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THE ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS AND FIRMS COMPLIANCE IN NIGERIA (A CASE STUDY OF COMPANIES IN SOUTH-SOUTH STATES IN NIGERIA)

AKPEEKON, BARISUA
Department Of Accountancy
School Of Management Sciences
Ken Saro Wiwa Polytechnic, Bori
Rivers State
barisuaakpeekon@yahoo.com

ABSTRACT

Several countries of the world have switched from their local accounting practices to the newly introduced international accounting standards in the last few years of the 21st century. Such changes encompass the adoption and adaptation of local accounting practices and harmonizing it with that of the International Financial Reporting Standards (IFRS). The study seeks to analyze how firms in Nigeria has comply with the adoption of the International Financial Reporting Standards. The population of the study comprises of all international business operators in Nigeria. Primary data were collected using structured questionnaires. The purpose of the study is to critically examine the compliance of firms in the adoption of international financial reporting standards (IFRS) in Nigeria. The research design used was survey design with a simple random techniques. Pearson Product Moment correlation coefficient Statistics was use to analyzed the hypothesis. The findings show that Nigeria has not fully adopted the international financial reporting standards. Secondly the level of compliance is still very low as some companies or firms are still not willing to comply immediately. There is still skeletal compliance of the adoption of international financial reporting standards. We therefore recommend that Government should come out with a strong policy statement compelling firms in Nigeria to adopt and report their financial activities with the international financial reporting standards.

Keywords: Local Accounting Practices, Compliance, Adaptation, Strong Policy Statement & International Financial Reporting Standards.

INTRODUCTION

Over the years, the increasing rate of international trade and investment among different countries has brought to the knowledge of the adoption of International Financial Reporting Standards (IFRS) by both the developed and developing countries of the world. Apart from that, the globalization of capital markets is another important investment components or process that has brought the increase demand of the adoption of an acceptable international accounting standard called the international financial reporting standards. Hence, the adoption of international financial reporting standard by firms or corporate entities becomes a thing of necessity between different countries of the world. The compliance with a uniform international accounting standard will definitely remove some difficulties of doing business across the globe and across different national borders. Compliance with the uniform standards reduces the need of supplementary information needed for such business transactions. They make information more accessible and easily comparable, thereby enhancing the evaluation and analysis by users of financial statements (Adekoya, 2011).

However, some African countries including Nigeria, Ghana, Sierra Leone, South Africa, Kenya, Zimbabwe, and Tunisia among others have complied or declared their intention to adopt the International Financial Reporting Standards (IFRS), even though their level of compliance varies one country to another. Therefore, considering the important attached to the adoption of international financial accounting standard, it becomes very important for companies or firms operating international business transactions to comply and report their financial activities in a uniform accounting manner such that the accounting information can easily be accessed and compared with, at any point in time. Information emanating from these financial reporting system is regarded as very useful as it is faithfully represents the economic substance of these countries business and investment, more especially in terms of its relevant, dependability, reliability and comparability with other countries' financial reporting system. The international financial reporting standards has provided for all these (Street, D., Gray, S. & Bryant, S. (1999). Thus, developing countries like Nigeria are encourage to urgently comply with the international financial reporting standards as to produce a very high quality and uniform financial reporting standards which will be recognized globally or internationally. It is in recognition of these facts that the need to comply with the International Financial Reporting Standards (IFRS) is becoming an important issue of discussion and debate among developing countries of the world. Nigeria is expected to comply with this directives and comply accordingly if and only if Nigeria is to remain relevant and reap the benefit of international business operations.

However, Nigeria is attempting to comply with this International Financial Reporting Standards (IFRS) through a phase by phase adoption of this financial standards. The first phase was to commence in 2012 with public listed entities and significant number of public interest entities. This attempt recorded a very low success rate, considering what is obtainable in other developing countries, but was a step in a right direction.

Madawaki, (2012) argues that the process of globalizing capital markets cannot be altered, and there are numerous benefits to be derived from mutually recognized and respected international accounting standards. He added that the application and comply with a uniform standard that will cuts the cost of doing business internationally and reducing the need for additional information was very necessary. The international accounting standards make comparability of information possible thereby making easier the evaluation and analysis of financial statement (Adekoya, 2011).

Ahmed, (2011) stated that users of financial information will become more confident of the information they are provided with, presumably, this will reduce uncertainty, promote an efficient allocation of resources and reduce capital cost. The compliance with a uniform and global accounting standard was aimed at cutting down to a minimal size the differences in international accounting principles and reporting practices. It is in this light that the International Accounting Standards Committee (IASC) was brought into being. Since its inception of its creations, the IASC has been championing the uniformity and standardization of accounting principles for over two decades now (Carlson, 1997).

Sunder, (2007) has argued that up to recently, there was no serious discussion of whether to comply with a common accounting language in all domains was feasible or even simply welcomed. The conventional idea regarding International Financial Reporting Standard (IFRS) is that they will bring about improved financial reporting, better governance and business stewardship, not-for-profit and governmental organizations, better informed and therefore more efficient financial markets which will direct capital towards its productive deployment. Ball (2006) stated that a possible exception from the observation that it is one thing to have uniform standards and another to have uniformity in practice. He further argued that not minding the undoubted integration that has taken place, prominently in the capital and product market, most political forces are local and will remain so for as long as possible. As a result it is unclear how much convergence in actual, financial reporting practice will occur. Therefore since there is the likely hood of difference in the enforcement of accounting standards from country to country, there will be no reason to expect that financial reports will be comparable from companies in different parts of the world.

The debate on international harmonization of accounting standards started in the 1960's (Ali, 2006). He further said that several studies on harmonization and IFRS compliance have been written over the years. A major barrier to shift from their national accounting standards with IFRS alongside the complicated nature of certain IFRS appears to be most continental.

In Nigeria, the adoption of the International Financial Reporting Standard took a different twist. There was not full-blown compliance. Public listed companies and a significant number of public interest entities complied accordingly and reports their international business operations with the newly introduced International Financial Reporting Standards (IFRS). The small and medium-sized enterprises shall compulsorily adopt IFRS by January 2014, in their financial reporting. These were supposed to be the adoption process of implementing the international financial reporting standard in Nigeria.

Statement of the problem

There are several problems confronting or facing the preparation and reporting of international business operations in Nigeria. One of such problem is the non compliance with the International Financial Reporting Standards (IFRS) by business operators in Nigeria. There was not compliance at all. International business operators in Nigeria have refused to comply with these directives to report their financial activities with the uniform international acceptable standards.

Objectives of the study

The main objective of this study is to evaluate the compliance adoption of international financial reporting standard by firms in Nigeria. The specific objectives are:

1. To determine the level of compliance of the adoption of international financial reporting standards (IFRS) by business operators in Nigeria.

Research question

The following research question is formulated to guide the study;

1. Do business operators comply with the adoption of International Financial Reporting Standards (IFRS) in Nigeria?

Research hypothesis

To enable the researcher achieve the objectives of the study, the research questions are hypothesized as formulated:

Ho_1: Business operators do not comply with the adoption of International Financial Reporting Standards (IFRS) in Nigeria.

REVIEW OF RELATED LITERATURE

In recent time, there have been several debates for the adoption of the international financial reporting standards (IFRS) that is already in used by different countries investing and doing business in Nigeria. The calls have become necessary in view of the increasing rate of international business transactions between different countries of the world. Hence, the only way to do international business successfully, reports the financial transactions and remains relevance within the international domains is to urgently adopt the uniform international financial reporting standards (IFRS).

Secondly, the increasing growth in international trade, cross border financial transactions and investments which unavoidably involves the preparation and presentation of accounting reports that is useful across various national borders, has brought about the adoption of IFRS by both the developed and developing countries (Armstrong, Gregorio& Lee 2007).

RESEARCH METHODOLOGY

According to Arthur (2002), research methodology is the method of carrying out a research work such that it will give a precise and detailed account of the method used in collecting data, how they are analyzed and the techniques used for the analysis.

Research design

The research design used, adopted or employed by the researcher for the study is the survey design. In this type of survey, comparisons are made between different sub groups of the population in other to find out whether differences exist among them or not in order to verify the hypotheses of the study.

Selection of data

The information for this work was obtained mainly from the primary sources. Questionnaires were distributed and administered to the whole companies or firms in Nigeria.

Population of the study

The population of this study comprises of all business operators in Nigeria. In view of the fact that all business operators in Nigeria zone cannot be studies, an accessible population of 120 respondents (operators) were considered. (N = 120) i.e both small and medium scale enterprises and big firms were considered.

Sample size determination

A total of One hundred and twenty (120) questionnaires were distributed to twelve (12) firms in the six states that make up south-south geo-political zone in Nigeria that is twenty (20) questionnaires per state and two (2) firms were considered in each state). Thus, the number of respondents (No. of firms) is twelve (12).
The method used to determine the sample size was Pearson Product Moment Correlation Coefficient.

Sampling technique

The sampling techniques employed in this research is the simple random techniques, since ten (10) questionnaires distributed to each firm were given to any staff, be it management and senior staff. All of them have equal right of being selected.

Data analysis techniques

The data analysis techniques use for employed for this study was the Pearson Product Moment Correlation Coefficient Statisticto test the hypotheses. The figures for the correlation analysis were computed from responses of the respondents, using Likert Scale.

Thus, the formula for Pearson Product Moment Correlation Coefficient (r) is given by :

$$r = \frac{n\,(\sum xy) - (\sum x)(\sum y)}{\sqrt{[n - (\sum x^2) - (\sum x)^2][n(\sum y^2) - (\sum y)^2}}$$

Where:

n = Number of observations

y = Number of positive responses

x = Number of negative responses

∑ = Summation of numbers

Research instrument

For the purpose of this study, the information was obtained mainly from the questionnaire. The questionnaire was structured using modified likert five-points scale:

Where:

A = Agree, SA = Strongly Agree, U= Undecided,

D = Disagree, SD = Strongly Disagree

Let Y = A+ SA, X = D + SD

PRESENTATION AND ANALYSIS OF DATA

Primary data was obtained from the questionnaire and analyzed. The figures for the correlation analysis were computed from responses of the respondents, using likert scale.

Table 1.1 Responses to question 1

States	Firms	SA	A	U	D	SD	Total
Rivers	Sakel Nig. Ltd.	4	2	1	2	1	10
	G.P.P Nig Ltd.	1	3	2	3	1	10
AkuaIbom	Bendrill Indust. Services	3	4	1	1	1	10
	Richbenek Vent.	2	5	0	1	2	10
Cross Rivers	Adams Int'l Ltd.	3	4	1	1	1	10
	Maylux Nig. Ltd.	4	1	0	3	2	10
Bayelsa	P &R Int'l Serv.	4	1	0	2	3	10
	Dawoo Oil Co. Nig. Ltd.	3	2	2	1	2	10
Delta	DSC Nig. Ltd.	3	1	2	2	2	10
	Delta Boat Yard Ltd.	5	1	0	4	0	10
Edo	Cocacola Bottling Coy	3	2	0	4	1	10
	Guinness Nig. Plc.	2	4	1	1	2	10

Source: Field survey (2017)

Analysis of table 1.1

From table 1.1, responses to research question 2 shows that 120 questionnaires were distributed to 12 firms in the six states of south-south geo-political zone. The figures above represent number of respondents in each firm.

Table 1.2: Liket Scale for research question 1

Responses	**SA**	**A**	**U**	**D**	**SA**
Pointson Liket scale	5	4	3	2	1
No of respondents	4	2	1	2	1
Variables	Y 2 (No. x point)			X (No x point) 5	

Analysis of table 1.2

Table 1.2 shows a liket scale of 5points. which is used to obtain the variables Y & X for the analysis SA = 5point, A = 4point, U = 3point, D = 2point, SD = 1 pt. For firm 1 in Rivers State, multiply the point by no. of respondent Y = SA + A, X = D + SD.

Table 1.3: Summary of responses to question 1 using Liket Scale.

States	**Firms**	**Variables1 (Y)**	**%**	**Variables2 (X)**	**%**	**Total**	**%**
Rivers	Sakel Nig. Ltd.	28		5			
	G.P.P Nig Ltd.	17	78.9	7	21.1	57	100
AkuaIbom	BendrillIndust. Services	31	89.70	3	10.30	68	100
	Richbenek Vent.	30		4			
Cross Rivers	Adams Int'l Ltd.	31	83.33	3	16.67	66	100
	Maylux Nig. Ltd.	24		8			
Bayelsa	P&R Int'l Serv.	24		7			
	Dawoo Oil Co. Nig. Ltd.	23	81.0	4	18.97	58	100
Delta	DSC Nig. Ltd.	19	77.42	6	22.58	62	100
	Delta Boat Yard Ltd.	29		8			
Edo	Cocacola Bottling Coy	23	75.93	9	24.07	54	100
	Guinness Nig. Plc.	18		4			

Source: Researchers Computation, using Liket scale

Analysis of table 1.3

From table 1.3, in Rivers State, 78.9% of the respondent agree that business operators do not comply with the adoption of International Financial Reporting Standard, while 21.1% of the respondent disagree. This is application to other states.

Hypothesis 1

Ho: Business Operators do not comply with the adoption of International Financial Reporting Standards (IFRS) in Nigeria.

H_1: Business Operators comply with the adoption of International Financial Reporting Standards (IFRS) in Nigeria.

Correlation result for hypothesis 1: Business Operators do not comply with the adoption of international financial reporting standards. (IFRS) in Nigeria

Table 1.1 Hypothesis 1 correlation result

	Y	**X**
Pearson corr. Y	1	-0.351
X	- 0.351	1
Sg (1 tail) Y		0.132
X	0.132	
N Y	12	12
X	12	12
t_{cal} 1.-1.186, r=-0.351 N=12		
t_{-tab}=1.812 P – value = 0.263		

Source: SPSS Computation, version 17

Discussion of Result for Hypothesis 1

The result from the table above shows that, business operators do not comply with the adoption of International Financial reporting standard (IFRS) in Nigeria.
From the correlation result, r=-0.351. This result shows a weak relationship between the two variables Y and X. So, the null hypothesis Ho was accepted at 5% level of significant.

Testing of hypothesis 1

Based on the result of the correlation table above and by converting the correlation, result to t-statistics, t_{-cal}= $\frac{\sqrt[r]{N-2}}{1-r^2} = 1.186$

However, since $t_{-cal} < t_{-table}$ Ho is accepted. Judging from the probability value, p-value = 0.310. So, business operators do not comply with the adoption of IFRS. Hence, the null hypothesis, H_0 is accepted of 5% level of significant.

Discussion of findings

From the result of the study, it was discovered that there is a significant difference between the adoption of International Financial Reporting Standards (IFRS) and the level of compliance. Nigeria is yet to fully adapt to the International Financial Reporting Standards (IFRS). Some companies or firms are still using their local accounting standards in preparing their financial reports.

It implies therefore that there is a significant low level of compliance of the adoption of international financial reporting standard (IFRS) by business operators in Nigeria.

The adoption of international financial reporting of standard would bring about uniform financial reporting standards that are recognized globally if fully complied with. Apart from that, there will be free and easy access to other countries financial statement in terms of comparability, uniformity and better understanding of their accounting languages. The implication is that the Financial Statement of countries that have adopted the International Financial Reporting Standards (IFRS) will be uniformly compare and easily interpreted by any other countries in the international business operations.

The adoption of International Financial Reporting Standards (IFRS) will also promote companies access to global capital markets. This is quite different in the case of reporting from the local Statement of Accounting Standards (SAS). Reporting locally implies no free access to international uniform language, no free access to other countries financial statements and difficulties in understanding the methods used in preparing their financial statements. Hence, the adoption of international financial reporting standards (IFRS) in Nigeria. Nigeria will gain a lot of things from the adoption of this financial standards.

CONCLUSION AND RECOMMENDATIONS

The research work focused on the non-compliance of the adoption of International Financial Reporting Standards by firms in Nigeria. The results of the hypothesis tested revealed that the compliance with IFRS by firms operating in Nigeria will impact positively on the financial information emanating from them. It was further reveals that such will enhances free and easy access to other countries financial statement in terms of comparability, uniformity and better understanding of other countries accounting languages. Based on the above conclusions, the researcher therefore recommended that:

- Firms in Nigeria should be encouraged to comply with the globally recognized and accepted the International Financial Reporting standards (IFRS).
- Firms should be educated on the benefits associated with the compliance with IFRS.
- Government as a matter of fact should come out with policy statement that will compel firm to adopt the (IFRS) immediately.

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