



Convergence of accounting standards in the South Pacific island nations

the case of Fiji

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Abstract

This study examines the relevance of the International Financial Reporting Standards (IFRSs) to emerging economies. Utilising the historical and institutional framework, it analyses the relevance of IFRSs to an emerging economy—Fiji—by identifying the specific needs for accounting information in the domestic economy. The paper demonstrates that the needs and the nature of the social and economic systems of developed countries that are behind the formulation of the IFRSs are significantly different from those in Fiji. Since IFRSs are demonstrably designed primarily to suit the needs of developed countries, the relevance of IFRSs to emerging economies is in serious doubt. The context for the evolution of accounting in an emerging economy such as Fiji is different from that in developed countries. To supplement the evolution of such an accounting practice the paper identifies issues and recommendations that are associated with gaps or weaknesses in accounting and auditing arrangements in emerging economies.

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INTERNATIONAL BODIES SUCH AS THE EUROPEAN UNION (EU), THE INTERNATIONAL Organization of Securities Commissions (IOSCO), the Association of South-East Asian Nations (ASEAN) and the World Trade Organization (WTO) are actively working towards the creation of business structures that will facilitate international trade and commerce.¹ Aspects of international business and trade—including law, marketing, finance and economics—have all, by methods such as treaties and bilateral agreements, transcended national boundaries and converged (Carlson 1997). Similarly, there have been rapid and widespread developments in the arena of financial reporting to meet the expectations of the international business community. This has been intensified by the efforts of the International Accounting Standards Board (IASB), the major international body, directed towards international convergence of accounting standards by developing International Financial Reporting Standards (IFRSs). A recent Deloitte survey reported that sixty-nine countries have adopted the IFRSs for all their domestic listed companies (Deloitte Touche Tohmatsu 2005).

In theory, IFRSs are suitable for use by every nation. However, unique economic, social and cultural factors have led most nations to set their own standards or adopt IFRSs with modification. Research efforts to date have shown that there exists a diversity of accounting applications and practice in different parts of the world. The development of national accounting systems appears to be a function of environmental factors such as culture, educational background and the impact of training on individual accountants (Gray 1988; Perera 1989; Douplik & Salter 1995; Zarzeski 1996; Jaggi & Low 2000; Nobes & Parker 2004). The development of new standards in support of elite interest groups (especially the core standards that have been developed by the IASB in response to the IOSCO agreement) and the revisions to the early standards by the IASB appear to make no allowances whatever for the cultural and economic environments in emerging economies. Yet the latter are being enjoined to apply IFRSs (see Hove 1986, 1989; Chandler 1992; Saudagaran 2004). Critics argue that these environmental differences across countries directly counter the efforts of convergence of accounting (Perera 1989; Rahman, Perera & Ganesh 2002). Consequently, convergence is viewed as more apparent than real and several accounting researchers, still believing that



substantial environmental differences remain, express concern about the perception that IFRSs are relevant to all the countries (see Land & Lang 2002).

This study contributes to the existing literature in the Pacific–Asia region by examining and evaluating the relevance of IFRSs to developing countries, using the Republic of the Fiji Islands (hereafter referred to as Fiji) as a case study. Where a national standard setting body is considering adopting the IFRSs it may be important to consider whether the system to be imposed is the appropriate accountancy system for the historical, political, economic and social factors prevailing in the country. Keeping such factors in mind, the paper analyses the relevance of IFRSs to Fiji, identifying specific needs for accounting information in Fiji's domestic economy. It illustrates that this rush towards convergence of accounting standards cannot afford to overlook the importance of compatibility with the needs of individual countries in any systems that are developed. At its outset, the paper reviews the relevant literature and outlines the research methods adopted, before assessing the relevance of IFRSs to Fiji, drawing appropriate conclusions and identifying avenues for future research.

Literature review and theoretical framework

International convergence of accounting standards is a process that eventually results in the adoption of the IFRSs. Several studies, seeking either to advocate or criticise, have examined the process of convergence (or harmonisation as it was termed previously) of accounting standards, and in particular the relevance of the IFRSs to a particular country (e.g. Samuels & Oliga 1982; Peasnell 1993; Zarzeski 1996; Sutton 1997; El-Gazzar, Finn & Jacob 1999; Collett, Godfrey & Hrasky 2001). The general argument for the process of convergence includes the benefits it will have for the investors, financial analysts, lending institutions (such as the World Bank) and other stakeholders in assessing and comparing the performances of firms from different countries. The multinational companies would gain from having a uniform set of financial statements based on similar systems throughout the world, making it easier to compare, consolidate and make more informed decisions (Brunovs & Kirsch 1991; Nobes & Parker 2004; Saudagaran 2004). National government (economic, finance and statistical) agencies and trade unions would be at an



advantage, as it would be easy to collect and analyse information to monitor the activities of the corporations. These arguments for convergence of accounting practices have coalesced to such an extent that the philosophy of convergence is becoming irresistible.

However, a closer examination of the accounting practices reveals that institutional differences among nations have often led to non-comparable accounting numbers despite similar accounting standards (Schultz & Lopez 2001). For example, Radebaugh and Gray (2002:5) argue that 'despite some similarities, there are at least as many accounting systems as there are countries, and no two systems are exactly alike'. Similarly, Nobes and Parker (2004) have shown that the scale of international differences in corporate financial reporting is still very large. Additionally, some accounting researchers have raised serious concerns about the imposition of accounting technology on emerging economies (see Hove 1986; Saravanamuthu 2004). These critics commonly question whether the IFRSs—methods of accounting developed in accordance with the socioeconomic needs of a particular context (developed countries)—can be applied to another vastly different situation (emerging economies). If such contextual differences are not recognised and accommodated in development efforts, then such accounting systems may be irrelevant or even harmful to emerging economies (see Hove 1986, 1989; Saravanamuthu 2004).

Given the divergence of opinion, global convergence of accounting is a challenging and controversial issue currently confronting accounting standard setting bodies and market regulators internationally. Since support for such convergence is increasing, national standard setting bodies are now faced with a difficult choice: whether to continue with their local standards, or to adapt and/or adopt the IFRSs. Peasnell (1993) argued that emerging economies should devote resources to the development of accounting and accounting education, but in doing so they should also apply cost–benefit analyses, as is the practice in developed countries. Unfortunately, many governments in emerging economies are more inclined than their Western counterparts to impose costly regulatory requirements, without adequate analysis of the costs and benefits. This is exactly what has happened in the two larger South Pacific island economies, Papua New Guinea and Fiji. In the case of the former, the



Papua New Guinea Institute of Accountants (PNGIA) has adopted the entire suite of IFRSs, whereas for the latter, the Fiji Institute of Accountants (FIA) as the regulating agency has adopted only the relevant IFRSs.

Susela's (1999) model is utilised in this study to assess the similarities and/or differences between the Fiji and international accounting practices and the needs of the accounting information. This model is relevant as it is based on the premise that analysis of standard setting must not be restricted to key participants in the standard setting process. Understanding of the relationship between the domestic political economy and the global political economy is pertinent. The present research analyses the diversity of influences that has led to the adoption of IFRSs in Fiji and institutional theory provides the lens through which the adoption process is examined. The institutional theoretical perspective was selected for its usefulness in understanding organisations that are publicly accountable, because conscious efforts must be made at creating, maintaining and managing legitimacy in the eyes of external constituent groups in order to receive their continued support (Bealing, Riordan & Riordan 1998). Institutional theorists propose that the survival of an organisation requires that it conform to societal norms of acceptable practice, to achieve continuous support from the stakeholders (Covaleski, Dirsmith & Michelman 1993).

Using an archival–empirical approach, the research reviewed documentary records and reports to trace the development of the accounting profession in Fiji and identify the factors that contributed to the success of the accountancy body. In addition, some prominent past and present FIA members were interviewed, as the archival records of the institute are patchy and there has been little prior research in this area.²

Historical background of accounting in Fiji

Fiji was a British colony from 1874 to 1970. Typically, colonial powers imposed their accounting technology on their colonies,³ without considering the needs of the colonies, in order to maximise their own wealth.⁴ Business entities were set up with the intention of using the resources (in the case of Fiji, both land and cheap labour, which was brought in under the indenture system) to generate revenue for the colonial power, Britain. For Fiji, the expectation was more modest: government revenue thus generated was supposed at least



to cover administrative costs of running the colony. The colonial powers used alienating accounting systems (see Davie 2000). The supervisory roles, including the accounting process, were in the hands of the few expatriates, who at that time were largely from the UK or UK-derivative nations. The development of local expertise at the accounting technician level was focused more in the public sector, but was undertaken for stewardship purposes and to facilitate decision making overseas rather than locally (Hardman 1982). In Fiji, most colonial accounting functions were stewardship based, rather than decision based, focusing on reporting back to Whitehall or a corporate head office (which in the case of the Colonial Sugar Refining Company, overwhelmingly dominant in the Fiji economy, was in Australia).

As the twentieth century progressed, a succession of large multinational corporations (MNCs) invested in Fiji through the establishment of subsidiaries. The absence of any concrete form of accounting legislation and the fact that these subsidiaries had to disclose financial information as required by their parent entities led Fiji to adopt accounting principles prescribed by the former power, where the parent entities were domiciled. As the colonists determined the private sector economic activity, they set the reporting system in this context. Colonies in general were thus obliged to adopt a system even though it may not have been appropriate; almost all former colonies continue to follow accounting practices of their former rulers, and those still under colonial rule continue to follow similar practices to those of their rulers. However, it has to be remembered that accounting practices worldwide have developed considerably since the time of Fiji's independence (1970). While the colonial influence was a starting point for the national accounting systems, it has been equally important in the cross-border flows of capital and the trading patterns that have prevailed after independence.

The influence of global trends, and dissatisfaction with the financial performance of public enterprises (especially in the 1980s) led to the commercialisation of these organisations. Fiji, committed to move towards a market-oriented economy, adopted an outward-looking development strategy in the mid-1980s and also initiated a national policy of public sector reform, giving rise to significant changes in the accounting environment in Fiji. The state-owned enterprises were given autonomy in operations and finance. This



gave rise to growth in the private sector, with private enterprises and foreign enterprises expanding their operations across industries. The apparent growth in the number of absentee owners called for consistent accounting practices across businesses so that performances could be compared between enterprises, to enable better decision-making. It was recognised in the early 1980s that with the process of economic reform there was also a need to broaden the accounting regulatory framework. In Fiji, the FIA promulgates accounting standards and the profession has a concomitant responsibility to provide and maintain a suitable reporting framework. Hence, to carry out their professional obligations, the FIA embarked upon accounting reforms, and at this time increased the number of standards issued, to improve the financial reporting of the entities in Fiji.

Currently, in the rapidly changing business world, corporate credibility is the key to success, the foundation for stakeholder confidence in the future success of an enterprise. Such confidence can easily be damaged, not merely by performance failures, but also by the revelation that the entity has employed less than rigorous standards in terms of the amount, quality and relevance of information provided to its stakeholders (Harding 1999). Thus, we must keep in mind the importance of international capital and the pressure this exerts for consistent reporting in Fiji.

Two commercial banks—Australia and New Zealand Banking Group Limited (ANZ), holding 47% of the market share, and Westpac Banking Group, holding 28%—control 75% of Fiji's financial market, satisfying most of the capital needs of the business enterprises (Ministry of Finance 1999). Additionally, only a small number of individuals, as absentee owners, have a direct holding in equities, accounting for 4% of issued share capital in quoted companies (Patel 2002). As the business ownership is concentrated, the information needs of the resource providers are satisfied in a relatively straightforward way. Given the extent of informal communication between the entity and its stakeholders, the lack of transparency (in terms of comprehensive disclosures) in the financial reports is not a matter of concern. Since the company has to deal with few stakeholders, personal contacts and direct visits are a practical way to monitor the financial position of the business enterprise. Consequently, financial reports prepared to meet the government



requirement for financial information tend to be somewhat limited. But modern business pressures and government's economic reforms such as privatisation are slowly changing this. As the proportion of equity finance grows, together with the growth in the South Pacific Stock Exchange (SPSE), capital market pressures are vying to improve the quality of information available to investors.

Given the perception that the IASB is dominated by Anglo-Saxon accounting principles and practices (Briston 1978; Samuels & Oliga 1982; Perera 1985; Hove 1986; Nobes & Parker 2004) where the major users of the financial reports are investors and creditors, the process of convergence becomes a one-sided exercise. IFRSs essentially facilitate the MNCs' financial reporting requirements (Brunovs & Kirsch 1991; Peasnell 1993; EI-Gazzar, Finn & Jacob 1999; Saravanamuthu 2004). The IASB/IOSCO project reinforces this assertion: ample amounts of resources have been used for well over five years, to complete only the core set of standards. Given the current trend of the IASB's work—to shape standards that satisfy the needs of the so-called developed and emerging economies having stock markets that can be characterised as being developed—the relevance of IFRSs to Fiji is in serious doubt. The IOSCO project can also be seen to have strongly influenced the marked shift towards fair value accounting in the development of IFRSs (e.g. IFRS 32 Financial Instruments: Disclosure and Presentation; IFRS 38 Intangible Assets; IFRS 39 Financial Instruments: Recognition and Measurement and IFRS 41 Agriculture). However, emerging economies such as Fiji do not have the developed markets necessary to adopt fair value accounting.

Convergence in Fiji: a cost–benefit analysis

Benefits of adopting the IFRSs

The Fiji Institute of Accountants Act, enacted in October 1971 and coming into force on 11 February 1972, states that the objective of the FIA is to register accountants and regulate the practice of the accounting profession in Fiji. The FIA's Accounting and Auditing Standards Committee (AASC) recommends the promulgation of accounting and auditing standards to the institute's Council, which approves and promulgates the accounting and auditing standards. In January 1999, the Council agreed (in principle) to adopt



the IFRSs and International Standards on Auditing (ISAs) as the basis for completely revised sets of Fiji Accounting and Auditing Standards. Consequently, a comparative review of IFRSs and Fiji Accounting Standards (FASs) was initiated in November 1999 and was completed in 2001. As a consequence, the FASs were re-issued, the new IFRS-compliant FASs being effective for reporting periods beginning on or after 1 July 2001. Furthermore, although some standards would not come into effect until 1 January 2006, FIA encouraged their earlier adoption. The AASC intends to realign FASs with IFRSs every five years.⁵ The relevant IFRSs are adopted either outright or with a few minor modifications to be in line with the other regulations, such as the company law. The IFRSs that are not mandated are issued as guidance standards—Fiji Guidance Standards.⁶ To justify the adoption of IFRSs the FIA argued that:

one of the most important aspects would be that the adoption of the IFRSs will immediately make accountability in Fiji recognised to an international benchmark. If the institute has to develop its own standards then it will have trouble making these standards compatible and acceptable internationally. So that is one of the major aspects of the alignment towards the IFRSs. As a profession, [the FLA] has a statutory responsibility under the Act to maintain certain professional standards. (IT No. 4-ii-Fiji, p. 2)

The institute further argues that within the IASB set of standards, it has the prospect of a truly global process that will allow standards to be developed locally in a way that commands international acceptance and that is responsive to international concerns. Accordingly, the FIA has taken on board the IFRSs, looked at their relevance, and considered whether each standard should be promulgated in Fiji.

The IASB has emphasised the role of IFRSs in countries where there is no national standard setting body, or only limited resources to undertake the full process of preparing and enforcing accounting standards. The FIA has recognised that in Fiji, the self-regulatory competitive market system cannot be depended upon as a mechanism for efficient allocation of scarce economic resources, since this mechanism is unreliable and unpredictable in its effect.



The globalisation of business around the world basically means that:

FIA cannot dictate to the world in terms of what generally accepted accounting principles should be. We obviously follow what happens overseas. As we do not have the funds for research, thus one easy way for us is to have standards developed by our sister institutes and adopt theirs to start off. (IT No. 4-i-Fiji, p. 5)

Accounting reports are the devices used to express actual and planned operations and to inform the stakeholders of the operations of enterprises in the country. For these reports to be as useful as possible to the users, a certain degree of uniformity is required, because only then can they be used as a basis for comparisons between different enterprises in terms of efficiency and productivity. The consistency in reporting will also facilitate the central government in decision-making (Perera 1985, 1989). Similarly, the institute argues that:

The Fiji government's policy is essentially to reform the economy and deregulate the whole thing, thus the government is constantly looking at assessing the performances of public enterprises. The way in which it can do that is to measure the performance against those of other countries. It can only be measured effectively if the measurement is done by using the same rule. Therefore, international benchmarks and the setting of performance targets would have to revolve around the adoption of some consistent measure, that is, same/similar standards. (IT No. 4-ii-Fiji, p. 3)

On the other hand, the views of agencies that provide investment finance to emerging economies are of particular interest in this process of convergence (see Carsberg 1998). The donors, such as the World Bank and the Asian Development Bank (ADB), believe that the development of effective capital markets, partly through good accounting, is a most important way of promoting growth in the emerging economies. To attract international investment Fiji has to look seriously at the standards it follows, to see whether they constitute international best practice. On this issue the institute argues:



There are some companies in Fiji that are being bought and sold by overseas companies. They themselves will want to know how we measure and report things. If we are able to say that our accounts in Fiji are compiled in accordance with IFRSs, which our Fiji standards are compliant with, then those results have a meaning to them because they would know the basis on which we do our accounts. They themselves will be following similar rules. (IT No. 4-i-Fiji, p. 8)

FIA's efforts to harmonise the accounting standards will in turn enhance the comparability of financial reports. When a Fiji subsidiary is reporting results, for example to a company in Australia, that company will certainly want results from around the world that are basically following one internationally generally accepted accounting practice. The parent company obviously does not want special rules operating in Fiji that would render the reports useless in Australia. Thus the convergence process seems reasonable. Even if the rules do not generate information that is the most relevant and meaningful in an economic sense, they do facilitate comparability.

Nations that have witnessed the growth of large and complex business organisations, particularly when accompanied by absentee ownership, have also witnessed the rise of the accounting profession and the development of a rigorous reporting framework (Epstein & Mirza 1998). In Fiji, apart from the fifteen companies listed on the SPSE and a few public enterprises, every other company is a private company. However, this does not mean that the enterprises are not obliged to follow the standards issued by the FIA. As Interviewee 4-iii-Fiji argued:

The number of public companies in Fiji is not significant at the moment, but it will increase and we think that there are other parties, reporting entities such as the government, statutory entities and others that do produce [financial] reports as well. (p. 3)

Thus the institute has a role to play in promoting and enforcing compliance with standards that are issued. The SPSE is able to impose this on the listed companies, as their accounts need to be prepared in accordance with the SPSE listing rules, which require enterprises to prepare their financial reports in accordance with the standards issued by the FIA. In this way the members of



the institute are obligated to promote and comply with the standards that are issued by the FIA.

The adoption of the IFRSs may also attract the MNCs and the financial institutions to register on the SPSE. The Committee of Inquiry into Financial Services report suggested that financial institutions should also consider listing on the SPSE to allow the locals to participate in the risk and profitability of the institutions (Ministry of Finance 1999). The adoption of IFRSs may be an incentive for registering on the exchange, since reports prepared using the same set of rules would be comparable with those listed on other stock markets elsewhere in the world.

The cost of adoption involved with this approach is also minimal, and it is felt that this will operate effectively. In addition, the resources in Fiji are limited. The FIA's AASC is a part-time committee with no full-time research personnel to do the task. So the most efficient and effective way to keep pace with change is just to adopt the IFRSs and review the changes as they occur, making sure that the institute is happy with those changes (IT No. 4-iii-Fiji).

Costs of adopting the IFRSs

A large number of authors who oppose the adoption of IFRSs (e.g. Briston 1978; Samuels & Oliga 1982; Ngangan 1991; Saravanamuthu 2004) have rather dismissively attributed the need for IFRSs to the increasing significance of MNCs, whose operations and ownership are both assumed to be international. This approach may underrate the interest taken in the activities of MNCs by other groups; other stakeholders apart from their owners are also interested in their activities, including, amongst others, lenders, borrowers, employees and governments. In at least some cases, residents of the countries hosting the MNCs, while not having ownership interests, are likely to be concerned with evaluating the costs and benefits of MNCs. However, it has been argued (see Taylor 1987) that published external reports of MNCs have been perceived as not providing sufficient information for non-owners to consider those issues. The IFRSs also do not help in this regard, as issues such as revenue recognition (IFRS 18), the reporting of financial information by segments (IFRS 14), accounting for government grants (IFRS 20) and disclosure of accounting policies (IFRS 1) may be relevant to many user groups other than



MNC owners. But IFRSs deal with those issues within the conventional stewardship framework of Anglo-American financial reporting, which does not consider the wider implications of these topics for diverse user groups.

The intention of the IASB seems to be to reduce the costs incurred by MNCs in reporting to shareholders, by standardising existing reporting practices rather than extending the scope (and hence the audience) of the financial reports of MNCs. The IASB, though, by concentrating on an Anglo-American financial reporting focus, has failed to grasp the information needs of many individuals and entities affected by international business operations (Taylor 1987). Similarly, Briston (1978) argues that the UK and the US based accounting and auditing standards demonstrate that they are concerned with the problems of corporate reporting and of auditing annual statements, while the information needs of managers and of the other administrators such as the government administration sector and government planners are not regarded as the concern of the accountant.

Adoption of IFRSs is a significant saving to the FIA as it does not have to make its own standards. But the FIA's imposition of these standards on the users means that the cost of disclosure—i.e. the cost of making sure that the expertise is there to report the financials according to the standards—has to be borne. Similarly, one of the partners of the multinational accounting firm stated that:

Fiji will now have a complete framework of accounting standards but the cost side of it needs to be managed so that it does not result in exorbitant costs as the FLA does not have a big membership and funds to finance this area, so it has to be done with cost in mind definitely. It should be done in such a manner that we do not have to produce standards every month, thus the replacing phase should be such that it is done efficiently and we get some benefit without a lot of loss. (IT No. 4-iii-Fiji, p. 4)

A lot of the individual accounting bodies around the world are trying to move in the direction of adopting IFRSs, trying to harmonise standards so that standards of most countries will be compatible with each other. As globalisation of businesses is increasing, the framework for reporting will be clearer if all countries have the same type of standards, thus easing the supervisory and

enforcement roles of the regulatory agencies (IT No. 4-iii-Fiji). However, it could be argued that this may not be the case. A problem with the IFRSs may be that they are not very specific, that they do require judgment by the preparer. This is certainly an issue in Fiji, given the 'uncertainty avoidance' preference of the Fiji accountants (Chand & White 2005). Furthermore, as one of the respondents argued:

Accountants may find difficulty in applying, as in the IFRSs the wording is somewhat general so it makes it hard for members to apply them, particularly if they are smaller or sole practitioner or the general members in Fiji themselves. (IT No. 4-i-Fiji, p. 2)

Not all FIA members are associated with a multinational accounting firm nor do they have access to relevant continuing professional education courses. For such accountants, interpreting and applying those standards can be difficult. The FIA could well look at the IFRSs and decide whether they are useful to our members or whether the institute should provide explanatory notes to the standards. Furthermore, there is a need to consider whether individual standards are in line with the other legislative requirements; any that contravene any law within Fiji have to be amended (IT No. 4-i-Fiji).

Fiji now, with the adoption of IFRSs, has a broader framework of accounting standards, which it is hoped will protect the local market and clients will not be lost to the overseas accounting firms (IT No. 4-i-Fiji). However, on the cost side, it will require qualified people in the system to implement the standards. Also there will be costs in training the members so they are up-to-date with the specific requirements of the IFRSs. Initially, implementation may be administratively onerous in terms of the whole mechanism of printing and circulation and making sure that people are aware of the IFRSs. However, the real problems lie in comprehension and application of these standards.

There are numerous standards issued and reviewed now, compared to a decade ago; to keep pace with the changes is a significant task. The institute has adopted the IFRSs that are relevant to our situation at this point in time, sometimes with some adaptation to suit the local situation (IT No. 4-iii-Fiji). No matter what option the FIA adopts, it is a major exercise to keep up with



the changes in the IFRSs. The FIA now, after adopting the IFRSs, has to try to update and reissue them as they are updated internationally. The FIA, having limited resources, could perhaps ask for assistance in the form of expertise from the IASB or from overseas accounting bodies. The cost side of it would require management so that it does not become exorbitant. The institute has opted to carry out a 5-yearly cyclic review, not necessarily synchronised with the IASB, unless something major needs to be addressed as a matter of urgency.

Responses to the survey also reveal that accounting practitioners are facing difficulties when trying to interpret and apply the IFRSs: the majority of the respondents stated that there are practical difficulties associated with the IFRSs. Because they cater for a lot of countries, which have adopted different treatments, the IFRSs do not specify a single generally accepted accounting practice. For example, IFRS 2 still makes reference to the last-in-first-out (LIFO) method of inventory valuation, which is still in use in the US but not widely accepted elsewhere. IFRSs may give too much freedom to companies to exploit different treatments, which may result in a lack of consistency. It may become difficult for the practitioners to apply those standards. It should be noted that when the FIA is adopting IFRSs, it is setting standards for its members to follow. It is no use to set standards that the members cannot understand. In Fiji, apart from the five big accounting firms, others are basically small or sole practitioners, who do not have access to the same resources and training as do the professional accountants of the five big accounting firms. While for the larger firms, it may not be a problem to interpret and apply the IFRSs adequately, for such smaller members it can become difficult unless the FIA has a programme to disseminate the information and provide training.

In order to ease the problems associated with the IFRSs, the accounting practitioners proposed that the FIA should provide adequate training; give a grace period, implementing some of the IFRSs at first and then others, rather than implementing them all at once; and provide explanatory notes to the IFRSs.

To sum up, it should be noted that so far, no emerging economy has been able to construct a system of accounting designed primarily to meet its own



information needs. In all cases, the external pressures referred to earlier have been too great, and Western influences have dominated both education and practice. These external pressures are increasing, and there is no indication that they are likely to be reversed. There is also an implied cost in non-compliance with peer pressure (see Briston 1978). Additionally, the enthusiasm of accountancy bodies from developed countries (such as Australia and New Zealand) to adopt the IFRSs, including the recent influence of the US on the convergence process, suggests that IFRSs may further deviate from meeting the needs of the emerging economies.

The process of convergence of accounting practices should not be seen as an end in itself. It is a considerable step forward on the long path to the appropriate system, which is subject to modification as national priorities and information needs change. It cannot be denied that each country has its own political, social, economic and cultural characteristics. It logically follows that the information needs of the users of financial reports differ significantly across nations. Briston's comment of a few decades ago is still true: each country should be encouraged not to standardise the structure and specifications of its information system, but to create a system appropriate to its own needs (1978).

Conclusions and implications

There is no doubt that increasingly, individual countries, both developed and emerging economies, are adopting IASB standards. The primary objective of this paper was to analyse the diversity of influences that has led to the adoption of IFRSs in Fiji. The study demonstrates that in the case of emerging economies, apart from the direct influence of the IASB and the donor agencies, there are many other potent factors encouraging the adoption of the IFRSs. In the case of Fiji, it is seen that the developed countries (especially the UK) imposed the accounting practices, initially via colonialism, then through the operations of MNCs and professional accounting institutes, despite the fact that the needs and the nature of the social and economic systems of the developed countries are significantly different from what prevails in Fiji.

Institutional theory helps in discerning the role of different institutional stakeholders involved in this process of convergence. The institutional



stakeholders, including the FIA, accounting firms, reporting entities and the accountants, are striving towards the formulation of a suitable and internationally acceptable accountancy framework in the country. Institutional theory proposes that to survive, an organisation must conform to societal norms of acceptable practice, which currently means the acceptance of IFRSs. The FIA has adopted the same IFRSs as their foreign and more developed counterparts (Australia and New Zealand) to demonstrate conformity with institutionalised practices. The observations reported in the present study suggest that FIA's adoption of IFRSs, demonstrating conformity with institutionalised rules expressed by external constituents such as the MNCs, has helped in gaining international acceptance, that is in winning external legitimation for the Fiji accounting community and practice. Additionally, the World Bank and other international financial institutions (such as the ADB) have insisted that the auditing of many of the projects they finance be carried out by an international firm of accountants and use internationally recognised (i.e. the IFRSs or IFRS-compliant) accounting standards (Briston 1978; ADB 2002).

Prior research (see Pathik 2000) shows that Fiji's accounting and auditing arrangements and the reporting system compare well with those of other countries. But with the new set of standards based on the IFRSs there is need for improvements in the reporting system. The analysis shows the accounting system in Fiji is strongly influenced by British and more recently by international arrangements and practices. However, many aspects of the system are dated. Even though the legislated financial disclosure requirements are generally consistent with international norms, in terms of timing and publication, legislation is silent on the basis for financial statement preparation (for instance, the Banking Act 1995 does not refer to FASs).

The recent suite of FASs based on the IFRSs is radically different from the previous set of FASs, the new suite being more comprehensive and complex. This will present difficulties to the providers of information in Fiji. Certain standards, especially the ones issued after the 1990s, require accountants to exercise greater judgment than previously (for example IFRS 27). This will certainly pose greater difficulty in Fiji, where because of substantial migration of skilled people, the profession has a high proportion of accountants with limited experience. Further, the effectiveness of accounting and auditing

arrangements is undermined by the ongoing emigration of skilled accounting personnel, down to technician-level and bookkeepers. Additionally, the observed tendency for Fiji society to exhibit a cultural trait of uncertainty avoidance is likely to pose further problems (see Chand 2005). Suggestions for assistance to counteract these difficulties include: (1) support for a comprehensive review of bookkeeping and accountancy skills needs within the public and private sectors; (2) design of a framework of professional qualifications that is appropriate to the needs of both public and private sectors in the Fiji Islands (and island Pacific) environment; (3) establishment of professional bookkeeping and accountancy qualifications; and (4) development of licensure criteria and examinations for each qualification (ADB 2002).

The AASC is responsible for monitoring the application of FASs. However, in the face of resource constraints, the current focus on upgrading accounting and auditing standards to international levels, the absence of clear legislative support and the reliance on volunteers, the FIA is unable to perform this role satisfactorily. The institute's corporate plan envisages the strengthening of this role. It is suggested that assistance be provided by the donor agencies (such as the ADB) to develop a financial disclosure-monitoring regime under the FIA auspices.⁷ Additionally, Fiji lacks both a standards board and legislative backing for the standards that are promulgated by the FIA. It is also suggested that an effort be made to develop legislation that accords legal status to the AASC (ADB 2002).

In conclusion, this paper has demonstrated that the FIA has engaged in the adoption process to comply with institutional expectations. By doing this, when that behaviour is expected, the FIA creates a perception of carrying out its mission to the public. With the adoption of the IFRSs the FIA is able to deliver to the economy a suitable environment to attract foreign investments. The institute is in this way playing its part, and contributing to the development of the economy. However, it is not yet known if this has come at the expense of local investors and firms. Further research is required to identify the monetary gains derived and the costs incurred in this process of convergence.



Notes

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¹ The many other large regulatory bodies advocating international harmonisation of accounting standards include the World Bank, the International Monetary Fund (IMF), the Asia–Pacific Economic Cooperation (APEC) forum, the Organization for Economic Co-operation and Development (OECD), the International Federation of Stock Exchanges, the International Federation of Accountants and the Securities and Exchange Commission.

² Data were collected by means of a survey involving semi-structured interviews and informal discussions on the harmonisation process, with many stakeholders. Respondents represented the regulatory agencies (such as the Accounting and Auditing Standards Committee (AASC) of FIA), the major accounting firms in Fiji and other regulatory agencies such as the South Pacific Stock Exchange (SPSE) and the Capital Markets Development Authority (CMDA). Semi-structured interviews were used in preference to structured interviews or standard questionnaire surveys because it was important in these cases to ask follow-up questions on issues raised.

The interview transcripts are denoted as: Interview Transcript (IT) Number (No.) 1 – prominent and past members of the FIA; IT No. 2 – executive members of the FIA; IT No. 3 – representatives of the professional accounting firms; IT No. 4 – members of the FIA's Accounting and Auditing Standards Committee; and IT No. 5 – respondents from the regulatory agencies such as the SPSE and CMDA.

³ In Zimbabwe and other Anglophone African countries, for instance, financial disclosure requirements and corporate legislation are in line with the British Companies Act of 1948, as these countries were part of the British empire (Hove 1986).

⁴ When Sri Lanka was under British rule, for example, almost all the listed companies in the local stock market were owned by British investors and the required personnel for the management, including accountants, were from Britain (Hove 1986).

⁵ FIA has now endorsed the IFRSs to be the GAAP of the country. With effect from 1 January 2002 FIA has been applying all extant IFRSs numbered 1–31, with the exception of IFRS 12. Standards 12 and 32–41 are regarded as guidance standards at this point in time. This means that although reporting entities are to refer to these standards and apply them where possible, application is not mandatory. Full adoption of these standards has been scheduled for 2006, although further deferral may be made in some cases. In the case of IFRS 12, reporting entities have the option of applying FAS 12 Tax Effect Accounting (Profit and Loss approach) or IFRS 12 Tax Effect Accounting (Balance Sheet approach).

- ⁶ The reasons for the issuance as guidance standards are twofold. First, the standards may not be relevant, as is the case, for example, with IFRS 29 Financial Reporting in Hyperinflationary Economies, IFRS 19 Employee Benefits, and IFRS 26 Accounting and Reporting by Retirement Benefit Plans. In the case of IFRS 29, the standard addresses a problem that Fiji does not presently experience, as the inflation rates in Fiji for the past ten years have remained below 10 per cent per annum. The same applies to the case of IFRS 19 and IFRS 26, which relate to reporting entity-sponsored pension schemes. There are no such plans in Fiji. Secondly, even if the standard is relevant, some organisations may have difficulty in complying, or may simply not comply, for the reason that there are practical problems associated with these standards. Thus the institute feels that it is better to wait and see how the other, more established, professional accountancy bodies cope with these problems. This will provide some time for the institute and the accounting practitioners to come to terms with these standards (IT No. 4-iv-Fiji).
- ⁷ This project would involve: 1) defining and agreeing the organisations to be included in the regime, for instance listed companies, publicly accountable organisations (e.g. government companies, and statutory authorities and boards); 2) designing and agreeing a suitable monitoring and penalty regime; 3) preparing the necessary legislation and regulations; 4) assisting FIA to establish the function; and 5) developing operational materials and training reviewers in their usage. Particular attention should be given to specialist materials (e.g. financial institutions and insurance companies) (ADB 2002).

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