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Contextual Issues Affecting the Adoption of International Financial Reporting Standards (IFRS) in A Developing Country: The Case of Bhutan

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The objective of this paper is to demonstrate that accounting standards and financial reporting practices are deeply influenced by country-specific contextual factors, and these factors must not be overlooked when considering the adoption of International Financial Reporting Standards (IFRS).

This qualitative study is a critical examination of the Bhutanese accounting environment and raises concerns related to the adoption of IFRS by applying the accounting ecology framework. The study presents evidence that the contextual disparities between Bhutan and the countries where IFRSs have been developed pose challenges for the seamless transition and successful implementation of IFRS in Bhutan.

Several characteristics of the Bhutanese accounting environment, such as cultural differences, an underdeveloped capital market, the impact of accounting-related laws on financial reporting, an emerging accounting profession, and the absence of a professional accounting organization, act as obstacles to the smooth transition and consistent application and interpretation of IFRS in Bhutan.

Keywords: IFRS, Accounting standards.

INTRODUCTION

The development of the global capital market and the increasing number of multinational enterprises are integral parts of globalization.

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The globalization of the capital market has made it imperative to ensure the comparability of financial statements worldwide (Doupnik & Perera, 2015). Therefore, having a single set of high-quality global accounting standards can enhance the comparability of financial statements of companies across countries, thereby facilitating global trade and the capital market while reducing the cost of capital (Fajardo, 2016). This process began in 1973 with the establishment of the International Accounting Standards Committee, later restructured into the International Accounting Standards Board (IASB) in 2001. The IASB has played a major role in developing high-quality financial reporting standards known as International Financial Reporting Standards (IFRS). IFRS is regarded as a set of high-quality accounting standards that ideally should be consistently applied by companies globally to ensure acceptability in global capital markets (IASB, 2009). IFRS has been developed based on the Anglo-American accounting model, which caters to the decision needs of a large number of investors and creditors (Doupnik & Perera, 2015). Since 2005, there has been a significant increase in the number of countries adopting IFRS as national standards, with over 168 countries permitting or requiring IFRS for financial reporting (IFRS Foundation, June 14, 2023).

Studies have reported many positive effects of IFRS adoption. However, increased comparability, reduced information costs, and lower risks for investors can only be achieved if the standards are consistently implemented across countries (Ball, 2006). Ball (2006) expresses skepticism, arguing that despite increased globalization, substantial international differences in financial reporting practices and quality persist across countries. This is because accounting standards and financial reporting practices are influenced by contextual factors, including legal systems, taxation, sources of finance, inflation, political ties, and culture specific to each country (Ball, 2006; Hellman et al., 2010; Tsunogaya et al., 2015). Therefore, it is crucial to clarify these contextual factors that affect the adoption of IFRS or convergence with IFRS in individual countries. As more developing countries and economies converge with or adopt IFRS as national standards, numerous studies have identified various contextual factors, such as underdeveloped capital markets and accounting professions, colonial influences, influences from international institutions like the World Bank and Asian Development Bank, and corruption, which influence the development of financial disclosure and reporting practices.

With a growing number of companies in the 2000s and Bhutan opening its economy to Foreign Direct Investment (FDI), the changing nature of the Bhutanese economy demands transparency and consistency in corporate reporting. Like most developing countries, Bhutan publicly committed to moving toward a single set of high-quality global accounting standards in IFRS, referred to as Bhutanese Accounting Standards (BAS), in 2012 (IFRS Foundation, 2016). As discussed earlier, the need to consider country-specific contextual issues is crucial. However, to date, no study has been conducted to highlight the IFRS adoption process in Bhutan. Therefore, the objective of this study is to provide an understanding of the contextual issues affecting the IFRS adoption process in Bhutan from an ecological perspective. Furthermore, this study also examines how these contextual issues impede the consistent application and interpretation of IFRS in Bhutan.

LITERATURE REVIEW

Accounting Standards and Corporate Financial Reporting in Bhutan

Before 2010, Bhutan lacked both an accounting standards-setting body and designated accounting standards for Bhutanese companies. The absence of well-defined accounting standards in Bhutan resulted in a lack of uniformity and consistency in accounting principles and reporting practices, leading to inadequate disclosures in financial reports (AASBB, 2015). Various stakeholders expressed serious concerns about the quality and reliability of financial reports in Bhutan (World Bank, 2009). World Bank (2009) also noted that this situation had resulted in a high degree of information asymmetry and incomparability of financial reports in Bhutan. Accounting practices were primarily based on the Company Act of the Kingdom of Bhutan, 2000, rather than being guided by independent professional accounting standard setters.

Recognizing the evolving needs of Bhutan's economy, the World Bank (2009) emphasized the necessity of establishing an independent standard-setting body in Bhutan and recommended full adoption of IFRS (International Financial Reporting Standards) to enhance international credibility, acceptance of Bhutan's corporate reporting framework, and attraction of Foreign Direct Investment (FDI) through increased accountability and transparency. Consequently, the Ministry of Finance established the Accounting and Auditing Standards Board of Bhutan (AASBB) in 2010. In 2012, the AASBB made the strategic decision to adopt IFRS issued by the International Accounting Standards Board (IASB) as the most suitable and prudent option for Bhutan. This decision aligned with the objective of implementing accounting standards that are on par with international best practices and responsive to the evolving global landscape. According to the IFRS Foundation (2016), the AASBB essentially adopted IFRS without any amendments or modifications in Bhutan. Since 2012, the AASBB has released 37 BAS (Bhutanese Accounting Standards) to be adopted in a phased manner, with the aim of achieving full adoption by 2021 (IFRS Foundation, 2016). The AASBB mandated that all listed companies commence adopting BAS from January 2013 (IFRS Foundation, 2016).

International Financial Reporting Standards

IFRS has been developed based on the Anglo-American accounting model, which is practiced and prevalent in English-speaking countries (Doupnik & Perera, 2015). This model is designed to cater to the decision needs of a large number of investors and creditors. It has evolved over an extended period in an environment characterized by an investor orientation, common law, the separation of accounting and tax schemes, and extensive application of professional judgments (Tsunogaya et al., 2012). The adoption of the Anglo-American model (IFRS) supports the perceived superiority of the Anglo-American model in achieving efficiency and international legitimacy (Wu and Patel, 2013) and the assertion that IFRS can be consistently applied in all countries (Hellmann et al., 2010).

Contextual Issues Affecting the Adoption of/or Convergence with IFRS

Accounting standards and reporting practices vary significantly across countries, even when firms prepare their financial statements using the same accounting standards. Ball (2006) argued that the belief that uniform standards (e.g., IFRS) alone will result in uniform financial reporting seems simplistic, as reporting incentives are influenced by contextual factors.

Studies have indicated that culture influences accounting and disclosure practices worldwide and can affect the intercultural comparability of financial statements (Chand et al., 2008). Gray (1988), applying Hofstede's (1980) cultural dimensions to relate culture values to accounting subculture values, suggested that culture is a likely cause of accounting differences across nations and regions. Similarly, Drnevich & Stuebs (2013) highlighted how applying accounting standards involves judgment and how cultural differences can influence accountants' judgments and subsequent financial reporting outcomes. Additionally, Gierusz et al. (2014) reported that culture leads accountants from different countries to interpret the same accounting standards differently, indicating that standards setters and regulators must consider the relationship between national and organizational cultures when adopting or converging to IFRS. Language is a significant element of a country's culture, and the link between language, culture, and thought processes can cause speakers of different languages to perceive and interpret accounting concepts differently (Evans, 2004). Furthermore, Doupnik & Richter (2003) suggested that non-native English speakers might be less confident in interpreting uncertainty terms expressed in English compared to their native language, supporting the idea that language and culture affect the interpretation of IFRS.

A country's legal system also influences accounting and reporting practices. Company Acts and other accounting regulations prescribe general requirements for the measurement and disclosure of accounting information. Measurement and disclosure practices can also be influenced by tax laws, posing obstacles to the adoption or convergence to IFRS (Larson & Street, 2004). These requirements may create a situation known as the 'two standards' system of financial reporting in which financial information prepared for tax purposes does not meet investors' needs for information produced according to IFRS. Furthermore, the emphasis on taxation in financial statements may increase the political and transitional costs of adoption (Shima & Yang, 2012).

Countries with low demand for information through published financial reports tend to employ accounting practices that generate accounting data with low value relevance (Ali & Hwang, 2000). Ownership structure plays a significant role in determining financial reporting and disclosure needs. Nobes (1998) argued that outsiders and insiders financing determine these needs. Outsider information needs are crucial for financial disclosure when a country has widely dispersed ownership and high levels of debt financing, placing heavy demands on firms for detailed financial disclosures. Insiders, on the other hand, have timely access to information within the company. This suggests that ownership structure influences the demand for extensive disclosure in financial statements.

Adopting IFRS alone is not enough; effective compliance monitored and enforced by efficient institutions plays a major role in improving accounting quality as a result of IFRS adoption (Samaha & Khlif, 2016). These effects depend on strong political will and the presence of necessary infrastructure, as Hegarty et al. (2004) pointed out that a 'full and balanced combination of capacity and institutional incentives' is the key to successful implementation. However, a lack of political will can make the IFRS adoption process difficult and may even lead to failure in some cases (Callao et al., 2007).

Similarly, familiarity with or the complexity of accounting standards significantly affects the judgments of professional accountants (Chand et al., 2010). Underdeveloped accounting professions and a lack of necessary training and experience hinder consistent interpretations and applications of IFRS (Hellmann et al., 2010). These studies suggest the need for training and human resource development to familiarize professional accountants with IFRS. Additionally, the cost of training and expenses related to updating the accounting information system can be impediments to IFRS implementation (Boumediene et al., 2016).

Numerous studies have explored the contextual factors affecting the adoption of IFRS at the country level. For example, studies in four South Pacific countries have identified the nature of business ownership, the financial system, culture, and the experience and level of accounting education of professional accountants as the main factors causing differences in the comparability of financial statements (Chand et al., 2008). In Tunisia, contextual issues such as the strong presence of SMEs, differences in tax and accounting systems, conservative leadership attitudes, and high ownership concentration have been identified as obstacles to the adoption of IFRS (Boumediene et al., 2016). Similarly, a study in Japan suggested that maintaining institutional complementarity between financial reporting and other infrastructures would be problematic when requiring the adoption of IFRS (Tsunogaya et al., 2015). In Bangladesh, contextual issues such as the development of a legal and regulatory framework, awareness campaigns, and personnel training are essential for the successful adoption of IFRS (Hossain et al., 2015). Thus, pre-IFRS accounting differences (contextual factors) may continue to influence the transition to IFRS, as suggested by Nobes (2006). Evidence indicates that companies not only have the opportunity to continue pre-IFRS practices rooted in their national GAAP but also extensively use this opportunity, resulting in different versions of IFRS practices (Kvaal & Nobes, 2010). This suggests that the tendency to preserve national practices may be one reason limiting the consistent application and interpretation of IFRS across countries.

Most of the above studies on IFRS adoption have primarily focused on EU countries and other emerging economies. However, this does not warrant generalizing the findings in these countries to other nations, as Joshi et al. (2016) argued. In the face of numerous challenges, a step-by-step and country-specific examination of the issues is the best approach for a smooth transition to IFRS. Despite numerous studies on IFRS adoption in various countries, not a single study has been conducted on Bhutan on this issue. Consequently, there is very little information available on IFRS in Bhutan.

RESEARCH DESIGN AND METHOD

Theoretical Framework

This study employs the 'accounting ecology' framework developed by Gernon and Wallace (1995) to provide a systematic and holistic analysis of the Bhutanese accounting environment. They defined 'accounting ecology' as a multidimensional system in which no one factor occupies a predominant position, and in which the perceptions held by actors on unfolding accounting phenomena, as well as the accounting phenomena themselves, are the objects of study and analysis (pp. 59). This framework enables researchers to examine the complete context in which accounting operates in different countries. The 'accounting ecology,' according to Gernon & Wallace (1995, pp. 59-74), encompasses five distinct but interacting dimensions as follows:

Societal Environment: This dimension refers to cultural and non-cultural elements (demographic and structural) within a society and trends that may affect the demand for financial accounting services. It includes cultural variables such as language, religion, belief systems, and shared values; demographic variables such as population size, land area, and geographical location; and structural variables such as the level of technology, economic development, and political and legal factors.

Organizational environment: This dimension refers to events and trends relevant to the rationalization of the choice and design of accounting systems and the demand for accounting services. It encompasses organizational size, technology, complexity, and human and capital resources.

Professional environment: This dimension refers to events and trends that determine the roles and relationships in the accounting profession, including education, training, registration, disciplinary actions, and professional ethics and culture.

Individual environment: This dimension pertains to the overall context in which individuals, such as reporting enterprises, professionals, and other members of society, influence standard setters and use accounting information to pursue their respective interests. It includes disclosure and measurement requirements and practices, types, and frequency of accounting reports, and the accounting infrastructure.
Accounting Environment: This dimension encompasses accounting practices, rules, and trends that affect or are affected by the other dimensions of the environment. It includes disclosure and measurement requirements and practices, as well as the types and frequency of accounting reports.

Numerous studies have demonstrated the superiority and appropriateness of Gernon and Wallace (1995)'s 'accounting ecology' framework in providing detailed insights into the accounting environment in various countries, as has been validated in Indonesia by Perera and Baydoun (2007), Germany by Hellman et al. (2010), Nepal by Poudel et al. (2010), Japan by Tsunogaya et al. (2012 and 2015), and China by Mao (2016).

Data Collection and Analysis

Data were collected from various sources, including face-to-face interviews, a review of academic literature, and publicly available documents such as press releases, discussion papers, newspaper articles, accounting-related laws in Bhutan, and reports from relevant agencies. The sample size was limited to 15 individuals due to the limited number of people in Bhutan with in-depth knowledge and understanding of IFRS and international accounting issues. The 15 individuals interviewed include board members of AASBB, auditors, standard setters, regulators, accounting academicians, and financial statement preparers. Interviewees were identified using publicly available sources, such as reports and websites. These individuals were selected for their expertise and experience in accounting in Bhutan, with some actively involved in the formulation of BAS. Semi-structured interviews were conducted in English following an interview guide, which served as a checklist to ensure that all relevant issues were covered. The interviews ranged from 25 minutes to 1 hour in duration and were digitally recorded with permission from the interviewees. The recorded interviews were later transcribed for analysis.

Interview data were analysed through transcription and interpreted based on the 'accounting ecology' framework. A thorough reading of all transcripts led to the identification of themes, which were then grouped together. These identified themes were subsequently linked to the individual accounting environment for interpretation. To maintain the anonymity of all interviewees, they were numbered as Interviewee 1, Interviewee 2, and so on. Data from other sources, such as literature reviews and publicly available documents, were analysed and interpreted using the same framework.

FINDING: ASPECTS OF BHUTANESE ACCOUNTING ENVIRONMENT

Societal Environment

Bhutan shares an open border with India, which serves as Bhutan's trade routes and gateway to the rest of the world. Bhutan is thus largely dependent on India for its economic security. India wields substantial political and economic influence in Bhutan, including in the realm of accounting education and reporting practices, owing to its sheer size, comparative economic might, and historical and cultural relevance in South Asia (Anderson, 2015). Bhutan's policy of self-isolation until the 1960s had a profound impact on the development of human resources in the country (Choden, 2004). Since the 1960s, Bhutan has relied on expatriates, particularly from India, to meet its requirements for skilled and semi-skilled labor. Additionally, Bhutan depends on India for most of its external auditing needs (AASBB, 2012).

Studies have indicated that culture influences accounting and disclosure practices and can impact the intercultural comparability of financial statements (Gray, 1988; Chand et al., 2008). IFRS is strongly influenced by Anglo-Saxon values and an environment characterized by small power distance and individualism (Perera and Baydoun, 2007). However, Bhutan is a country characterized by a large power distance and collectivist tendencies. Table 1 clearly illustrates the cultural differences between Bhutan and Anglo-American countries. Bhutan receives a very high score of 94 on the power distance dimension, indicating its hierarchical societal structure. In contrast, the individualism dimension ranks Bhutan with an intermediate score of 52, suggesting a lack of a strong preference for collectivist or individualist tendencies.

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Table 1

Rankings of Cultural Values of Power Distance and Individualism (Out of 103 Countries).

Country	Power distance	Individualism	Masculinity	Uncertainty Avoidance
Bhutan	94	52	32	28
US	40	91	62	46
UK	35	89	66	35
Australia	36	90	61	51
Canada	39	80	52	48

Notes: The data are from Country Comparison Tool by Hofstede 2023.

However, evidence suggests that Bhutan is a collectivist society. One of the core Bhutanese values is based on Tha Damtshing, which translates to 'sacred commitment to others.' These values emphasize "relationships with others" (Ministry of Education, 2009). Valliere (2014) has also pointed out that Bhutanese youth exhibit a more hierarchical and unequal culture, characterized by a collectivist goal and effort. In her study, Evans (2008) reported that relationships hold significant importance in Bhutan, with Bhutanese people focusing on peaceful conflict resolution between individuals and groups. Therefore, the evidence suggests that Bhutan is a society with a large power distance and a collectivist orientation.

A preference for independent professional judgment is typically associated with a loosely knit society that places emphasis on independence, values individual decisions and endeavors, as noted by Gray (1988). However, in Bhutan, which is a collectivist society, individuals prioritize collective efforts. This emphasis on collective effort may affect independent professional judgment, as individuals may fear that their actions could harm the collective effort and, consequently, the organizational goal (Interviewee 1). This finding aligns with the observations of Smith and Hume (2005), who reported that accountants in collectivistic societies are more likely to subordinate individual values for the benefit of their organization. Additionally, Gray (1988) suggested that professionalism is more likely to be accepted in a society with a small power distance, where equal rights are highly valued, and individuals feel less threatened, believing that the imposition of laws and codes needs justification. However, in Bhutan, which has high power distance, individuals tend to accept unequal rights and expect to be directed by their superiors. This may influence individuals' professional judgments and professionalism (Interviewee 4). Thus, based on the value orientation (cultural differences) of the Bhutanese people, it is likely that the principle-based BAS may not be consistently interpreted and applied in Bhutan as intended by the IASB.

Language is a significant element of culture in any country. Doupnik and Richter (2003) suggested that non-native English speakers might have less confidence in interpreting uncertainty terms expressed in English compared to their native language. Therefore, they argued that a good translation would lead to a better interpretation of IFRS than the application of the English version by non-native English speakers. This is because individuals are typically more confident in applying their native language and may be able to make finer and subtler distinctions and interpretations in their native language (Poudel et al., 2014). In contrast, there is no official translation of BAS into the local languages in Bhutan, and there is no legal requirement that financial statements of companies in Bhutan be prepared in English or the local language (IFRS Foundation, 2016). Thus, the lack of BAS translation into the local language may pose challenges for accountants in Bhutan, as it is easier and more reliable to express one's judgments in the local language.

Organizational Environment

IFRS is designed to meet the needs of systems in which high-quality audited financial statements can be relied upon by a wide range of external users for significant decision-making, such as investment decisions. In environments where such disclosure-based systems exist, the conditions for the successful implementation of IFRS are more favorable than in the absence of such environments, given the differences in incentives for concerned stakeholders (Hegarty et al., 2004). They also reported that when relatively concentrated blocks of ownership are in the hands of controlling shareholders, external disclosure is less relied upon because the controlling shareholders have alternative access to information. These types of environments can also be observed in Bhutan.

Table 2 provides the structure of the organizational environment in Bhutan by summarizing the different types of business organizations in Bhutan based on ownership and size. Online training gained momentum in Bhutanese civil service organizations, especially during the Covid-19 pandemic. In fact, the Ministry of Finance (MoF) directed all government agencies to shift their focus towards online training as part of the austerity measures initiated in 2022 (Pem, 2022). Subsequently, the Royal Civil Service Commission (RCSC), along with the ministries and agencies, started to invest in online training. However, some people are skeptical about its efficacy, considering it a comparatively newer mode of learning compared to other formal training. Therefore, this study was conducted to assess the effectiveness of online training in the Bhutanese civil service.

As of September 22, 2022, a total of 993 Bhutanese civil servants participated in online training. Using Yamane's formula, 285 civil servants from 18 Dzongkhags (districts) who participated in one or more online training sessions six months prior to the data collection took part in this study. The assessment was based on Kirkpatrick's four levels of training evaluation, which take into account the participants' initial reaction to the training, the extent of learning that occurred during the training period, the application of knowledge and skills to their jobs, and the results achieved as a result of the training. While the results showed that online training in civil service organizations proved effective at all levels, including the achievement of results, some participants (42.8 percent) raised concerns about the lack of reliable internet connectivity, with 54.3 percent stating that they had to spend their own money on internet connection. Some participants also raised issues during the application of their learning to their jobs, including poor receptivity of knowledge and skills in the organizations, inadequate equipment and facilities, inapplicable technology learned from online training, inadequate budget to apply the newly acquired knowledge and skills to their jobs, lack of support from supervisors/superiors, and inappropriate placement after availing the training. Therefore, it is important that these factors are taken into account to make online training more effective in the future.

Table 2

Types of Business Organization in Bhutan Based on Ownership and Size.

#	Types	Total (2015)	% of total firm
A	Size	27,290	100%
1	Large scale	387	1.4%
2	Medium scale	787	2.9%
3	Small and Cottage scale	26,116	95.7 %
B	Ownership	27,290	100%
1	Sole Proprietorship	26,161	96%
2	Partnership	300	1.1%
3	Company (includes SOEs and Listed companies in the local stock exchange)	765	2.7%
4	Others	64	<1%
C	Listed Companies	19	0.07%

Note: The data are from Bhutan at a glance 2023, by National Statistics Bureau, 2023.

Most Bhutanese firms (98.6%) are medium, small, and cottage industries (SMEs), which are privately owned by individuals and their families. However, most SMEs in Bhutan do not disclose their financial statements, and only half of the SMEs in Bhutan prepare audited financial statements (World Bank, 2009). The World Bank also reported that, as one might expect, the smaller the firm size, the less likely it is to prepare financial statements in Bhutan. Therefore, a switch to BAS is not likely to bring any benefits, such as a decrease in the cost of capital and easier access to the capital market, to these firms. Instead, it would impose high implementation costs, such as updating accounting systems and recruiting or training financial staff, and may lead to standards overload (AASBB, 2012). Furthermore, firms (SMEs) in Bhutan might be reluctant to adopt accounting practices that emphasize transparency and consistency. This is because ownership structure influences financial reporting quality, as controlling owners report accounting information to promote self-interest, causing the reported earnings to lose credibility, thus resulting in high information asymmetry (Fan & Wong, 2002).

Additionally, the ownership of Bhutanese companies tends to be highly concentrated in terms of the size of investment. For example, state-owned enterprises under the umbrella of Druk Holding and Investment Ltd had a net market capitalization of over BTN 90 billion in 2021 (DHI, 2022). So, a significant portion of the capital needed in Bhutan is met through government finance. Given the predominance of state funding and individual and family funds as sources of finance, the financing system in Bhutan fits Nobes' (1998) definition of a 'credit-insider' system where no pressure exists to publish detailed financial information, as they have access to information either through appointed board members and family members. One interviewee pointed out that the implementation of IFRS might be more of a technical compliance exercise for SMEs and SOEs than a mechanism to communicate performance and financial position for investment decision-making.

Ali and Hwang (2000) suggested that countries with underdeveloped capital markets tend to employ accounting practices that produce low-quality accounting data and information. Similarly, the capital market in Bhutan is underdeveloped, as the Royal Securities Exchange of Bhutan Ltd (RSEBL) is one of the world's smallest stock exchanges, with only 19 companies registered locally. Their total market capitalization as of June 2023 stands at BTN 57 billion, with trading worth BTN 1.92 billion during the year 2022 (RSEBL, 2023). The number of listed companies on the local stock exchange constitutes less than 0.07 percent of the total business organizations in Bhutan. Thus, the requirement of extensive disclosure of financial statements seems relevant only for those 19 listed companies in Bhutan, as desired by IFRS. As one interviewee mentioned, most business organizations use different sources of finance, like bank credit with high collateral, individual or family funding, and government finance, rather than investors injecting funds through equity.

Professional Environment

The modern form of accounting and auditing was introduced after 1960 when the Royal Government of Bhutan (RGOB) issued the first edition of the Financial Manual (FM) in 1963 to promote accountability of resources, effective evaluation, and reporting for appropriate decision-making (Sharma, 2014). Accounting and auditing in Bhutan were then based on the Financial Manual issued by the Royal Government, and the Royal Audit Authority (RAA) is responsible for auditing Government Departments, the Judiciary, Defense and Security services, SOEs, and any other institutions that involve public funds.

Additionally, the RAA is mandated by the Company Act of Bhutan 2016 to appoint or empanel external auditors for companies in Bhutan (Co. Act, 2016). Since there are no professional accounting bodies like Certified Public Accountant, Australia, and the Institute of Chartered Accountants of India (ICAI), the RAA is authorized to issue practicing certificates similar to a professional body of CA and CPA (Sharma, 2014). All companies registered under the Companies Act are mandated to be audited by a statutory auditor (Co. Act, 2016). In the process, RAA controls the quality of audits by participating in the exit meeting to ensure that auditors comply with the code of ethics and standing instructions (Sharma, 2014).

The accounting profession in Bhutan is relatively small and underdeveloped compared to Anglo-American countries where IFRS was developed. As of June 2023, there are less than 60 CPAs/CAs in Bhutan, who are members of different professional bodies around the world. Most of the CA/CPA individuals are not practicing auditors, as there are less than 10 accounting firms providing audit services (interviewee 6), but they are engaged by corporate and government agencies (Sharma, 2014). If Bhutan's population is assumed to be one million, the number of CAs or CPAs per one million people would be 82 CAs or CPAs (60 CAs or CPAs against Bhutan's population of 734,000 (NSB, 2023). In contrast, the number of CPAs per one million people in Japan and the USA in 2011 was 235 and 1,087, respectively (Tsunogaya et al. 2015). Thus, Japan and the USA have 3 times and 13 times more CPAs than Bhutan. Therefore, the accounting profession in Bhutan is small and underdeveloped, which has generally been one impediment factor in the consistent application and interpretation of IFRS in Bhutan.

Chand et al. (2008) suggested the importance and need to provide training to professional accountants, particularly in developing countries, for consistent interpretation and application of IFRS across all countries. However, in the absence of independent professional accounting bodies or organizations like AICPA or ICAI, Bhutan has no facility for professional accounting education (AASBB, 2015). Apart from preparing, issuing, and reviewing accounting standards in Bhutan, AASBB has been providing training related to accounting standards in Bhutan. But there is no regular system or mechanism to provide accountants with continuing professional development and training in Bhutan (AASBB, 2012).

With increasing demand for qualified accountants in both the private and public sectors, the gap between the demand and supply of qualified professional accountants has been widening (AASBB, 2015). Therefore, it is time for Bhutan to establish a professional accounting organization or institute similar to AICPA or ICAI to bridge the demand and supply gap for qualified professional accountants in Bhutan.

Individual Environment

Standards-setting bodies like the Financial Accounting Standards Board in the US, the Accounting Standards Board in the UK, and IASB are private sector organizations in common law countries. The accounting standards-setter in Bhutan is a public sector organization. The AASBB functions under the Ministry of Finance (MOF). The Public Finance Act 2007 has entrusted AASBB with the authority to prepare and issue accounting standards in Bhutan (AASBB, 2012). The AASBB decided that adopting IFRS issued by the IASB is the most appropriate and prudent option given the circumstances then (AASBB. 2012), and one respondent argues that the IFRS, being globally accepted accounting standards, would raise confidence among investors and attract increased FDI in different sectors (interviewee 4).

In the standard-setting process, AASBB has a mechanism to seek views from interested and affected groups regarding proposed accounting standards. The AASBB members represent various stakeholders, with major lobbying groups representing government organizations (like MOF, AASBB, Company Registrar Division, RAA, Central Bank) because these organizations are not only involved in preparing BAS (as members) but also enforce and regulate the compliance of BAS. Lobbying from the public or individuals is very rare because of three distinct reasons. First, the decision of AASBB represents the decision of MOF, so people accept the government's decision due to the large power distance in Bhutanese society. Second, the level of education among the Bhutanese population is relatively low, with a general literacy rate of 71.4 percent (NSB, 2023). Thirdly, IFRS is fairly new in Bhutan, and there are not many who understand IFRS (Interviewee. 11).

Furthermore, SMEs represent 98.6 percent of the business organizations in Bhutan. Although SMEs supported the promulgation of standards in the country, they seem to be less bothered about complying with the standards in a true sense. This is because entities requiring to use BAS for SMEs were less serious in implementing it for two distinct reasons: First, a switch to IFRS is not likely to bring any benefits, such as a decrease in the cost of capital and easier access to the global capital market, to these firms; and second, it would impose high implementation costs like updating accounting systems and recruiting or training financial staff. Thus, BAS may not be consistently applied and interpreted due to a lack of will and support from SMEs in Bhutan.

Accounting Environment

Various legislations and Acts have regulated corporate governance, including financial reporting, prudential requirements and compliance, listing requirements on the securities exchange, and the calculation of taxable income for various types of entities in Bhutan. AASBB (2012) has identified 9 legislations that influence financial reporting for different entities in Bhutan. Except for the Companies Act 2000, which was amended in 2016, none of the legislations or Acts have been rectified and brought in line with IFRS so far. So, in the event of a conflict between IFRS and any legislations or Act, the respective legislation or Act should prevail, resulting in companies preparing at least two different financial statements for different purposes (interviewee 5).

A balanced combination of capacity and institutionalized incentives for the rigorous application of international standards is key to successful implementation (Hegarty, 2004). Furthermore, IFRS is optimal only if compliance is monitored and enforced by efficient institutions through stringent regulation and the presence of actual liability for non-compliance (Samaha et al., 2016). However, Bhutan does not have such a balanced combination of capacity and efficient institutions for those purposes. The task of regulators of financial reporting in Bhutan is to regulate the financial reporting of companies and to deal with non-compliance with BAS (interviewee 9). These tasks are supposedly performed by two organizations in Bhutan: The Company Registrar and the RMA as the central bank. The RMA is entrusted to regulate financial institutions as empowered by the Financial Service Act, 2011, and the By-Laws of RMA, 2000. The Company Registrar is entrusted to regulate all companies in Bhutan as mandated by the Company Act of Bhutan, 2016. The penalty provision under the company law states that non-compliant companies can be imposed financial sanctions or fined up to BTN 1 million, and if the company repeatedly fails to comply, it can be imposed a daily fine of BTN 10,000 until full compliance (interviewee 5). However, not a single company has been penalized for non-compliance or for failing to meet the deadline for compliance with BAS. The lack of qualified accountants with in-depth knowledge of BAS within the regulators has hindered the task of monitoring and checking the level of compliance. Thus, monitoring and evaluating the level of compliance with BAS by the regulating authority are the most pressing issues and one of the biggest challenges in enforcing BAS for companies in Bhutan.

The use of fair value in Bhutan is being used for measuring financial instruments; however, it is very difficult to ascertain whether the computation is correct and in line with the requirements of IFRS (interview 6). The interviewee further pointed out that companies in Bhutan may not be using fair value accounting extensively due to a lack of proper understanding of the requirements and the models applicable to the Bhutanese context. Furthermore, an "active market" for assets and liabilities is very important for the extensive use of fair value measurement. However, the absence of an "active market" in Bhutan makes it very difficult to obtain or rely on market information, as the data are not readily available or are subject to time lag. As one interviewee pointed out: "The market in Bhutan doesn't qualify as an active market, thus, the rates are not reliable and, to an extent, not applicable" (interviewee 9). This has forced most companies in Bhutan to resort to using different models and methods to value their investments and reflect them in the financial statements. Thus, this actually defeats the very purpose of having accounting standards, which aims to make financial reporting reliable and comparable across companies. Furthermore, the absence of certified valuation firms in Bhutan has resulted in companies in Bhutan resorting to internally developed models for fair value measurement, incurring significant compliance costs in the absence of valuation firms in the country (AASBB, 2012). Therefore, the use of fair value as required by IFRS in Bhutan is challenging given the contextual issues prevailing in Bhutan.

CONCLUSION

This paper highlights some of the main features of the Bhutanese accounting environment using the 'accounting ecology' framework developed by Gernon and Wallace (1995) and outlines their effects on the IFRS adoption process in Bhutan, particularly how contextual factors affect the consistent application and interpretation of BAS in Bhutan. These contextual factors in Bhutan differ significantly from Anglo-American countries and include differences in culture, the dominance of SOEs and private or family-owned businesses, underdeveloped capital markets, lack of qualified accounting professionals, coexistence of accounting-related laws, and the absence of an active market for fair valuation (including professional valuation firms). Despite these distinct contextual factors, the AASBB under MOF took a bold step in mandating the IFRS adoption process in Bhutan in 2012 (IFRS Foundation, 2016).

The government of Bhutan is currently accelerating socio-economic development and recognizes Foreign Direct Investment (FDI) as one means to achieve it. The increasing number of companies and the opening of the Bhutanese economy to international investors have driven Bhutan to adopt BAS with the expectation of attracting Foreign Direct Investment (AASBB, 2015). This changing nature of the Bhutanese economy demands transparency, consistency, and comparability in corporate reporting, which can be achieved through the adoption of high-quality accounting standards. Thus, the AASBB under the MOF initiated the IFRS adoption process in 2012. The major lobbying group represents government organizations (like MOF, AASBB, Company Registrar Division, RAA, Central Bank) as they are involved in preparing and enforcing and regulating the compliance of BAS.

Significant cultural differences exist between Bhutan and Anglo-American countries where IFRS was developed. Bhutan is a high-power distance and collectivist society. Based on the value orientation of Bhutanese people, it is likely that the principle-based BAS may not be consistently interpreted and applied in Bhutan as IFRS advocates professionalism and exercising independent professional judgment.

The capital market in Bhutan is underdeveloped with only 19 listed companies, and the ownership structure is highly concentrated with SOEs and SMEs owned by individuals and their families. With the government, private, and families being the principal sources of finance, the need for extensive disclosure in Bhutan may be irrelevant as required by IFRS. For SMEs, the adoption of IFRS may not bring any benefit like increased access to international capital and reduced cost of capital; rather, it will be costly and may lead to standard overload (AASBB, 2012). Furthermore, financial statements and reporting practices in Bhutan are influenced by a number of accounting-related laws. These legal requirements have resulted in companies preparing at least two types of financial statements for different purposes, suggesting the need for the amendment of accounting-related laws for different types of organizations to bring uniformity with IFRS.

Findings of this study suggest that certain characteristics of the Bhutanese accounting environment may challenge the consistent application of BAS in Bhutan and hinder the comparability of financial statements across countries. The main problems include a lack of human resources (qualified accountants), the absence of professional accounting organizations/bodies, inconsistent training and accounting education, and the absence of an active market and appropriate mode for fair value measurement. Furthermore, the lack of human resources among regulators has resulted in difficulties in monitoring and assessing compliance with BAS.

In summary, the contextual differences between Bhutan and the countries where IFRSs have been developed are a concern for the smooth transition to the new accounting system in Bhutan. These contextual issues impede the consistent application and interpretation of IFRS in Bhutan. As reported in this paper, the adoption process of IFRS in Bhutan faces many challenges due to its contextual issues. This may raise serious concerns about whether accounting standards developed or designed based on the Anglo-American model for advanced industrialized countries could meet the financial reporting needs of developing countries like Bhutan. Therefore, it is suggested to consider the contextual issues prevailing in Bhutan before adopting policies or rules (e.g., accounting standards) designed for other countries.

This study has some limitations. The issues raised in the paper are based on the review of prior research articles, books, government documents, and interviews with relevant stakeholders. The study is qualitative in nature, making it difficult to examine the issues through quantitative tools. This paper does not deliberate on the post-IFRS implementation impact on the corporate financial reporting system in Bhutan, which future research could examine.

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