



GLOBAL JOURNAL OF MANAGEMENT AND BUSINESS RESEARCH
Volume 13 Issue 1 Version 1.0 Year 2013
Type: Double Blind Peer Reviewed International Research Journal
Publisher: Global Journals Inc. (USA)
Online ISSN: 2249-4588 & Print ISSN: 0975-5853

Prospects and Challenges of International Financial Reporting Standards to Economic Development in Nigeria

By G.O. Demaki (FCIS)

University Abraka

Abstract - The goal 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 structures. International financial reporting standards (IFRS) harmonises this diversity by making information more comparable and easier for analysis, promoting efficient allocation of resources and reduction in capital cost. Rational utility maximation is the theoretical foundation on which this paper is rooted. The IFRS components are disclosed, the benefits and challenges together with the roadmap of its adoption in Nigeria are highlighted for the economic development of Nigeria.

GJMBR-A Classification : FOR Code: 140207 , 340213



Strictly as per the compliance and regulations of:



Prospects and Challenges of International Financial Reporting Standards to Economic Development in Nigeria

G.O. Demaki (FCIS)

Abstract - The goal 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 structures. International financial reporting standards (IFRS) harmonises this diversity by making information more comparable and easier for analysis, promoting efficient allocation of resources and reduction in capital cost. Rational utility maximization is the theoretical foundation on which this paper is rooted. The IFRS components are disclosed, the benefits and challenges together with the roadmap of its adoption in Nigeria are highlighted for the economic development of Nigeria.

I. INTRODUCTION

Prospects and challenges of the International Financial Reporting Standards (IFRS) to Economic Development in Nigeria call for a background knowledge of IFRS, the theoretical foundation or basis on which it is rooted, empirical studies on financial reporting, definitions and components of IFRS Financial Statements, Nigeria's adoption and implication of IFRS together with the benefits and challenges of IFRS.

According to Essien-Akpan (2011), as a result of increasing globalization and therefore competition, it becomes imperative that countries and companies alike address issues that will make them become more attractive of investors capital which is like the proverbial beautiful bride. Capital market trades (crossborder listing) have gone global and a company can raise funds on several stock exchange around the world. Information which is IFRS per se, provide a key to this. The goal of financial reporting is to make information available for decision-making. Diversity in financial reporting in different countries arises because of the differences in legal systems, tax systems and business structures. The IFRS is intended to harmonise these diversity by making information more comparable and easier for analysis, promoting efficient collaboration of resource and reduction in capital cost.

II. BACKGROUND TO IFRS

Ajibade (2011) disclosed that in 1973, the International Accounting Standard Committee (IASC), the professional accounting bodies of major countries

comprising UK, Ireland, United States (US), Australia, Canada, France, Germany, Japan, Mexico, Netherlands agreed to develop a uniform set of accounting principles that would be applicable globally and supersede the International Accounting Standards (IAS) which allowed for different treatments of transactions and events making comparative analysis difficult. Membership of IASC expanded to 140 professional bodies including the International Federation of Accountants (IFAC) under which Nigeria belongs. Because of globalization and to address comparability issues, IASC was restructured leading to the creation of International Accounting Standard Board (IASB) that issues IFRS.

III. THEORETICAL FRAMEWORK - THE RATIONAL UTILITY MAXIMIZATION THEORY

The theoretical basis of this paper is the Rational Utility Maximization Theory. Marnet (2008) emphasized that this theory evoke the presence of calculating utility maximizer who would not succumb to what presumably amount to irrational behaviour. Furthermore, many conventional means for improving corporate governance depend on the premise that business managers are strongly rational agents with long-term horizon.

Freeman (1957) also disclosed that the rational maximization theory is based on the following assumptions:

- i. The individual is self-interested maximizer;
- ii. Has stable and consistent preferences or taste;
- iii. Capability of rationale choice behaviour in accordance to certain decision rules (axioms);
- iv. Independent/neutral monitors (gatekeepers) motivated by reputational and legal concern to withstand pressures.

However, observed monitors/gatekeeper behaviour appears to be odd in contrast to these assumptions of self-interest and rationality. Logic, for example, would predict that a gatekeeper (i.e auditors) would not sacrifice reputational capital for small amount of financial gains. Yet gatekeepers (auditors) have been observed to jeopardize their reputation for financial gains that were far smaller than potential losses. The obvious answer/ about why management including

*Author : Department of Business Administration Delta State University
Abraka. E-mail : gdemaki@yahoo.com*

directors engage in fraud and gatekeepers (auditors) were complicit is that they did so because it was profitable to them or at least appeared to be so.

Adeside (2008) argued that corporate governance corporate code violator connive or evade the regulators through fraudulent mechanisms whereby principally, the audited financials sent to the Central Bank of Nigeria (CBN) is usually profit-oriented since it is that same audited account that would be published showing bogus profit in order to make their shares attractive at the capital market after a compromised approval have been obtained from the CBN. For the same accounting period, the audited account that would be forwarded to the Nigeria Deposit Insurance Corporation (NDIC) would have a depleted deposit base for the bank to pay an inconsequential 1% insurance premium to NDIC. For the same accounting year too, the audited accounts that is sent to the Federal Inland Revenue Services (IFRS) would have a reduced profit so that these banks would not pay any corporate tax to the coffers of the Federal Government of Nigeria while at the same time concealing withholding tax and value added tax (VAT) deductions thereby defrauding the federal government of Nigeria of revenue due it for economic development.

Akpan-Essien (2011) stated also that the adoption of the IFRS will ensure transparency, accountability and integrity in financial reporting necessary for addressing the crisis in the financial sector in Nigeria which was responsible for the Nigeria loss of the Foreign Direct Investment (FDI) in the oil and gas sector to countries such as Ghana that have begun oil production in commercial quantity and who are perceived to have better financial reporting standards in place.

IV. EMPIRICAL STUDIES OF THE SIGNIFICANCE OF FINANCIAL REPORT TO ECONOMIC DEVELOPMENT

Portes and Rey (2005) in their studies showed that most stock market investors prefers 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 consequences on the level of investors activities. UNCTAD (2001) report shows that FDI inflow to Africa declined by (9%) between 2010 (\$50 billion) and 2009 (\$55 billion).

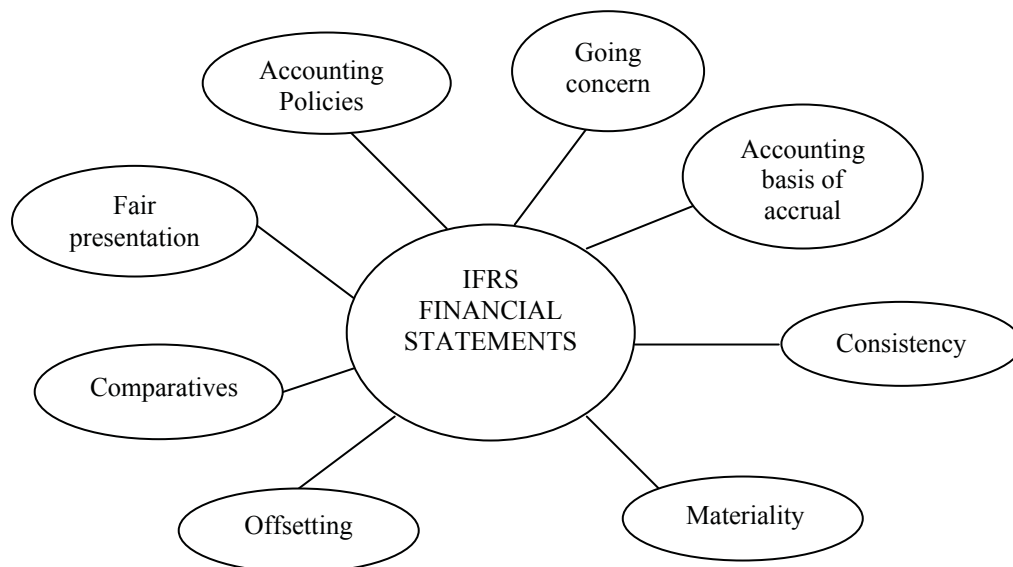
Mangena and Taurigana (2006) in their studies also provided firm level evidence for a sub-saharan African country, Zimbabwe, of positive effect of governance on the fraction accounted for by Foreign Share Ownership of companies. They contended and postulated that because greater disclosure reduces information 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 investor 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.

The study reports that foreign share ownership is positively associated with high standard of disclosure and audit committee independence.

V. COMPONENTS OF IFRS FINANCIAL STATEMENTS

Alistair (2010) defined IFRS as a series of accounting pronouncements published by the International Accounting Standard Board (IASB) to help prepare financial statements throughout the world, to provide and present high quality, transparent and comparable financial information.



Source : Essien-Akpan (2011) *International Financial Reporting Standards: The Role of Chartered Secretaries and Administrators : A Presentation at the 35th Annual Conference of the Institute of Chartered Secretaries and Administrators (ICSAN). Ikeja: Sheraton Hotels and Towers. October 26th – 27th.*

According to Essien-Akpan (2011), the components of IFRS financial statements includes fair representation, accounting policies, going concern, accrual basis of accounting, consistency, materiality, off-setting, comparatives as set out in the diagram above and described below.

Fair Presentation is the appropriate application of IFRS result in Financial Statements that achieve fair presentation resulting from the selection of appropriate accounting policies and their application.

Accounting Policies - are the specific principles, bases, convention, rules and practices adopted by an entity in preparing and presenting financial statements. Policies selected must comply with the interpretation of the International Financial Reporting Interpretation Committee (IFRIC), where there are no specific requirements, policies should ensure relevance and reliability of information. Such financial statements should disclose that they comply with IFRSs. Compliance should not be claimed unless all applicable IFRSs and interpretations have been applied. A company's financial statements should disclose the accounting policies that have been selected and used.

Going Concern - is described as an entity's ability to continue operating in the foreseeable future, usually one year and especially if certain conditions ceases to exist. An entity prepares financial statements on a going concern basis unless management either intend to liquidate the entity or to cease trading or has no realistic alternatives but to do so. Where there are material uncertainties related to events or conditions that may cast significant doubts on the entity's ability to continue as a going concern, the entity shall disclose those uncertainties. Management, when preparing financial statement, make an assessment of an entity's ability to continue as a going concern.

Accrual Basis of Accounting – recognizes transactions and events when they occur and not when cash is received or paid. They are recorded in accounting records and reported in the financial statements of the periods to which they relate. An enterprise should prepare its financial statements under the accrual basis of accounting except for cash flow statements. Cash flow statements looks at the cash transactions within the period.

Consistency - arises when an item's presentation and classification is retained from one period to the next.

Materiality - Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements. Each material class of similarities should be presented separately in financial statements. Each material class of similar items should be presented separately in the financial statements. Materiality depends on the size and nature of the item. Items of dissimilar nature shall be presented separately unless they are immaterial.

Offsetting - Emphasises that assets and liabilities and income and expenditure shall not be offset unless required or permitted by a standard or interpretation.

Comparativeness - should be provided for all numerical information except when a standard offers an exemption.

VI. ROADMAP FOR THE ADOPTION OF IFRS AND THE IMPLICATIONS IN NIGERIA

The roadmap to the adoption of the IFRSs in Nigeria was its announcement on 2/9/10 by the Federal

Government of Nigeria disclosing the schedule for the implementation as follows:

- All companies listed on the Nigerian Stock Exchange (NSE) and significant public entities are expected to have complied with IFRS since 1st January, 2012.
- Other public interest entities will commence with effect from 1st January, 2013.
- The commencement year for small and medium sized entities will be with effect from 1st January, 2014.

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 IFRSs together with the necessity to develop new skills. A transition programme from Nigeria Accounting Standards to IFRSs will be required. Systems and controls are to be designed to ensure consistency in the application of standards.

VII. BENEFITS AND CHALLENGES OF THE IMPLEMENTATION OF IFRSs TO ECONOMIC DEVELOPMENT

Results arising from investigation conducted on the European Union member states highlighted how IFRS has benefited European countries in terms of attracting Foreign Direct Investment (FDI). IFRS will position Nigerian companies in the global market place as well as ensure transparency, accountability and integrity in financial reporting in Nigeria which is a pre-requisite for the attraction of investment that will promote economic development. It will provide international investors the ability to make well-informed, useful and meaningful comparison of investment portfolio in Nigeria and other countries. Multinational companies with the aid of IFRS financial statement provide for easy consolidation of financial statements. It promotes better management control systems. IFRS statements are easier to comply with the financial requirements of overseas stock. It also facilitates ease of cross border transactions and trading within the region through common accounting practice especially in underdeveloped regions of the world like the Economic Community of West African States (ECOWAS). It will help to facilitate compilation of meaningful data on the performance of enterprises within the ECOWAS and other regions of the world. It will assist Nigeria, the federal and state government, local governments inclusive, in attracting international investors as the adoption of IFRS financials promotes easy monitoring of overseas investments. Transparency and better accountability in government Ministries, Departments and Agencies (MDA) will be promoted through the IFRS adoption in the public sector accounting and management of resources. It will also lead to increase in

government revenue as a result of transparency and integrity in reporting. Easier access to capital is also facilitated through IFRS. Despite the aforementioned envisaged benefits there are still challenges. There is the urgent need to improve the level of public awareness especially among investors and regulatory authorities in Nigeria. There is also chronic shortage of professionals that are competent to implement the IFRS within the given time frame as contained in the schedule of the Nigerian roadmap for its adoption (i.e. January 2012 - January 2014).

VIII. CONCLUSION AND RECOMMENDATIONS

Clifford and Demaki (1999) insists that 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 labour, provide effective control and leadership, identify managerial problems, find solutions and take decisions. Knowledge (i.e. IFRSs based financial report) is power. It provides the power to management and entrepreneurship. Overcoming IFRSs challenges will require updating accounting curricula in all training institutions including the universities and polytechnic in Nigeria. It will also be necessary to harmonize regulatory requirements by amending existing laws that may be a drawback to IFRS. For example, the provision in the Company and Allied Matters Act (CAMA) 1990, the Investment and Securities Act (ISA) 2007, Bank and other Financial Institution Act (BOFIA) 1991 must be harmonized. Constantly keeping up with the pronouncements published by the International Accounting Standard Board (IASB) will also be necessary for the sustainable economic development in Nigeria.

REFERENCES RÉFÉRENCES REFERENCIAS

1. Adeside S. (2008). "Fraud in Banks". <http://www.sunnewsonline.com/webpage/national>
2. Ajibade, M. (2011). "Financial Reporting Council (Formerly National Accounting Standard Board – NASB)". In Essien-Akpan (Ed). International Financial Reporting Standards (IFRS). The Role of the Chartered Secretary and Administrator. A paper presented at the 35th Conference of Institute of Chartered Secretaries and Administrators of Nigeria (ICSAN), Lagos Sheraton Hotels and Towers, October 26th and 27th.
3. Alistair, (2010). IFRS. Historical Background. In Essien-Akpan (Ed). IFRS: The Role of Chartered Secretaries and Administrators. 35th Annual Conference of ICSAN. Lagos Sheraton Hotels and Towers. October 26th and 27th.
4. Essien-Akpan I. (2011). The International Financial Reporting Standards (IFRS). The Role of the Chartered Secretary and Administrator. A paper

- presented at the 35th Conference of ICSAN. Lagos Sheraton Hotels and Towers. October 26th and 27th.
5. Clifford, S.D. and Demaki, G.O. (1998). Research Methods for Business, Management, Social Sciences and Education Students in Tertiary Institutions. Benin City. Ethiope Publishing Corporation.
 6. Mangena, M. and Venanico, T. (2006). "Disclosure, Corporate Governance and Foreign Share Ownership on the Zimbabwe Stock Exchange" Working paper. No. 06/43. Zimbabwe.
 7. Marnet, O. (2008). "Behaviour and Rationality in Corporate Governance". International Journal of Behavioural Accounting and Finance. Vol. I. No. 1.
 8. Portes, R. and Rey, H. (2005). "The Determinant of Cross Border Equity Flows". The Journal of International Economics (2). 269-296.
 9. UNCTAD (2011). "World Investment Report". In Essien-Akpan(Ed). IFRS: The Role of Chartered Secretary and Administrator. 35th ICSAN Conference. Sheraton Hotel and Towers. Lagos. October 26th and 27th.





This page is intentionally left blank