



Report of the Committee on Road Map to the Adoption of International Financial Reporting Standards in Nigeria



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1. ABBREVIATIONS AND ACRONYMS

AGF	Accountant General of the Federation
AuGF	Auditor General for the Federation
FRC	Financial Reporting Council
IAASB	International Auditing and Assurance Standards Board
IAS	International Accounting Standard
IASB	International Accounting Standards Board
ICAN	Institute of Chartered Accountants of Nigeria
IES	International Education Standards
IFAC	International Federation of Accountants
IFRS	International Financial Reporting Standard
INTOSAI	International Organization of Supreme Audit Institution
IPSAS	International Public Sector Accounting Standard
IPSASB	International Public Sector Accounting Standards Board
ISA	International Standard on Auditing
NACCIMA	Nigerian Association of Chambers of Commerce, Industry, Mines and Agriculture
NASB	Nigerian Accounting Standards Board
NASME	National Association of Small and Medium-sized Entities
NASS	National Assembly
NBTE	National Board for Technical Education
NUC	Nigerian Universities Commission
OAGF	Office of Accountant General of the Federation
OAGF	Office of Auditor General for the Federation
SMEGA	Small and Medium-sized Enterprises Guidelines on Accounting
UNCTAD	United Nations Conference on Trade and Development

2.0 Executive Summary

The globalization of capital markets is an irreversible process, and there are many potential benefits to be gained from mutually recognised and respected international accounting standards. Common standards cut the costs of doing business across borders by reducing the need for supplementary information. They make information more comparable, thereby enhancing evaluation and analysis by users of financial statements. Users become more confident of the information they are provided and presumably, this reduced uncertainty promotes an efficient allocation of resources and reduces capital costs.

There are however some inherent problems with aligning with international accounting standards. This is due to the competing perspectives of different nations, together with the universal tendency to resist change. Too often cooperation comes only from compromise and sometimes to the detriment of quality. On the regulatory side, tolerating the use of different standards by foreign and domestic companies not only detracts from comparability but may also undermine domestic financial reporting. The ultimate effect of various proposals in Nigeria to ease requirements for foreign issuers could significantly erode comparability.

This report contains the Roadmap on the adoption of International Financial Reporting Standards (IFRS) (issued by the International Accounting Standards Board) as basis for the preparation of statutory financial statements in Nigeria. This report also outlines specific milestones that, if realized, could lead to the adoption of IFRS in three

phases commencing with Public Listed Entities and Significant Public Interest Entities in Nigeria by 2012, followed by other Public interest Entities in 2013 and Small and Medium-sized Entities in 2014.

This Roadmap discusses various areas for consideration by stakeholders in order to ensure effective adoption of IFRS in Nigeria.

The report contains recommendation for the amendments of various laws and regulations that have one provision or the other impacting on financial reporting such as Companies and Allied Matters Act 1990, Banks and Other Financial Institutions Act 1991, Investments and Securities Act 2007, etc to ensure uniformity and remove conflicts and ambiguity. The report also recommends the passage and signing into law of the Financial Reporting Council Bill as soon as possible because it has the capacity to bring all financial reporting regulations under one umbrella and ensure ease of compliance.

The Report recommends that the enforcement of IFRS should be vested in one body, such as the proposed Financial Reporting Council for Nigeria. However, pending the creation of such body, it is recommended that the NASB should provide the platform for ensuring the enforcement and monitoring of IFRS.

As part of the Roadmap, the Report proposes the creation of IFRS Centre of Excellence towards ensuring adequate capacity building. This training school, which should be entirely dedicated to the teaching and learning of IFRS, is expected to ensure that all participants are brought to, at least, the level of basic knowledge of IFRS.

Other key issues for effective transition in the report include: creation of dedicated website, updating curricula of training institutions, adoption of International Public Sector Accounting Standards, updating Information Technology (IT) systems (chart of accounts); etc.

It is in the best interest of Nigeria that IFRS should be adopted in Nigeria. A countrywide intensive capacity building programme to facilitate and sustain the process of adoption should be introduced as soon as possible.

The report recommends that the NASB, as the current custodian of national GAAP, should hence align itself with the work of IASB, IFAC, IPSASB, and UNCTAD for effective realisation of the requirements contained therein.

3. Background

3.1 Introduction

Nigeria, with an estimated population of 151.54¹ million, is the largest market for goods and services in Africa. Its Gross Domestic Product was US\$214.4 billion in 2008. There are 864,902 companies registered with the Corporate Affairs Commission under Part A. Of these, 26 are licensed commercial banks, 49 are insurance companies and 2 are reinsurance companies. The Nigerian Stock Exchange has 216 listed companies with a combined market capitalization of N5.4 trillion (about US\$35 billion) as at January 13, 2010. Other enterprises operating in the country are in excess of two million.

Despite the above statistics, the productive capacity is neither satisfying the needs of the people nor increasing growth.

A key policy strategy in repositioning the Nigerian economy is the attraction of Foreign Direct Investments into the economy to provide investible funds.

Foreign Direct Investments in Nigeria have been declining: from US\$6.9 billion in 2007 to about US\$4.602 billion in 2008 and US\$3.94 billion as at September 30, 2009 primarily due to the perceptions of risk in Nigeria. The risk is grossly exaggerated because the federal government has committed itself to programmes, including scientific risk management approaches, which will ensure that Nigeria offers good opportunity for investors to create wealth.

The perception of Nigeria as a risky country for the flow of Foreign Direct Investments can, in part, be attributable to the limited financial reporting and disclosures made by reporting entities in Nigeria. This is so because some of these entities do not provide investors with sufficient economic information that will enable them to understand the risk profiles of such entities and permit informed judgments and decisions.

¹ Organization of the Petroleum Exporting Countries (OPEC) Annual Statistical Bulletin 2008 (Page 9)

The Nigerian market is increasingly becoming a sophisticated market. Customers are becoming more discerning and governance framework is gradually being improved through various codes of corporate governance which have been introduced. The competitive environment which now exists as a result of market-oriented economic policy reforms enacted by the Government of Nigeria further creates opportunities for potential investors.

Today, business has become more global and thus lost a significant part of its national identity. Nigeria indeed is part of this globalization. In recent times a number of Nigerian companies have raised capital from international stock markets; others have established significant presence in other jurisdictions. Also, a good number of Nigerian entities hold the securities of non-Nigerian issuers. Therefore, for a better understanding and appreciation of the risks and consequently making decisions about the flow of economic capital, it makes sense to have global financial reporting benchmarks.

International and national investors will be better placed to make rational economic decisions when financial information is comparable between countries competing for foreign investments. The global adoption of a single set of financial reporting standard, no doubt, will enhance such comparability and create an enabling environment for all investors to be able to effectively compare investment opportunities across the global market.

The globalization of capital markets is an irreversible process, and there are many potential benefits to be gained from mutually recognised and respected international accounting standards. Common standards cut the costs of doing business across borders by reducing the need for supplementary information. They make information more comparable, thereby enhancing evaluation and analysis by users of financial statements. Users become more confident of the information they are provided, and presumably this reduced uncertainty promotes an efficient allocation of resources and reduces capital costs.

There are however some inherent problems with aligning with international standards. This is due to the competing perspectives of different nations, along with the universal tendency to resist change. Too often cooperation comes only from compromise and sometimes to the detriment of quality. On the regulatory side, allowing the use of different

standards by foreign and domestic companies not only detracts from comparability but may also undermine domestic financial reporting. The ultimate effect of various proposals in Nigeria to ease requirements for foreign issuers could significantly erode comparability.

It will be in the interest of the Nigerian economy for listed companies to adopt globally accepted, high-quality accounting standards by fully converging Nigerian national accounting standards with International Financial Reporting Standards (IFRS) over the earliest possible transition period, given the increasing globalization of capital markets.

A significant number of small indigenous accounting firms are now seeking international networks because businesses are engaging in more international transactions, cross-border listing is now commonplace and accounting firms are beginning to follow their growing corporate clients into other countries in order for these firms to continue to provide services to these clients wherever they are.

It should be noted also that governments are being persuaded to engage in wide ranging reviews that recognise the importance of reassuring the markets and the public at large that corporate reporting and governance frameworks are sufficiently robust.

3.2 International Financial Reporting Standards (IFRS)

IFRS are defined as Standards and Interpretations adopted by the International Accounting Standards Board (IASB). They comprise:

- International Financial Reporting Standards (IFRS);
- International Accounting Standards (IAS); and
- Interpretations originated by the International Financial Reporting Standards Interpretations Committee (IFRSIC) or the former Standing Interpretations Committee (SIC).

IFRS are considered "principles based" set of standards in that they establish broad rules as well as dictate specific treatments. There is an increasing acceptance and use of IFRS in major capital markets all over the world. ²Since 2001 more than 100 countries have required or

² Global Convergence, IASB Official website: www.iasb.org

permitted the use of IFRS while the remaining major economies have established timelines for convergence with, or adoption of, IFRS.

It is a well known fact that the European Union has since instructed its members to adopt IFRS in accordance with the EU directives. The United States of America, Australia, Canada, South Africa, etc have also either required or permitted financial reporting using IFRS. More countries in Africa and the rest of the world are also concluding their Road Map in this direction. This is expected to enhance understandability and comparability of financial statements across the world.

There are several approaches to embracing IFRS in a jurisdiction. These include situations where:

- IFRS are, by definition, domestic accounting principles;
- IFRS are integrated into domestic accounting standards, using the exact words in the IFRS, but with the possibility of local jurisdiction restricting accounting alternatives provided in the IFRS and the provision of additional commentary to assist implementation;
- IFRS are incorporated into local legislation without amendments after a formal review;
- IFRS are the benchmark towards which domestic accounting standards are moving, through a gradual process of convergence or harmonization.

3.3 Benefits of Adopting IFRS

The benefits of IFRS adoption are numerous. In general, it offers organisations opportunity for a fresh look at their processes and policies. It also gives room for one basis of accounting (simplify local statutory reporting, cross-border transactions, strengthening of controls and efficiencies in future reporting). Furthermore, it may lead to standardisation of practices across countries (that is, consistency of global accounting policies and procedures, shared service centre deployment and streamlined merger and acquisition activities). Finally, it can lead to improved comparability across borders and within global industries, with worldwide peers and competitors. A more specific consideration may reveal individual benefits as hereunder:

- **International Investors**
 - Ability to make useful and meaningful comparisons of investments portfolios in different countries.

- **Multi-national companies**
 - Easy consolidation of financial statements;
 - Better management control; as harmonization would aid internal communication of financial information; and
 - Easier to comply with the reporting requirements of overseas stock exchanges
- **Regional economic groups (e.g. ECOWAS etc.)**
 - Promotion of trade within the region through common accounting practices; and
 - Ability to compile meaningful data on the performance of various enterprises within the region.
- **Governments and National standard setting bodies**
 - Assist governments in attracting international investors as adoption of IFRS enables international investors easy monitoring of overseas investments.
- **Local and domestic companies**
 - Easier access to external capital;
 - Global comparability of financial statements; and
 - Transparency and enhanced disclosures and seal of quality.

4. Financial Reporting In Nigeria

4.1 Developments in Accounting Standards Setting in Nigeria

The adoption and implementation of the international standards in a country takes place in an environment that is affected by factors unique to that country, for example, the economy, politics, laws and regulations, and culture. A reason that seems to cut across countries for not fully incorporating IFRS is the irresistible urge to amend the international standards to provide for national specificities.

Statements of Accounting Standards are developed through a formal system of due process involving broad national consultation and a thorough consideration of local laws, current practices and standards of other countries, most especially, those of International Accounting Standards Board.

Usually, the development and issuance of a statement of accounting standard involves choosing a topic for standardisation in response to suggestions from the business community, academia, member organisations or members of staff and Council of the NASB. A Steering Committee, consisting of experts drawn from public, private and professional sectors of the economy, is then set up. This Committee, with the NASB Secretariat, prepare a preliminary Exposure Draft, which is presented to the Governing Council for consideration and approval.

The Council, at a technical session, finalises the document and approves it for exposures to the public if two-thirds of Council members vote in favour of its exposure. Exposure period is usually three months, during which the public is expected to comment. The exposure draft may be modified in light of the comments received and thereafter issued as a Statement of Accounting Standard.

The organisations that make up the Board are expected to use their best endeavour to persuade their members and organisations they deal with, to comply with all relevant accounting standards and are also allowed to devise their own punitive measures for non-compliance.

This approach, initially, yielded some results. Apart from the fact that S.335 (1) of the Companies and Allied Matters Act, 1990 required that all financial statements issued in Nigeria must comply with accounting

standards laid down in the Statements of Accounting Standards issued from time to time by the Nigerian Accounting Standards Board, one can point to some other measures of persuasion that were evident from other regulators and institutions such as the Central Bank of Nigeria, Securities and Exchange Commission, Nigerian Stock Exchange, Nigeria Deposit Insurance Corporation, the Institute of Chartered Accountants of Nigeria, etc.

These efforts indicate that all of the persons who belong to the accounting profession or have operational interest in financial reporting shared the common concern that financial statements should ideally meet acceptable level of quality and comparability. The fact that relevant enabling laws that set up the organisations and entities mentioned above only required them to exercise authority over varying aspects of monitoring of compliance with Statements of Accounting Standards, without clearly vesting the power on any one entity made the situation very confusing. It is not surprising that in the midst of the confusion, compliance monitoring was not satisfactorily done and worse still, none of these organisations/agencies was clearly vested with the responsibility for the damages that may have occurred. Thus, many significant accounting and reporting inadequacies and departures from norms passed unnoticed.

The promulgation of the NASB Act, 2003 and the setting up therein, of the NASB Inspectorate Unit came as a better version of an evolutionary approach by government to strengthen compliance with accounting standards and enhance reliance.

In the recent past, the Nigerian government introduced major reforms aimed at promoting confidence in corporate reporting and governance. A major omission however was that the company law in Nigeria was not reviewed in the light of these developments. The company law in Nigeria is predicated on the fact that Nigeria is a "standard setter," creating its own financial reporting standards, and not a "standard taker," accepting standards created elsewhere. There is also the concern that financial reporting standards should remain relevant for the public sector and not-for-profit entities.

4.2 Legal and Regulatory Framework

When IFRS are introduced in a given jurisdiction, they form part of the pre-existing laws and regulations in the country pertaining to the governance of business entities. Often, laws and regulations overlap or become inconsistent with one another, especially when the roles and responsibilities of different institutions are not clearly defined and coordination mechanisms are not in place. Lack of coherence in the regulatory system can cause serious misunderstandings and inefficiency in the implementation of IFRS. The regulatory bodies for banks and insurance companies sometimes put in place regulatory financial reporting requirements on specifics, because of their oversight authorities, and may prescribe format for disclosures in financial statements which may not necessarily be in conformity with IFRS.

4.2.1 The Companies and Allied Matters Act 1990

The Companies and Allied Matters Act 1990 prescribes some formats and contents of company financial statements, disclosure requirements and auditing. It also requires that financial statements comply with the Statement of Accounting Standards (SAS) issued, from time to time, by the Nigerian Accounting Standards Board (NASB); and that the audit be carried out in accordance with generally accepted auditing standards.

4.2.2 The Nigerian Accounting Standards Board Act 2003

The NASB Act No. 22 of 2003 formally created the Nigerian Accounting Standards Board and also established for it an Inspectorate Unit.

4.2.3 Compliance and Monitoring Regime

One of the critical elements in the implementation of IFRS is the rigorous enforcement of standards. The full benefits of a global set of financial reporting standards such as IFRS will be realised only when these standards are consistently enforced. IFRS is only one element of the financial reporting structure. Other elements include auditing, actuarial, valuation, corporate governance, etc. The institutions whose mandates allow them to ensure compliance with IFRS now aim to protect both domestic and international investors because of the growing globalisation of financial markets.

In some countries the responsibility of enforcing IFRS rests with a number of organisations. Institutions such as securities and exchange commissions, banking and insurance supervisory authorities, stock exchanges and capital market authorities currently play varying roles in enforcing financial reporting requirements like IFRS. These countries are now considering unifying the enforcement of financial reporting under one umbrella body so that other organisations with professional interest in financial reporting can focus on their core mandates.

In Nigeria, the enforcement of IFRS should be vested in one body, such as the proposed Financial Reporting Council for Nigeria. However, pending the creation of such body, the NASB (as it is currently structured though requiring empowerment and enlargement to be able to cope with the new and increased demands of enforcing IFRS) should provide the platform for ensuring the enforcement and monitoring of IFRS.

4.2.4 Some relevant laws and regulations

- Nigerian Stock Exchanges Act 1961;
- Companies and Allied Matters Act, 1990;
- Nigeria Deposit Insurance Corporation Act 2006;
- Banks and Other Financial Institutions Act 1991;
- Investments and Securities Act of 2007;
- National Insurance Commission Act 1997;
- Insurance Act 2003;
- Companies Income Tax Act 2004 (as amended);
- Petroleum Profit Tax Act 2004;
- Pension Reform Act 2004; and
- Federal Inland Revenue Service (Establishment) Act 2007, etc.

These laws and regulations have one provision or the other on financial reporting. This calls for the amendment of these laws to ensure uniformity and remove conflicts and ambiguity. The Financial Reporting Council Bill, when passed into law, will have the capacity of bringing all financial reporting regulations under one umbrella.

5. Implications of Adopting IFRS

The practical challenges that may be faced, in Nigeria, in implementing IFRS that need to be addressed in order to benefit fully from the introduction of IFRS are discussed below. The list is by no means exhaustive but does allow a fair comment on the state of readiness for adoption of IFRS in Nigeria.

5.1 Level of Awareness

The transition plan to IFRS and its implications for preparers and users of financial statements, regulators, educators and other stakeholders have to be effectively coordinated and communicated. A country's action plan for transition to IFRS needs to have a logistical framework of targeted activities to be completed within a specified period of time. This should include raising awareness on the potential impact of the conversion, identifying regulatory synergies to be derived and communicating the temporary impact of the transition on business performance and financial position. The implementation of IFRS requires considerable preparation both at the country and entity levels to ensure coherence and provide clarity on the authority that IFRS will have in relation to other existing national laws.

5.2 Accounting Education and Training

Practical implementation of IFRS requires adequate technical capacity among preparers and users of financial statements, auditors and regulatory authorities. Countries that implement IFRS face a variety of capacity-related issues, depending on the approach they take. One of the principal difficulties Nigeria may encounter, in the practical implementation process, shall be the shortage of accountants and auditors who are technically competent in implementing IFRS. Usually, the time between when a decision is made to implement the standards and the actual implementation date is not sufficiently long to train a good number of professionals who could competently apply international standards.

5.2.1 Tertiary Institutions

The extent of integration of IFRS modules into tertiary institution's accounting education curricula and coordination of such accounting

education programmes with professional institutions' qualification and regulation is a major challenge to the implementation of IFRS in Nigeria.

The significance of tertiary education in the adoption of IFRS cannot be overemphasized. Most of the professional bodies require tertiary education certificate as a pre-requisite for enrolling for their professional examinations. The input and output of the tertiary education system have a huge impact on the success of IFRS implementation in Nigeria. Accordingly, tertiary education has been identified as a critical success factor that requires urgent attention.

The efforts of the NASB through its existing strategic partnership, "Linkage programme with Nigerian Universities", need to be expanded and strengthened. The NASB, in conjunction with the NUC and professional accounting bodies, should as a matter of urgency design a programme for fast tracking the teaching and learning of IFRS in Nigerian tertiary institutions so as to equip graduates of accounting with the required skills and knowledge to meet the expected surge in the demand for IFRS professionals. A "train the trainer" programme is also recommended for lecturers in tertiary institutions.

A study conducted in 2008, by the NASB, on "Gap Analysis" of accounting curriculum content and Statement of Accounting Standards in Nigerian Universities showed the low level of coverage of the local accounting standards in tertiary institutions. This underscores the need for a concerted and coordinated effort that will assist in the introduction and sustenance of the teaching and learning of IFRS in Nigerian tertiary institutions. This problem becomes even more pressing when the minimum number of years needed to produce the first batch of IFRS knowledgeable accounting graduates is taken into consideration.

5.2.2 Professional Programmes

There is the need to introduce an IFRS implementation programme that will adequately assess the state of readiness of relevant professional accountancy organisations and institutes. This should be conducted with a view to ensuring availability of resources and continuous support for such organisations and institutions.

5.2.3 Training Resources

Training materials on IFRS are not readily available at affordable costs. In addition, there is dearth of professionals knowledgeable in IFRS in Nigeria.

4.3 Tax Reporting

4.3.1 Transition Adjustments

The tax considerations associated with the conversion to IFRS, like other aspects of a conversion, are complex. IFRS conversion calls for a detailed review of tax laws and tax administration. Adjustments would be required in equity, retained earnings and reserves. Specific taxation rules would have to be redefined to accommodate these adjustments.

For instance, tax laws which limit relief of tax losses to four years should be reviewed. This is because transition adjustments may result in huge losses that may not be recoverable in four years.

Accounting issues that may present significant tax burden, on adoption of IFRS, include determination of Impairment, Loan loss provisioning and Investment in Securities/Financial Instruments.

5.3.2 Impairment

Federal Inland Revenue Service (FIRS) may have to consider issuing transition guidance on the treatment of impairment losses determined under IFRS.

5.3.3 Loan Loss Provisioning

IFRS requires that impairment for loan portfolio be based on an incurred loss model. In order to calculate impairment or loan loss, banks (for instance) will have to segment the portfolio into homogeneous groups, define impairment triggers, calculate statistical parameters and consider fair value of collaterals.

FIRS may have to analyze tax technical issues and document management decisions, coordinate changes to meet requirements under IFRS, determine information system requirements and design process changes.

IFRS also requires that, on transition date, any unrecognised loan loss provisions should be recorded against retained earnings. In this regard, the tax authority will have to allow the tax treatment for unrecognised loan losses recorded against retained earnings on transition date.

Under IFRS, entities must use tax rates enacted at the balance sheet date when calculating their deferred tax position. It also requires recognition of deferred taxes of temporary differences from exchange rate fluctuations or indexing for tax purposes. FIRS may have to assess how the impact can be accommodated within the existing rule.

5.3.4 Investment in Securities

Tax issues may arise from hybrid instruments, such as those for which the recipient of “interest” is treated as receiving a dividend but for which the payer gets an interest deduction. A change in the definition of equity arising from a change in accounting standards may unexpectedly eliminate the tax benefits of hybrid instruments because the income may be treated as interest rather than dividend and thus impact global tax planning and the effective tax rate. Issues of this nature are also likely to arise when accounting for other types of financial instruments (equity, fixed income and derivatives).

FIRS will have to assess how existing rules apply considering the above issues.

5.4 Reporting Entities, including SMEs

The scope of application of IFRS with respect to the size of entities, as well as defining clearly whether IFRS will apply only for the preparation of consolidated financial statements are issues to be addressed. There is an international standard for Small and Medium Size Entities (IFRS for SMEs) which jurisdictions are also expected to consider for adoption.

5.5 Regulatory Bodies

The enforcement and regulatory authorities in Nigeria whose mandates require them to exercise significant roles may create inconsistent implementation of IFRS unless they engage in rigorous training of relevant staff and determine to facilitate sharing of enforcement decisions amongst themselves.

5.6 External Auditors and other professional service providers

It is imperative that peer review programmes among auditors must be taken seriously since they are a useful oversight mechanism and do provide information on difficulties encountered in the financial reporting and/or audit process (especially where the challenges are sector specific).

A Technical Partners' Forum (of accounting firms) that can identify financial reporting issues that require clarification in order to avoid inconsistencies is strongly recommended.

5.7 Other Issues

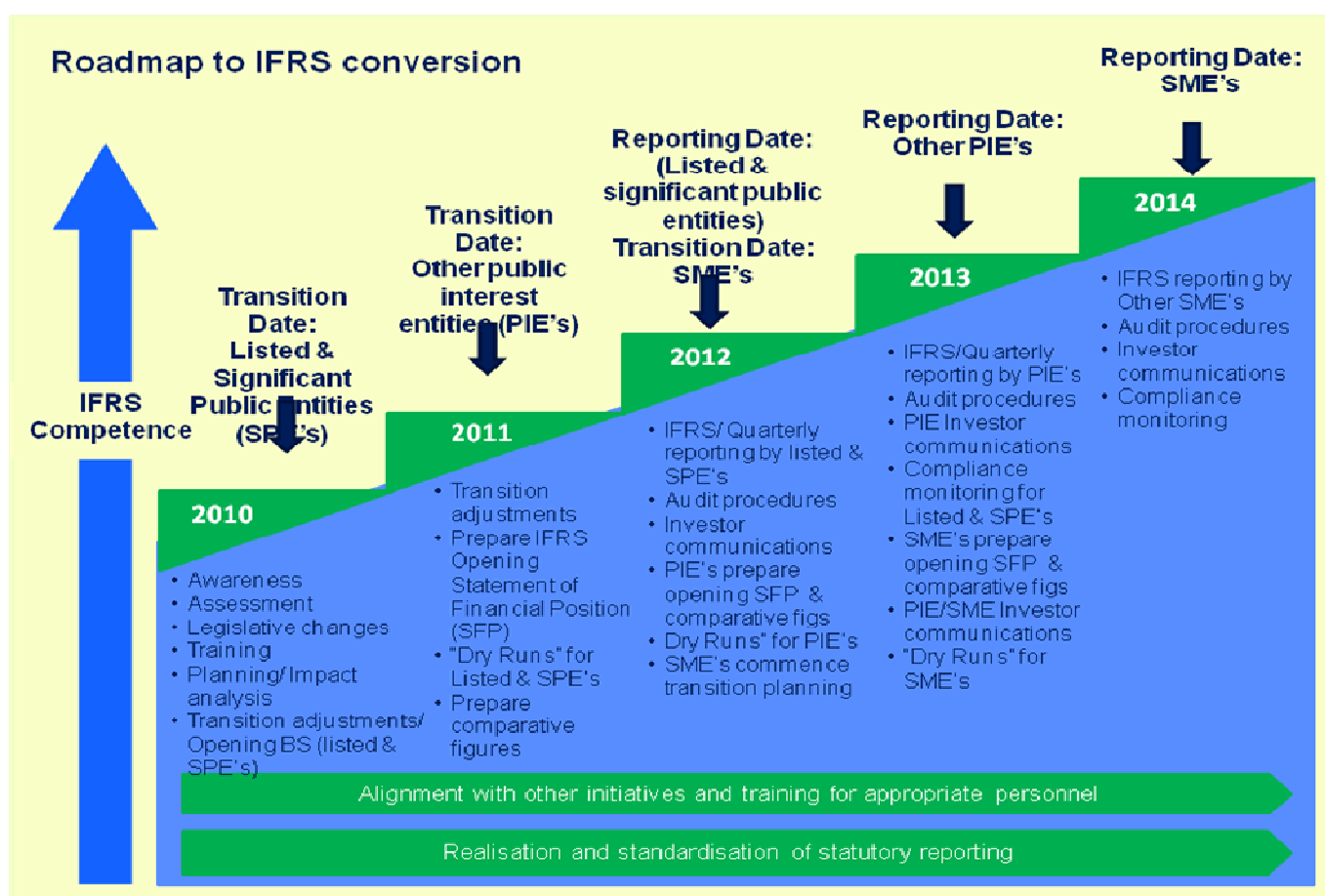
Transitioning from national financial reporting standards to IFRS has the potential to create a need for clarification or interpretation of the provisions of certain IFRS in relation to certain country-specific circumstances. There is a shortage of expertise in the field of IFRS which can affect not only the private sector but also regulators and other government agencies.

6. The Roadmap

The adoption of IFRS is more than just an accounting exercise. This is because accounting and reporting represent approximately a quarter of conversion efforts. Other areas include system changes for capturing and reporting data, re-appraising the tax cycle (planning, provision, compliance and controversy), aligning of internal and external reporting and ensuring changes in internal audit plans.

It is also important to note that the impact of IFRS accounting policies decisions of a parent on the subsidiary, data capture for accounting and management reporting, availability of technical resources, acquisitions and dispositions, executive compensation calculations and the basis of incentive pay, debt covenants and potential impact of IFRS-reported results, etc were considered before arriving at the roadmap.

It is hereby recommended that IFRS be adopted in Nigeria. The Roadmap for the adoption is as specified hereunder:



6.1 Statement of Adoption

It is believed that it will be in the best interest of the nation to adopt IFRS. A **phased transition** over a period of **THREE YEARS is recommended**. This is anchored on the understanding that the nation will follow the milestones and timelines as enunciated above and explained hereunder. It is pertinent to state here that the transition within this earliest possible period of effective and meaningful adoption may be derailed if any of the milestones and timelines is ignored.

Some reporting entities are already using IFRS for non-statutory purposes. Such IFRS-based financial statements must be in addition to the financial statements prepared under relevant Statements of Accounting Standards issued to date by the NASB.

The few entities that are already using IFRS for non-statutory purposes should be allowed to continue as it will facilitate effective mandatory IFRS at the appropriate time. The use of IFRS by entities prior to national enforcement is referred herein as “voluntary”.

Where certain regulators require the preparation of IFRS-based financial statements, such financial statements should be in addition to the ones prepared under national GAAP as defined by the NASB.

6.2 Mandatory Adoption of IFRS

6.2.1 Phase 1: Publicly listed Entities and Significant Public Interest Entities

January 1, 2012 is recommended as the date for adoption of IFRS for all listed entities. The choice of January 1, 2012 is anchored on the need to effectively transit to IFRS over a three year period. Any entity that starts preparation for transiting would need to convert its closing balances at December 2010 to IFRS-based figures which then become the opening balances as at January 1, 2011 for IFRS-based financial statements as at December 31, 2011. This provides opening balances for January 1, 2012 which is the first IFRS full financial statements as at December 31, 2012 (with 2011 as comparative year). Within these years, all the required changes in business process, Information Technology, contractual obligations, etc

necessary for effective IFRS-based financial statements must have been fully effected to give true, fair and complete IFRS-based financial statements.

Mandatory reporting for all publicly listed entities and significant public interest entities shall be December 31, 2012. This means that all listed companies and significant public interest entities in Nigeria will statutorily be required to issue IFRS based financial statements for the year ended December 31, 2012.

The commencement for preparation towards transiting to IFRS by SMEs is January 1, 2012.

6.2.2 Phase 2: Other Public Interest Entities

All other public interest entities are expected to mandatorily adopt IFRS, for statutory purposes, by January 1, 2013. This means that all other public interest entities in Nigeria will statutorily be required to issue IFRS based financial statements for the year ended December 31, 2013.

6.2.3 Phase 3: Small and Medium-sized Entities

IFRS for SMEs shall mandatorily be adopted as at January 1, 2014. This means that all Small and Medium-sized Entities in Nigeria will statutorily be required to issue IFRS based financial statements for the year ended December 31, 2014.

Entities that do not meet the IFRS for SME's criteria shall report using Small and Medium-sized Entities Guidelines on Accounting (SMEGA) Level 3 issued by the United Nations Conference on Trade and Development (UNCTAD) .

7. Guidelines for Effective Transition

The plan for transition to IFRS for preparers and users of financial statements, educators, regulators and other stakeholders has to be effectively coordinated and communicated.

7.1 Action Plan.

The action plan and its logistical framework of targeted activities, as typified in 4.0 above, should be completed within the specified period of time. This should include creating awareness on the potential impact of the conversion, identifying regulatory synergies to be derived and communicating the temporary impact of the transition on business performance and financial position. This will require organisations to:

- Know the issues in the Accounting and Reporting:
 - ✓ Identify key gaps between current national GAAP and IFRS.
 - ✓ Highlight new IFRS issues (exposure drafts, uncertainties, etc).
 - ✓ Consider impact on regulatory/statutory and tax reporting.
 - ✓ Recognise that IFRS may change substantially on yearly basis.

Examples of what can go wrong if not properly addressed:

- Corporate centre has identified the gaps but subsidiaries are not picking them up in their conversion plans.
- Inconsistent interpretation of IFRS issues across the organisation.
- Poor quality of IFRS based financial statements.
- IFRS restatement too slow.

- Recognise that in Business you manage what you can measure:
 - ✓ Understand the financial and business impacts of IFRS conversion.
 - ✓ Determine possible actions to mitigate volatility of results under IFRS (within constraints of current rules).
 - ✓ New reporting requirements must be understood by executives to avoid misinterpretation.

Examples of what can go wrong if not properly addressed:

- Financial impact understood too late; insufficient time to study alternatives/mitigative actions.

- Current reporting infrastructure incapable of reporting multiple standards (IFRS and Nigerian GAAP), leading to increased risk of non-compliance.
- Make systems and processes amenable and sustainable to IFRS environment:
 - ✓ Assess the systems and process impacts on financial reporting and consolidation systems.
 - ✓ Determine changes required to source systems to provide the additional data.
 - ✓ Implement new procedures to support your business under IFRS reporting.

Examples of what can go wrong if not properly addressed:

- No time to perform dryrun to test robustness of IFRS reporting.
- Current systems not flexible enough to cater for IFRS reporting.
- Too many workarounds because of insufficient time to embed IFRS reporting in current systems.
- Equip Principal key factors (People):
 - ✓ Senior-executive level sponsorship.
 - ✓ Secure buy-in and support from the business.
 - ✓ Establish a broad communication plan.
 - ✓ Plan for adequate training/knowledge transfer.
 - ✓ Rigorous change management.

Examples of what can go wrong if not properly addressed:

- Lack of skilled resources for the project (especially in the field).
- Lack of IFRS awareness among senior management and investor relations.
- Inadequate IFRS knowledge transfer from consultants to finance staff.
- With management: Project roles and responsibilities unclear; budget overruns and missing deadlines.

7.2 Public sensitization

It is necessary that adequate public sensitization be carried out beginning from year 2010 to enable the preparers and users of financial statements, regulators, auditors, investors and other relevant stakeholders to be properly educated.

There should be concerted efforts by all regulators, led by NASB, to adequately sensitize stakeholders. This should include creating awareness on the potential impact of the conversion, identifying regulatory synergies to be derived and communicating the temporary impact of the transition on business performance and financial position.

7.3 Secure passage of Financial Reporting Council Bill

There is a need to bring all financial reporting issues under one umbrella body for an effective transition to IFRS based financial reporting regime. All stakeholders should therefore work to facilitate the passage of the FRC bill.

7.4 IFRS for SMEs: Consultation with NACCIMA

In order to ensure that Small and Medium Sized Entities in Nigeria effectively transit to IFRS for SMEs, Nigerian Association of Chambers of Commerce, Industry, Mines and Agriculture (NACCIMA), National Association of Small and Medium-sized Entities (NASME), etc should be involved in the entire process.

Lack of in-depth knowledge of IFRS is one of the major challenges facing IFRS implementation. A comprehensive training programme to cater for different needs of the stakeholders should urgently be established. A three-level knowledge approach of IFRS-based financial statements should be adopted as follows:

a) Basic Knowledge: this entails an appreciation of principles of the IFRS relevant to the preparation, audit or regulation of IFRS financial statements and ability to identify issues for proper accounting under IFRS. This should require some technical knowledge which will be enhanced with further professional development and practical experience.

b) Working Knowledge: this entails a good understanding of the IFRS relevant to the preparation, audit or regulation of IFRS financial statements. It also entails the ability to make preliminary assessment and proper accounting for transactions under IFRS financial statements. This also should require sound technical knowledge which will be enhanced with further professional development.

c) Thorough knowledge: this involves a detailed understanding of the IFRS relevant to the preparation, audit or regulation of IFRS financial statements. This should require sound technical knowledge combined with practical experience leading to mature professional judgment.

7.5 Creation of a Centre of Excellence

In order to achieve effective training and capacity building needed for effective implementation of IFRS, an IFRS Centre of Excellence should be established. This is a training school entirely dedicated to the teaching and learning of IFRS. The programmes are expected to be designed in a way that will ensure that classroom sessions are blended with real life examples. The course should start up with an initial module directed at ensuring that all participants are brought to, at least, the level of basic knowledge of IFRS. The basic knowledge is expected to cover areas such as:

- Comparison between current SASs and IFRS and effects of differences in the financial statements and analysis.
- Transition Rules and first – time adoption processes.
- Practical and operational implications for supervisory and regulatory functions.

The Centre of Excellence is expected to carry out training needs assessments of different stakeholders to be able to tailor the training to their needs. It is also expected that the Centre will continue to give post implementation support to ensure effective implementation of IFRS.

7.6 Creation of a dedicated Website

Currently there is no dedicated website on IFRS and related matters in Nigeria. It is therefore necessary to have a dedicated website that will be a repository of information particularly as it relates to financial reporting issues in Nigeria. This will facilitate the exchange of ideas and provide responses and or solutions to issues relating to SAS and IFRS.

7.7 Update of Information Technology (IT) Systems and Chart of Accounts

Transiting to IFRS will require changes in systems and processes to make them amenable and sustainable in an IFRS environment. This demands assessing systems and processes to determine the possible

impacts on financial reporting and consolidation systems. It also requires determining changes required to source systems to provide the additional data and implement new procedures to support the business under IFRS reporting. All these will necessitate upgrading existing chart of accounts and IT systems in organisations.

7.8 Distinguishing regulatory requirements from the pronouncement of a Standard

Some regulatory bodies request entities to disclose some financial information for supervisory purposes. This is in line with best practices. However, such regulatory requirements, at times, are at variance with the provisions of related accounting standards. Regulatory bodies should clearly distinguish their regulatory requirements from provisions of financial reporting standards to avoid conflict and ensure credible financial reporting in Nigeria. It is necessary to refer to NASB (or its successor) matters relating to accounting standards, for effective interpretation.

7.9 Role of the NASB after adoption of IFRS

In order to improve the quality of Nigerian GAAP and ensure effective participation in the setting of IFRS, it is necessary to enhance the activities of the Nigerian Accounting Standards Board and ensure a broad-based stable source of funding for NASB that will enable it to contribute to the mandate of the International Accounting Standards Board.

There may be accounting issues that impact significantly on the Nigerian economy that would require standardization. NASB is expected to bring such important accounting issues to the notice of IASB for inclusion in the technical agenda. Where there is urgency, the NASB should issue a national pronouncement on the subject until the IASB issues a statement on it.

The NASB should henceforth participate effectively in the activities of IFAC, National Standards Setters, Twinning arrangements of the IASB on agenda projects and the work of the IFRIC. The NASB should also ensure that Nigeria is always properly represented in UNCTAD in order to influence emerging issues that are addressed by the body from time to time.

7.10 Update syllabus of training institutions

To sustain the efforts of NASB in ensuring content validity of accounting curriculum in Nigerian tertiary institutions, there is a need to constructively engage NUC, NBTE, professional accountancy bodies and tertiary institutions in an effort to upgrade their accounting curriculum. This should be done as a matter of urgency before the full transition to IFRS. The accounting lecturers are to benefit from the programmes of the IFRS Centre of Excellence, NASB's yearly workshop and liaison meetings as well as the linkage programme.

7.11 International Public Sector Accounting Standards (IPSAS)

The IPSAS are laid down by the International Federation of Accountants (IFAC). They therefore have no legally binding force except to the extent accepted by jurisdictions. The development of IPSAS was, however, promoted and financed mainly by the International Monetary Fund and the World Bank. Although the IPSAS are based on the IFRS developed for private sector, they are adapted to the requirements of the public sector. It is in the interest of Nigeria to adopt IPSAS as soon as possible. Before the passage and assent of the FRC bill, the NASB in conjunction with OAGF should commence the transition to IPSAS without delay.

8. Conclusion

It is in the best interest of Nigeria to adopt IFRS. A countrywide intensive capacity building programme to facilitate and sustain the process of adoption should be introduced as early as possible. Finally, NASB should set up a committee charged with the responsibility to ensure that this project is not derailed.

9. Definitions

a) Significant public interest entities

This means government business entities, all entities that have their equities or debt instruments listed and traded in a public market (a domestic or foreign Stock Exchange or an Over the Counter market, including local and regional market), and such other organisations, though unquoted, are required by law to file returns with regulatory authorities and this excludes private companies that routinely file returns only with Corporate Affairs Commission and the Federal Inland Revenue Service. Examples of entities meeting these criteria include financial and other credit institutions and insurance companies.

b) **Other public interest entities**

This refers to those entities, other than listed entities (unquoted, private companies), which are of significant public interest because of their nature of business, size, or number of employees or their corporate status which require wide range of stakeholders. Examples of entities meeting these criteria are large not for profit entities such as charities and pension funds and may include publicly owned entities and other entities where there is a potentially significant effect on financial stability.

c) **Small and Medium-sized Entities (SMEs)** refer to entities that may not have public accountability and:

- their debt or equity instruments are not traded in a public market;
- they are not in the process of issuing such instruments for trading in a public market;
- they do not hold assets in a fiduciary capacity for a broad group of outsiders as one of their primary businesses.
- the amount of its annual turnover is not more than N500 million or such amount as may be fixed by the Corporate Affairs Commission,
- its total asset value is not more than N200 million or such amount as may be fixed by the Corporate Affairs Commission,
- no Board members are an alien,
- no members are a government or a government corporation or agency or its nominee, and
- the directors among them hold not less than 51 percent of its equity share capital.

10. Members of the Roadmap Committee

S/N	NAME	ORGANISATION
1.	Jim Osayande Obazee Chairman	<i>Nigerian Accounting Standards Board</i>
2.	Iheanyi Anyahara Secretary	<i>Nigerian Accounting Standards Board</i>
3.	Winston Cole	<i>World Bank</i>
4.	Alonge, C.O.	<i>Federal Ministry of Finance, Abuja</i>
5.	Odukoya O.Olusoji	<i>Institute of Chartered Accountants of Nigeria</i>
6.	Laide Benson-Onashokun	<i>National Insurance Commission</i>
7.	Agu, Vivian	<i>Central Bank of Nigeria</i>
8.	Fowokan Titilayo	<i>Chartered Institute of Taxation of Nigeria</i>
9.	Adekunle J.A.	<i>Federal Ministry of Commerce & Industry</i>
10.	Aruwa S.A.S	<i>Nigerian Accounting Association</i>
11.	Osayande O.	<i>Nigerian Universities Commission</i>
12.	Adeleke A.A.	<i>Nigerian Deposit Insurance Corporation</i>
13.	John Onojah	<i>Securities and Exchange Commission</i>
14.	Michael A. Ayeni	<i>Association of National Accountants of Nigeria</i>
15.	Amawhe A.S.C.	<i>Federal Inland Revenue Service</i>
16.	Uwadiae Oduware	<i>Akintola Williams Deloitte</i>
17.	Cyril Azobu	<i>PricewaterhouseCoopers</i>
18.	Ayodele, Othihiwa	<i>KPMG</i>
19.	Ikhanoba Bosede	<i>Corporate Affairs Commission</i>

