

3. FINDINGS OF AN EXPLORATORY STUDY

An exploratory study was carried out in November 2002 during the Ninth Accounting Educators Congress and sixteenth World Congress of Accountants held in Hong Kong from 14-16 November and 18-20 November 2002 respectively. The Congresses were attended by many stakeholders from both developed and developing countries. The stakeholders include among others:

- practitioners from big, medium and small accountancy firms,
- regulators from the various securities commissions; stock exchanges, government/ministry of finance
- accounting educators
- members of professional accountancy bodies
- commercial and private sector accountants
- public sector accountants

The research was carried out using an in-depth interview technique to gather feedback on various stakeholder groups as to their perception with respect to the initiatives by ISAR towards proposing guidelines for accounting and reporting by SMEs. At least 50 persons were approached during the congress and it is surprising to note that at least 80% were not aware of the initiatives undertaken by ISAR. Most of the respondents were given copies of the ISAR proposed guidelines to refer and then contacted again for their feedback. The discussion below summarises the findings from the 30 in-depth interviews that were finally conducted.

3.1 AWARENESS OF THE INITIATIVES TO PROVIDE GUIDELINES FOR SMES

As mentioned earlier nearly 80 per cent of persons approached were not aware of such initiatives undertaken by ISAR. Of those who had some idea of such efforts felt that it was a timely initiative undertaken by ISAR.

Respondent (12) from Sudan says:

The other thing is in my country, Sudan, IAS are not applied.

To make the companies apply the IAS we have to make them simple. To make them simple because all the companies are small or medium sized.

... I read the ISAR guidelines. All of it applies to Sudan. The question is how do we make the companies adopt IASs. It has to be made simple...

Another respondent (14) from Kenya says:

... We support the guidance by ISAR.. The guidance does not identify what is a small business and that is left to the local jurisdiction and I think that is correct.

The respondent from Italy was similarly supportive:

There is not really a problem that small companies are burdened by excessive reporting requirements. The information needs for small companies are different ... of course.

It is not very good to impose same accounting systems and reporting rules for all companies. It is waste of resources. Fund raising is not a problem.

It depends on the kind of legislation because in Continental Europe there is regulation of law it would be clear. If there is no regulation by law.. then need to provide some guidance. (Respondent 7)

Another respondent from Africa says:

... On the broad level because you are looking at the situation where there will be some form of standardization for not just across different organization but also perhaps across different countries. But whether this is going to be accessible for all small and medium companies in all developing countries is another issue entirely. Whether the UNCTAD is the right sort of body to bring that about is another question that need to be asked. Or practicability of such.

...I think the framework is good because it aids standardization. But I think it should be made compulsory and companies should be allowed to make variations as they deem fit. (Respondent 10)

Respondent from Thailand was very supportive and elaborated on measures taken in Thailand:

... I think ISAR is going in the right direction. This guideline is useful especially for developing countries that have very large number of SMEs. I attended the meeting in September and after we returned to Thailand, we formed a team by the Ministry of Commerce. We invited people involved like the bankers and the tax authorities and we talked about the accounting for SMES. We agreed the very small SMES they should prepare only the balance sheet and income statement. (Respondent 9)

Generally there was support for the initiatives from members from the less developed countries. However the reaction from some respondents from more developed countries was contrary.

An academic from the USA had this to say:

Basically, I don't like the idea of .. in a sense... double standards or Big GAAP Little GAAP.

... If you are limited liability company, it seems accrual accounting is applicable you have to use the revenue recognition and measurement principles but many disclosure rules wouldn't necessarily have to be there.

I think the basic accounting model is appropriate because as a limited liability company you have got probably reporting obligations to your shareholders and maybe some government agency that... is a better measure of performance than cash basis accounting.

It is a matter of deciding to follow the ones that are appropriate. Somebody in the local scene need to take decisive actions.

Probably the UN or IASB might be able to give proper guidance. (Respondent 6)

Another academic from the UK believes that:

... There is certain attraction in international standards because it makes software transferable between countries. It should not be mandatory in my view. There is no reason why just because some countries find it their philosophy, therefore that the others would be the same.

I see there is no doubt the transfer value is for the smaller virtually less developed countries and it will be exceptionally valuable to them because there is a tendency for the accountancy profession to be limited in numbers and to an extent monopolized by the large firms. (Respondent 8)

One academic from Hong Kong says:

I think somebody needs to take the initiative. I think IAS as they now stand are focused primarily on large companies, listed companies, multinational companies. IASB and its predecessor IASC had several initiatives on small companies and none of them got anywhere and I honestly think these have failed. (Respondent 12)

Another academic from Poland feels:

... We have learnt from the ISAR reports and materials. There is another way of doing things and who knows in a few years' time we will not move the other way. Because otherwise our small businesses is not acquainted with any standards and if we will move this way then probably not very low, they will be able to move up. (Respondent 1)

Respondent from Japan says:

... may be in Japan we have the same concern... that we should have 2 different accounting standards to be used in big companies and SMEs.... We strongly insist accounting standards ONE, maybe some application may be different. So this is very important, as accounting bodies, we should not have dual accounting standards systems. One is sophisticated ... one is very simple... it is not good ... maybe it will destroy our profession... (Respondent 15)

Generally there is mixed support from the respondents from the developed countries. The concern is about dual standards and perception that they are second-class standards.

A respondent from France insists they are downgraded not simplified:

... Issue shall we accept IAS for the smaller enterprises: To date the answer is not given by the French authorities but there is 2 positions. First-we accept IAS in bulk –that is first issue- we have experiences of other countries we are collaborating with ...for instance Lebanon – in 2000 they decided that all account of enterprises will comply with IAS – but they found it impossible – not realistic - so France is not interested - what we suggest is that you take specific **downgraded standard** from IAS applicable...

3.2 WHO SHOULD TAKE THE INITIATIVES?

There is overwhelming support that the final outcome should be endorsed by IASB.

As another respondent from Africa remarks:

It will not be possible for a lot of African countries to apply IASs. They come from a regime ... where compliance is low ... The last review done by World Bank for example. This is because the Companies Law requires all companies to be treated as one.

We are pushing for standards on SMES... (Respondent 14)

Respondent 8 was also supportive that it should finally end up in IASB's domain:

I think it is an interesting initiative. I think the sensible role for ISAR is firstly to provide in a sense a conduit for International Standards rather than offering to the world – “here is another alternative sets of standards”.

Some respondents were more vocal than others:

I think since IASB is the recognised accounting standard setter in the world... they have a responsibility to look at the question in my judgement there are certainly disclosure standards that I think are unnecessary and burdensome for SMEs. and I am talking more than just the ones that are already exempt like EPS or segment information. But good number of others as well. I think the IASB should pick up the ball and run with it... (Respondent 11)

Respondent 5 remarks:

... The Bank has pushed me hard to get it on the IASB agenda because we represent the accounting standards advisory council. There wasn't perhaps that much support for it initially but they have put it in as a research project ... it is still very early days ... but there is more support building for it and also IASB has tried to slow down its agenda to 2005 so that there is some breathing space for and hopefully during that time they might be able to get more emphasis on it.

... We are certainly encouraging the IASB to continue to give that the priority. The ISAR initiative has helped to start. The problem is not lack of material but issue of implementation. If ISAR has a good input then it will be worth taking it up.

Respondent 9 feels they have taken the right step by involving the Ministry of Commerce:
... The initiative is spearheaded by the Ministry of Commerce and the Institute of Certified Accountants and Auditors of Thailand.

3.3 IMPLEMENTATION ISSUES

Though there was support generally, at least from the respondents from the developing countries, there was some concern as to how it would be implemented. The respondents from developing countries feel that if it is an IASB Standard it would be much easier to enforce in their own jurisdictions. Most respondents, especially from less developed countries, felt that if it were to be implemented it had to be by the government.

3.3.1. Government backing

The issue of implementation is much aligned to the national jurisdiction's commitment. As the respondent from World Bank explains:

... The issue is trying to get other national jurisdictions to adopt the SME framework and aligning to international practice... (Respondent 5)

Another African respondent says:

... But whether this is going to be accessible for all small and medium companies in all developing countries is another issue entirely. Whether the UNCTAD is the right sort of body to bring that about is another question that need to be asked. Or practicability of such ... (Respondent 10)

Similarly another respondent from Sudan is certain that the government should take the initiative:

I think the government should take the initiative. We have professional accounting association ... but they can't enforce ... In conclusion I totally agree that it will have to be useful for the developing countries. (Respondent 13)

However, responses from CAPA member countries indicate that any legislative enactment must be persuasive and properly drafted with due regard to the feedback from the accountancy professional bodies.

3.3.2. Education

There is a serious concern as mentioned earlier of perceptions that this may be viewed as second-class standards.

One respondent suggests that this may be overcome with education and efforts by regional accountancy bodies to educate the members on differential reporting (Respondent 20).

Respondents from India also express similar concerns:

... There is a transformation from a regulatory mechanism to a non-regulatory mechanism and freedom –whereby they have to survive facing the challenge – facing the competition –so that these two factors may decide in a near future a separate set of guidelines – how the non applicability of the present provisions as to maintenance of accounts and audit for smaller and medium companies. But as it is it is the constitution of business that is deciding whether it should be audited. (Respondent 2)

Another respondent from India highlighted the current dilemma that they are facing:

...So far the small and medium enterprises are in the habit of non maintenance of accounts and ... non payment of taxes and we see audit is not made compulsory, then nobody would pay like to pay taxes. They would like to hide everything – the turnover, profits because there is no checking and auditing. The whole community will have to undergo a reorientation in such a way that they will not evade the payment of tax...

That will again have to depend on the tax structure of the country... if the tax structure is very high... people try to conceal and evade tax ...if tax structure is free and minimum number of provisions are there as regards taxation ... then people will like to pay rather than hide. Our country we are in the process ... earlier we were paying 98% taxes ... now it has come down to 30% and once it comes down to 10-15% then there will be no complaints and there is no necessity for anybody to conceal the income or hide the turnover. So it all interlinked. (Respondent 3)

Herein the role of regional bodies, like CAPA, is vital. As one CAPA member body points out “ ... By working with the accounting bodies in the developing nations, education them as to the “how” of the accounting process, the “why” will take care of itself (eventually). By first dealing with education, the issue of compliance and process will lead to the acceptance of the standards.”

3.3.3. Competitive information

Respondent 16 was much concerned with the reluctance of smaller firms to make certain disclosures because of competitive disadvantage:

... but there were some disclosure issues that were less conflict/detailed with IAS. Having said that, the reason for that was there was a concern among smaller enterprises that competitive information which might have to be disclosed... that was not necessary in a smaller enterprise.

3.3.4. No clear direction

The respondents although they agree that the reporting for smaller enterprises should be simplified, they do not see clearly a way to do this. The respondent from France captures this dilemma:

... The fact remains to present accounts of the ... or the sole retailer to comply with IAS. It makes no sense to comply fully with IAS. For the investor the company shall present its accounts to its banker or the tax authority – it will say I am in compliance with Code regulation which is more or less in compliance with IAS – a conversion (convergence?) with IAS.

The respondent feels it is time to address the issue:

I think this solution may be able to adopt it first. I know the solution will not be followed by other countries. We are working with International Federation of French Speaking Accountants and a lot of developing countries and the issues are not the same. It depends on the type of economy some countries still based on cash accounts. Important issue is to move from this simplified economy to something more complicated – to have information of assets, liabilities, revenue and income and expenses. And then financial statistics. But at this stage for these countries the most practical system would be a single cash basis- to have a cash register and to check its cash register. But to apply IAS or even a simplified IAS system makes no sense. It depends on the economic development of the country. (Respondent 4)

There is still much debate about which model to accept:

... We don't like the FRSSE in UK and the other model in Canada. We are thinking – who are the main users of IAS – designed for the investors and transnational activities (Respondent 4)

Another respondent was still amazed by the number of suggestions and viewpoints:

There are interesting differences and views as to how one goes about. There was a rather novel suggestion that I think at the face of it is worth pursuing. It says instead of writing SME standards, why not write for each IAS write a guidance note for SME so that it aligns clearly with the main body of IASs. Again that is just an approach that could be followed. ..Beyond that I think it is definitely essential to look at SMEs (Respondent 5)

The respondent is referring to the integral approach adopted by countries like New Zealand and Canada.

3.3.5. Deviation from measurement principles

The respondent from Sri Lanka indicated that certain measurement principles were deviated:

There are a few cases in which measurement was to be deviated but deviated for good reason. One such was the area of actual valuation in Sri Lanka in particular there aren't many actuaries... and the cost of getting actual valuation is quite substantial. A simplistic plan was given on how to assess the liabilities ... Another one was in the area of deferred tax... (Respondent 16)

It was clarified that in the case of calculation of gratuity provision (value of provision), the method of calculating the provision was modified. However, the principle of recognising gratuity provision was adhered to in line with IASs.

Some respondents feel that the question of “second class standards” would not arise as long as recognition and measurement principles are kept the same for all levels of enterprises.

It is clear that there is a need to address the issue of recognition and measurement. The ISAR guidelines do not appear to address this issue of recognition and measurement principles clearly.

3.3.6. Need for accounting procedural standards

One respondent feels that further guidance should be forthcoming in respect of requirement for book keeping:

... But the other thing they should do is the cash records. But guidance should insist that they prepare cash records so that from the cash records the accountant can prepare income statement and balance sheet and not only cash records. They should keep records of creditors and debtors. Insist on proper book keeping??

Procedural standards are concerned with how accounting records are kept and transactions and events are recognized. This type of standard features predominantly in Continental European systems; a good example is the French *Plan Comptable* which contains procedural as well as measurement and disclosure standards.

The call for guidance on procedural issues is not new. Wallace (1993) in his review of the needs of developing countries suggested perhaps some guidance on how adequate accounting systems can be developed and maintained. He quoted the example of Tanzania which has an accounting standard (TAS 1) which concerns itself with how accounting systems can be developed and maintained.

... IASs are not concerned with standards of accounting procedure. They presume that a system of accounting exists and such a system would allow aggregation, retrieval and disclosure of relevant items of information. The situation in many developing countries is that a majority of enterprises do not have adequate accounting systems and there is no guidance on how such systems can be developed and maintained. (Wallace, 1993. p.132)

This highlights a major concern. The situation in many developing countries is that a majority of enterprises do not have adequate accounting systems and there is little guidance on how such systems can be developed and maintained. The realisation that has to be driven is that the developing countries are NOT simply developed countries with smaller markets.

It is clearly accepted that developing nations are different and this point needs to be acknowledged by international standard setters. It is insufficient to use scaled down version of IASs if the users have no idea or need of what the standards address.

3.4 SUMMARY

The discussion above highlights some key issues that need to be focused:

- Lack of a coherent framework
- A strong need for involvement of the governments, especially, in the developing countries but an equally important consideration for the developed countries as well. This has also been advocated in prior studies on developing and emerging markets (Saudagaran and Diga, 1997). It is noted in New Zealand the issue is pursued by the Ministry of Economic Development in an attempt to reduce compliance costs for smaller businesses.
- Need for intensified effort at educating the smaller businesses and entrepreneurs as well as the small practitioners. It was noted that the composition of working parties developing “little GAAP” tended to be biased in favour of large businesses, because those running small businesses had no spare time to devote to such activities (John and Healeas, 2000).