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# OBSTACLES OF ADOPTION AND IMPLEMENTION OF IFRS IN LIBYA

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**ABSTRACT**

This paper focused on the practical obstacles that will face the process of implementing of International Financial Reporting Standards (IFRS), with particular reference to Libya. Due to certain weakness of its accounting infrastructure, there is no doubt that adoption and implementing of IFRS in Libya is not an easy task as some might think. Therefore, although in implementing of IFRS Libya will gain many benefit including increasing the level of comparability and provide more reliable, accurate, transparence and valid financial accounting information. However, the process of implementing IFRS in Libya will face several obstacles including lack of technical skills and inadequate knowledge of Libyan professional accountants, the difficulty to develop its existing accounting systems, and a regulatory framework to cope with economic and social development, and recent evolution in accounting profession including international financial reporting standards application, inadequate education and training of accountants. This paper reveals that many necessary steps should be taken to overcome such obstacles which include strengthen professional accountancy body (LAAA) to improve the status of profession, revisions of curriculum for educating and training of professional accountants to enable accountants to gain exposure to international developments in the profession including IFRS application.

**JEL CLASSIFICATION & KEYWORDS**

■ M41 ■ IFRS ■ ADOPTION ■ IMPLEMENTING ■ PRACTICAL OBSTACLES ■ LIBYA

## INTRODUCTION

Traditionally, companies throughout the world have produced their financial statements according to the local Generally Accepted Accounting Practices (GAAP) prevailing in their country. This has inevitably led to a great deal of inconsistency in the way that companies in different countries report their financial performance. To bridge the gap between accounting standards among countries, the International Accounting Standards Committee (IASC) was established and its history begins since 1973. Since its establishment the IASC has actively been championing the uniformity and standardisation of accounting principles for over two decades (Carlson, 1997). The first creation of standards focused on creation of basic rules what caused criticism since they were unclear as far as they aimed to implement several different accounting practices used in various countries. During the IASC functioning there were created standards marked as International Accounting Standards (IAS), some of them were cancelled or unified with other ones. Many of them are still valid but amended.

In April 2001 (IASB) took over the setting of International Accounting Standards from the International Accounting Standards Committee (IASC). Thenceforth, the IASB updated the already existing International Accounting Standards and referred to them as International Financial Reporting Standards IFRS (Dhivya Rohini, 2011). It could be argued that, the most benefits associated with the adoption of uniform standards, are to eliminate barriers to cross border investing; to increase the reliability, transparency and comparability of financial reports; to increase market efficiency; and to decrease the cost of capital. However, the change from local accounting standards to IFRS is a hug task and imposes many obstacles. In many countries the gap between local accounting standards and IFRS is very big (Cope, A. and Clarke, C, 2003). In the light of this therefore, this paper focused on the obstacles of implementing the IFRS with particular case of Libya.

Specifically, the study explores the development of the accounting profession in Libya, the legal and regulatory framework of accounting, and obstacles that may face the implementing of IFRS. Finally, conclusions are drawn and recommendation made.

### Literature review

With increasing globalisation of the marketplace, which lead to grow importance of financial globalisation international, and the need to communicate financial accounting information over the world, investors need access to financial information based on harmonised set of accounting and procedures (Garrido, etal, 2002). Murphy (2000) argued that a single set of practices will provide a "level playing field" for all companies worldwide. In the light of this therefore, in recent years, the accounting profession has increasingly become aware of the need to issue a single set of accounting standards that would be valid in the international arena (Garrido, etal, 2002). Therefore, (IFRS) was established with principal objective of bringing businesses worldwide to follow globally acceptable common set of financial accounting reporting, and to formulate and publish in the public interest accounting standards to be observed in the presentation of financial statement, which can enhance the quality of financial reporting across the globe. This increased higher quality of financial information could result in reduces adverse selection in securities markets (Welker 1995; Lambert, Leuz, and Verrecchia 2007), reduces cost of capital (Botosan 1997; Hail and Leuz 2006), and improves the efficiency of information intermediaries (Lang and Lundholm 1996; Healy et al. 1999; Hope 2003).

Recently the question of the relevance of the IFRS to developing countries has aroused considerable interest notably among academic accountants. In an analysis of the IFRS implementation process in developing countries using Turkey as the analytical framework reported that, implementing IFRS had posed several difficulties in the adoption of IFRS. Such difficulties include the complex structure of the international standards, potential knowledge shortfall and other difficulties in the application and enforcement issues (Alp and Ustuntage, 2009). Similarly, it was argued that, accounting information produced

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according to developed countries accounting system is not relevant to the decision models of less developed countries (Perera, 1989). Other studies concluded that, the development of common single set of accounting standards provides other benefits that are not so relevant to developing countries (Irvine and Lucas, 2006).

On the other hand the adoption of IFRS by developing countries is helpful in preparing true and fair financial statements, which lead to easily comparisons of financial statements to the ones prepared within, or outside these countries; as a result the economic will increase by showing the true and fair position of the economy, foreign investments will be facilitated and the ability of raising capital from outside will be enhanced. Moreover, as many countries around the world already implemented and used of IFRS. Adopting and Implementing IFRS by developing countries will smooth the capital movements and expand investment opportunities. Furthermore, many developing countries (including Libya) do not have codified financial accounting standards. Therefore, adopting the international financial reporting standards will eliminate the cost of set up and creation of accounting standards.

## A historical review of accounting profession evolution in Libya

Libya as developing countries the accounting profession has played an important role over half century including, a resource allocation, monitoring social and economic development plans and the establishment of the product pricing system all depend on accounting information, rather than the mechanism of market forces. In most of the developing countries, accounting profession has been basically evolved in the line of primary mentor, colonial or influential developed countries. This is the particular case in Libya; during the period between 1911 and 1951 was the period of Italian and British occupation of Libya. The country witnessed the start of the evolution of accounting at some meaningful level (Kilani, 1988). At the time of independence in 1951, there was no domestic accounting profession and most of the business firms depended upon foreign accounting firms from Italy and the UK. Also, following the oil discovery many American companies began expanding their investments in Libya, and as a result of a lack of regulations or set rules for the accounting profession in Libya, these companies adopted and applied their own accounting systems, coupled with American Accepted Accounting Principles (Bait El-Mal et al, 1973). As a consequences of that, and the early discovery of oil in 1960s which provided the country with financial resources to significant growth of the economy, and due to the increase of accounting firms in quantity and capacity, and the spread of irregularities in the practice of accounting and auditing, there was an urgent need for issuing laws to administrate accountancy and related areas, and creation of professionally organised body to take responsibility of developing a common outline for accounting and auditing. Therefore, to meet the demands there were a number of laws issued and promulgated to regulate the accounting and auditing practice in Libya

## Legal and regulatory framework of accounting in Libya

### The 1953 Libyan commercial code

Since it was enacted on 28 November 1953, the Libyan Commercial Code (LCC) has been partially amended a number of times in order to meet the requirements and needs of the society. It covers different kinds of business enterprises that operate in Libya, including the rules on business enterprises' records and certain aspects of financial reporting and auditing. Provisions of the LCC provide the guidelines for some business transactions including: (a) the valuation of assets and liabilities; (b) the changing of invested capital; (c) the distribution of profits; and (d) the creation of legal reserves.

### The 1968 income tax law

Another piece of legislation is Libyan Income Tax Law, and it was issued in 1968. Previously (1923- 1968), Italian income tax law was used with a modification to suit the Libyan circumstances (Oreibi, 1969), and (Central Bank of Libya, 1971). This law was abolished in 1973 by Libyan Income Tax Law No. 64 of 1973, and in 2004 when the law no 11 was issued and applied and it had a major impact on accounting practice in Libya. For instance; (a) depreciation, specified method and rates for different types of assets are given; (b) establishment costs may be depreciated against revenues over three to five years using the straight-line method; (c) No distinction is made between operating income and extraordinary income (Kilani, 1988).

### Libyan petroleum law

Although it was issued in April 1955, the Petroleum Law No. 25 of 1955 remains the most comprehensive piece of legislation regulating the oil and gas industry in Libya. Since its promulgation, it has undergone several changes and amendments, the last of which was enacted in 1983. It was the first and only law to require consistency of principles over the years. It also specified the form and contents of oil companies' financial statements.

### Libyan accounting and auditors association (LAAA)

The Libyan Accountants and Auditors Association (LAAA) was established in June 1975 by the law no 116 in the 1973 Law. This was the first law to deal with accountancy and related areas. The LAAA not only undertakes the sole responsibility for the implementation of the legal statutes on behalf of the government but also manages every aspect of the accounting and auditing profession. It was established with the following objectives (a) establishing a retirement pension fund for its members; (b) organising and improving the conditions of the accounting profession and raising the standards of accountants and auditors professionally, academically, culturally and politically (c) increasing co-operation between its members and protecting their rights; (d) organising and participating in conferences and seminars related to profession, and (e) taking actions against members who violate the traditions and ethics of the profession.

## Obstacles facing the implementation of IFRS in Libya

Due to certain weakness of its accounting infrastructure, implementing IFRS in practice in Libya will face many obstacles as a consequence of implementing process. Therefore, these practical obstacles should be identified and address in order to ensure smooth implementation process to benefit fully from the application of IFRS. The obstacles are discussed as follows:

- **Lacks technical skills and inadequate knowledge of Libyan professional accountants**

  As admittance requirement to full membership of the Libyan Association of Accounting and Auditing (LAAA) does not require any study beyond a bachelor's degree but only practical experience, after becoming a member of the LAAA no continuation of professional training is required. As a result, firms normally do not conduct any training programmes for their accounting staff. In this respect many scholars have drawn attention to some impediments related to accounting education in the

Libyan context, the most impeding factors being the outdated curriculum and lack of appropriate learning materials leave students without a background in applicable modern accounting and auditing standards.More so, in practice lack of recourses imposed the capability of LAAA to monitor the quality of practical training provided by practical training providers. Also accounting lecturers lack the experience and adequate comprehension to teach either the theoretical or practical aspects of International Financial Reporting Standards. These obstacles put the capability of Libyan professional accountants for interpreting and applying the application of IFRS in a consistent manner into real question.

- **Inconsistency of existing laws and regulatory frameworks of accounting in Libya with recent development of accounting profession**

  In Libya, as in its several counterparts in the rest of the world, accounting practices are governed by the number of laws issued and promulgated to regulate the accounting practice. Despite all of them provide some detailed guidelines on how to prepare accounting records and preparation of financial statements; however, they don't specify what accounting principles should be followed, as consequences the processes of implementing IFRS will contradiction with existing laws and regulations. Also, it is obvious that the 1968 Income Tax Law, had affects, the accounting practice in Libya, through influence on the financial reporting rules and practices. According to Hung and Subramanyam (2007) IFRSs are independent of tax reporting considerations. As such presents an obstacle for implementing of IFRS in Libya. In the light of this therefore, to ensure a smooth implementation of IFRS, the existing legal and regulatory frameworks of accounting in Libya have to amend accordingly to reflect economic and social reality, and to by fully in conformity with recent development of accounting profession within and outside the country.

- **Weakness of professional accountancy body**

  While the Libyan Accountants and Auditors Association (LAAA) have existed not only undertakes the sole responsibility for the implementation of the legal statutes on behalf of the government, but also manages every aspect of the accounting and auditing profession, organising and improving the circumstances of the accounting and auditing profession. In practices the LAAA has inadequate ability to monitor and enforce accounting and auditing requirements. As a consequence, accounting practices have been left to accounting and auditing firms based on different accounting rules and standards. Due to this many accounting issues were not been considered, and the gap between practices and regulations is a wide. Furthermore, inability to improve the knowledge gap through following recent developments in the accounting and auditing profession.

## Conclusion

The paper aims at understanding, and explores the development of accounting profession in Libya and how accounting has evolved over the years. However, the main objective of the paper is to identify the obstacles that may face the implementation of IFRS in Libya. The paper highlight that there is no doubt that implementation of IFRS in Libya isn't an easy task and will impose many challenges. Based on this study to facilitate the process of adopting and implementing of IFRS in Libya the following steps may serve as useful inputs for adopting and implementing of IFRS and for accounting profession evolution in Libya.

1. Adequate professional education and training. The prescribed curriculum for educating and training of professional accountants should be revised to enable students to gain exposure to international developments in the profession including IFRS application, and the revision should fully follow the international requirements.
2. Strengthen Professional accountancy body (LAAA). Take necessary steps to strengthen ability of LAAA to monitor and enforce accounting and auditing requirements, improve LAAA s' main entry requirement to the profession to be in the line with international requirements, and LAAA should be empowered to improve the status of the profession and accordingly its members through following recent developments in the profession. Raising public awareness of professionals, including regulators, preparers, auditors and investors to which in turn will ensure that professionals comply with provisions provided by the existing laws, or be kept abreast with international developments in the profession.
3. Review consistency of existing laws and regulations framework of accounting. In order to bridge the gap between the accounting information needs within and outside the country, and the accounting information provided by the exiting accounting system in Libya. Therefore, existing laws and regulations framework should be amended accordingly, to reflect economic and social reality, and avoid contradiction with recent development in accounting profession.

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