, language, business tradition, work skill and ethics. An example of this obstacle to harmonization is given by Perera (1989:52) who, in his assessment of the potential success of transferring accounting skills from Anglo-American countries to developing countries, notes that:

> *"The skill transferred from Anglo-American countries may not work because they are culturally irrelevant or dysfunctional in the receiving countries' context."*

Perera further argues that international accounting standards themselves are strongly influenced by Anglo-American accounting models and, as such, these international standards tend to reflect the circumstances and patterns of thinking in the Anglo-American group of countries and that these standards are likely to encounter problems of relevance in countries where different environments from those found in Anglo-American countries exist. Continental Europe and indeed Most EU countries which includes majority of German companies continue to rely on 'insider' forms of finance, and Roman law system.

These codified accounting regulations will probably be more appropriate for most of these Continental European Countries than the imposition of a form of Anglo-American accounting system. This perhaps informed Nobes and Parker (2004) to suggest that in such circumstances, it might be more appropriate to have a dual system where all companies in each country are required to prepare financial accounts in accordance with their historically developed domestic system, and companies which raise funds internationally to prepare an additional set of accounts (probably only the consolidated or group accounts) in accordance with Anglo-American style international accounting rules.

Language is also a very important aspect of culture. International accounting and auditing standards are originally written in English language. Adopting and implementing these standards in non-English speaking countries entails first, finding translators who are both sufficiently knowledgeable in the subject matter of accounting and auditing and versed in the both the English and the local language. A lot of difficulties arise in getting capable translators and even where they exist, some of the English language terms in the standards sometimes may not have any local language equivalent (McGee, 1999). The translation of the international standards is a major challenge in the adoption and implementation of the standards as t translators often find it difficult to convey the real meaning of the English text in the translated standards.

2.4. Laws and regulations

International Accounting Standards as espoused in IFRS by IASB is principle-based. Principles-based system works within a set of laid down framework. On the other hand, rules-based system regulates for issues as they arise. Principles-based system operates within a framework that provides the background of principles within which standards can be developed and the standards so produced are not in conflict with each other and that the standards can be judged on the basis of whether or not it is in keeping with the principles set out in the framework. Rules-based system on the other hand does not derive nor operate within or are guided by any framework. This leads to a large mass of regulation designed to cover every eventuality as in the US and most East European countries. Differences in legal systems and accounting rules among countries have serious implications for the adoption and implementation of accounting and auditing standards.

The legal systems of Anglo-Saxon and most English speaking countries is the common law. The common law has relatively fewer statutes and more interpretation by courts in the application of the laws to specific situations in addition to the creation of precedents or case laws. The source of accounting rules tends to be non-governmental organizations with elements of flexibility. On the other hand, the legal system in non-English accounting speaking countries is the codified legal system characterized by greater degree of inflexibility. Accordingly, the accounting rules in most non- English speaking countries tend to be legislated (the source being government) with higher doses of inflexibility. These code laws countries tend to have accounting rules based on tax rules and providers of financing with closer ties to the company. Disclosure requirements of the accounting rules under this system is far less than obtained in accounting rules of English speaking countries that is based more on the need of larger stakeholders consisting of the stock market, government and non-government agencies.

The notable difference between the Anglo-Saxon and the Continental largely non-English speaking countries' legal systems and accounting rules derived from these legal systems constitute significant wedge against the pace of the adoption of the Anglo-Saxon originated international standards by non English speaking countries. The international standards are not written in the form of law or regulations and require to be 'transformed' by national laws or regulations into the national standards as a prelude to full adoption and implementation. This transformation is fraught with dangers of resistance by nation's legislature and stakeholders particularly in the face of poor enlightenment of the implications of the standards.

2.5. Educational institution

No accounting reform Project is complete without upgrading the accounting curriculums of at least some universities in the country McGee (2006). The future accountants have to become exposed to the rules their country has adopted and the present university curriculum does not have the courses they will need. This perhaps informed the intervention of the USAID, or TACIS, the EU equivalent, and the World Bank, or some other group offers to provide technical and financial assistance. One of the first steps towards achieving a smooth and sustainable adoption, transition, and full implementation of IFRS, and other international accounting standards is for the institutions that provide accountancy education at tertiary and professional-qualifying levels to review their curricular to include models on the International standards given the complexities that come with them (Ibid).

2.6. Professional accounting bodies

No accounting system can be implemented if the accountants who would implement the changes do not know what the new rules are or how to apply them. Most preparers of company accounts and auditors are accountants by profession. For views about medicine one goes to doctors and for views about buildings to architects or surveyors, so for views about accounts it seems sensible to go to accountants Professional Accounting bodies have the responsibility of taking a leading role in the orientation and re- orientation of existing and prospective members of their bodies on the requirements of the IFRS accounting and auditing standards. In particular, they have the responsibility of giving clear guidance and directions to their members on difficulties encountered on the applications of the standards.

3. Nigeria specific challenges against the adoption and implementation of IFRS

Challenges against the successful implementation of IFRS in Nigeria are posed by both the real and perceived inadequacies of the factors that determine the success or otherwise of the implementation of IFRS in Nigeria. The nagging and enduring challenges that are considered capable of making nonsense of efforts towards the successful implementation of IFRS, from the standpoint of Nigeria circumstances shall in this paper be restricted to only four key issues, namely: Level of awareness; Accounting Education and Training; Regulatory bodies; External Auditors (NASB, 2010; Akhidime, 2011; Izedonmi, 2010).

3.1. Level of awareness

What underscores the low level of awareness by virtually all the stakeholders of IFRS adoption and implementation in Nigeria, in the view of Izedonmi (2014) is the fact that whereas it took the ten (10) leading accountancy bodies 37 years to build the International Accounting standards, Nigerian opted to implement its adoption after only four (4) years of preparation along an IFRS road map that was designed in 2010 (Izedonmi, 2010). It is therefore not out of place to consider other challenges against the adoption and implementation of IFRS as likely flowing from the short period it is taking Nigeria to prepare for the transition from GAAP to IFRS.

The transition from GAAP to IFRS has serious implications for regulators, users of financial statements, educators, and other stakeholders whose roles in the successful implementation and adoption of the new standards cannot be taken for granted hence are required to be appropriately communicated of such implications. While the Committee on Road Map to the Adoption of International Financial Reporting Standards counseled on the need to have a logistical framework of targeted activities aimed at creating awareness amongst the stakeholders (NASB, 2010), it is considered by Garuba (2011, p.317) that "most users and even the preparers and assessors of IFRS based accounts such as accountants and auditors have very low IFRS awareness and would find difficulty in understanding, appreciating and to correctly implement what they are not current about or sufficiently aware of'".

3.2. Accounting education and training of accountants

3.2.1. Educational institutions

Universities and other tertiary educational institutions are considered to be in the best position to take a lead in the provision of needed academic direction and foundation for training accountants for the private and public sectors. However, the Financial Reporting Council of Nigeria FRCN, Institute of Chartered Accountants of Nigeria, ICAN, and Association of National Accountants of Nigeria ANAN and Government's educational regulatory agencies are considered not quite forthcoming (Izedonmi, 2014).The implication of this is that lecturers in this institutions are barely knowledgeable of the modalities and workings of IFRS to effectively educate or transfer the skills to others. As a commonly held view, the trainee (student) cannot efficiently become a master if the trainer is not first a master indeed (Garuba and Donwa, 2011). Izedonmi (2014) asserts that only one out of more than two hundred accounting departments of Nigerian Universities and polytechnics has developed the needed curriculum for international accounting and auditing standards (Izedonmi, 2014).

The fact that professional accounting bodies require successful education at the tertiary level as pre-requisite for enrolling into their professional examinations underscores the importance of tertiary education which NASB, (2010, p.19) considers "a critical success factor that requires urgent attention". The practical implementation of IFRS understandably therefore, requires adequate technical capacity, particularly among preparers of financial statements and auditors.

The Committee on Road Map to the Adoption of International Financial Reporting Standards, CRAIFRS, had envisaged that Nigeria may encounter the shortage of accountants and auditors who are technically competent in the implementation of IFRS (NASB, 2010). The latest study of Isenmila and Aderemi (2013, p.182) revealed that even after two years into the implementation of the adoption of IFRS in Nigeria, "Tertiary Educational Institutions have not potentially developed enough to support the ongoing mandatory adoption of IFRS".

The very weak Nigerian educational system that is ill-equipped and unprepared to provide the required theoretical knowledge that are needed for the production of persons to be trained and absorbed into the membership of local professional accountancy bodies portends great danger to the successful implementation of the adoption of IFRS as there is bound to exist situation where there is lack of the required human capacity to drive the transition to IFRS.

3.2.2. Professional accounting bodies

Professional accounting bodies have the responsibility of taking a leading role in the orientation of prospective and existing members of their bodies of the demands of IFRS. They have responsibility of giving clear guidance and directions to their members on ways around the difficulties encountered in the application of the standards.

However, while much is being done by the two professional accounting bodies in Nigeria, the Association of National Accountants of Nigeria ANAN, and the Institute of Chartered Accountants of Nigeria, ICAN to upgrade their members knowledge on the requirements of IFRS through Mandatory Continuous Professional Accounting Development (MCPD) programmes, these efforts are considered to be largely at pedestal and expository levels, that lack sufficient depth to provide the required level of proficiency among both the preparers and auditors of IFRS based financial statements.

The poor professional development and professional retooling of the skills of Nigerian accountants and auditors on the workings of IFRS is a disposing factor to the dearth of knowledgeable professionals that are needed to drive the transition to IFRS in Nigeria, hence a potential threat to the successful transition to IFRS.

3.3. External auditors

The transition to IFRS based financial reporting and auditing practice poses enormous capacity building and competence improvement challenges to Nigeria's local external auditors, particularly those who are largely engaged in small and medium enterprises. External Auditors operating in Nigeria can be categorized into three group, the first being those from larger audit firms especially those from the Big 4 international audit firms which audit up to 90% of listed Nigerian companies and other major Public Interest Enterprises, and second, auditors from large audit firms with international affiliation that audit the remaining 10per cent (World Bank, 2004) and third, auditors from relatively smaller local audit firms that audit Small and Medium Enterprises. While the IFRS skill base and capacity building efforts of the big audit firms (who are credited to have participated in setting up IFRS) adequately march the demands of IFRS the same cannot be presumed for local Nigerian external auditors who understandably lack sufficient international exposure and the financial capacity to fund extensive training and retraining for themselves and their staff on the reporting demands of IFRS. The study of Isenmila and Aderemi, (2013) confirms this position by concluding that Nigerian "local audit firms lack the expertise to foster the smooth transition to IFRS". The inadequacies of local external auditors have far reaching implications for the successful implementation of IFRS for Small and Medium Scale Enterprises whose Accounts are prepared and audited largely by local accountants and auditors, unlike the quoted companies and other public entities that are largely audited by, better exposed and trained accountants and auditors from international audit firms.

3.4. Laws and regulations

There is a multiplicity of laws and bodies for the regulation of accounting, financial reporting and auditing requirements of companies and other public interest entities in Nigeria, while the main legal framework for corporate accounting and auditing practices in Nigeria is the Companies and Allied Matters Act 2004 (Akhidime, 2010). Strangely, the Nigerian Companies Act which was last amended in 2007 has remained unchanged to reflect any recognition of IFRS provisions even as IFRS adoption is considered to conflict with some existing Nigerian laws (Izedonmi, 2014). With IFRS conflicting with some of the existing Nigerian corporate financial and auditing laws the prospect of a smooth transition to IFRS without adequate enforceable statutes remains threatened.

4. Conclusion

This paper carried out a succinct review some common global challenges together with key local enduring challenges on the way to Nigeria's successful transition to IFRS. The particular IFRS Nigerian challenges include: inadequate preparation and development of Nigerian educational institutions by the lack of curriculum review and update, and alignment with IFRS and the low and inadequate capacity building by Nigerian external auditors and accountants on account of the poor professional development programmes that are being offered Nigerian accountants and auditors on the workings of IFRS by ICAN and ANAN, the two professional accountancy bodies in Nigeria. Also identified and reviewed is the local challenge posed by the non- amendment of Nigeria's corporate financial reporting laws in recognition of IFRS. These few identified local challenges are considered to have far reaching implications that include the dearth of professional accountants that are needed to implement the transition to IFRS as teachers, preparers, financial advisors and external auditors. This is besides the threat to legal enforces ability of compliance to IFRS that could result from the non-formal recognition of IFRS by Nigeria relevant laws.

5. Recommendations

The consideration of the following recommendations by the relevant arms of the government is considered pertinent if Nigeria is to truly and fully transit to IFRS and conform to best global practice in corporate financial reporting:

- The timeline for the full adoption which this paper considered too short, should be elongated as it is obviously impracticable for Nigeria to transit from GAAP to IFRS within 4 years, what took industrialized countries about 48 to gestate.
- There is the urgent need for all the relevant Nigeria educational institutions and professional accounting bodies to integrate IFRS into their curriculum and the membership qualifying examination syllabi respectively. This should be followed by increased funding by way of special research grants by the government for the training of lecturers on IFRS as a way of building human capacity in support of the transition from GAAP to IFRS.
- The two Nigeria's professional accounting bodies, ANAN and ICAN, should of necessity deepen their Mandatory Continuing Professional Education programmers on IFRS and possibly re-accredit all its members on the basis of IFRS compliance.
- All Nigeria's corporate financial reporting statutes should be reviewed with the objective of identifying those in conflict with IFRS and amended and harmonized to conform to the demands of IFRS.

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