

With Sri Lanka's convergence to International Financial Reporting Standards (IFRS), renowned Australian financial reporting expert Ms. Dianne Azoor-Hughes, who was in Sri Lanka recently, has stressed for a more proactive role to be played by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka), which is the country's sole authority in formulating Accounting and Auditing Standards.

Ms. Azoor-Hughes who commands over twenty-five years' experience in financial reporting, including audit, academia, technical and standard setting also serves as the Technical Standards Partner / Executive Director for financial reporting at Baker Tilly Pitcher Partners Melbourne and was also the guest speaker at a seminar titled 'The future of audit and financial reporting' organized by CA Sri Lanka.

In a Question and Answer session, Ms. Azoor-Hughes noted that the real challenge was to put theory into practice and advised the Institute to actively participate in and monitor proposals as soon as they are introduced rather than waiting until they reach exposure draft stage.

**Question:** How would you define the future of audit and accounting on a Sri Lankan context?

**Answer:** All jurisdictions are experiencing increased emphasis on international standards for financial reporting, audit and ethics. Sri Lanka has already adopted international standards and therefore I expect it will continue to be aligned with international best practice.

**Question:** When it comes to transparency, accountability, how can Sri Lanka be rated with regard to adhering to the strictest financial reporting standards?

**Answer:** This depends on the findings of the Sri Lanka regulatory oversight – the frameworks appear to be in place and therefore the results of monitoring activity will demonstrate how effectively they are adopted in practice.

**Question:** At a time when transparency and accountability lacks in society, what are the biggest obstacles in ensuring that the accounting and auditing are followed to the strictest rule?

**Answer:** Attitudes towards ethical behavior must be of the highest professional standard in all aspects of business and business regulation. Ethical behavior should be expected, demanded and delivered.

**Question:** What can a developing nation such as Sri Lanka do to ensure that we adhere to these standards in the strictest form?

**Answer:** The independence and funding of regulatory oversight should be sufficient to ensure that monitoring activity is driven by appropriate motives, being those to continually improve the quality of financial reporting. If the appropriate accounting framework is required to be followed and enforced through appropriate regulatory oversight, then corporate transparency and accountability will follow as a consequence.

**Question:** What are your thoughts on Sri Lanka's convergence to the International Financial Reporting Standards this year?

Written by

Thursday, 02 February 2012 11:11 - Last Updated Thursday, 02 February 2012 11:29

---

**Answer:** I do not have any personal knowledge of how the convergence process operated in Sri Lanka, or to what extent the exact requirements IFRS have been adopted in Sri Lanka. However, the context for financial reporting under IFRS is economic performance rather than historical cost performance, which brings about significant differences for users who wish to understand or interpret the information provided. I expect that the Sri Lanka business community is starting to climb the steep learning curve that other jurisdictions going through this process, are experiencing.

**Question:** What should the Institute of Chartered Accountants of Sri Lanka, which is the sole Accounting and Auditing standards setting authority in Sri Lanka do to ensure that this convergence remains proactive and all companies adhere to this convergence?

**Answer:** The provision of ongoing training forums for the resolution of issues arising is critical. While IFRS may be trained at a theoretical level, the real challenges present when the theory is put into practice. Further, this task is never complete as new changes are being debated even as we speak. The Institute needs to actively participate in and monitor proposals as soon as they are introduced rather than waiting until they reach exposure draft stage, as much of the thinking is already well established when the ED is being drafted.

**Question:** How important is it for Sri Lanka to keep up with global audit and accounting changes?

**Answer:** The answer to this question depends on the extent of continuing global support for the adoption of international audit and accounting standards globally – if we assume that the US WILL adopt IFRS, that emerging economies WILL adopt IFRS and that the European Commission do NOT introduce dramatic changes to the audit market, it will be critical for Sri Lanka to keep up with global changes. However, there are still many hurdles before we have full consensus.

**Question:** Failure to adapt to global financial reporting standards, will affect us how?

**Answer:** Given the uncertainty described in paragraph 7 and the relative strength of the Sri Lanka economy, the impact is unlikely to be serious in the short term. However, the extent to which Sri Lanka needs the support of major players such as the World Bank, IOSCO and the Financial Stability Board, the importance which the major players ascribe to adoption of global financial reporting standards may be an important determinant to ensuring their continued support.

**Question:** There have been furious debates about the relevance of information now being presented in financial reports and increasing levels of debate on the so-called reforms proposed in exposure drafts. Could you elaborate on this please.

**Answer:** There has been mounting vocal debate at numerous forums – my personal experience includes roundtables held in Australia to discuss IASB proposals in exposure drafts for revenue from contracts with customers and leases; presentations at the third annual AOSSG meeting held in Melbourne last year; various presentations at the last IFAC World Congress of Accountants held in Kuala Lumpur in October 2010. The UK FRC has also issued commentary on various aspects of complexity.

**Question:** What sort of an influence does the G20 have on the international financial reporting

Written by

Thursday, 02 February 2012 11:11 - Last Updated Thursday, 02 February 2012 11:29

---

agenda and what sort of an impact do countries like Sri Lanka face from influences such as these?

**Answer:**The G20 is able to impress political pressure on the timeliness of new developments. At the peak of the GFC we saw the G20 effectively force the IASB to take timely action to modify requirements in IAS 39 which were considered to be causing reporting distress. It also provided comment on project priority to effectively direct how the IASB managed its resources. As Sri Lanka adopts/accepts global developments, like other jurisdictions, they are effectively forced to accept the G20 agenda priorities.

**Question:** The focus on financial reporting by listed companies has caused the development of rigorous global financial reporting standards for privately owned entities to be neglected, even though these entities are the backbones of business in many economies. What sort of recommendations do you make to ensure these entities are not neglected?

**Answer:**We are continuing to lobby on this topic as there is still inadequate attention given to issues relevant to growing, privately owned business. The priority in developing IFRS for SMEs was to simplify the accounting in IFRS, rather than to address the needs for financial information in SMEs. Consequently, the reduced complexity is not based on the researched needs of users, but rather the elimination of complexity. The resulting framework produces financial information that is not consistent with the financial information needs of our SME clients – an example is the mandatory amortization of goodwill over a ten year period, which is inconsistent with the perceived increasing value of goodwill in a growing business.

**Question:** What are the biggest challenges we face right now, both locally and internationally and how do you recommend we fight these challenges?

**Answer:**The major challenge is to ensure growing businesses adopt good governance practices and use reliable information for decision-making, so that they can continue to grow and thrive. The area of governance for growing businesses and development of an appropriate reporting framework requires serious consideration.

**Dianne Azoor-Hughes Profile:**

Thursday, 02 February 2012 11:11 - Last Updated Thursday, 02 February 2012 11:29



## Future of Audit and Accounting