IFRS implementation in Romania. Insights from a professional's perspective

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Abstract. *The widespread adoption of the International Financial Reporting Standards (IFRS), by many countries around the world, tries to achieve a greater level of transparency in the reporting area. The research analyses the vision of audit professionals, from an emerging economy, of the implementation of the International Financial Reporting Standards. The paper aims to highlight the challenges and benefits of applying the standards from a professional's perspective. We try to achieve this insight by applying a questionnaire to audit professionals employed in audit firms from the BIG4 group in Romania.*

Keywords: IFRS, audit, audit professionals, emerging economy.

Introduction

International standardization projects have contributed to the growing interdependence and interconnectedness of the world (Mennicken, 2006; Samsonova, 2013). The context in which this research will be conducted is that of an emerging economy, characterized by an unfavourable institutional setting for international standards (Karampinis & Hevas, 2011) and by a low level of enforcement of international standards (Bova & Pereira, 2012). Companies have different types of responses to international standards in this type of institutional setting (Albu et al., 2014), which makes it ideal to investigate the evolution of the implementation process from an auditor's perspective.

Previous studies have tapped into particular aspects of the standards, but in this paper, the IFRS will be considered in their totality, as a set of principles and requirements. The implications of the application of IFRS in Romania from an auditor's perspective has not been thoroughly studied in the past. This paper seeks to address a gap in the scientific literature through a detailed examination of the challenges and differences of implementing the standards in Romania.

Globalisation raises many challenges in the regulation of business and professions (Mennicken, 2008; Samsonova, 2013; Caramanis et al., 2015). In the field of accounting, globalisation has led to international standards and models that are transposed as innovations in a local context. Thus, in general, accounting innovations are changes in rules that generate, or are expected to generate, significant changes in practice (Mennicken, 2008). The changes brought about by these innovations have begun to be investigated (Mennicken, 2008; Zijl & Maroun, 2016), and especially local contexts with significant changes in the economic, political and social environment create a favourable and exciting space for in-depth investigation (Albu et al., 2014; Mennicken, 2008). This investigation is facilitated by a view

of the profession as a complex constellation of actors and relationships involving accounting firms, governments and professional bodies, established at the national and international level (Caramanis et al., 2015; Zijl & Maroun, 2016).

IFRS represent a set of global accounting standards that have gained a tremendous influence over national standards, regulations and organisations all across the world. These innovations represent, for developing countries, a path to legitimization and recognition at the international level (Albu et al., 2014). For many emerging economies, IFRS were seen as a part of embracing “the logic and realities of globalization in order to take part in the wealth enjoyed by the developed nations” (Albu et al., 2014). However, prior research finds significant variation in practices regarding the implementation of IFRS (Albu et al., 2014; Bova & Pereira, 2012). Thus, calls were made to study how global standards are viewed in various institutional environments, and also whether local cultures are preserved.

Our focus is on the Romanian setting, one of the largest emerging countries in Central and Eastern Europe (CEE) which after the fall of communism was affected by several waves of reforms in the field of accounting that had strong influences from the international area (Albu et al., 2011). The continued pursuit of Romania to join the European Union and the desire to show legislative improvements determined the national regulatory authorities to adopt international standards and norms, such as accounting, audit, corporate governance, reporting and the regulatory standards and of the profession (Albu et al., 2014; Ionaşcu et al., 2014). The implementation process was difficult and created spaces for significant variations in practice (Ionaşcu et al., 2007; Albu et al., 2014; Ionaşcu et al., 2014).

We will conduct a survey through which we will try to assess the professional’s opinion in regard to certain aspects of the current implemented form of the IFRS in Romania. The following section discusses the theoretical background of the study. Thereafter, we develop the methodology, results and the expected contributions.

Literature Review

There is an exponential increase in the literature investigating the effects of the IFRS adoption (ICAEW, 2014). Most of these studies address the economic consequences of mandatory IFRS adoption by listed companies, leaving two areas less covered: the institutional process of the implementation and the voluntary adoption. In recent years the notion of unfavourable environment for the adoption of IFRS has been floated (Karampinis & Hevas, 2011), thus trying to provide an explanation for the difficulties that some countries have had in the implementation of the standards. For example, Bova and Pereira (2012) find in an empirical study that enforcement and foreign ownership play an important role for the consequences of IFRS in an emerging economy. Additional studies looking at the interactions between actors at the company level are needed.

Guerreiro et al. (2012) and Mantazari et al. (2017) find that a relevant theoretical insight sustained by empirical evidence can be underlined in this case of the resistance of the organisational actors to institutional pressures. Low legal coerciveness and a low level of enforcement are the main reasons for which companies may resist to pressures. With the unstable and continuous changes in the legislative and political system, accompanied by the involvement of big private players in the implementation and application process of IFRS, an intricate network of actors is created. The individual actors that are involved often employ different strategies and are often in disagreement with each other regarding the methods for implementation, even though their final goals are similar.

By taking an actor-network perspective on the implementation of IFRS in Romania, we can assume that acting, in this case, is understood as mediating, relating to or shaping organizational practices. Starting from the work of Latour (1996), we can acknowledge that the reality is constructed by a collectivity of humans and non-humans. In this paper, we can

take into account the actions of preparers, auditors and consultants, the market, the political and legislative sphere, the users (investors, shareholders or creditors), the financial supervisory authority etc. In order to complete the canvas of the application of IFRS by companies it is necessary to not only take into consideration the relationships between the different types of actors, but also to take into account the focus on the setting in which those “webs” are being cast.

Romania provides an interesting context for the investigation of IFRS given its longer experience with the standards, than other countries in the region. The recommendations received from the International Monetary Fund and the World Bank led, starting around the year 2000, to a process of convergence of the national regulations with the international standards (Albu et al., 2014; Ionaşcu et al., 2014).

Romania is a developing country and there is a strong consensus that it faces different problems in the application of IFRS (Albu et al., 2011). The dense and intricate political network of actors developed in Romania in the post-communist era, helps strengthen the relevance of the national case for this research. From 2007, when Romania became a member of the EU, listed companies on the Bucharest Stock Exchange have the obligation to report under IFRS in the consolidated financial statements. This requirement was extended in 2012 to the individual financial statements of listed companies (Albu et al., 2014; Ionaşcu et al., 2014). Through these changes, the Romanian accounting profession was gradually familiarized with the IFRS concepts. However, the transition to the international standards was not an easy one. Several actors, such as the representatives of international organizations, agents of the parent companies, the State and professionals have played a significant role in embracing IFRS (Albu and Albu, 2012).

The early adoption of IFRS was considered a legitimization strategy (Albu et al., 2014), employed by the state in order to reduce criticism from public institutions and improve company’s credibility. A change to IFRS, however, also signals a change in the underlying reasoning of the financial reporting system towards a view of accounting based on self-regulation, professional expertise, and less state intervention. Historically the state has played the most important role in controlling financial reporting, standard-setting and in the development of the accounting practice. For the Romanian companies, financial reporting is often reduced to the compliance with tax regulations set by the government (Albu et al., 2014; Ionaşcu et al., 2014) – this is an instance derived from the close link between financial accounting and taxation. Thus, the financial reporting rules of the companies become a part of their tax planning strategy which has the goal to reduce tax liability. During the last three decades many changes have occurred in the network of actors, but the consensus about the role of IFRS for the legitimacy and transparency of the entity has persisted. On the other hand, Ionaşcu et al. (2011) considers that the implementation of the standards in Romania cannot be achieved in a comparable manner to that of the developed EU countries.

Their application is influenced by the relationship between actors and the environment in which their activity unfolds. Those connections are heavily marked by cultural and historical factors (the connection between accounting and taxation, the absence of active markets to help define the fair value, the managers attitude towards risk, the lack of experience of the employees in the application of IFRS, the high costs for implementation, the difference in professional judgment of the actors required to apply IFRS, the quality of the financial audit etc.). The extent to which the socio-economic events from the last decade will hamper the adoption of IFRS in Romania is a subject that needs to be further explored.

Methodology

While it might be expected to have a significant part of listed companies and subsidiaries audited by big 4 firms, the Romanian market’s peculiarity is to have an important role played by non-big 4 firms. For example, Grosu et al. (2015) finds that over 65% of the listed

companies on the BSE analysed (63 companies have made the sample out of a total of 87, which accounts to 72% of the total number of companies listed on BSE) are audited by non-big 4 auditors. IAS/IFRS implementation has been difficult in the case of Romania and only partially has it been accomplished. During this process that started in the early 1990's, the major players on the international Audit market (the Big 5, at the time) have had a major input on the policy making and implementation of IAS/IFRS (Albu et al., 2011; Nurunnabi, 2015). Auditors often offered assistance to companies through training and consultancy services for IAS/IFRS application (Albu et al., 2011; Nurunnabi, 2015), thus making them a very important set of actors for this study. Despite the numbers presented above, the BIG4 group still, to this day, has a consistent market share and has proven time and time again to have more experience with the Standards (than their counterparts - non-big4 audit firms).

Our research was based on a survey, which consisted of 19 questions, divided into 3 sections (S1. General information about the respondents, S2. Respondents familiarity and experience with the standards and S3. Specific questions about IFRS). For the S3 section the answers were gathered using a Likert scale (where 1 – Strongly disagree, 5 – Strongly agree).

The survey was sent to 61 audit professionals who were currently employed in a firm from the BIG4 group in Romania. The response rate was approximately 52.5% (32 respondents) and the survey was opened through the months of October and November of 2019.

Results and discussions

Section 1

In this section we have gathered the general information about our respondents. Thus, we have 32 respondents, who are all employed in a firm from the BIG4 group. 28 of them are 35 or younger, and 4 are 36 or above.

In regard to their educational background we learn that: 12 individuals have a bachelor's degree, 18 have a master's degree, 1 has a PhD, and 1 has a professional qualification attained from CECCAR and CAFR.

In the firm that they are employed in 21 work in audit and 11 work in accounting. Also, another important factor is their experience in the field of accounting and audit. We learn that 25 have an experience of up to 5 years and 7 respondents have an experience of over 6 years.

Section 2

In this section we wanted to ensure the familiarity of the respondents with the IFRS. All of the respondents have answered positively to the fact that they are accustomed and have worked with the IFRS, and 31 out of the 32 individuals firmly state that they are familiar with the key differences between IFRS and the Romanian Accounting Standards.

Section 3

This section contains 12 questions evaluated on the Likert scale (1 to 5).

Table no. 1 The weight of the results for the questions in the questionnaire

Questions	Respondents opinion (%)		
	Approval	Disproval	Neutral

IFRS are appropriate for achieving the true & fair view of the financial statements	90.625	0	9.375
Implementation of IFRS will increase the transparency of the financial statements	78.125	15.625	6.25
Implementation of IFRS will increase the international comparability of the financial statements	65.625	28.125	6.25
Implementation of IFRS will bring in more opportunities for accessing the global markets for Romanian companies	90.625	6.25	3.125
Implementation of IFRS will increase the understandability of financial statements by its users	62.5	25	12.5
Implementation of IFRS will increase the relevance of accounting information for decision making	90.625	6.25	3.125
Implementation of IFRS will assure greater accessibility to funds for Romanian companies	71.875	21.875	6.25
Implementation of IFRS will provide better professional opportunities to Romanian accountants and auditors	65.625	31.25	3.125
IFRS are complicated in comparison to the existing Romanian Accounting Standards	84.375	6.25	9.375
Implementation. Of IFRS will require too much disclosure of financial information which might be troublesome	37.5	59.375	3.125
IFRS recommends the application of fair value concept which is generally difficult to apply	34.375	37.5	28.125
Implementation of IFRS will entail a substantial cost in terms of training of staff	75	6.25	18.75

Source: Authors' own research

Through the table above we've managed to engulf the professional's general opinion in regard to IFRS. We can observe that in the opinion of the professionals the IFRS will increase the transparency, understandability and comparability of the financial statements. Moreover, by complying with the Standards Romanian companies increase their chances to access international markets and also to attract investors.

Another important point is the fact that through the standards companies create more techniques and premises to obtain more precise data in order for them to develop better and be more efficient. For the employees also, the implementation and the working with the standards can create a more diverse and vast necessity for more professionals which are better prepared (this can result in more friendly working environments, higher pay, more benefits etc.).

Although we can observe those benefits, in the opinion of the respondents there are certain drawbacks. The two main obstacles that were identified are the cost implied by the companies that have/wish to start implementing the Standards, and also the differences between IFRS and RAS, which entails time and resources to ensure a good level of compliance.

Through our study we've managed to meet the goals we set at the beginning of this research. The study was conducted on a sample of 61 people, directly related to the audit and accounting field, and the response rate was 62.5%, i.e. 32 individuals. We analysed the

literature in order to be able to put into context the familiarity the Romanian professionals have with the IFRS.

Contributions and limitations

The paper will contribute to the literature on the institutional context of the IFRS adoption by analysing the opinion of audit professionals from the BIG4 group. Therefore, it will complement the mostly empirical research on the consequences of the mandatory IFRS adoption.

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The sample used covers only a part of the actors involved in the implementation process of the IFRS (auditors from the BIG4 group). In future research a more broad approach can be applied seconded by the employment of semi-structured interviews with the respondents, in order to obtain a more accurate and complex image.

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