IFRS Application in Southeast Asian Countries: Where Does Indonesia Stand?

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Abstract
This paper tries to analyse the IFRS application in Southeast Asian countries and assess Indonesia’s standing compared to fellow ASEAN countries. Based on the author’s analysis, Indonesia ranks 9th out of 10 ASEAN members in terms of IFRS implementation. This is caused primarily due to the convergence approach to IFRS implementation that Indonesia has chosen, instead of the adoption approach. With the presence of ASEAN Economic Community Blueprint 2025, Indonesia needs to have concrete IFRS implementation action plans as part of the supporting foundation to achieve an integrated and cohesive economy ASEAN has aspired to. Notwithstanding the benefits of implementing IFRS, there are also costs involved in the process. Moreover, there are several aspects that need to be considered in the process, i.e. the political nature of accounting standard-setting, the translation issue that may affect IFRS implementation and the complexity of financial reporting environment. After all, having globally-accepted accounting standards is just one aspect of improving the quality of financial reporting, among others.

Key Words: IFRS implementation, ASEAN, Indonesia globally-accepted accounting standards, financial reporting
JEL Classification: M 41
1. Introduction

Over the past 15 years or so, the world has witnessed the tremendous progress of IFRS (International Financial Reporting Standards) adoption. The IFRS Foundation itself recently published a report on IFRS application in 149 profiled jurisdictions and the report shows that it might be just a matter of time before IFRS accomplishes its intended purpose, to become the global accounting standards used for financial reporting. The term financial reporting hereafter refers to general purpose financial reporting, which has the primary objective to provide information for decision making. Due to its strategic nature in helping users making economic decisions and capital allocation, which in turn can improve the nation’s economy, financial reporting often comes under the spotlight. One of the many aspects of financial reporting is the accounting standards from which the financial report is based on.

The use of national accounting standards in each jurisdiction has been slowly overridden by the presence of IFRS. Some have decided to fully adopt IFRS, while some prefer the convergence approach. Regardless of the method chosen, IFRS has been gaining its significance as globally-accepted accounting standards, primarily due to the economic globalisation that has taken place. The switch of accounting standards towards IFRS also takes place in Asia, specifically Southeast Asia, which is the focus of this article. This paper tries to analyse the extent to which IFRS is implemented in Southeast Asian (SEA) countries and to assess Indonesia’s position compared to other SEA countries in terms of the progress of IFRS implementation. In addition, some issues that might affect the implementation of IFRS are also discussed.

2. Literature Review

2.1 Financial Reporting

According to financial reporting conceptual framework (IASB 2015), financial reporting has the objective to ‘… provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions about providing resources to the entity. Those decisions involve buying, selling or holding equity and debt instruments, and providing or settling loans and other forms of credit’ (IASB 2015, p. 22). This role is sometimes also termed the valuation role of financial reporting (Cascino, et al. 2016). Besides this, there is also the second role of financial reporting, the stewardship one (Cascino et al. 2016; Godfrey, et al. 2010), which regards financial reporting more as a medium of accountability from managers to owners, hence can be used to evaluate the managers’ performance. It seems that at present, the decision usefulness role of financial reporting is the one that is emphasised, both by the conceptual framework as mentioned above, and also by present financial reporting practice (Piwowar 2015; Wood 2015).
In order to achieve the two roles discussed above, the information contained in financial reporting should have several traits, which is commonly known as qualitative characteristics. These characteristics consist of (IASB 2015; Weygandt, Kimmel & Kieso 2015, p. 128):

1. **Fundamental qualities**
   a) **Relevance**
   Information is considered relevant if it would make a difference in a business decision, thus it should have predictive and confirmatory value. In addition, there is also materiality, which is an entity-specific aspect of relevance.
   b) **Faithful representation**
   Information is represented faithfully if it tells what actually happened. There are 3 components that made up this quality: complete, neutral and free from error.

2. **Enhancing qualities**
Besides fundamental or primary qualities, there are also secondary or enhancing qualities which comprise of comparability, verifiability, timeliness and understandability.

In addition, there is also a pervasive constraint to having a useful financial reporting, which is the costs incurred to prepare financial reports. It is expected that the benefits that can be materialised from financial reporting will outweigh the costs of preparing it.

### 2.2 The Regulation of Financial Reporting

Although there is a school of thought that considers financial reporting needs no regulation, in reality it is difficult to just let financial reporting practice operates on its own. There are several reasons as to why financial reporting has to be regulated (Godfrey, et al. 2010; Leuz 2010; Deegan & Unerman 2006; Scott 2006):

1. Since accounting information is considered as public good, we cannot rely on market forces alone to determine the optimum information that needs to be provided in the market
2. Regulation can protect investors from fraudulent financial reporting, to some extent. There is no guarantee that with the existence of regulation, there will not be any fraudulent intention committed by entities
3. Regulation can increase the comparability of financial reporting since there are guidelines that should be followed
4. Regulation of financial reporting can result in market-wide cost savings in terms of lower cost of negotiating disclosure with various stakeholders, since the financial reports presented is the general one
5. Even though there are voluntary mechanisms that can drive preparers to produce financial reports, there is insufficient private sanctions or penalty to incentivize entities in producing high quality financial information

This theory of regulation is broken down further into public interest, private interest and regulatory capture theory (Godfrey et al. 2010; Deegan & Unerman 2006; Scott 2006). In
public interest theory, regulation is designed so that the public in general will benefit from having the financial reporting practice regulated. Contrary to that, in private interest theory, it is the regulator who will get the most benefits from regulation; whereas in regulatory capture theory, the regulated party is the one who will get advantages from the regulation.

In the context of financial reporting regulation, there are many aspects that need to be taken into account other than the accounting standards. Since financial reporting environment consists of legal, economic, political and social settings, there needs to be a holistic approach to financial reporting regulation, which consists of accounting standard setters, audit standard setters and securities regulator (Golden 2015; Godfrey, et al. 2010), so that the resultant financial reporting can be of high quality. A cooperative, consistent and high quality global regulation is one of the drivers to reach sustainable economic growth (IFAC 2016a & 2016b).

2.3 A Global Financial Reporting Language

Having a single set of globally-accepted accounting standards will bring several benefits to many stakeholders, in particular (IFRS Foundation 2016j; Bloomfield, et al. 2015; Golden 2015; IFRS Foundation 2015; Wood 2015):

1. The comparability of financial reporting can be increased
2. With economic globalisation that is taking place, many entities are listed overseas. By having a global financial reporting language, it will reduce the preparation costs as they do not have to prepare multiple sets of reports using different accounting standards
3. From benefits number 1 and 2, it is expected that transparency, accountability and efficiency in the financial market will improve and investors can allocate their resources better
4. Accounting professionals will have a greater chance to migrate from one jurisdiction to another (cross-border) as they do not need to worry about accounting standards differences, this will in turn can increase the labour market efficiency

Nevertheless, there still exist some concerns pointed towards having a global financial reporting language, for instance the high transition costs, the independency issue of the standard setter, the comparability issue of financial reporting that is still prevalent and the difficulties that may be encountered from switching to IFRS (Deloitte 2016; McEnroe & Sullivan 2014).

There are thoughts that IFRS use a more principles-based approach to standard setting, whereby the standards do not give detailed rules as to how to account for a transaction, rather it only states general guidelines that need to be followed (McEnroe & Sullivan 2013; Godfrey, et al. 2010; Scott 2006). Thus, to apply the standards, the accountants need to exercise professional judgment, a skill that is getting more attention than before. The Institute of Chartered Accountants of Scotland (ICAS) even issued a framework designated to help accountants exercise their professional judgment (ICAS 2016). Besides professional
judgment, a robust conceptual framework is also needed so that the principles-based approach can be executed properly (Kabureck 2016).

2.4 Accounting Standard-Setting in Indonesia

In Indonesia, the accounting standards is set by Dewan Standar Akuntansi Keuangan (DSAK)/ Indonesian Financial Accounting Standards Board, which operates under Ikatan Akuntan Indonesia (IAI)/ Institute of Indonesia Chartered Accountants, a body established in 1957. IAI is responsible to organise professional accountant certification examinations, maintain the competency of accountants by organising continuing professional education programs, develop and set the ethical code of conducts, accounting profession standards, accounting standards, maintain the necessary discipline enforcement actions to its members, as well as to develop the accounting profession in Indonesia. IAI is also a member of IFAC (International Federation of Accountants) as well as a member and a pioneer of AFA (ASEAN Federation of Accountants). Currently IAI is the AFA permanent secretariat (http://iaiglobal.or.id/v03/tentang_iai/tentang-iai).

Accounting standards in Indonesia is called Standar Akuntansi Keuangan (SAK)/ financial accounting standards. The development and withdrawal of SAK should follow the due process procedure which has been set in the organisational rules of IAI. The procedure encompasses several steps: (1) the identification of the issue (2) the issue consultation with The SAK Consultative Board, if needed (3) conduct a limited research on the issue (4) the discussion of SAK materials (5) the ratification and publication of exposure draft (6) the undertaking of public hearing (7) the undertaking of limited hearing, if needed (8) the discussion of inputs/ feedback from the public and (9) the endorsement of SAK. In addition, there are also technical bulletins and annual improvements, that do not need to follow all the due process procedure as mentioned before. Besides SAK, DSAK is also responsible for developing accounting standards for entities without public accountability. In addition, there are also sharia accounting standards which is the responsibility of Dewan Standar Akuntansi Syariah (DSAS)/ Indonesia Sharia Accounting Standards Board (http://iaiglobal.or.id/v03/standar-akuntansi-keuangan/sak).

3. Methodology

3.1 Research Questions

As indicated in introduction, this paper has two major research questions. The first one is to analyse the IFRS implementation status in SEA countries and the second one is to assess Indonesia’s standing compared to other SEA countries.

3.2 Research Method

The research method used in this article is a critical review of relevant literatures pertaining to the topic. The literatures come from varying sources, such as journal articles,
textbooks, published reports by credible organisations/ institutions, research reports, working papers and expert opinion. Based on the analysis, conclusion and suggestion are drawn.

4. Results and Discussion

In this section, the author attempts to discuss the IFRS implementation status worldwide, then in Indonesia and other SEA countries. After that, an analysis of Indonesia’s position compared to other 9 SEA countries is provided, followed by some aspects to be considered in the IFRS implementation process.

4.1 IFRS Implementation Status Worldwide

The IFRS Foundation has released profiles of IFRS application in 149 jurisdictions all around the world (IFRS Foundation 2016a), which is accessible by the public. A summary is provided in the following table:

Table 1: IFRS Application in 149 Jurisdictions

<table>
<thead>
<tr>
<th>Region</th>
<th>Number of Jurisdictions</th>
<th>Jurisdictions that require IFRS Standards for all or most domestic publicly accountable entities</th>
<th>Jurisdictions that require IFRS Standards as % of total jurisdictions in the region</th>
<th>Jurisdictions that permit or require IFRS Standards for at least some (but not all or most) domestic publicly accountable entities</th>
<th>Jurisdictions that neither require nor permit IFRS Standards for any domestic publicly accountable entities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Europe</td>
<td>43</td>
<td>42</td>
<td>98%</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>Africa</td>
<td>23</td>
<td>19</td>
<td>83%</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>Middle East</td>
<td>13</td>
<td>13</td>
<td>100%</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Asia-Oceania</td>
<td>33</td>
<td>24</td>
<td>73%</td>
<td>3</td>
<td>6</td>
</tr>
<tr>
<td>Americas</td>
<td>37</td>
<td>27</td>
<td>73%</td>
<td>8</td>
<td>2</td>
</tr>
<tr>
<td>Totals</td>
<td>149</td>
<td>125</td>
<td>84%</td>
<td>13</td>
<td>11</td>
</tr>
<tr>
<td>As % of 149</td>
<td>100%</td>
<td>84%</td>
<td>9%</td>
<td>7%</td>
<td>7%</td>
</tr>
</tbody>
</table>

Source: IFRS Foundation 2016a

From the table, we can deduce that there are only 24 out of 149 jurisdictions (approximately 16%) who have not required IFRS to be used for all or most domestic publicly accountable entities (consist of listed companies and financial institutions). Among the 24 jurisdictions: 12 permit the use of IFRS, 1 requires IFRS for financial institutions only (but not listed companies), 1 is in the process of adopting IFRS in full (Thailand), 1 is in process of converging national standards substantially, but not entirely, with IFRS Standards (Indonesia), and 9 use national or regional standards, one of which is Vietnam (IFRS Foundation 2015, 2016a, 2016i, 2016j).
4.2 IFRS Implementation in Indonesia

Indonesia chose to employ a convergence instead of full adoption approach to IFRS. Based on the Action Plan document developed by IAI (IFAC 2015), the IFRS implementation process in Indonesia has gone through two phases. In phase 1, the SAK was converged in 1 January 2012 with a 3-year gap to IFRS, whereas the convergence of SAK to IFRS in phase 2 finished in 1 January 2015 with a 1-year gap. This convergence process shows Indonesia’s commitment to gradually convert the national accounting standards with IFRS and serves as a testament to the formal statement issued in December 2008 to support IFRS as the globally-accepted accounting standards. Other than IFRS-based SAK, DSlik also issued several non-IFRS standards, such as PSAK 28 on Insurance Loss, PSAK 38 on Business Combination under Common Control Entities and PSAK 45 on Non-profit Organisation. Since the IFRS implementation is still in process and due to several non-IFRS standards issued by IAI, IFAC classifies the current status of IFRS adoption is Indonesia as ‘partially adopted’. Also, some IFRS and IFRIC (International Financial Reporting Interpretation Committee) Interpretations do not have SAK equivalents (https://www.ifac.org/about-ifac/membership/country/indonesia; IFRS Foundation 2016c).

As part of the continuing commitment to the IFRS convergence process, on 25 May 2016 in Jakarta, the Indonesian government, represented by IAI and Otoritas Jasa Keuangan (OJK)/Financial Services Authority, signed a joint statement with the IFRS Foundation (OJK, IAI & IFRS Foundation 2016). Some of the highlighted points agreed on in the statement are: (1) It was acknowledged by the 3 parties that IFRS will help the SEA countries to achieve the ASEAN (Association of Southeast Asian Nations) Economic Community Blueprint 2025 (2) Indonesia’s commitment to achieve IFRS full convergence was again confirmed and (3) It is expected that Indonesia will participate actively in the Asian-Pacific Standard-Setters Group (AOSSG), the International Forum of Accounting Standard-Setters (IFASS), the IASB’s Islamic Finance Consultative Group and the IASB’s Emerging Economies Group (EEG), in particular since Indonesia is the only G-20 member in SEA region. In order to facilitate the IFRS full convergence process in Indonesia, OJK and IAI will form a joint working group.

Currently, Indonesia neither requires nor permits the use of IFRS for listed domestic and foreign companies, rather they must adhere to SAK as issued by IAI (IFRS Foundation 2016c). This condition may change in the future, depending on the progress of the IFRS convergence process. However, up until present, there has not been any formal statement to IFRS full adoption in Indonesia due to possible interpretation and implementation issues. Therefore, convergence is the approach employed in implementing IFRS in Indonesia. Whereas for entities without public accountability, IAI develops a different set of accounting...
standards to be used, with some reference from IFRS for SMEs (small and medium-sized entities), according to IFRS Foundation (2016c).

4.3 IFRS Implementation in Other SEA Countries

In 1967, ASEAN was established by 5 SEA countries, Indonesia, Malaysia, Philippines, Singapore and Thailand. The membership increased over time to include Brunei Darussalam, Vietnam, Lao PDR, Myanmar and Cambodia, so at present there are 10 SEA countries that make up ASEAN (http://asean.org/asean/about). This section discusses briefly the IFRS application in SEA countries other than Indonesia, ordered alphabetically, based on the jurisdictional profiles report issued by the IFRS Foundation as well as other credible sources.

4.3.1 Brunei Darussalam

Brunei Darussalam has adopted full IFRS for publicly accountable entities, for example banks, financial institutions and insurance companies effective from 1 January 2014, however it has not adopted IFRS for SMEs (IFRS Foundation 2017a). As a consequence, IFRS is the basis used by auditors when examining financial statements. The Brunei Darussalam Accounting Standards Council (BDASC) is now in the process of developing the incorporation of IFRS into law.

4.3.2 Cambodia

Cambodia has fully adopted IFRS without modifications, for the periods beginning on or after 1 January 2012 (IFRS Foundation 2016b), it is called Cambodian International Financial Reporting Standards (CIFRS). For commercial banks and microfinance institutions, IFRS implementation is mandatory as per 1 January 2016. Both domestic and foreign listed companies are required to use IFRS. For non-publicly accountability entities, they may choose between using IFRS or IFRS for SMEs. In Cambodia, IFRS for SMEs is only mandatory for SMEs that are subject to a statutory audit. Regarding the language, IFRS is translated into national language (Khmer).

4.3.3 Lao People’s Democratic Republic (PDR)

The IFRS Foundation has yet to release the jurisdictional profile of Lao PDR, but based on other relevant sources, the jurisdiction started to adopt IFRS in 2014 (DFDL 2014; SGV 2014). This is based on the Lao PDR Law of Accounting article 14, which states that “Public interest enterprises shall apply the International Financial Reporting Standards to prepare their financial statements.” These entities also include banks and financial institutions. Whereas for non-public interest enterprises, article 15 states that “Non-public interest enterprises, which comprise large-, medium- and small-sized enterprises, shall apply the Financial Reporting Standards for Non-Public Interest Enterprises to prepare their financial statements.” These standards are adapted from IFRS for SMEs. However, since the adoption process is still somewhat new, the use of local GAAP, besides IFRS, is still also permitted (Company Watch 2015; https://www.iasplus.com/en/resources/ifrs-topics/use-of-ifrs).
4.3.4 Malaysia

As of 1 January 2012, Malaysia has adopted IFRS for all companies (IFRS Foundation 2017b), termed as Malaysian Financial Reporting Standards (MFRS). For private entities, starting from 1 January 2016, they are required to use the Malaysian Private Entities Reporting Standard (MPERS) which are equivalent to IFRS to SMEs, with some minor modifications. Whereas it is a requirement for domestic listed companies to use IFRS, for foreign companies it is optional whether to use MFRS or any other acceptable international accounting standards issued by standard-setter bodies recognised by MASB.

4.3.5 Myanmar

Currently, the Myanmar Financial Reporting Standards (MFRSs) is the 2010 version of IFRS, which are required for publicly accountable entities (IFRS Foundation 2016d). The Myanmar Accounting Council (MAC) is on a plan to update the MFRSs to reflect the changes that have happened since 2011. For non-listed companies, they may use MFRSs or MFRSs for SMEs (identical to IFRS for SMEs).

4.3.6 Philippines

The accounting standards used is Philippine Financial Reporting Standards (PFRS), which is adopted fully from IFRS with some modifications (IFRS Foundation 2016e). These are the standards that should be followed by all large and publicly accountable entities, regardless of whether they are listed or not. Whereas for SMEs, the PFRS for SMEs is the requirement as per 1 January 2010, which is adopted from IFRS for SMEs without modification.

4.3.7 Singapore

The current status of IFRS application in Singapore is that it has adopted all effective IFRS, except for IFRIC 2 Members’ Shares in Co-operative Entities and Similar Instruments (which could only affect non-listed domestic companies) and some modifications has been made regarding transition provisions and effective dates of the IFRS it has adopted (IFRS Foundation 2016f). The accounting standards used is known as Singapore Financial Reporting Standards (SFRS). Starting on or after 1 January 2018, domestic listed companies will be required to apply the new financial reporting framework identical to IFRS. The IFRS for SMEs were adopted effective from 1 January 2011, with very minor differences compared to the Singapore version.

4.3.8 Thailand

Since 1 January 2014, the accounting standards used, Thai Financial Reporting Standards (TFRS), is identical to the 2012 version of IFRS (IFRS Foundation 2016g). Thailand is currently in the process of adopting IFRS as TFRS in full, with some action plans made accordingly. It expects only a one-year gap between the IFRS effective date and the adoption, due to the need to translate IFRS into the Thai language. However, there are some local GAAP standards hence incomparable to IFRS. Also, it is the process of adopting accounting
standards for SMEs which is identical to the IFRS for SMEs (2015 amendment), effective in 2017.

4.3.9 Vietnam

Compared to other SEA countries, it could be said that Vietnam is the only jurisdiction who has not made any commitment to use IFRS, however, in developing Vietnamese Accounting Standards (VAS), the government does consider IFRS (IFRS Foundation 2016h). There are some companies who prepare IFRS-based financial statements to foreign investors as a supplement to VAS-based reports.

4.4 Indonesia’s Standing Compared to Other SEA Countries

Based on the brief discussion above, the author tries to rank the jurisdictions based on the IFRS implementation status in 10 ASEAN members as follows:

1. Malaysia
2. Singapore
3. Philippines
4. Brunei Darussalam
5. Cambodia
6. Lao PDR
7. Myanmar
8. Thailand
9. Indonesia
10. Vietnam

This rank is strictly based on the author’s personal point of view and should by no means used for other purposes other than the context of this article only.

It can be inferred that Indonesia is running behind compared to the SEA peer-group, mainly because of the convergence path that was chosen instead of the adoption approach. Indonesia needs to fasten the process of IFRS implementation, in order to stay on track for the ASEAN Economic Community Blueprint 2025, whose one of the characteristics is a highly integrated and cohesive economy (ASEAN 2015). In this characteristic, the main objective is “… to facilitate the seamless movement of goods, services, investment, capital, and skilled labour within ASEAN in order to enhance ASEAN’s trade and production networks, as well as to establish a more unified market for its firms and consumers” (ASEAN 2015, p. 3). One of the means to facilitate this seamless movement of investment is by having more comparable financial statements. Almost all ASEAN countries have adopted IFRS, hence by having IFRS-based financial statements, Indonesia can position itself at the same level with other SEA countries.

In addition, adopting IFRS would bring numerous benefits, such as improvements in the accuracy of analyst forecast, the quality of financial reporting and the comparability of
financial reporting (AASB 2016). These are some of the main points that Australia has benefited after around 11 years of adopting IFRS. In a different setting, IFRS adoption in Korea has also brought positive impacts with respect to capital globalisation of Korean firms by attracting foreign capital (KASB 2016). In Europe, Bloomfield, et al. (2015) found that accounting harmonisation impacts positively on labour market efficiency and cross-border migration. However, it cannot be denied that there are costs involved in adopting IFRS, in fact there is a study who found that from preparers’ perspective, these costs might outweigh the benefits (Deloitte 2016). Despite the continuing debate of IFRS implementation benefits versus costs, Indonesia has made several action plans as discussed previously. This shows that Indonesia is fully committed to have full convergence to IFRS, despite no definite timeline yet as to when this would occur. Several considerations that need to be taken into account in IFRS adoption process are discussed in the next section.

4.5 Looking at the Big Picture

There are 3 broader aspects worth discussing than just the issue of adopting IFRS alone (Limijaya 2017). The political nature of accounting standard-setting, the translation issues of IFRS adoption as well as the financial reporting complex environment are discussed below.

4.5.1 The Inherent Political Nature of Accounting Standard-Setting

It is questionable and debatable whether accounting standard-setting can be neutral, objective and free from political interference (Deegan & Unerman 2006), due to the impacts it may bring to many relevant parties (Golden 2015; Godfrey, et al. 2010). Political influence over accounting standard-setting can be regarded as any forms of intervention performed by certain parties to benefit themselves, this may include but not limited to intervention from Congress/ government agencies or lobbying by managers, companies (preparers), industry associations and accounting firms that are motivated by self-interests (Gipper, Lombardi & Skinner 2013). Since there are many affected stakeholders, it would be unattainable to have standards that can facilitate every single of their needs. Thus, “… In the face of competing interests, rationality as well as prudence lies not in seeking final answers, but rather in compromise – essentially a political process” (Gerboth as cited in Deegan & Unerman 2006, p. 75); the consensus is usually realised through a due process mechanism. Accounting standard-setters have a high responsibility to balance the stakeholders’ needs and always bear in mind the consequences of the standards to the affected parties (Godfrey, et al. 2010; Scott 2006; Deegan & Unerman 2006). Therefore, the relevant authoritative bodies in Indonesia should realise this political aspect of accounting standard-setting and do their best to manage it well, so that public interest is the one that will be protected, in line with the public interest theory.
4.5.2 Translation Issues in IFRS Implementation Process

There should be no translation issues in IFRS implementation for several ASEAN countries that use English as their business language, i.e. Malaysia, Singapore, Philippines and Brunei Darussalam. But for the remaining 6 jurisdictions, including Indonesia, the translation issue is prevalent. A joint project between Korean and Australian Accounting Standards Board (KASB & AASB 2016) concluded that cultural and language differences may result in different interpretations of some terms used in IFRS. The Autorité des Normes Comptables (ANC, French standard-setter) seconded the findings and they added that it is very difficult to have homogenous standards that can be applied across jurisdictions consistently, due to language and cultural differences (ANC 2016). Thus, exact equivalence may never be achieved (Baskerville & Evans 2011). Some suggestions as to how to handle this translation issue are given, such as standard-setters need to consider other related areas when translating the standards, for example linguistic, anthropology and psychology aspects, and they must be aware of this issue at the earliest stage possible so they can bear in mind the potential language and translation difficulties that may be encountered by non-English speaking countries (ANC 2016; Baskerville & Evans 2011).

4.5.3 The Financial Reporting Complex Environment

Many would assume that adopting IFRS may result in global convergence of financial reporting, because the same language is used. However, since there are different enforcement mechanisms among jurisdictions, that may not be the case (Leuz 2010, 2013). Financial reporting environment consists of legal, economic, political and social settings; it is surrounded by regulatory framework such as statutory requirements, corporate governance, auditors and oversight, independent enforcement bodies, as well as legal and educational system (ICAEW 2016; Godfrey, et al. 2010). Furthermore, besides accounting standards, firms’ reporting practices may be influenced also by other factors, for instance capital market forces, product market competition, firm’s compensation structure, ownership and governance structure, operating characteristics (Leuz 2010). If these factors remain unchanged, then having the same language for financial reporting per se may not result in financial reporting practice improvements (Christensen, Hail & Leuz 2013). Hence, since it is still uncertain of whether complete comparability, i.e. uniformity, is attainable (Kabureck 2016), it is wiser to speak in terms of increased comparability (ICAEW 2016).

5. Conclusions and Recommendations

IFRS has been gaining its prominence as the dominant accounting standards used worldwide, including in Southeast Asian countries. Of 10 ASEAN countries, 7 have adopted IFRS, i.e. Malaysia, Singapore, Philippines, Brunei Darussalam, Cambodia, Lao PDR and Myanmar. For the remaining 3 countries: (1) Thailand, is in the process of adopting IFRS in
full (2) Indonesia, is in the process of converging to IFRS and (3) Vietnam, has not made public commitment to use IFRS. In 2008, Indonesia has stated publicly its support to IFRS as the global financial reporting language. In May 2016, the Indonesian government, represented by IAI and OJK/ Financial Services Authority, signed a joint statement with the IFRS Foundation to streamline the IFRS implementation in Indonesia.

It is recommended that Indonesia realises what have been agreed upon in the statement as soon as possible, in part to support the ASEAN Economic Community Blueprint 2025. Several factors need to be considered in the implementation process, they are the political aspect of accounting standard-setting, the translation issue and the complexity of financial reporting. Accounting standard-setting cannot be viewed in isolation from institutional settings and enforcement mechanisms. Also, the importance of professional judgment must be emphasised and there should be a structured mechanism to exercise this much anticipated skill to current and prospective accountants.

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