Global Scientific JOURNALS

GSJ: Volume 11, Issue 1, January 2023, Online: ISSN 2320-9186
www.globalscientificjournal.com

THE IMPACT OF INTERNATIONAL FINANCIAL REPORTING STANDARDS ON THE FINANCIAL PERFORMANCE OF THE GOVERNMENT UNIVERSITIES IN SRI LANKA

By

K.G. Dhammika B. Katupulla
Senior Assistant Bursar
The Open University of Sri Lanka

Abstract

That brings up some significant hazards that cannot be disregarded, given the current state of the world economy. According to the education sector, the trade-based economic engine that has long given riches to the world would be destroyed if isolationism and protectionism were allowed to go too far. A market for free education defined by willing participants acting honourably within the parameters of accepted financial norms thrives, if they do not use a standard platform, like IFRS. The objectives of the research is to examine the impact of International Financial Reporting Standards on government universities in Sri Lanka, to examine the required level of policy framework to implement International Financial Reporting Standards in the government universities in Sri Lanka, and to examine the positive externalities of the implementation of International Financial Reporting Standards on the government universities in Sri Lanka. PRISMA is a crucial set of techniques for systematic reviews and meta-analyses supported by evidence. PRISMA's primary area of interest is providing evaluations of the performance of international accounting standards. The Securities and Exchange Commission (SEC) and the American Institute of Certified Public Accountants (AICPA) make it abundantly clear that nations should "adopt a single set of internationally recognized, high-quality accounting standards" (AICPA). They contend that American public firms and financial markets would benefit from more financial reporting openness and comparability. IFRS is widely used at many universities throughout the globe.

A deadline for public firms to adopt a single set of international accounting standards is something that many colleges throughout the globe, investors, and bursars/accountants are waiting for. According to a poll by the Association of International Certified Professional Accountants (AICPA), public businesses around the world would quickly adopt IFRS. It is crucial for a flexible accounting industry that can adjust to a chaotic, ever-changing environment. State universities in Sri Lanka should provide bursars/ accountants and financial professionals with the knowledge, abilities, and resources they need to comprehend complexity, foresee risk, and identify opportunities using IFRS.

Keywords- IFRS, Government, Universities

Introduction

International commerce and cross-border transaction flow are the foundations of contemporary economies. The percentage of financial transactions that transcend international borders is now over one-third, which is expected to rise. National governments' adherence to disparate accounting standards has historically impeded cross-border transactions. These accounting standards often increase the cost, complexity, and risk for organizations that produce financial statements, investors, and other users of financial accounts while creating numerous controversial (Wijekoon, Samkin, & Sharma, 2021).

The Requirement of International Financial Reporting Standards

Since there are now national accounting standards, the numbers on financial statements are currently working out differently. Because even a tiny difference in requirements could significantly affect how an organization reports its financial performance and state of finances, it was necessary to analyse national accounting standards to sort out these complexities thoroughly.

Therefore, IFRS Accounting Standards improve accountability by bridging the knowledge gap between those who contribute to finances and those entrusted with them. IFRS standards include the details required to hold management responsible. As a result, IFRS accounting standards are a beneficial source of comparable data for regulators throughout the globe as a benchmark (Houston, & Reinstein, 2001).

Modern economies depend on unrestricted international trade and financial transactions. Over one-third of all financial transactions take place across borders, and this percentage is expected to rise. While businesses acquire funds, carry out business abroad, or open branches in other countries, investors look for diversification techniques and international investment opportunities.

Because different countries had different accounting rules in the past, operating this kind of worldwide business was challenging. For companies that produce financial statements and investors and other parties that use these financial statements to make business decisions, the jumble of accounting standards often makes things more expensive, perplexing, and dangerous.

Since national accounting standards were placed in position, it is possible that the numbers in financial statements were calculated differently. Understanding the details of the national accounting standards was important for making sense of the problem since a small change in the law can have a significant effect on how a company reports its financial performance and financial status.

The Benefits of IFRS

This issue is addressed by the world-class, widely accepted IFRS Accounting Regulations, which makes the international financial markets more accountable, transparent, and efficient. By improving the precision and comparability of global economic data, IFRS Accounting Standards encourage transparency. This makes it possible for market players and investors to make wise financial decisions.

IFRS Accounting Standards increase accountability by bridging the knowledge gap between people who give and receive money. Their standards provide the information necessary to hold management accountable. Governments worldwide utilize IFRS Accounting Standards because they provide similar data across borders.

Capital allocation is further improved by IFRS Accounting Standards, which make it easier for investors to see global opportunities and risks. Businesses may save money on capital expenses and the cost of international reporting by using a single, well-known accounting language.

Experience of Adopting Jurisdictions

The transition to IFRS accounting standards is challenging and costly. Investors and other users of financial statements need to understand how the information has changed over time. The methods of accounting experts, securities regulators, and reporting firms often need changes to at least a part of their systems and procedures.

There is strong support for the benefits, which include more investment in countries that have adopted IFRS accounting standards and lower capital costs for particular industries. According to some businesses, using IFRS Accounting Standards for internal reporting has benefits like the ability to compare operating units in various jurisdictions, the reduction of the number of different reporting systems, and the flexibility to move employees who are familiar with IFRS Accounting Standards throughout the organization.

The Progress of Global Accounting Standards and Integrated Reporting Framework

Adopting IFRS accounting standards in Japan is a voluntary process, according to 2010 Japanese Financial Services Agency research. However, since it improves organizational efficiency, makes company comparisons more straightforward, and contacts foreign investors easier, many Japanese businesses have chosen to do this.

The International Organization of Securities Commissions (IOSCO) recommended its members, in 2000, to use international accounting rules to conduct cross-border operations since doing so was profitable. Since then, IFRS Accounting Standards have become the acknowledged global standard for financial reporting in all industrialized, emergent, and developing countries.

The Adopting Knowledge on Global Platform

The conversion to IFRS saves costs, time, and transparency. The information that investors and other users of financial statements receive will need to be examined to see how it has changed. It will be necessary to alter the procedures used by accounting experts and securities and exchange regulators as per the country's context (Ranasinghe, 2020).

Scope of the Research

The scope of the study is to examine the impact of international accounting standards on the financial performance of government universities in Sri Lanka. However, it principally focuses on adopting international accounting standards to receive financial performance by benchmarking the enhanced reporting system for all the universities in Sri Lanka.

The Problem

As per the global economic environment, there are certain serious risks that cannot be dismissed. In particular, for the education industry, isolationism and protectionism, if carried too far, would destroy the trade-based economic engine that has long brought wealth to the globe. A free education market characterized by willing players behaving honestly and within the confines of established financial regulations flourishes. If they are not on a common platform, such as IFRS, the pressures of globalization may prevent this from happening and turn collaboration into conflict.

Objectives of the Research

i. To examine the impact of International Financial Reporting Standards on government universities in Sri Lanka.
ii. To examine the required level of policy framework to implement International Financial Reporting Standards in the government universities in Sri Lanka.
iii. To examine the positive externalities of the implementation of International Financial Reporting Standards on the government universities in Sri Lanka.

Research Questions

i. What factors affect the implementation of International Financial Reporting Standards in government universities in Sri Lanka?
ii. Does the policy framework action negatively impact the implementation of International Financial Reporting Standards in the government universities in Sri Lanka?
iii. Is there any variation in financial performance by implementing International Financial Reporting Standards in government universities in Sri Lanka?

The Significance of IFRS

This issue has been addressed by IFRS, the most widely accepted accounting standard, which increases the financial responsibility, transparency, and efficiency of practitioners. Because they provide cross-border comparisons and quality evaluations, IFRS accounting rules may aid investors and other market players in making wise financial preferences. However, IFRS accounting standards help investors in identifying global opportunities and challenges, which improves capital allocation. It is negligibly critical for a corporation to make capital expenditures and yield for global reporting when using a single, internationally recognized accounting language (Subramanian, Wickramasinghe, Points, & Jacobs, 2007).

Literature Review

In recent years, there has been much discussion about international accounting. Since it presented various issues about the still-uncertain bounds of this scientific and practical field, it ignited a ferocious debate among economists. This important point is crucial for highlighting the benefits of solid global integration, which gives them an additional opportunity to develop their transactions, access new markets, and, of course, get financing from global financial markets (Subramanian, Wickramasinghe, Points, & Jacobs, 2007).

There are many challenges along the way. From a financial standpoint, harmonizing international accounting (IA) is the only way to prevent these issues. International accounting standards help organizations in several ways. According to Ranasinghe, (2020), global accounting harmonization will save corporate capital, particularly across international borders. Additionally, it will improve market laws' efficacy and lower the cost of reviewing financial records and making international investments (Yapa, & Guah, 2012).

Although the primary objective of the IFRS is to provide a fair picture of firms via their financial statements, for which this element is highly important, implementing the IFRS has wider consequences for corporations. For instance, Nurunnabi, (2015), found that adopting IFRS is associated with seeing the corporation as an entity of considerable worth because of the required greater openness. Additionally, this is believed to improve reputation or the global brand image (Petreski, 2006). Since every disclosure must be further explained by management, Bhattacharjee, & Islam, (2009), underlines the improved marketing communication of the organization that has adopted IFRS. Furthermore, it suggests that management is given greater accountability for running the operation and its results by embracing IFRS.

Reviewing previous surveys on the subject is crucial before developing a field survey. However, this helps calibrate the length and anticipated duration of surveys and understand the different components of a survey on that subject (Judge, Li, & Pinsker, 2010).

The International Sustainability Standards Board (ISSB) is committed to working with the Trustees of the IFRS Foundation to expand the accomplishments of the current investor-focused reporting initiatives and, over time, establish a global standard for sustainability disclosures in the capital markets (Ball, 2006).

The Value Reporting Foundation will continue to work with the International Accounting Standards Board (IASB) and the International Sustainability Standards Board (ISSB) to develop the Integrated Reporting Framework after it was merged with the IFRS Foundation in August 2022. A thorough report gives a broad picture of an organization's strategy, management, performance, and long-term goals. The information places each problem into the context of the firm's external environment to highlight the organization's short-, medium-, and long-term value generation (Sahputra, Noveriansi, & Muda, 2022).

The Integrated Reporting Framework, which was first used in 2013, may be used by businesses to explain how they control their external response and create shareholder value.

Companies may "link" information about environmental hazards and opportunities with financial account information. A corporate reporting framework that combines ideas and principles from the current Integrated Reporting Framework has the long-term support of the IFRS and ISSB leaders. Businesses would obtain guidance from a corporate reporting framework combining the ISSB and IFRS reporting standards to produce an integrated report. With this advice, companies may report data logically and consistently. The Integrated Reporting Framework will be developed jointly by the IFRS and ISSB and will be included in their efforts to establish standards and regulations. Throughout this transition, the IFRS and ISSB encourage firms to continue using the Integrated Reporting Framework (Yalkın, Demir, & Demir, 2008).

Additionally, it could be essential to check that the language of the survey questions precisely matches one used in a different setting or to comprehend where randomizations might lead to the discovery of new information using the mixed approach. However, this exploratory research is the first to apply a deductive strategy based on General Systems Theory (GST), in contrast to traditional inductive techniques for organizing literature (Rousseau, 2015). The study uses the GST process model to derive a few basic categories for comprehending the current accounting technique. Moreover, the deductive approach is principally based on a review of the literature to understand the impact of international accounting standards on the financial performance of government universities in Sri Lanka.

Melbourne, Victoria, Australia, serves as Monash University's corporate office. Monash University has a few locations scattered over more than five countries (Malaysia, China, Italy, Indonesia, and India), several time zones, and various languages. The financial statements of each Monash University subsidiary are prepared in accordance with local legislation and currencies. Consider that Monash University is traded on a different exchange in a different nation. Businesses must ensure that their internal accounting controls comply with Australia's generally accepted accounting principles (GAAP) and International Financial Reporting Standards (IFRS). Companies must also disclose their consolidated financial accounts using local GAAP or IFRS. Because there are so many different methods to compare data from various firms, users of financial statements may find it challenging. A wide variety of accounting standards must be understood by bursars/accountants who prepare financial audit accounts. It is logical to use uniform accounting standards worldwide in a global economy (Segal, & Naik, 2019).

Investors, governments, businesses, auditing firms, and bursars/accountants requested a superior set of standards for the globe as the global economy expanded. According to the International Monetary Fund (IMF), the rapid expansion of international commerce in commodities and services during the last 50 years has contributed to the liberalization of trade regulations everywhere over the globe. There has been a significant increase in the volume of money travelling across nations as more governments understand the advantages of allowing it to do so (Suryanto, & Komalasari, 2019). However, a few nations banded together to create the International Accounting Standards Committee (IFRSC) in 1973 to address the issue. The principles-based methodology was used since the objective was to develop standards that nations could use to ensure that their standards were equivalent to those of other countries. The options would be fewer as a result, but the accounting system would still be adaptable. So, 26 broad criteria were developed, but even for international public securities offerings, only a few nations adopted them (Kulikova., *et.al*., 2020).

The situation began to deteriorate around the year 2000. The International Accounting Standards Board (IFRSB) has been granted authorization by the International Organization of Securities Commissions (IOSCO) to assume the responsibilities of the International Accounting Standards Committee (IASC) for cross-border securities offerings on international capital markets. The IFRS wanted to create a single, top-notch set of financial reporting standards and give its adoption and enforcement high priority for IFRS. In a contract dated October 2002 known as the "Norwalk Agreement," the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) committed to cooperate to make their current standards and future initiatives compatible. Almost immediately after that, beginning in 2005, the European Union mandated IFRS for all publicly listed corporations (Nadhir, & Wardhani, 2019). The U.S. Securities and Exchange Commission (SEC) ceased forcing foreign firms listed on U.S. capital markets to utilize IFRS to adhere to U.S. GAAP in November 2007. However, it took longer to complete than anticipated. Despite being more proactive, the project was considerably delayed by the 2008 financial crisis and the fact that the two boards had distinct objectives (Bengtsson, 2021). Since its inception, the Worldwide Accounting Standards Board has taken measures to solidify its position in developing global accounting standards. The task of enhancing U.S. financial accounting standards has been handed to FASB to help investors, lenders, contributors, and creditors both now and in the future. Their ultimate objective is to develop a single, practical set of international accounting standards that businesses from throughout the globe may use for domestic and international reporting. Although everyone wants the same outcomes, they may have different approaches (Mao, & Wu, 2019).

Methodology

Research offers a significant amount of new knowledge. However, it is still confusing and illogical. At the same time, this makes it challenging to remain at the forefront of research, adhere to best practices, and examine all the data in a particular area of the research (Mnif, & Gafsi, 2020).

However, the literature review is a more effective method of research than it formerly was. Traditional literary analyses are often more in-depth and do not adhere to a set procedure. As a result, there could be issues with how accurate and trustworthy these evaluations are (Schmidthuber, Hilgers, & Hofbauer, 2019). After determining the topic and scope of the research, it is required to develop a strategy for locating relevant resources. Choosing acceptable reviews, exploring terms, and writing findings on what material should be included and excluded are steps in developing a search strategy for locating pertinent data. However, as per the methodology, crucial preferences that determine the test's difficulty and value must be made. Depending on the purpose of the review and the area of interest of the inquiry, these search terms may be broad or specific. It could be essential to consider adding new regulations (Bakr, & Napier, 2020).

PRISMA is a fundamental collection of methods for producing evidence-based systematic reviews and meta-analyses. PRISMA focuses primarily on reporting reviews of the effectiveness of international accounting standards (Sarkis-Onofre, Catalá-López, Aromataris, & Lockwood, 2021). Nonetheless, it could be an integrated approach for investigating systematic reviews beyond evaluating. PRISMA examines how systematic reviews and meta-analyses clearly and comprehensively present information that relates to international accounting standards to implement in government universities in Sri Lanka.

Results and Discussion

While some efforts at collaboration have been fruitful, others have resulted in ongoing conflicts. The FASB (Financial Accounting Standards Board) and International Accounting Standards Board (IASB) developed new regulations due to the need to halt several businesses. FASB and IASB continue to collaborate on financial instruments and leases after 15 years. "IFRS and U.S. GAAP have both improved because of the completed collaborative actions." In 15 years, 119 out of 143 nations will require IFRS, or 83% of them all. This implies that it will be necessary for all or most publicly listed corporations including government universities. According to the International Accounting Standards Board, most of the remaining nations support its use. In 2011, countries including Japan, Canada, India, Brazil, and Korea transitioned to IFRS due to the IASB's expansion. It was apparent that global accounting standards would be implemented in 2009 at the IFAC G20 Accountancy Summit.

Conclusion

It is clearly indicated that countries should "implement a single set of globally recognized, high-quality accounting standards," according to the Securities and Exchange Commission (SEC) and the American Institute of Certified Public Accountants (AICPA). They claim that increasing the transparency and comparability of financial reporting would benefit American public corporations and financial markets. Even though IFRS is extensively utilized in many universities in the world.

Many universities in the world, investors, and bursars/accountants are anticipating of a deadline for public companies to adopt a single set of global accounting standards. According to a survey conducted by Association of International Certified Professional Accountants (AICPA), it will not take much time for world public corporations to embrace IFRS.

Recommendation

It is essential for a dynamic accounting field that can adapt to a chaotic, always-changing world. Using IFRS, Sri Lankan state universities should give bursars and financial experts the skills, tools, and information they need to understand complexity, predict risk, and find opportunities.

References

Bakr, S. A., & Napier, C. J. (2020). Adopting the international financial reporting standard for small and medium-sized entities in Saudi Arabia. Journal of Economic and Administrative Sciences, 38(1), 18-40.

Ball, R. (2006). International Financial Reporting Standards (IFRS): pros and cons for investors. Accounting and business research, 36(sup1), 5-27.

Bengtsson, M. M. (2021). Determinants of de jure adoption of international financial reporting standards: a review. Pacific Accounting Review.

Bhattacharjee, S., & Islam, M. Z. (2009). Problems of adoption and application of international financial reporting Standards (IFRS) in Bangladesh. International Journal of Business and Management, 4(12), 165-175.

Houston, M., & Reinstein, A. (2001). International Accounting Standards and Their Implications for Accountants and US Financial Statement Users. Review of Business, 22.

Judge, W., Li, S., & Pinsker, R. (2010). National adoption of international accounting standards: An institutional perspective. Corporate Governance: An International Review, 18(3), 161-174.

Kulikova, L. I., Gubaidullina, A. R., Mukhametzyanov, R. Z., Druzhilovskaya, T. U., & Druzhilovskaya, E. S. (2020). International Financial Reporting Standard (IFRS) regulations for supply chain management. International Journal of Supply Chain Management, 9(4), 570-575.

Mao, C. W., & Wu, W. C. (2019). Does the government-mandated adoption of international financial reporting standards reduce income tax revenue. International Tax and Public Finance, 26(1), 145-166.

Mnif, Y., & Gafsi, Y. (2020). A contingency theory perspective on the analysis of central government accounting disclosure under International Public Sector Accounting Standards (IPSAS). Meditari Accountancy Research, 28(6), 1089-1117.

Nadhir, Z., & Wardhani, R. (2019). The effect of audit quality and degree of international Financial Reporting Standards (IFRS) convergence on the accrual earnings management in ASEAN countries. Entrepreneurship and Sustainability Issues, 7(1), 105.

Nurunnabi, M. (2015). The impact of cultural factors on the implementation of global accounting standards (IFRS) in a developing country. Advances in Accounting, 31(1), 136-149.

Petreski, M. (2006). The Impact of International Accounting Standards on Firms. SSRN Electronic Journal. doi:10.2139/ssrn.901301

Ranasinghe, K. A. I. S. (2020). Adoption of Sri Lanka Public Sector Accounting Standards in State Universities: Analysis of Benefits and Challenges: A Case Study of University of Peradeniya, Sri Lanka. In Proceedings of International Conference on Business Management (Vol. 17).

Rousseau, D. (2015). General systems theory: Its present and potential. Systems Research and Behavioral Science, 32(5), 522-533.

Sahputra, I., Noveriansi, R., & Muda, I. (2022). The Principle of Measurement of Revenue based on International Financial Reporting Standard (IFRS) in Pharmaceutical Corporation. Journal of Pharmaceutical Negative Results, 1631-1637.

Sarkis-Onofre, R., Catalá-López, F., Aromataris, E., & Lockwood, C. (2021). How to properly use the PRISMA Statement. Systematic Reviews, 10(1), 1-3.

Schmidthuber, L., Hilgers, D., & Hofbauer, H. (2019). Different perspectives in public sector accounting harmonisation: IFRS, GFS and IPSAS.

Segal, M., & Naik, G. (2019). The expected impact of the implementation of International Financial Reporting Standard (IFRS) 16–Leases. Journal of Economic and Financial Sciences, 12(1), 1-12.

Subramanian, P. K., Wickramasinghe, J., Points, R., & Jacobs, M. (2007). Sri Lanka-Public Sector Accounting and Auditing: A Comparison to International Standards.

Suryanto, T., & Komalasari, A. (2019). Effect of mandatory adoption of international financial reporting standard (IFRS) on supply chain management: A case of Indonesian dairy industry. Uncertain Supply Chain Management, 7(2), 169-178.

Wijekoon, N., Samkin, G., & Sharma, U. (2021). International financial reporting standards for small and medium-sized entities: a new institutional sociology perspective. Meditari Accountancy Research.

Yalkın, Y. K., Demir, V., & Demir, L. D. (2008). International financial reporting standards (IFRS) and the development of financial reporting standards in Turkey. Research in Accounting Regulation, 20, 279-294.

Yapa, P. W. S., & Guah, M. W. (2012). Public-sector accounting and e-governance in developing countries: Case of Sri Lanka. Journal of Asia-Pacific Business, 13(1), 37-58.

ISSN 2320-9186