INTERNATIONAL FINANCIAL REPORTING STANDARDS AND ECONOMIC GROWTH IN NIGERIA: CURSE OR BLESSING

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ABSTRACT

Transparency and integrity of financial reporting is critically important to global financial stability and sound economic growth. The global financial crisis has led many economic and financial market participants to reexamine their governance, practices, and standards. Effective financial reporting depends on high quality accounting standards as well as the consistent and faithful application and rigorous independent audit and enforcement of those standards. Therefore, the objective of this study is to examine whether the adoptionof International financial reporting standards would be a blessing or curse on the economic growth in Nigeria. Because of the global nature of the financial markets, it is very important to achieve a single set of high quality, globally converged financial reporting standards that provide consistent, transparent and relevant information, regardless of the geographical location of the reporting entity. Therefore, 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 growth of Nigeria.

Keywords: financial reporting, international accounting standards, implementation, economic growth.

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Introduction:

Accounting standards around the world have evolved over centuries of business and capital market development. In this process, accounting standards historically were designed to meet the needs of each nation's capital markets. Those standards that were found to work well in the legal, cultural, political and economic context of each nation became the "generally accepted accounting principles," or GAAP, for that particular jurisdiction. Naturally, different norms in each nation led to different GAAPs in each nation.

The growing dynamic of globalization presented a challenge to these "legacy systems." Global protocols for the internet, electronic payments, software systems and cargo shipping, demonstrated the potential value of uniform global systems. A discussion began among market participants over whether the global capital markets would similarly benefit by having a single set of high-quality accounting standards that could be applied around the world.

In order to create a uniform global system for financial reporting, the IASB (International Accounting Standard Board) was formed to serve as the global accounting standard-setting body. In 2001, the IASB promulgated the first iteration of IFRS, offering the possibility of a single set of high-quality accounting standards that could be used by all nations. Therefore, Prospects and challenges of the International Financial Reporting Standards (IFRS) to Economic Growth 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 ce, 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.

Literature Review:

Ajibade (2013) disclosed that in1973, 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.

Theoretical Framework:

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. A rational manager is the one who can minimise his cost and maximise his profit.

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Freeman (1957) also disclosed that the rational maximization theory is based on the following assumptions: The individual is self-interested maximizer; Has stable and consistent preferences or taste; Capability of rationale choice behaviour in accordance to certain decision rules (axioms) and 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 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 Growth.

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.

Empirical Studies :

There are various empirical studies on the significance of financial reporting to economic growth. For instance, 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 Tauringana (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.

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Component of IFRS Financial Statement :

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.

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, makes 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 look 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.

The Importance of Convergence to International Financial Reporting Standards:

The international standard-setting process began several decades ago as an effort by industrialized nations to create standards that could be used by developing and smaller nations unable to establish their own accounting standards. But as the business world became more global, regulators, investors, large companies and auditing firms began to realize the importance of having common standards in all areas of the financial reporting chain.

The globalization of business and finance has led more than 12,000 companies in almost a hundred countries to adopt IFRS. In 2005, the European Union (EU) began requiring companies incorporated in its member states whose securities are listed on an EU-regulated stock exchange to prepare their consolidated financial statements in accordance with IFRS.

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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 1stJanuary, 2012; Other public interest entities will commence with effect from 1st January, 2013 and 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.

Reason Why the Adoption of IFRS is a Blessing on Economic Growth:

Results arising from investigation conducted on the European Union member states highlighted how the adoption of IFRS is a blessing on economic growthbecause of the way it 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 prerequisite for the attraction of investment that will promote Economic Growth. 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.

The Adoption of IFRS is a Curse on Economic Growth:

Despite the aforementioned envisaged blessing/benefits, there are still challenges. According to Mascitelle and Barut (2013), there may reasons why the expected benefit of IFRS may not be achieved are: Reducing accounting alternatives may result in a less true and faithful representation of the firms' underlying economics (Barth, Landsman & Lang 2008); As a result of the principle -based nature of IFRS (Hong 2008), Professional judgment may create the opportunities for earning management (Chand, Patel & Patel 2005; Jeanjean & Stolowy 2007) weak enforcement mechanisms of adopting nations can reduce financial reporting quality, even when high quality accounting standards are implemented (Brown & Tarca 2007; Chen & Cheng 2007).

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).

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The Needs and Effects of Improved and More Comparable Financial Reporting:

Corporate reporting can have many economic consequences and it is impossible to enumerate all of them. Moreover, not all effects are well understood and supported by evidence. The one that is probably best supported by theory and evidence is the effect of reporting quality on market liquidity.

The idea is that information asymmetries among investors introduce adverse selection into securities markets, i.e., less-informed investors are concerned about trading with better-informed investors. As a result, less-informed investors lower (increase) the price at which they are willing to buy or sell security, to protect against the losses from trading with better-informed counterparties.

Similarly, information asymmetry and adverse selection reduce the willingness of uninformed investors to trade. Both effects reduce the liquidity of securities markets, i.e., the ability of investors to quickly buy or sell shares at low cost and with little price impact. Effective corporate financial reporting can mitigate the adverse selection problem and increase market liquidity, by leveling the playing field among investors.

In addition, better reporting and disclosure can affect the cost of capital. First, there is the notion that investors require a higher return from less liquid securities, which is in essence a liquidity premium. Second, better disclosure can lower investors' estimation risks, i.e., make it easier for investors to estimate firms' future cash flows. This effect can directly reduce the required rate of return of an individual security as well as the market risk premium of the entire economy. Third, better disclosure can improve risk sharing in the economy, either by making investors aware of certain securities or by making them more willing to hold them, which again reduces the cost of capital. Empirical studies generally support a link between reporting or disclosure quality and firms' costs of capital.

It is also conceivable that better reporting improves corporate decision-making, for example the efficiency of firms' investment decisions. The idea is that higher quality reporting reduces information asymmetries that otherwise give rise to frictions in raising external capital. For instance, high-quality reporting facilitates monitoring by outside parties, such as institutional investors and analysts, which in turn can reduce inefficiencies in managerial decisions. The evidence on the effects of reporting quality on corporate decisions is still in its early stages, but there are a number of studies suggesting that better reporting leads to higher investment efficiency.

Finally, it is important to note that the effects of reporting and disclosure often extend beyond the firm providing the information. The disclosure of one firm can be useful to other firms for decision-making purposes but it can also help reduce agency problems in other firms. For instance, the disclosure of operating performance and governance arrangements provides useful 3 benchmarks that help outside investors to evaluate other firms' managerial efficiency or potential agency conflicts and, in doing so, lower the costs of monitoring. While the incremental contribution of each firm and its disclosures is likely to be small, these information transfers could carry substantial benefits for the market or the economy as a whole.

Another important dimension of corporate reporting is its comparability across firms. Making it easier and less costly for investors and other stakeholders to compare across firms can make corporate reporting more useful, even if the quality of reporting is held constant. For instance, more comparable reporting makes it easier to differentiate between less and more profitable firms or lowrisk and high-risk firms, which in turn reduces information asymmetries among investors and lowers estimation risk. These improvements resulting from greater comparability can also increase market liquidity and reduce firms' costs of capital (aside from the cost savings for investors). Similarly, more comparable reporting across firms from different countries facilitates cross-border investment and the integration of capital markets. Making it easier for foreigners to invest in a country's firms could again improve the liquidity of the capital markets and enlarge firms' investor bases, which in turn improves risk-sharing and lowers cost of capital.

In addition, better comparability can also have effects on corporate decisions and, in particular, gains from trade.

More comparable reports allow firms to make better-informed investment choices due to a better understanding of competing firms, both within a country and across countries. Moreover, firms that have

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comparable financial reports can more efficiently contract with suppliers and customers in other countries. It may also enable them to bid more easily on government contracts in another country.
Comparability can also be viewed from a network perspective. Increasing the number of firms with directly comparable financial reports increases the number of two-way communication linkages in the “financial reporting” network, which enhances the value of the overall network to both investors and firms. As the network perspective emphasizes, one firm’s adoption of more comparable reporting practices creates externalities on other firms. That is, other firms may benefit from an individual firm’s reporting choices. However, firms themselves may not consider the aggregate positive externalities that arise from their own reporting choices.
Generally speaking, there is less empirical evidence on the effects of reporting comparability than reporting quality. Most archival studies that speak to comparability effects have been conducted in the context of firms’ accounting standard choices.
It is important to note that, despite the tangible benefits of better and more comparable reporting and disclosure, there are also direct and indirect costs to improving corporate reporting. The direct reporting and disclosure costs come in many forms and include the preparation, certification and dissemination of accounting reports. These costs can be substantial, especially considering the opportunity costs of those involved in the process. Moreover, these costs are 4 likely to have fixed components, making certain reports or disclosures particularly burdensome for smaller firms.
Disclosures can also have indirect costs because other parties can use information provided to capital market participants (competitors, labor unions, regulators, tax authorities). For example, detailed information about line-of-business profitability can reveal proprietary information to competitors.
In light of these costs and the cost-benefit tradeoffs that firms face, it may not be optimal to strive for the highest-quality reporting regime. In fact, forcing firms to provide certain disclosures can have net costs to firms, especially smaller firms. Thus, regulators and standard setters need to carefully weigh the confluence of costs and benefits to firms, investors, and other parties in the economy. Moreover, it is important to recognize that the net benefits of high quality and more comparable reporting vary significantly across firms, industries, markets and countries.

Conclusion and Recommendations :

Information (financial report) is the bedrock of effective management function (Also Clifford and Demaki (1999) insist that). 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 Growth in Nigeria.

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