IMPLEMENTATION CHALLENGES OF INTERNATIONAL FINANCIAL REPORTING STANDARDS IN NIGERIA: IMPLICATION FOR CORPORATE GOVERNANCE

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Abstract

This study seeks to investigate the challenges associated with IFRS implementation as well as the inference for corporate governance in Nigeria. The corporate governance variables used include board of directors, audit committee and institutional shareholders. The study employed primary data and the data was analyzed via descriptive statistics (mean and standard deviation) and inferential statistics (correlation and multiple regression). The result of the study showed that IFRS implementation is confronted with diverse challenges such as soaring cost of training and implementation, complex nature of IFRS, lack of appropriate directives from regulatory agencies on the implementation modus-operandi among others. In addition, it was found that board of directors, audit committee and institutional shareholders may support the notion of IFRS implementation but the challenges are constraining firms to implement it. On this note, we recommend thorough IFRS capacity building plan that should be embarked by the government, regulatory bodies, firms and training institutions in order to provide the needed manpower for IFRS implementation while at the same time, board of directors, audit committee and institutions shareholders should ensure a smooth IFRS implementation.

Keywords: Nigeria, International Financial Reporting Standards, Governance

Introduction

The thought for compulsory adoption and implementation of International Financial Reporting Standards(IFRSs) across European economic countries was initiated in 2005 (Titilayo, 2011).This thrust from professional accountants, researchers and regulatory agencies informs a continuing discuss about the pros and cons of international accounting synchronization. However, there has been considerable emphasis on the contest to make accounting a global and unified language. Although, this push has led to vast divergence on the practical use of such an accounting framework such that those in agreement believed that a single set of harmonized accounting standards will moderate information irregularity (Choi &Meek, 2005; Armstrong et al., 2010), augment capital market efficiency (Horton et al., 2008) as well as ensuring precision and uniformity in financial reporting all over the world (Platikanova, 2009; Nurul, Reza & Peter, 2013). Those that disagree with this view believe that the fundamental nature of transactions may be lost in conversion as a result of communication and interpretation barriers which may obstruct the process of conveying accounting information in tandem with requirements set out by the International Accounting Standards Board (IASB) (Soderstrom&Sun, 2007).

Iyoha & Jimoh (2011) believed that the fundamental reason for the implementation of IFRSs is geared towards assisting accounting information users make more informed decisions within a progressively global economy. Spiceland, Sepe&Tomassini (2001) emphasized that the implementation of IFRSs will result to a credible financial statement that can meet the needs of owners of wealth and other interested parties in financial reporting. Thus, the implementation of IFRSs is been taking seriously among countries around the world on the need to have quality financial statements that can influence corporate governance mechanisms (board of directors, audit committee, institutional shareholders etc.), accounting bodies, government, researchers among others. One of such countries that have joined the union of countries to implement IFRSs among its firms is Nigeria. Thus this study was carried out to investigate the challenges facing the implementation of IFRSs and its implication for corporate governance in Nigeria.

Theoretical Framework

The theoretical framework for this study is premised on the 'Institutional Theory'. This theory holds that the institutional environment can strongly influence the development of formal structures in an organization, often more profoundly than market pressures. Innovative structures that improve technical efficiency in early-adopting organizations are legitimized in the environment. Ultimately these innovations reach a level of legitimization where failure to adopt them is seen as "irrational and negligent" (or they become legal mandates). At this point new and existing organizations will adopt the structural form even if the form doesn't improve efficiency (Meyer & Rowan, 1977). The linkage of the institutional theory to the present study is that the adoption and implementation of IFRSs provides a legitimatized environment that compels corporate organizations to report their financial position in tandem with IFRSs and failure to adopt IFRSs is seen as irrational and negligent.

Corporate firms will implement IFRSs as a result of three types of pressures. First is coercive pressure which comes from legal mandates or influence from organizations they are dependent upon. Second is mimetic pressure to copy successful forms arise during high uncertainty. Third is normative pressure to homogeneity which comes from the similar attitudes and approaches of professional groups and associations brought into the firm through hiring practices. Thus, the pressure from governance mechanisms (board of director, audit committee and institutional shareholders), the challenges of IFRSs (uncertainty of the benefits of IFRSs) and professional pronouncement to adopt IFRSs (normative pressure) ensures that banks prepare financial statements in conformity to IFRSs.

Empirical Literature

There is robust literature on international financial reporting standards adoption and implementation in developed countries of the world and to the best of our knowledge, little empirical evidence on the subject of international financial reporting standards implementation as it affects corporate governance instruments in developing country like Nigeria has not been comprehensively researched. Majority of these studies have been premised on international financial reporting standards adoption. For instance, Ojeka & Mukoro, (2011) carried out a study on International Financial Reporting Standards and SMEs in Nigeria: Perceptions of Academic. The study was aimed at finding how outspoken the academic have been towards the adoption/adaption of IFRS for SMEs in Nigeria. The result of the study revealed doubt among the academic about whether this would be so. This was in spite of the good and sincere intentions in establishing IFRS for SMEs. After reviewing the literatures and the empirical result, it was believed that Nigeria government should put all the necessary machinery in place to fast track the adoption of IFRs for SMEs in Nigeria. The result also showed that academics have been relatively quiet in time past in Nigeria since the IFRS for SMEs was proposed.

Nadia et al., (2011) investigated IAS/IFRS implementation in Romania so as to see the issues related to the implementation of IFFRS. The findings revealed that the regulatory bodies in Romania used coercive outside forces that is to compel firms to implement IAS/IFRS. This external force is as a result of the influence of the World Bank compelling companies in Romania to implement IFRS/IAS. Vrentzou(2011) elucidated the impact of International Accounting Standards (IAS) on the auditor reports. The results suggest that the auditor reports are positively related to the reports that accompany financial statements before the introduction of IFRS, whereas they are negatively related to the explanatory reports imposed by IFRS. Ioannis & Lisa (2010) explore the effect International Financial Reporting Standards (IFRS) on Greek listed firms. The financial statement variables used were net profit, shareholders equity, gearing and liquidity ratios. Also included in the study are the Big 4 and Non-Big 4 audit firms in Greek. The study found that IFRS implementation significantly impact on financial reporting and reported performance. This was also the case for gearing and liquidity ratios of Greek listed firms. On the overall, equity holders were positive while gearing and liquidity ratios were negative. It was discovered that firms that was audited by the non-Big 4 faced significant effect on their net profit, gearing and liquidity ratio. They believe that the negativity is a result of the transition to IFRS, fair value accounting which does not necessarily result in higher equity holder value. Apostolos, Despina&Christos (2010) study on the importance of International Financial Reporting Standards in rising markets in Greece suggests the introduction of IFRS such that it will ensure consistency, comparability and precision in financial reporting. This study involved top 100 Greek companies and the methodology adopted was a mixed one which involves primary and secondary data).

Robyn &Graeme (2009) examined the effect of financial reporting requirements, specifically, the International Financial Reporting Standards (IFRS) on management decision making. The analysis involved a survey instrument disseminated to all councils in all states of Australia. The findings implies that for minor local governments and those located away from the major cities, the time spent on conforming with IFRS and other legislative is dependent on management decision which of course in most times is being downplayed. Stella &Tony (2007) investigated the attitudes towards financial reporting for entities that do not rely on the European Union (EU) Regulation. The study used qualitative analysis of data from two main sources such as series of interviews with financially oriented subjects before IFRS was implemented in the UK and responses to ASB's consultations on the future of financial reporting for entities not listed. The study found that the increased perception is that IFRS is overly compound and is complicating the search for suitable form of financial reporting for entities not subject to EU Regulation. Specifically, there is intricacy in knowing the correct dividing point between large and small firms accounting, and views on this have evolved over time. The needs of small and medium scale enterprises appear to have been overlooked in the arguments dominated by the requirements of global players.

Monir & Rahaman (2005) in Bangladesh concluded that institutional legitimization is a fundamental factor that compels the decision to adopt and implement IASs. This according to them is as a result of the pressure exercised by key international donor/lending institutions on the Bangladeshi Government and professional accounting bodies. These pressure results from not only the need to provide credible information to foreign investors but also the need for robust accountability arrangements with lending/donor agencies. To conclude this section, it is obvious that while attempt have been made to explore issues on IFRS adoption, the implementation challenges of IFRS connected with corporate governance has not been researched. To this end, investigates the challenges associated with IFRS implementation as well as the inference for corporate governance in Nigeria. The corporate governance variables used include board of directors, audit committee and institutional shareholders.

Methodology

This study was carried out to investigate the implementation challenges of IFRSs and its implication for corporate governance in Nigeria.

Design

This study employed the survey design via the administration of questionnaires to governance instrument of selected commercial banks in Nigeria.

Population of the Study

The population of the study comprised of all the commercial banks in Nigeria. As at the time of the study, there were twenty-four (24) commercial banks in Nigeria.

Sample and Sampling Technique

The sample of the study comprised of five (5) selected commercial banks namely First Bank Plc., Access Bank Plc., United Bank for Africa, Guaranty Trust Bank and Zenith Bank representing six hundred and ninety-five (695) respondents. However, the convenience sampling technique was used in selecting the 695 respondents from the selected banks under investigation.

Instrument of Data Collection

The instrument of data collection was questionnaire which was administered to 695 respondents who are knowledgeable in area of financial reporting.

Model Specification/Method of Analysis

This study adopted a multiple regression estimation technique by the dependent variable (International Financial Reporting Standards) and independent variables (Board of Directors, Audit Committee, Institutional Shareholders). The choice of using these variables was informed based on the fact that these governance instruments inter-alia have in one way or the other have direct influence on financial reporting. In line with the above, the regression model for this study is given as:

Table 2: Pearson Correlation Showing the Relationship between IFRS, Board of Directors, Audit Committee & Institutional Shareholders

		IFRS	BOD	AUDITCOM	INSH
IFRS	Correlation	1			
	Sig. (2-taled)				
	N	695			
CPM	Correlation	.172	1		
	Sig. (2-taled)	.091			
	N	695	695		
PBD	Correlation	.368**	.272*	1	
	Sig. (2-taled)	.002	.015		
	N	695	695	695	
UFS	Correlation	.569**	.358**	.337**	1
	Sig. (2-taled)	.000	.001	.004	
	N	695	695	695	695

**. Correlation is significant at the 0.01 level (2-tailed).
*. Correlation is significant at the .005 level (2-tailed).

As shown in the above table, of the total of three explanatory variables tested in this study, there is a significant correlation between the three independent variables (board of directors, audit committee and institutional shareholders) and the dependent variable: IFRS implementation by Nigerian firms. Based on the results in the table above, there are positive relationships between IFRS implementation and most of the independent variables, these shows that most of the variables in the model are highly supported.

Table 3: ANOVA Result (Goodness of Fit Statistic)

Model		Sum of Squares	Df	Mean Square	F.	Sig.
1	Regression	9.124	5	2.419	45.121	.000[a]
	Residual	13.212	690	.227		
	Total	17.201	695			

a. Predictors: (Constant), BOD, AUDITCOM, INSH
b. Dependent Variable: IFRS

The above table summarizes the information about the variation of the dependent variable explained by the existing model used for this study and the residual that indicates the variation of the dependent variable that are not captured by the model. It is observed that the independent variables give a significant effect on the dependent variable, where F-value is 45.121 with a p-value of less than 0.05 (i.e. $p<0.000$) indicating that, over all, the model used for the study is significantly good enough in explaining the variation on the dependent variable. To ensure the statistical adequacy of the model, the goodness of fit can also be measured by the square of the correlation coefficient also called R^2.

Table 4: Goodness of fit through R Square

Model	R	R^2	Adjusted R^2	Std. Error of the Estimate
1	.851[a]	.651	.641	.43122

a. Predictors: (Constant), BOD, AUDITCOM, INSH

As shown in the table above, both $R^2$and adjusted R^2measure the fitness of the model i.e. they measure the proportion of the variation in dependent variable explained by the model. But since adjusted $R^2$is the modification for the limitation of $R^2$the value of the adjusted $R^2$is considered to measure the fitness of the model. The value of adjusted $R^2$is 0.641, indicating that the independent variables in the model are explaining 64% variation on the dependent variables, thus, we can understand that the model of the study is providing a good fit to the data. This outcome empirically indicates that the independent variables in this study are the major determinants of IFRS implementation.

Table 5: Regression Analysis on IFRS Implementation

Variables	Coefficients	t-statistic	Prob.
Constant	4.214	8.358	.000
Board of Directors	.098	2.726	.008
Audit Committee	.122	2.642	.010
Institutional Shareholders	.174	2.495	.015

Source: SPSS Output 2014

As shown in the above table, of the three explanatory variables tested in this study, Board of Directors (p-value=0.008), Audit Committee (p-value=0.01) and Institutional Shareholders (p-value= 0.015), were statistically significant at 5 percent or lower. The result also reveals that there is a positive relationship between all the independent variables and IFRS implementation. The implication of the above results is that corporate governance measures (board of directors, audit committee and institutional shareholders) have a major role to play in the implementation of international financial reporting standards. In addition, it was found that board of directors, audit committee and institutional shareholders may support the notion of IFRS implementation but the challenges are constraining firms to implement it.

Conclusion &Recommendation

Firms in Nigeria have not fully implemented IFRS, it has already been well defined that firms should transit to IFRS while in the same vein; some firms have not started implementing IFRS. The result of the study suggests that IFRS implementation is faced with challenges in the area of high cost of implementation, complex nature of IFRS, lack of proper instructions from regulatory bodies on the implementation modus-operandi, high cost of training as well as IFRS's emphasis on fair value accounting. Furthermore, it was found that board of directors, audit committee and institutional shareholders agree that firms should implement IFRS inspite of the challenges constraining firms to implement IFRS. Other key challenges are increased changes in earnings, permanent changes of standards and their interpretation, tax driven nature of prior standards and fair value accounting. Thus, a precise IFRS capacity building program should be embarked by the government, all regulatory agencies, firms and training institutions in order to provide the needed manpower for the implementation of IFRS while at the same time, corporate governance instruments should ensure a smooth implementation of IFRS.

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