

IFRS Adoption : Issues, Challenges and Lessons for Nigeria and other Adopters

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Abstract

The adoption of International Financial Reporting Standards (IFRSs) in Europe and around the world represents perhaps the most important accounting regulatory change in recent years. The use of IFRSs as a universal financial reporting language is gaining momentum across the globe as more countries are adopting IFRS or converging their local standards with it. Nigeria has set a road map towards the adoption of IFRS from January, 2012. Although there are arguments that IFRS are irrelevant to developing countries but they are adopting it because IFRS is a product with "network effects". IFRS is perceived as a high quality accounting standard, compared to most local accounting standards, which can help to foster increased comparability of financial statements by investors. Globalization, increased border-listing, attraction of foreign investment and aids, and other institutional factors have been the motivating factors for IFRS adoption. Though IFRS promises a lot of benefits for financial reporting by adopters, there are many challenges and obstacles which must be overcome. Lessons from already adopters of IFRS reveal that for effective IFRS adoption, there must enabling institutional framework, accounting education and training, efficient capacity building programme to prepare the various stakeholders for the imminent transition and challenges.

Keywords: International Financial Reporting Standards, adoption, challenges,

1. Introduction

In the past few years, many developed and developing countries have adopted International Financial Reporting Standards (IFRSs) as their basis for financial reporting. The European Union (EU) took the lead when she mandated all listed companies in the European Union to start the adoption and implementation of the IFRS in their financial reporting since 2005. In fact the year 2005 to 2009 was regarded by the IASB to provide a stable platform for EU companies that started implementation in 2005. Presently over 120 countries are reported to have adopted or converged with IFRS¹. IFRSs are a set of accounting principles that is rapidly gaining acceptance on a worldwide basis. They are published by the London-based International Accounting Standards Board (IASB). IFRS is more focused on objectives and principle-based. They purport to be a set of rules that ideally would apply equally to financial reporting by public companies worldwide. The adoption of IFRS as issued by the International Accounting Standards Board (IASB) is expected to result in the application of a common set of financial reporting standards within and between countries in Europe and many other countries that require or permit application of IFRS. However, comparability is unlikely to arise from IFRS adoption (Ball, Robin & Wu, 2000, Christensen Lee & Walker 2008, Sunders, 2010). Specifically, Ball (1995, p29) concludes that "internationalization will reduce some or much of the diversity in accounting rules and practices across nations, it will not eliminate it. Nor should it". Ball (2006) expresses concerns that the application of IFRS will not be uniform and that this will affect the reporting and perception of IFRS quality by users.

For countries wishing to adopt IFRS Sunder (2010) proposes six bases for decision as : contribution to prosperity and wealth of society, inclusion of relevant information from all parts of the economy, stability over time, adaptability to changes in economic environment, robustness against manipulations, and resistance to capture by narrow interest groups. The debates of IFRS adoption is not only about the benefits and costs but also the global financial reporting

¹ A detailed list and table of countries' adoption of IFRS and the usage by their domestic listed and unlisted companies can be found at Deloitte IAS Plus website.

convergence implications if IFRS were modified as a result of the adoption process. There is the worries of different versions of IFRS and variances in implementation (Nobes, 2006, Ogiudu, 2011) and IFRS merely in labels (Daske, Hail & Leuz, 2008). For instance, Zeff & Nobes (2009, p178) responding to Thomson (2009) that Australia has definitely adopted IFRSs by argue that "Australian method of implementation is different in major ways from those used in such countries as Israel and South Africa ". Similarly, Nobes & Zeff (2008) examine the reports by 255 companies and their auditors in four European countries and Australia concerning compliance with IFRS. They found that even when they comply with full IFRS, there were no clear audit reports or there were dual reporting in rare cases. The reason adduced was due to requirements by regulation in these countries.

The adoption and implementation of the IFRS in the EU and over 120 other countries is associated with a lot of challenges for countries (developing and developed) which are contemplating IFRS adoption or faced with the problems of whether to and why, when and how to converge or adopt IFRS. On 28 July, 2010 Nigeria sets in motion to adopt IFRS between January 2012 and 2014. All public listed entities were made to mandatorily adopt IFRS on 1st January, 2012.

The objective of this paper is to review the literatures on the adoption of IFRS by countries. Specifically, the paper deals with some of the issues and challenges associated IFRS adoption. The rest of the paper is organized into five sections as follows. First, we look at a brief history of internationalization of accounting standards and the institutions responsible for IFRS adoption. Thereafter, we proceed to look at the benefits of IFRS adoption and some of the issues in IFRS which include impact of IFRS on accounting quality and value relevance of accounting information under IFRS. Section four deals with the challenges associated with IFRS adoption while in section five we consider developing a strong institution framework for IFRS adoption. The last section is the conclusion and suggestions to countries wishing to adopt IFRS.

Historical Background of the internationalization of accounting standards

The first move towards accounting standards convergence was the proposal to create the Accountants International Study Group (AISG) by the professional accountancy bodies in Canada, the United Kingdom and the United States in 1966. This was formed in order to develop comparative studies of accounting and auditing practices in the three nations. The AISG was eventually created in 1967. It published 20 studies until it was disbanded in 1977. Sir Henry Benson put forward the proposal for the setting up of the International Accounting Standard Committee (IASC) at the 40th World Congress of Accountants in Sydney in 1972. After discussions and signature of approval by the three AISG countries and representatives of the professional accountancy bodies in Australia, France, Germany, Japan, Mexico and the Netherlands, the IASC was established in 1973. Sir Henry Benson was the first elected Chairman while Paul Rosenfield was the first secretary of the IASC. By the beginning of the 21st century in only one of the nine original IASC countries (Germany) did even a relatively small number of listed companies used IASs to report to domestic Investors.

The primary goal of IASC formation was to develop a single set of high quality International Accounting Standards (IASs) to replace national standards. Between 1973 and 2001, the IASC issued 41 standards or IASs before it was replaced by the International Accounting Standards Board (IASB). All listed companies in France, Germany, the Netherlands and the UK and other 21 countries were mandated by the European commission to adopt IASs or the International Financial Reporting Standards (IFRS) from 2005. The Australian government and standard setter had put up an adoption policy of IAS by 2005. The US roadmap for adoption is 2014-2016. Canada and Japan are also considering convergence with IFRS.

A Memorandum of Understanding (MOU) was agreed between the United States Financial Accounting Standard Board (FASB) and the International Accounting Standard Board (IASB), towards the convergence of US GAAP and the IFRS in 2002. In the Norwalk Agreement, both the FASB and IASB pledged their joint commitment towards the development of high quality, compatible accounting standards for both domestic and cross border financial reporting. It is argued that changes made in the US GAAP can be expected to influence the international environment (Tarca, 2004). Gannon & Ashwal (2004) argue that the convergence efforts of the FASB and the IASB already have changed U.S. GAAP and more effects are expected as the efforts to narrow the differences between the IFRS and US GAAP continue.

Institutions fostering IFRS Adoption

On the international front, the World Bank, the International Monetary Fund (IMF), the G8, the G7 Finance Ministers and Central Bank Governors, International Organization of Securities Commissions (IOSCO), Basel Committee on Banking Supervision, the United Nations (UN) and the Organization for Economic Co-operation and Development (OECD) have

publicly recommended the adoption of a single set of global accounting standards or the IAS. The US SEC Concept released in 2000 on the International Accounting Standards also encouraged the convergence towards a high quality global financial reporting framework internationally that will enhance the vitality of capital markets. The European Commission saw in 2002 a common set of accounting standards as a critical pillar in building a united capital market in Europe (Mc Creevy, 2006). On the national level many government and tax authorities want a global accounting standards to regulate and tax businesses that operate within their countries. In Nigeria, besides the government's readiness, the Nigerian Accounting Standards Board (NASB) now the Financial Reporting Council (FRC), Nigerian Stock Exchange, (NSE) and Central Bank of Nigeria (CBN) were among the major agents for IFRS adoption in 2012.

Basically, a country's accounting and disclosure system is part of its financial system and more generally its institutional infrastructure. This is geared towards the informational and contracting needs of the key parties in the economy and its role in corporate governance and the capital market. Since the accounting system is complementary to other elements in the institutional framework, a fit between them is likely what result in different accounting system and infrastructural regimes across countries (Obazee, 2007). The institutional framework impacts on the form and content of financial reporting (Zeff, 1972) and the use of international standard (Nobes & Parker, 1998, Zarzeski, 1996). Stock exchange requirements form part of the institutional framework which impacts on the use of international standards; others are company's choice of foreign exchange and level of disclosure. Cross-border listing makes reporting with IFRS very necessary for companies listed in stock exchanges under IFRS jurisdictions.

Harmonization, Convergence and Adoption of IFRS: The clarification

The concerns for harmonization of accounting standards and later, convergence in the 1990s with IFRS are due to the globalization of the capital markets. In fact, it is believed that accounting harmonization is necessary for the globalization of capital markets (Quigley, 2007). Investors now seek investment opportunities all over the world. Many business entities continue to expand their operations across national borders. Companies are seeking capital at the lowest cost anywhere. Securities markets are crossing national boundaries (and increasing cross-border capital flow). Merger talks among some of the world's largest stock exchanges continue and the glowing investment transactions via the internet. There is need for transparency in company reports so that investors, lenders and other users of financial information of companies could compare their performance from one country to another. Also there is the need to provide information that are relevant, reliable and understandable to meet the needs of investors, for easy comparability of companies' performance and the decision to buy, hold or sell made easy through reduction or elimination of differences in accounting policies and principles between countries.

The term harmonization means "the reconciliation of different accounting and financial reporting systems by fitting them into common broad classifications, so that form becomes standard while content retains significant differences" (Mathews & Perera, 1996, p. 322). Convergence means the process of converging or bringing together international standards issued by the IASB and existing standards issued by national standard setters, with the aim of eliminating alternatives in accounting for economic transactions and events. The ultimate objective of convergence is to achieve a single set of internally consistent, high quality global accounting standards, issued by the IASB and adopted by all the national standard setters (IASB, 2003).

The need for global convergence of accounting standard or for an international standard setter is to:

- (i) recognize the growing need for international accounting standards.
- (ii) ensure no individual standards setter has a monopoly on the best solutions to accounting problems.
- (iii) ensure no national standard setter is in a position to set accounting standards that can gain acceptance around the world.
- (iv) clarify that there are many areas of financial reporting in which a national standards setter finds it difficult to act alone.

Convergence is the process by which standard setters across the globe discuss accounting issues drawing on their combined experiences in order to arrive at the most appropriate solution. Obazee (2007) suggests that convergence could be either by adoption (a complete replacement of national accounting standards with IASB's standards) or by adaptation (modification of IASB's standards to suit peculiarities of local market and economy without compromising the accounting standards and disclosure requirements of the IASB's standards and basis of conclusions). Convergence was meant to bring standards like the US GAP and IFRS closer or harmonize them; to produce identical standards. According to SEC (2010), there are two approaches to IFRS adoption around the world: convergence and endorsement approaches. SEC (2010) classifies jurisdictions which do not adopt IFRS as issued by the IASB as following the convergence approach.

They keep their local standards but make effort to converge with IFRS over time e.g. China. Endorsement approach is where jurisdictions incorporate individual IFRSs into their local standards e.g. countries in the EU. But adoption of IFRS means full scale implementation or usage of IFRS without any variation. Convergence may facilitate adoption over a transition period but it is not substitute for adoption. Therefore countries must resist the temptation of converging and go for full IFRS adoption. IFRS adoption is believed to have the most significant impact on accounting and financial reporting functions, enhance greater transparency and disclosures in financial statements etc (Ball, 1995, 2006; Epstein, 2009, Adam, 2009). However, clear empirical evidences of the economic consequences from mandatory adoption of IFRS have been limited (Daske et al,2008).

Benefits of IFRS Adoption

It is advocated that adoption of IFRS will lead to: greater transparency and understandability, lower cost of capital to companies and higher share prices (due to greater confidence of investors and transparent information), reduced national standard-setting costs, ease of regulation of securities markets, easier comparability of financial data across borders and assessor investment opportunities, increased credibility of domestic markets to foreign capital providers and potentials foreign merger partners, and to potential lenders of financial statements from companies in less-developed countries. It will also facilitate easier international mobility of professional staffs across national boundaries. For the multinational companies, it will help them to fulfill the disclosure requirement for stock exchanges around the world (Armstrong, Barth, Jagolizer & Riedl, 2007., Covrig, Defond & Hung 2007, Daske et al 2008). Other benefits include: the lower susceptibility to political pressures than national standards, continuation of local implementation guidance for local circumstances and the tendency for accounting standards to be raised to the highest possible quality level throughout the world. (Choi, et al, 1999; Alfrédson et al,2004). The net market effect of convergence is a function of two effects. The first is the direct informational effect - whether convergence increases or decreases accounting quality. The second is the expertise acquisition effect or whether investors become experts in foreign accounting, which depends on how costly it is to develop the expertise. Therefore, ex ante net market effect of convergence is uncertain.

Armstrong et al (2007) found that investors expected net benefits to IFRS adoption in Europe associated with increases in information quality, decreases in information asymmetry, more rigorous enforcement of the standards, and convergence. They find (1) an incrementally positive reaction for firms with lower quality pre-adoption information, which is more pronounced in banks, and with higher pre-adoption information asymmetry, consistent with investors expecting net information quality benefits from IFRS adoption (2) an incrementally negative reaction for firms domiciled in code law countries, consistent with investors' concerns over enforcement of IFRS in those countries and (3) a positive reaction to IFRS adoption events for firms with high quality pre-adoption information, consistent with investors expecting net convergence benefits from IFRS adoption. Gordon (2008) listed the benefits from adaptation of IFRS over the world to include: better financial information for shareholders and regulators, enhanced comparability, improved transparency of results, increased ability to secure cross-border listing, better management of global operations and decreased cost of capital

IFRS and Accounting Quality

The adoption of IFRS around the world is occurring rapidly to bring about accounting quality improvement through a uniform set of standards for financial reporting. However, accounting quality is a function of the firm's overall institutional setting, including the legal and political system of the country in which the firm resides (Bhattacharjee & Islam, 2009). Land & Lang (2002) document that accounting quality has improved worldwide since the beginning of the 1990s, and suggest that this could be due to factors such as globalization and anticipation of international accounting harmonization. IFRS is contingent on at least two factors. First, improvement is based upon the premise that change to IFRS constitutes change to a GAAP that induces higher quality financial reporting. For example, Barth, Landsman, & Lang (2006) find that firms adopting IFRS have less earnings management, more timely loss recognition, and more value relevance of earnings, all of which they interpret as evidence of higher accounting quality. Second, the accounting system is a complementary component of the country's overall institutional system (Ball, 2001) and is also determined by firm's incentives for financial reporting.

Existing literatures document improvements in accounting quality following voluntary IFRS adoption (e.g., Barth et al 2008; Gassen & Sellhorn, 2006., Hung &Subramanyam,2007) to reduce information asymmetry between managers and shareholders and it can be evidenced by proper assets and earnings management, lower cost of capital, and high

forecasting capability by the investors about firm's future earnings. Barth et al. (2006) suggest that accounting quality could be improved when alternative accounting methods used by managers to manage earnings are eliminated. They compare earnings management for firms that voluntarily switch to IFRS with firms that use domestic accounting standards. They find that after IFRS adoption, firms have higher variance of changes in net income, a higher ratio of variance of changes in net income to variance of changes in cash flows, higher correlation between accruals and cash flows, lower frequency of small positive net income, and higher frequency of large losses. Barth, Landsman & Lang (2008) also find from international sample of firms that voluntarily adopted IFRS up to 2003 exhibits lower levels of earnings management and more timely loss recognition than a matched sample of firms using local GAAP. As an extension of these findings, Daske et al. (2008) focus on the heterogeneity in the consequences of voluntary IFRS adoption and find that on average capital markets respond modestly to voluntary IFRS reporting. Overall the evidence on the association between voluntary IFRS adoption and accounting quality is mixed, although papers applying more recent data generally find relatively better accounting quality among the firms that adopt IFRS (Christensen et al, 2008). A common feature of these studies is that, much of the previous studies on IFRS compliance relates to voluntary adopters, which by definition suffer from selection bias (Ashbaugh, 2001). This raises the question as to whether we can attribute the improved quality to the application of IFRS per se. That is, does the application of IFRS have an incremental effect on accounting quality, or is the observed quality improvement a result of other changes implemented simultaneously by the adopting firms?

In a concurrent study, Daske et al. (2008) examine the capital market effects of mandatory IFRS adoption. They find evidence that is consistent with reduced information asymmetry in association with mandatory IFRS adoption. They argue that the effect could be driven by network effects rather than accounting quality improvements. In a similar spirit, Lee et al. (2008) argue that if IFRS matters, then firms in countries that had lower disclosure quality and dependence on equity financing prior to mandatory IFRS should experience a greater impact after mandatory adoption. However, using implied cost of equity capital as indicator, they find no effect among such countries even after two years under the new accounting standards. Other factors associated with financial reporting quality include the tax system, ownership structure, the political system, capital structure) and capital market development (Ali & Hwang, 2000).

IFRS and Value Relevance of Accounting Information

Negash (2008) examine the IAS adoption effect on the Johannesburg Securities Exchange (JSE) listed firms using a version of the Ohlson model (book value plus earnings and dividends). He applied a four- year window period to examine the value relevance of accrual accounting information in pre liberalization (pre IAS adoption period of 1989-1993) and post IAS adoption period (1998-2004). The study had a liberalization (integration) perspective and concluded that when scale effects were controlled the difference in panel regression r-squares vanished; suggesting that the value relevance of accounting information did not improve in the post IAS adoption period. Furthermore, the results indicated that the relationship between year-end equity prices and accrual accounting variables could no longer be explained by linear models.

Barth, Landsman and Lang (2008) develop a comprehensive index for financial reporting quality. It is composed of: (1) earnings management (including earnings smoothing) indicators, (2) timely recognition of losses, and (3) value relevance of accrual accounting information. Barth, Landsman, Lang & Williams (2008) examine these indicators using cross country data, pooled regression, control variables and matched samples, in pre IAS adoption and post IAS adoption periods. They concluded that IAS adoption has been associated with lower earnings management, more timely recognition of large losses and more association between equity prices and book value and earnings/returns. Earnings management was defined following Durtschi and Easton (2004), Brown and Higgins (2001) and Healy and Wahlen (1999). A number of papers emerging from economies and Euro zone countries have documented that firms manipulate their financial statements to show small increases in profits or avoid reporting losses (Kinnunen & Koskela, 2003; Rabin & Negash, 2007).

Challenges of IFRS Adoption

The principal impeding factors in the adoption process of IFRS in Europe, America and the rest of the world are not necessarily technical but cultural issues, mental models, legal impediments, educational needs and political influences (Obazee, 2007). According to Rong- Ruey Duh (2006), the implementation challenges include: timely interpretation of standards, continuous amendment to IFRS, accounting knowledge and expertise possessed by financial statement users, preparers, auditors and regulators, and managerial incentive (Ball, Robin & Wu 2000). The historical differences in

accounting thought, context, ethos and practice in the broad divides: Anglo-Saxon, Continental Europe and Southern American (Nobes,1983., Ball,1995) make harmonization and moving from one tradition to another difficult.

Although IFRS has the potentials to facilitate cross-border comparability, increase reporting transparency, decrease information costs, reduce information asymmetry and thereby increase the liquidity, competition and efficiency of markets (Ball 2006, Choi & Meek 2005), Armstrong et al.,(2007) and Soderstrom & Sun (2007) have found that cultural, political and business differences may also continue to impose significant obstacles in the progress towards a single global financial communication system because a single set of accounting standards cannot reflect the differences in national business practices arising from differences in institutions and cultures. The perception of IFRS quality by users is critical to IFRS adoption. For instance, in a recent survey by McEnroe & Sullivan (2011), individual investors felt satisfied with the current US accounting model and do not desire movement towards IFRS adoption. Similarly, Winney et al (2010) found that small businesses in the US were not prepared for IFRS because they do not see benefits in switching from GAAP to IFRS.

Others serious challenges to IFRS adoption include:

1. *IASB funding, staffing and governance structure, consistent adoption*

Adopters need assurance of IASB true independence with stable funding, expert staffing, appropriate governance to ensure standards setting process is free from undue influence and politicization maneuvers. This will ensure IASB legitimacy and assure the confidence of market participants and adopting nations around the world (Saudagaran,2006).

Dominance of the developed countries and Political lobbying

The developed countries want to dominant the IASB structure and standards setting process to the detriments of the developing countries. There is also strong lobbying and opposition by these groups to IASB's standards (Ball,1995,Nobes & Zeff,2008).

2. *Consistent adoption, application and regulatory review*

Presently most IFRS adoptions are in labels (Daske et al ,2007) and with various versions which are inconsistent with IASB's prescription (Ball,2006).Besides there are lots of uneven applications, breeding different IFRS versions (Tsakumis et al, 2009).Nobes (2006) has indicated the motivations and opportunities for different IFRS to continue. There must a coordinated regulatory review and enforcement mechanism to facilitate consistent application. The complexity of certain IFRSs and tax orientation of most nations have been identified as the two most significant impediments to convergence (Larson & Street,2004).

3. *Compliance issues and enforcement mechanisms*

There have been varying levels of compliance with IFRS despite claims by companies that their financial statements complying with IFRS. Equally disturbing is auditors failed to express opinion on IFRS compliance or non-compliance (Cairns, 2001). A major challenge is enforcement mechanisms of IFRS especially in jurisdictions with weak institutions and enforcement agencies.

4. *Cultural and structural changes in the various institutions in a country*

The challenges face in adopting IFRS in terms of changing culture and developing systems of regulation and accountability are quite enormous. There are cultural, language, regulatory and accounting profession challenges as well as demands for greater accountability and wider political participation and embracing of necessary political reforms faced by countries in adopting IFRS. In fact embracing globalization and adopting IFRS has challenges as it makes necessary reforms to a country's regulatory, legal and economic structures and adaption of its culture to the West. There is increased need for training and education for investors, accountants, auditors, preparers and users of financial reports etc, development of IFRS curricula at the university and other levels , adjustment of the accounting training and education to incorporate IFRS. The legal system must be conversant with the new IFRS standards as it applies to tax issues and other applications of laws. The adoption of IFRS must involve the strengthening of the various institutions which will enhance its effective implementation such as: preparers (managers) and enforcers (auditors (status, independence, training, compensation, tough judgment), legal systems and courts, regulators, accounting boards, ownership structure/block shareholders, politicians, law-makers, analysts, rating agencies, accounting professional bodies, tax authorities and capital market regulators),corporate governance structure, the press, public, educational institutions and business schools, financial market (structure,depth and intermediation) etc (Ball,2006).

Developing a strong institution framework for IFRS Adoption

A large pool of researches, mainly dwelling on compliance, implementation issues, market-based, the consequences of the implementation, have been conducted on IFRS adoption using data from countries where IFRS has been adopted or started implementation. Areas investigated include relevance of accounting data, accounting reporting quality in pre and post IFRS adoption, impact on cost of capital and market liquidity, market reactions to IFRS adoption, impact on group accounting and the net profit and equity of companies, comparison between local and IASB/IFRS (at least Deloitte and Deloitte has conducted extensive, comparative studies of many countries), economic consequences and capital market outcomes of voluntary or mandatory disclosures and adoption etc (Barth et al.2008; Daske, Hail, Leuz & Verdi 2007; Negash,2008; Epstein,2009,Negash,). Leuz & Wysocki (2008:71-72) suggest that reporting quality is shaped by numerous factors in countries' institutional environments and interactions between these elements. Also, Irvine & Lucas (2006:13) has called for research to examine challenges involved in actually implementing IFRS in emerging economies. Along this line, Hail, Leuz & Wysoki (2009) highlight unique institutional features of U.S. markets to assess the potential impact of IFRS adoption on the quality and comparability of U.S. reporting practices, ensuing capital market effects, and potential costs of switching from U.S. GAAP to IFRS. They show that decision to adopt IFRS mainly involves a cost-benefit tradeoff between (1) recurring, albeit modest, comparability benefits for investors, (2) recurring future cost savings that will largely accrue to multinational companies, and (3) one-time transition costs borne by all firms and the U.S. economy as a whole, including those from adjustments to U.S. institutions. Daske, Hail, Leuz & Verdi (2007) also examine the impact of IFRS adoption in 26 countries on market liquidity, cost of equity capital and Tobin's q. They find that, on average, market liquidity and equity valuations increase around the introduction of mandatory IFRS in a country. However, these market benefits exist only in countries with strict enforcement regimes and institutional environments that provide strong reporting incentives.

Daske *et al.* (2008) and Platikanova & Nobes (2007) have argued that capital market benefits from IFRS depend on countries' institutional environments. Malriat (2009) argues that the best results in IFRS adoption have been seen in countries with strict enforcement regimes and institutional structures that provide strong reporting incentives. These countries are more likely to have discernable capital-market effects when using IFRS reporting. A "serious" commitment to IFRS has shown larger cost of capital and market liquidity benefits compared to adopting IFRS as a "label. Weak institution structures result in polarised non-compliance with IFRS especially in developing and transitional economies (Street et al., 2000; Street & Gray, 2001; Abd-Elsalam & Weetman, 2003) The inappropriateness of IFRS in developing and transitional countries has reflected in the high level of non-compliance with these standards (Abayo et al., 1993, Solas, 1994; Street et al., 1999, Street et al., 2000; Street & Gray, 2001; Abd-Elsalam & Weetman, 2003). The reasons adduced include shortage of accountants and skill gap. Irvine & Lucas (2006) argue that emerging economy such as United Arab Emirate in embracing globalization and adopting IFRS, will need to develop appropriate regulatory systems to overcome cultural issues relating to secrecy and fraud. It is argued that developing countries and emerging economies, in pursuing the global economic benefits offered by the adoption of IFRS, face challenges in adapting their regulatory infrastructure and culture to western-oriented accounting standards.

Solas (1994) examined the extent of financial information disclosure by Jordanian companies according to the requirements of IFRS. He concluded that disclosure was at unacceptable level. Using a world sample of companies, Street & Gray (2001) found a significant extent of non-compliance with IFRS in France and Africa. The objective of their research was to examine the financial statements and footnotes of a worldwide sample of companies referring to the use of International Accounting Standards (IAS), to explore further the extent of noncompliance, and most importantly to provide information about the factors associated with noncompliance. They find a significant extent of noncompliance with IAS and that key factors associated with levels of compliance include listing status, being audited by a Big 5+2 firm, the manner of reference to IAS, and country of domicile. The decision of the Egyptian government to mandate an immediate implementation of IFRS in 1997 allowed neither the listed companies nor the accounting profession adequate time to adapt to the 'new' standards. The result was low non-compliance with their requirements by the listed companies (Kholeif, 2008, Abd-Elsalam & Weetman 2003) due to relative unfamiliarity with IFRS requirements and non-availability of an authoritative translation or language effect. This made listed companies in Egypt 'selective in their choice of what to comply with'.

Sucher & Jindrichovska (2004) consider the issues that arise when implementing new accounting regulations like IFRS reporting in Czech Republic such as the method of implementation, the scope of IFRS, particular issues with local accounting practice and IFRS, the issue of enforcement of compliance with IFRS and its relationship with audit, the link between IFRS reporting and taxation and the provision of education and training as well as a review of the state of preparedness of local groups. Armstrong et al (2007) found that investors expected net benefits to IFRS adoption in Europe associated with increases in information quality, decreases in information asymmetry, more rigorous enforcement

of the standards and convergence. Despite the lofty benefits being envisaged from IFRS adoption by countries all over the world including Nigeria, a critical issue that needs consideration is the weak institutional framework. Ball (2006) argues that implementation is the Achilles heel of IFRS and the possibility of uniform application of IFRSs across different jurisdictions has been questioned because of differences in compliance and enforcement mechanisms and different cultural and institutional contexts (Ball, 2006., Nobes, 2006., Larson & Street, 2004., Soderstrom & Sun, 2007., Zeff, 2007).

Conclusion

The adoption of IFRS continues with many countries setting timetable or roadmap for adoption expecting to reap the benefits of IFRS adoption. Nevertheless there are numerous challenges a country must confront and overcome. A critical assessment of countries where IFRS has been adopted and implemented reveals that countries like Nigeria which has just adopted IFRS or those countries about to adopt or converge their local GAAP with IFRS must be adequately prepared. However for effective IFRS adoption, the following are suggested:

- (i) Effective implementation of IFRS requires careful planning and extensive public education, the allocation of resources, a legal and regulatory support system and institutional support with strong management systems. Unless the various stakeholders are integrally involved and included in development plans and how they are affected, they will be reluctant to support the change and IFRS adoption may not succeed.
- (ii) The communications system for informing users of the changes in reporting requirements must be effective and responsive. Users of financial statements have to be able to interpret financial reports and raise questions about an entity's performance. Efforts to build good corporate governance and enhance corporate transparency will be successful only when the key stakeholders have the desired knowledge to understand the financial reports and interrogate reported information. Also, the transition plans to IFRS and its implications for preparers, users, educators and other stakeholders have to be effectively communicated
- (iii) Adequate resources must be put in place to support the sustainable implementation of IFRS. This includes having consultative groups available to respond promptly to concerns by users and to provide for their ongoing training. Assisting key stakeholders, including regulators with training, and possessing the required resources to interpret and apply the requirements of IFRS is a critical element underlying the successful implementation of IFRS.
- (iv) Suitable standards must be developed to facilitate recognition of the small and medium scale enterprises (SMEs) because most of the standards include complex and detailed disclosure issues applicable to larger companies which are listed in the stock exchange.
- (v) Continual training of auditors, regulators, analysts and other users is an important factor in the transition to IFRS. In fact, capacity building of the various stakeholders by the accounting profession is a necessity.
- (vi) Strong accounting institutional framework must be in place to champion and manage the IFRS change process. Nigeria had the Financial Report Council of 2011 but the other institutions frameworks were not put in place.
- (vii) The adoption of IFRS has impact on a country's national statistics. Data on productivity, efficiency and profitability are often times collected by the government statistical authority for national reporting
- (viii) Introduction of an awareness programme by government to improve the degree of compliance with accounting requirements by specified business enterprises. Regulatory agencies in Nigeria like the CBN, ICAN, FIRS, SEC and NSE should work jointly to design an awareness programme on the importance of compliance with accounting requirements of IFRS
- (ix) On the basis of proper compliance of IFRS, the regulatory authorities can provide significant benefits for firms reporting regularly and complying with IFRS and other necessary requirements like relaxing the listing criteria or providing incentives in either monetary or non-monetary forms.
- (x) An independent oversight body like the Financial Reporting Council should be strengthened to shoulder the responsibility of setting accounting and auditing standards, monitoring compliance with accounting standards, reviewing auditors' practice and reviewing reporting practices and enforcing sanctions for violations. The government should ensure the capacity and effectiveness of this regulatory regime to provide a real sense of security to stakeholders because one of the critical elements in the implementation of IFRS is the rigorous enforcement of standards. The FRC should focus on technically qualified personnel, practical training of inspectors/reviewers, administrative support, and necessary logistics arrangements. The IFRS enforcement

- bodies (the FRC, SEC and CBN) should immediately enhance and expand their expertise. As IFRS changes due to amendments to existing standards or new standards being issued by IASB, these regulatory agencies need to have a plan in place to keep pace with the changes. Part of the plan needs should include continuing education programmes for personnel in charge of reviewing IFRS-based statements for regulatory purposes.
- (xi) A system for adoption of standards and monitoring should be developed that can work on a consensus view of all the interested parties. Therefore, exposure drafts are to be circulated for comments from various professionals and the general public at large. This often has resulted in minimizing dissensions and increasing acceptance of accounting standards (Hove, 1990).
 - (xii) Implementation of certain requirements of IFRSs should be a gradual process because adopting IFRSs is not just an accounting exercise but transition that requires that everyone concerned has to learn a new language and new way of working. In fact, implementation of IFRS is not a one-time process, but rather an on-going effort that requires continued institutional support.
 - (xiii) where the conceptually superior accounting treatments prescribed in various IFRS are in conflict with the corresponding legal requirements of the local GAP, the standard lays down the approach recommended by the IFRS, while recognizing that until a change is made in the relevant legal requirements, the law will prevail. This makes the correct accounting treatment gets recognized in an accounting standard in the country, it also gets recognized that a change in law is imperative. There must be sufficient legal backing of IFRSs as reporting standards in a country.
 - (xiv) Successful implementation of IFRS needs extensive and on-going support from professional accounting bodies like Institute of Chartered Accountants of Nigeria (ICAN). They can contribute to the effective implementation of IFRS through requirements that hold their members responsible for observing due care in implementing these standards. Therefore, an IFRS implementation programme needs to adequately assess the state of readiness of relevant professional accountancy organizations in the country so that the necessary resources are available to ensure competent and continuous support from such organizations.
 - (xv) Integrating IFRS into university accounting education and updating the curricula for the training of accountants by tertiary institutions and professional accounting bodies in Nigeria. There should be hiring and training of staff/faculty knowledgeable in IFRS and massive publication of accounting textbooks. Educational institutions must alter their teachings to account for the foreseen transition to IFRS and to adequately prepare students. This is because businesses will depend on universities and the accounting professions to bridge the IFRS knowledge gap and provide leadership.

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