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Institutional Framework for Accounting Policy and Reporting in Nigeria: The Unresolved Issue

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Abstract
The quality of decisions that users of accounting information make is largely dependent on the quality of information available to them. This therefore implies that for accounting information to be of acceptable quality, it must meet some established standards and principles. This paper looks at the various institutional frameworks for accounting policy in Nigeria with a view at addressing the unresolved issue in the legal framework by adopting the recent International Financial Reporting Standards (IFRS). The paper recommends the way forward to include the amendment of the existing laws at variance with the adoption of the IFRS framework for financial Reporting.
Keywords: Institutional Framework, Accounting policy, Nigeria

1. Introduction

The American Accounting Association (AAA) defined Accounting as the process of identifying, measuring, and communicating economic information to permit informed judgments and decisions of users of the information (Adeniji, 2004). Accounting is viewed not as an end in itself but a language that is useful in decision making. This implies that; the continued existence of Accounting is dependent on its usefulness to the society and users of accounting information in their decision making process.

The published financial statements prepared by directors of limited liability companies remain the primary means of informing shareholders and other users about the financial performance, progress and position of the business. The quality of decisions that users of accounting information make is largely dependent on the quality of information available to them. This therefore implies that for accounting information to be of acceptable quality, it must meet some established standards and principles released by the various institutional frameworks regulating the preparation and reporting of such information.

This paper therefore seeks to examine the various institutional frameworks for accounting policy and reporting in Nigeria with a view to highlight the unresolved issue.

The remaining part of the paper is divided into four; accounting institutional frameworks in Nigeria, the unresolved issue, the way forward and conclusion.

2. Accounting institutional framework in Nigeria

In general sense, institutions are both formal and informal mechanisms that guide economic and social exchanges and interactions (North, 1990). Another way of regarding institutions is that they are mechanisms that facilitate efficient exchanges and interactions between economic players. They therefore are the framework within which human dealings take place. They are absolutely analogous to the rules of the game in a competitive group sport. That is they consist of official written regulations as well as typically unwritten codes of conduct that underlie and supplement formal rules, such as not deliberately injuring a key player on the opposing team. And as this comparison would imply, the rules and informal codes are sometimes violated and penalty is enacted. Therefore, an indispensable part of the working of institutions is the costliness of ascertaining violations and the sternness of punishment (Isenmila & Aderemi, 2013).

Accounting institutional framework can be referred to as those institutions that shape the quality of accounting information and ensure its credibility. These institutional framework ranges from setting of accounting standards to ensuring compliance with such standards. These institutional frameworks include;

2.1. Legal Framework

There are a plethora of laws and regulations that provide legal basis for accounting and financial practices in Nigeria. However, the main legal framework for corporate reporting and auditing practice is the Companies and Allied Matters Act (2004). Iyoha & Oyerinde (2010:366) assert that; “Nigeria does not lack the required legal backing for her financial transactions”. Akhidime (2010) is of the view that the Companies and Allied Matters Act (CAMA), has voluminous provisions that include requirements for auditing, disclosures, and preparation and publication of financial statements. It also provides for the Registrar of Companies at the Corporate Affairs Commission to monitor compliance with these requirements and specifies penalties for companies and their officers in cases of non-compliance. The Companies and Allied Matters Act prescribes the format and content of company financial statements. However, as observed by Okaro (2004:50), "the challenge with Nigerian legal frameworks is in the archaic nature of the financial rules and regulations in force in the country". The position of Okaro (2004) is further reinforced by the assertion of Iyoha & Oyerinde (2010), which suggests that Nigerian laws suffer from severe weakness in enforcement, compliance and regulation.

2.2. Professional Framework

The professional frameworks for the accounting profession in Nigeria include the Institute of Chartered Accountants of Nigeria (ICAN) and the Association of National Accountant of Nigeria (ANAN). The two bodies are responsible for the production of professional accountants in Nigeria. Uche (2007) is of the view that; ICAN enjoyed the monopoly of accounting professionalization for well over two decades but could not rise up to the challenge of bridging the ever widening gap between the national demand for and supply of qualified and certified accountants. Such failure not only encouraged the incursion of other professional accounting bodies but also paved the way for rivalry, and struggle for supremacy (even litigation), between ICAN and other professional accounting bodies. However, in 1993, another professional accounting body was formed via a Decree. The body is called Association of National Accountants of Nigeria (ANAN). The association is also responsible for ensuring the best practices in the profession and also participates in the general regulation of accounting practice in Nigeria (Salisu, 2011).

According to Okafor (2012:205) "Three other professional bodies have since joined the fray namely the Chartered Institute of Taxation of Nigeria (CITA), the Chartered Institute of Cost and Management Accountants (CICMA) and the Institute of Certified Public Accountants of Nigeria (ICPAN) which was incorporated in 2005".

2.3. Securities and Exchange Commission

The Securities and Exchange Commission Nigeria is the apex regulatory institution of the Nigerian capital market. On behalf of SEC, the Nigeria Stock Exchange reviews submissions by companies for compliance with the listing requirements, which include accounting standards and disclosure requirement under CAMA. The audited financial statements of a listed company are only published after approval of the Stock Exchange and de-listing is the only sanction for non-compliance (Isenmila & Aderemi, 2013).

2.4. The Central Bank of Nigeria

The Central Bank of Nigeria regulates accounting requirements for prudential regulatory reporting and general-purpose external financial reporting of banks, as well as non-bank financial institutions. At present the Central Bank of Nigeria issues guidelines in consonance with Nigerian Accounting Standards, and reviews and approves the audited financial statements for compliance before they are published.

2.5. Tertiary Education Institutions

According to Isenmila & Aderemi, (2013:177) "Education is the pillar for current multifaceted accounting systems" Gernon, Meek & Mueller (1987) further establish that there is a positive association between education and the competence of professional accountant. Salisu, (2011) is of the opinion that the major progress made in the development of accounting can be attributable to the research, suggestions and recommendations of the accountants involved in research. Accordingly, it is the findings of the academic accountant that usually form the basis of further discussions for possible issuance of an accounting standard, guideline or principle.

Nowadays totally and relatively new concepts are evolving. These new concepts are gaining importance. Some of them include accounting for branding, human resource auditing, forensic accounting, environmental accounting, social responsibility accounting, human resource accounting, etc. These concepts are majorly academic concepts developed for the purpose of meeting up with the human civilization and responding to practical issues (Suki, 2006).

2.6. Nigerian Accounting Standard Board (NASB)

According to Madawaki (2012:154) "NASB came into being on September 9 1982". However, The NASB Act, No 22 of 2003, formally created the Nigerian Accounting Standards Board and also established an Inspectorate Unit. The NASB (now Financial Reporting Council of Nigeria-FRCN) is the only recognized Independent body in Nigeria responsible for the development and issuance of statements of accounting standards for users and preparers of financial statements, investors, commercial enterprises and regulatory agencies of government (Madawaki, 2012). The World Bank (2004) observed that NASB lacks adequate resources to fulfill its mandate. As a government agency, NASB has relied on government subventions and has been exposed to serious budgetary constraints that hinder its performance.

3. The Unresolved Issue

Nigeria is on its way to full adoption of international Financial Reporting Standards (IFRS) as the major reporting standards for all profit making organizations in Nigeria. The convergence of SAS to IFRS will introduce an almost entirely new basis of reporting for many companies. A roadmap on the adoption of IFRS would lead to the adoption of IFRS in three phases as follows: (i) Public Listed Entities and Significant Public Interest Entities in Nigeria by 2012, (ii) Other public Interest Entities by 2013, and (iii) Small and Medium-sized Entities by 2014.

In Nigeria, accounting practices are governed by the Companies and Allied Matters Act (CAMA) 1990, and the Statement of Accounting Standards (SAS) issued by the Nigerian Accounting Standards Board (NASB) and other existing laws such as Nigerian Stock Exchange Act 1961, Nigerian Deposit Insurance Act 2006, Banks and Other Financial Institution Act 1991, Investment and Securities Act 2007, Companies Income Tax Act 2004, Federal Inland Revenue Services Act 2007. All these provide some guidelines on preparation of financial statements in Nigeria. IFRS does not recognize the presence of these laws and the accountants have to follow the IFRS fully with no overriding provisions from these laws.

Moreover, 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. 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 (Madawaki, 2012).

The problem is further compounded when it is observed that amendment of laws in Nigeria is slowly effected. This may be the reason why the some of the provisions of penalties for non- compliance to the Companies and Allied matters Act by companies and their officers are outdated and begging for amendment in line with modern global realities.

4. The Way Forward

The adoption of the International Financial Reporting Standards (IFRS) as a global reporting institutional framework for Nigeria financial reporting has its benefits. However, these benefits may not be fully achieved with the provisions of IFRS in total contrast with other accounting institutional framework within the country. It is therefore necessary for the legislative arm of the Nigerian Government to take the bull by the horn and urgently make the necessary amendments to the already existing law at variance with the provisions of IFRS.

5. Conclusion

The users and stakeholders of accounting information will continue to rely on qualitative frameworks to generate qualitative financial information that will assist them in their various decisions. It is therefore necessary that the statutory framework that guides the preparation of the financial information be strengthened and harmonized to ensure that the adoption of the IFRS framework for financial reporting is not just nominal but real.

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