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Adoption and Implementation of International Financial Reporting Standards (IFRS) in Nigeria: Auditors Perspectives

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Abstract

ABSTRACT

The study examined the prospects and benefits of adopting International Financial Reporting Standard (IFRS) in Nigeria' as it relates to auditors. It examined the relationship between IFRS adoption and management's transparency and also examined the relationship between IFRS adoption and stakeholders' reliance on management representation.The population of this study comprise of external auditors in Nigeria and simple random techniques was adopted in selecting some audit firms in Ogun State, Nigeria. Primary data was used in the study through the questionnaire administered to the recipients. The collected data was tested through chi-square with the use of Statistical Package for Social Sciences (SPSS).Results showed that there is correlation between IFRS adoption and management's transparency and also that there is correlation between IFRS adoption and stakeholders' reliance on management representations. The study therefore recommended that that firms should engage in formal training of their staffs to be able to fully implement IFRS in their firms in order to withhold stakeholders' loyalty

Keywords: auditors, financial reports, generally accepted accounting principles, investors, multinational company

INTRODUCTION

The quality of financial reporting is essential to the needs of users who require useful accounting information for investment and other decision-making purposes. Information emanating from financial reporting is regarded as useful when it faithfully represents the "economic substance" of an organization in terms of relevance, reliability, and comparability (Spiceland, Sepe & Tomassini, 2001). As observed by Chambers & Penman (1984) and Ahmed (2003), useful accounting information, which derives from qualitative financial reports help in efficient allocation of resources by reducing dissemination of asymmetric information and improving pricing of securities.

Therefore, in an environment of quality financial reporting, there are no deferral of loss recognition, extra reserves are not created and volatility in income is not smoothed away to create an artificial and misleading picture of steady and consistent growth. Hence, high□quality financial reports should produce financial information that report events timely and faithfully in the period in which they occur. This becomes imperative as every individual as well as every organisation is concerned about the future of their investments and of the organisations in which such investment decisions have been made. (Okwoli, 2001).

The International Accounting Standards Committee (IASC) was founded in 1973 to bridge the gap between accounting standards among countries, with an attempt to formulate a uniform and global accounting standards that would aim at reducing the discrepancies in international accounting principles and reporting practices. In this light, the International Accounting Standard (IAS) was proposed which has actively been championing the uniformity and standardization of accounting principles over two decades now (Carlson, 1997). Meanwhile, in April 2001, the International Accounting Standards Board (IASB) took over the setting of International Accounting Standards from the International Accounting Standard Committee (IASC). Henceforth, the IASB updated the already existing International Accounting Standard (IAS) and referred to them as the International Financial Reporting Standards (IFRS).

Hence, it is in recognition of the need to have quality financial reports that the adoption of International Financial Reporting Standards (IFRS) is becoming the vogue among countries. A major breakthrough came in 2002 when the European Union (EU) adopted legislation that requires listed companies in Europe to apply IFRS in their consolidated financial statements. The legislation came into effect in 2005 and applied to more than 8,000 companies in 30 countries, including countries such as France, Germany, Italy, Spain, and the United Kingdom. The adoption of IFRS in Europe means that IFRS has replaced national accounting standards and requirements as the basis for preparing and presenting group financial statements for listed companies in Europe.

Outside Europe, many other countries also have been moving to IFRS. By the year 2005, IFRS had become mandatory in many countries in Africa, Asia, and Latin America. In addition, countries such as Australia, Hong Kong, New Zealand, Philippines, and Singapore had adopted national accounting standards that mirror IFRS. According to one estimate, about 80 countries required their listed companies to apply IFRS in preparing and presenting financial statements in 2008.Many other countries permit companies to apply IFRS. (Abbas, Magnus & Graham, 2008)

The Federal Government of Nigeria in August 2010 officially approved migration to IFRS by 2012, though a number of banks in Nigeria have started adopting IFRS.However, this might be regarded as a welcome development; the questions that beg for answers as to whether the adoption will enhance transparency of financial reporting in Nigeria are a legion. Although, a study from Nigeria showed that adoption of IFRS will increase the level of confidence of global investors and investment analysts in the financial statements of companies (Adetoso & Oladejo, 2013). IFRS is more principled□based and does not provide issuers with the same degree of detailed guidance for the preparation of financial statements, as it is for instance, under Nigerian GAAP. This study focuses on the perspectives of external auditors on the adoption and implementation of IFRS in Nigeria.

STATEMENT OF THE PROBLEM

Many writers ascribed the clamour for uniform global standard to the forces of globalization that has seen, increasingly, the integration of global markets (Ball, 2006; Chakrabarty, 2011; McGee & Preobragenskaya, 2004). The immediate impetus for the increased clamour for adoption of IFRS as a global standard for corporate financial reporting can be traced to the Enron debacle in 2002 in America. Wobbly Accounting Standards enabled the dubious management of the Corporation to hide huge losses, thus, deceiving members of the investing Public who lost heavily when the company eventually collapsed. Nigeria was not spared either.

Apart from financial manipulation which arises as a result of using different accounting standards, other problems which emanated from using different accounting standards include:

- Difficulty in comparing financial statement of similar firms in two different countries;
- High cost of obtaining information as a result of lack of full disclosure;
- Poor decision making as a result of using misunderstood financial statements.

Having highlighted the problem faced as a result of non-uniform accounting standards, there is the need to examine: the process of development of IFRS in Nigeria; the critical and salient issues involved in it adoption and implementation; the prospects and likely challenges, as it is perceived by external auditors. These have necessitated the need for this study.

RESEARCH OBJECTIVES

The general objective that the study tends to achieve is to 'explore the prospects and benefits of adopting IFRS in Nigeria' as it relates to auditors.

RESEARCH HYPOTHESES

The following Hypotheses were tested in this study:

Ho1- There is no significant relationship between IFRS adoption and management's transparency.

Ho2- There is no significant relationship between IFRS adoption and stakeholders' reliance on management representation.

LIMITATION OF THE STUDY

The main limitation of this study is the time frame of filling the questionnaire by the recipient as some of the proved to have a tight schedule and this has hindered the researcher to further collect more data from firms involved.

METHODOLOGY

Although the research work focused on the adoption and implementation of the International Financial Reporting Standards (IFRS) in Nigeria but will major on the adoption and implementation of IFRS as it relates to auditors and audit practice in Nigeria. The population of this study comprise of external auditors in Nigeria, which invariably is a finite population.

For the purpose of this work, simple random sampling was used. Random sampling uses the principles of randomization which is a procedure of giving every subject in a population an equal chance of appearing in the selection. Audit staff and partners in various audit firms in Ogun State, Nigeria were randomly chosen. However, a combination of both primary and secondary methods of data gathering was used in this study. The primary data was collected through the administration of questionnaire, while the secondary data was obtained from journals, published articles, textbooks and online resources.

The major instrument employed for this study is the questionnaire. The questionnaire was designed in a way to elicit information relevant to the study and was divided into four sections. While Section A consists of the bio-data of respondents, Section B, C and D which contained closed ended questions on the other hand was designed to answer some major issues addressed in the area of study.

The data used for the analysis of this study was obtained through survey by way of questionnaire administration. Focus of this study is on external auditors working in audit firms in Ogun State. The questionnaire was administered to audit workers in about seven (7) audit firms that were visited.

One hundred and fifty (150) copies of questionnaire were administered, out of which 135 was received. Of the 135 received, 12 was not properly filled, resulting in 123 copies of the answered questionnaires was used for the purpose of the analysis of the study.

Statistical Package for Social Sciences (SPSS) Version 17.0 was used to compute all statistics for the study. The statistical tools used were both descriptive and inferential statistical tool. The descriptive statistical tool used was the percentage distribution in tables while the inferential statistical tool used was the Pearson Product Moment Correlation and Chi-Square, which was used in testing the hypotheses.

DATA ANALYSIS AND PRESENTATION

Hypothesis One

There is no correlation between IFRS adoption and management's transparency.

Table 1. Pearson Product Moment Correlations

		Comparing The Previous Standards Used By Companies With IFRS, Which One Is More Preferable?	Do You Think The Adoption Of IFRS Will Improve The Level Of Financial Disclosure By Nigerian Firms?
Comparing The Previous Standards Used By Companies With IFRS, Which One Is More Preferable?	Pearson Correlation	1	.055
	Sig. (2-Tailed)		.543
	N	123	123
Do You Think The Adoption Of IFRS Will Improve The Level Of Financial Disclosure By Nigerian Firms?	Pearson Correlation	.055	1
	Sig. (2-Tailed)	.543	
	N	123	123

Table1 shows that there is a weak positive relationship between IFRS adoption and management's transparency. Hence, it can be concluded that the adoption of IFRS will improve managements' transparency by improving the level of financial disclosure by firms.

Chi Square Test For Hypothesis One

There is no correlation between IFRS adoption and management's transparency.

Table 2.Test Statistics

	Do You Think The Adoption Of IFRS Will Improve The Level Of Financial Disclosure By Nigerian Firms?
Chi-Square	190.098[a]
Df	2
Asymp. Sig.	.000

Table 2 shows that the calculated Chi Square is 190.098 at 5% significant level. But the tabulated Chi Square value is 5.99

Decision Rule: If calculated Chi Square < tabulated Chi Square, the null hypothesis should be retained, otherwise the null hypothesis should be rejected. From the result above the calculated Chi Square (97.203) is greater than the tabulated value (5.99) at 5% significant level with 2 degree of freedom. Therefore, the null hypothesis Should be rejected. This implies that there is correlation between IFRS adoption and management's transparency.

Hypothesis 2

There is no correlation between IFRS adoption and stakeholders' reliance on management representations.

Table 3:Pearson Product Moment Correlations

		Comparing the previous standards used by companies with IFRS, which one is more preferable?	The adoption of IFRS in Nigeria will increase the reliance on financial statements by the stakeholders
Comparing the previous standards used by companies with IFRS, which one is more preferable?	Pearson correlation	1	.037
	Sig. (2-Tailed)		.681
	N	123	123
The Adoption of IFRS in Nigeria will increase the reliance on Financial statements by the stakeholders	Pearson Correlation	.037	1
	Sig. (2-Tailed)	.681	
	N	123	123

Table 3 shows that there is a weak positive relationship between the adoption of IFRS and stakeholders' reliance on management representation in financial statement. Hence, it may be concluded that the adoption of IFRS will increase the level of reliance on financial statement by the stakeholders.

CHI SQUARE TEST

There is no correlation between IFRS adoption and stakeholders' reliance on management representations.

Table 4: The adoption of IFRS in Nigeria will increase the reliance on financial statements by the stakeholders.

	Observed N	Expected N	Residual
STRONGLY AGREED	31	24.6	6.4
AGREED	64	24.6	39.4
UNDECIDED	16	24.6	-8.6
DISAGREED	10	24.6	-14.6
STRONGLY DISAGREED	2	24.6	-22.6
Total	123		

Table 5: Test Statistics

	The adoption of IFRS in Nigeria will increase the reliance on financial statements by the stakeholders.
Chi-Square	97.203[a]
Df	4
Asymp. Sig.	.000

Table 5 above shows that the calculated Chi Square is 97.203 at 5% significant level. But the tabulated Chi Square value is 9.49

Decision Rule: If calculated Chi Square < tabulated Chi Square, the null hypothesis should be retained, otherwise the null hypothesis should be rejected.

From the result above the calculated Chi Square (97.203) is greater than the tabulated value (9.49) at 5% significant level with 4 degree of freedom. Therefore, the null hypothesis should be rejected. This implies that there is correlation between IFRS adoption and stakeholders' reliance on management representations.

CONCLUSION

The following conclusions have been reached based on the data analysis. First of all, it was discovered that external environment, existence of capital market and level of economic growth of Nigeria, accounting professional bodies and the Financial Reporting Council of Nigeria (FRCN) had influenced the adoption and implementation of IFRS in Nigeria. However, the ineffectiveness of the previous standards was not a factor influencing the adoption of IFRS in Nigeria.

Also, it was discovered that that compliance and enforcement of IFRS when in force, complexity of conversion from Nigeria GAAP to IFRS, ethical environment prevailing in Nigeria and training of relevant personnel will all be challenges to the adoption and implementation of IFRS in Nigeria.

Furthermore, it can be concluded based on the findings of the study that the adoption and implementation of IFRS in Nigeria has some benefits to the stakeholders. The benefits include will improve the level of financial disclosure by Nigerian firm.

The perception of auditors on the adoption and implementation of IFRS was also revealed by the study. This include the following: that IFRS is being more difficult to apply and time consuming than the previous standard used by companies in Nigeria; that IFRS is more preferable than the previous standard; that IFRS although, developed by the developed countries, it is also practicable for developing countries and that IFRS will improve the level of financial disclosure by Nigerian firm.

Finally, the hypotheses tested through the use of Pearson product moment correlation and chi-square further proved that there is correlation between IFRS adoption and management transparency, and that there is correlation between IFRS adoption and stakeholders' reliance on management representations.

RECOMMENDATIONS

The following recommendations were made based on some salient issues revealed by the study. Although, most listed companies are ready for the implementation of IFRS in Nigeria. However, there is great concern on how well trained their staff are. Hence, it is highly recommended that firms should engage in formal training of their staffs to be able to fully implement IFRS in their firms.

Also, the regulatory bodies in Nigeria such as Central Bank of Nigeria, Financial Reporting Council of Nigeria and other regulatory bodies that involved in the financial reporting of firms should put some mechanisms in place to ensure compliance. This measure may include sanctions for firms that fails to comply and recognition of firms that most adhered to it.

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