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Measuring the Degree of International Harmonisation inSelected Accounting Practice: the Case of Tunisian Firms

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Abstract: *With increased pressure from businesses globalisation in financial reporting, international accounting harmonisation has become the objective of many accountants. Many states around the world have detected the significance of accounting harmonisation in their regional stock markets. Regardless of problems of accounting information reliability, emerging countries (such as Tunisia) have unpaid enough attention to accepting international standards. This study attempted to answer the following question: Has de facto harmonisation between Tunisia s financial reporting and International Financial Report Standards (IFRS) increased between 2005 and 2010? By using C index to measure de facto harmonisation, the result showed that overall compliance of accounting practise (de facto) has remained the same with 54% in both years.*
Keywords*: Defacto harmonization, International Financial Report Standards (IFRS), Tunisian Firms, C index.*

I. Introduction

In the last four decades, international accounting harmonisation has become the objective of many accountants in both academic and professional fields. From 1973 when the International Accounting Standards Committee (IASC) was constituted, the interest of international accounting harmonisation has increased and accountants began to study the reasons behind the differences among accounting practices. In fact, the need for a single set of financial reporting standards- which is deemed the approach to achieving international harmonisation of accounting - has become inevitable (Kanodia & Sapra 2016; Qu & Zhang 2010)**.**In some areas (such as European countries), the aim of reaching harmonisation is likely to be achieved since all corporations with shares listed on securities exchanges were forced (in 1/1/2005) to prepare their annual reports in accordance with international standards (IFRS) (de jure harmonisation is likely to be achieved in this area) as an attempt to reduce differences in financial reports prepared by enterprises (Baker & Barbu 2007; Wehrfritz & Haller 2014).

It is against this background, that harmonisation can facilitate the communication process between a company and its users. Providing accounting information (which can be compared by users) is the one aim of harmonisation's objectives that allows investors, creditors and other stakeholders (in both domestic and foreign decision makers) to obtain the same opportunity of the firm's investments and credit decisions (Beke 2010; Walton 1992) In the light of the above discussion, it is likely to be clear that harmonisation may play a major role (for both companies and their users) in enhancing global markets in both developed and developing countries. Nowadays harmonisation seems to be important. With increased pressure from the globalisation of businesses in financial reporting, stock exchange, and international transactions, accounting information (produced by local accounting system) is not likely to meet users' requirements. As a result of this pressure, harmonisation and the need for adapting domestic accounting systems to international society may have become important to offer appropriate information for economic decision makers (Bruno 2014; Street & Shaughnessy 1998; Zeghal & Mhedhbi 2006). The importance of accounting harmonisation derives from the credibility of accounting information. For instance, in 1992, an Australian company, News Corporation, reported its profit under Australian standards as A$502 million, while under USA standards it was reported as A$241 million (Schweikart et al. 1996). Some countries such as Australia and New Zealand have noticed the importance of accounting harmonisation in their regional financial markets. Therefore, these countries have taken some steps to harmonize their accounting standards (Rahman et al. 2002).With the same line, harmonization is important for developing countries for improving accounting information,Therefore, Tunisia (as others countries in this area) signed Agadir Agreement in 2004 as attempt to reduce differences with EU economies (Dennis 2006; Maur 2005).Based on the above discussion, the question, which this study addresses,is: has (de facto) harmonisation between Tunisia's financial reporting and International Financial Report Standards (IFRS) increased between 2005 and 2010?

II. Motivation of the Study

Over the last two decades or so years, many researchers have pointed out that harmonisation needs major efforts. It remains a valid observation that there is an interest in measuring the differences between countries is likely to be true (Walton 1992). Tay and Parker (1990) point out that, "evaluations of the work of the IASC and the E.C. in achieving greater comparability of financial statements produced by companies in different countries have been incomplete". Also, or it is recommended that harmonisation needs more effort (Rahman, A. et al. 2002). It is generally accepted that understanding variations in accounting practices in less developed countries can be essential for academics and professionals (Anandarajan & Hasan 2010), especially after the report of World Bank that debated that accounting information in these countries is an inappropriate for helping several users (Saravanamuthu 2004).Therefore, this study is important in helping to fill this gap.

III. Theoretical Resource

3.1 Harmonising Accounting Practices (De facto)

Around the world, accountants may use different methods to treat a similar accounting event. The flexibility of accountancy, by offering many alternative acceptable methods, sometimes leads to major differences in practices and results of these methods (Ding et al. 2007; Kollaritsch 1965). Expressed in a different way, it is noticed that differences in accounting practices among nations can be because of the differences in disclosure requirements and offering many alternative accounting options to treat the same accounting issue (Ashbaugh & Pincus 2001; Ding et al. 2007). For instance, there are many acceptable methods for valuating inventory such as: Cost (FIFO, LIFO or weighted average) (used by some Japanese companies); the lower of FIFO and net realisable value (used by general IFRS practice in the UK); the lower of LIFO and current replacement cost (used by common US practice). Adopting different methods can result in differences in accounting practices. All the variances together can significantly impact upon accounting information (Nobes & Parker 2010).These differences in accounting practice may appear between companies when the user (shareholders, creditors, auditing firms, taxation authorities, managements, and harmonising agencies) purposes of financial reporting of these companies are different (Nobes & Parker 2010; Nobes 1983).This brings some difficulties for those who (inside or outside the country) deal with published financial statements. In other words, the need for understanding financial reports of overseas firms may have become important for investors and financial analysts who might want to buy shares of these companies. Carmona and Trombetta (2010) suggested that, with the increasing pressure of the world economy and with having investments abroad, U.S accountants- who are forced to deal with different financial accounts prepared by subsidiaries in different countries when a lot of them have already adopted IAS/IFRS standards - should understand the accounting standards of these countries. Recognising the differences in practices and procedures between nations is probably important for both underdeveloped countries which may be helped by establishing modern accounting systems (Zeghal & Mhedhbi 2006), and developed countries that have many investors and financial analysts who wish to be able to understand financial statements from different nations (Nobes & Parker 2010).

From prior research, although achieving de jure harmonisation usually induces harmonisation of accounting practices, this type of harmonisation (Material harmonisation) may be not achieved by harmonising accounting standards (Chen & Cheng 2007). Harmonisation of accounting practices may be obtained without furthering formal harmony (Van der Tas 1992). For instance, material harmonisation can be achieved without harmonising accounting standards if companies apply the same accounting methods, which are chosen from many optional methods. When companies apply similar accounting methods, under the same conditions, the degree of comparability between financial reports will increase (van der Tas 1988). Arguably, from the discussion above, it is noticeable that recognising the differences between accounting practices is important to achieving de facto harmonisation.

International attention has been paid, and many studies have been conducted to discover differences in accounting practices. Early studies were started in 1970s. For example, Benston (1976) explored the differences between two systems of disclosure- the United States was based on public regulation (SEC), while the United Kingdom was based on private regulation (Stock Exchange) - and he recommended that the United States should be closed to the U.K system by decreasing the power of SEC. In the same year, by focusing upon two particular dimensions (the overall extent of financial disclosure and the degree of comprehensiveness of firms' financial statements) which are reflected in annual reports from seven countries (United States, United Kingdom, Japan, Sweden, Netherlands, Germany, and France), Barrett (1976) emphasized the broad belief which says there is a relationship between the degree of quality in accounting practices and the degree of efficiency of national securities markets.Street and Shaughnessy (1998) studied the extent of similarities and differences in accounting practices among the IASC and national standard setters in the Anglo-American countries (US, UK, Canada, and Australia), and revealed that there were many differences (in the early 1990s) between IASs and these countries regardless of consensus in very few areas such as funds flow statement and leases during the prior period.

With increasing economic pressures of international society, many researchers in Europe, have paid attention to this issue. Some focused on analysing and proposing methodologies to measure de facto harmonisation (See: Archer et al. 1995; Krisement 1997; McLeay et al. 1999; Rahman et al. 1996; Taplin 2004; Tay & Parker 1990; van der Tas 1988). Others were interested in measuring de facto harmonisation whether over time or at points of time. For measuring de facto harmonisation, results obtained from these studies were different. Although the majority have found that de facto harmonisation decreased over time or was low at points of time, few have found the contrary. For example, Barrett (1976) analysed annual reports of 103 firms for the years 1963 to 1972 of eight countries (United States, United Kingdom, Japan, Sweden, Netherlands, Germany, and France) and he found that although the general level of company disclosure improved in the 1963 to 1972 period, there is a wide variance between the general level of disclosure of American and British firms, on the one hand, and the companies from the other five countries. By focusing on some areas (such as depreciation, goodwill, stock valuation, extraordinary/exceptional items valuation bases for fixed assets) Emenyonu and Gray (1992) found a lack of de facto harmony between Germany; France and UK. Archer et al. (1996) pointed out that the process of de facto harmonisation between countries (Netherlands; Switzerland; Sweden; Ireland; Germany; France; and Belgium) from 1986-7 and 1990-1 was low. Decreasing harmonisation of goodwill between some European countries (Netherlands; UK; Luxembourg; Ireland; Germany; France; Denmark; Austria; Belgium; Finland; Spain; Switzerland; and Sweden) was found in another study (McLeay et al. 1999). Moreover, the results of (Gray et al. 2009; Mechelli 2009)studies supported this direction. On the other hand, Van der Tas (1992) studied the 1979-1988 annual reports from 154 firms in eight Europe states (Netherlands; UK; Luxembourg; Ireland; Greece; Germany; France; Denmark) by focusing on deferred taxation, similarly Canibano and Mora (2000) focusing on four accounting issues (deferred taxation, goodwill, leasing and foreign currency translation), provided evidence about the increase de facto harmonisation. Other studies have provided different results about specific issues. For instance, Herrmann and Thomas (1995) found high levels of harmony in some accounting issues (accounting for foreign currency translation of assets and liabilities; treatment of translation differences; and inventory valuation), and a low level of harmony about other issues (fixed asset valuation, depreciation, and goodwill). Archer et al. (1995) measured the processes of de facto harmonisation (deferred tax and goodwill) over time (a four-year period) between eight countries (Belgium, France, Germany, Ireland, the Netherlands, Sweden, Switzerland and the UK). His results indicated that harmonisation between countries improved from 14.94 to 21.63; whereas within-country comparability did not significantly increase over 1986/87. Apart from these results, it is obvious that much considerationhas been paid to this theme in Europe.

In recent years, some researchers havefocusedtheir effort to the issue in other parts of the world. In China, by analysing the 1999 and 2002 annual reports of 79 Chinese listed firms, Peng et al. (2008) found effective harmonisation between Chinese listed firms' accounting practices and IFRS. Lasmin (2011) measured the level of material harmonisation at a point of time in Indonesia, and he found that material harmonisation was high. In Africa, Trabelsi (2010) conducted a qualitative study by using a questionnaire to investigate this issue. He pointed out that accounting practices did not follow the international ones. In Europe, recently, Andreea and Alexandra-Carmen (2013) studied financial statements of 30 groups listed on three different stock exchanges some disclosure aspects regarding consolidated financial statements. The result revealed a high degree of material harmonization. It is important to notice that the dearth of research in this part of the world (especially in Africa). Thus, along with international society, the need for this type of research in developing countries is likely to be important.

3.2De facto harmonisation between North Africa’s financial reporting and IFRS

For around two decades, the surge of financial globalisation contributed to the move in capital flows among developed countries and more notably between developed and less developed nations (Prasad et al. 2007). Because of the globalisation phenomenon, the spread of IFRS can be noticed (Deaconu & Buiga 2011; Zeghal & Mhedhbi 2012). Regardless of national circumstances, the impact of globalisation (applying IFRS across the world) has become obvious (Cătălina et al. 2008). Hoping to improve comparability, transparency and quality of the financial information, many states around the world have used international accounting standards (IASs) as national standards (Brown & Tarca 2001). With the same line, the above discussion can lead to the following hypothesis:

"De facto harmonisation between North Africa’s financial reporting and IFRS has increased between 2005 and 2010"

IV. Research Method

4.1 Data

The study usages (annual reports) secondary data that was collected fromTunisian stock exchanges for the years 2005 and 2010, the latter symbolizes the most fresh year that data is available. 2005 was chosen as the starting point because by that year all European listed companies (companies from UK and France that were chosen for the comparison) are requested to adopt IFRS. The target population includes allfirms. Thestudy sample contains all listed companies whose data are available – table 1 (54 annual reports from firms listed in Tunisian markets and also 54 annual reports from companies listed in international exchange markets- London and Paris exchange markets)

Table 1 Distribution of Sample Companies on the Tunisian and European Stock Exchanges

2005				2010			
T	FO	**T**	FO	**T**	FO	**T**	FO
11	11	4	4	20	20	19	19
30				78			
T = **Tunisia** firms FO= Foreign firms							

4.2 Measuring de facto harmonisation

In the subject of measuring de facto harmonisation, different statistical methodologies have been used by many researchers to investigate formal harmonisation (Garrod & Sieringhaus 1995; Laínez Gadea et al. 1996; Nair & Frank 1981; Rahman et al. 1996). However, the majority of the empirical research has investigated de facto harmonisation at a point in time (Archer et al. 1996; McLeay et al. 1999; Van der Tas 1992; van der Tas 1988; Walton 1992). In this field, Indices and statistical models are two different methodologies for measuring the level of de facto harmonisation. Van der Tas(1988) and (1992) suggested an 'H' (Herfindahl) index to measure harmonisation at the national level, an 'I' index for measuring harmonisation at international level, and a 'C' index as comparability index. Tay & Parker (1990) pointed out that the main problem of using H index is coping with several reporting and additional information in the notes concerning the use of accounting alternative measurement methods. However, the 'C' index (developed by Van der Tas) is able to deal with multiple reporting and additional data (Canibano & Mora 2000). The 'C' index suggested by van der Tas (1988) measures the degree of comparability of annual reports. In other words, the index can provide to what extent can accounting information disclosed by companies be comparable. Archer et al. (1995) divided this index (C index) into a within-country 'C' index and between-country 'C' index. As a case study, Aisbitt (2001) measured the harmonisation in the Nordic region between 1981 and 1998, and examined the benefits of 'C' index. She suggests that qualitative study may be better than complex statistics. Taplin(2004) investigated previous used indices and suggested that choosing the appropriate way (for measuring harmonisation) based on four criteria: namely the weighting given to companies/countries, international focus - with country, between countries or overall, the treatment of multiple accounting methods, the treatment of non-disclosure.The concept of harmony and the purpose of the study should be considered to choose a suitable method. The objective of this study is not to investigate the level of harmonisation between countries (which a statistical model may be more appropriate for testing the level of harmonisation between the countries) (Canibano & Mora 2000), but the level of harmonisation between these types of companies. For that reason, from among the different ways for measuring the harmonisation, the 'C' index was used in this study. This index was used by many researchers in previous studies (Canibano & Mora 2000; Gray et al. 2009; Halbouni 2010; Lasmin 2011; Taplin 2003; Van der Tas 1992). 'C' index is supposed as appropriate method. For the same reason, the index was not broken down in the between-country 'C' index and the within-country 'C' index as others have done (Archer et al. 1995).

In addition, itshould be considered that there is a difference between accounting harmony (a state) and accounting harmonisation. Accounting harmony is the state of the compliance at a point of time, whereas harmonisation (as process) the change in the value of the compliance level over time or between two points of time (Archer et al. 1995; Canibano & Mora 2000). When considering both the desirability of international comparability of financial reports and the operational problems involved in measuring harmonisation as processes rather than states, the most appropriate concept for measurement appears to be de facto harmonisation, in the form of studying de facto harmony over time (Canibano & Mora 2000). Thereby, it is possible to measure the level of harmonisation by comparing the values of the indices longitudinally to quantify harmonisation as process (Aisbitt 2001; Canibano & Mora 2000).

Therefore, this study used C index to measure the harmony (as stage) at two points of time (2005, 2010). Then the study measured the harmonisation (as process) by comparing the values of the indices longitudinally to quantify harmonisation.The index was calculated in the following way (van der Tas 1988):

$$\mathbf{C\ index} = \frac{\sum_{j=1}^{l}(a_j^2 - a_j) - \sum_{j<k}\sum(a_{jk}^2 - a_{jk}) + \sum_{j<k<l}\sum(a_{jkl}^2 - a_{jkl}) - \cdots + (-1)^{i+1}\sum\ldots\sum(a_j^2 - a_{j\ldots})}{n^2 - \mathrm{n}}$$

Where a_j is the number of companies supplying information based on accounting method 'j'. Where a_{jkl} is the number of companies supplying information based on accounting methods 'j', 'k', and 'l' etcetera and 'j', 'k', and 'l' are parameters fluctuating between '1' and 'i'.
'n' = the total companies in the sample.

The value of the index would increase when companies select one or only a few numbers of accounting methods. Thus, the value of the index would be '1' when all the companies select the same accounting method (see, van der Tas 1988, p. 168 for more information). 'C' index was run for each firm pair for similarity in practices and also it was run for all in the sample company as a whole.

It is obviously not possible to compare every item of accounting issue, nor did it seem meaningful to use a very long list, such as the long list of the Price Waterhouse (1979) study.The list had to achieve the study objectives and to be reasonable and comprehensive. Therefore, for choosing the accounting issues, some criteria were created for including any accounting issue in this study. First, the method selected must considerably impact measures of net assets and/or profits. Secondly, information availability, the annual reports must be comparable to determine the accounting method choice selected. This criteria was used by Herrmann and Thomas (1995). It is also notable that these particular issues have largely been considered as among the most controversial accounting issues in terms of comparability. As a perfect example of this importance, the attention paid by some accounting bodies to these matters. IASC has revised the standards related to these issues, in some cases, several times.

1.2.1 Items Checklist

In this respect, annual reports from NA firms and international firms (54 annual reports from firms listed in Tunisian markets and also54 annual reports from companies listed in international exchange markets- London and Paris exchange markets) were collected. These financial reports were scrutinised and analysed with regard to seven accounting issues (Income tax; financial leases; goodwill; asset revaluation; depreciation; foreign currency translation and inventory). This is consistent with many similar previous studies (Archer et al. 1996; Canibano & Mora 2000; Emenyonu & Gray 1992; Herrmann & Thomas 1995; McLeay et al. 1999; Strouhal 2012; Van der Tas 1992). The data was used to calculate the value of the ‘C’ index. For each of the accounting issues, it was considered there were five alternatives (as shown in Appendix1).

Then, each Tunisian firm was compared with the same data of each foreign company by using the global industry classification standard (MSCI 2010) to determine suitable pairs. This process is consistent with Rahman et al. (2002) who used the Jaccard coefficient to measure accounting practice harmony. This technique (Jaccard coefficient) is commonly employed in the analyses of the similarity of data with binary patterns (Kosman & Leonard 2005)as Rahman et al. (2002)has done. In most cases, the Jaccard coefficient is inappropriate for requirements that have more than two options (such as the present study). For example, if a requirement has three choices, firms can select two different options and still have another option that can match (between companies) because both firms did not choose that option (both firms will get 0 for that option). However, the Jaccard coefficient will consider it as a match, which would give misleading results. The present study had more than two options (five for every accounting issue). Therefore, Rahman’s technique was inappropriate for this study. Since, the study aims to measure the degree of comparability; de facto harmonisation for every company was also measured by C index (see, van der Tas 1988). To improve the reliability of the comparison, the researcher determined that specific activities for each firm to be a good partner to particular one. For example, it was considered that banks in Tunisia were compared with banks in foreign sample, and insurance companies were compared with similar companies from foreign sample and so on. In fact, foreign sample companies are likely to be similar, because all of them are forced to adopt IFRS in preparing their financial reports. Thus, one can argue that each foreign company could be the partner to a local company and will not lead to any problem.

V. Results

Subjects on de facto harmonisation of Tunisia's financial reporting with IFRS are presented (as research hypothesis) in the following form:

"De facto harmonisation between Tunisia’s financial reporting and IFRS has increased between 2005 and 2010"

As described previously, the de facto harmonisation degree with IFRSs was measured by a C index. This index has been widely used in accounting literature (see for example, Canibano & Mora 2000; Halbouni 2010; Lasmin 2011; Taplin 2003; Van der Tas 1992). Unlike other indexes (such as H index) the C index (developed by Van der Tas) is able to deal with multiple reporting and additional data (Canibano & Mora 2000). Table 2 illustrates de facto level based on accounting methods for two years 2010-2005.

Table 2 De facto (by C index) According to accounting methods

Year	S-size	A = Income tax	B= Financial leases	C = Goodwill	D = asset revaluation	E = depreciation	F = Foreign currency translation	G = inventory	De facto
Panel A: Compliance level for 2005									
2005	15	0.41	0.57	0.30	0.76	0.70	0.31	0.70	0.54
Panel B: Compliance level for 2010									
2010	39	0.41	0.68	0.40	0.63	0.74	0.37	0.54	0.54

A review of Panels A and B of Table 2 report the compliance level (de facto) based on accounting methods for two years 2010-2005. These reveal that the level of compliance with IFRS exhibited by the table 2 in Tunisia has remained the same in two years (2005, 2010) with 54%.The reason behind this result is that the Tunisian stock exchange is not strongly flexible compared to markets in developed countries (Alnaas et al. 2013; Loukil et al. 2010). A review of table 2 reveals that the level of compliance increased for Financial leases, Goodwill, depreciation and Foreign currency translation whereas the compliance level decreases for asset revaluation and inventory. In addition, the table shows that Income tax has remained the same in two years (2005, 2010) with 41%.

VI. Conclusion

Theaim of this paperwasto measure the compliance process (between two points of time-2005-2010) of Tunisian accounting practices with IFRSs by firms in selected Tunisian stock exchange.The study outcomesrevealed that the level of de facto harmonisation has remained the same with 54% in both years.These results were contradicts the findings of some related prior research. With reference to overall de facto harmonisation, the de facto has remained the same in this study. Itwas different with the findings of Lasmin (2011) and Canibano and Mora (2000) who found the increase on the level of harmonization while considering some differences in the study methodology, whereasMechelli (2009) and McLeay et al. (1999) who found decreasing levels of de facto harmonisation.This study providessomeremarkable contributions to the existing literature. Firstly, this effort contributes to a rising body ofliterature on harmonisation by offering an evaluation of accounting harmonisation in developing countries thatseems to have not previously been examined. Despite providing some valuablefindings, some limitations of the study should be considered. This study measured de facto harmonization in two years (two points of time). However, to obtain betterresult, another study in future research may use all years to discover the direction of the harmonization.

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[60]. Appendix 1--Alternatives for Each Accounting Issue (Items Checklist)

A = Income tax	
A 1	Deferred tax is not recognised.
A 2	Temporary difference approach (balance sheet liability method): Temporary differences are differences between the carrying amount of an asset or liability recognized in the statements of financial position
A 3	Timing difference approach (the income statement liability method): A timing difference arises when an item of income or expense is recognized for tax purposes but not accounting purposes, or vice versa, and is therefore consistent with a profit and loss approach to deferred tax.
A 4	Applying the method of tax payable.
A 5	No recognition of deferred tax and it is not known whether or not deferred tax accounting is applicable
B = Financial leases – as lessee	
B **1**	Capitalization as intangible assets.
B **2**	Capitalization as tangible fixed assets
B **3**	Non-capitalization except there a reason to classify it as a finance lease such as The lessee has the option to purchase the asset at the end of the period.
B **4**	Capitalization as other assets
B **5**	The method used and whether it is applicable or not are not specified
C = Goodwill	
C 1	Goodwill Credited to income in the year of acquisition or Goodwill may not be amortised
C 2	Shown as an asset and at least annually reviewed for impairment.
C 3	Shown as an asset and amortized in more than five years
C 4	Shown as an asset and amortized in five years or less
C 5	The method used and whether it is applicable or not are not specified
D = revaluation of fixed assets	
D 1	Indexation= indices are applied to the cost value of the assets to arrive at the current cost of the assets
D 2	Current market price (CMP)= Comparison of assets to most similar types available for sale, new or used, can provide an estimate of value
D 3	the estimated future cash flows
D 4	Selective revaluation= can be defined as revaluation of specific assets within a class or all assets within a specific location.
D 5	The method used and whether it is applicable or not are not specified
E = depreciation	
E 1	Straight-line depreciation
E 2	Declining-balance method (or Reducing balance method)
E 3	Activity depreciation
E 4	Sum-of-years-digits method
E 5	The method used and whether it is applicable or not are not specified
F = Foreign currency translation	
F1	Exchange gains and losses as income/loss for the year
F 2	Differences are recognized in the year or as the capital reserve depending on their nature.
F 3	Exchange losses as period expenses and unrealized gains deferred or no recognition of unrealized gains
F 4	The exchange differences are taken to a component of equity
F 5	The method used and whether it is applicable or not are not specified
G = inventory	
G1	FIFO (First-in first-out method)
G 2	LIFO (Last-in first-out method)
G 3	Weighted average method
G 4	Moving Average Method
G 5	The method used and whether it is applicable or not are not specified