Alignment of Statutory Accounting Practices with International Financial Reporting Standards for Capacity Building.

Manikanta Sama
Associate Professor
Department of Management Studies
PSCMR COLLEGE OF ENGINEERING AND TECHNOLOGY, VIJAYAWADA- 520001

Abstract - International Financial Reporting Standards (IFRS) are principles-based standards, interpretations and the framework adopted by the International Accounting Standards Board. Many of the standards forming part of IFRS are known by the older name of International Accounting Standards. The IASB has continued to develop standards calling the new standards IFRS. While there are obvious costs associated with adopting IFRS, it is convinced that they will be outweighed by long-term benefits. The adoption of IFRS is essential for companies who want to lower the cost of financing or who want to minimise impediments to trade internationally. When raising finance nationally, good domestic standards understood by all and which actually reflect the economics of the company can be a considerable benefit. As pressure mounts on banks to improve their lending decisions and their provisioning for bad/doubtful debts, their needs will increase to mandate sophisticated reporting by their clients. When raising finance internationally it helps to report according to standards that are understood by the investors, creditors, stock exchanges and regulators. The benefit from introducing IFRS is not limited to lower costs of capital and easier international transactions. The Task Force has identified four key areas that are of particular importance for an effective transition to IFRS. This article brings out the recommendations which were grouped according to the key areas which assists in effective transition to IFRS

I. INTRODUCTION

International Financial Reporting Standards (IFRS) are principles-based standards, interpretations and the framework adopted by the International Accounting Standards Board. Many of the standards forming part of IFRS are known by the older name of International Accounting Standards. IAS was issued between 1973 and 2001 by the Board of the International Accounting Standards Committee. On April 1, 2001, the new IASB took over from the IASC the responsibility for setting International Accounting Standards. During its first meeting the new Board adopted existing IAS and Standing Interpretations Committee standards. The IASB has continued to develop standards calling the new standards IFRS. While there are obvious costs associated with adopting IFRS, it is convinced that they will be outweighed by long-term benefits. This would not be the case for the development of separate financial reporting standards. Developing a unique set of financial reporting standards for listed companies would be an expensive exercise and disadvantageous over the long-term.

Notably, the adoption of IFRS is essential for companies who want to lower the cost of financing or who want to minimise impediments to trade internationally. When raising finance nationally, good domestic standards understood by all and which actually reflect the economics of the company can be a considerable benefit. As pressure mounts on banks to improve their lending decisions and their provisioning for bad/doubtful debts, their needs will increase to mandate sophisticated reporting by their clients. When raising finance internationally it helps to report according to standards that are understood by the investors, creditors, stock exchanges and regulators. The benefits from introducing IFRS are not limited to lower costs of capital and easier international transactions. Some of the advantages that will benefit a wide range of interests benefits are listed in the box below.

Benefits for companies

- Improved management information for decision making
- Better access to capital, including from foreign sources
- Reduced cost of capital
- Ease of using one consistent reporting standard in subsidiaries from different countries
- Facilitated mergers and acquisitions
- Enhanced competitiveness

Benefits for investors

- Better information for decision making
- More confidence in the information presented
- Better understanding of risk and return
- Companies can be compared to a peer group of companies

Benefits for policy makers

- Strengthened and more effective Russian capital market
- Better access to the global capital markets
- Promotion of cross-border investment

Benefits for national regulatory bodies

- Improved regulatory oversight and enforcement

- A higher standard of financial disclosure
- Better information for market participants to underpin disclosure-based regulation
- Better ability to attract and monitor listings by foreign companies
- Benefits for other stakeholders
- Greater credibility and improved economic prospects for the accounting profession.
- Enhanced transparency of companies through better reporting
- Better reporting and information on new and different aspects of the business

II. ENDORSEMENT AND INTERPRETATION OF IFRS

Building Capacity for Implementation - An endorsement mechanism is needed for building Capacity - IFRS needs to be turned into law. The purpose of the endorsement mechanism would be to "legalise" IFRS and the International Financial Reporting Interpretations Committee interpretations according to the legal framework. Nearly all major countries planning to adopt IFRS are creating endorsement mechanisms.

The endorsement mechanism to prevent conflicts of interest - The endorsement mechanism requires bringing together, or creating, experts in IFRS. Typically, they will come from the accounting and audit profession, preparers, academia and government. The endorsement mechanism includes two levels: a technical expert level and a political overlay. Ultimately, endorsement is the government's responsibility, not the responsibility of the private sector.

Practical concerns requires unifying the institutions concerned with endorsement and standard setting - If the country has both an endorser and a standard setter, the two institutions could potentially promote conflicting views. This would be problematic, especially if the two are working on related subjects, as would be the case if statutory accounting evolves towards IFRS. Having the two functions under one house could encourage consensus and would create economies of scale. More resources would be available for being pro-active vis-à-vis IASB, the international standard setter, and for working on internal alignment with IFRS. The potential for conflicts of interest could be addressed by

- Fixing clear criteria for endorsement
- Setting strict due process

for endorsement with clear distinctions between decision-making for standard setting and endorsement. With respect to standard-setting, further consideration must be given to what kind of standard-setting bodies should be in place to monitor and/or influence the standard setting process.

No possibility of endorsing parts of IFRS or partial standards - Rejection of a standard should be exceptional, contemplated only as a last resort, and then only on a temporary basis. Considerable difficulties would arise if the endorsement mechanism decided not to endorse a standard. For a company that adheres to IFRS only in part, the audit opinion changes and the company is not deemed fully compliant. This could, ultimately, endanger the recognition of financial statements of companies with foreign listings. Given the consequences of a negative opinion, it is important that countries pursue closer involvement with IASB in order to lower the likelihood of rejection. A consistent and complete set of IFRS needs to be applied.

Interpretations of IFRS must remain under the purview of IFRIC - Interpretations of IFRS must remain under the purview of IFRIC in order to preserve the integrity of IFRS and ensure consistent interpretation across countries. Interpretations are not a role for securities exchange commissions or for national standard setters. Any guidance issued by government should not compromise IFRS or the interpretations issued by IFRIC.

A mechanism for dissemination of experience of companies in applying IFRS - A mechanism should be established for the dissemination of experience of companies in applying IFRS, with the participation of the professional accounting community. This would facilitate a continual learning process that will improve implementation. The translation process needs to be structured and institutionalized in order to provide accurate and consistent translations of future standards and other pronouncements of the IASB. Adoption of IFRS depends critically upon the availability of high quality authoritative translations. Guidance should be requested of the IASB for producing faithful translations of the original English language text of IFRS. However, even if a translation done by a very good translator is faithful to the original, there is still a potential for misunderstanding because it does not fit with the countries tradition established in practice. On the other hand, if one tries to produce something which looks like current countries regulations but which encapsulates the substance of IFRS, then there is the danger that it is no longer a translation but a different standard.

Training of professionals in enterprises to be encouraged - Training of management and government officials would also be an important long-term objective. The country has considerable resources to devote to IFRS transition. Nevertheless, the capacity of companies, advisors, auditors and others including regulatory bodies are being stretched. The constraints need to be recognised and dealt with by

- Specifying an appropriate scope and timing of reform efforts
- Preparing for the increased need for IFRS relatedskills by encouraging training.

III. ENFORCEMENT

Enforcement is considerably more complicated than establishing a strong regulator. It can be seen as a system of checks provided by numerous private and public bodies.

Some of the elements of an enforcement regime include:

- Sound systems of corporate governance
- Self-enforcement by companies during the preparation of financial statements
- Approval of financial statements
- Statutory audit of financial statements
- Analysis provided by the public and press
- Market forces that punish companies for poor disclosure
- The institutional oversight system
- Courts through sanctions and/or complaints

Effective enforcement mechanisms should be put in place as soon as possible - Good corporate governance practices usually recommend that it is the responsibility of the board of directors to oversee disclosure, transparency and corporate communications. An important responsibility for enforcing correct implementation of IFRS therefore lies with the board of directors.

Enforcement of IFRS requires enhancement of audit standards and practices - The external audit subjects information that is presented to the public to independent and objective scrutiny, thereby increasing the reliability of financial information. If financial statements depart from accounting standards, it is the duty of the auditor to draw attention to the departures when reporting to the stakeholders. Auditors have no legal power to enforce correction of errors and misstatements or to issue sanctions, although they will qualify their report for the departure from accounting standards. International Standards of Audit as promulgated by the International Federation of Accountants should form the basis for the conduct of an audit.

A strengthened oversight mechanism for accounting and audit profession - There have been moves to tighten regulation of the audit profession. Weaknesses in the audit profession and audit in general are a problem for the introduction of IFRS in. A consistent, high-quality application of accounting standards cannot be guaranteed without significant improvements in audit. Better quality control over auditor qualifications by professional organizations is important. If there are grounds for concern about the quality of an audit, there should be a mechanism to make a complaint to the audit regulator and to professional self-regulatory organizations. Complaints should be properly investigated and result in appropriate action from a range of sanctions. Internationally agreed guidance on the oversight of the audit profession can be found in the IOSCO Principles of Auditor Oversight and Principles of Auditor Independence.

The Alignment of Statutory Accounting with IFRS - While there are longer-term benefits to having a single set of standards for both national and international fund-raising, in the medium term there is merit in revising statutory accounting standards to bring them closer to IFRS. Aligning standards with IFRS will be beneficial for many reasons. Unlisted companies need to have a proper reporting framework. They too have creditors, and shareholders, and good accounts help governments oversee the economy. Some companies may need to prepare for an eventual listing, i.e. a transition to IFRS. If differences between statutory accounting and IFRS remain large, it will be more difficult for companies seeking future listing to close that gap. Companies will benefit to the extent the differences between GAAP and IFRS are minimised.

Aligning statutory accounting with IFRS would allow companies to use statutory accounts that in the future would be as close as possible to IFRS, but have lighter requirements, especially for disclosures. The principles that determine IFRS treatments should eventually be equivalent to those that determine statutory accounting treatments. This should allow for comparability between listed and non-listed companies.

The alignment of statutory accounting with IFRS and the move to a principles-based approach must be progressive. The transition will require a multi-years action plan of convergence, with different steps, covering different topics, involving different parties. As statutory reporting evolves, the legal framework should also evolve. The process of aligning statutory accounting with IFRS can be improved by drawing upon the practical experience of professional accountants, and raising the role of the professional community in the standard-setting process. The reporting burden for enterprises needs to be reduced. The current compliance burden for companies is substantial. Companies, including small and medium-sized enterprises, are required to compile statutory accounts and reports, tax accounts and reports, and statistics reports. Therefore, the companies are required to have two sets of statutory accounts: one for statutory financial reporting, and the other for tax purposes.

IV. CONCLUSION

Assimilating IFRS is difficult because of fundamental differences between national and international attitudes and practices that arise from diverse historical, cultural and legal traditions. The differences are rooted in fundamental definitions and concepts. When setting priorities and focusing the scope of transition, IFRS should initially be applied only to large listed companies, regulated financial institutions and companies of major national interest. The benefits of good financial reporting are clearest for companies that need to raise money from external investors. For management, the new standards will make the economics of the company more transparent. More broadly, other stakeholders would benefit from overall improved transparency of company accounts.

V. REFERENCES

[1]. Allen Shapiro,(2004) Multinational Financial Management, McGraw Hill, New York.

[2]. Alan C Shapiro (2010) Multinational Financial Management, Wiley India, New Delhi.

[3]. Apte, P.G., (2002) International Financial Management, Tata McGraw Hill. New Delhi.

[4]. Madura Jeff, (2003) International Financial Management; Thomson Learning, New Delhi.

[5]. Sharan,V.,(2007) International Financial Management, PHI, New Delhi.

[6]. Levi, Maurice D.,(2001) International Finance, McGraw Hill., New York

[7]. Pathak, (2007) Indian Financial System, Pearson Education, New Delhi

[8]. P.K Jain, Josette Peyrard and Surendra S. Yadav (2001) International Financial Management, Macmillan Publishers, New Delhi.

[9]. R.M.Srivastava (2008) Multinational Financial Management, Excel Books, New Delhi.

[10]. Thomas J O'Brien (2009) International Finance, Oxford University Press, New Delhi.

[11]. V.A. Avadhani (2009) International Financial Management, Himalaya Publishing House, New Delhi

[12]. Vyuptakesh Sharan (2009) International Financial Management, PHI Learning, New Delhi,