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FACTORS CAUSING DIFFERENCES IN THE FINANCIAL REPORTING PRACTICES IN SELECTED SOUTH PACIFIC COUNTRIES IN THE POST-CONVERGENCE PERIOD

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ABSTRACT

The international accounting literature pays much attention to the clustering of national accounting systems of various countries based on similar financial reporting characteristics. In this paper, we argue that the existing models that cluster countries are substantially incomplete and misleading due to the recent convergence efforts that have taken place. We identify the factors that may be causing differences in both the de jure *and* de facto *aspects of comparability in financial reporting across countries in the post-convergence period. Using four countries from the South Pacific region (Australia, New Zealand, Papua New Guinea and Fiji), we identify three dominant factors that still act as constraints in accounting convergence. These include: (1) the nature of business ownership and the financial system, (2) culture, and (3) the level of accounting education and the experience of professional accountants in each of the different countries. We argue that national and international regulators need to work towards reducing these remaining differences across countries to achieve the objectives of accounting convergence.*

Keywords: South Pacific region, accounting convergence, harmonisation, adoption, differences, explanatory factors

INTRODUCTION

The International Accounting Standards Board (IASB) develops International Financial Reporting Standards (IFRSs) with the objective of achieving comparable financial reporting across countries. Achieving comparability in financial reporting requires that IFRSs (1) be adopted by countries in a similar manner, and (2) be interpreted and applied in a consistent manner across various countries. The international accounting literature has defined these two aspects of comparability in financial reporting as *de jure* (consistency in form or rules) and *de facto* (consistency in actual application) accounting. In adopting IFRSs, if countries make drastic amendments to IFRSs or if professional accountants are not able to interpret and apply the standards in a consistent manner, then comparability in financial reporting cannot be achieved. Moreover, prior studies

have found that *de jure* consistency in accounting standards across countries will not necessarily result in *de facto* consistency (Schultz & Lopez, 2001; Rahman, Perera, & Ganesh, 2002).

The background presented above suggests an obvious question of whether the convergence of accounting standards will lead to comparable financial reports across countries. In particular, it is important to identify the nation-specific factors that may be acting as constraints in the post-convergence period. A country's financial reporting system is affected by the local environment and tends to reflect cultural, economic, professional and institutional pressures and influences (Hopwood, 2000, p. 763). Therefore, while the forces of globalisation and convergence are moving accounting practices towards the use of a unified regulatory framework for financial reporting, individual country contextual factors may still act as constraints to consistent implementation. While scholars have argued that adopting IFRSs will result in comparable financial reporting, this argument assumes that IFRSs will be both interpreted and applied consistently, and assumes that factors such as culture and environmental differences among the nations are easily overcome.

Hopwood (2000, p.764) suggests that "[at] the very time when there are enormous pressures for convergence of forms of financial accounting, our insights into the factors resulting in earlier differences in such practices are still poorly developed". With convergence, some factors that were previously regarded to be major factors contributing to these differences, such as the content of the accounting standards, have now been eliminated. However, other factors that contribute to differences between nations, including infrastructure, culture, legal requirements, socioeconomic and political systems, and individual differences among accountants, still remain. Therefore, a complete commonality and uniformity in standards and, by inference, in financial reports may not occur even after adopting IFRSs.

A number of studies attempt to classify national accounting systems based on fundamental financial reporting characteristics. Several models were developed to identify factors that may explain differences, and show areas of similarity between countries (Mueller, 1967; Nair & Frank, 1980; Nobes, 1983, 1998; Gray, 1988; Doupnik & Salter, 1995; Nobes & Parker, 2004). For example, studies such as Mueller (1968), Mueller, Gernon, & Meek (1994) and Nobes and Parker (2004) cluster nations that have similar patterns of accounting development based on "zones of influence" criteria.[1] This strand of research shows that the

[1] The American Accounting Association (1977) provided the following classification of five zones of influence British, Franco-Spanish-Portuguese, German-Dutch, United States and Communistic. A more recent classification by Mueller et al. (1994) identified four zones of influence British-American, Continental, South American and Mixed economy.

development of national accounting systems appears to be a function of environmental factors such as cultural, economic, educational and legal systems (Gray, 1988; Perera, 1989; Doupnik & Salter, 1995; Zarzeski, 1996; Jaggi & Low, 2000). Other research that focuses on applying a set of standards in a country shows factors such as the organisational culture and individual attributes of the accountants (such as the level of expertise, familiarity with the concept and complexity of the task) have an important impact on the application of the rules (see Libby & Luft, 1993; Bonner, 1994; Doupnik & Salter, 1995; Nobes, 1998).

Overall, previous research presents country-level differences in accounting practices either at the macro level (political, legal, colonial, cultural and economical factors) or the micro level (individual companies, industries and organisational culture), or relates the differences to the individual attributes of the accountants (experience, education, ability and motivation). Therefore, while there are a number of studies that assess international differences in financial reporting, these studies are limited in scope. There is lack of both theoretical and empirical research that collectively provides a more complete framework of factors that cause country-level differences in accounting practices. In addition, much of this research focuses on the now-outdated pre-convergence period, despite recent efforts towards convergence.

This paper makes both theoretical and practical contributions to the research that has identified country-level differences in accounting practices. The primary objective of this study is to identify nation-specific factors that continue to act as constraints in the post-convergence period. The paper does this by examining the process of convergence in four South Pacific countries (Australia, New Zealand, Papua New Guinea and Fiji). We consider which factors impacts both the *de jure* and *de facto* aspects of comparability in financial reporting. The results of this study suggest that comparability in financial reporting may be difficult to achieve across all countries even after adopting IFRSs.

The paper is structured as follows: first, we discuss the process of convergence and identify, from the literature, the environmental and individual factors that lead to differences in accounting practices. We then review the process of convergence in the South Pacific region and evaluate nation-specific factors that continue to act as constraints in the post-convergence period. Finally, we offer implications and conclusions for how national and international regulators can eliminate these remaining international differences in order to achieve the objectives of accounting convergence.

CONVERGENCE AND FACTORS CAUSING DIFFERENCES IN ACCOUNTING PRACTICES

There is an expectation within the international business community that accounting practices, which produce an important source of business information, should transcend national boundaries and converge (Carlson, 1997, p. 357). In the international accounting literature, this process has been simultaneously called "harmonisation" or "convergence", while they are not, in fact, the same process. Nobes (1995, p. 117) describes accounting harmonisation as "a process of increasing the compatibility of accounting practices by setting bounds to their degree of variation". Harmonisation is a process that involves the international coordination of different accounting standards and policies that are the basis for financial reporting.

The accounting profession has long recognised the need for a harmonised accountancy framework (Harding, 1999). The profession undertook this initiative when it created the International Accounting Standards Committee (IASC), which is now known as the International Accounting Standards Board (IASB). This body was established, together with the International Federation of Accountants (IFAC), to promote worldwide improvement and harmonisation of accounting and auditing standards. The key role of the IASC was to establish a uniform set of accounting standards for financial reporting, which was done by developing and promulgating the International Accounting Standards. IASC's 2001 name change to IASB was accompanied by changes in the organisation's objectives and structure – the focus has shifted from accounting harmonisation to accounting convergence. Convergence, according to Whittington (2005, p. 133), is defined as:

> Convergence means reducing international differences in accounting standards by selecting the best practice currently available, or, if none is available, by developing new standards in partnership with national standard setters. The convergence process applies to all national regimes and is intended to lead to the adoption of the best practice currently available.

Tay and Parker (1990) and van der Tas (1988) previously identified two different forms of harmonisation (or convergence) *de jure* and *de facto* accounting. Recall that *de jure* convergence represents consistency in accounting standards and *de facto* convergence represents consistency in actual application.[2] A number of studies assess the *de jure* aspect of convergence by comparing accounting standards across nations or to IFRS (e.g., Nair & Frank, 1980; Street & Gray, 1999;

[2] Accounting regulation harmonisation and accounting practice harmonisation are also denoted as formal harmonisation and material harmonisation, respectively, in the international accounting literature (Rahman et al., 2002).

Chamisa, 2000; Ampofo & Sellani, 2005). In general, these studies find increasing similarities between IFRS and accounting standards in both developed and developing nations over the last few decades. While the objective of the IASB is to provide quality standards suitable for worldwide use, the uniqueness of each nation's economic and social context has led most nations to set their own standards or adopt IFRSs with modification. To this end, research efforts to date continue to show a diversity of accounting applications and practice between different parts of the world (Radebaugh & Gray, 2002; Archambault & Archambault, 2003). These studies have shown that environmental factors (nature of business ownership and financial system, colonial inheritance and taxation), stage of economic development, legal systems and culture still affect the accounting practices that exist within clusters of countries (Nobes, 1983, 1998; Radebaugh & Gray, 2002; Rahman et al., 2002).

Economic systems, for example, influence how companies and investors relate to one another and provide structures that influence information disclosure. The accounting information that is disclosed is related to economic development, inflation, and the capital markets (Nobes, 1983, 1998; Archambault & Archambault, 2003). Similarly, the type of legal system may influence the financial reporting system and accounting practices (Salter & Doupnik, 1992). There are significant differences in the extent to which information is disclosed in common law countries as compared to code law countries. These differences reflect to the diversity of specific needs of individual corporations in a shareholder-oriented corporate governance environment (Doupnik & Salter, 1995; Ball, Kothari, & Robin, 2000; Jaggi & Low, 2000).

Culture, defined by Hofstede (1980) as the collective programming of the mind, is widely accepted as a major influence on national accounting practices. Gray (1988), after applying Hofstede's theory to the accounting subculture, suggested culture as a plausible cause of accounting differences between nations and regions. Research on cultural differences has also focused examining differences in the behaviour of professional accountants within and across nations (Soeters & Schreuder, 1988; Schultz & Lopez, 2001; Doupnik & Richter, 2003, 2004; Patel, 2003).

The challenge, which the IASB has to overcome in the convergence process, is to eliminate both the *de jure* and *de facto* differences in accounting practices between nations. The differences in international accounting practices are based not only on the specific environmental factors that have shaped them at the macro institutional level, but also those other micro level factors that are related to how the accounting standards are applied. This second aspect of harmonisation *(de facto)* has received less attention from accounting researchers. Few studies have examined harmonisation of accounting practices by comparing whether

different countries are able to interpret and apply accounting standards in a similar manner (Bagranoff, Houghton, & Hronsky, 1994; Schultz & Lopez, 2001; Doupnik & Richter, 2003, 2004; Doupnik & Riccio, 2006). For example, Bagranoff et al. (1994, p. 36) find that "uniform international accounting standards are not likely to result in *de facto* uniformity among nations, when the standards allow for significant discretion in application". Further, variability in meaning as a result of differences in culture or nationally-based expectations may cause divergence in applying standards. This divergence has important implications for the international communication of accounting information (Bagranoff et al., 1994, p. 36).

IFRSs contain many recognition and measurement alternatives. In addition, they incorporate broad principles, many of which are susceptible to varied interpretation (Doupnik & Richter, 2004, p. 15). In particular, there has been a deliberate move to favour '*principles-based*' standards, instead of '*rule-based*' standards (Abacus Editorial, 2004; The Institute of Chartered Accountants of Scotland, 2006). This change has magnified the importance of informed professional judgment and expertise for standards implementation (Doupnik & Richter, 2003, 2004). For accountants in countries that had been applying rules-based standards, this movement represents a fairly dramatic change in the way standards are now to be applied. It is therefore important, in examining the process of convergence, to assess how individual accountants are applying the new standards by exercising their professional judgment (Hronsky & Houghton, 2001; Doupnik & Richter, 2003, 2004; Psaros & Trotman, 2004).

Education, organisational culture and experience of accountants are particularly important to consider when examining professional judgment. Most studies in this area focus on auditor judgment and experience effects [Trotman, 1996 (monograph); Solomon & Trotman, 2003 (for reviews)]. The results imply that auditor training can enhance audit effectiveness. Another set of factors that may affect individual accountants include expertise, concept familiarity, task complexity, age and gender (Libby & Luft, 1993; Bonner, 1994; Doupnik & Salter, 1995; Nobes, 1998). A more complete set of general factors that could cause international differences in accounting practices is outlined below. These factors are based on a set of environmental factors at the macro and microlevels, as well as accountants' individual attributes.

The environmental factors are: the nature of business ownership and the financing system (Zysman, 1983); colonial inheritance (Briston, 1978; Radebaugh & Gray, 2002); invasions (Nobes, 1998); the taxation system (Radebaugh & Gray, 2002); inflation (Nobes, 1998; Nobes & Parker, 2004); the level of education (Juchau, 1978; Perera, 1989); age and size of the accounting profession (Chow, Harrison, McKinnon, & Wu, 2002); stage of economic

development (Radebaugh & Gray, 2002); legal systems (Doupnik & Salter, 1995); history, geography, language, influence of theory, political systems, social climate, and accidents (Nobes, 1998). The individual characteristics of accountants are: experience, knowledge and ability (Libby & Luft, 1993; Bonner, 1994; Trotman, 1996).

FACTORS ACTING AS CONSTRAINTS IN THE PROCESS OF CONVERGENCE

The South Pacific region provides a unique research opportunity to study the nation-specific factors that continue to act as constraints in the post-convergence period. The countries are unique given their varied backgrounds, levels of development, and differences in the approach used in achieving convergence. The four countries selected (Australia, New Zealand, Papua New Guinea and Fiji) are the only countries in the region that are members of the IASB. The two emerging economies (Papua New Guinea and Fiji) have adopted IFRSs since 2000 and 2002, respectively. The two developed countries (Australia and New Zealand) have also adopted IFRSs. Australia adopted IFRSs as its national standards on 1 January 2005 and New Zealand adopted IFRSs on 1 January 2007. Importantly, the selected countries have each adopted different approaches to meet their convergence objectives. These approaches range from adopting IFRSs in their entirety (Papua New Guinea), adopting IFRSs with modifications (Australia and New Zealand), and selective adoption of IFRSs (Fiji).

The factors identified in the previous section as potential causes of differences in financial reporting are examined to ascertain their effect on four South Pacific countries. The purpose of this analysis is to see which factors can be eliminated, and identify the factors that still cause differences in accounting practices between these countries even after the adoption of IFRSs. The first group of factors that may cause differences in financial reporting in these countries are broadly classified as environmental factors.

Environmental Factors

Research on environmental influences in accounting systems have identified the following factors as potential causes of international differences: nature of business ownership and financial system, colonial inheritance, invasions, taxation, inflation, level of education, age and size of accountancy profession, stage of economic development, legal systems, history, geography, language, influence of theory, political systems and social climate, religion and accidents (Nobes, 1998). It is argued that most of this list of environmental factors can either be eliminated from our analysis of these South Pacific countries in the

post-convergence period or subsumed by other explanatory variables. For example, differences in colonial influence can be eliminated as a factor because most of the accounting practices in these four countries are based on a common British–American model (Radebaugh & Gray, 2002, p. 40–41).

Prior researcher presents mixed findings on the extent to which differences in the taxation systems explain the differences in accounting systems (Doupnik & Salter, 1995; Nobes, 1998). Nobes (1998) suggests that the variable for taxation system is not needed in the analysis except when a country is included where the tax and accounting systems are closely linked. As the tax systems of Papua New Guinea and Fiji have closely followed the two leading countries in the region, Australia and New Zealand, and the tax systems prevailing in Australia and New Zealand are quite similar, this variable can be ignored for the purpose of this study. Similarly, there are mixed opinions on whether inflation influences accounting practices. Nobes (1983) did not include it as a key variable, although Nobes and Parker (1995, p. 19) suggest that without "reference to this factor, it would not be possible to explain accounting differences in countries severely affected by it". This factor can be ignored in this study because South Pacific countries have not experienced excessive inflation in the last ten years or so, including those years of political turmoil in Papua New Guinea and coups in Fiji.

The deficiencies in accounting education and training as a factor that influences accounting systems is fairly well-established, especially for developing countries (Juchau, 1978; Perera, 1989).[3] We argue that if the level of a country's accounting education and experience is low, then accountants in that country cannot be expected to exercise mature judgments, particularly on issues related to complex accounting standards. Governments of such countries need to introduce initiatives that establish acceptable levels of education and training to help improve the overall usefulness of accounting information (Perera, 1989). There is no doubt that there is a significant difference in the average level of education in the developing nations of the South Pacific region as compared to Australia and New Zealand. However, this variable is best discussed at the individual level (rather than at the country level). We do this because the level of each professional accountant's education and experience are important factors that can directly cause international differences in the application of accounting standards.

As multinational enterprises have established themselves in developing countries, multinational accounting and auditing firms have also established offices in the developing countries. These multinational accounting firms and expatriate professional accountants have been tasked with spreading an organisational

[3] Deficiencies in education and training are measured by the percentage of population with tertiary education (Doupnik & Salter, 1995).

culture and providing 'training grounds' for most of the local graduates. Only well-established accountancy bodies will, however, be able to establish their own set of generally accepted accounting practices or adapt/adopt IFRS standards to suit their own needs. All the four countries in the sample are members of the IASB and IFAC. However, there are significant differences in the role and influence of the professional accounting bodies on the accounting practices in the respective countries (Chand & Patel, 2008). Moreover, the type and number of accounting firms operating in these countries also differ.

Differences in the nature and extent of economic growth and development also have an influence on differing accounting practices across countries (Radebaugh & Gray, 2002). Nobes (1998, p. 173) suggests "it would seem plausible to argue that, if accounting systems were indigenously created in all countries, they would develop differently in developed and undeveloped economies." However, Nobes (1998) concedes that developing countries are likely to be using an accounting system invented elsewhere and therefore the stage of economic development is not likely to be a key issue. Furthermore, given that the major developed (Australia and New Zealand) countries and developing (Fiji and Papua New Guinea) countries have already adopted IFRSs, this variable can be eliminated as a possible cause of differences in accounting systems and practices.

The type of legal system is often argued to influence a country's regulatory system for accounting (David & Brierley, 1985; Doupnik & Salter, 1995). Legal systems can be classified into codified legal systems and common law systems (David & Brierley, 1985), and the use of this variable to group countries generally yields the same groupings as those from a financing system variable. Nobes (1998) argues that for colonised countries, both the legal and accounting systems are likely to have been imported from the coloniser, hence, the correlation between these two variables is not surprising. As the selected nations in this study are Commonwealth countries, we assume they use similar legal systems.

Other environmental factors such as history, geography, language and influence of theory, political systems, social climate and accidents are all too broadly conceptualised. For example, Nobes (1998) noted that 'history' in itself is too broad hence the more specific factors of colonial history and the history of the corporate financing system are more likely to be particularly relevant.

After eliminating or incorporating the above environmental variables into other variables, only the nature of business ownership and the financing system and culture remain as factors that influence financial reporting systems in these countries.

Nature of Business Ownership and Financing System

Countries are inclined to adopt a financial reporting system that is aligned with the prevailing financial system in the country. Zysman (1983) identified three types of financing systems that include: (i) capital market-based systems where prices are determined by the market; (ii) credit-based systems where resources are administered primarily by the government; and (iii) credit-based systems where commercial banks and other financial institutions are dominant. Zysman (1983) states that in all these systems companies rely considerably on their own profits for capital but their external sources of funds differ. In the capital market system, external long-term finance is necessary as securities are the main source of funds. These countries have large and developed stock markets that are coupled with a wide range of capital instruments and financial institutions. In contrast, credit-based systems have weak capital markets and companies are reliant on other institutions for credit.

Financial systems in Australia and New Zealand are based on capital markets whereas Fiji and Papua New Guinea rely on credit markets where banks and other financial institutions are dominant. In the latter countries, banks and other financial institutions hold a significant portion of equity in local enterprises. In these developing countries, equity financing is limited as only 16 companies are listed on the South Pacific Stock Exchange and 15 companies on the Port Moresby Stock Exchange. For example, in Fiji less than 4% of equity in companies listed on the South Pacific Stock Exchange is held by individuals not directly involved in running the enterprises (Patel, 2002, p. 46). Instead, a few large banks comprise the financial environment, and state funding, together with these financial institutions, satisfy most of business' capital needs. Thus, in these countries, the dominant user groups of financial information vary. These varying users, in order to meet their specific needs, continue to have an influence on financial accounting and reporting practices in the post-convergence period.

Culture (National and Organisational Culture)

National culture

The importance of culture is well recognised in the accounting literature. Harrison and McKinnon (1986), followed by Gray (1988), propose a methodological framework that incorporates culture when analysing changes in corporate financial reporting regulation at the national level. The review of cross-cultural research has shown that culture is an important environmental factor that influences a country's accounting system [Harrison & McKinnon, 1999 (for a review)] and a number of recent studies have shown that culture also influences

the judgments of professional accountants in various contexts (for example, Schultz & Lopez, 2001; Doupnik & Richter, 2003, 2004).

There is no doubt that huge cultural differences between the developed nations of Australia and New Zealand and the other South Pacific countries such as Papua New Guinea and Fiji continue to exist. Even though all the countries in the sample are UK colonies, cultural values in these nations differ. For example, though Australia and Fiji have common sets of financial reports and close geographical, colonial and professional (accounting) links, they have two very distinct cultures (McKinnon, 1986, p. 29). While Australia is a low uncertainty avoidance society (Hofstede, 1980), Fiji, in contrast, is a high uncertainty avoidance society where professional accountants are reluctant to exercise their professional judgment (Chand & White, 2006).

The South Pacific Island countries are strongly affected by external cultural influences, perhaps due to their small size, underdeveloped state or former colonial status. These culturally dominated countries use an accounting system based on that of another country even when this system appears to be inappropriate for their current commercial needs (Hove, 1986). Evidence shows that cross-cultural differences among professional accountants can affect the meaning associated with, and hence judgment in applying, accounting standards (Doupnik & Richter, 2003, p. 18). Consequently, the judgments of professional accountants in developed countries will be significantly different from those in developing countries despite the fact that each of them has similar accounting standards. Therefore, no matter to what extent countries converge with IFRSs, accounting standards may not be interpreted and applied in a consistent manner. As a consequence, financial reports across countries may not be comparable despite adoption of IFRSs.

Organisational culture

A vast majority of the professional accountants' judgment literature has examined the judgments of auditors from Big 4 accounting firms in various contexts. Big 4 judgments may not, however, be representative of the judgements of all professional accountants. This may be due to differences in organisational cultures between Big 4 and non–Big 4 accounting firms. If the judgments of Big 4 and non–Big 4 professional accountants differ significantly, this implies a challenge for accounting standards convergence.

The Big 4 multinational accounting firms contribute to global accounting convergence while also modelling how the convergence process works in large organisations (Cooper, Greenwood, Hinings, & Brown, 1998, p. 531). Evidence from a number of prior studies that have examined the differences in the

organisational cultures of accounting firms suggests that there are many similarities in the organisational cultures of big multinational accounting firms (Cushing & Loebbecke, 1986; Manson, McCartney, Sherer, & Wallace, 1998; Patel, 2003). Organisational culture symbolises shared values and beliefs that, in turn, influence individual judgment (Schein, 1985; Etzioni, 1988; Windsor, 2000; Patel, 2003). Within the Big 4 multinational accounting firms there has been a focus on the development of manuals and other resources that provide details related to the interpretation and application of accounting standards. This is done to ensure within-firm consensus and consistency (Cushing & Loebbecke, 1986; Manson et al., 1998; Lennox, 1999; Lin, Fraser, & Hatherly, 2003).

For the countries in the South Pacific, the head offices of the major international accounting firms are based in Australia. These head offices closely monitor and serve the needs of existing branches, including those in Papua New Guinea and Fiji. Therefore, for the international accounting firms, the organisational culture is quite homogeneous. This within-firm homogeneity, however, does not imply a within-nation homogeneity of accounting practices as each country is also served by local firms. While we expect that the Big 4 professional accountants may have the required training and resources to interpret and adequately apply IFRSs, non–Big 4 professional accountants may face difficulty in interpreting and applying IFRSs. Hence, there may be a disparity in terms of the service provided by the international accounting firms and that of the local firms. For example, the status of the professional accountancy body in Papua New Guinea is undermined by the lack of well-qualified practising accountants (Chand, 2005). Organisational culture appears to be, therefore, an important factor that affects how accounting standards are interpreted and applied in the post-convergence period.

Individual Accountant Characteristics

We now turn our attention to individual characteristics of professional accountants that may have an impact on how IFRSs are implemented and applied. Individual characteristics include the levels of education, experience, knowledge and ability (Libby & Luft, 1993; Bonner, 1994; Nobes, 1998). The level of education and experience are major factors in differences between individual accountants in the post-convergence period.

Level of Education and Experience of Accountants

Researchers in auditing and accounting have long been concerned about the effects of education and experience on professional accountant decision-making (for example, Libby & Luft, 1993; Bonner, 1994; Libby & Tan, 1994; Dezoort, 1998). The differences between expert (experienced auditors) and novice (inexperienced auditors) performances have been attributed to a combination of

education, training and experience effects (Bonner, 1994; Dezoort, 1998). In additional, studies that focus on education have shown that the meanings of accounting concepts held by inexperienced accountants are not identical to those held by more experienced accountants [Hronsky & Houghton, 2001 (for a review)]. It becomes evident that the level of professional expertise, both within the professional accountancy body and in the wider community, has a significant influence on the ability of the profession to meet an international standard. Professional expertise is also an essential element of the convergence process, which requires the strong support of the qualified accountants in the country.

Among these four countries in the South Pacific region, there is a marked difference in the education and experience levels of professional accountants. For example, with a small economy and limited number of professional accountants, Fiji had opted for a long transitional period for adopting IFRSs. A lengthy adoption period was required because the recent standards issued by the IASB are complex and requires more professional judgment as compared to the earlier standards. Research shows that professional accountants in Fiji do not have sufficient experience in exercising professional judgment as is required by the new standards (Chand & White, 2005, p. 12). In other words, we expect that professional accountants who are better trained and more exposed to IFRSs would be able to interpret and apply these standards in a more proficient manner than can accountants who lack the appropriate training and exposure. Overall, professional accountants in developing countries may not have relevant experience in exercising professional judgment, particularly in issues relating to complex accounting standards. The experience levels between the accountants differ to a significant level between the developed (Australia and New Zealand) and developing nations (Papua New Guinea and Fiji). Experience is another important factor that influences how accounting standards are interpreted and applied in the post-convergence period.

Overall, the previous analyses shows that three dominant factors (the nature of business ownership and the financial system, culture, and the level of accounting education and experience of professional accountants) in each of the different countries continue to act as constraints on the convergence process (see Table 1).

IMPLICATIONS AND CONCLUSIONS

Much of the international accounting literature attempts to cluster various countries based on similar financial reporting characteristics. We argue that the existing models that cluster countries are substantially incomplete and misleading due to the recent convergence efforts that have been undertaken. In this paper, we gathered a set of indirect environmental and individual factors from the literature

Table 1
Factors Causing Differences in Accounting Practices across Countries in the Pre-Convergence and Post-Convergence Period.

Pre-Convergence Period	Post-Convergence Period
Environmental factors	
Nature of business ownership	
Financing system	
Colonial inheritance	
Invasions	
Taxation system	
Inflation	
Level of education	
Age and size of the accounting profession	**Dominant factors**
Stage of economic development	Nature of business ownership & financial system
Legal systems	
Other factors	**Culture**
History	
Geography	Level of accounting education & experience of professional accountants
Language	
Influence of theory	
Political systems	
Social climate	
Accidents	
The individual characteristics of accountants	
Experience	
Knowledge	
Ability	

Source: Libby and Luft (1993), Bonner (1994), Nobes (1998)

that can be used to identify the differences in accounting practices among nations prior to convergence. Our analysis of these factors applied to four South Pacific countries (Australia, New Zealand, Papua New Guinea and Fiji) found that many of these factors can be ignored for the post-convergence period. As a result, we identify three dominant factors that continue to act as constraints on the convergence process, even after the adoption of IFRSs. These include: (1) the nature of business ownership and the financial system, (2) culture, and (3) the level of accounting education and experience of professional accountants in each of the different countries.

The study implies that these factors will affect generally accepted accounting practices and also contribute to differences in financial reports prepared by firms in various countries. Different levels of business ownership and financial systems constitute an environmental influence that reflects different stages of economic development. We expect this difference would shrink over time as capital markets gradually develop and economies grow. Culture is a major factor that indirectly influences accounting practices. Relevant studies in the accountant judgment literature show that culture impacts the judgments of professional accountants and financial reporting. Therefore, international regulators and the bodies vying for accounting convergence have to consider the relationship between the national and organisational cultures of a country adopting IFRSs and those formulating IFRSs. Furthermore, they should consider whether nations can modify their culture to be in line with their overseas counterparts.

Furthermore, the study shows that international differences in the levels of education and experience of professional accountants are also a significant factor in determining differences in accounting practices. This implies that assistance must be provided to train professional accountants, particularly in developing countries, so that accounting standards are interpreted and applied in a consistent manner across all countries.

This discussion raises a concern of whether convergence will ever lead to comparable financial reporting. The differences in the reporting environments inherently limit the extent to which international comparability of accounting information can be achieved through convergence of accounting standards alone. According to Ball, Robin and Wu (2003, p. 259) complete comparability of financial reports prepared using IFRSs would require a uniform set of international professional accountants, which in turn would require complete worldwide integration of economic, cultural and political systems.

Certainly there are many challenges for the IASB in attempting to transfer their accounting concepts to various countries, all of which have different business ownership and financing system, different cultures, different professional roles and differences in the level of education and experience of professional accountants. Nevertheless, we argue that the IASB and other regulators, both national and international, need to work towards reducing these differences and help facilitate the process of *de facto* not just *de jure* accounting convergence. Further research is needed to identify differences between other regions and countries in the post-convergence period, and to empirically test the interaction of the proposed factors. Until these differences across various jurisdictions are better understood and eliminated, effective convergence will just be a myth, rather than a reality.

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