

IFRS – Trust Generating Tools

It is generally construed that accountancy is a technique of arranging financial transactions into an array under an accepted system, which finally tells the reader if the business is making a profit or loss. In fact, it is not that simple, as the arrangement of figures by a qualified professional is an art that presents the entity's performance under accepted standards of financial reporting. This appraises the management of how to make correct decisions for the improvement and growth of the organization. Stakeholders, especially investors, are guided by these presentations, analyses, and interpretations of various numerical relationships to determine whether the business venture is fit for further investment or should be avoided. It is an obvious conclusion that a scientifically standardized presentation of financial transactions by an organization attracts more investors, keeps its stockholders satisfied, enjoys more trust from its customers, and draws more efficiency from its employees—resulting in a prosperous enterprise. A cluster of such enterprises would create a growing economy.

A true disclosure of financial transactions would eliminate the possibility of an organization's slump. Wrong dispositions could never be hidden for long and would ultimately surface — if not today, then definitely tomorrow. A standardized and accepted system of financial reporting would not only build confidence among stakeholders but also foster trust with government agencies, prevent fraud, bring in lower insurance premiums, facilitate correct and reliable decision-making, and allow for easy comparisons with other companies—particularly in areas such as cost of production, setting sales prices, and determining profit margins.

The world has become more interconnected, especially in trade. One enterprise is always concerned about whether to trust another. How can we ensure that the financial reports presented by different companies worldwide are reliable, transparent, and true? Therefore, common and reliable guidelines were necessary for all to follow, and there must be a qualified and trustworthy regulatory body to design such standards, which countries can adopt and follow. The first international standards-setting

body, the International Accounting Standards Committee (IASC), was formed in 1973 in London by Sir Henry Benson, former President of ICA-UK. It was recognized in 2001 as the International Accounting Standards Board (IASB), and by 2013, the European Union and over 100 other countries allowed the use of International Financial Reporting Standards (IFRS) issued by the IASB.



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The mission of IFRS is to develop financial reporting standards that bring transparency, accountability, and efficiency to international financial markets. These standards serve as norms or models for comparative evaluation set by an authority as rules. Therefore, every business entity must first become consistent in their presentation; otherwise, any measure or comparison would render no meaningful conclusion—comparable to apples versus apples.

IFRS in Pakistan

Pakistan is committed to adopting a single set of high-quality accounting standards. In 2012, the Securities and Exchange Commission of Pakistan (SECP) directed listed companies to start implementing IFRS to ensure transparency and accountability in financial reporting, thereby facilitating investors and other stakeholders in making fair decisions.

Pakistan has followed accounting standards through SECP, ICA, and SBP as laid down by the IASB and has adopted IFRS, except for IFRS 1, which requires an entity adopting IFRS for the first time to prepare a complete set of financial statements covering both the first year and the preceding year.

Some standards were exempted or deferred as per the circumstances and existing regulations. For obvious reasons, as large companies begin to reap the benefits of IFRS adoption, other companies will follow their lead. Our trade and industry will undoubtedly gain a new outlook, characterized by a confident, trustworthy, and transparent financial reporting system, enjoying all the advantages provided internationally by IFRS. When every financial transaction in a company is entered under internationally accepted standards, the quality of the financial reports produced will reflect the company's true position. This aspect will greatly assist management in making decisions aligned with market requirements, leading to higher productivity and greater acceptance of the company's products. Such an environment boosts employee morale, enhances efficiency, and promotes value addition and innovation.

Challenges in Implementation of IFRS in Pakistan

On logical grounds, a company enjoys a high reputation and confidence when its financial reporting system aligns with IFRS. It gains a high level of trust with stakeholders, including government agencies, leading to growth and development. However, Pakistan faces significant challenges in implementing IFRS, mainly due to the current economic downturn and a societal culture where easy money-making is the norm. By and large, medium and small-scale enterprises—the pillars of Pakistan's economy—view it as merely a clerical job. With this mindset, they rarely engage qualified personnel and lack awareness of IFRS, let alone its advantages. Their business decision-making is not guided by financial indicators but is primarily based on personal experience and historical trends. Hiring the services of qualified accountants like CMAs is considered an expensive hobby, without recognizing the long-term, immense benefits.

With the conventional financial reporting system, it has become nearly impossible to compete in both local and foreign markets, leading to declining exports and foreign investments. It can sometimes be difficult to appreciate how IFRS could improve the overall picture of a company, especially for small enterprises. There are also certain conflicting clauses between IFRS and the Companies Ordinance of 1984. Additionally, resistance to change, lack of funds, inadequate staff training facilities, and traditional backup documentation are some of the key hurdles in adopting IFRS in Pakistan.

Role of Technology in IFRS Compliance

Technology is accelerating the processes of calculation, analysis, correlation, memory retrieval, automation, and solving complex ratios—all of which are involved in

various IFRS clauses and contribute to efficiency. It has made it possible to overcome human errors, bringing greater accuracy, reducing the possibility of mistakes, and performing complicated calculations easily. This saves time, provides a competitive edge, and ensures deadlines are met. Employees can work in a relaxed environment without stress, as the tedious calculations are error-free and completed in less time, increasing efficiency and allowing them to devote more time to policy-making and other constructive tasks. Thus, compliance with IFRS requirements, along with those of regulatory bodies, is made easier.

Enhancing Corporate Governance Through IFRS

By adopting IFRS, the management has committed to running the organization according to international standards and principles, disclosing every financial transaction as it occurs. This approach brings transparency, comparability, fairness, and accountability into practice, safeguarding the interests of stakeholders and management while facilitating the smooth conduct of the company's affairs. With this transparency, it is expected that the organization's earnings and expenditures are reported accurately and within the internationally accepted system of IFRS—leaving nothing to hide. This policy earns respect, gains trust, and attracts people to invest in and deal with such an entity. Government agencies, tax departments, and other supervising bodies would have clean records to examine, with no negative observations against such companies. These companies don't need to spend much on marketing their products, as the market recognizes their credible approach once they become known for complete compliance with such standards in their financial reports. They have an independent Board and Audit Committee, where executives, board members, and auditors enjoy complete harmony, leading to fast and typically unanimous decision-making. All of this is essentially attributed to the adoption of the international financial reporting system.

Ethical Consideration in IFRS Adoption

The accounting treatment of financial transactions is fundamentally based on the universal philosophy of right and wrong, while ethical considerations demand that such depictions be accurate, not driven solely by the goal of profit maximization. Ethics encompass values like trust, respect, responsibility, fairness, compassion, and civility. With these principles in mind, only a correct financial transaction, aligned with accepted standards, upholds the principles of business ethics.

Bridging Reporting Gap in Pakistan

Most small and even medium-sized organizations view financial reporting as merely recording financial transactions on paper as debits and credits, where both sides eventually balance and income minus expenditure equals profit, which is to be accumulated over time. They often overlook the fact that these figures are indicative and play a crucial role in business decision-making. Therefore, organizing financial information in a systematic and scientific manner necessitates appointing a qualified person, particularly a CMA, who can properly maintain, interpret, and analyze these figures in line with internationally accepted principles of financial reporting and recommend the adoption of IFRS. The management must be informed of their obligations to maintain maximum rapport with local and foreign companies, as well as regulatory bodies like SECP, SBP, and ICA, to bridge any gaps.

Role of Regulators in Implementing IFRS in Pakistan

We have already made a public commitment in support of uniform, high-quality global accounting standards, specifically IFRS. To regulate these standards, ICA, SECP, and SBP have been assigned jurisdictional authority. The ICA is responsible for the adoption of auditing standards and has established a multi-stakeholder Accounting Standards Board to adopt and notify IFRS accounting standards.

SECP is tasked with regulating the corporate sector and notifying accounting standards for all listed companies and other specified non-listed companies as outlined under the Companies Act 2017. However, there is no restriction on any other company from adopting IFRS.

As the central bank, SBP is responsible for prescribing the accounting and reporting requirements for banks and financial institutions. These regulators may grant exemptions or deferrals in the implementation of certain IFRS standards depending on the economic and legal implications. The adoption of IFRS requires expertise and the necessary qualifications to handle the complexities involved. Therefore, to facilitate the business community, accounting bodies like ICA and ICMA should initiate necessary training courses and also introduce IFRS into their curriculum.



Conclusion

The world has become a global village, with information readily accessible at our fingertips. In today's competitive landscape, survival depends on being the best. In trade and business, people seek fairness, transparency, and trust, expecting nothing less than the highest standards. Unfortunately, Pakistan lags behind in these areas. Each day seems to bring new challenges, as evidenced by our significant debt servicing costs—around Rs. 8 trillion out of a total budget of Rs. 12 trillion for 2023-24. This situation demands strict discipline across all sectors to ensure survival.

The global community has grown wary of us due to our loss of trust, confidence, and transparency. It is crucial that we restore our reputation by being honest. Adopting IFRS is a crucial step towards rebuilding our integrity and demonstrating our commitment to fairness and accountability. While there are challenges, including a lack of awareness and concerns about the benefits for small and medium-sized companies, the key to successful IFRS adoption lies in the trust between the business community and regulators.

Implementing a new system involves initial challenges and requires time to resolve errors. Therefore, regulators such as SECP and FBR must adopt a supportive rather than punitive approach. They should assist businesses during the transition period until they are comfortable with the new financial reporting requirements.

IFRS can serve as a guiding light for our trade and industry, helping them to flourish.

About the Author: The writer is a senior Chartered Management Accountant having Fellow membership of ICMA. He retired as General Manager Finance from the Karachi Port Trust (KPT) where he served for around 22 years in different positions. He was also a member of the Karachi Dock Labour Board for 7 years. After doing his MBA from IBA Karachi, he started his initial career with Citibank and then served in Awami Autos (now Pak Suzuki).