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THE 2012 REVIEW OF IFRS FOR SMES: POSSIBLE RESPONSES FROM THE FIJI INSTITUTE OF ACCOUNTANTS

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ABSTRACT

The International Accounting Standards Board (IASB) issued a paper reviewing the IFRS for SMEs in 2012 and invited public comments on changes the IASB had under consideration. There was no response from the Fiji Institute of Accountants (FIA), Fiji's professional body and de facto accounting regulator, despite the fact that the Institute had contributed to the debate in 2007, when the initial draft of the Standard was under review. The FIA had applied the standard for reporting periods beginning on or after 1st January 2011.This study will determine the reason behind FIA's non-response by interviewing two individuals with significant experience and knowledge in accounting regulation and standard setting in Fiji. The paper also investigates the challenges SMEs are facing by surveying audit firms. The findings indicate that SMEs are facing certain drawbacks which should have been conveyed by the FIA to the IASB in the 2012 review. The study provides preliminary evidence to suggest that FIA should make a substantive response in future reviews for IFRS for SMEs (such as the 2013 Exposure Draft).This response would also be useful for other developing countries that are facing similar issues/problems in the application of the IFRS for SMEs.

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KEYWORDS: 2012 Initial Comprehensive Review, Fiji Institute of Accountants (FIA), IFRS for SMEs, 2013 Exposure Draft, Challenges and Benefits

INTRODUCTION

The International Accounting Standards Board (IASB) began its initial review process for the IFRS for SMEs in 2012 whereby all jurisdictions complying with the IFRS for SMEs standards were invited to make comments to the Board's 2012 Comprehensive Review document. The deadline for comments was November 2012. Recently, there has been significant debate surrounding the development and applicability of IFRS for SMEs (Albu et al, 2010; Hussain et.al 2012, Neag et al, 2009; Odia and Ogiedu, 2013; and Deaconu et al, 2012). Drawing on from this debate, the IASB sought to obtain feedback from stakeholders to determine if there was any need for amendments to the IFRS for SMEs. The adoption of the IFRS for SMEs has proved to be strong in jurisdictions where the accounting profession had relatively limited resources and in certain cases had applied a radically different and simpler regulatory code than the IFRS for SMEs, rather than in those jurisdictions where the profession is strong (IASB, 2013). Submissions reflecting on the difficulties experienced in applying the IFRS for SMEs might therefore have been expected to be predominant. However, few concerns rose from Australia and New Zealand which highlighted the deviations from the full IFRSs.

The national accounting regulator in Fiji, the *Fiji Institute of Accountants* (FIA) had been expected to make a submission to the IASB particularly as it made substantive comments to the initial exposure draft of the

IFRS for SMEs in 2007. However, FIA did not participate or make any comments in the review process in 2012. Our study is motivated by concerns surrounding FIA's non-response to the invitation and considers the issues the FIA could have raised through the review, given that SMEs in Fiji have been facing some problems since the IFRS for SMEs were implemented in 2011 (Hussain et.al, 2012). To answer our research objectives, we used a mixed method approach. In this approach, we used questionnaires and conducted interviews. The findings of this study will not only add on to the extant literature but will have practical applicability as well. The results of this study demonstrates that the application of certain sections of the IFRS for SMEs poses challenges to SMEs in Fiji and that some sections have no apparent relevance in Fiji. Thus, this would help the FIA to make a submission to the IASB's 2013 Exposure Draft that was released in October 2013. This paper is organized as follows: Section 2 explores the literature on IFRS for SMEs and the theoretical framework for this study. Section 3 looks at the research methodology. Thereafter, in Section 4, the findings of this study are presented and discussed and lastly in Section 5, we provide a conclusion, discuss avenues for future research and elaborate on our research limitations.

LITERATURE REVIEW AND BACKGROUND

The Asian financial crisis prompted the World Bank to foster the development of accounting standards for global financial reporting. According to Camfferman & Zeff (2006), as cited in Singh & Newberry (2008), the World Bank donation prompted the *International Accounting Standards Committee* (IASC) to assist developing countries in the formulation of sound accounting practices. In order to adequately consider accounting related issues in developing countries, IASC formed a steering committee in 1998, however only few decisions were made from the steering committee's deliberations (Singh & Newberry, 2008). Therefore, later in 2000 IASC decided to transfer its standard setting responsibilities to the IASB (ibid). In 2000, IASC handed over the standard-setting project to the newly formed IASB but did not mention developing countries in its legacy document. The report submitted by IASC to the IASB did mention about the demand and the need for the development of the international accounting standards for small enterprises but did not emphasis about developing countries. Thus, the result led to this issue being dropped from the formal agenda in 2000 (Singh & Newberry, 2008). The IASB decided to consider the matter of developing the international standards as a matter for future research.

The demise of Enron in 2001 led the IASB agenda project to have its focus on developing a single set of accounting standards to reduce market irregularities (Singh & Newberry, 2008). Henceforth, after the establishment of the IASB in 2001, the emphasis of the project shifted to generating a credible IFRS for SMEs, a single set of accounting standards that could be applied globally given the importance of it in all jurisdictions (Singh & Newberry, 2008). In 2004, the IASB issued a 45-page discussion paper concerning nine major issues (ibid). From the 120 responses received generally the responses supported the IASB for the development of IFRS for SMEs (ibid). In 2007, an Exposure Draft of proposed IFRS for SMEs was released for public comment and the deadline for the public responses ended on 30 November 2007 (ibid). After publishing the Exposure Draft, the IASB issued a field test questionnaire for those trialing the Exposure Draft (ibid). The field test questionnaire was issued to help IASB identify and assess how well the draft IFRS for SMEs was applied (ibid). The results were presented to IASB in February 2008 and in July 2009; the IFRS for SMEs standard was issued. There was considerable opposition to the initial draft of the IFRS for SMEs. While many of the criticisms were taken on board by the IASB, the IFRS for SMEs was not re-exposed. There was every chance that significant problems in terms of relevance and application, remained when the standard was issued.

The IASB claimed that there would be benefits for SMEs upon its adoption (IASPlus, 2013). The IASB declared that in comparison with full IFRSs, the IFRS for SMEs is less complex in a number of ways such as fewer disclosures and simplified recognition and measurement of assets, liabilities, income and expenses (ibid). According to Holt (2010), the IFRS for SMEs enhances the comparability of the financial statements and reduces cost in preparing and maintaining standards on a national basis. Other benefits of IFRS for

SMEs include: the availability of a complete set of accounting principles that are simplified for each type of entity and; increased satisfaction of financial statement users of SMEs in terms of meeting their needs (Ciubotariu, 2013). IFRS for SMEs can be especially beneficial to SMEs that are growing rapidly. It provides them an easier transition process from IFRS for SMEs to full IFRS (Aurora & Cosmina, 2010). Additionally, IASB argues that adopting the IFRS for SMEs in emerging economies is expected to reduce the cost of capital for reporting entities.

Furthermore, Bohusova (2011) observes that multinational companies will find it easier to prepare the consolidated accounts as the need for reconciling the national accounting treatments will be reduced. An additional benefit from the study indicates that IFRS for SMEs could provide a platform for the development of a common educational framework for the financial statement preparers, which can provide greater mobility of accountants and audit services (Bohusova, 2011). IFRS for SMEs adoption can also prove to be quite challenging. A study in Fiji by Hussain et.al (2012) indicated that the Non-Big 4 firms face more challenges in applying the IFRS for SMEs standards as they do not have expertise to assist in interpretation and application of the international standards. Another challenge relates to providing adequate training to the practitioners of Non Big 4 firms as they lack the adequate resources and expertise. Furthermore, Chand et.al (2013) argues that the lack of the professional expertise in developing nations can lead to less chances of enjoying the benefits of complying with standards. After the initial review, the IASB is expected to make amendments to the standards once every three years (IASPlus, 2013).While dealing with the new and revised IFRSs, IASB developed one of its principles that when new (or revised) IFRSs are published then changes to IFRS for SMEs are to be considered in the triennial review (IFRS staff paper, 2013).

Responses From Jurisdictions

Responses to the 2012 review were received from various jurisdictions from across the globe, however to streamline the responses, we only considered 4 countries. These countries included Australia, New Zealand, South Africa and Fiji. Except for New Zealand, Australia and South Africa have had board membership with the IASB. In 2007, the Australian Accounting Standards Board (AASB) was one of the jurisdictions that commented on the IASB's *Exposure Draft of A 'Proposed IFRS for Small and Medium-sized Entities'*. The AASB had concerns that the proposed IFRS for SMEs could be improved by incorporating certain aspects of the full IFRSs into the proposed IFRS for SMEs. In 2010, Australia adopted the Reduced Disclosure Requirements (RDR) in place of IFRS for SMEs for non-publicly accountable entities. However, the AASB did make a response to the 2012 review of the IFRS for SMEs.

Some of the concerns that were raised related to Australia's context, in terms of its accounting regulation and standard setting environment. These included the differences between the recognition and measurement guidelines between the IFRS for SMEs and the full IFRSs. Another area of concern related to some topics relevant to non-publicly accountable entities not covered in the IFRS for SMEs such as interim financial reporting and special accounting for assets held for sale. Henceforth, the AASB suggested that the IFRS for SMEs should incorporate an option for 'Reduced Disclosure Requirements' so that entities can align their measurement policies in line with the full IFRSs.

The comments made by the AASB in the review of IFRS for SMEs took the perspective of aligning the IFRS for SMEs with the Reduced Disclosure Requirements (RDR).For instance, the AASB suggested that changes in IFRS 3, 9, 10, 11 and 13 should be reflected in the IFRS for SMEs. The AASB also supported the view that IFRS for SMEs should be amended to be in line with the full IFRSs (AASB, 2012). Similar to Australia, New Zealand has not implemented the IFRS for SMEs but made comments to the review of IFRS for SMEs in 2012. The New Zealand Accounting Standards Board (NZASB) commented on only four questions but held the same view as the AASB that the IFRS for SMEs be aligned with the full IFRS (NZASB, 2012). The comments made were in the context of the regulatory framework adopted in New

Zealand. For instance, the NZASB believed that each jurisdiction should decide which entity should and should not use the IFRS for SMEs. This is in line with the Reduced Disclosure Requirements (RDR) adopted in New Zealand. Comments raised by AASB and NZASB reflected the concerns that arose in a developed country. The comments from professional bodies in developed economies do not necessarily mean they are inappropriate in the context of developing economies. This is because developed countries may have the technical capabilities to critically evaluate the shortfalls in the IFRS for SMEs and some of these issues may also be applicable to developing countries, but they do not take into consideration the practical difficulties faced in emerging economies.

South Africa has been one of the early adopters of the IFRS for SMEs. The South African Institute of Professional Accountants (SAIPA) commented that any changes in the full IFRS should not trigger any changes in the IFRS for SMEs and should continue to be treated as a stand-alone document (SAIPA, 2012). These comments were in direct contrast with the comments made by the professional bodies in Australia and New Zealand. However, the SAIPA did favor the proposal to amend section 17 of the IFRS for SMEs to include an option to use the revaluation model and supported changes in the full IFRS to be reflected in the IFRS for SMEs. For instance, Sections 18 and 19 of the IFRS for SMEs should be amended to be in line with IAS 38 and IFRS 3 respectively. However, SAIPA did mention that such changes would improve the clarity and reduce the complexity of IFRS for SMEs.

Fiji is a developing country and the professional body, the FIA, did not make any response to the review of the IFRS for SMEs in 2012.However, an individual submission was made from Fiji by Michael White, an Accounting Professor resident in Fiji in a personal capacity. Professor White argued that changes in IFRS for SMEs should be considered when the amendments to full IFRS had demonstratively improved financial reporting (White, 2012). These comments refer to sections 9, 11, 18 and 29 while Professor White mentioned that section 25 should remain unchanged. He also commented that Section 15 and section 19 should be amended so that this section of the IFRS for SMEs is in line with IFRS 11and IFRS 3. Section 17 should have an option to include a revaluation model and section 28 be amended. Professor White finally mentioned that IFRS for SMEs improves the financial reporting for SMEs in small economies (White, 2012). Professor White's submission provided a perspective from a small emerging economy. However, given the fact that South Africa provided a response from the perspective of a developed nation, the views of SAIPA helped to provide a counter balance to the comments provided by the professional bodies in Australia and New Zealand.

Theoretical Framework

According to Godfrey and Langfield-Smith (2005), the Private Interest Theory argues that parties who are affected by the regulation would lobby for regulations that produce the outcomes favorable to them. The Private Interest Theory has been quite evident in the process of globalization when the IASB was working on IFRS for SMEs. In the convergence process, it was the accounting profession rather than the governments who exercised more influence in the process of having a single set of accounting standards (Godfrey and Langfield-Smith, 2005). In Fiji, the FIA had private interests in adopting internationally developed standards so that they could reap the benefits of complying with globalized standards. Adoption of IFRS for SMEs has improved the accountants' international mobility. Thus, the accountants who are the members of FIA will be able to reap the benefits of an international environment and pursue their private interests. If the accounting professionals get more accustomed in using international standards, such as the IFRS for SMEs, it would be easy for them to secure employment abroad.

Furthermore, by adopting the international standards, the FIA will get a chance of preserving the accounting profession as a means of sustaining professional monopoly. The *Accounting and Auditing Standards Committee* (AASC) in the FIA is mainly dominated by the Big 4 firms which indicate that Big 4 firms will find it easier to apply IFRS for SMEs because they are well versed in the application of the full IFRSs.

Adoption of international standards would mean more training opportunities which the FIA can provide with. Since the Government is not involved in regulating the accounting standard setting in Fiji, the FIA can argue that adopting IFRS for SMEs is in their best interest to facilitate international trade. The FIA can also argue that adopting IFRS for SMEs can enable Fiji to have greater access to capital market worldwide, as now it can prepare comparable financial statements based on the international standards. As defined by Posner (1974), Capture Theory explains that regulation is provided in response to the demands of interest groups struggling among themselves to maximize the income of their members. According to Godfrey and Langfield-Smith (2005), a specific form of Private Interest Theory is Regulatory Capture Theory, which describes how the parties who are being regulated are capturing the regulatory process. For instance, in the case of setting accounting standards, the parties being regulated could be accountants who may be represented by more experienced accountants (such as Audit Partners) in the regulatory bodies and thus the result would be the regulatory capture by the accountants themselves. In other words, accountants can regulate the accounting standards themselves (for example, the FIA which is a self-regulatory body).

Moreover, the FIA is mostly dominated by the Big 4 firms and it was in their private interest to adopt IFRSs and IFRS for SMEs because this would tend to increase or maximize their wealth as there will be an increase in the demand of their services in the application of IFRSs and IFRS for SMEs (Chand and White, 2007). In line with the motivation of this study and based on the relevant literature, the objectives of carrying out this research is:

> To determine why the FIA did not make any response to the IASB in 2012.
>
> To investigate what could the FIA have responded to the IASB, in terms of dealing with challenges in applying the IFRS for SMEs in Fiji.

DATA AND RESEARCH METHODOLOGY

Our research design encapsulated descriptive methods to analyze the findings. We employed a mixed questionnaire and semi-structured interview approach to adequately collect information pertaining to the objectives of this study. Pertaining to our first research objective, we interviewed the chairperson of the AASC on October 2013 and asked him why the FIA did not respond to the IASB in 2012. Subsequently, with respect to the second research objective, we sent out questionnaires to the audit partners and managers from the Big 4 and the Non-Big 4 firms to identify the issues they had encountered since 2011with respect to the application of IFRS for SMEs. The questionnaires were issued to 13 audit firms on October 2013 and were received on November 2013. Four questionnaires were sent out to the Big 4 audit firms and this generated a 100% response rate. Nine questionnaires were sent to the Non-Big 4 audit firms which generated a response rate of 31%.

The auditors from the Big 4 and the Non-Big 4 firms were the most reliable source to get such information as to what recommendations the FIA could have made to the IASB. The underlying reason is that these auditors know what issues are generally faced by them (and their SME clients). Another reason is that, these auditors are a reliable representative sample of all professional accountants in Fiji. Furthermore, we interviewed an academic Professor Michael White on October 2013. Professor White, who was formerly a member of the AASC under the FIA, was able to provide insights as to why FIA did not make any responses to the IASB from an academic viewpoint.

RESULTS

This section is divided into three parts. In Part A we interviewed the Chairman of the AASC. Part B, deals with findings and analysis from the auditors of the Big and Non-Big 4 firms and finally in Part C we interviewed Professor White from the University of the South Pacific (USP).

Part A: Interview with the Chairman of the AASC

We interviewed the Chairman of the AASC in the FIA and we asked him why the FIA didn't make any responses to the review of IFRS for SMEs in 2012 and are there any reasons for not responding to the invitation. The FIA implemented IFRS for SMEs in January 2011for those entities that did not have to comply with the full IFRS. For most SMEs in Fiji, the financial year ended 31st December, 2011 which was the first year of adoption of the IFRS for SMEs. The chairman explained that when the review of the IFRS for SMEs started in June 2012, it was too early for the FIA to make any response at that time. According to him, FIA would have liked for the SMEs to have at least used the IFRS for SMEs for the full 2 years before the FIA could have made a justifiable and sound recommendation to the IASB. The chairman said that:

"FIA implemented IFRS for SMEs in 2011…….so the 2012 review was very early for us….the fact that we just started implementing it (in 2011)…..for most businesses in Fiji they would have implemented for the year ended December 2011………since it had been only a year (since January 2011)…FIA itself as a body did not have enough information to make a meaningful response".

It is also possible that the problems faced by the SMEs in Fiji in the first year could have been rectified in the second year of adoption. For example, when the full IFRSs were adopted in Fiji, the second year's financial reports showed a higher level of compliance than the first year's, simply because of a learning effect. FIA did not want to take a hasty approach without a proper evaluation of the IFRS for SMEs in Fiji. The Chairman mentioned that FIA thought that there were not much changes required in the IFRS for SMEs in such a short time. Pertaining to the Exposure Draft for the IFRS for SMEs that the IASB issued in October 2013, the Chairman stated that:

"the standards committee of FIA will consider that (the Exposure Draft)…..we will probably seek comments from our members but I think we will definitely make a response on that one (the exposure draft) because now that a couple of years have passed (2 years since IFRS for SMEs was implemented)….so we feel that now is a good time to make a response."

The explanation given by the Chairman implies that FIA would be in a better position to make a sound response to the IASB's Exposure Draft given that SMEs in Fiji would now have been using the IFRS for SMEs for 2 years. However, contrary to the chairman's views, the nil response to the 2012 review cannot be justified on the grounds that there had been pertinent issues faced by SMEs in Fiji as highlighted by prior studies in Fiji (Hussain et.al, 2012 and Chand et al, 2013) and subsequently, a potential response by the FIA (in 2012) could have been considered by the IASB in the 2013 Exposure Draft.

Part B: Findings and Analysis from the Big 4 and Non Big 4 Accounting Firms

Question 1 sought to find out what benefits could be realized through the adoption of IFRS for SMEs in Fiji. Some benefits that were identified from prior literature (Hussain et. al, 2012) were also mentioned to us by our sample auditors. These benefits included IFRS for SMEs being simpler than the full IFRSs, usage of historical costs, meeting the needs of financiers, improving access to finance, improving the nature of financial reporting for SMEs and attracting foreign investors. The purpose of posing this question to audit firms was to get their views on the types of benefits being realized by their clients through the adoption of IFRS for SMEs. Auditors from both the firms had indicated that their SME clients have realized these benefits to a high extent since the IFRS for SMEs was adopted in 2011. These findings may indicate that the FIA may have been focusing more on the benefits rather than the pertinent problems in the adoption of the IFRS for SMEs. In question 2, we asked the Non-Big 4 firms which sections of the IFRS for SMEs they are finding it difficult to interpret or which sections they believed requires some attention by the FIA. These sections are provided in Table 1 below. The sections that the Non-Big 4 firms have highlighted may indicate that there are some pertinent issues with the interpretation of some sections, which can pose further difficulties for their clients in the future. The FIA had reasonable grounds to consider the opinions of the Non-Big 4 firms because majority of the SMEs in Fiji are clients of the Non-Big 4 firms and as such they would be more likely to perceive problems with respect to the interpretation of the IFRS for SMEs.

Table 1: Sections of the IFRS for SMEs Highlighted by Non-Big 4 Firms

Section 1	**Small and Medium Sized Enterprises**
Section 7	Statement of Cash Flows
Section 26	Share Based Payments
Section 31	Hyperinflation
Section 34	Specialized Activities
Section 35	Transition to the IFRS for SMEs

This table shows the sections of the IFRS for SMEs that the Non-big 4 firms highlighted as being difficult to interpret.

The sections highlighted by the Non-Big 4 firms that was under consideration by the IASB in the 2012 review of the IFRS for SMEs only included Section 1 (Small and Medium Sized Enterprises). The sections highlighted by the Non-Big 4 firms that is being proposed for amendment by the IASB in the 2013 Exposure Draft included: Section 1 (Small and Medium Sized Enterprises), Section 26 (Share Based Payments) and Section 35 (Transition to the IFRS for SMEs). Although the Non-Big 4 firms may not apply all of the sections of the IFRS for SMEs, the sections that they have highlighted may indicate that there are some pertinent issues with the interpretation of these sections, which can pose further difficulties in the future. The sections of the IFRS for SMEs that the Big 4 firms highlighted as being difficult to interpret or believe that requires some attention are as stated in Table 2 below.

Table 2: Sections of the IFRS for SMEs Highlighted by Big 4 Firms

Section 2	**Concepts and Pervasive Principles**
Section 5	Statement of Comprehensive Income and Income Statement
Section 10	Accounting Policies, Estimates and Errors
Section 11	Basic Financial Instruments
Section 12	Other Financial Instrument Issues
Section 16	Investment Property
Section 19	Business Combinations and Goodwill
Section 26	Share Based Payments
Section 27	Impairment of Assets
Section 31	Hyperinflation

This table shows the sections of the IFRS for SMEs that the Big 4 firms highlighted as being difficult to interpret or believe that requires some attention.

In comparison with the responses from the Non-Big 4 firms, the two common sections highlighted by the Big 4 firms were Section 26 (Share Based Payments) and Section 31 (Hyperinflation). The sections highlighted by the Big 4 firms that also was under consideration by the IASB in the 2012 initial comprehensive review of the IFRS for SMEs were Section 11 (Basic Financial Instruments) and Section 19 (Business Combinations and Goodwill). The sections highlighted by the Big 4 firms that are being proposed for amendment by the IASB in the 2013 Exposure Draft are provided in table 3 in the next page.

The Big 4 firms are fully versed in the application and interpretation of the full IFRSs, thus it is speculated that they are in a better position to identify the flaws or setbacks in the IFRS for SMEs. These sections selected by the Big 4 firms strengthen the notion that there are some sections in the IFRS for SMEs that would require the FIA to consider them more seriously. Question 3 was directed to gain insights into the overall difficulties faced by the SMEs in the application of IFRS for SMEs. These are additional cost of reporting, client reluctance to adopt IFRS for SMEs and inadequate training and skills.

Table 3: Sections of the IFRS for SMEs Highlighted by Big 4 Firms That Was Under Consideration in The 2013 Exposure Draft

Section 2	Concepts and Pervasive Principles
Section 5	Statement of Comprehensive Income and Income Statement
Section 11	Basic Financial Instruments
Section 12	Other Financial Instrument Issues
Section 19	Business Combinations and Goodwill
Section 26	Share Based Payments
Section 27	Impairment of Assets

This table shows the sections of the IFRS for SMEs highlighted by Big 4 firms that were under consideration in the 2013 Exposure Draft.

Auditors from both the firms indicated that their SME clients are facing these setbacks. The FIA could have mentioned these difficulties in part B of the 2012 initial comprehensive review of the IFRS for SMEs where the IASB was looking for comments on the difficulties the jurisdictions are facing. Such recommendations could have helped the IASB to understand the difficulties faced by jurisdictions in the emerging economies and more importantly countries in the South Pacific. This would have enabled the IASB to consider these difficulties and develop an exposure draft that would be more relevant to emerging economies, such as Fiji.

Question 4 was designed to elicit views from the Non-Big 4 firms on whether they think there are any issues or matters that could have been addressed in the 2012 review. All of the Non-Big 4 firms believed that there were not any pertinent issues that could have been addressed in the 2012 review. However, the Big 4 firms mentioned that there were matters that the FIA could have addressed in the 2012 Review.

Firm 1: "There are certain sections in the IFRS for SMEs that should have been made easier. This would imply that, the IASB should have considered further simplifications to certain sections because IFRS for SMEs should be revised from the SMEs and users' perspective".

Firm 2: "The FIA has not properly communicated which SMEs should apply IFRS for SMEs because only certain SMEs currently are using the IFRS for SMEs. This issue can be traced to section 1 of the IFRS for SMEs and this section was also under consideration in the 2012 review paper and in the 2013 Exposure Draft".

The responses from the Big 4 firms indicate that there are certain issues (as mentioned above) pertaining to the IFRS for SMEs in Fiji. These concerns raised by the Big 4 firms carry more weight and the FIA should have genuinely looked at these concerns.

<u>Part C: Interview with Professor Michael White</u>

Professor Michael White was formerly in the AASC. The interview with Professor White was critical as he was a representative who was thoroughly involved in the standards development. He provided insights, from an academic viewpoint, regarding the reasons and implications for FIA not responding to the 2012 review of the IFRS for SMEs. We asked Professor White to identify the reasons or factors that held FIA back from responding to the invitation by the IASB. At the outset, Professor White mentioned that the auditors would have had enough experience to understand the nature of IFRS for SMEs to make some responses. He stated that:

"there would have been enough experience…….for people to make initial observations…..other professional institutions seem to be quite comfortable making observations without having experience at all".

He further elaborated that one possible reason for the non-response could have been that the regulator in Fiji may have deemed the 2012 review as a trivial matter. The big 4 firms(Big 4 firms dominate the AASC) may perceive that they have a competitive edge over the Non Big 4 firms if the IFRS for SMEs remains unchanged rather than being simplified, consequently they had no incentive to propose changes that may make the standard more manageable.

We also asked Professor White would there be any consequences for the SME's or the accounting profession in Fiji since FIA did not respond to the invitation. He mentioned that there would be an effect on the way the IASB considers responses by the FIA to the Exposure Draft i.e. the FIA may not be able to adequately address issues or challenges in the Exposure Draft. The purpose of the Exposure Draft is to seek comments on a draft version of the IFRS for SMEs when all the responses from the discussion document have been considered. He mentioned that:

"If there are issues that emerged now that are not part of the exposure draft, it's going to be far harder for these issues to be changed. The exposure draft still says is there anything else that you want to comment on....the FIA did not comment originally and the chances are that the IASB would say that well you (the FIA) had your chance in that one...this (exposure draft) is just an afterthought....and we need to keep moving and get the update in place ....

<u>Summary of Results</u>

Based on the first research objective, the Chairman of the AASC mentioned that it was too early for the FIA to make a sound response to the IASB. According to him, the FIA would consider making a response in the 2013 Exposure Draft of the IFRS for SMEs. However, the nil response by the FIA cannot be reasonably justified. Based on the second research objective, it can be reasonably deduced that there are certain sections of the IFRS for SMEs that the Big 4 and the Non-Big 4 firms find it difficult to interpret. Table 4 (refer next page) summarizes and compares these responses from the auditors from the Big 4 and the Non Big 4 firms with the *2012 Request for Information (RFI)* and the *2013 Exposure Draft*. Some of the sections highlighted by the audit firms were also under consideration in the IASB's *2012 RFI* and are also mentioned in the IASB's *2013 Exposure Draft*. The similarity of these specific sections solidifies our argument that the FIA could have taken these specific sections into consideration to make a response to the IASB in 2012 (based on the analysis in Question 2).

Also, there are some general difficulties that were encountered by the SMEs in Fiji (as based on the analysis in Question 3). Furthermore, based on the analysis in Question 4, there is a need to further simplify the IFRS for SMEs for the benefit of the SMEs and the need to provide additional guidance on section 1 (in the context of SMEs in Fiji). These material issues could have been mentioned by the FIA in *Part B* of the Review of IFRS for SMEs. Moreover, Professor White mentioned that the FIA had reasonable grounds to make a consolidated response to the IASB.

CONCLUDING COMMENTS

IASB in its 2012 review of IFRS for SMEs invited comments from the public. Some jurisdictions responded to this invitation however, most of the non-responses were from developing countries, one of them being Fiji. The objectives of carrying out this research were to determine why the FIA did not make any response to the IASB in 2012 and to investigate what could the FIA's response have been to the IASB, in terms of dealing with challenges in applying the IFRS for SMEs in Fiji. We employed a mixed questionnaire and semi-structured interview approach to adequately collect information pertaining to the objectives of this study. The findings suggest that FIA did not make a submission because they deemed that the 2012 review was not the appropriate time to make a valid response since the FIA adopted the IFRS for SMEs only in 2011.

Table 4: Comparison of the Sections in the IFRS for SMEs with the Responses from the Audit Firms in Fiji

	Sections of the IFRS For Smes	2012 Review Document	2013 Exposure Draft	Big 4 Firms	Non Big 4 Firms
Section 1:	Small and Medium Sized Enterprises	√	√		√
Section 2:	Concepts and Pervasive Principles		√	√	
Section 3:	Financial Statement Presentation				
Section 4:	Statement of Financial Position		√		
Section 5:	Statement of Comprehensive Income and Income Statement		√	√	
Section 6:	Stat. of Changes in Equity and stat. of income & Ret. Earnings		√		
Section 7:	Statement of Cash Flows				√
Section 8:	Notes to the Financial Statements				
Section 9:	Consolidated and Separate Financial Statements	√	√		
Section 10:	Accounting Policies, Estimates and Errors			√	
Section 11:	Basic Financial Instruments	√	√	√	
Section 12:	Other Financial Instrument Issues		√	√	
Section 13:	Inventories				
Section 14:	Investments in Associates				
Section 15:	Investments in Joint Ventures	√			
Section 16:	Investment Property			√	
Section 17:	Property, Plant & Equipment	√	√		
Section 18:	Intangible Assets other than Goodwill	√	√		
Section 19:	Business combinations and Goodwill	√	√	√	
Section 20:	Leases		√		
Section 21:	Provisions and Contingencies				
Section 22:	Liabilities and Equity	√	√		
Section 23:	Revenue				
Section 24:	Government Grants				
Section 25:	Borrowing Costs				
Section 26:	Share based payments		√	√	√
Section 27:	Impairment of Assets		√	√	
Section 28 :	Employee Benefits	√	√		
Section 29 :	Income Tax	√	√		
Section 30 :	Foreign Currency Translation		√		
Section 31 :	Hyperinflation			√	√
Section 32 :	Events after the end of the Reporting Period				
Section 33 :	Related party disclosures		√		
Section 34 :	Specialized Activities		√		√
Section 35 :	Transition to the IFRS for SMEs		√		√

Table 2 compares the responses from the auditors from the Big 4 and Non-Big 4 firms with the 2012 review document and the 2013 Exposure Draft. Some of the sections highlighted by the audit firms were also under consideration in the IASBs'2012 review document and the 2013 Exposure Draft.

The results have highlighted that IFRS for SMEs has benefited SMEs in Fiji since its adoption, however there are difficulties in the interpretation of some standards (as indicated by the Big 4 and Non-Big 4 firms). These challenges signal that there are issues in the various sections of the IFRS for SMEs that require serious attention by the FIA. To deal with these challenges, the FIA should have been active participants as they had reasonable grounds to make a response to the IASB in 2012. These issues could have been taken into consideration by IASB when developing the 2013 Exposure Draft for the IFRS for SMEs.

The 2012 comprehensive review of the IFRS for SMEs is now just a historical document but the findings of this study could assist FIA in developing a submission to the IASB's 2013 Exposure Draft. This would allow IASB to consider some of these responses when developing the *revised* IFRS for SMEs. Our analysis did not divulge into the technical matters of the specific sections of the IFRS for SMEs as to why the audit firms in Fiji are finding it difficult to interpret these sections. A technical study of this nature could reveal the problems that may be inherent in the various sections of IFRS for SMEs. Also a survey of SMEs in Fiji in relation to challenges faced using IFRS for SMEs can help to provide a connection for future research. Furthermore, future research can explore the perceptions of financiers pertaining to what they believe should be improved in the IFRS for SMEs because financiers tend to advance funds to SMEs based on financial reports prepared on the basis of IFRS for SMEs.

As with any research, we had limitations. Our interview sample size was small and was confined to Suva, where majority of the accounting firms are concentrated. We also received a limited number of questionnaires from the audit firms (most notably from the Non Big 4 firms where the response rate stood at 31%) which restricted our analysis to only 8 firms. Nevertheless, the majority of our respondents were from the top tier accounting firms which improves the validity of our results. Interviewees also had significant experience and knowledge in the application of standards and standard setting in the Fiji environment.

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NOTES

This study was conducted in 2013 after the deadline for comments to the 2012 Comprehensive Review ended. At the conclusion of this study, the FIA officials told the authors that a submission was going to be made to the 2013 Exposure Draft (the deadline was on 4th March, 2014) based on the results of this study. However, a formal confirmation was not conveyed to the authors.

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