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HARMONIZATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS WITH NATIONAL STANDARDS BODIES TO ENHANCE COMPARABILITY, CONSISTENCY, ACCOUNTABILITY, AND TRANSPARENCY IN CORPORATE REPORTING

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ABSTRACT

Fundamentally, the international effort to achieve a common set of accounting standards is not an easy task. It has started long ago to correct the differing and varying national accounting standards and principles in different parts of the world, however, the ultimate aim is to move towards harmonization. The process of harmonization seeks to bring all the different standards and reporting for better comparability, consistency, and reliability and to shorten the gap of these different streams of accounting rules, regulations, policies, practices, principles, and guidelines The objective of this current study is to review and understand the emerging issues, challenges, and benefits of adopting and achieving a common set of globally accepted accounting standards that are high quality, understandable, comparable, consistent, and reliable. However, the huge benefit of comparability and consistency can be made and that reliable and relevant accounting information is needed more than ever in the capital market to enhance investment opportunities and improve the investor's economic decision- making. There remain some strong national accounting standards, laws, and regulations that are simultaneously practiced, accepted, and working well in certain countries and jurisdictions. The existence of different accounting principles would serve as a threat to the harmonization and convergence process. Consistent with such gains, it is hoped that the accounting world over time would be controlled and guided by a single set of standards that are universally accepted, comparable and usable in different jurisdictions.

KEYWORDS: *International Harmonization, Convergence, Financial Reporting, Accounting Standards, Standard-Setting Bodies, Comparability, and Consistency*

INTRODUCTION

Across the world today, there is a fundamental emphasis and shift to the harmonization of international reporting and standards (Fritz & Lammle, 2003).

According to Buchanan, (2003) the most important step toward harmonization of financial reporting is to have a single set of uniform and sustainability accounting standards that are accepted worldwide.

Buchanan, 2003 emphasized that most professional accountants around the world know what is needed to achieve international harmonization of financial reporting and accounting standards. They have realized the increasing necessity to shorten as well as bridge the widening gap among diverse and varying streams of accounting policies, standards, principles, and practices to enhance increased harmonization.

The hope was that as barriers keep reducing between countries and given the international efforts and commitments, the advantages of harmonization through convergence are many and beneficial to the public and investors (Ong, 2005).

Shekhar & Prasad, (2013) emphasized the need for international harmonization and convergence of accounting standards and reporting.

Sharma & Gupta (2018) noted that each country prepares its accounting standards in line with prescribed requirements of the national standard setters.

THE SIGNIFICANCE OF THE STUDY

The rationale for harmonization of accounting standards and reporting at this current moment is a welcoming development but the journey is not an easy one. When for example, accounting standards are harmonized through convergence; the resultant effect will bring high quality and reliable financial reporting and disclosures.

Yadav & Sharma, (2012) believe that, harmonization and convergence add to the international credibility, reputation and standing of any company or organization and that it provides a level playing ground where no one country is advantaged or disadvantaged because it is using its national accounting standards, regulations, and practices.

Bhattia, (2014) opined that as the world is gravitating towards globalization and internationalization, it is essential for companies to begin to adopt and implement globally accepted in the form of a single set of accounting standards and practices instead of their respective national GAAPs.

OBJECTIVES OF THE STUDY

The main objective of this present study is to comprehensively review financial accounting standards/regulations i.e. IFRSs & IASs in the context of harmonization, convergence, consistency, comparability, and reliability of accounting information for the benefit of all users.

This study is based on the systematic steps and approach employed to achieve harmonization, but the reality is that the entire process of harmonization of reporting and standard- setting is not smooth and not easy task, to say the least.

REVIEW OF RELATED LITERATURE

Ong(2005) opined that the idea and conception of creating a holistic and integrative mechanism for international harmonization and sustainability accounting standards have attracted considerable attention and compelling debate bordering on comparability, consistency, and reliability in the accountancy and auditing profession. Pacter(2005) emphasized the point that national accounting standards differ on account of many factors but the collective move and consensus to achieve a single set of global standards can serve those that use these financial statements to make investment, credit, and other economic decision.

(Pacter, 2005), argued that as the world is becoming more globalized, a universal way of doing things through consensus, collaboration and critical thinking is critical, it is in that regard that reliable, accurate, and comparable accounting information is vital to make an informed decision. Tudor & Dragu (2010) mentioned in their study the differing and diverse financial reporting in different countries which could be linked to cultural, legal, social, and political factors.

Uwaoma & Ordu (2015) posited that creating a framework for international financial reporting would harmonize the diverse national standards to be more uniform and unified. Also, it enables accounting information to be more comparable, consistent, and reliable to users.

However, Shil, et al.(2009) viewed the process of moving national accounting standards and principles to an international dimension as a good step in the right direction because of the far-reaching benefits to the business community, corporate entities, shareholders, investors and national economies are obvious and immense to support and enhance a firm's measure of sustainability, accountability, transparency, and performance. But the journey of attaining that common set of accounting standard is not an easy task. Shil, et al., (2009) observed that Professional accountants around the world have realized the necessity to reduce the gap due to differing accounting policies, procedures and principles.

Uwaoma & Ordu, (2015), argued that despite the philosophical, political, economical, social and cultural factors serving as obstacles in bringing together the different national accounting standards under one umbrella, recent reports have shown that the international efforts and commitments towards harmonization and convergence have started yielding dividend in most countries that have adopted it.

Shekhar & Prasad (2013) revealed that in a world that is politically, economically, socially and culturally diverse and rapidly changing, establishing and achieving a single set accounting standards that will stand the test of time and as well as used internationally is somehow challenging. That said, it would require concerted, coordinated, collaborative and consultative approach to get it work for the interest and benefit of all.

Furthermore, Shekhar & Prasad, (2013) asserted that in order to achieve a single set of globally accepted accounting standards, it is essential for a globally uniform, comparable and consistent accounting standard be rolled out for the benefit of all users. This would in turn build and strengthen capital markets around the world.

It is critical therefore that a balance is maintained between IFRS and GAAP so that the upcoming changes in standards and interpretations would be identified and highlighted in the different areas of accounting, such as recognition, measurement, presentation, and disclosures (GAAP, 2020).

Buchanan,(2003) in his study highlighted that the recognition and benefits of having an integrated, uniformed, universal and commonly understood financial reporting and sustainability accounting standards that would stand the test of time, given the rapid pace of globalization, as countries have liberalized their economies as the same time open their doors to foreign direct investment with businesses expanding across borders.

Empirical studies have further indicated that the harmonization of accounting standards is crucial to the economic and financial development of a country.

THE STATEMENT OF THE PROBLEM

It is clear evidence to indicate that the existence of fragmented accounting standards and financial reporting framework around would help in fostering in international harmonization process and further bolster increased global competitiveness in business, trade, and investment. It is hoped that such a move would at the final analysis help to hold on to the best aspect of a universally and generally accepted system and framework that would contribute to an international accounting standard and financial reporting mechanism.

Recent studies have suggested that the international convergence of accounting standards is crucial to the economic development of any country.

EMERGING DEVELOPMENTS IN THE HARMONIZATION PROCESS OF IFRS & IAS

Several researchers have pointed out that the harmonization of financial reporting and accounting standards is a continuous process of striking a balance national standard setter across national borders, jurisdictions and countries.

Table 1

Sr. No	Parameters	Developments in the Harmonization Process
1	Standard- Setters	Key stakeholders in the process are; the Government regulatory bodies (domestic) and the IASB (international)
2	Economic Structures (leading to change)	Due to globalisation and liberalization, there was increased participation in the financial and capital market.
3	Global Standards	Historically, IASB emerged from IASC and then migrate to IFRS US GAAP – Financial Accounting Standards Codification
4	Obstacles to harmonization	Crucially, the EU has adopted IFRSs but the US & some other countries are yet to realize the need to eliminate national GAAP and integrate and adopt IFRSs.
5	Decision- Usefulness: Comparability, Consistency, Reliability and Relevant	It is important to note that IFRSs are more principle- based standards unlike US GAAPs which are more rule-based standards with more specific application guidance.

BENEFITS OF ADOPTING INTERNATIONAL FINANCIAL REPORTING STANDARD (IFRS)

Advocates of international harmonization and convergence believe that adopting and implementing IFRS is crucial to addressing the variations and differences in accounting standards framed by national standard- setting bodies.

Armstrong, et al., (2008) opined that IFRS adoption in Europe has been a significant milestone in the financial reporting convergence process. According to Gordon (2008), increased benefits of IFRS adoption and implementation have contributed to better and reliable information flow for shareholders, regulators, enhanced comparability, improves the transparency of results and increased the ability of economies and companies to secure cross-border trade across the world.

Gordon, et al., (2012) expressed their opinion that the adoption of IFRS has a positive impact on foreign direct investment.

Armstrong, et al.,(2008) observed that adopting of IFRS standard would help to improve high- quality, understandability, and transparent global standards and reporting system that is intended to achieve transparency, consistency, and comparability in reporting. Take for instance in Europe, studies have shown that investors in European companies have experienced increased benefits with the adoption of IFRS.

Also, as adopting of IFRS standards have become global, companies around the world and in different jurisdictions that own foreign subsidiaries would find the process of consolidating their financial reports and statement much easier if all their subsidiaries use IFRS standards as the case may be.

Tudor & Dragu, (2010) discussed earlier that International Financial Reporting Standards (IFRS) is a critical source for global benchmarking and comparator of standards which is vital to regulators and investors. These standards contribute to improving capital allocation through economic efficiency given those businesses/investment opportunities and risks are identified and measured.

THE CHALLENGES OF ADOPTING INTERNATIONAL FINANCIAL REPORTING STANDARDS

There is usually an understanding that the adoption of IFRS across the world particularly in Europe is the most important accounting regulatory shift in recent time and this fundamental change and a paradigm shift is gaining momentum in different jurisdictions and countries given the differing, and diversity of their national accounting standards, principles, policies, and practices.

There is a global sense of responsibility and purpose of standard- setting bodies to put together and develop accounting standards mechanisms / frameworks that are more global, consistent, and uniform (Buchanan, 2003). However, the use of international standards as a universal comparator of accounting information, reporting language, and transparency tool would serve as a remedy to address the emerging challenges (Odia & Ogiedu, 2013).

However, Odia & Ogiedu (2013) emphasized the point that in achieving international convergence, preparing a long-term and sustainable framework in the context of legal, structural, regulatory, and institutional capacity building arrangements to adopting and implementing of international standards such as IFRSs & IASs is critical.

Furthermore, action and commitment is needed by stakeholders to address these challenges of laws and regulation, IFRS training of finance staff and regulators greater complexities in the financial reporting process.

CONCLUSIONS

This present study seeks to prove that despite of the contrasting and disparage opinions, views, comments, and perspectives held by some schools of thought on the issue of international harmonization and convergence. Many are of the view that it is now time for International standards to become widely used. Proponents of convergence see it as a fine bridge and an integrated approach to give a more reliable, consistent, and coherent information on accounting standards and regulations with a universal dimension.

In summary, the international and national accounting standard-setting bodies are now ready than ever before to forge ahead with the project of harmonization and international convergence despite the challenges (Popatia, 2017). By creating harmonized reporting system and standards, the accounting and auditing profession would promote and institute effective and efficient transparency and accountability framework in reporting which would help investors to make investment decisions based on reliable, accurate, and consistent information in the capital market.

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