

Internationalization of accounting standards in Sri Lanka: issues, challenges and the benefits

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The move to fully compliance with the international accounting standards effective from January, 2012, primarily aims at bringing about convergence of Sri Lanka Accounting Standards and International Financial Reporting Standards (IFRS) to produce high quality accounting reports. However, literature suggests that achieving expected aims from convergence, particularly in a developing country is doubtful. First, IFRS reflects the Anglo-Saxon accounting model prevalent in the developed English-speaking countries. Second, the differences in contextual factors may cause diversity in accounting practices among countries. Third, due to the uniform financial reporting practices cost of information may be reduced, but it may not lead to improved quality in the information produced. This study therefore examines the objectives of convergence, the issues and challenges faced by Sri Lanka in the convergence process, and whether the country has actually been benefited by the convergence. For this purpose, the study adopted a qualitative research method and employed field study research method. Twelve semi-structured interviews have been carried out with a variety of stakeholders, who are involved in the convergence process, for instance, accounting standards setters, regulators, auditors and practitioners. Topics covered at the interviews included the respondent's perception about the convergence process, the benefits to the country, and the issues and challenges experienced. Respondents' views were analysed in three interactive processes, namely transcription, coding and interpretation. Attracting Foreign Direct Investment and improving financial reporting quality were identified as major objectives of the convergence. The findings also suggest that Sri Lanka is benefited by convergence with improved relevance, comparability, understandability and transparency of financial information. Nevertheless, the country encountered a number of complications during the convergence process particularly related to valuation of assets and liabilities, lack of IFRS experts, continuous amendments of IFRS, new transactions emerging from the application of IFRS, and poor planning in the convergence process. Most of such issues have not been resolved yet restricting the country to achieve the desired outcomes of the convergence. These findings are consistent with prior studies predominantly related to developing countries, and provide important implications for the accounting standard setters on how to make a smooth transition to IFRS achieving intended objectives of the convergence.