

International financial reporting standards essay sample



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International Financial Reporting Standards (IFRS) are designed as a common global language for business affairs so that company accounts are understandable and comparable across international boundaries. They are a consequence of growing international shareholding and trade and are particularly important for companies that have dealings in several countries. They are progressively replacing the many different national accounting standards. The rules to be followed by accountants to maintain books of accounts which is comparable, understandable, reliable and relevant as per the users internal or external. IFRS began as an attempt to harmonize accounting across the European Union but the value of harmonization quickly made the concept attractive around the world. They are sometimes still called by the original name of International Accounting Standards (IAS). IAS was issued between 1973 and 2001 by the Board of the International Accounting Standards Committee (IASC).

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 (SICs). The IASB has continued to develop standards calling the new standards (International Financial Reporting Standards (IFRS)). Tanzania decided to migrate to the international accounting and auditing standards from July 2004. All private entities and commercial public entities adopted the International Reporting financial Standards (IFRSs) immediately. The non-business enterprises including the Central Government -Ministries, Departments and Agencies (MDAs) and the Local Government Authorities (LGAs) adopted the International Public Sector Accounting Standards

(IPSASs) from year 2006 and 2009 respectively. Most of the MDAs used IPSAS- modified cash basis while the LGAs used IPSASs accrual basis, however, efforts were made for the all MDAs to use IPSASs accrual basis from the financial year 2011/2012.

CHALLENGES IN ADOPTION AND IMPLEMENTATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) IN TANZANIA. IFRS are complex and difficult to interpret

Compliance with IFRS is a complex and tedious work as there is enormous information required to be disclosed. They are increasingly becoming longer, more complex and that the structure and complexity of the standards are affecting, largely in an adverse way, both their adoption and implementation.

Frequent changes in IFRSs

Entities cannot fully comply with IFRSs because of the frequent changes in the IFRSs. Preparers and users of financial statements need additional technical expertise to cope with those changes while still learning and implement the already issued standards before changes are made.

Inadequate number of Professional Accountants in the Country Compliance with IFRSs is mostly affected by the inadequate number of professional accountants in the country. In addition, some of reporting entities might not afford to employ fully qualified accountants who are fully knowledgeable in IFRSs.

Inadequate technical competence in applying IFRSs

The standards are not complied with because of the inadequate technical competence in applying IFRSs. This is due to the reason of lack of or <https://assignbuster.com/international-financial-reporting-standards-essay-sample/>

insufficient IFRS trainings facilities to accountants which could make them exposed to practical application of the standards.

Inadequate capacity of NBAA and other Regulators to monitor and enforce compliance with IFRS Entities are not complying with the standards because National Board of Accountants and Auditors (NBAA) and other regulators like the Business Registration and Licensing Authority (BRELA), Bank of Tanzania (BOT), Tanzania Revenue Authority (TRA), Capital Markets and Securities Authority (CMSA) are not monitoring and enforcing compliance with IFRS. Also there is non-enforceability of IFRSs by Auditors and NBAA does not have sanctions for non-compliant entities.

Cost associated with IFRS compliance is high compared to benefits The cost of complying with IFRSs is high compared to the benefits this is mostly to small enterprises; they cannot meet the cost of hiring qualified accountants or consultants' who can help them to fully comply with IFRSs. And also they tend to prepare financial statements in order to comply with tax or banks requirements (creditors) and not for other users, therefore they do not see any benefits of complying with IFRSs. Enforcement of IFRSs vs. Laws

Enforcement concerns are also dependant on the laws involved. To be effective locally, International Standards needs the force of the laws and this is often lacking as is the mechanism to establish a legal framework by which to ensure complies and disciplining of offenders.

Concurrent learning curve.

There is also a concurrent learning curve challenge present with the

standards and it is doubtful that Tanzania has the resident expertise necessary to properly apply the IFRSs.

Language barrier

Translation and use of accounting terminology can be confusing, rendering original intent of the standard incomprehensible and irrelevant. The language barrier is also pertinent to translation of training materials and other resources. These translations must also be sensitive to the rapidly changing nature of IFRS and communicate modifications in a timely manner.

RECOMMENDATIONS ON HOW NBAA SHOULD SUPPORT REPORTING ENTITIES TO COMPLY WITH IFRSs

Conduct trainings on IFRSs National Board of Accountants and Auditors (NBAA) should conduct tailor made trainings on IFRSs and introduce online training modules on IFRS, the trainings should be in the form of seminars and workshops and should be more practical- based on preparing IFRSs compliant Financial Statements. In addition, the trainings should focus on more practical application examples related to Tanzanian environment and the training costs including training materials should be affordable. The trainings should also be used to update members on the IFRSs changes. The Certified Public Accountant syllabus should also include IFRSs and candidates should be tested on their understanding on IFRSs.

Create awareness to Stakeholders through various forums on the compliance with IFRSs NBAA should continue with awareness creation efforts to entities and members whenever a new standard is issued. National Board of Accountants and Auditors (NBAA) should keep track of IFRSs changes and communicate the same to stakeholders including the professionals and top

management of reporting entities and also encourage reporting entities in Tanzania to participate actively in the development of standards through making comments on the Exposure Drafts (EDs) and Discussion Papers (DPs). NBAA should also arrange for TV/radio programmes to discuss IFRSs and related matters.

Establish efficient and effective enforcement mechanisms to monitor compliance of NBAA Establishing Act and IFRSs National Board of Accountants and Auditors (NBAA) should establish efficient and effective enforcement mechanisms to monitor compliance with NBAA establishing Act (The Accountants and Auditors (Registration) Act, no. 33 of 1972 as amended), and IFRSs by making regular visits to reporting entities. NBAA should also make follow ups to ensure that all reporting entities in the country employ qualified accountants who keep themselves up to date by complying with Continuing Professional Development (CPD) requirements. Also all reporting entities should be required to submit their financial statements to NBAA for review and there should be sanctions to reporting entities that will not comply. NBAA should also enforce audit quality reviews and closely monitor audit firms to enforce IFRSs compliance. Also there is a need of NBAA to advise the government to establish a separate organ to enforce compliance and ensure that reporting entities have audit committees in place.

Provide guidance on the implementation of IFRSs

National Board of Accountants and Auditors (NBAA) should issue implementation guidance specifically on the complex standards and

implementation guidance should be issued whenever a standard is applied
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for the first time, when there are translation issues, and when there is a lack of technical expertise in that area.

Develop a simplified version of IFRSs to make them user friendly National Board of Accountants and Auditors (NBAA) should summarize IFRSs to make them more friendly, produce manuals on IFRSs and provide easy access to IFRSs literature by making new IFRSs available on NBAA website. NBAA should also publish and disseminate enough copies of brochures and simple booklets/brochures summarizing IFRSs and related changes. NBAA should also publish IFRSs changes/updates in the NBAA “ Accountant” Journal. Furthermore, NBAA should translate IFRSs into simpler language and ensure that the standards reach users in time for adoption.

Coordinate with BOT and other Regulators to harmonize the regulations and reporting requirements with IFRSs National Board of Accountants and Auditors (NBAA) should coordinate with the Bank of Tanzania (BOT) (and other regulators in the country) to harmonize the regulations and reporting requirement with IFRSs.

CONCLUSION

The challenges in adoption and implementation of International Financial Reporting Standards(IFRS) is associated with the problems indicated like inadequate technical competence in applying IFRSs, complexity of IFRSs, inadequate number of professional accountants in the country and inadequate capacity of NBAA and weakness of regulators to monitor and enforce compliance with IFRSs. NBAA should take serious steps to address these problems by conducting tailor made trainings on IFRSs; creating

awareness to stakeholders through various forums on the compliance with IFRSs; introduce online IFRSs modules; providing guidance on the implementation of IFRSs; and harmonizing with other regulators on the regulations and reporting requirement with IFRSs. And also NBAA should embark on specific trainings to small audit firms to ensure that they assist their clients in complying with the standards.

REFERENCES

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