Challenges of adopting International Accounting Standards and International Financial Reporting Standards (IAS, IFRS), Algeria as an example, a literature review.

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ABSTRACT

Within the framework of accounting reforms, Algeria has substituted the national chart of account PCN with financial accounting system SCF, in the light of international accounting harmonization efforts carried out by the different international accounting organization and institutions that calls and promote for IAS,IFRS adoption, despite that this replacement was for the purpose to keep up with international accounting practices and bring accounting practices in Algeria closer to international references, Algeria however is considered to be a Non-IAS, IFRS adopter country, despite the accounting reforms introduced in this context.

Consequently the aim of this study is reviewing the litterateur in order to try to identify the various challenges that Algeria may faces if there will be a will to adopt IAS, IFRS.

Keywords: Accounting harmonization, International accounting standards, International financial reporting standards IAS IFRS, Financial Accounting System

المستخلص

قامت الجزائر في إطار الإصلاح المحاسبي بتغيير نظامها المحاسبي بالانتقال من المخطط المحاسبي الوطني إلى النظام المحاسبي المالي، في ظل جهود وأعمال التوافق المحاسبي الدولي المنتهج من قبل مختلف المنظمات والهيئات المحاسبية الدولية التي تنادي وتروج لتبني معايير المحاسبية الدولية ومعايير الإبلاغ المالي الدولية IAS,IFRS، بالرغم من أن الهدف من هذا الانتقال كان لغرض مواكبة الممارسات المحاسبية الدولية وتقريب الممارسة المحاسبية في الجزائر من المرجعية الدولية، إلا أن الجزائر لا تعتبر من الدول المتبنية لهذه المعايير بالرغم من الإصلاح المحاسبي الذي قامت به.

انطلاقا مما سبق تهدف هذه الدراسة إلى مراجعة الأدبيات المتعلقة بالموضوع لمحاولة التعرف على مختلف التحديات التي يمكن أن تواجهها الجزائر اذا ما أرادت تبني معايير المحاسبة الدولية IAS,IFRS.

الكلمات المفتاحية: التوافق المحاسبي، معايير المحاسبة الدولية ومعايير الإبلاغ المالي IAS,IFRS، النظام المحاسبي المالي.

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1-**Introduction:**

IAS, IFRS has gained a huge acceptance and prevalence around the world, due to the efforts carried out by several international accounting standards setters and other international accounting organizations to reach accounting harmony, and to meet the needs of different financial accounting information users around the world by providing comparable and transparent information that can be reliable in decision-making process in the light of globalization.

Algeria in its endeavors to carry on its economic reforms has paid a close attention to its accounting system, even though this quest has embodied in the substitution of national chart of accounting by the financial accounting system that was elaborated for the purpose to bring the accounting practices in Algeria closer to international accounting standards, yet Algeria is considered to be a non-IAS, IFRS adopter, consequently the question that can be raised in this regards is "**what are the challenges and obstacles that hampers Algeria from adopting IAS, IFRS?** " Thus the objective of this paper is to check the literature review to look at the challenges of adopting IAS,IFRS in Algeria.

2-**Accounting harmonization through IASs, IFRSs adoption:**

Over the last years business environment has became characterized by economic globalization, emergence of global financial markets, growth of multinational enterprises, and foreign direct investment, all these factors have affected accounting as a science and profession in so many different areas, notably the markedly disparity of accounting practices around the world, which in turns generated tremendous efforts by different accountancy organization and accounting standards setter bodies around the world towards reaching accounting harmonization, which is considered to be a " process of increasing the compatibility of accounting practices by setting bounds to their degree of variation"[1], this process is supported by the adage saying " accounting is the language of business, then business enterprises around the world cannot afford to be speaking in different languages to each other while exchanging and sharing financial results of their

International business activities and also reporting the results of business and trade to their international stakeholders"[2] therefore many studies are highly recommending to harmonize accounting practices around the world due to the need to speaking a common accounting language.

Accounting harmonization is so often confused with accounting standardization, and accounting convergence; even the three terms are used for the same meaning, each term is distinct though, while harmonization as I said earlier means the decrease of the degree of variation and differences of accounting practices to some extent, standardization means “the imposition of a rigid and narrow set of rules, and may even apply a single standard or rule to all situation”[3].

Accounting convergence in terns means “the process by which standard setters across the globe discuss accounting issues drawing on their combined experiences in order to arrive at the most appropriate solution” ,thus the key differences between harmonization and convergence, is that through harmonization areas of accounting practices disagreement are to be as minor as possible, while through convergence all the efforts are made to bring accounting practices around the world into the same set of international standards.

Among the first and most successful bodies involved in accounting harmonization has been the international accounting standards committee (IASC) established in 1973, and its successor since 2001 international accounting standards board (IASB), whose main mission is to develop a set of financial reporting standards that can bring transparency, accountability and efficiency to financial markets around the world ,and fostering trust, growth and long term financial stability in the global economy, according to this independent accounting standard setting body, countries would gain the following benefits from IAS IFRS adoption: [4]

- IFRS standards bring transparency by enhancing the international comparability and quality of financial information, enabling investors and other market participants to make informed economic decisions.
- IFRS standards strengthen accountability by reducing the information gap between the providers of capital and the people to whom they have entrusted their money, these standards provide information that is needed to hold management to account, as a source of globally comparable information, IFRS standards are also of vital importance to regulators around the world.
- IFRS Standards contribute to economic efficiency by helping investors to identify opportunities and risks across the world, thus improving capital allocation. For businesses, the use of a single, trusted accounting language lowers the cost of capital and reduces international reporting costs.

To gain the previous benefits 125[5] country around the world have adopted or required IFRSs standards for all or most domestic publicly accountable entities, but talking about the term adoption its self raises a very fundamental question which is “ what does adoption mean?”in another word “to what degree a given country is considered to have adopted international accounting standards”, a lack of precise meaning of the term adoption makes it difficult to measure progress towards international harmonization, or to even provide accurate statistics about IFRS adoption around the world, “ the world bank, in preparing the reports on the observance of standards and Codes, encountered diversity regarding the concept of adoption, it found that the adoption of IFRSs could be categorized as: -full adoption of IFRSs;- full adoption of IFRSs, but with time lag;- selective adoption of IFRSs , and national standards “based on “ IFRSs[6] .

(Christopher Nobes 2011) opined that the prevalence of IFRS is misleading, and hides an array of responses, due to the bewildering variety of methods of IFRS implementation, some which are:[7]

- Adopting the IFRS process: this is the purest form of IFRS implementation, where the regulations in a jurisdiction require companies to use IFRS as issued by the IASB, whether these may be at the time.
- Inserting IFRS (unchanged in substance) into law: this is another way of implementing IFRS. It might have been the country’s traditional way of imposing
- Domestic accounting standards, compared with method 1, this involve delays in making IFRS available to companies.
- Endorsing IFRS: this is the response of the EU. It involves detailed scrutiny of all IFRS output, standard by standard, amendment by amendment. In the case of the EU, many bodies are involved, and the process can take well over one year.
- Fully converging with IFRS: this method of implementation is used in Australia, the Australian accounting standard board take the IASB’s output and amends it in various ways: giving it and Australian number, making textual changes, banning early adoption, and deleting some option (between 2005 and 2007). The result is clearly not IFRS as issued by the IASB but it is still designed to lead to full compliance with IFRS.
- Adapting IFRS; A country can take IFRS as a starting point but then make various changes. China has done this. From 2007 onwards, the consolidated statements of Chinese listed companies must use a set of standards based on IFRS, Nonetheless there are several clear differences, Another approach is that of Venezuela, which adopted IFRS en bloc in 2004, but had not adopted all the subsequent changes to IFRS.
- Allowing IFRS: A country can permit companies to use IFRS instead of national GAAP, for example, Switzerland allows certain option for the preparation of consolidated statements by listed companies, one of which is IFRS as issued by the IASB.

3- Overview of IAS, IFRS adoption challenges:

Several researchers addressed the topic of challenges that countries face in adopting or complying their accounting systems with IAS, IFRS, (Obazee 2007) opined that “the principal factors affecting the implementation of IFRS in Europe, America and the rest of the world are cultural issues, mental models, legal impediments, educational needs and political influences in those countries rather than the most widely perceived technical issues[8], (Akintola Owolabi, Francis O.lyoha 2012),on their paper research about the benefits, prospects and challenges of adopting IFRS in Africa, found that the ethical environment is the most important challenge for the successful adoption of IFRS in Africa[9], (Raoudha Trabelsi 2016) concluded that “the Anglo-American culture attached to IFRS leads to a difficulty in adopting those standards by any country whose original counting system is continental[10], (Amged Abd El Razik 2014) on his study about challenges of IFRS adoption in the Islamic accounting world, case of middle eastern countries, summarized these challenges into three main challenges “first complying with the IFRS mean that the middle east countries are ready to abandon their particularities, replace their business reporting culture, lose the control process of standards setting, and use the one that is accepted by the IASB, the second challenge is the current unavailability of high qualified IFRS auditors and accounting staff in the middle east countries in the same level as in the western regions of the world, third, until now the IFRS are not providing to be workable with middle east countries context of national standards and that is why many standards have not yet been adopted in many countries”[11].

(Peter Wong, and senior IFAC staff members 2004) opined that potential challenges in adopting and implementing IFRS hovers around the following issues: [12]

- Issues of incentives: the various factors which might encourage or discourage national decision-makers from their adoption.
- Issues of regulation: regulatory challenges in their adoption.
- Issues of culture: challenges arising from cultural barriers in their adoption and implementation.
- Issues of scale: implementation barriers associated with the relative costs of compliance for small-and medium-sized entities and accounting firms.
- Issues of understandability: their complexity and structure.
- Issues of translation: the ease of their translation and the resources available to undertake the translation.
- Issues of education: the education and training of students and professional accountants in the international standards.

Relying on these studies in this paper research was for the purpose to highlight an overview of some common challenges that different some countries and region faces, and was by no means an exhaustive view, as there are many other disparities impediments pertaining IAS IFRS adoption process, practices, and technical issues.

4-<u>Algerian accounting system and IAS, IFRS :</u>

Several studies such as (Madani Benbelghit 2004), (Salah Hawas 2008), (Elarabi Hamza 2013),(Thaher Shaher Al-Qashi2014), (Sid Mohamed 2015), addressed the topic of accounting reforms introduced in Algeria the essence of which was Algeria quest to develop its accounting system to keep up with the international trends by the replacement of “national chart of accounts” with “financial accounting system” in 2010, which is inspired from IAS, IFRS and converges to a great extent with the French chart of account (PCG).

<u>4-1-Key differences between Algerian “financial accounting system and IAS, IFRS:</u>

Although the decision of the Algerian government to adopt new accounting system since 2010 was for the purpose to bring the accounting practices in Algeria closer to the international accounting standards (IAS,IFRS), IASB considers Algeria to be a non-IAS, IFRS adopter country.

According to Price water house coopers which is a a professional services networks whose mission is to carry out auditing, accountancy expertise, and consulting mission in France and French-speaking Africa (PWS), the major differences between Algerian financial accounting system and IFRS are as follows: [13]

- The stockholders are not defined as the main user of the financial information.
- The financial statements are standardized and have to follow a unique chart of account.
- The income statements do contain an extraordinary result.
- A lot of points are not treated in the Algerian system while the IFRS deals with more complete issues within the text.

(Elarabi Hamza2013) opined that “the Algerian accounting system is inspired from international accounting standards as they were, back to January 2005, however IAS, IFRS witnessed since then a dramatic changes and adjustments, which made the gap between them and the Algerian financial accounting system to become more wider as time goes on, thus all adjustments introduced to the international accounting standards since 2005 are not included in the Algerian financial accounting standards"[14].

Noteworthy that despite the differences between IAS, IFRS and the Algerian financial accounting system some similarities can be noticed a well, especially in terms of basic accounting concepts, principles and assumptions, measurement and evaluation rules, financial statements and disclosure methods.

4-2-Key challenges of adopting IAS,IFRS in Algeria

One of the main features of accounting reforms that Algerian government introduced for the purpose of harmonizing its accounting system with IAS, IFRES is the politic nature of the harmonization process, as the process and the function of preparing and issuing accounting standards and practices was and remains the ultimate task of finance ministry without involving professionals and taking their considerations into account, due to the financial and accounting information limited uses, and consider accounting as a tool merely used for determining the tax base.

(Elarabi Hamza 2013), opined that the Algerian economic, financial and statutory specificities and environment along with the characteristics of the Algerian educational and cultural environment are not compatible with a proper adoption of IAS, IFRS[15].

(Thaher Shaher Al-Qashi2014), concluded that the main challenges of IAS, IFRS adoption in Algeria were:[16]

- Velocity of international accounting standards adoption and compelling their implementation, without giving a suitable time for their adoption and paving the necessary infrastructure for legislative, educational, executive and economic institutions.
- The weakness of the financial departments in the Algerian enterprises which without retrofitting them, there would be no possibility of implementing IFRS.
- Resistance to change, since most enterprises have become adapted to the old accounting system.

(Sid Mohamed2015) argued that the main challenges that Algeria faced in implementing financial accounting system inspired from IAS,IFRS are:[17]

- Absence of efficient financial market in Algeria.

- Difficulty in determining the fair value of the tangible fixed assets due to the lack of information and the monopoly competition under which real estate sellers controls their market value.
- Absence of national economy information system that is characterized by credibility and inclusiveness.
- Slowness in developing accounting educational contents in universities and training centers.
- The lack of accounting benefits conscious and prevalence of the narrow view toward accounting as a mere of technique.

5- **Conclusion:**

In conclusion, Algeria is considered to be a non -IAS, IFRS adopter country despite the reforms launched for the purpose to keep up with the international trends through harmonizing its accounting practices to comply with international accounting standards, and international financial reporting standards (IAS), (IFRS), by reviewing the literature we conclude that if Algeria desires to carry on the accounting reforms introduced to explicitly adopt IAS,IFRS it should pay close attention and consider the main following challenges:

- The lack of the financial investment culture in Algeria along with the weak and non efficiency of Algerian stock exchange does not stimulate the provision and the demand for transparent and comparable financial accounting information; this in turn makes the uses of accounting information very limited.
- The monopoly of regulating and issuing accounting practices by the Algerian financial ministry without the involvement of professionals and accounting organizations, makes it difficult for professionals to accept and adapt with any changes in accounting practices as they do not participate and express their opinions about issues related to their main tasks and duties.
- The narrow viewpoints of accounting to a merely tool of bookkeeping and preparing financial statements by the economic enterprises for the purpose to meet the needs of tax authorities and other government bodies requirements, contradict strongly with the propose of preparing financial statements according to IAS, IFRS which focuses mainly on producing financial information that primarily assist and meet the need of stockholders and investors

- The dynamic and the ever changing nature of IAS,IFRS makes it difficult to Algeria to adjust its rigid-characterized financial accounting system every time IASB issues, adjusts, or cancels a given standard.

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