Fiji embraces international financial reporting standards

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Since 2000, bodies setting national financial reporting standards and which are members of the International Federation of Accountants (IFAC) are required by the terms of their membership to apply the suite of International Accounting Standards (IAS). The standards were developed by the International Accounting Standards Board (IASB). Members must also apply the International Financial Reporting Standards (IFRS) developed by the IASB in conjunction with the US Financial Reporting Standards Board (FASB). (The abbreviation IFRS is taken to refer to the entire suite of regulations.) Globally, this has been a commitment honoured more in the breach than in observance. The development and refinement of global regulation of financial reporting is continuing. Scarcely any jurisdiction can claim to apply the regulations at any one time in their totality.

Fiji updated its regulatory code to require certain reporting entities\(^1\) to comply with the IFRS as they stood at 1 January 2007 for financial reporting periods beginning on or after that date. The regulatory requirement was previously updated in 2002.

It is the intention of the Fiji Institute of Accountants (FIA) to mandate the application of all subsequent changes in regulations for financial reporting periods beginning on or after 1 January, after their promulgation by the IASB.

Incentives for compliance with global regulations

Apart from the FIA’s commitments under its membership of the IFAC to adopt the IFRS, there are a number of benefits associated with applying the global regulatory regime. Fiji’s economic development is dependent on attracting international capital. International investors obviously seek financial reports that are produced in line with the global lingua franca. While international aid funding to Fiji is relatively modest, donors typically require an accounting for aid money in line with the IFRS.

Members of the FIA enjoy material and psychological benefits from IFRS compliance. Familiarity with the IFRS helps Fiji’s accountants pursue their professional careers overseas. Notwithstanding the popularity of accounting programs in Fiji’s tertiary education sector, the high geographical mobility of qualified accountants led to a small decline in the number of fully qualified members of

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\(^1\) Certain reporting entities refer to those required by national or provincial legislation to produce annual financial reports.
the FIA from 1999 to 2006. While it can claim no impact on the nature of global accounting regulation, application of the IFRS domestically enables the FIA to be a respected member of the global debate about issues pertinent to the accounting profession.

**Costs of compliance**

Compliance with regulation inevitably incurs costs. Fostering the geographical mobility of accounting professionals, while a benefit to the individuals, clearly comes at a cost to the economy, which experiences a steady loss from its professional workforce barely matched by graduates entering the profession.²

Training costs are pertinent but are mitigated by the fact that the audits of entities that are required to comply with the IFRS are conducted, with four exceptions, by the big four international audit firms,³ which have access to training materials generated in-house overseas. Fiji’s tertiary institutions also teach the IFRS in their accounting curricula.

The complexity of the IFRS imposes application costs that are likely to be onerous. The cost of the IFRS is contained in a volume of 2,500 pages of 10-point print. The effective demand for financial reporting in Fiji, with a gross national product (GNP) in 2006 of F$4.648 billion (US$3.106 billion) (Reserve Bank of Fiji 2007) and a population of 827,000 (Fiji Census 2007), can scarcely justify regulation of such detail. In view of the costs of application, the FIA has no intention of requiring other entities to comply with the IFRS.⁴

**Problems of application**

In developing the regulatory framework since 2000, the IASB has progressively encouraged, in some instances, and required in others, an application of fair-value accounting. This clearly poses grave difficulties for reporting entities in Fiji, which, given the small size of its economy, is characterised by thin markets. The FIA has anticipated this problem and developed two interpretations allowing the Fiji National Provident Fund to report its portfolio of fixed-interest securities that it plans to hold to maturity on a hold-to-maturity basis (the present value of cash flow on securities discounted at the market rate of interest) rather than at the fair market value; and all entities to value unquoted securities, deemed to be available for sale, at cost. (A third interpretation deals with the recognition and reporting of maternity leave benefits.) Feedback from the audit industry in the first two months of 2008 suggests that reporting entities still face compliance difficulties with respect to accounting for investments. The institute might be obliged to review its guidance in this respect.

The IFRS regulatory framework provides an important concession to entities on the first-time adoption of the IFRS—namely, account balances for non-current real assets can be deemed to be the assets’ costs. Reporting entities are permitted to maintain such accounts at cost, or deemed cost, until such time as an entity chooses to report these assets at fair value in the future. This will provide significant respite to virtually all reporting entities in the medium term, as non-current assets are currently reported by way of a combination of costs and fair value, contravening the incoming regulatory requirements and the standards previously applied. Fair values are to be subject to review every three to five years and selective revaluation of assets...
Fiji has an acute shortage of professional valuers and valuation costs are high, posing significant challenges to any entity that might contemplate reporting assets at fair value.

Inevitably, further compliance problems emerged as reporting entities with financial-year ends of 31 December began to compile their annual financial reports. The complexity of the IFRS is such that it has not always been clear if reporting assets and financial instruments are regulated by one statement, demanding a certain accounting treatment, or a different standard, which requires a different treatment. This problem is grounded in part in the challenge reporting entities face in coming to terms with the sheer volume of the regulatory requirements, all of which contain subtle if not substantive changes to the regulatory environment that reporting entities are familiar with. It should be noted that the IASB has been obliged from time to time to provide clarifications as to how a standard is to be applied.

Problems faced by reporting entities in Fiji could relate to their incapacity to come to terms with all the new regulations at one time, but it could also relate to ambiguity within the regulations themselves. Certain ambiguities are likely to arise locally rather than internationally; this will obviously occur when an intended meaning is not clearly conveyed in translation. It can, however, also arise in an English-speaking jurisdiction, where particular words take on a meaning peculiar to a society and where different cultures will make different interpretations of regulations calling for professional judgment. So, while emerging problems can be addressed through training, it is possible that either the IASB or the FIA will have to provide further direction. In one instance at least, an accounting problem recently encountered in Fiji was met only by reference to an IASB interpretation of its own standard, rather than the standard itself.

While the standards have become more voluminous (there has been an annual 4–5 per cent increase in the size of the volume containing the regulations since 2000), it would seem that they have also become more obtuse. This could be due to the FASB’s influence on the development of the IFRS. The FASB’s pronouncements have typically been couched in terms of rules worded to ensure regulations capture special as well as general cases, rather than as general principles—the approach taken by the international body in developing IAS before 2000. This has led to a call by reporting entities for more illustrative examples to be provided with the new reporting standards—something the IASB has only recently taken on board. There is an education role here for the FIA, but it could prove to be beyond its capacity to meet, at least in the immediate term.

A problem also arises from the fact that the IFRS is occasionally at odds with the requirements of Fiji’s Companies Act, which dates back to 1983 and is based on the New Zealand Act of 1955. The current and previous national administrations have acknowledged Fiji’s Companies Act to be anachronistic, but have not felt the need to update the legislation. As the domestic law takes precedence over the IASB’s regulation, some minor but fundamental departures from contemporary reporting requirements are inevitable.

There is the possibility of a further problem, although this has not yet been encountered in Fiji. Regulation relating to the reporting of investment properties—non-existent in Fiji before the adoption of the IFRS—requires such properties to be reported at fair value, either in the owner’s balance sheet or in the supplementary notes. Further, such valuations are to be subject to annual updates. The impracticality and costs associated with such valuations have already been referred to. A number
of reporting entities with 30 June and 30 September financial year-ends hold substantial investment properties. The FIA will need to consider how reporting of such assets is to be dealt with as a matter of some urgency.

The balance of the year will undoubtedly see further reporting problems emerge and shortcomings in the application of the IFRS in at least the first reporting period in which they are applied. Poor initial application of accounting regulation has been associated with significant changes in such regulation in the past. Previous updates in regulation have never been as radical as those now confronting Fiji’s reporting entities.

Readers of financial reports produced in Fiji must also accept that there will always be some departures from regulation that has been produced by professional and academic luminaries from industrialised economies with the needs and capacities of such economies in mind. The problems Fiji is facing in meeting these regulatory requirements are by no means unique. Global regulators will have to accept that in their search for a global financial reporting lingua franca, Fiji will produce reports with a local dialect. It will be one dialect among many.

Notes

1 These entities include all companies listed on the South Pacific Stock Exchange, government-owned corporations, banking and financial institutions including insurance companies and entities that are part of multinational operations.

2 Full membership of the FIA fell from 298 in 1999 to 238 in 2002 but recovered to 285 in 2006. This decline occurred despite the fact that more than 100 new accounting graduates enter Fiji’s labour market annually, with more than 40 of those invariably finding employment with the big four professional firms (FIA 2000–07).

3 Deloitte, Ernst and Young, KPMG and PWC all maintain offices in Suva. BDO, the largest international second-tier firm, has a licensing arrangement with a local firm, which conducts the other four audits. The Fiji Office of the Auditor-General contracts out the audits of government-owned corporations to these firms.

4 The FIA’s current position is that other entities should be obliged to observe the IASB’s reporting standard for small and medium enterprises (SMEs) as and when this is finalised by the IASB. This position is, however, under review, given the difficulties encountered by the IASB in completing the SME project. In the interim, the reports of such entities are subject to the regulations that came into effect in 2002.

References

