# PROBLEMS WITH THE IMPLEMENTATION OF INTERNATIONAL STANDARDS FOR FINANCIAL REPORTING AND INTERNATIONAL AUDIT STANDARDS

**Associate Prof. Janka Krsto Dimitrova, Doc.dr**

ABSTRACT

*The International Financial Reporting Standards (IFRS) are designed for application in the financial reports with general purpose and the other financial reporting in all profit-oriented entities. The International Auditing Standards (IAS) are setting out the framework for carrying out the review process of financial reporting from entities referred to audit in order to verify the authenticity of the information and raising up the credibility of financial statements.*

*Quality implementation of them requires overcoming the barriers arising from lack of knowledge of accounting personnel and inadequate set of institutional structure and legal framework.*

*Keywords: Financial reporting, auditing, information, problems, implementation*

## INTRODUCTION

International Financial Reporting Standards (IFRS) are designed for use in financial reports with the general purpose and the rest of the financial reporting of all profit-oriented entities. Profit-oriented entities include those engaged in commercial, industrial, financial and similar activities organized in the form of joint stock companies or other form. They include organizations such as mutual insurance companies and other mutual cooperative entities that provide dividends or other economic benefits directly and proportionately to their owners, members or participants.

IFRS are applied to all financial statements for general purpose. These financial statements are aimed at the general information needs of a wide range of users, for example, shareholders, creditors, employees and the general public. The financial statements are an integral part of the process of financial reporting. A complete set of financial statements normally includes a balance sheet, income statement, statement of changes in financial position (which can be presented in different ways, such as cash flows or as a report on the financial assets) and notes and other statements and explanatory material that form an integral part of the financial statements. They also may include additional reviews and information based on or derived from presentation in financial reports that are expected to be read with such reports. These reviews and additional information may relate, for example, on the financial information industry and geographical segments and disclosures about the effects of changes in prices.

Financial reports, however, include items such as reports of directors, President Statements, discussion and analysis of management and similar items which can be included in the financial or annual report.

Under International Financial Reporting Standards, the purpose of financial statements is to provide information regarding to the financial condition, performance of operations and changes in financial position of the business entity that is useful for a wide range of users in making economic decisions. Financial statements prepared for this purpose meet the common needs of most users. However, the financial statements do not provide any information that may be needed by users for economic decision-making as largely reflect the financial effects of past events and usually do not provide non-financial information.

Also, the financial statements show the results of leading Company Management, or it's responsibility for the resources entrusted to it. Those users, who wish to evaluate the management or responsibility of management, make it so they can make economic decisions. These decisions may include, for example, questions about whether to keep or sell their investment in a business entity or whether to reappoint or replace management.

With the implementation of the International Accounting Standards (IAS) and their acceptance by many countries, diversity in presenting data on the financial situation of economic operators and application of generally accepted framework for financial reporting is avoided.

Along with the implemented IAS also the International Auditing Standards are offering uniformity in performing the audit of financial statements and the expression of an independent audit opinion.

International Audit Standards determine the audit profession framework. With the practical implementation of International Auditing Standards not only their further development and improvement is encouraged, also they facilitate the flow of investments (especially in underdeveloped countries and developing countries) and the creation of national auditing standards in developing countries (which is special benefit to them).

***Trademark of the auditing profession is the acceptance of responsibility in relation to the public***. Therefore, according to public expectations, auditors make efforts to develop the program for the harmonization of audit practice in conformity with the needs of the global market. Hence the multiple meanings of the development of International Auditing Standards are in order to achieving a high degree of uniformity of the results of the audit profession. The International Auditing Standards allow users a greater degree of confidence in the validity and credibility of the reported financial statements, and a possibility of comparing them internationally.

## 1. PROBLEMS OF IMPLEMENTATION OF THE IFRS

The introduction of the International Financial Reporting Standards (IFRS) is very important for several reasons. One of the main reasons is to ensure consistency in reporting of large companies. Benefit from the implementation of these standards will have many users of financial statements, as you know on what basis are reported. The assets valuation will be known, on which basically the obligations are stated, and how receivables are recorded. It will give a more realistic picture of the situation in which the Company is.

Application of the International Financial Reporting Standards is crucial for developing the capital market. We cannot expect someone to invest in stocks if the actual condition and values of the public traded companies is not listed. These standards that are uniformed worldwide must be applied from the companies traded on the Stock Exchange market and have a large number of shareholders. They should provide confidence to all users of information, i.e. shareholders, employees, banks, financial institutions, investors, state. State insists on introducing and implementing these standards accepted worldwide.

The state should base the preparation of the macroeconomic policy on real information about the real situation of many companies. The real situation about the companies and the economy will be created only if companies report under these standards.

Although international standards for financial reporting for several years are incorporated in local legislation, many companies do not apply them. Much simpler is to inform each local accounting law, which requires only filling the naked forms of balance sheet and income statement, without posting any other additional information regarding the company's operations, changes in equity conflict of interests etc.

Therefore, when a foreign company is interested to invest in a company in another country, accounting books and financial statements of that company are quite insignificant and do not know how to read them. Foreign investors never rely on financial reports and always looking to do due diligence to see in what condition really the company is.

International standards require much greater transparency of shareholder companies, especially from companies' public traded on Stock Exchange market and those that have a large number of shareholders. Reporting under IFRS requires from the companies, despite the publication of all financial information disclosure on all nonfinancial information, additional explanations, movements in equity, cash flow, which could in any way affect the adoption of business decisions.

The major differences between International Financial Reporting Standards and the local law is in the valuation of fixed assets, receivables, tangible and intangible assets, inventories, accounts payable. International Financial Reporting Standards require recording and valuation of the assets and liabilities to be done conservatively, i.e. under estimated, fair and realistic value.

For example, when claims are recorded under these standards, in the financial report are presented according to the actual fair value at the moment, rather than the value when the claim is made. That would mean that if the claim is not time charged, you should write off part of its value. According to local regulations, companies can express the same value of receivables in their balance sheets for several years, although there is no chance that claims to be charged. The legislation requires relief of the claim before the court to prove that the claim is unable to be charged, but also write-offs of claims are not recognized tax expense, whereas IFRS requires a write-off of the claims and his real recording, according to the actual chances of recovery. Since the end of the year, inflated the amount of claims, fictitious increases profits and gives an unrealistic picture of the financial condition of the business entity.

For fixed assets, local law requires companies to record according to the acquisition purchase, amortized according to the prescribed rate of depreciation. International standards, however, require recording of fixed assets under estimated and fair value. Such conservative accounting convey certainly reflected in the final financial results of companies that usually reduces the profits that companies express the end of the year.

Auditor's perception about this topic is that the financial reporting standards typically are applied from the large companies with foreign capital. But also here very often unrealistic presentation is shown. Very often these companies are making the reporting for their foreign owners according to conservative international standards, while the reports which are published for the local community are made with application of local legislation in order to show a better picture.

Many companies don’t have sufficient HR capable and trained to implement these standards. It takes a lot of trainings for the application and understanding of the importance of International Financial Reporting Standards.

Companies and auditors indicate the legal ambiguities which create many problems and complicate the operation of the companies. The annual accounts prepared by companies are designed for tax purposes, that is the legacy of the former system, when the notice in any business entity as required by the state. Now companies are put in a position to produce two reports, one for tax purposes, according to local standards, and another report under International Financial Reporting Standards.

Thus, to the Public Revenue Association companies must submit one profit, calculated in a way, and in the financial statements calculating the profits of another. Ministry of Finance, which is responsible for the practical application of these standards, must provide clear procedures for calculating the profit tax. In contrast, domestic companies will avoid the application of international standards because it will be a burden.

## 2. PROBLEMS WITH THE IMPLEMENTATION OF THE IAS

An audit of financial statements - provide independent and objective opinion on the truthfulness and honesty of the data presented in the financial statements of the business entity - a user of audit services. With auditing of the financial statements, whether they are prepared under generally accepted accounting standards and the established framework for financial reporting is determined.

An audit of financial statements is conducted in accordance with the standards for audit based on a sample of individual positions, and users of audit services to an opinion whether the financial statements do not contain significant material errors and omissions. Auditors formed an opinion on financial statements in full, publicly report on the audit and distributed to numerous users of financial statements.

Auditors, with the introduction on information system and system of internal control of business entities who perform audits, obtain basic information for further planning and executing the audit. During the audit process, auditors are constantly confronted with issues that address the three fundamental concepts of auditing:

- **the concept of audit evidence** - whether evidence collected auditor is sufficient and appropriate
- t**he concept of materiality** - whether found misstatements in the financial statements are materially significant and
- **the concept of audit risk** - is there a risk of certain materially significant misstatements in the financial statements remain undetected despite all maximum caution to the auditor.

International Auditing Standards have established criteria for the volume and quality of the above concepts so that the auditor always remains the dilemma whether the material - the data they collected as evidence for establishing the audit opinion are appropriate and sufficient, whether identified misstatements are material and important and that no undetected fraud or error.

Auditing standards do not prescribe form or content of work tables and documents required auditors should develop in the process of conducting the audit businesses. It leaves the judgment and creativity of auditor alone to shape the form of working papers that will serve as evidence for the audit and expressed opinions on the financial statements.

Given the fact that the Association of Certified Auditors is a body that unites all certified auditors, conducts continuous professional training of auditors, control and supervision of quality of performance of audit services, it should make efforts to establish minimum procedures and working documents that the auditor must prepare in order to prove the suitability and sufficiency of the provided audit evidence for expressing an opinion on the truthfulness and accuracy of information presented in the audited financial statements.

## 3. PROBLEMS OF AVAILABILITY INFORMATIONS FROM THE AUDITED ENTITY

The responsibility for presentation of the information's in the financial statements of the business entity is in powers of the entity management. Therefore, in their preparation and presentation, they should adhere to the application of International Financial Reporting Standards, the application of legislation, the application of accounting principles and internal acts of the corporation. Information should be comparable, consistent and transparent for interested users.

In the process of conducting an audit of financial statements, the auditor collects numerous information and evidence in various forms, with which underpin the data presented in financial statements. The auditor evaluates their consistency, reliability and materiality in order to express an opinion. According to the code and ethics of auditors, the obtained data and information during the audit are strictly confidential.

The purpose of the audit is to uncover fraud, omissions and errors that occurred with a significantly deviate materially from presentations in the financial statements. Usually between the management of the entity being audited and the auditors with every engagement, the level of confidence increases.

## CONCLUSION

The financial statements have been prepared enclosure designed to present financial position and performance of the entity that reports in accordance with generally accepted framework for financial reporting that according to IFRS. Many companies do not have sufficient HR capable and trained to implement these standards. Therefore, it takes a lot of trainings for the application and understanding of the importance of International Financial Reporting Standards.

On the other hand, audit raises credibility and confirms the reliability of the data presented in financial statements. Auditing standards do not prescribe form or content of work tables and documents required auditors should develop in the process of conducting the audit businesses. It leaves the judgment and creativity of auditor alone to shape the form of working papers that will serve as evidence for the audit and expressed opinions on the financial statements.

According to the code and ethics of auditors, the obtained data and information during the audit are strictly confidential. Usually between the management of the entity being audited and the auditors with every engagement, the level of confidence increases.

**REFERENCE:**


Aceski, B. Trajkoski, B.2004.Internal and external audit

Graham, B. Spenser M. 1937. The interpretation of financial statements

Dimitrova, J.2005. Theoretical and methodological aspects of the independent audit tests and their function in the implementation of the fundamental concepts of auditing

Dimitrova, J.2010. Informative function of the audited financial statements on the business entities in R.M., for capital mobilization with stock emission

International Standards for Financial Reporting, *online content*

International Audit Standards, *online content*

Nikolovski, P.2003. Analyze and audit on the financial statements of business entities in Republic of Macedonia in function of economic efficiency

Nikolovski, P.2003. Organization of the financial statements audit

Lazarevska – Bozinovska, Z. 2001. Audit



**Associate Prof. Janka Krsto Dimitrova, Doc.dr**
**"Goce Delcev" University – Stip**
**Faculty of Economics R. Macedonia**