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A Critical Exploration of the Trajectory and Issues Surrounding Financial Reporting in the Nigerian Context

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ABSTRACT

This review critically explores the historical evolution, current landscape, challenges, and prospects of financial reporting in Nigeria. Tracing its origins from colonial-era practices influenced by British legislation to the adoption of International Financial Reporting Standards (IFRS) in 2012, the study highlights Nigeria's efforts to align with global standards and enhance financial transparency. Despite these milestones, persistent issues such as weak enforcement mechanisms, corruption, limited professional capacity, and technological constraints continue to undermine reporting credibility. Comparative analysis with other emerging economies reveals that Nigeria lags in institutional and technological readiness but demonstrates strengths in professional training and capital market development. The review underscores the importance of strengthening regulatory independence, integrating digital innovations, enhancing corporate governance, and expanding public sector reforms. It concludes that transparent and reliable financial reporting is indispensable for investor confidence, corporate accountability, fiscal transparency, and sustainable economic growth in Nigeria.

Keywords: Financial reporting, Nigeria, IFRS adoption, regulatory enforcement, corporate governance.

INTRODUCTION

Financial reporting represents the lifeblood of economic systems because it provides stakeholders with credible, timely, and comparable information for making rational decisions. Globally, financial reporting evolved alongside economic growth, the expansion of capital markets, and the institutionalization of corporate governance [1]. In developed economies, robust financial reporting frameworks have been instrumental in fostering investor confidence, sustaining capital inflows, and enabling corporate accountability. Conversely, in emerging economies such as Nigeria, the evolution of financial reporting has been complex, reflecting the interplay between historical legacies, institutional weaknesses, and global integration [2]. Nigeria's journey in financial reporting can be traced back to the colonial era, when the British introduced accounting practices tailored to serve imperial commercial interests rather than the indigenous economic realities. Post-independence, Nigeria's financial reporting practices mirrored the Companies Act of 1968, which itself borrowed heavily from the United Kingdom's Companies Act of 1948 [3]. Over time, reforms were introduced to strengthen transparency and align with international best practices, culminating in Nigeria's formal adoption of International Financial Reporting Standards (IFRS) in 2012. This shift was meant to promote comparability of financial statements across borders, enhance corporate disclosures, and attract foreign investment [4]. Despite these reforms, Nigeria's financial reporting system continues to grapple with significant issues. These include weak institutional enforcement mechanisms, a high prevalence of corruption, limited professional capacity among preparers and auditors, and technological limitations that hinder efficient financial data processing and dissemination. Moreover, cultural practices such as secrecy in business operations and political interference in regulatory agencies have further complicated the landscape [5]. These challenges underscore the need for a critical exploration of Nigeria's financial reporting trajectory not only to understand its historical evolution but also to uncover the systemic issues that persist today [6].

Although Nigeria has made notable strides in reforming its financial reporting framework, substantial deficiencies remain. The mandatory adoption of IFRS was intended to resolve problems of inconsistency, poor comparability, and limited disclosure in financial reporting. However, in practice, compliance levels vary widely across companies, especially between large publicly listed firms and small-to-medium enterprises (SMEs). Many firms treat compliance as a box-ticking exercise rather than a genuine commitment to transparency and accountability [7].

Regulatory agencies such as the Financial Reporting Council of Nigeria (FRCN), the Securities and Exchange Commission (SEC), and the Central Bank of Nigeria (CBN) are tasked with oversight, yet their effectiveness has been undermined by political interference, resource constraints, and sometimes overlapping mandates. Enforcement of reporting standards remains weak, enabling companies to manipulate financial statements with little fear of sanction [8]. This has, in turn, eroded investor confidence and limited Nigeria's attractiveness to foreign direct investment.

Furthermore, corruption permeates both corporate and public sectors, often manifesting in falsified reports, inflated earnings, and understated liabilities. The inadequate integration of technology also exacerbates the problem, as many organizations lack robust accounting software and secure databases to ensure accuracy and integrity in reporting [9]. Finally, a shortage of well-trained accounting professionals with specialized knowledge of IFRS and modern reporting practices constrains the capacity of the profession to fully meet global standards. Taken together, these challenges highlight a fundamental gap between policy and practice in Nigeria's financial reporting system. Unless these issues are critically examined and addressed, financial reporting will fail to deliver its intended role as a vehicle of transparency, accountability, and sustainable economic development [10].

The specific objectives, research questions, and significance of this study collectively highlight its depth, direction, and contribution to the discourse on financial reporting in Nigeria. The study is anchored on the overall aim of critically examining the trajectory and challenges of financial reporting in the country, with objectives that seek to trace its historical evolution, identify reforms and milestones, analyze present challenges, assess economic implications, and propose actionable recommendations. Correspondingly, the research questions interrogate the historical foundations, reforms such as IFRS adoption, persistent obstacles, and the broader economic and governance consequences of weak reporting practices, while also probing possible strategies for improvement. The significance of this study cuts across multiple levels. Academically, it enriches literature on financial reporting in emerging economies by contextualizing Nigeria's unique experience. Professionally, it provides insights into policy-practice gaps and highlights the importance of capacity-building for accounting practitioners. At the regulatory level, the study exposes systemic weaknesses while offering evidence-based suggestions for stronger oversight. From a policy standpoint, it underscores the need for reforms that go beyond technical compliance with global standards to address local realities like corruption and resource gaps. Economically, it emphasizes that transparent financial reporting is indispensable for investor confidence, corporate governance, capital access, and sustainable growth, positioning the study as both relevant and strategic.

Historical Evolution of Financial Reporting in Nigeria

The historical evolution of financial reporting in Nigeria reflects the country's political, economic, and professional transitions. During the colonial period, financial reporting practices were modeled after British standards, as the United Kingdom's Companies Act served as the guiding framework [11]. This alignment laid the foundation for corporate governance and accounting regulation in Nigeria. Following independence in 1960, Nigeria sought to establish its own legal framework, culminating in the Companies Act of 1968, which, though domestically enacted, still bore heavy British influence. The next major milestone was the institutionalization of professional oversight with the creation of the Institute of Chartered Accountants of Nigeria (ICAN) in 1965, and later the Association of National Accountants of Nigeria (ANAN) in 1979. These bodies enhanced professionalism and accountability in financial reporting, though they were at times hindered by rivalry and inconsistent enforcement of standards [12]. A significant transformation occurred in 2010 when Nigeria adopted International Financial Reporting Standards (IFRS), aligning its practices with global norms to enhance transparency, comparability, and investor confidence. The implementation was systematic: listed companies transitioned in 2012, public interest entities followed in 2013, and small and medium enterprises (SMEs) began in 2014. This shift marked Nigeria's integration into the global financial reporting community, ensuring credibility and fostering economic growth [13].

The Current Landscape of Financial Reporting in Nigeria

The current landscape of financial reporting in Nigeria is shaped by a robust regulatory framework anchored by key institutions that oversee, monitor, and enforce compliance. At the center is the Financial Reporting Council of Nigeria (FRCN), which serves as the primary authority responsible for setting accounting and auditing standards as well as ensuring their enforcement across different sectors [14]. Supporting this mandate is the Securities and Exchange Commission (SEC), which regulates listed companies by ensuring transparency and protecting investors through strict disclosure requirements. In addition, the Central Bank of Nigeria (CBN) plays a vital role in supervising banks and financial institutions, safeguarding the stability of the financial system while mandating sound reporting practices. Complementing these efforts is the Nigerian Stock Exchange (NGX), which enforces disclosure

obligations for publicly quoted companies to enhance accountability and investor confidence. These collective efforts have yielded notable achievements, including a greater harmonization of Nigerian financial reporting practices with globally accepted standards such as the International Financial Reporting Standards (IFRS). This has enhanced the comparability of financial statements across borders, making Nigerian firms more attractive to foreign investors [15]. Furthermore, there has been increased emphasis on corporate governance, with reporting frameworks now paying more attention to transparency, ethical practices, and accountability in management, thereby strengthening overall investor confidence and market integrity.

Persistent Challenges in Nigerian Financial Reporting

Persistent challenges continue to undermine the credibility and effectiveness of financial reporting in Nigeria, largely due to deep-rooted institutional, ethical, and structural constraints. At the institutional level, regulatory bodies such as the Financial Reporting Council and related agencies grapple with inadequate funding, political interference, and weak enforcement capacity, which collectively erode their ability to maintain compliance and transparency [16]. The imposition of weak penalties further reduces the incentive for organizations to adhere to established standards. Corruption and ethical lapses compound these weaknesses, with frequent cases of corporate scandals, fraudulent financial disclosures, and auditor compromise due to client influence, all of which significantly diminish investor trust. Professional capacity also remains a major obstacle, as many preparers of financial statements lack adequate training in International Financial Reporting Standards (IFRS), while opportunities for continuous professional development are scarce, particularly among small and medium-sized enterprises (SMEs) and in rural areas. In addition, infrastructure and technological limitations—such as inconsistent adoption of accounting software and poor digital systems—hamper real-time reporting and compromise data integrity. These challenges are worsened by the socio-economic environment, where inflation, currency volatility, and unstable macroeconomic conditions complicate accurate reporting, while the dominance of the informal sector hinders the creation of comprehensive and reliable national financial statistics [17].

Comparative Perspectives

In comparing Nigeria's adoption of International Financial Reporting Standards (IFRS) with other emerging economies, several distinct patterns emerge. Countries such as South Africa, Kenya, and Ghana have experienced comparatively smoother transitions due to the presence of stronger institutional frameworks, more efficient regulatory bodies, and advanced financial reporting infrastructures. These nations benefit from better-developed governance structures, stronger enforcement mechanisms, and broader technological integration, all of which contribute to the consistent and reliable application of IFRS. In contrast, Nigeria has faced persistent challenges, particularly in areas of enforcement and technological adoption, which continue to slow down its full integration [18]. Weak institutional capacity, limited automation of reporting systems, and inconsistencies in regulatory oversight have constrained progress. Nonetheless, Nigeria's position is not entirely disadvantaged. The country has made notable strides in professional training and development, equipping accountants, auditors, and regulators with the necessary IFRS knowledge. Additionally, Nigeria's capital market demonstrates greater depth and sophistication than some of its West African peers, providing a more solid platform for IFRS-driven transparency and investor confidence. Thus, while Nigeria lags behind some emerging economies in institutional and technological readiness, it still outpaces several regional counterparts in human capacity building and capital market development, reflecting a mixed but promising comparative outlook [19].

Prospects and Way Forward

The prospects and way forward in advancing financial reporting and corporate transparency lie in a multi-pronged approach that tackles both institutional capacity and systemic reforms. Strengthening enforcement mechanisms is critical, and this requires empowering key regulatory agencies such as the Financial Reporting Council of Nigeria (FRCN) and the Securities and Exchange Commission (SEC) with stronger investigative tools and sanctioning powers to ensure compliance [20]. Equally important is capacity building through continuous training in International Financial Reporting Standards (IFRS) for accountants, auditors, and regulators, ensuring they remain up to date with evolving global best practices. Technological integration also offers a transformative pathway, as the adoption of digital reporting platforms, eXtensible Business Reporting Language (XBRL), and fintech innovations will streamline reporting and enhance data accuracy. Moreover, corporate governance reforms must be prioritized to promote transparency, reduce political interference, and safeguard audit independence, thereby strengthening public trust in financial disclosures. On a broader scale, regional collaboration through bodies such as the Pan African Federation of Accountants (PAFA) can help harmonize standards and foster cross-border consistency in financial reporting [21]. Finally, public sector reforms, especially the expansion of accrual-based accounting in government reporting, will significantly improve fiscal transparency and accountability, ensuring sustainable financial management.

CONCLUSION

In conclusion, the trajectory of financial reporting in Nigeria reflects both significant progress and persistent systemic challenges. From its colonial roots to the adoption of IFRS, Nigeria has demonstrated a commitment to aligning with global standards and enhancing the credibility of its financial reporting framework. However, weak enforcement mechanisms, corruption, inadequate professional capacity, and technological gaps continue to undermine the effectiveness of these reforms. Comparative insights reveal that while Nigeria lags behind some emerging economies in institutional and technological readiness, it has made commendable strides in human capacity development and capital market sophistication. Going forward, strengthening regulatory independence, embracing digital innovations, and prioritizing continuous professional training will be vital to bridging the gap between policy and practice. Ultimately, transparent and reliable financial reporting is not just a technical necessity but a strategic driver of investor confidence, corporate accountability, and sustainable economic growth in Nigeria.

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