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Inconsistency in the Adoption of IFRS by Nigerian Microfinance Banks

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Abstract

The main objective of any financial reporting is affirmatively to communicate with the users, the true financial position of an enterprise in a summarized and standard form in order to facilitate understanding for economic and related decisions making process. In Nigeria, Statement of Accounting Standard (SAS) has been the official standard in practice before it is being replaced with International Financial Reporting Standard (IFRS). From all respects, the SAS has similar objectives like the IFRS only that it operates within Nigeria. This study focuses on the Nigerian Microfinance Banks (MFBs), and the main problem is to address is whether it will be mandatory for these MFBs to adopt this new standard in preparing financial statements despite the high quality SAS, characteristics and uniqueness of these banks? The objective is to provide insights for suggested solution to this question through review of related literature. From the literatures' findings, it can be concluded that due to the peculiarities of these banks and some challenges facing these banks, adoption of IFRS will not be feasible. This study recommends that the Central Bank of Nigeria (CBN) should include in its IFRS compliance financial reporting a special report to accommodate financial and operational activities of the MFBs and that if adoption of IFRS becomes a must for these MFBs, the Financial Reporting Council of Nigeria (FRCN) and the apex body should fully sponsor the conversion costs including the continuous training until the banks can independently apply the standard.
Keywords: central bank of Nigeria (CBN), IFRS, Nigerian GAAP, Nigerian microfinance banks.

1. Introduction

The main objective of any financial reporting is affirmatively to communicate with the users, the true financial position of an enterprise in a summarized and standard form in order to facilitate their understanding for economic and related decisions making process. To ensure that financial reporting meets these qualities, an acceptable accounting standard must be put in place and such standard should be seen as a principle-based rather than a rule-based (Agoglia, Doupnik and Tsakumis, 2011) but it must be relatively stable. In Nigeria, Statement of Accounting Standard (SAS) has mainly been the official standard in practice up to 2012 (for public interest entities) when imposition of the new international standards came to replace it. The drone-word is, International Financial Reporting Standard (IFRS). One main objective of this new standard according to the International Accounting Standard Board (IASB, 2007) and IFRS foundation (2011) is "to develop, in the public interest, a single set of high quality, understandable, enforceable and globally accepted financial reporting standards based upon clearly articulated principles". The IASB further states that these new standards should require high quality, transparent and comparable information in financial statements and other financial reporting to help investors, other participants in the world's capital markets and users of financial information to make economic decisions. This is most challenging because we do not know of any accounting standard that is of less quality and that goes with problem of understanding in Nigerian accounting system.

There are three other subordinating objectives of this IFRS as there are to assist in achieving the main objective. The main objective of these new standards is not significantly different from the objective of Nigerian SAS or simply GAAP. This is because the standards (SAS) developed by the Nigerian Accounting Standard Board (NASB) are of high quality, competitive, comparable, understandable, principles-based and generally accepted within the space and practice taking into consideration the needs of all the users. The process of SAS is not only unique but allows all stakeholders to fully participate in the relevant exposure drafts before they are finalized into standards. The users have inputs in the information contents and disclosure for the purpose of assisting them and other stakeholders for their economic decision making processes. The SAS from inception and through its rigorous processes has had the quality and characteristics of relevance, materiality, faithfulness, comparability, verifiability, timeliness and understandability. A study of any financial statements of Nigerian companies including Microfinance bank (MFB), the dependent variable and focus of this study will confirm these financial qualities.

Nigerian microfinance bank is like any other registered company but operates in accordance with the requirements of Companies and Allied Matters Act (CAMA) and Central Bank of Nigeria (CBN). MFBs are highly regulated because of their peculiarities. Nigerian MFBs appear to have their major traces and sources from the defunct Community Bank (CB). Their total activities are regulated and supervised by CBN through strong regulatory and supervisory guidelines developed by the CBN in the exercise of powers conferred on it by the provisions of section 33 subsection (1) (b) of the CBN Act of 2007 and in pursuance of the provisions of sections 61-63 of the Banks and other Financial Institutions Act (BOFIA) 25 of 1991 (as amended). This becomes relevant as the Nigerian MFBs are yet to be supported by its own law.

The Nigerian MFBs in accordance with the law must generate financial statements on yearly basis and must guarantee high quality financial information contents for its owners and other users of the information to enable them take viable decisions. These banks have been complying with the financial information quality before they could get approval from CBN for publication. The adoption of new international standard by the Nigerian Government requires that all public interest entities, quoted and unquoted companies, other public interest entities and small and medium enterprises (SMEs) including micro-sized entities would have to comply with it (IFRS) in preparing their financial statements (IFRS, Foundation, 2013). However, there is a provision for micro-sized entities (SMEs) to either adopt IFRS for SMEs or the Small and Medium-sized Entities Guidelines on Accounting (SMEGA) Level 3 issued by the united Nations Conference on Trade and Development (UNCTAD) (IFRS, Foundation, 2013). These are other financial guidelines which may be complex to the players of these categories of business outfits to study and apply than the widely debated IFRS.

The Nigerian MFBs are unique financial institutions different from the conventional banks, and have unique features and characteristics that make them fall out of the definition of SMEs. Some of the uniqueness and characteristics of MFBs which have to be pointed out in order to support or otherwise in contemplating for the adoption of IFRS are: i) they are mainly unit banks serving only the operating area or location ii) their activities are highly restricted and they operate within the scope of the CBN's limitations iii) share capital is minimal - N20 million minimum, amount that may be just enough for conversion costs and possibly maintenance of the standards if adopted iv) serving, mainly all the groups of poor but active v) they provide financial services with or without security, that is character banking, a service not available in the conventional banks vi) the main aim is to provide services to the stakeholders rather than exploiting customers to make profits with a view to expanding beyond Nigerian's boarders and vii) most of these banks are located in the rural areas, mainly to bring financial services to the people in order to benefit from the banking services.

These banks are highly regulated in all aspect of their operations and fully supervised by the CBN. They submit regular, special returns and financial statements to CBN and other authorized agencies like the Nigeria Deposit Insurance Corporation (NDIC) and from which CBN can draw any financial report that will comply with the IFRS's requirements. Therefore, they need not comply separately with the IFRS's requirements than what the CBN will report.

This study draws its questions from the paragraphs above. The first main question is on whether it will be mandatory for Nigerian MFBs to adopt this new standard in preparing financial statements despite the Nigerian high quality SAS, characteristics and uniqueness of these banks and the services that are mainly to the poor with a view to reducing poverty in the country? Another supportive question is 'does implementing this new standard really matter to enable the owners and other users get more benefits than before through financial reporting?' The objective of this study is mainly to address these questions and to do so, related literatures will have to be reviewed to provide insights for the suggested solutions. The beneficiaries of this study are the players of these banks and all other stakeholders in the financial institutions, their regulatory bodies and other interest groups.

This study is informed by the confusion, comments, mixed feeling being observed by the actors of the MFBs. This is based on fliers directly and indirectly received by them on training with the view to preparing for conversion to IFRS. To the point of this work, the Financial Reporting Council of Nigeria (FRCN) and CBN have been keeping quiet about either to adopt or not to adopt the new standard by the MFBs. The outcome of this work is only intended to provide an insight and information required by all stakeholders of Nigerian MFBs on the International Financial Reporting Standards to enable them take stand on this new standard.

2. Literature Review

2.1 Concept of Nigerian Microfinance Banks' Operations

The Nigerian microfinance institution is to provide financial services to the poor who are ordinarily not served by the conventional banks (CBN, 2005 and Conroy, 2003).The financial services in this context include mobilization of savings, provision of credit facilities, payment services, financial consulting, micro-leasing and other form of banking assistance. The main characteristics of microfinance distinct from other forms of formal financial products are smallness of credits/loans and savings collected, near absence of assets-based collateral and simplicity of operations (Iorchir, 2006 and CBN, 2005). From these concepts, microfinance activity is a poverty alleviation strategy which operates by providing credit and other financial services to economically active and low income households and their businesses (Acha, 2012 and Yunus and Alan, 1999).

MFBs are financial institutions; some of their objectives are reviewed from the defunct Community Banks' objectives. Some of them according to Aliu (1994), include: i) promotion of rural and urban development by providing financial and banking services as well as other facilities to the area or location inadequately supplied with such facilities ii) rapid development of productive activities both in the rural and urban areas for improving the economic status of small producers in the informal sectors of the national economy iii) promotion of the emergence of an effective and integrated national financial system that responds to the needs of the whole economy especially at the grassroots level iv) the inculcation of discipline banking habits, among the masses of low-income workers in Nigeria especially those in the rural area.

Some of the objectives that can be inferred from the operations of MFBs are i) instant access to banking and financial services by the immediate families of where the bank is located ii) security of cash and cash equivalent to the immediate poor iii) access to a-day request overdrafts with or with guarantee, just-in-time service that is not available in other financial institutions iv) granting of other credit facilities that are not easily obtainable even with perfected collateral security in conventional banks and v) obtaining financial assistance/loans from government agencies for development of the banks' clients/customers' financial programmes. However, in 2005, CBN developed a microfinance policy with the aim to provide microfinance framework that would enhance the provision of diversified microfinance services on a long-term sustainable basis for the poor and low income groups, create a platform for the establishment of microfinance banks and improve CBN's regulatory and supervisory performance in ensuring monetary stability and liquidity management.

The CBN 2012 revised regulatory and supervisory guidelines of the CBN did not clearly state the objectives of the MFBs rather, the guidelines highlighted the permissible activities of the banks. The guidelines state that microfinance bank target's clients include the economically active low-income earners, low income households, the un-banked and under-served people, in particular, vulnerable groups such as women, physically challenged, youths, micro-entrepreneurs, informal sector operators and subsistence farmers in urban and rural areas (CBN, 2012). The guidelines under section 2.2 clearly state the prohibited activities of any MFB, include i) acceptance of public sector (government) deposits except for the permissible activities in (g) and (h) in sub-section 2.1 ii) foreign exchange transactions iii) international commercial papers iv) international corporate finance v) international electronic funds transfer and vi) clearing house activities vii) collection of third party cheques and other instruments for the purpose of clearing through correspondent banks and five others.

The guidelines made it clear that contravention of this prohibited activities constitutes a ground for revocation of the MFBs' licences and there is no exemption to these penalties on any of the three categories (unit, state and national) of MFBs. By virtue of these prohibitions, they are not expected to derive most of the benefits of adopting IFRS. Some of the pronounced benefits as regards this regulated business include i) encourage foreign direct investment inflow (Ball, 2006a and Okeowo, 2011) ii) high quality and more comparable corporate reporting practices which will lead to greater market liquidity, a lower cost of capital and a better allocation of capital iii) lower transaction costs for preparers of financial reports since they would be able to comply with a single set of accounting standards instead of multiple sets.

With these restrictions, the MFBs by implications are excluded from the benefits accruing to IFRS. Also, in considering the characteristics, operations and size of Nigerian MFBs, it may not be possible to adopt IFRS in reporting their financial transactions. Besides, the gap between the Nigerian GAAP and IFRS is wide. This has shown that adopting or contemplating for IFRS is not fundamental within the practice of Nigerian microfinance banks at the moment. Addressing the current challenges of these banks such as human resources necessary, the pay is not good, meeting the regular CBN's requirements, heavy operational costs, recurrent withdrawal of operating certificates, lack of financial assistance, and others should be the main focus now.

IFRS is a global standard for computing financial reporting. The hidden mission may not be far from addressing the current global market crisis and corporate failures. The concepts of Nigerian MFBs do not fall within the global markets and competitions therefore may have no good reason to jump into adoption of the standards. As MFBs do not participate in the capital market, according to Salvary (2006), they will be addressed as secondary users. The mission of IFRS is focusing on satisfying the demand of more efficient financial reporting and global capital markets that significantly play major role in the wealth distribution process in market economies (Jorissen and Pool (2006). Lasmin (2011) states that organizations have started to acknowledge the importance of financial reporting for economic reasons where it is believed that adopting IFRS has higher reporting transparency and comparability, greater chances to attract more investment, increase financial surplus and achieve higher economic growth. There are little empirical evidences to support this statement.

2.2 IFRS and Nigerian Microfinance Banks

From the objective of the IFRS, it is expected that its implementation will create and improve the quality and understandability of the corporate reporting practices and also heighten the comparability, reliability and relevance of financial statements including Nigerian MFBs. In some of the accounting literatures, a number of studies (Ashbaugh and Pincus, 2001 and Wallace and Briston, 1993) have provided evidences that adoption of International Accounting Standards will improve the quality of accounting information. In line with this, Jamal and Sunder (2008) are of the opinion that good accounting standards are developed to serve two potential functions as i) minimum quality standard and ii) a coordination function. Accordingly, Collins (2002) believe that users of financial information perceive a standard to be of a special high quality from an international perspective when the standard is consistent with an underlying conceptual framework and the financial report is perceived to reflect economic reality.

Chakrabarty (2011) is also in agreement and says that accounting standards generally are seen to pursue three distinctive objectives. These objectives are i) they help to standardize the diverse accounting policies and eliminate any incomparability in the financial statements in an entity and across them ii) they facilitate the preparation and presentation of high quality, transparent, and comparable information in an entity's financial statements and iii) they reduce accounting alternatives and thereby eliminate the element of subjectivity in the financial statements. Although these three objectives may be derived from the objectives of IFRS, they are revealing and had captured some cardinal points not found in the IFRS's objectives. Developing and maintaining efficient accounting standards to achieve these objectives have become mandatory, as shaky standards can influence dubious financial practices, misleading financial information and doubt in the general accounting practice.

The opinions of these contributors (on the qualities and benefits of IFRS) do not make reference to the size, characteristics and uniqueness of corporate organizations. Their opinions are on general entities without giving cognizance to these three variables. From the literatures reviewed so far, it may be possible to infer that size of business along with its characteristics can influence the adoption of IFRS.

Determining the factors that can influence the adoption and implementation or otherwise of IFRS principles are not just one but require a multi-faceted approach, (Abdelsalam and Weetman, 2003; Zeghal and Mhedhbi, 2006). For the Nigerian MFBs purpose, the factors will be reduced to the size of business, which we believe is small without measuring what is small (in terms of MFBs). For instance, Patel and Heidhues (2011) conducted a study in Germany and the result show that the size of firms plays a significant role in the implementation of IFRS. Russell (2008)'s study also shows that a company's size has a direct bearing towards the adoption of IFRS and submitted that a company size will positively affect the adoption of IFRS.

Dumontier and Raffournier (1998) conducted a study on Swiss data. The result shows a positive influence of a company's size on voluntary compliance with International Accounting Standards (IAS). The study reveals that firms that complied with IAS are larger and more internationally diversified. Chow and Wong-Boren (1987), Cooke (1989), and Gray, Meek and Roberts (1995) recognize that compliance with IFRS is positively related to a company's size and the company's listing status. A statistically significant relationship was also found between

companies with larger turnover (medium sized companies as opposed to small companies) and the degree of readiness for the adoption of IFRS (Floropoulos and Moschidis, 2004 and Aljifri and Khasharmeh (2006).
It is apparent that companies listed on the stock exchange are most prepared for adopting IFRS. Similarly, medium-sized companies are more prepared than small (for example, Nigerian MFBs, we refer to small size by making reference to the capital size and transactions of these MFBs) ones. Prior studies had shown that a company's attributes such as internationality, firm size and capital need are associated with the adoption of international standards (Ashbaugh, 2001; Bradshaw and Miller, 2004 and Tarca, 2004). However, Street and Gray (2002), and Glaum and Street (2003) find no significant relationship between a company's size and the adoption of IFRS. Alp and Ustundag (2009) found that small and medium size of companies did not affect the adoption of IFRS. Ahmad and Nicholls (1994), Street and Gray (2002) and Glaum and Street (2003) findings are in contrast with the findings of (Aljifri et al., 2006 and Patel, 2010).
The revelations from these studies are seen to be normal only that they did not state the characteristics and category of the companies sizes the way this study provides these variables. Our MFBs, for instance are judged by the size of their capital and smallness in terms of business transactions compared with the large and listed companies that were studied. Besides, the studies concentrated on foreign companies, Nigerian operating environment may lead to different or similar results that can still influence the adoption or otherwise of IFRS. However, a good number of these studies found no significant relationship between size of business and adoption of IFRS.

2.3 Challenges of Nigerian MFBs in Adopting IFRS

From the previous paragraphs, addressing recent and continuous corporate failures through globalization of capital markets have been the focus of IFRS. Developing country like Nigeria will join in the adoption of the new standards to satisfy the accounting and financial reporting requirements but not purposely helping in the harmonization of accounting standards (Ayuba, 2012). Nigerian MFBs are new in the financial system and accordingly trying to develop. Adoption IFRS may be encouraged by these entities on the conditions that it will not obstruct the CBN supervisory regulations guidelines and the relevant laws. Again, our local accounting needs that has been in practice over the years, not only in the banking sector but other sectors of the economy. Achieving the globalized markets is the main aim of IFRS, yet most companies in the developing countries possess weaker or even negative shareholders' funds. What will then be the faith of such companies for instance, our MFBs in adopting IFRS?
Rahama (2004) as cited by Ayuba (2012) posits that International Financial Reporting Standards are exact copies of standards originating from the United Kingdom (UK) and the United States of America (USA) with orientation towards maximizing shareholders' wealth rather than the social functions of accounting. This has again led us to the state of weak structures to develop efficient accounting system by most companies in the developing world. The fundamental issue is the development of efficient accounting system rather than adopting already structured standards from these two countries. Following this view, it is for any stakeholder to be doubtful about creating a monopolistic global accounting standard setter and to believe that benefits will accrue from the current desire for the harmonization of accounting standards (Ayuba, 2012). Okaro (2012) states that IFRS has fail to take cognizance of the fact that markets remain primarily local and not global and that compromising of national pride as local standards give way to IFRS.
Some other basic challenges of Nigerian MFBs that can hamper the adoption of IFRS are i) lack of public interest mainly arising from the constant withdrawal of operating licences by CBN and the CBN's assurance that it will not allow any deposit money banks to fail thereby placing these banks in continuous fear ii) recruitment of ineffective staff and inappropriate man power, which is ascribed to the inability of the bank to adequately remunerate staff, poor condition of service and lack of training opportunities (Acha (2012) iii) ineffective regulation and supervision activities on part of the CBN because of too much responsibility on other financial institutions, which has hindered the development of the microfinance sector iv) heavy financial penalties on even negligible violation, that have served as a punishment rather than corrective measures v) the emergence of miracle or magic financial institutions which have done a lot of disservice to the microfinance banks (Acha, 2012) and others.

3. Conclusion and Recommendation

The main objective of this study is to find out through literature review whether there is the need for the adoption of International Financial Reporting Standards by the Nigerian MFBs. From the relevant literatures reviewed and the revelation thereof, it can be concluded that due to i) peculiarities, characteristics and size of the MFBs and ii) challenges facing these banks, the adoption of this new standard in preparing their financial report will not be feasible. This is because it will not add any value to the owners and all other users of the reports. Besides the level of the banks' personnel will find it very difficult to prepare and understand the new financial statement, meaning that the aim is not achieved.

Based on this conclusion, this study recommends that i) CBN should include in its IFRS compliance financial reporting a special report to accommodate financial and operational activities of the MFBs and ii) if adoption of IFRS becomes a must for the MFBs, the Financial Reporting Council of Nigeria and the apex body should fully sponsor the conversion costs including the continuous training on this new standard until the banks can independently apply it.

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