

Chapter 18

Institutional Convergence in European Union Member States: The Evolution of the International Accounting and Auditing Standards

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ABSTRACT

Economic globalization has affected accounting and auditing practices, as it has many other areas. Its impact on accounting has emerged in international accounting standards and independent auditing. There is pressure on the European Union countries to benefit from the New York segmentation of these standards. In parallel with these developments, IASB (International Accounting Standards Board) was established in 1973 to create a common accounting system for companies around the world, and internationally accepted accounting standards were established under the name of International Accounting Standards (IAS). To use these common accounting practices effectively, as of Jan. 1, 2005, publicly traded companies in the European Union have been obliged to apply the consolidated financial statements to the public in accordance with the International Financial Reporting Standards (IFRS) adopted by the European Union.

INTRODUCTION

When the process of globalization has increased quickly the mobility of capital of which is manufacture's factors, it has also increased the numbers of multinational companies. The developments have brought the need for common, comprehensible, clear, transparent and auditable financial information into the forefront. Many organizations and business processes have entered into an internationalization trend in line with this need. With the globalization of financial markets, the impact of credit rating agencies in the global financial system has also increased in time. However, crises such as the Asian Crisis, the

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Institutional Convergence in European Union Member States

Global Financial Crisis, the Eurozone Debt Crisis and the bankruptcy of companies such as Enron and WorldCom led to the inquisition of credit ratings (Bayar, 2015). Because of financial crisis and scandals adversely affecting the confidence in capital markets, new legal arrangements prepared and implemented in order to restore this confidence. The Sarbanes-Oxley Act is a law enacted as a result of this process. Accounting standards and auditing standards have also taken an important place to reestablish the trust environment in capital markets.

To the harmonization of International Accounting Standards and International Auditing Standards, many steps have been taken, and many countries and unions around the world either accepted as is the International Accounting Standards and the International Standards on Auditing or adapted the international standards to their national standards.

According to Regulation (EC) No 1606/2002 on the Implementation of International Accounting Standards in the European Union in 2002, the consolidated financial statements of the listed companies are required to be published in accordance with international financial reporting standards starting from 1.1.2005. However, in relation to this practice, some options have been introduced to the member states.

On the one hand, countries that had businesses all around the world on the other hand these studies initiated by the Accounting Standards Board (ISAB) as a result of the contradictions caused by different accounting practices in particular to ensure standardization in reporting supported by the European Union. The purpose of these studies is to provide consistency as well as comparability in financial reporting across the world, and to generate a worldwide common accounting language. This was introduced under the leadership of the International Accounting Standards Board. Standards were integrated into the national accounting system by many countries around the world. This integrated transaction has been traded on the stock exchange in 27 EU member states in place of International Financial Practices. The Group has prepared financial statements in accordance with IFRS. Besides, local accounting in many countries such as Asia, Australia, America and Africa have been integrated their standards into IFRS.

As a result of the European Union's approval of an accounting arrangement that requires all publicly traded companies to be subject to International Financial Reporting Standards (IFRS) in their 2005 financial statements, a new and complex period has started in all over the world, especially in Europe.

In this study, information about International Accounting Standards and International Auditing Standards will be given and the factors triggering the emergence of these standards will be mentioned. The process of integration of the European Union in the process of harmonization with these standards will be discussed.

INTERNATIONAL ACCOUNTING STANDARTS (IAS)

In the beginning, the International Accounting Standards Committee (IASC), which worked as a branch of the International Federation of Accountants (IFAC), became an independent organization at the General Assembly held in Edinburgh on 24 May 2000 with the participation of IFAC. According to the Charter approved in Edinburgh, the International Accounting Standards Board (IASB) established as the standard setting body of the new structure. As a result of this new restructuring, all publications and correspondence were decided to be made by IASB and thus from 2001 on, the IASB was responsible for developing and publishing standards and drafts and approving the comments of the Standard Interpretation Committee (IFRIC), replacing the IASC.

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