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Review Article

IMPROVING FINANCIAL TRANSPARENCY WITH IFRS

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ABSTRACT

Accountability and proper governance are two concepts that work hand in hand and in business establishing financial transparency is crucial. However, up to some time, the variation in national accounting standards posed challenges towards the facilitation of cross-jurisdictional comparison and meaningful analysis of company figures. One problem pertaining to the global markets was the lack of comparability because investors could not compare investment opportunities easily by comparing financial statements across borders because of the differences in reporting structures. The IFRS was developed to overcome this challenge to accountancy and the presentation of financial statements. IFRS is a set of principles based standards framed by International Accounting Standards Board (IASB). The primary goal of IFRS is aimed to enhance transparency, accountability and governance worldwide in terms of having a single identical reporting platform with standard of high quality. The focus of this research paper is to analyses how the increased use of IFRS in the last two decades has contributed to increased financial transparency across the world. The discussion is carried out under the assumptions of previous different local GAAP and the increasing importance of IFRS for providing international accounting framework. The study also examines pro-IFRS findings gathered from prior academic research that underlines how the use of this Global Accounting Standard contributes to greater transparency provided by higher comparability, improved disclosure and increased overall quality of reported earnings information. Thus, it can be concluded that the IFRS have brought a great improvement in the pursuit of transparent financial reporting although some of the challenges still occur due to variation in implementing and enforcing of the standards.

Keywords: Transparency, Standards, Comparability, Empirical evidence, Challenges.

INTRODUCTION

Financial reporting and disclosure is one of the main capital markets pillars of corporate governance since it enables the users of the financial statements to understand the real financial state of affairs of the company (Hail *et al.,* 2010). Transparency assists the investors in arriving at the right decisions in the markets and also assists in proper allocation of capital in the economy. The IFRS on the other hand were established with an aim of enhancing comparability of financial statements of' multinational companies throughout the globe. Earlier on, inconsistent national accounting standards offered challenges to comparability and meaningful evaluation of the company's financial situ. Companies applied local GAAP which were not necessarily harmonized, thus making the reported information less transparent to the stakeholders (Hail *et al.,* 2010). Another element that affected comparability was the fact that financial statements that had been prepared using different GAAPs offered quite contradictory picture of economic performances. Thus, this did not present high-quality research across the board which act became a barrier to realizing comparative sound standards of evaluations by investors in the course of considering investment opportunities. In order to solve this problem IFRS was created by International Accounting Standards Board (IASB) that has developed the number of principles based standards, which are used to harmonize the financial reporting all over the world. When adopting IFRS, the aim was on enhancing comparability, reliability and consistency of the reports with the end product being enhanced cross-border accountability and corporate governance (IASB, 2020). This paper seeks to explore on the effects of IFRS adoption with a particular focus on improvement of transparency. The research explores the impact of IFRS adoption creates more comparability, extensive disclosure and better quality of reported earnings as stated by Barth *et al.* , 2008; Daske *et al.* , 2008. Data obtained from numerous scholarly works confirm the effectiveness of IFRS in enhancing diverse proxies of transparency. This paper also assesses current obstacles to further implementation of IFRS from variations in IFRS adoption and shortcomings of non-financial information reporting frameworks.

While recognizing that certain challenges persist, the research concludes that IFRS have significantly advanced the goal of transparent financial reporting compared to the past. Overall, the study substantiates IFRS' important contribution in promoting better transparency, accountability and governance through harmonized global financial statements (IASB, 2020).

FINANCIAL REPORTING CHALLENGES

Financial transparency is crucial for stakeholders to comprehend a company's true financial health and performance, enabling good governance and accountability (Hail *et al.,* 2010). It allows informed decision making and effective capital allocation. The International Financial Reporting Standards (IFRS) were established by the International Accounting Standards Board (IASB) to promote transparency across borders through consistent financial reporting. This research examines the impact of IFRS adoption on enhancing transparency.

Prior Inconsistencies in Financial Reporting

In the past, the absence of a single system in place helped to implement a particular set of generally accepted accounting records globally presented another major problem. Every country had its own national set of accounting rules in the shape of GAAP that resulted into significant discrepancies across different locations. Since different firms adopted different national GAAP, recognition,

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measurement and disclosure for financial statement preparation were also dissimilar. These differences in reporting practices made Company accounts' comparisons across countries difficult. For instance, the same financial concept could have different representations or, moreover, be expressed in different valuation bases between two nations. When viewed from the standpoint of user such as investors who wish to assess investments opportunities internationally then the economic reality portrayed in such statements differed depending on the underlying local GAAP. Consequently, performance analysis and benchmarking that made a lot of sense locally became a nightmare to carry out cross-border due to the absence of a universally accepted translate language. Furthermore, it was noted that some of the national GAAP were particularly weak than others provided loopholes for presentation of information that was misleading and did not give a true and fair view of the firm's financial situation. This negatively impacted the usefulness of financial reports for cross country decisions making. Thus, the use of several non-synchronized accounting standards made reported info less transparent for the International users of financial statements. Altogether, the various forms of contradictory practices stood in the way of proper objective investment assessments that have a cross-border component. In this regard, therefore, this paper postulates that a lack of universally acceptable high quality international standards that can replace domestic ones weakened the transparency of financial reporting from the international point of view. It was apparent then to look for a unified IFRS to provide a solution to the problems caused by diverse practices.

DEVELOPMENT OF IFRS

To overcome the issues stemming from the lack of consistency in global financial reporting, the International Accounting Standards Board (IASB) was established in 2001. The IASB's mandate was to develop a single set of principles-based International Financial Reporting Standards (IFRS) that could be applied internationally.

The IASB brought together pre-existing standards from several countries and professional accounting bodies to start developing IFRS. The standards were founded on the objective of achieving transparency and high-quality financial reporting globally through consistent principles. In contrast to rules-based frameworks, a principles-oriented approach was adopted to ensure the standards remained relevant amid changing business environments over time. Since 2005, the IASB has continuously issued new IFRS standards and amendments, with the aim of having a comprehensive globally accepted framework for reporting. By mandating the use of IFRS, individual nations could eliminate differences in their domestic GAAP and reporting practices. This would harmonize financial statements preparation processes across borders according to a uniform set of guidelines.

The widespread adoption of IFRS worldwide has gathered pace over the past decade, with over 140 countries now requiring or allowing the use of IFRS for all or certain listed companies. This reflects the international recognition and acceptance of IFRS as the common global language of financial reporting. The consistent standards have enabled like-for-like comparison of company accounts to be meaningfully analyzed on an international scale.

The establishment of IFRS addressed the need for a principles-based framework that could eliminate inconsistencies between national reporting practices. The goal was to promote transparency through consistent global financial reporting standards applied uniformly across jurisdictions.

Impact of IFRS Adoption on Transparency

The paper aims at analyzing how mandatory IFRS contributes to increasing the level of financial reporting transparency through different links. From research made from distinguished universities, the effectiveness shown is consistent in increasing the proxies of transparency. This work is to explain how IFRS have enhanced the comparability of the financial statements all over the world through the application of a single set of high-quality standards. Still, both the preparer's location does not have a significant impact as the same accounting policies and disclosures are used. This enables the user to compare company performances in detail on a like-for-like basis on an international basis. Furthermore, IFRS recognize the real substance over the legal form and contain qualitative and quantitative disclosure regime. This helps to minimize information gap that exist between preparers and users of financial reports. For instance, segmental reporting of operations and reporting of related parties' transactions are more relevant. It also reveals that the higher quality of the figures on reported earnings is connected to the IFRS adoption. Concepts like revenue recognition that focuses more on the transfer of control as against risk and return deprives managers from managing profits creatively. This adds credibility to reported performance figures increasing the value relevance of performance odd numbers. The need to have transparency enhances by analyzing other measures of transparency like the value relevance research, and the timeliness of loss recognition, supports the role played by IFRS in enhancing the quality of information. Managers and investors in jurisdictions implementing IFRS report relative decrease in information disparity. Therefore, the consolidation of adoption of the IFRS framework has improved the group's financial reporting via multiple compared to the inconsistent national reporting of the past. Quality of information improves when it is consistent and this in the end helps all the stakeholders.

Ongoing Challenges to Realizing Full Transparency Benefits

Research shows that despite the fact that IFRS has without doubt enhanced the workings of FRS around the world, not all jurisdictions have implemented the standards smoothly. These reforms are as follows; Cross-sectional variations remain present in the levels of implementation and enforcement of regulatory environments. For instance, some of the features of the relevant principles-based IFRSs, have still remained interpretive judgments. The failure to adopt a uniform approach for the provision of application guidance may lead to variation in application of the same standards. This leaves the effectiveness of comparability gains from harmonization compromised since countries that could have benefited from harmonization and provided adequate data drop out halfway through or begin the process only to provide inadequate data for comparison. Also, the rate of compliance is monitored and the efficiency of the local enforcement authorities also varies from one country to another. Susceptible regulatory system in some countries can compromise the credibility of reported information. This is especially the case where the management lacks specialized technical accounting knowledge. Other challenges are a disparity in the pace of adoption of the IFRS around the world. Not all countries have transitioned at the same rate; here we see that the smaller firms have most to lose or to gain from transition. This leads to permanent blended groups using IFRS and local GAAP thus minimizing the extent of full standardization. Other activities for instance are interim financial reporting, management commentary and emerging activities areas where IFRS has not fully elaborated on to date. This means there is scope for a variety of other non-IFRS practices to continue side-by-side cross-nationally.

Thus, further works should be carried out to enhance IFRS qualitative requirements in order to achieve more benefits from increased transparency. There is also the need for constant surveillance and the use of sanctions across the world as well. Other than that, other specific studies detailing on the effects of transparency could help direct targets for further IFRS work in the future more effectively. Therefore, there are no irreversible destinies: consistent, high-quality financial reporting in the world may fully work beneficially for all the cross-national shareholders after hard-working.

ROLE OF IFRS

Financial transparency allows stakeholders to understand a company's true performance and is important for governance (Hail *et al.,* 2010). The International Financial Reporting Standards (IFRS) were developed to promote transparency across borders. This research examines how IFRS adoption improves transparency.

In the past, different countries had varying accounting standards, making cross-border comparisons difficult (Hail *et al.,* 2010). Companies followed local Generally Accepted Accounting Principles (GAAP) which were inconsistent (Hail *et al.,* 2010). This created obstacles for investors globally. Financial statements under different GAAP provided an inconsistent view (Hail *et al.,* 2010).

The IFRS were established to address challenges arising from diversity in global financial reporting practices (IASB, 2020). Developed by the International Accounting Standards Board (IASB), IFRS comprise principles-based standards aimed at harmonizing accounting practices worldwide (IASB, 2020). By mandating the use of a common set of high-quality reporting standards, IFRS aim to improve transparency, accountability and governance across international borders (IASB, 2020).

Over 140 countries now require or permit the application of IFRS for listed public companies within their jurisdictions (IASB, 2020; Hail *et al.,* 2010). This widespread adoption of a single set of standards has increased the comparability of financial statements prepared under a uniform framework on a global scale. Comparability allows for meaningful analysis and informed decision making. The research examines how IFRS adoption leads to enhanced transparency through various channels. Studies show IFRS reporting results in greater transparency due to improved comparability across entity and national borders, more extensive disclosure requirements, and higher quality of reported earnings figures (Barth *et al.,* 2008; Daske *et al.,* 2008). Empirical evidence from these and other academic studies validate the role of IFRS in enhancing different proxies for transparency (Barth *et al.,* 2008; Kim *et al.,* 2021).

While differences in implementation and enforcement of standards across regulatory bodies present ongoing challenges to full realization of transparency benefits, research concludes IFRS have significantly advanced financial reporting transparency in comparison to the past inconsistent national reporting landscapes (IASB, 2020). Overall, the studies substantiate IFRS' contribution in promoting better transparency, accountability and governance through consistent global financial statements.

Improving Transparency

Financial reporting facilitates the ease with which users determine performance as well as being key to reporting (Hail *et al.,* 2010). IFRS standards were established with an aim of helping organizations achieve transparency across the global through compliance with set standards. This paper discusses the ways by which the adoption of IFRS enhances transparency. Earlier on, the system of accounting was not well developed internationally where different countries followed different standards (Hail *et al.,* 2010). The local GAAP was followed with great inconsistency by different companies (Hail *et al.,* 2010). This was a challenge to investors anywhere on the globe and it developed variability in financial statements perspectives (Hail *et al.,* 2010). IFRS's were developed to curb problems from diversity in financial reports (IASB, 2020). IFRS are understandable standards that in principle focus on creating of globalized practices (IASB, 2020). In this way, the IFRS facilitate elevating the levels of transparency, accountability, and governance on the international level since they define common high-quality requirements (IASB, 2020). Now, more than 140 jurisdictions have made IFRS either mandatory or optionally for the enterprises that are listed in public (IASB, 2020). It scaled up comparability round the world, when many countries adopted it (Hail *et al.,* 2010). IFRS adoption has several meanings of increasing transparency through a variety of ways. First, common standards make sure that reports have similar line items and disclosures within it (Hail *et al.,* 2010). Second, IFRS address economic substance in preference to legal form so that the user gets a real picture (IASB, 2020). Third,, make up for the lack of the necessary internal control systems and high-quality disclosures that the extensive IFRS disclosure rules have been proved to minimize information asymmetry (Hail & Leuz, 2006). The comprehensive notes and commentary enhances on clarity in the study. Fourth, IFRS based on principles do not allow revenue increasing from shady earnings management practices and support better quality revenues over time (Barth *et al.,* 2008). In general, IFRS increase the usefulness and relevance of the reports for the providers and the regulators.

Scholar reports affirm the part of IFRS in enhancing transparency (Barth *et al.,* 2008; Daske *et al.,* 2008; Kim *et al.,* 2021). Implementing and enforcing IFRS still present some challenges on the differences (IAS Plus, 2019), however, reporting has enhanced greatly from the past with the help of IFRS (IASB, 2020). In this research the global adoption of IFRS is justified in as much as it has enhanced transparency, accountability and governance by way of standardized statements.

Empirical Evidence

Financial transparency is important for understanding a company's performance and governance practices (Hail *et al.,* 2010). The International Financial Reporting Standards (IFRS) were developed to promote transparency across borders through harmonized accounting standards. This research examines how adoption of IFRS has improved financial reporting transparency globally. In the past, differing national accounting standards complicated cross-border comparisons of company financial statements (Hail *et al.,* 2010). Firms in different countries followed inconsistent local Generally Accepted Accounting Principles (GAAP), creating obstacles for investors seeking to analyze companies internationally (Hail *et al.,* 2010). Financial reports prepared under divergent GAAP frameworks provided inconsistent views of companies' financial positions and results (Hail *et al.,* 2010).

The IFRS were established by the International Accounting Standards Board (IASB) to address challenges arising from the diversity in global financial reporting practices (IASB, 2020). Developed as a set of principles-based standards, the objective of IFRS is to harmonize accounting practices worldwide (IASB, 2020). By requiring the use of a common set of high-quality reporting standards, IFRS aim to improve transparency, accountability and governance across international borders (IASB, 2020). Over 140 countries now mandate or allow the application of IFRS for listed public companies within their jurisdictions (IASB, 2020; Hail *et al.,* 2010). This widespread adoption of a single set of standards has increased the comparability of financial statements on a global scale.

Adoption of IFRS leads to enhanced financial reporting transparency through various mechanisms. Firstly, a consistent set of IFRS ensures financial reports contain standardized line items and disclosures, enabling "apples-to-apples" comparisons between companies (Hail *et al.,* 2010). Secondly, IFRS focus on reflecting the economic substance of transactions over their legal form, providing readers a true and fair view (IASB, 2020). Thirdly, the extensive disclosure requirements under IFRS help reduce information asymmetries between companies and stakeholders (Hail & Leuz, 2006). Comprehensive notes and management commentary improve the clarity of financial reports. Fourthly, the principles-based nature of IFRS discourages opaque "earnings management" practices and promotes higher quality, more decision-useful reported earnings over time (Barth *et al.,* 2008). Overall, IFRS render financial reports more transparent for capital providers and regulators.

Various empirical studies provide evidence validating the role of IFRS in enhancing transparency. Analyzing firms from 30 countries that transitioned to IFRS between1995-2005, Barth *et al.,* (2008) found significant increases in the values of several disclosure and transparency proxies subsequent to IFRS adoption. Firms also reported more value-relevant financial information, and discretionary accruals declined, suggesting improved financial reporting quality. Another large-scale study of over 21,000 firms across 50 countries found that IFRS adopters had more transparent and higher quality reported earnings compared to non-adopters (Daske *et al.,* 2008). IFRS adopting firms experienced reductions in information asymmetries as measured by bid-ask spreads. These findings substantiate the positive impact of IFRS on improving the transparency of financial reporting.

While the benefits of IFRS are clear, some challenges to full transparency persist. Differences in how some standards are implemented and enforced across regulatory jurisdictions can reduce the comparability of financial reports (IAS Plus, 2019). Weak enforcement also constrains the transparency gains achievable through IFRS (IASB, 2020). Additionally, complex business transactions involving significant estimates and judgments still lack perfect clarity in disclosure (IASB, 2020). There are also limitations in IFRS requirements for reporting non-financial performance information important for environmental, social and governance (ESG) assessment (Eccles & Krzus, 2010). Continued efforts are needed to strengthen individual IFRS, as well as ensure consistent global application and compliance (IASB, 2020).

In conclusion, this research validates that adoption of the principles-based IFRS framework has significantly improved financial transparency in global capital markets. By mandating a common set of high-quality accounting standards, IFRS enable consistent and comparable reporting that provides stakeholders a true and fair view of companies' financial performance and position. Empirical evidence demonstrates IFRS adoption enhances the value relevance, quality and transparency of disclosed earnings information. While transparency challenges stemming from implementation and enforcement differences remain, IFRS have undoubtedly advanced the goals of transparent and accountable financial reporting worldwide. Overall, this study substantiates the important role played by IFRS in promoting transparency, accountability and better governance through harmonized financial statements.

TRANSPARENCY CHALLENGES REMAIN

Financial transparency is a key factor which can determine a firm's performance and the nature of its governance (Hail, Leuz & Wysocki, 2010). The International Financial Reporting Standards (IFRS) were developed with the aim of facilitating cross boundary transparency by having several standards in accounting. Speaking about the topic of the research, this paper investigates the effectiveness of the IFRS in enhancing financial reporting transparency across the world. Earlier on, a number of countries had adopted unique national accounting standards that posed a great challenge in trying to carry out comparisons and analysis across international borders with regards to the financial statements of various companies (Hail *et al.,* 2010). Each firm adopted GAAP of the country where it was located meaning that international investors could not assess firms based on a common standard (Hail *et al.,* 2010). Audit reports prepared under different GAAP gave different pictures of companies' state of affairs and performance measures that were not directly comparable (Hail *et al.,* 2010). The IFRS were developed by IASB in an effort to meet some of the problems resulting from diversification in financial reporting around the world (IASB, 2020). Created in the format of principles based standard, it is aimed at global convergence of financial accounting (IASB, 2020). Because IFRS imposes the application of single high quality framework of reporting it seeks to enhance cross-border comparability, quality and reliability of information on transparency, accountability and corporate governance (IASB, 2020). More than 140 countries either require or permit the use of IFRS by listed companies within their domestic territories (IASB, 2020; Hail *et al.,* 2010). That this approach has been adopted so widely has made financial statements more comparable across the world today. IFRS enhances comparability through integrated company reports that are prepared on the basis of acceptable IFRS standards (Hail *et al.,* 2010). IFRS also emphasize the commercial reality of the transactions instead of the legal point of view, therefore presenting fact-based picture to the readers (IASB, 2020). IFRS disclosure requirements are very detailed and these favorable discourage information gaps between preparers and users of the financial statements as argued by Hail and Leuz (2006). When notes are comprehensive and/or management commentary is provided, the information becomes clearer. It is argued that principles-based IFRS reduces earnings management and provide consistent reporting over the years (Barth *et al.,* 2008).

Barth *et al.,* (2008), Daske *et al.,* (2008) and Kim *et al.,* (2021) substantiate the argument that IFRS increases transparency. As one can see, adoption of IFRS results in greater emphasis on transparency through different ways. However, some challenges persist. Standard setting can create a loophole that is not always standard setting across these structures as some have lower levels of Stringency and permit upgrade choices to lessen comparability (IAS Plus, 2019). Enforcement too differs from one regulatory body to the other which in turns limit the enhancement of transparency (IASB, 2020). Most of the involving estimates transactions have element of uncertainty, thereby they do not have perfect certainty (IASB, 2020). According to Eccles & Krzus (2010), IFRS allow reporting of only limited non-financial sustainability information. The IFRS, however, have gone a long way in enhancing the transparency and there are still differences (IFRS: A Source for Global Guidance, 2019). Further work has to be done in the improvement of the standards and their enforcement by different countries around the world (IASB, 2020). All in all, the literature has indicated that IFRS have enhanced reporting transparency compared with the past (IASB, 2020). IFRS ensures the accomplishment of the objectives for proper and transparent disclosure of financial statements internationally. This provides credence to the need to adopt IFRS in practicing good governance.

In conclusion, it is necessary to note that financial transparency contributes to the factors affecting performance as well as its governance. IFRS adoption allows for consistent standards which then enhances the prospects of transparency in the global financial reports. Despite these problems, research reveals that IFRS has been useful in improving the quality and comparability of reports across the world.

CONCLUSION AND RECOMMENDATIONS

Financial transparency enables one to comprehend performance and wellbeing as well as the ability under test (Hail *et al.,* 2010). This paper sought to review how the enhancement of transparency through the application of IFRS, by use of harmonized standards, enhances cross-border disclosure. Major challenges in the past have included global GAAP convergence, diverse national standards for comparing cross-sectional, and cross-country studies (Hail *et al.,* 2010). Challenges posed by diverse financial reporting were responded to globally by IFRS through constructing a set principles based standards (IASB, 2020). General purpose high quality IFRS standards enhance investors' information, accountability and corporate governance (IASB, 2020). As it is observed more than 140 countries use or accept IFRS making financial statements more comparable (IASB, 2020; Hail *et al.,* 2010). IFRS adoption makes it easier to produce comparable reports thus improving transparency (Hail *et al.,* 2010). Other principles that are highlighted by IFRS include the realization concept, Business Combination, and the accrual basis of accounting as well as the economic substance over the legal form (IASB, 2020). IFRS is assumed to shed light on extensive disclosure of financial information which in turn reduces information anomaly (Hail & Leuz, 2006) Principles are believed to deter disguising of earnings (Barth et *al.,* 2008.). Research confirms that IFRS enhances companies' in formativeness or transparency (Barth et al., 2008: Daske *et al.,* 2008: Kim *et al.,* 2021). Use of the principles-based IFRS framework has positively impacted the level of financial reporting across the world (IASB, 2020). IFRS make the reporting consistent and comparable and IFRS allow stakeholder getting the view of performance and position which is true and fair (IASB, 2020). Research works reveal that IFRS increases value relevance, quality and deserving of reported profits (Barth *et al.,* 2008; Daske *et al.,* 2008). From such concerns emanating from difference in implementation, enforcement and non-financial coverage, IFRS have not lowered the bar in achieving the quest for standard and accountable reporting internationally (IASB, 2020). It is also evident for the IASB that continued exertions to enhance and develop the standards while ensuring their effective implementation can enhance the optimum benefits to be derived out of IFRS application (IASB, 2020). In totality, this research supports the relevance of especially IFRS in enhancing transparency, accountability and governance in the world today.

Based on the findings, some recommendations for further improving financial transparency through IFRS include: On the qualitative standards there are opportunities for the IASB to provide more precise rules and enhance some of the disclosure regulations which are still not very similar in different legal systems. Linda P. [(2007, p. 121)] has on the same topic stated that harmonizing the implementation of these various guide dances would aid in attaining full transparency benefits. Therefore, there is need for national standard-setters to adequately enforce IFRS consistently in order to overcome with differences resulting from diverse regulatory controls and compliance across the world. Further research analysis of the effects of transparency in different IFRS standards should be undertaken with a view to providing relevant research information that may help in determining priorities of new IFRS standards or amendments. Applying the IFRS and disclosure standards to non-financial information like sustainability may offer the stakeholders broader perspective of the company's performance and potential risks. Learning may require educational programmes to enable developing countries enhance their implementation of IFRSs and maintain high quality in the long run. Measuring other transparency indicators before and after IFRS implementation should also be carried out to assess the changing effects and challenges faced in future to facilitate the continuous improvement of the standards. In global terms, with continuing endeavors towards increasing the application standard and stringency of IFRS globally, the objective of enhancing reporting that is crucial for accountability can be advanced to an even greater extent to be of common use to all the stakeholders.

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