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Challenges and Prospects of Adopting Integrated Reporting and International Financial Reporting Standard in the Public Sector in Nigeria

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ABSTRACT

The objective of this article is to examine the alternative form of reporting in the public sector by scrutinizing various forms of reporting, more precisely the frameworks of integrated reporting and general reporting. Besides, this article establishes the relationship between the reports so that the needs of a user group, citizens, and other important stakeholders can be addressed. The paper also highlights a theoretical review of the financial reporting system in Nigeria identifying problems inherent by the International Financial Reporting Standards (IFRS) despite its global acceptance and numerous benefits. An overall review of the article reveals the contemporary issues, benefits and challenges that could be envisaged when implementing integrated Financial Report. It is recommended that as result of lack of understanding of basic accounting knowledge or complex financial information citizens would require public financial information to be published in a concise, clear and easily comprehensible manner which could be provided through integrated financial report. The paper analyzes the frameworks of uniform reporting and general reporting, and by combining their features the paper proposes an imaginative merger suitable for the public sector. The study leads to the conclusion that governmental bodies need adopt reporting in two different levels, the first would involve the publication of information discovered in the integrated reports comprising numerous information elements that are not opposed to the traditional financial ones. The second would result in the provision of this information in a simple and easily comprehensive method. The combination of these two reports would lead the formation of an Integrated Report. This development would mean useful and meaningful reporting with possible strategic benefits. The integrated reporting system combined with the popular reporting technique would provide an satisfactory information matrix for individuals and other user groups (e.g. politicians, public executives), that are interested in knowing the accountability in the public sector entities but at the same time they do not have the requisite accounting knowledge neither familiar with accounting terminology.

Keywords: Challenges, prospects integrated reporting, financial reporting, Public sector.

INTRODUCTION

Recently, there has been an ongoing argument whether the present form of reporting in the public sector could eventually address the information requirements of the numerous different user groups [1],[2],[3]. Public sector information users differ to a large extent in terms of education, skills, maturity and information needs, and the view that the needs of each distinct group could be satisfied by the current system of financial reporting, has been largely disputed [4]. For instance, investors appraise information in a different manner compared to citizens, as they have diverse information needs. Investors might need to appraise additional information that might not add value or even confuse citizens. Nevertheless, both groups are equally important users of governmental financial reports for different purposes [4]. The previous years have witnessed significant efforts so that public sector reporting could become more informative and easily comprehensible by majority of users [5]. These developments are evident with the shift of many countries from cash-based systems to more informative one based on accrual reporting. The advancement of international accounting standards for the public sector, such as [5] and [6], is also in line with these developments. However, some still agree that an increase in the technicality of financial reporting in the public sector will result in financial reporting eventually becoming even more complicated to understand for people who are not knowledgeable in accounting [7]. First, general reports are likely to be concise, short in length, and present in a simplified way government accounting information [8]... The second refers to integrated reporting, also known as "one report" [9]. Integrated reports target the provision of a single document with information covering both financial and non-financial issues [10]. They contain information about all forms of capital that are considered important for an organization's long lasting survival, i.e. financial capital, manufactured capital, human capital, social capital, intellectual capital and natural capital [10]. However, while general reporting promotes the simplification of financial numbers, integrated reporting includes the provision of additional, non-financial information. The first attempts to present financial information in an easy way, while the other involves additional, not essentially financial oriented material to the traditional financial reports. While extra non-financial information might be beneficial and relevant, it might inevitably complicate the content of the reports. According to the International Integrated Reporting Committee's discussion paper [11], the importance of reporting non-financial information, refers mainly to "meeting the information needs of investors and other stakeholders." They consequently might face additional problems in understanding the rather more extensive and diverse content of integrated reports. As both popular and integrated reports are not audited it is difficult to assess whether the information disclosed therein is bias free and non-selective. More specifically, both popular reports and integrated reports are not going through the typical external audit procedure that is performed for general purpose financial statements. Nevertheless, the financial statements included in these reports and the accounting figures disclosed therein should undoubtedly not diverge from the audited ones. However, the non-financial data are not expected to be explicitly audited. This study would focus on the information needs of citizens.

The development of international financial reporting standard in Nigeria

Accounting standards all over the world were historically designed to fulfil the requirements of each country's stock markets. Those standards which operate successfully within the legal, cultural, political and economic background of every nation is known as "generally accepted accounting principles," or GAAP, for a specific jurisdiction. Consequently, because of such diversity each nation tends to adopt its specific GAAPs to suit its mode of operation. The rapid rate of industrialization around the world and the complexity and dynamism in which technology presents pose a great threat to legalizing systems. Thus, the IASB (International Accounting Standard Board) was established in line with this need to serve as the global accounting standard-setting body. In 2001, the IASB was changed to IFRS, which offers the opportunity of a single set of high-quality accounting standards that could be adopted globally. Therefore, the implications of the International Financial Reporting Standards (IFRS) to the Economic .According to [12], expansion in globalization and business competition therefore makes it necessary that countries and firms resolve issues that will enhance the level of their attractiveness to both foreign and local investors therefore pulling their capital for trade purposes. Most Stock market transactions (cross border listing) have been globalized thus firms can raise funds on many stock market around the world. Therefore, there arises the need to create a worldwide and acceptable financial reporting system 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. The goal of financial reporting is to make information available for decision-making. Differences in financial reporting in different countries arises because of the differences in legal systems, tax systems and business structures. The primary objective of the IFRS is to harmonize these differences by making information more comparable and easier for analysis, promoting efficient collaboration of resource and reduction in capital cost. The issues relating to financial reporting could be traced back to 1975 with the advent of what was then known as corporate report, in England. In Nigeria, following the increasing demand for financial information on companies, financial reporting has now assumed an appreciable position because it provides information that is useful to current and potential investors, creditors and other users in making rational investment, credit, and other financial decisions. It also enables users to assess the amount, timing, and uncertainty of prospective cash receipts about economic resources, the claims to those resources and the changes in them. [12] maintains that to achieve the basic objectives of financial reporting, there is need for an acceptable coherent framework. Financial reporting framework therefore, refers to fundamental accounting assumptions, principles and methods used to prepare, present, and report financial statements for a wide variety of entities, including publicly traded and privately – held companies, non-profit organizations, and governments [12]. The background for financial reporting include locally made accounting laws, regulations, rules and standards, which operate under a set of assumptions, principles, and constraints and are determined by regulatory authorities such as the Nigerian Accounting Standard Board (NASB). The introduction of an acceptable global high – quality financial reporting standards was initiated in 1973 when the international accounting standard committee (IASC) was formed by 16 professional bodies from different countries (such as United States of America, United Kingdom, France, Canada, Germany, Australia, Japan, Netherlands and Mexico) all over the world [13]. This body was fully recognized in 2001 into the International Accounting Standards Board (IASB), and as well as developed accounting standards and related interpretations jointly referred to as the International Financial Reporting Standards (IFRS).

Issues and Challenges in adopting International Financial Reporting Standards

The International Financial Reporting Standards (IFRS), which is a set of principles based on widely accepted standards issued by the International Accounting Standards Board (IASB), seeks to assist preparers of financial statements all over the world to prepare and present high quality, transparent and comparable financial statements. According to [14], IFRS offers a significant benefit to corporate and public entities in terms of cost; facilitation of consolidation of financial statements; enhanced management and control of internal reliability of financial reporting; increased access to global financial capital markets; ability of international investors to make meaningful comparisons of investment portfolios in various countries and promotion of trade within regional economic groups. Furthermore, he reports that the need for a uniform and global financial reporting framework has been a topic of debate for several years. He identifies the following factors could be responsible for the adoption of IFRS: continuous integration of world economy; increased interdependence of the international financial markets; dearth of barriers of capital flows across national boundaries; increased mobility of capital across national boundaries; multiple listing by companies in capital markets within and outside their home jurisdiction; continuous demand by stakeholders for quality information and increased disclosures. Nevertheless, adopting IFRS are not without its own challenges. [15] maintains that international accounting clearly has a language problem which is a barrier to its effectiveness. For instance, the term "asset" in French could also mean "active". The German language has no comparable word for the term fair. Moreover, some government policy may not be in favor of international standards. [16], states that whenever there is a conflict between an accounting standard and government policy, it might be necessary to revise the standard. Another major difficulty with the implementation of IFRS is the universal tendency to resist change. More often, co-operation comes only from negotiation and sometimes it causes setback to quality (NASB 2010). Having cross-examined the problems and benefits associated with IFRS, some reporting entities in Nigeria most especially those engaged in international businesses such as Guaranty Trust Bank, Access Bank, EcoBank, and Oando have made giant strides toward its development and application. To ease the implementation of IFRS, the NASB, investors, corporate businesses and government regulatory agencies, in partnership with other professional bodies involved in financial reporting have organized series of workshops and seminars across the country as part of their efforts to create awareness about IFRS and its adoption. The implications of this decision are as numerous as they are weighty. [6], argues that corporate bodies need to build capacity to facilitate the process and re-examine their operational and internal control systems. Furthermore, the laws need to be amended and the transition processes need to be handled carefully so that the confidence of users of accounting services and the professional accountants would not be jeopardized. According [14], the successful implementation of IFRS entails considering technical accounting, tax implications, internal processes, and statutory reporting, technological capabilities, and organizational issues.

Harmonization of inconsistencies between GAAP and IFRS?

Efforts have been made by the Nigerian Accounting Standard Board (NASB) and the International Accounting Standard Board (IASB) to reconcile the prevailing differences between the content of IFRS and GAAP. As a result of these continuing discussions, the degree of the differences between IFRS and GAAP is decreasing. Nevertheless, significant amount of differences still exist. For instance, IFRS does not permit Last in First out (LIFO) as an inventory valuation method and it adopts a single step method for impairment write-downs rather than the two-step method used in GAAP; also, IFRS guidance regarding revenue recognition is less extensive than GAAP and contains relatively little industry – specific instruction. The growing recognition of IFRS in Nigeria, United Kingdom and other part of calls for awareness about these developments. Most professional accountants would be affected. Once a significant number of firms within certain industry adopt IFRS as a basis of financial reporting, it will possibly amount to pressures on other firms to follow suite to enable shareholders to make better comparison of their financial results. But this change will have great consequence which goes far beyond just financial reports. Virtually, almost every aspect of an entity's operations, ranging from its ICT, tax reporting system, stock-based valuation method will be affected [17].For the accounting profession, the adoption of IFRS by Nigerian publicly held corporations will create the need for intensive training and education. Companies will adopt IFRS only if they and their auditors have received the necessary training. At the moment, most accountants in Nigeria are trained in GAAP not IFRS. Most experts, such as actuaries and valuation experts, who are engaged by management to assist in measuring certain assets and liabilities have also not received the needed skills and trainings about IFRS.

Difficulties in modern public financial reporting

Cash-based accounting is generally considered to be the simplest form of financial reporting as it reports revenues and expenditures that have been received or paid, respectively, during a period. While it may not be the most useful one, at least it is considered to be the simplest [18]. Recently public sector entities financial reporting evolves toward adopting accrual accounting methodologies either directly or through interim steps such as modified cash basis or modified accrual basis. As a result, the level of complexity arises at a parallel level [19]; [6]. Accrual accounting is more complicated compared to cash accounting ,[20]. Especially when it comes to the public, accrual accounting is more complicated and difficult to understand than cash accounting [21]. Although accrual accounting might be easier to be understood by professionals who are keen on business-like accounting, this does not hold true for the majority of citizens [21]. Today, many countries as well as various international organizations (e.g. OECD, NATO, United Nations) have adopted accrual-based IPSAS which is to a significant extent based on International Financial Reporting Standards IFRS).Recent studies provide empirical evidence that the transition of private sector firms from national accounting standards to IFRS was not an easy task mainly due to the complexity of IFRS [22]; [23]. Transferring this complexity to the public sector environment cannot be neglected. According to [24], the introduction of accrual financial reporting in the public sector have given room to significant confusion and challenges which is due to the considerable differences between the two sectors. There are studies which suggest that the adoption of accrual IPSAS by developing countries have led to serious complications mostly in terms of financial management [24]. This comes as a result of a lack of proper understanding – on behalf of the IPSAS promoting organizations – of the specific needs of the adopting country [24], as well as of the capabilities of the adopting country [23], and the proper training of government accountants and auditors[25].The result is unsuccessful attempts of introducing accrual-based IPSAS (e.g. in Nepal, Adhikari and Mellemvik, 2010; in Ghana, Tanzania and Uganda, [26] and the recourse to the cash-basis IPSAS. That is probably why several scholars suggest a "basics first" approach and prevent developing countries from following the steps of frontrunners such as New Zealand or Australia, for example [27]. While investors and creditors are familiar to the context of IPSAS-based financial reporting in the public sector.

The need for integrated financial reporting in the public sector

According to [27], public managers find it difficult in understanding accrual-based financial reporting. The non-satisfaction of citizens' needs, that is undeniably a pillar in the stakeholder group in the public sector, comes in sharp contrast with the primary objective of financial reporting in the public sector. Democracy, accountability and accounting information, within this new emerging period of complex modern public sector financial reporting systems, citizens appear to be just spectators of the changing environment. Governmental entities in democratic politics, apart from encouraging participation and providing voice to citizens, are also accountable to the public for all their actions [28]. More precisely, [29] are of the opinion that governments are accountable to their citizens for the use of their taxes and the provision of qualitative goods and services. Accountability in the public sector is more significant than in the private sector [30], and it is primarily achieved through financial statements and budgeting documents [31]. Thus, the existence of poor financial reporting and budgeting tools weakens accountability. The same happens from their misuse. Recent studies provides instances where selective use of budgeting information can be used for accountability purposes [32], as well as of the effects of budget revisions in relation to accountability [32]. Beside the existing traditional budgeting and reporting tools there might be a need for alternative reports that can still serve the purpose of accountability towards the citizens. In this vein, during the last years starting from the USA and Canada a movement targeting to the preparation and publication of reports especially addressing citizens' profile has emerged. These reports contain simply comprehensible financial information regarding governmental entities and are called "popular reports."

Popular reporting refers to the preparation of concise, easily read, comprehensive and user-friendly financial reports mainly focusing on citizens' needs. Nevertheless, apart from citizens which constitute the foundation target group of popular reports, these reports could be useful for politicians, public sector employees, and the media and community groups. Therefore they could address a rather extended audience with common denominator of all these user groups being the lack of expertise in accounting and financial reporting. The basic philosophy of popular reporting is the provision of a simplified view of financial statements, avoiding both detailed analysis and the use of complicated technical terms. The complexity of these reports is therefore driven by the "maturity" level of the users (i.e. citizens) and not that of the preparers [32]. Of course the information included derives from the formal financial statements and formal financial systems. As a result popular reporting is neutral to the accounting systems implemented. It would be equally applicable when an entity uses IPSAS, EPSAS or any other set of nationally developed accounting standards provided that the summary financial information in the popular reports corresponds to that disclosed in the official audited accounting or budgeting statements. Additionally, popular reports should be timely published, have a clearly defined scope and highlight the existence of the formal set of financial statements for those who would like to have more detailed information [33]. Those interested in getting more details or additional information could easily consult the financial reports

CONCLUSION

In this period of rapid changes in the economic and political environment, governmental entities have gone beyond the traditional concepts of governance and management. In the same vein, they have gone beyond the traditional obstacles of governmental financial reporting. The new relationships developed with their major stakeholders require innovative communication tools. On this background, it might be the time for residents to change their role from observers of changes to influencing players. The enormous majority of citizens have no practical understanding of accounting knowledge or experienced enough in accounting to understand technicalities and documents which contain of complex financial information. They would prefer to visualize the value creation activities in a public sector entity in a concise, clear and easily understandable way. In this article, it is recommended that integrated reporting can be suitable for the public sector. Nevertheless, integrated reporting as it stands comes to mainly satisfy investors' information needs. This paper provides a synthesis of the main characteristics of the emerging reporting schemes of integrated reporting and popular reporting into a new construct suitable for the public sector. This new era demands for the provision of alternative information that would facilitate both internal and external users to advance into sound decision-making and assessments and at the same time it will stand for trust, safeguarding in this way accountability and transparency. Governmental entities need to make the next step on reporting to citizens, as this is expected to be accompanied with several strategic advantages.

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