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Assessing the Connectedness between the Adoption of IFRS and the Strength of Institutions in Nigeria

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Abstract

The development and acceptance of International Financial Reporting Standards (IFRS) have made the decision of a country to embrace IFRS become a vitally important topic for researchers and standard setters. In this study, we examined association between the mandatory adoption of IFRS and Nigeria institutional infrastructure. The study adopted the survey method to seek respondents' views on the subject matter. We employed Multiple Regression techniques to analyze the data. The result shows that four of the five institutions studied are ready and strong enough to support the ongoing mandatory adoption of IFRS in Nigeria. The study recommends that steps should be taken to improve the statutory framework of accounting and auditing practice in Nigeria, outdated and obsolete sections of the instruments setting up the institutions should be reviewed and harmonized to conform to the demands of IFRS. IFRS must as a matter of urgency, be incorporated into tertiary institutions and Professional Accounting institutions' curricula so as to build human capacity that will support the preparation of IFRS financial reports in the business organizations in Nigeria.

Keywords: IFRS adoption, Institutions, FRCN, Nigeria

1. Introduction

In large organizations, the published financial reports are important sources of information about the organization's performance which is available to external user groups. According to Arnold, Hope, South-worth, & Kirkham (1994), there are at least two reasons why management should not be given the complete freedom to determine what accounting information should be included in the published financial statement despite the fact that they have access to information about all aspects of organizational activities. The first of the reasons has to do with information asymmetry. That is the possibility of managers exploiting their privileged position within the organization to further their own course at the expense of others. The second reason is that of comparability. Thus if managers were given the complete freedom to determine the content of the financial reports, the external users of the accounts would be unlikely to receive the necessary and sufficient information to make rational decision. Hence the necessity for accounting standards.

Prior to the introduction of IFRS / IAS, what prevailed all over the world was nation's specific adaptation of the Generally Accepted Accounting Practice (GAAP), which was rooted in cultural, legal, economic and regulatory peculiarities of the countries. In Nigeria, for instance, the Nigerian Accounting Standards Board (NASB) (now designated as Financial Reporting Council of Nigeria (FRCN)) came into being on September 9, 1982. It is the only recognized independent body in Nigeria, responsible for the