

Application of International Financial Reporting Standards (IFRS) and International Standards on Auditing (ISAs) in ASEAN

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Agenda

- ▶ Background
- ▶ IFRS /ISAs
 - ▶ Status of adoption in ASEAN
 - ▶ Philippine adoption
- ▶ The Challenge Continues

Background

- ▶ Increasing globalization highlights the need for a single set of accounting and auditing standards around the world
- ▶ The International Accounting Standards Board (IASB) is pushing towards the adoption of IFRS globally
- ▶ The International Auditing and Assurance Standards Board (IAASB) sets high-quality international auditing and assurance standards to serve the public interest and to facilitate convergence of international and national standards



Status of IFRS Adoption

Status of Adoption

Brunei Darussalam	<ul style="list-style-type: none">▶ Announced full adoption of IFRS effective 1 January 2014▶ To cover publicly accountable entities
Cambodia	<ul style="list-style-type: none">▶ Cambodian International Financial Reporting Standards (CIFRS) aligned with IFRS (with no modifications)▶ CIFRS required for listed entities, but mandatory adoption for banks, insurance companies and microfinance institutions deferred to 1 January 2016

Status of IFRS Adoption (cont'd)

Status of Adoption	
Indonesia	<ul style="list-style-type: none">▶ Indonesian Financial Accounting Standards (IFAS) are based on IFRSs that were effective at 1 January 2009 with some modifications▶ Approach is to converge gradually
Lao PDR	<ul style="list-style-type: none">▶ Plans to fully adopt IFRS in 2014▶ To cover listed companies (or companies that are in the process of being listed)

Status of IFRS Adoption (cont'd)

Status of Adoption

Malaysia	<ul style="list-style-type: none">▶ Malaysian Financial Reporting Standards (MFRS) fully converged with IFRS▶ MFRS required for non-private entities except for Transitioning Entities (TEs)▶ TEs are entities subject to MFRS 141 (IAS 41) and Malaysian Interpretation 15 (IFRIC 15)
Myanmar	<ul style="list-style-type: none">▶ Myanmar Accounting Standards (MAS) and Myanmar Financial Reporting Standards (MFRS) identical to IFRSs issued as at end 2010▶ Plans to update for subsequent IASB issuances

Status of IFRS Adoption (cont'd)

Status of Adoption	
Singapore	<ul style="list-style-type: none">▶ Adopted most but not all IFRSs (haven't adopted amendments to IFRS 10 & 12 on investment entities, and IFRS 9) as SFRS▶ Made certain modifications to certain IFRSs adopted (eg, one-year deferral of effective dates of IFRS 10, IFRS 11, and IFRS 12)
Thailand	<ul style="list-style-type: none">▶ Thailand Accounting Standards (TAS) based on IFRS (2009)▶ TAS excludes industry-specific IFRSs (IAS 41 and IFRS 4) and standards on financial instruments (IAS 32, IAS 39, IFRS 7 and IFRS 9)▶ Plans to complete adoption by 2016

Status of IFRS Adoption (cont'd)

Status of Adoption	
Vietnam	<ul style="list-style-type: none">▶ Vietnamese Accounting Standards (VAS) based on International Accounting Standards issued up to 2003▶ All listed companies must use VAS▶ IFRS required for state-owned banks and permitted for commercial banks

IFRS in the Philippines



Philippine Transition to IFRS

- ▶ Prior to 1996, Philippine GAAP was based on US GAAP
- ▶ 1997: Accounting Standards Council started a program to move fully to IFRS
- ▶ 1996 – 2004: Adopted 25 International Accounting Standards (IASs) on a staggered basis
 - ▶ Based on the pre-2005 versions of the IASs
 - ▶ More complex IFRSs pushed back to 2005

Philippine Transition to IFRS (cont'd)

- ▶ 2005: Full adoption, including the more complex standards such as:
 - ▶ IAS 19, *Employee Benefits*
 - ▶ IAS 21, *The Effects of Changes in Foreign Exchange Rates*
 - ▶ IAS 32, *Financial Instruments: Disclosures and Presentation* IAS 39, *Financial Instruments: Recognition and Measurement*
 - ▶ IAS 41, *Agriculture*
 - ▶ IFRS 2, *Share Based Payment*

How did the Philippines adopt IFRS?

- ▶ Renamed standards to Philippines Accounting Standards (PAS) and Philippine Financial Reporting Standards (PFRS) to correspond to the IASB's IASs and IFRSs
- ▶ Full adoption in 2005 with certain transition relief
 - ▶ PAS 19 – transition liability for defined benefit plans allowed to be amortized for up to 5 years
 - ▶ PAS 39
 - ▶ Commodity hedges of mining companies entered into prior to 2005 were exempt from PAS 39 rules
 - ▶ For trust fund assets, the valuation provisions of PAS 39 and PAS 40 only apply as of December 31, 2005

How did the Philippines adopt IFRS?

(cont'd)

- ▶ Reprieve for Non-publicly Accountable Entities (NPAEs) in 2005
 - ▶ PAS 101, *Financial Reporting Standards for Non-Publicly Accountable Entities*
 - ▶ Provided temporary relief for entities that qualify as NPAEs in the application of the new PFRS that became effective in 2005.
 - ▶ NPAEs had the option to apply the new PFRS or the standards that were effective as of December 31, 2004.
 - ▶ In 2009, NPAEs that qualify as small and medium sized entities (SMEs) were required to adopt PFRS for SMEs beginning 2010.

How did the Philippines adopt IFRS?

(cont'd)

- ▶ The FRSC ensures continuing convergence with IFRS, but makes adjustments when necessary
 - ▶ Certain IFRSs adopted with modifications
 - ▶ Initial adoption of PFRS 7 – entities permitted not to provide comparative information for certain risk disclosures
 - ▶ Effective date of IFRIC 15, *Agreements for the Construction of Real Estate*, deferred until such time as the revised standard on Revenues is issued and an evaluation of the revised standard requirements against the practices of the Philippine real estate industry is completed.
- ▶ To date, PFRS is fully converged with IFRS except for the deferral of IFRIC 15.

Some Challenges Experienced

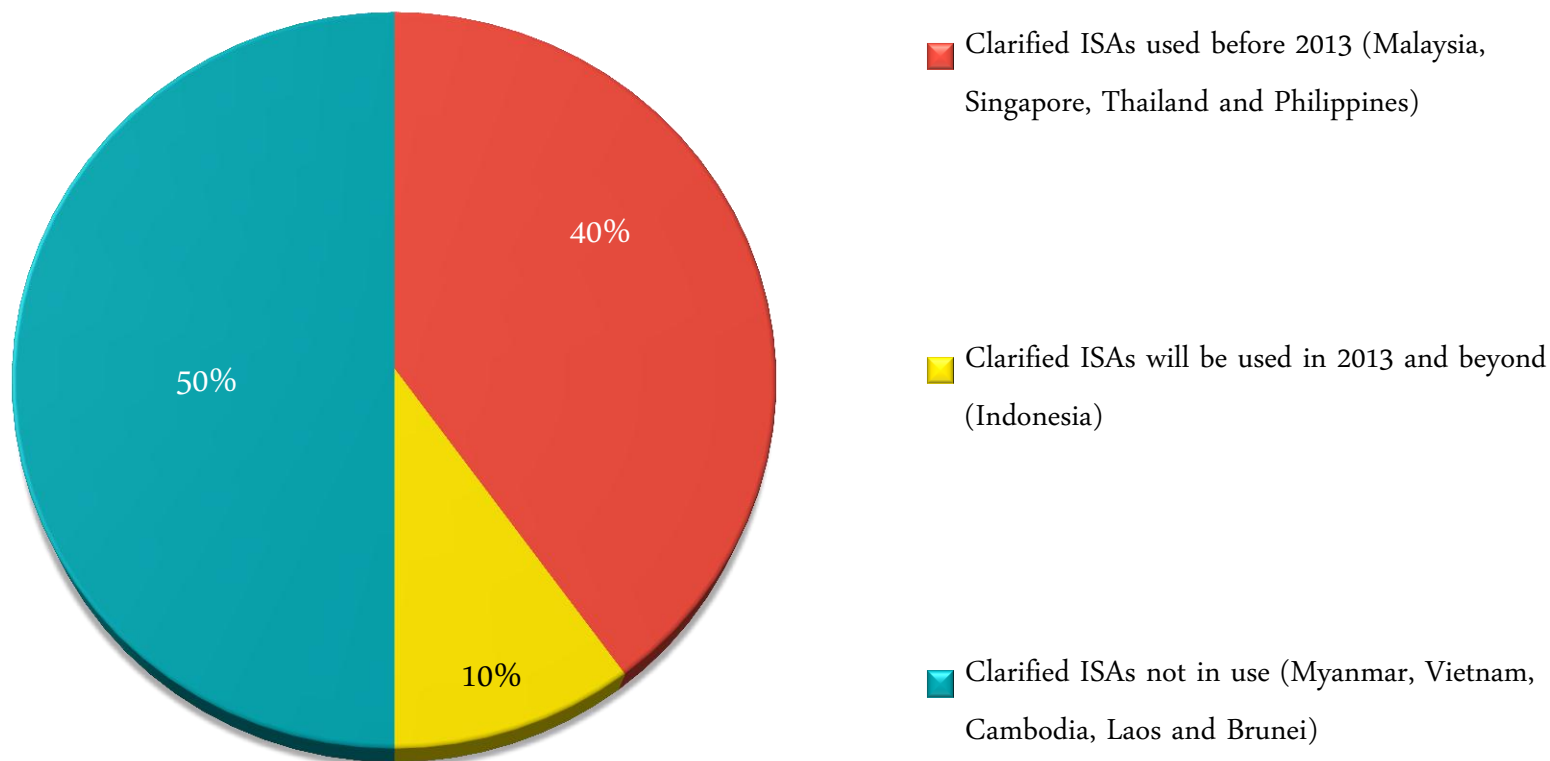
- ▶ Obtaining requisite knowledge and skills
 - ▶ Difficulties encountered when certain standards were applied
 - ▶ Greater number of disclosures required
- ▶ Changes in systems to produce PFRS – compliant financial reports
- ▶ More volatile financial results
- ▶ Increased scrutiny of various stakeholders
- ▶ Tax implications of the new standards

ISAs Adoption



ISAs in the ASEAN Member States

An Overview



* Source: IAASB Support Guide: Momentum of Adoption and Implementation Efforts

ISAs in the Philippines



Philippine Transition to ISAs

- ▶ Prior to 2001, Philippine GAAS was based on US GAAS
- ▶ 2001: Start of adoption of the ISAs and the International Auditing Practice Statements (IAPS)
- ▶ 2005: All ISAs in effect as of this time were adopted.
 - ▶ ISAs were renamed as Philippine Standards on Auditing or PSAs
 - ▶ IAPS were renamed as Philippine Auditing Practice Statements (PAPS)
 - ▶ Names and references became Philippine-specific
- ▶ The Philippine AASC also issues PAPS with no international equivalent to provide practical guidance on specific areas

Philippine Transition to ISAs (cont'd)

- ▶ The Philippine AASC continues to monitor and adopt the latest or revised ISAs issued by the IAASB.
 - ▶ Clarified ISAs became effective for periods on or after 15 December 2013

Challenges in adopting ISAs

- ▶ Ensuring consistent understanding and application of the auditing standards
- ▶ Implementation support and training for auditors
- ▶ Implementation of an effective quality systems review for auditors
- ▶ Application of ISAs to the audit of the small and medium-sized entities

Final Thought



The Challenge Continues

- ▶ Even as ASEAN member states continue with their adoption/convergence projects, the IASB and the IAASB continue to work on improving existing standards and issuing new guidance

Thank you!



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