

Optimising the benefits of IFRS Transition in Nigeria

PwC Nigeria's IFRS Transition Cost Survey Report



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Introduction

Over the last 5 years, so much has been said in the media and in other fora about Nigeria adopting and transiting to the International Financial Reporting Standards (IFRS). The much talked about transition period is finally over and Nigeria now officially ranks amongst countries reporting IFRS.

IFRS which is developed by the International Accounting Standards Board (IASB), presents a single set of high quality, understandable, enforceable and globally accepted standards for financial reporting, based upon clearly articulated principles.

IFRS has become the de facto global standard for financial reporting. Its quality has been validated by almost a decade of use by markets in both advanced and developing economies. The experience of economies where it's been implemented show significant impact in the quality of financial statements with improvements in the comparability and transparency of financial information. The application of the standard has also enabled players in the capital market to receive higher quality information for better decision making.

IFRS has equally resulted in better accountability on operations and investments. As is known, investors and lenders need financial information that is reliable, relevant and comparable across borders in order to assess the risks and returns of their investment opportunities. Furthermore, the increased use of management judgement has seen to the employment of better skilled individuals and the strengthening of finance functions in line with international best practice. Overall, IFRS has resulted in a more sophisticated and globally accepted mode of doing business.

It will be recalled that the Financial Reporting Council, FRC of Nigeria (previously NASB) released the IFRS transition roadmap in September 2010. Per this roadmap, companies in Nigeria were grouped into 3 categories and given strict timelines from which to start reporting IFRS. To many, it was a dream come true, to others, a lofty idea that would not see the light of the day. Many pushed back on the time frame, while there were arguments on the merits or not of adopting these standards. The FRC of Nigeria to their credit was resolute, insisting there was no going back especially as it was commissioned by the Federal Executive Council of Nigeria.



In the wake of the transition two key questions have arisen:

1. Was the IFRS transition cost effective?
2. How do we sustain IFRS reporting to ensure we reap the benefits that abound?

Was the IFRS transition cost effective?

PwC launched an independent survey in 2014 to understand the challenges of IFRS transition as part of its commitment to support the successful implementation of IFRS in Nigeria. In particular, survey questions focused on the key drivers of cost in the transition process and the nature of post implementation issues that organisations have had to grapple with.

Survey methodology

Among those surveyed were 38 finance executives drawn from various companies across 4 sectors of the Nigerian economy: Financial Services, Energy, Manufacturing & Conglomerates and the Telecommunication sectors. The survey which was conducted by the Financial Institutions Training Centre (FITC), combined data gathered through online survey, physically administered questionnaires and interviews. Findings from the survey is summarized below:

Findings

The results showed that 83.3% of respondents had an approved budget for IFRS implementation. 32% of the respondents had budgets in excess of N75million. All respondents said that the total cost of IFRS implementation was more than they had initially envisaged and that adopting IFRS had not reduced their financial reporting costs. In fact, 96.7% of respondents commented that preparing financial reports under IFRS was more costly when compared to preparing same under previous local standards.

One of the key things that stood out in the study was the varied experiences of Nigerian companies in various sectors and of different sizes when it came to the transition. The bigger companies with foreign subsidiaries or parents had commenced implementation ahead of the commencement in Nigeria. They were able to leverage IFRS knowledge and work done by these subsidiaries or parent companies in saving their transition cost. Smaller companies on the other hand found the transition process a lot more cumbersome

with issues around the short transition period and the cost involved emerging as a common complaint.

It was also interesting to learn about some of the issues that were responsible for some organisations finding the implementation costlier or requiring more effort to implement than was initially envisaged. The reasons identified ranged from delays caused by disagreements among various advisors in their interpretation of some IFRS provisions, to the identification of more issues that required attention than were anticipated. I think this suggests that a number of organisations rushed into the conversions in order not to default on the deadlines without adequately planning for all the consequences.

The study also found that:

- Only 46.7% of surveyed organisations had completed both their first annual IFRS financial statements and interim IFRS financial statements for the second year at the time of the survey.
- 70% of companies' improved their employee strength and improved their finance function as a result of IFRS implementation.
- 46.7% acquired a new accounting software package
- 96.7% believe there is a huge skills gap and indicated a need for their employees who have responsibility for IFRS reporting to undergo relevant training.

Majority of respondents agreed that though the costs were significant, IFRS adoption has significantly improved the quality, consistency and transparency of reporting in their organisations. In other words, the benefits outweigh the costs of transition.

Ensuring sustainability of IFRS reporting

A lot of companies are still struggling with IFRS. Internally, most companies still run parallel reporting systems with IFRS running side by side local reporting. This is expected; given the nascent nature of Nigeria's IFRS reporting. Companies must realise though, that IFRS is here to stay. It is not just an accounting principle but has become the new business reporting language.

Companies must seek to harmonise existing structures to ensure IFRS is engrained in the policies and day to day procedures and activities. This may mean effecting changes in basic procedures such as the way we word business contracts to ensure that the accounting impact

of these business contracts is not so different from the actual intent. It may also require drastic changes to process flows or systems or policies.

In all, companies must embed IFRS and embrace the spirit of the letter. That way, we can minimize diversity in practice and prevent a haphazard adoption. Doing this will also help us set solid building blocks for a more rewarding and structured financial reporting environment and by extension make us truly a part of the global family. An additional benefit some companies are not aware of is the fact that having a robust IFRS reporting platform and financial statements opens up global capital funding opportunities to companies as all international investors require IFRS data to make their investment decisions.

Dealing with IFRS on a sustainable basis requires immediate action and this may provide some market advantage when implemented in a seamless manner and in the long run should keep the cost of financial reporting at a cost efficient level.

Amongst the key issues that need to be addressed is the IFRS skill gap that companies have to close up. When asked if further training is required to understand IFRS impact and application, about 70% of respondents on the average agreed that employees including Board members and Executive management still require further training to understand the impact of IFRS on their roles, responsibilities and organisational performance.

Another key issue is the lack of sufficient market data of the right quality to aid the application of core IFRS principles especially the concept of fair value. Fair value is a market based measurement commonly referred to in IFRS. The objective of a fair value measurement is to estimate the price at which an asset will be sold or a liability transferred in an orderly market condition. Whilst global values are largely available, these will still have to be adjusted to reflect local realities and drive local valuations such that they mirror the Nigerian market, which is not as developed as that of other established markets. The need for proper valuations cannot be over emphasized; in fact one of the main catalysts of the global financial crisis in 2007 was the inflated prices in the real estate industry. As we bridge the skill gap and develop more experience with applying

IFRS properly, these market data banks will grow more robust and relevant.

Keeping up with the global trend

The benefits of a single set of high-quality global accounting standards, consistently applied, are worth the challenges that IFRS pose. Its revolutionary impact however requires a great deal of decisiveness and commitment by all stakeholders.

It must be noted that each company is different, and therefore the impact of the IFRS adoption will differ from one company to another as was seen in our study. Industry segment, business complexity, and other environmental factors will play a role in determining the level of impact and the timing of companies' approaches.

There is a need for organisations to move beyond just making financial reports in IFRS, and commence embedding it such that it becomes a routine business activity, rather than an annual reporting concern. This also means reducing risk in your business as sustainable processes supersede the tactical/manual approach being currently employed by some organisations.

Effectively embedding IFRS into an organisation's Enterprise Resource Planning would require robust change management and capacity building strategies. As the complexity of the entity's operations increases, the entity would require more effort in ensuring it has the capacity to adequately provide information and effect standards and guidelines required for the preparation of IFRS compliant financial statements.

In order to gainfully implement and utilise IFRS on a sustainable basis, organisations must stay abreast of updates to the standards, given that it is a constantly changing platform. For example, new standards such as IFRS9 and IFRS15 present new, complex implementation challenges which organisations will need to navigate. Being able to do this successfully and also propose changes based on their experience will ensure that Nigerian companies begin to take an active part in the standard setting process. We cannot afford to sit on the side lines.

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