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CONSOLIDATED FINANCIAL STATEMENT FOR NIGERIA MULTINATIONAL CORPORATIONS: CHALLENGES AND BEST PRACTICE

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ABSTRACT
This study is an overview on consolidated financial statements for Nigerian corporations, focusing on the challenges and best practices involved. The study adopts the Parent Company Extension Theory, which emphasizes the need to present combined financial reports that reflect the holding firm's role as an extension of its subsidiaries. The research examines the challenges faced by Nigerian multinational corporations (MNCs), particularly in relation to diverse accounting standards and the acquisition of timely and accurate financial information from subsidiaries. The case study of MTN Group, a multinational telecommunications company operating in Nigeria, highlights specific challenges such as the complexity of the local regulatory environment and the need to comply with tax laws and regulations. To address these challenges, best practices are recommended, including compliance with local laws, engaging with regulators, establishing robust internal controls, investing in talent development, adopting common accounting policies, and continuous monitoring and adaptation. The study draws on empirical evidence from similar research conducted on multinational enterprises in various regions, providing insights into the challenges and solutions in preparing consolidated financial reports. The findings underscore the significance of accurate and transparent financial reporting for MNCs and emphasize the importance of standardization, effective communication, and risk management strategies. By implementing the recommended best practices, multinational corporations in Nigeria can enhance the accuracy, transparency, and reliability of their consolidated financial statements.
KEYWORD: *Consolidated financial statements, Corporations, Challenges, Best practices*

INTRODUCTION

The world economy has witnessed a significant transformation over the past few decades, characterized by the increasing integration of economies, globalization, and the emergence of multinational corporations (MNCs) as key players in the global business landscape (Iwundu & Ezeani, 2018). As MNCs continue to expand their operations across borders, they face the challenge of managing financial reporting requirements in different jurisdictions, particularly when it comes to preparing consolidated financial statements (Osuagwu & Ogbonna, 2020).

According to Amahalu and Ezeji (2018), consolidated financial reports offer an in-depth summary of the financial health and outcomes of a collection of companies that are under common ownership. They are prepared by consolidating the financial reports of each firms in the group and presenting them as a single set of financial reports. Consolidated financial statements provide important information to stakeholders, including investors, lenders, and regulators, about the financial health and performance of the group (Olaleye, 2018).

In Nigeria, a significant number of MNCs operate in different industries, including banking, telecommunications, oil and gas, and manufacturing (Adebisi et al., 2020). These companies face the challenge of preparing joined financial reports that conform to Nigerian accounting standards and International Financial Reporting Standards, as well as the requirements of other jurisdictions where they operate (Adeniji, 2015). The preparation of joined financial reports for MNCs operating in Nigeria requires a deep understanding of the relevant accounting standards, regulations, and reporting requirements (Iheke & Anyanwu, 2016).

Consolidated Financial statement

Consolidated financial statements are the financial reports that join the statements of two or more companies that are related to each other. In other words, these statements combine the reports of the holding firm and its associates, subsidiaries, and joint ventures to provide a single financial statement. The preparation of joint financial reports aims to furnish a more precise and comprehensive representation of the financial status and operational results of a conglomerate of firms.

The International Accounting Standards Board (IASB) defines it as "the financial reports of a group displayed as that of a unique individual firm" (IAS 27). According to this definition, the purpose of joint financial reports is to show the group's overall financial situation, performance, and cash flows rather than just the financial status of individual firms.

The practice of joint financial reports in Nigeria is obligatory for all multinational corporations operating in the country. The Financial Reporting Council of Nigeria (FRCN) issued the Nigerian Code of Corporate Governance in 2018, which requires all public companies, including multinational corporations, to prepare and submit consolidated financial reports to the regulatory authorities (FRCN, 2018).

Multinational corporations operating in Nigeria are mandated to prepare joined financial reports in line with IFRS. The IFRS provides a globally accepted framework for financial reporting. The FRCN has adopted the IFRS as the basis for financial reporting in Nigeria, and all companies are obligatory to conform to the IFRS (IFRS, 2021).

Making unified accounting records for multinational corporations operating in Nigeria requires a thorough understanding of the group structure and the financial statements of each company within the group. The process involves the elimination of inter-company transactions, the calculation of non-controlling interests, and the consolidation of financial statements.

According to a study by Oni, et al. (2019), the practice of consolidated financial statements in Nigeria has improved financial reporting and transparency in the country. The study found that multinational corporations that prepare and submit consolidated financial statements are more likely to comply with accounting standards and regulations. This has led to increased investor confidence in the financial statements of these corporations.

However, the study also noted that some multinational corporations in Nigeria may face challenges in making unified accounting records due to the complexity of their group structures and the lack of skilled personnel. These challenges can result in delayed submission of financial statements or inaccurate reporting, which can affect investor confidence in the corporation.

Challenges of Preparing Consolidated Financial Statements

In Nigeria, making unified accounting records presents several challenges due to differences in accounting standards and policies, currency exchange rate fluctuations, lack of skilled personnel, and inadequate technology infrastructure (Adegbite et al., 2012).

Differences in accounting standards and policies

One of the challenges of preparing unified accounting records in Nigeria is dissimilarities in accounting standards and policies (Ajayi & Ogunyemi, 2015). The Nigerian Financial Reporting Council (FRC) is the primary body responsible for developing and implementing accounting standards in Nigeria. However, Nigerian accounting standards differ from International Financial Reporting Standards (IFRS), which are internationally accepted accounting standards.
The adoption of IFRS by Nigerian companies has been slow, and some companies still use Nigerian Generally Accepted Accounting Principles (NGAAP). This creates challenges in making unified accounting records as

companies may have different accounting policies and treatments for similar transactions, leading to inconsistencies in financial reporting (Ezejiofor, 2019). For instance, some companies may choose to depreciate assets using the straight-line method, while others may use the reducing balance method. The utilization of different accounting policies and treatments makes it difficult to combine financial statements accurately, resulting in unreliable financial information (Idowu & Towoju, 2018).

Currency exchange rate fluctuations
Nigeria's economy is heavily dependent on oil exports, making it susceptible to currency exchange rate fluctuations. The Nigerian naira is a volatile currency, and its value is subject to fluctuations due to factors such as changes in oil prices, political instability, and macroeconomic conditions (Nwankwo, 2016). Preparing consolidated financial statements for companies with subsidiaries operating in different countries with different currencies creates challenges in determining the exchange rate to use. The volatility of the Nigerian naira makes it difficult to determine the correct exchange rate to use, leading to errors in financial reporting (Onakoya & Arogundade, 2017).

Lack of skilled personnel
Another challenge of making unified accounting records in Nigeria is the lack of skilled personnel. Consolidating financial statements requires expertise in financial reporting, accounting, and data analysis. However, Nigeria faces a shortage of skilled professionals in these areas, making it challenging to prepare accurate and reliable consolidated financial statements. The lack of skilled personnel also affects the quality of financial reporting by companies, leading to unreliable financial information.

Inadequate technology infrastructure
Making unified accounting records requires the use of technology to combine financial data from subsidiary companies. However, Nigeria's technology infrastructure is inadequate, and many companies still use manual processes to consolidate financial data (Okafor, 2019). The use of manual processes increases the risk of errors in financial reporting and makes it difficult to identify inconsistencies in financial data. The inadequate technology infrastructure also affects the quality of financial reporting, making it challenging to prepare accurate and reliable consolidated financial statements.

THEORETICAL FRAMEWORK

Parent Company Extension Theory

The Parent Company Extension Theory is a concept that provides insight into the challenges and best practices related to the preparation and display of unified accounting records for multinational corporations (MNCs) (Okoye & Okeke, 2018). In the context of Nigeria, where MNCs play a substantial part in the economy, understanding and implementing this theory becomes crucial.

According to Okoye and Okeke (2018), the Parent Company Extension Theory suggests that a consolidated financial statement should reflect the balance sheet, and cash flows of a collection of businesses as though they were a single firm, with the parent company acting as an extension of its subsidiaries. This theory recognizes the interdependence and interconnectedness of the parent and its subsidiaries, emphasizing the need to present their financial information in an aggregated manner.

In the study on consolidated financial statements for Nigerian MNCs, several challenges emerge. One of the major challenges is the existence of diverse accounting standards across different jurisdictions where the subsidiaries operate (Adeniyi & Adegbie, 2020). For instance, the parent company may follow International Financial Reporting Standards, while its subsidiaries in Nigeria might comply with the Nigerian Generally Accepted Accounting Principles (NGAAP). This creates a complexity in consolidating financial statements as it requires reconciling the differences between the accounting standards.

Furthermore, the study highlights the challenge of obtaining timely and accurate financial information from the subsidiaries. Due to various elements such as dissimilarities in reporting cycles, systems, and language barriers, the consolidation process can be impeded. Inconsistent reporting practices and inadequate internal controls within subsidiaries may lead to discrepancies and errors in the consolidated financial statements.

To overcome these challenges and adhere to the best practices, Nigerian MNCs should establish strong governance structures and implement standardized accounting policies across all subsidiaries. This ensures consistent reporting practices and facilitates the consolidation process. Additionally, investing in robust financial reporting systems and training programs can enhance the quality and timeliness of financial information received from subsidiaries.

Moreover, Nigerian MNCs should actively engage with regulatory bodies and standard-setting organizations to advocate for the convergence of accounting standards (Nwokorie et al., 2019). By aligning the Nigerian accounting standards with international standards, the process of consolidating financial statements becomes more straightforward and transparent.

Case Study: MTN Group

MTN Group is a multinational telecommunications company with headquarters in Johannesburg, South Africa. The company operates in more than 20 countries across Africa, Asia, and the Middle East, including Nigeria, where it is one of the leading mobile network operators. MTN Group's operations in Nigeria are managed through its local subsidiaries, including MTN Nigeria Communications Plc and MTN International (Mauritius) Limited.

One of the challenges faced by MTN Group in making a unified accounting records in Nigeria is the complexity of the local regulatory environment. The Nigerian regulatory framework for financial reporting is governed by several laws and regulations, including the Companies and Allied Matters Act (CAMA), the Financial Reporting Council of Nigeria Act (FRCN Act), and the International Financial Reporting Standards (IFRS).

Another challenge faced by MTN Group in unified accounting records is the need to comply with local tax laws and regulations. The Nigerian tax system is complex and subject to frequent changes, which can make it difficult for multinational corporations like MTN Group to stay compliant.

To address these challenges, MTN Group has implemented several best practices in making its unified accounting records in Nigeria. These include:

i. Ensuring compliance with local laws and regulations: MTN Group ensures that its financial reporting practices comply with local laws and regulations in Nigeria. This includes compliance with the CAMA, FRCN Act, and IFRS.

ii. Engaging with local regulators: MTN Group engages with local regulatory bodies in Nigeria, such as the Securities and Exchange Commission (SEC) and the Nigerian Stock Exchange (NSE), to stay informed about changes to the regulatory environment and to ensure compliance with reporting requirements.

iii. Establishing robust internal controls: MTN Group has established robust internal controls to ensure the accuracy and completeness of its financial statements. This includes implementing a system of checks and balances, conducting regular audits, and maintaining strong accounting policies and procedures.

iv. Investing in talent development: MTN Group invests in the development of its finance and accounting staff in Nigeria to ensure that they have the skills and knowledge needed to prepare accurate and reliable financial statements.

Empirical Review

Katsos and Sack (2011) discusses the challenges and solutions related to making a unified accounting records for multinational enterprises. The authors emphasize the importance of accurately reflecting the financial status and performance of a company, and complying with international accounting standards. The paper discusses several accounting challenges faced by multinational enterprises, including differences in accounting policies and practices across countries, currency exchange rate fluctuations, and complex business structures. The authors propose several solutions to address these challenges, including adopting a common accounting policy, using hedging strategies to manage currency risk, and developing effective reporting systems.

Patrichi and Mihai (2018) examines the challenges faced by European multinational corporations in preparing consolidated financial statements. The authors conducted a survey of financial managers and found that the most significant challenges were related to differences in accounting policies, currency exchange rates, and the complexity of group structures. The paper also discusses the impact of these challenges on financial reporting quality and provides recommendations for improving the consolidation process, such as using common accounting policies and providing adequate training to financial staff. The findings suggest that the making a unified accounting records remains a complex task for multinational corporations, and that greater attention should be paid to enhancing the transparency and accuracy of financial reporting

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Al Subaie and Abdul (2016) investigates the challenges faced by multinational corporations (MNCs) in emerging markets when preparing consolidated financial statements (CFSs). The authors conducted a survey of financial managers in MNCs operating in Saudi Arabia, and found that the most significant challenges were related to differences in accounting policies and practices across countries, and the lack of reliable financial information in subsidiary companies. The paper also discusses the impact of these challenges on financial reporting quality and provides recommendations for improving the consolidation process, such as the need for a standardized accounting policy across the group, the adoption of a common reporting system, and the use of hedging strategies to manage currency risk. The findings suggest that MNCs operating in emerging markets face unique challenges in preparing CFSs, which require careful planning and implementation of accounting practices to ensure accurate and transparent financial reporting.

Schmieder (2017) examines the challenges that global companies face in consolidating their financial statements. The paper discusses the importance of accurate financial reporting for such companies, which typically operate in multiple countries and have complex business structures. It highlights several challenges faced by global companies when making a unified accounting records, including differences in accounting standards across countries, the complexity of intercompany transactions, and the need to manage currency exchange rate fluctuations. The author proposes several solutions to these challenges, such as adopting a common accounting policy, developing effective communication and reporting systems, and using hedging strategies to manage currency risk.

CONCLUSION AND RECOMMENDATION

Based on the empirical review and the challenges identified in the study on consolidated financial statements for Nigeria multinational corporations, specifically the case study of MTN Group, it can be concluded that preparing consolidated financial statements in Nigeria poses significant challenges. These challenges include the complexity of the local regulatory environment, the need to comply with local tax laws and regulations, differences in accounting policies and practices across countries, currency exchange rate fluctuations, and the complexity of group structures.

Recommendations

i. Compliance with local laws and regulations: Multinational corporations like MTN Group should ensure strict compliance with the relevant laws and regulations in Nigeria, including the Companies and Allied Matters Act (CAMA), the Financial Reporting Council of Nigeria Act (FRCN Act), and the International Financial Reporting Standards (IFRS).
ii. Engaging with local regulators: It is crucial for multinational corporations to establish effective communication channels and engage with local regulatory bodies such as the Securities and Exchange Commission (SEC) and the Nigerian Stock Exchange (NSE). This will help them stay informed about changes to the regulatory environment and ensure compliance with reporting requirements.
iii. Robust internal controls: MTN Group should continue to invest in establishing and maintaining robust internal controls to ensure the accuracy and completeness of its financial statements. This includes implementing a system of checks and balances, conducting regular audits, and maintaining strong accounting policies and procedures.
iv. Talent development: MTN Group should prioritize talent development by investing in the training and development of its finance and accounting staff in Nigeria. This will equip them with the necessary skills and knowledge to prepare accurate and reliable financial statements.
v. Adoption of best practices: Multinational corporations can learn from the experiences and recommendations of other studies conducted on similar topics. They should consider adopting best practices such as adopting a common accounting policy, using hedging strategies to manage currency risk, developing effective reporting systems, and enhancing transparency and accuracy of financial reporting.

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vi. Standardization of accounting policies: MTN Group should strive to establish a standardized accounting policy across the group to minimize the challenges arising from differences in accounting policies and practices across countries.

vii. Continuous monitoring and adaptation: Given the dynamic nature of the regulatory and business environment, it is important for MTN Group and other multinational corporations to continuously monitor changes and adapt their financial reporting processes accordingly. This includes staying updated on changes in tax laws and regulations and implementing appropriate measures to ensure compliance.

By implementing these recommendations, MTN Group and other multinational corporations operating in Nigeria can address the challenges associated with preparing consolidated financial statements and improve the accuracy, transparency, and reliability of their financial reporting.

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