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CHALLENGES OF IMPLEMENTING INTERNATIONAL ACCOUNTING STANDARDS IN DEVELOPING COUNTRIES: A CASE STUDY IN INDONESIA

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ABSTRACT

This study aims to review the challenges faced in the implementation of International Financial Reporting Standards (IFRS) in developing countries, with a special focus on Indonesia. Through a comprehensive literature review, the study identified several key factors influencing the implementation of IFRS, including regulatory complexity and variability, lack of education and training for accountants, and external pressures driving profit management. In addition, resistance from various business groups and limited technological infrastructure are also significant obstacles. Nonetheless, the adoption of IFRS offers many benefits, such as reduced information asymmetry and increased comparability of financial information. To overcome these barriers, a more structured and collaborative approach is needed between governments, regulatory bodies, educational institutions, and the business sector. This study provides practical advice for practitioners and academics to increase awareness, understanding, and capacity in implementing IFRS, so as to improve the quality of financial reporting and transparency in Indonesia's financial markets.
Keywords: *IFRS, Indonesia, international accounting standards, profit management.*

INTRODUCTION

In the era of increasingly rapid economic globalization, the adoption of international accounting standards has become a major concern for many developing countries. International Accounting Standards (SAIs), such as those issued by the International Financial Reporting Standards (IFRS), aim to create uniformity and transparency of financial statements around the world. The implementation of this standard is expected to improve the quality of financial reporting, facilitate cross-border investment, and strengthen the integrity of global financial markets. However, the implementation of SAIs in developing countries is often faced with a variety of complex and diverse challenges.

Indonesia, as one of the developing countries with the largest economies in Southeast Asia, has committed to fully adopting IFRS through the adopted Financial Accounting Standards (SAK). However, the implementation process is not easy and smooth. The challenges faced by Indonesia in implementing SAI include aspects of regulation, infrastructure, human resources, as well as local culture and business practices. Regulations that are not fully harmonized with international standards are often the main obstacle (Chairunnisa, 2019). In addition, the limitations of technology infrastructure and accounting information systems also hinder effective implementation.

One of the crucial aspects that is the focus in the implementation of SAI is human resources. The quality and quantity of accounting professionals who understand and are able to implement IFRS is still a significant challenge. Many companies in Indonesia, especially small and medium-sized companies, have difficulty finding a workforce that has competence in international accounting standards (Gusneli et al., 2023). In addition, training and continuing education for accountants are still inadequate.

Local business culture and practices also play an important role in the successful implementation of SAIs. Indonesia has unique business characteristics, where traditional and informal practices are still widely found. Changes to international standards often take time and adjustments that are not only technical, but also cultural. Companies need to change their perspective and approach to financial reporting, which sometimes goes against local customs and values (Ardhian & Isshoroh, 2018).

The implementation of International Accounting Standards (SAI) in Indonesia faces a variety of complex and diverse challenges. The main challenges include the inconsistency of local regulations with international standards, the limitations of technology infrastructure and accounting information systems, and the lack of competent human resources in SAI. Many companies, especially small and medium-sized companies, have difficulty finding accountants who understand and are able to implement IFRS (Anuar Syahdan et al., 2017). Local business cultures and practices that are still steeped in traditional approaches often conflict with international accounting principles, so it takes time and effort to make adjustments that are not only technical but also cultural.

This case study in Indonesia provides a real picture of how these challenges affect the adoption and implementation process of SAI. Through in-depth analysis, the journal will identify the key factors hindering the adoption of international accounting standards and offer strategic recommendations to address these constraints. This research is expected to make a valuable contribution to the development of accounting policies in other developing countries that are or will adopt SAI.

The adoption of SAIs in developing countries is not only about technical adjustments, but also requires fundamental changes in the financial system and the business as a whole. By understanding the challenges and dynamics faced by Indonesia, we can learn valuable lessons to improve the implementation of SAI in various contexts in developing countries. Through this research, it is hoped that a more comprehensive understanding and more effective solutions will be created to overcome existing obstacles.

The purpose of this journal is to identify and analyze the main challenges faced in the implementation of International Accounting Standards in Indonesia. Through in-depth case studies, this journal aims to understand the factors that hinder the implementation of SAI and provide strategic recommendations to overcome these obstacles. This research is expected to provide useful insights for policymakers, accounting practitioners, and academics in their efforts to improve the quality of financial reporting and the integrity of financial markets in developing countries, especially in Indonesia.

METHOD

This study uses a literature study approach to identify and analyze the challenges of implementing International Accounting Standards (SAI) in Indonesia. Data was collected from a variety of literature sources, including academic journals, textbooks, reports from regulatory bodies such as Indonesia's Financial Accounting Standards Board (DSAK) and the International Accounting Standards Board (IASB), as well as documents from accounting professional institutions such as the Indonesian Institute of Accountants (IAI). Data collection procedures include the identification and selection of relevant literature, analysis of key findings related to the challenges of implementing SAI, and synthesis of results from various studies to provide a complete picture. Researchers ensure validity and reliability by using credible sources, triangulation techniques, and citing primary sources.

The study focuses on regulatory, infrastructure, human resources, and cultural aspects, with the aim of providing useful insights for stakeholders in overcoming obstacles to the implementation of SAI in Indonesia.

RESULTS & DISCUSSION

This study reveals various challenges and factors affecting the implementation of International Accounting Standards (IFRS) in developing countries, especially Indonesia, based on the results of several previous studies.

The results of four consecutive surveys show that the implementation of regulatory reform in practice in Spain has changed in complexity over time. Economists-accountants' initial understanding of these regulatory changes also varies. Their perception changes over time and with various regulatory changes that occur. They prefer the reform and adaptation of the Spanish legal system to IFRS over the direct application of IFRS in Spain (Ortiz-Martínez et al., 2022).

Another study analyzed the causal relationship between influencing factors and companies' willingness to implement IFRS voluntarily. Evidence shows that compliance with accounting regulations and principles, accountant qualifications and experience, accounting regimes and government circulars, managers' abilities and perceptions, and the benefits of IFRS adoption have a positive impact on the implementation of IFRS. In addition, the company size factor and audit activity also promote the willingness of companies to implement IFRS, while tax pressures and accounting psychology negatively impact their implementation (Nguyen et al., 2023).

Other findings support the view that the high intensity of analyst coverage adds pressure on company managers to meet analysts' earnings per share (EPS) expectations, which motivates higher levels of profit management. Contrary to expectations, the introduction of IFRS failed to strengthen the monitoring role of security analysts on corporate management; instead, managers take advantage of the flexibility and discretion inherent in IFRS principles to meet analyst benchmarks through real profit management (REM) activities. These results remained consistent after controlling for endogenicity (Almaharmeh et al., 2024).

Another literature review presents an analysis of studies on IFRS adoption or convergence, taking into account the responses of various stakeholders to IFRS adoption, including accounting quality and disclosure requirements. An analysis of

106 articles published between 2005 and 2021 shows that report preppers (accountants) and users including academics, researchers, policymakers, as well as regulatory and standard-setting bodies such as the IASB can use this review as a guideline to conduct further inspections of the standard-setting process and related issues (Bathla et al., 2024).

This study highlights the importance of the adoption of international standards so that financial statements can be used successfully in decision-making and risk management processes, through their benefits in reducing information asymmetry and improving information comparability. Focus on decision-making processes and risk management raises concerns about predictive value, as opposed to retrospective value, in financial statements ((Ghiţă) et al., 2014).

These results reflect the complexity and variation in the implementation of IFRS in various contexts and demonstrate the need for a more contextual and tailored approach to implementing international accounting standards in Indonesia

International Financial Reporting Standards (IFRS) is a framework used to prepare comprehensive and consistent financial reports around the world (Ardhian & Isshoroh, 2018). The implementation of IFRS aims to improve transparency, accountability, and efficiency of global financial markets. However, the implementation of IFRS in developing countries, including Indonesia, faces various complex challenges. These challenges include differences in economic infrastructure, culture, regulatory systems, and institutional capacity. In the Indonesian context, various factors such as regulatory uncertainty, lack of education and training, and external pressures play an important role in hindering the effective implementation of IFRS.

One of the main challenges in implementing IFRS in Indonesia is the complexity and variability of regulations. The study, which reviewed the results of four consecutive surveys in Spain, showed that the implementation of regulatory reforms could change in complexity over time (Ortiz-Martínez et al., 2022). Economists-accountants' initial understanding of these regulatory changes also varies, and they prefer the reform and adaptation of local legal systems over the direct implementation of IFRS. In Indonesia, regulatory changes are often

inconsistent and can be confusing for accounting professionals. This uncertainty in regulations makes economists-accountants and business people have to constantly adjust to the changes that occur, which can hinder the effective implementation of IFRS.

The lack of adequate education and training for accountants in understanding and implementing IFRS is another significant challenge in Indonesia. Study (Gusneli et al., 2023), indicating that the qualifications and experience of accountants greatly influence a company's willingness to implement IFRS. In Indonesia, many accountants have not received adequate training on IFRS, so they have difficulty in implementing this standard. In addition, ongoing training and certification programs need to be improved to ensure that accountants have the necessary skills and knowledge to implement IFRS effectively.

External pressures, such as expectations from market analysts, also play an important role in the implementation of IFRS. Findings (Anuar Syahdan et al., 2017), indicating that the high intensity of analyst coverage can add pressure on company managers to meet analysts' earnings per share (EPS) expectations, which motivates higher levels of profit management. In the context of Indonesia, where the capital market is still developing and analysis by analysts is still limited, this pressure may not be as intense as in developed countries. However, flexibility in IFRS principles can be leveraged by managers to perform profit management, which can reduce the transparency and accuracy of financial statements.

The active participation of various stakeholders, including report preppers (accountants) and users such as academics, researchers, policymakers, as well as regulatory bodies and standard-setters, is critical in the IFRS adoption process. A review of the literature shows that the active participation of these various stakeholders is still limited in Indonesia. There is a need to increase awareness and understanding of the importance of IFRS through more intensive education, training, and socialization. By involving all relevant parties, the IFRS adoption process can become more effective and efficient.

CONCLUSION

The implementation of International Accounting Standards (IFRS) in developing countries such as Indonesia faces various significant challenges. The study identifies several key barriers that include regulatory complexity and variability, lack of education and training for accountants, and external pressures that drive profit management. Differences in local accounting practices and inadequate technological infrastructure are also additional obstacles in the implementation of IFRS. In addition, resistance from various business groups and a lack of active participation from stakeholders slowed down the IFRS adoption process. However, the adoption of IFRS offers many benefits, including reduced information asymmetry and improved comparability of financial information, which can support better decision-making processes and risk management. To achieve the full potential of IFRS, a more structured and collaborative approach is needed to address existing challenges.

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