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GRADUATE SCHOOL OF SOCIAL SCIENCES

MASTER THESIS

**MANAGING OF ACCOUNTING REFORM IN TRANSITIONAL
ECONOMIES**

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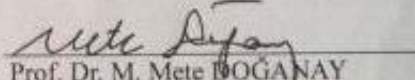
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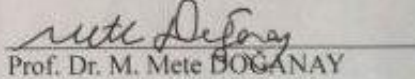
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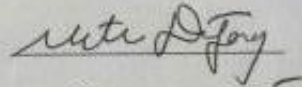

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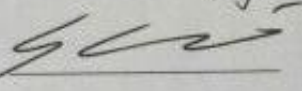
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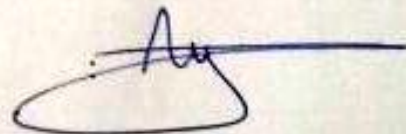


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Date

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ABSTRACT

MANAGING OF ACCOUNTING REFORM IN TRANSITIONAL ECONOMIES

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M.S. Department of Business Administration

Supervisor: Prof. Dr. M. Mete DOĞANAY

September 16, 119 Pages

This research study focused on the adoption process of International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS) with all its dimensions in the world wide, particularly in transition economies in order to unify the accounting language due to globalization. The study was based on the information obtained from literature survey and archival sources. The main part of this study focused on the development of accounting system in Iraq and factors that affects its transition to (IFRS), in course Iraq has shifted its economy from planned economy to a free market policy. The study employed several questions for interviewees in order to obtain the opinions of the adoption of (IFRS) relative to its impact on the development of accounting system and application of (IFRS) in Iraq. We concluded that the application of (IFRS)/ (IAS) in the world wide especially in the transition economies with particular reference to Iraqi economy, will face challenges including development of the legal and regulatory framework, individuals training and awareness campaign. Recommendations were made to decrease such challenges which include establishing an independent bodies to monitor and enforce (IFRS)/(IAS), strengthening education and training for accounting practices and increasing the knowledge of adoption of (IFRS)/(IAS) in the world wide particularly in Iraq.

Keywords: Accounting Reform, (IFRS)/(IAS), Transition Economies, Iraq, Iraqi Accounting System.

ÖZET

MANAGING OF ACCOUNTING REFORM IN TRANSITIONAL ECONOMIES

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Bu araştırma, küreselleşme ve ortaya çıkan çok uluslu şirketler nedeniyle muhasebe dilini birleştirmek amacıyla dünya çapındaki özellikle geçiş ekonomilerindeki Uluslararası Finansal Raporlama Standartları (IFRS) ve Uluslararası Muhasebe Standartları (IAS)'nın tüm boyutlarıyla birlikte kabul sürecine odaklanmıştır. Araştırma literature taraması ve arşiv kaynaklarından elde edilen bilgilere dayanmaktadır. Bu araştırmanın asıl bölümü Irak'taki muhasebe sisteminin gelişmesine ve söz konusu sistemin IFRS'ye geçişini etkileyen etmenlere odaklanmaktadır, Irak zaman içinde ekonomisini planlı ekonomiden serbest piyasa politikasına değiştirmiştir. Çalışma, Irak'ta muhasebe sisteminin geliştirilmesi ve IFRS'nin uygulaması üzerinde etkisine ilişkin olarak IFRS kabulüne dair görüşleri elde etmek amacıyla görüşme yapılan kimseler için bir takım sorular içermektedir. Dünya çapında özellikle Irak ekonomisini referans alan geçiş ekonomilerinde IFRS'nin uygulamasının yasal ve düzenleyici çerçevesinin geliştirilmesi, bireylerin eğitimi ve bilinçlenme kampanyası dahil olmak üzere zorluklarla karşılaşacağı sonucuna vardık. Bu tür zorlukları azaltmak amacıyla IFRS/IAS gözlemlemek ve uygulamak için bağımsız bir kurumun oluşturulması, muhasebe uygulamalarına yönelik eğitimlerin desteklenmesi ve dünya çapındaki özellikle Irak'ta ki IFRS/IAS'nin kabul edilmesine dair bilgilerin artırılmasını içeren öneriler yapılmıştır.

Anahtar sözcükler: Muhasebe Reformu, (IFRS)/(IAS), Geçiş Ekonomiler, Iraq, Irak'ın muhasebe sistemi

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LIST OF ABBREVIATIONS

AAB	Audit Advisory Board
AAC	African Accounting Council
AICPA	American Institute of Certified public Accountants
AOSSG	Asian Oceania Standards Setter Group
ARC	Accounting Regulation Committee
AS	Accounting Standards
ASCA	Arab Society of Certified Accountants
ASEAN	Association of Southeast Asian Nations
BC	Before Century
BSA	Board Supreme Audit
CAA	Central Auditing Agency
CAS	Chinese Accounting Standards
CUNCD	Conference of United Nations for Commerce and Development Commission
EAS	Egyptian Accounting Standards
EC	European Commission
EFA	European Federation of Accountants
EFRAG	European Financial Reporting Advisory Group
EU	European Union
FASB	Financial Accounting Standards Board
GAAP	Generally Accepted Accounting principles
GDP	Gross Domestic Product
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IASC	International Accounting Standards Committee
IBAAS	Iraqi Board of Accounting and Auditing
ICCAP	International Coordinating Committee of the Accounting Profession

ID	Iraqi Dinar
IFAC	International Federation of Accountants Committee
IFMIS	Iraqi Financial Management Information System
IFRS	International Financial Reporting Standards
IFRSIC	International Financial Reporting Standards Interpretations Committee
IMF	International Monetary Found
IOSCO	International Organization for Securities
ISA	International Standards of Audit
ISAR	International Standards of Accounting and Reporting
ISC	Iraqi Security Commission
NAS	National Accounting Standards
NYSE	New York Stock Exchange
OECD	Organization for Economic Corporation and Development
SAC	Standards Advisory Council
SEC	Securities and Exchange Commission
SIC	Standing Interpretations Committee
UAS	Unified Accounting System
UN	United Nations
USA	United States of America
USD	United States Dollar
VAT	Value Added Tax
WTO	World Trade Organization

GCPRIS

CHAPTER I

1. INTRODUCTION

Accounting applications, especially the adoption and application of international standards, have been characterized as undergoing radical and rapid changes at the beginning of the first decade of the twenty-first century. The most important aspect that distinguishes its the emergence of the international dimension as a result of the interaction of world economies.

The growth of global economic activities has made accounting, which is the primary means of communicating financial data; vary in its content and application. It affects two basics of accounting, which are measurement and presentation. That situation has led to the emergence of many attempts that aim to reduce the impact of differences in accounting systems on global financial activities, particularly in light of multiplicity and complexity of links between the international financial markets and commercial and financial activities. The main purpose of these attempts is to make both the preparation and presentation of financial statements and accounting information they contain easier and more understandable^[1].

Many organizations and bodies i.e. United Nations (UN) Organization for Economic Cooperation and Development (OECD) and European Union (EU) have focused on standardization and international accounting compatibility. The outcome of such attempts has successfully ended into a single result that is “***The adoption of international accounting standards***”. Despite all the arguments about these standards and the consequent tensions, it is the fact that these standards are the outcome of Anglo-Saxon accounting culture. The latter is a result of American domination and the vital role of multinational companies and international audit and accounting firms.

The adoption of the international accounting standards by European Union and the acceptance of these standards as basis for the measurement and presentation of financial information by the Capital Market Authority of the USA (Securities and Exchange Commission) have crucial role in disseminating the use of these standards at the international level, through accounting reform processes initiated by many countries which ranged from full adoptions and partial adoptions, which make the international accounting standards as a basis for accounting practices ^[2].

While Iraq has adopted the unified accounting system since 1953, this system has several shortcomings in fulfilling the needs of the users of financial and accounting information that include lenders, investors, and others. But in 2003, Iraq is one of those countries that adopted a reform policy for its accounting system, which aimed at adopting some new international accounting standards in order to comply with the requirements of the changes imposed by international financing and accounting environment and to keep up with the demands of international financial and accounting requirements ^[3].

1.2 Research Questions

There appear to be a few issues emerged in the adoption of international accounting standards. These issues are put forward as research questions:

- 1) What is the intellectual and organizational framework of international standards for accounting and financial statements? What are the reasons for growing international trend towards adoption and implementation of these standards? Does it lead to achieve international accounting unification?
- 2) What are the reasons and justifications for accounting reform in Iraq?
- 3) What is the nature of the unified accounting system in Iraq? What are the updates that have occurred? What is the scope of compatibility with international accounting standards?
- 4) How far ready the Iraqi economic environment is to implement the international financial reporting standards? And what are the necessary requirements for transition into international financial reporting standards?

1.3 The Significance of the Research:

This research derives its significance from the growing trend towards harmonization and accounting compatibility, which force all countries to integrate into the global economy via either adopting international accounting standards or adapting their accounting systems to the international accounting standards to ensure a common understanding and presentation of the financial statements.

1.4 Research Objectives

- 1) Review the models of the world's leading accounting strategies that underlie and address the importance of compatibility with international accounting standards (IAS).
- 2) Review the Iraqi unified accounting system, its underlying principles, and evaluate its shortcomings.
- 3) Explore the opinions of Iraqi accountants and whoever is interested in the Iraqi accounting system on a variety of issues related to accounting, particularly on accounting practice, accounting education and accounting reforms to be carried out.

1.5 Justification for the Choice of Subject

- 1) To expand the knowledge in the field of international accounting standards and an attempt to link academic work with the requirements of the practice.
- 2) The objective reasons of the topic of this research are considered to be one of the modern topics related to the recent economic arena and professions.

CHAPTER II

LITEERATURE REVIEW

2. The INTERNATIONAL ACCOUNTING ENVIRONMENT

2.1 The Accounting Uniformity

The origins of accounting today date back to 15th century (1494) when the double-entry bookkeeping was created by Italian Lucca Paccioli. Since then, accounting has witnessed continuous development, not only at the level of processing techniques, but also in the level of standardization, which involve issuing standards that ensure new accounting treatment of the events arising from economic activities as a result of new changes that has occurred throughout the world economy.

Accounting unification is a function that cannot be separated from the nature of the economic system. They are mainly based on giving the irregular character of the information, which this system needs. Accounting unification has become an essential requirement for convenient accounting with many and subsequent economic changes which, in turn, have a significant impact on the lives of the companies ^[4].

2.1.2 The concept of accounting unification

The word unification, in accounting literature, has been given different definitions i.e. is an intention to adopt similar accounting terms and common rules, to issue documents and financial statements that have identical content and delivery from one institution to another ^[4]. It also means similarity, compliance and regularity. The concept of monotheism is to "impose bases and accounting rules of a state to other states ^[5].

Uniformity considers a conditional case indicating regularity which includes a set of arrangements for recording transactions on the standards of economic unit and to prepare financial statements in a specific framework of principles, rules, conventions, definitions and content to serve certain goals. A unified system of regulation, therefore, means to direct all organizations in a country or group of countries to use the same rules or principles in accounting ^[6].

Thus, it looks so convenient to define the accounting unification as if it is one of the basic functions that characterizes the world of economy and business today. It may also mean applying a common language (accounting standards, terminology, rules, etc.) in order to facilitate the communication between different actors in the economic environment and those interested in accounting information.

2.1.3 Goals of the accounting unification

The development of economic relations within the institutions of different cultures and languages makes it necessary to share accounting and financial information.

Accounting is considered to be the core of business decision-making process, whether locally or internationally which presupposes the existence of a group of homogeneous rules related to preparation and presentation of financial data in order to make informed financial decisions.

The standardization, simplification, and discrimination of the objectives assigned to the accounting unification process could all be achieved through:

- 1) Unifying context (path) of the accounting which starts from evidence of proof (documents and recorded evidences) and ends with financial statements. It aims, at this stage, to increase the usefulness of accounting information, by conducting standards which achieves accuracy.
- 2) Unifying the final product of the accounting cycle, which are the financial statements that meet the needs of various users of accounting information because both the heterogeneity of this groups and the possibility of conflicts of interest necessitates the unification of these statements.

3). To meet the needs of the interested bodies, these standards govern the unity of this aspect, should not to be static, but flexible and interpretable from several aspects. Therefore, the adoption and application of new accounting standards should answer the specific needs of the users because it is the only way which ensures a better understanding and application of these standards ^[7].

2.1.4 Levels of accounting unification

The process of accounting unification will be carried out on the following levels ^[8]:

2.1.4.1 The principle level

The unification is limited at this level on the bases and principles of accounting and standards that are applied. It leads to examining the possible best improvements in light of economic developments. The modern contemporary social organizations, therefore, lead to reduction in number of alternative rules that could be available in the accounting data. Accounting unification at this level includes:

- 1) Standardize the definitions for each asset type, liability type, expenses with their various relevant components; as well as the definition of revenue recognition.
- 2) Standardize the basis and principles of measurement of the assets, liabilities, revenues and expense.
- 3). Standardize the basis, principles and rules for presenting cash flows.
- 4) Standardize the basis and principles of presenting the accounting data (including the disclosures).

2.1.4.2 The rule level

Standardize the rules, procedures and accounting methods which require the following:

- 1) To search rules, procedures and accounting methods which could be applied.
- 2) To select the best procedures and methods out of these rules which comply with the requirements of the objectivity principle.
- 3) To take caution when using alternative rules and principles.

2.1.4.3 The organizational level

Unification at this level includes unifying a whole accounting system and the basis built on from the bases principles, rules and procedures which extend to profiling accounting and financial statement results.

2.1.5 Models of accounting unification

Accounting unification has different forms and strategies as a result of the difference in the nature of economic orientations for countries. On the other hand, the nature and course of the unification process itself, as well as the objectives which have been entrusted to them.

It would be possible to distinguish, in this respect, between two eminent orientations resulted in two different models for the unification and those are: Anglo-Saxon and Francophone models.

2.1.5.1 Accounting unification in an Anglo-Saxon system

This model prevails in countries which have a market-oriented economic system with active markets i.e. the United States, Britain, Canada, etc. It is based on setting and developing the principles, accounting standards and procedures undertaken by accounting professionals and professional organizations, almost independent of intervention of laws and government. This could have not been achieved, unless the great efforts exerted by the professions, especially in the USA after the global economic crisis in 1929, which culminated via the creation of Securities and Exchange Commission (SEC) by hiring American Institute of Certified Public Accountants (AICPA) to issue accounting standards. It has succeeded through multiple committees to establish a set of accounting principles, which are termed as “the generally accepted accounting principles”. The latter was designed to control measurement and functions in the accounting to meet the needs of both Investors and lenders via providing them with appropriate and credible information. Also to help them make the right decisions particularly under the financial market's sensitivity toward accounting and financial information ^[9].

2.1.5.2 Accounting unification in a Francophone system

Contrary to the previous model, there exists a holistic role of the state to operate for unification and preparation of accounting standards in this model. It aims to provide necessary information for planning at all levels, as well as to link the micro-level to the macro-level accounting. It does also help to control the economic activities. Thus, it is mainly not addressed to serve the decision makers of capitalists, but mostly is designed to meet the needs and requirements of the government. This model is prevailed in countries with centralized economic system and not very active financial markets i.e. France, Germany etc. The French experience in accounting unification field, particularly, is referred to this model. The unification process based on the accounting schema, and accounting standards are prepared by official bodies in addition to representatives of the State. There are groups of other categories related to accounting such as professionals, representatives of institutions, researchers^[10].

The following table explains the difference between two systems:



Statement	Anglo-Saxon system	Francophone system
Examples of concerned countries	Countries that have very active capital markets are: USA, Canada, Australia, New Zealand	Countries which have tax tradition are: France, Germany, Africa, Japan
Orientation	Economic orientation evaluating the organization	Financial orientation regarding the organization
The target	Mainly to meet investor needs	Statistical, taxation
The source	Professional bodies	Governmental bodies
Accounting design	There is no evidence to maintain accounts but several texts & norms i.e. US GAAP	Accounting design imposed by law, rules to maintain accounts, guidance in form of analytical and financial data
Classification the burdens	According to its function	According to its nature
Financing sources	Financial market	Banks

TABLE 1: Differences between two models

2.1.5 Accounting unification strategies

Taking into account the great role in which the International Accounting Standards Board (IASB) now does play, four possible strategies could be proposed for accounting unification based on two following criteria:

- To the extent the governmental intervention and national professional bodies in preparing the standards applied in most of the countries up to the year 1980 exercised the uniformity in national framework under which foreign influence is weak. This situation has changed in the last quarter of twentieth century, particularly with the emergence of international organizations to standardize accounting led by International Accounting Standards Board.

-To the extent the usage of both International Accounting Standards (IAS) and national standards for the preparation of financial statements ^[11].

1) Strategy of authorization of unification to the International Accounting Standards Board (IASB)

In this case neither the governments nor the organizations will take part in unification process. That is because these bodies interfere in the international accounting strategy and international criteria in order to prepare financial reports for the companies in their jurisdictions. This is what happened in the European Union countries regarding the preparation of consolidated statements of companies listed in the exchanges. If this strategy is improved, it may lead to whole accounting unification worldwide ^[11].

2) Convergence Strategy towards international accounting strategies to prepare IAS/IFRS financial reports:

In such cases, the governments do participate in stating criteria for financial statements (IAS/IFRS). The governments and/or the professional organizations will dictate similar criteria to those of the International accounting standards and for financial statements which they work on. Such system is applied in some African countries (i.e. Tunisia and Algeria). Such a strategy could lead to achieve International accounting compatibility but may remain partial due to some specifics in each country ^[11].

3) Authorization strategy to other international organizations:

In some cases, the governments and organizations have no role to play or perhaps have a very small one that is to support and accept. As they authorize the mission of unification to the international unification organizations. This strategy reflects the economic and political goals as in the European Union countries. Such a strategy would achieve a sectarian compatibility ^[11].

4). Auto-unification strategy:

In this case, the governments and/or national professional organizations of each country do prepare their own strategy without referral to the IAS and IFRS. This strategy has been applied in both France and Germany and resulted in a variety of accounting models, i.e. Francophone and Anglo-Saxon models. This strategy has led to various accounting models particularly continental accounting model as well as Anglo-Saxon model ^[11].

2.2 International Accounting Compatibility

The growing international dimension of economic activities (as an essential means of communication) has revealed that the accounting has varied in several aspects i.e. contents and methods in their application from one country to another. Such variations reflect and meet the needs of the required environment which vary from state to state, influenced by a variety of environmental factors specific to each country ^[12].

In order to overcome all these differences, which have become an obstacle to the free flow of international investment and become a source of trouble for the movement of global capital, the idea of international harmonization of accounting has been initiated. The attempts of several local, regional and international organizations have been made to resolve some of these differences and worked to find the greatest possible consistency among the basis of preparation of financial statements which contain financial information. That is in order to obtain comparable financial statements involve major information capable of crossing national borders and be illegible, understandable and meet the needs of international investors. Such information would help to ensure the credibility and appropriateness of accounting information through achievement of a standard format for financial statements lends it a general acceptance formula ^[12].

2.2.1 Concept of accounting compatibility

Accounting compatibility means "an attempt to converge different accounting systems with each other". It is a process of blending and standardization of diverse accounting practices in an orderly and systematic structure to produce consistent

results. It does test and compare various accounting systems to observe and learn the convergence and differences followed by comparing those various systems with each other. The accounting compatibility can also be defined as an institutional path that aims to bring together standards and national accounting systems and thus facilitate the comparison of financial statements prepared by the institutions in different countries ^[13].

Accounting compatibility could also be considered as a path oriented to maximize the harmony of accounting applications, reducing the level of their variations contrary to uniformity which is a path imposes a strict set of rules. On the other hand accounting compatibility means especially for multinational companies, which must be able to remove the most important barriers of the international comparisons no matter how impossible the full comparison could be "an irreversible path".

In general, there is almost semi-agreement between researchers in that the accounting compatibility can be defined by the main objective assigned to achieve. In other words, it is to minimize the differences and discrepancies between the accounting procedures as much as possible to ease comparison between the financial statements over time (the company itself) and through the place (for different companies) ^[13].

2.2.2 Benefits of international accounting compatibility

There exist objective reasons for seeking consensus among the parties for an international accounting harmonization. This motivation may stem from the benefits that are expected to be realized by those parties from the consensus process.

2.2.2.1 Enterprises preparing the financial statements

- International Accounting compatibility provides the companies (especially international ones) the time, money and the effort to consolidate their financial statements, due to large number of adjustments that are necessary for the accounts of the subsidiaries, which is done for relevant companies which practice a set of accounting principles, which vary from state to state ^[7].

- They provide a success in the process of controlling and monitoring carried out by the companies and their various branches, and measure their performances based on the convergence which governs the conditions of management and credibility of data and reports for comparison ^[7].

- to ensure high demand for investments, it improves the decision-making process for investors who are looking to work outside the borders of their country by increasing the comparative information of the results of operations of companies in different countries ^[7].

2.2.2.2 Parties that use the financial statements

The main benefit of International Accounting compatibility will be realized by the financial information users since the comparability will enable them to compare financial statements presented by different companies all over the world. These comparisons will make it easier for them to make sound investment decisions. The latter in turn, will help to remove a major obstacle for the free flow of International capital. It seems logical to reduce the degree of differences in accounting practices as a solution to this problem. Comparable financial statements will encourage the free flow of capital at the lowest possible cost to the most efficient businesses ^[4].

Bankers and lenders will trust in the financial statements while the financial analysts will get credible financial information and the reliability of their inputs for the financial analysis will increase. The latter considered as one of most important tools for financial analysts being possible. They are based on more objective basis, and consequently, increases the degree of confidence in the outcome of financial analyzes. Therefore, in case of insufficient local resources, the international accounting compatibility will facilitate the necessary process to obtain funds for companies by giving the companies another chance to get the money from across the borders, either in the form of equity or loans. Since the capital owners at home and abroad rely on published financial information which are more appropriate and comparable for them, therefore, this latter would allow assessing the investment and lending opportunities appropriately, and make informed decisions ^[4].

2.2.2.3 Other parties

The objectives of accounting compatibility for this group would be achieved by a successful control and follow-up operations carried out by some regulatory or supervisory bodies/institutions i.e. the European Union, United Nations, World Bank, national or international financial market regulatory bodies. This would reduce the cost of regulatory bodies that require, in case of other additional burdens, mainly related to composition of the auditors and reviewing tools and programs. In addition to those resources of auditors who do not belong to a single culture to review branches, who raise the question of credibility of this work and its conformity with the objectives of auditors ^[14].

- The nature of the business of the companies, operating in international accounting and auditing field, in many countries, is to review accounts of multinational corporations as well as local companies which exist in different countries. They often face the problem generating from different accounting standards and practices among the countries. Therefore, they would be obliged to arrange special programs separately for individual states, as well as the rehabilitation and training of accountants on accounting systems in the world. As a result they incur costs such as effort and lots of money due to the nature and specificity of each accounting system, thus, the international accounting compatibility will facilitate the work of international accounting firms and make them save money. The latter would be reflected on companies being audited leading to expectedly lower audit costs ^[4].

The International Accounting compatibility would enhance the presence of high range accounting standards to the maximum level. In addition it would help in making it consistent with social, economic conditions and different laws. It would also contribute to raising the level of the accounting profession in worldwide, particularly those countries with weak accounting systems will be stimulated to take action to adopt and implement international accounting regulations. Plus, the International Accounting compatibility may contribute in raising the accounting profession level too ^[14].

2.2.3 Justifications of international accounting compatibility

The growing interest, in accordance and consistency, among the accounting standards on both regional and international levels emerged in response to a set of circumstances and motivations according to the following:

2.2.3.1 Financial globalization

Financial globalization is one of the phenomena of the economic globalization, which intends to free movement of the capital in whatever forms among countries worldwide without conditions or limitations ^[15]. The most important elements associated with it could be summarized as follows:

2.2.3.1.1 The evolution of the global financial markets

In recent times, the spread of financial markets has become one of the most prominent characteristics of the global economy, particularly in developed countries heavily and directly dependent in mobilizing the savings to meet the financing needs. It is expressed by each of the economic institutions including introducing both shares to obtain funds which would enable them to promote their investments and governmental bonds to cover the shortfall in their budgets. It was characterized with the following features.

The financial performance resulted from development of modern financial engineering and financial innovations (financial tools and derivatives) have the greatest impact on evolution of financial markets. The latter coincided with the liberalization of financial sector from all forms of restrictions and controls imposed on the freedom of moving the capital across international borders ^[16]. The revolution in communications, information, and digital technology have the key role and a great impact on the liberation of huge potential which helped to link the financial markets and its stakeholders. It has enabled them to communicate and exchange information represented, to a large extent, the outputs of accounting system at both companies and institutional standards and on both regional or within the country.

These information should become useful enough only when the comparison between them is based on the criteria and principles of measurement which may vary between the countries, sectors and companies, which may all cause both distorting the measurement and the comparison that results in misleading the decision makers ^[16].

In recognition of the importance of the accounting information in decision making to invest in stock market, the scientific societies and institutes that focus on disclosure standards and emphasized on what quantity and quality of information that could be available. The American Financial Accounting Standards Board (FASB) has identified in Bulletin 1^[17], the objectives of financial reporting as follows:

- Provide information to the existing and prospective investors, creditors and data users in determining and timing the degree of uncertainty of expected cash flows from interest or dividends flows resulting from the sale or import and maturity of financial investments and loans. Expected flows could be affected by the company's ability to create sufficient cash to meet obligations in dividends, interest and principles of loans to pay back when they are due. It could also be affected by the expectations of investors and creditors regarding the profitability potential of the companies which eventually is reflected in stock prices.
- Provide information of financial performance for the company. Although the investment and financing decisions reflect investors' expectations of company's future performance, however these expectations are mostly built on the previous performance evaluation ^[18].

2.2.3.1.2 Regulations of the Securities and Exchange Commission (SEC)

The US financial markets, as the most efficient, mature and largest one in terms of trading capacity, do impose, in addition to the general requirements in most global markets, on those companies wishing to enter the financial market in the USA New York Stock Exchange (NYSE) to prepare their consolidated financial statements in accordance with the Generally Accepted Accounting Principles in US (US-GAAP). In addition it supplies all the necessary information required which are not included in the financial statements and reports prepared according to national principles of the company to protect, particularly the interests of individuals and investors towards ensuring the right of investors to obtain the appropriate information from unquoted

companies. So as an example, it was imperative for the German company (Daimler Benz) before its merger with (Chrysler) due to inclusion of its shares in the U.S. financial market in 1993 to reprocessing its financial statements which (mainly prepared by German law) according to U.S. accounting principles (U.S. GAAP).

Operational approach which carried out by German company has a discrepancy between their annual accounts that prepared according to the two different accounting systems. Under German local accounting principles, in 1993 the company made a positive result was estimated at \$ 370 million, while resulted from the use of U.S. GAAP a negative result was estimated at \$ 1 billion. This difference is due to huge differences between the two accounting systems, (German and American) and the impact of different accounting systems at the international communication policy [19].

U.S. security exchanges has put conditions for foreign companies which were listed on (NYSE) in 1996 these conditions are as followed :

- Standards should include a set of comprehensive official accounting data and generally accepted accounting principles.
- Standards must be high quality and should lead to comparability, transparency and full disclose.
- Standards must be translated and used strictly.

2.2.3.2 Expansion of the international activities of multinational corporations

The power of the growing multinational corporations has expanded to cover large parts of the world either by establishment of branches in the regions and countries or by controlling subsidiaries. Moreover, international trade conducted by multinational companies has also accelerated. Therefore, financial markets have further developed and the volume of international trade driven by these international companies has increased considerably. On these grounds, these companies have exerted influential impact in developing the international accounting standards. In order to address these business and economic developments at international level and in order to make the necessary decisions at appropriate time, certain strategies in the field of accounting treatment of such activities have to be followed. However, the main problem arises at

this stage because the accounting practices of the country where the head office is located are different from those of the countries where the subsidiaries and branches are located. This would cause some difficulties in preparation of financial reports according to the local accounting standards of these countries. Hence, it becomes so necessary and urgent to find solutions for accounting problems at the international level, and thus move towards compliance with International accounting standards. Consequently, this would match the interest of international companies and facilitate their work ^[20].

2.2.4 Constrains of international accounting compatibility

While the compatibility in accounting standards is desirable at the international level, the achievement of this goal is not easy. There are many obstacles in the way that must be taken into account by all those seeking to provide such compatibility ^[21]. Generally the main determinants and constraints faced by the accounting compatibility are:

2.2.4.1 Nationality

Some may feel that the nationalism or national intolerance could stand as an obstacle by accepting nothing from abroad regardless how appropriate it might be. Hence, some may consider a regulation or standard that was devised abroad as an impose or compel to the state by some foreign practices i.e. from International Accounting standards This may be seen as an offensive and a breach of the sovereignty which could lead to some kind of nuisance to them. Thus, it may result in refusal or, at least, an uneasiness to respond or/and to accept ^[22]. This appears clear in some developing countries, where it is considered that the international accounting standards issued by the International Accounting Standards Committee are favoring the United States and Britain and are undermining their local needs. The standards may therefore be considered as an inappropriate and insufficient to meet those needs.

In other terms, even some developed countries may disgust from the idea of changing their local criteria, which cost them time and effort. The international accounting standards, in terms of suitability for local needs and their own requirements, may be of credence. However, the adoption of international standards,

rather than the local standards could be considered as an undermining of the level of locally applied systems ^[23].

2.2.4.2 Environmental differences and economic disparities between countries

Accounting, to a large extent, reflects the needs of environment in which it is applied, and the related objectives of any accounting system should meet the needs of that environment. It is known that accounting policies are formulated to a certain extent, to fulfill either economic or political objectives of that countries so that it will be compatible with their economic or political systems ^[24].

As far as there is little hope in getting a single international economic and political system, therefore; differences could always be expected and that the differences in political and economic systems will continue as an obstacle to international consensus for accounting ^[24].

The economic variations between the developing countries and developed countries make the type and format of financial information to be fundamentally different from each other. The latter would be reflected in nature of accounting systems that must be applied in each of them in order to meet these different needs. Thus, it could be concluded that the process of development of an international accounting system may not be able to meet the different needs ^[24].

Generally, the success in the process of the international compatibility, within such discrepancy between countries makes it necessary for a minimum agreement of financial disclosure and appropriate information of enterprise for users as well as for the required reports ^[24].

2.2.4.3 Different legal systems

In many countries, there is a direct intervention of governments in the nature of accounting profession. This intervention is accomplished by issuing accounting standards, legislation and laws, as the version of accounting standards based on formal legal systems ^[23]. Therefore, to achieve an international consensus in the financial reports, it would be necessary to make changes in local laws and regulations and that is why these standards are rejected by some governments. For example Scandinavian countries issue two sets of financial statements, i.e. one to

meet the needs of the local legal requirements and another is prepared to meet the needs of the international users. First set is prepared in accordance with the local rules and regulations. The second set is prepared in accordance with the international accounting standards ^[23].

2.2.4.4 Deficiencies in defining objectives of the financial statements and conflicting local laws

The differences in defining the concept and objectives of the financial statements are one of the reasons that led to the difference in accounting practices. Such difference is considered to be the most important problem that hinders compliance with International Accounting Standards. The International Accounting Standards Committee (IASC) believes that the main objective of these standards is to fulfill the needs of the investors, lenders and others outside the business. But these standards fail to serve the needs of the government related to taxation and other purposes. Unless there is agreement on common objectives of the financial statements, it is difficult to develop international accounting standards agreed and accepted by all parties that use these statements ^[25].

There is another problem that hinders the process of developing international accounting compatibility, which is the conflicting local laws i.e. corporate law and local tax laws. The requirements of the corporate laws in some countries hinder the development of an effective performance of new accounting standards. Some laws, for example, may prevent the use of certain accounting practices, while others stipulate the use of accounting practices that do not conform to the basic economic facts ^[25].

For example, in Germany, the laws prevent the use of the equity method in accounting for long-term investments while this method is widely used in many countries such as the United States and Canada. The good will is considered in the United States as a fixed, while in England, its value can be deducted directly from equity ^[26]. Also we find that the Swiss laws allow the use of special reserves that may change the economic realities. Tax laws in many countries may form an obstacle to the development of accounting standards because the tax collection

systems vary from country to country. All these constitute a barrier to achieving international accounting compatibility ^[26].

2.2.4.5 Professional accounting bodies

It is not possible to develop accounting profession at international standards in countries unless there is an effective professional accounting body which can exert influence on both private and/ or public sectors. The task of such an accounting body is to achieve international compatibility by addressing the existing problems in accounting in a specific country. Some countries, especially developing ones lack the existence of such bodies which prevents them moving towards international compatibility ^[27].

2.2.4.6 Absence of sanctions

There is no doubt that without the existence of an international law to support the international harmonization of accounting, any system that is exported to a country from abroad will face huge difficulties. The International Accounting Standards Committee (IASC), which is the strongest contributor in the process of international accounting compatibility lacks such legal force, and have no authority to force the members to adopt and implement the international accounting standards. Therefore, the existence of an international body that monitors the implementation of these standards and instructions will no doubt contribute to achieving consensus in international accounting ^[28]. This body must also have the authority to impose sanctions when there is a breach in application.

2.2.5 Efforts of international and regional compatibility

The process of preparation and review of the international accounting standards aims to a general acceptance and wide application of these standards. The coordination process, in itself, arises because of the differences and contrast that exists between the different national standards and work in order to achieve international accounting compatibility process. Therefore, a number of international organizations and committees are now interested in accounting and increase the level of disclosure on either global level and some on a regional level ^[28].

2.2.5.1 General international organizations

International organizations That deal with accounting compatibility are as follows:

2.2.5.1.1 United Nations

The concerns of the United Nations (UN) in accounting compatibility is reflected through the Working Group on multinational corporations, which introduced a committee in charge with studying the information for these sectors, companies upon the pressure from representatives of the developing countries. However, those recommendations issued by this committee have been neglected by the developed countries ^[29].

However the attention of the UN continued and a body was established for this purpose under the Conference of United Nations for Commerce and Development (CUNCD) which has two main tasks:

- 1- Offers technical assistance, especially to those developing countries that move toward a market economy.
- 2- Organizes annual symposiums on contemporary accounting problems.

The work of the Committee of International Standards of Accounting and Reporting (ISAR) is an important source of information for governments that find in this a rather technical base to help them make decisions in the field of accounting and for researchers in the field of international accounting and important businesses to adopt International Accounting Standards (IAS).

The symposium also issued a set of recommendations addressed to the multinational companies, because their seminar aimed to provide assistance to developing countries with regards the accounting problems by International Standards of Accounting and Reporting (ISAR) which seeks to achieve consensus where its role is limited to news and influence ^[30].

2.2.5.1.2 Organization for economic cooperation and development

Organization for Economic Cooperation and Development (OECD) is an international organization founded in 1960 by the governments of 24 industrial

countries, aims to achieve international compatibility policies in the economy, energy, and promote economic growth and development in the Member States. It provides an appropriate mechanism for consultation between Member States on general economic issues such as the balance of payments and exchange rates.

In 1985 the organization held a seminar on the approved accounting standards at international level, attended by representatives from European countries, the United Nations and the African Organization for Accounting. Representatives supported the idea of accounting compatibility. The Role of the International Accounting Standards Committee (IASC) as a catalyst for international accounting compatibility was emphasized at the symposium. the organization had issued in 1976 action guide for multinational corporations that includes the optional disclosure of financial information, and recently the organization has begun encouraging members to comply with accounting standards and prepare the financial statements accordingly [31].

2.2.5.2 Private international organizations

Private international organizations include the following:

2.2.5.2.1 International federation of accountants

Before the existence of the International Federation of Accountants Committee (IFAC) there were many international organizations which played a key role in the formation of this union at the beginning of 1904 when the first international conference held for accounting that aimed to increase the shared ideas and discussions among accountants in different countries, then the Tenth international conference held in 1972 in "Sydney," which was a success towards standardization at the global level. In this conference a committee was formed to coordinate the international accounting matters that are known as International Coordinating Committee of the Accounting Profession (ICCAP). The task of the Committee was to prepare studies related to the accounting profession, education and training, as well as the establishment of regional accounting organizations [31].

In 1977 International Coordinating Committee of the accounting profession was replaced by the International Federation of Accountants Committee (IFAC) ^[32] a global organization for the accounting profession. It has 173 members from 159 countries, representing more than two and a half million accountants worldwide. The Federation is working towards the development of the accounting profession and enhances its universal scope through the issuance of professional standards, and training competent accountants who can provide high quality services in a consistent manner. The union has close working relation with associate bodies and accounting organizations in various countries around the world. The Federation members include some accounting bodies in some Arab countries such as Bahrain, Egypt, Iraq, Lebanon, Morocco, Saudi Arabia and Tunisia ^[33].

Some of the main objectives of the Federation is to achieve the following ^[33]:

- Establish high quality international standards and support adoption of them.
- Facilitate cooperation and coordination between various bodies of its members.
- Support for cooperation and joint action with other international organizations as the international sponsors of the accounting profession.

2.2.5.2.2 International accounting standards committee

International Accounting Standards Committee (IASC) is considered to be an independent body established in June 29, 1973, in accordance with the agreement reached by the leading professional accounting bodies in Australia, Canada, France, Germany, Japan, Mexico, Netherlands, United Kingdom, Ireland, the United States of America. The committee has gained wide recognition as a result of its efficiency and capability and a large number of professional bodies in most countries around the world, whether in Europe or Asia or elsewhere, has joined. Each new member of the Committee should undertake the best attempts to ensure the adoption and implementation of international accounting standards in their own countries and consider the International Accounting Standards Committee (IASC) as the sole independent body entrusted by the members of professional accounting bodies with responsibility and authority to issue international accounting standards ^[34].

The aims of the committee since its inception to its restructuring in 2001 are specified in the following:

- Propose and issue accounting standards representing the basis in the preparation and presentation of financial statements, as well as to encourage countries and organizations to accept these standards globally.
- Work to improve the compatibility of the regulations and accounting procedures related to presentation of financial statements.

The funding of the International Accounting Standards Committee (IASC) comes on the one hand from its members as well as the International Federation of Accountants, on the other hand from the contributions of multinational companies, as well as accounting firms of different countries ^[35].

2.2.5.2.3 International Organization for Securities Commission (IOSCO)

This international organization was founded in 1983. Its members are public regulatory agencies for the financial markets. The Organization has more than 190 members from over 100 countries. There are three types of members, which are ordinary members, associate members, and affiliate members. Ordinary members are the main regulators for the financial markets of the respective countries. Associate members are the regulators other than the main regulators of the respective countries. Affiliate members are the exchanges and other financial market institution associations.

One of the aims of the Organization is to develop international standards that allow greater efficiency and transparency in the financial markets to protect the investors and to facilitate the partnership between the regulators of the financial markets to reduce financial crimes ^[36]. It expresses great interest in the subject of international accounting compliance as a result of negative impact of the differences between the national limitations imposed by the governments on the field of accounting. It also wants to facilitate the emergence of a fair value for the multinational corporations in the world markets through fair and compatible financial reporting.

In July 1995, continues efforts concluded (IASC & IOSCO) by an agreement to work closely in order to achieve coordination of the International Accounting Standards.

The International Accounting Standards committee has amended some standards to satisfy the needs and demands of IOSCO, also companies that operate in the member countries of that Organization and that has adopted international accounting standards will be able to register their securities in all financial markets in the world, without requiring to restate their financial statements or provide extra information [37].

On 17 May 2000 the IOSCO announced that it has formally adopted international accounting standards, which numbered 30 standard except criteria of (15,26,30,41) and recommended the global stock markets to accept the National companies to use international accounting standards and entry to the world financial markets.

On 06. April 2008 IOSCO published a statement for listed companies to determine its accounting system used in the preparation of financial statements. The firms that submit annual financial statements and interim financial statements prepared according to national standards must offer at least the following information: [37]

- Explicit declaration in the footnotes which accounting principles are used.
- Clarify the origin of the accounting standards that are used.
- Announcement whether the financial statements have been prepared on the basis of international financial reports standards.
- Demonstrate the differences between national accounting standards and international financial reporting standards.

2.2.5.3 General regional organizations

Recent decades have witnessed the formation or emergence of a number of regional economic blocs in which a group of countries agreed to work together in order to improve their economies and industrialization and facilitate free trade among them. These require the presence of consistency and compatibility in laws, standards and practices including the compatibility of accounting standards. The most important regional organizations are:

2.2.5.3.1. European Union (EU)

In 1957 Rome Convention was signed that aimed coordination between economic and legal systems of the Member States, the European Union has cared about accounting compatibility since its inception.

Contrary to International Accounting Standards Committee, which has no authority to oblige the application of accounting standards, the European Commission is the executive body of the European Union that have full binding force for Member States to follow its guidance for accounting ^[4].

Therefore, the accounting laws of the Member States of the European Union is governed by both fourth directive (1978) individual accounts and seventh directive (1983) consolidated accounts.

Directive-IV No. 78/660: has been issued in 26/07/1978 includes 62 items all of which clarify the rules governing the preparation of main financial statements and budgets (articles 10 & 9); calculating account (articles 23 & 26) and supplement. These lists are named annual accounts. It also describes the rules and methods of valuation (article 31-42). Directive offers several options for valuation.

Directive-VII No. 83/349: has been issued in 13/06/1983, includes 51 items, and statements, as well as supplementary information in the Annex. Similar to its predecessor, it introduced the way for different accounting practices between different European countries in the field of assembly due to the adoption of options.

These two directives had improved the quality of both individual and consolidated financial statements while the performance comparison between the institutions remains somewhat difficult because they contain multiple options.

Despite early attention of the EU, the issue of accounting compatibility among European countries and efforts to establish a consensus has encountered several obstacles resulted from the nature of the options adopted by these directives. These had led to a big flexibility in accounting practice and consequent differences. It had also caused an increase in the severity of this difference which represents a great divergence in the duration of the adoption and enforcement of laws through regulation being in force in each country ^[39].

The growing of international activity of the European companies has an impact in accelerating the accounting standardization and compatibility in Europe. That is because the interest of these companies became beyond the European considerations towards the global considerations. In addition, the presence of the representatives of the European countries in International Accounting Standards Committee (IASC), whose standards became obligatory to bind each European companies listed on the stock exchange, starting from 2005 ^[39].

2.2.5.3.2 African Accounting Council (AAC)

The African Accounting Council (AAC) was established after the International Conference on accounting systems in Africa, held in Algeria in 1979. It includes 27 African countries, whose headquarter in Kinshasa, the capital of the Democratic Republic of Congo.

The Council aims to find a consensus between the accounting systems of African countries and to encourage research and studies related to accounting and other related fields. The African Technical Committee for harmonized accounting has been assembled with a view to prepare the draft for African accounting system as a reference for African countries which was published in 1985. The Organization of African Unity regarded the African Council for Accounting as a body in-charge of accounting unification in Africa. However, the lack of representation of African Council of accounting in various accounting bodies had prevented the success of this system. It therefore, was unable to achieve consensus required in order to become valid for all African countries ^[6].

That is considered as one of the problems being faced by the efforts of African accounting compliance due to the colonial past, which left behind two main models for the continent's existing accounting and the two form the English and the French model. In the future, the board should therefore take into the account the African dimension and accounting needs for each country.

2.2.5.4 Private regional organizations

There is a group of regional organizations that have made various efforts in an attempt to find some kind of compatibility in accounting at regional level. The most important of these regional organizations are:

2.2.5.4.1 European Federation of Accountants (EFA)

This organization was established in 1951 as a consequence of discussions about the establishment of an International Institute for Accounting under the auspices of the United Nations, but was unsuccessful. The most important objective of this union was to facilitate the exchange of ideas and to ease the entry requirements of the profession to the Member States where the Union meets once every three or four years. The first conference was held in 1953 entitled “unification of accounting and economic integration”. A committee was assembled to investigate the possibility of establishing a European accounting system as an “accounting directive” towards standard accounting practices. In 1966 the Union began issuing the “Journal of the European Union”. It published versions considered mainly for European countries helped to reduce the accounting differences between the Member States.

Although the organization remained more than thirty years, but its impact seemed to be weak and the Journal was closed in 1980 due to lack of support. In 1986 the name of this Union was changed to the European Federation of Accountants (EFA) ^[7].

2.2.5.4.2 Arab Society of Certified Accountants (ASCA)

It was established in 1984 by a number of Arab accountants as a non-profit accounting organization aimed to upgrade the accounting knowledge, management and other topics relevant to the scope of the Member States of the League Arab States ^[40]. In addition, it targeted to maintain the “professional independence of accountants” and to ensure the application of standards and professional supervision on the applications as a mean to promote the professional accounting and auditing. The Society worked hard and continuously to meet all professional requirements to qualify for a decent international standard. It, therefore, has become an active member of international bodies and organizations such as the International Federation of Accountants Committee (IFAC), International Accounting Standards

Board (IASB). As a result the Society participated in the preparation of International Accounting Standards (IAS), International Financial Reporting Standards (IFRS) and International Standards of Audit (ISA) and translated them into Arabic ^[40].

The Society worked to supply Arab countries with highly qualified accountants, Arabs scholars in the field of accounting, and practical experience not less than those of known international qualifications. In addition, it aimed to hold continuous events related to economic development, dissemination of new ideas, concepts and modern applications in the world of business and finance in order to upgrade its members and promote affiliates in their capability to keep up with the evolution and innovation in the profession of accounting and auditing ^[40].

2.2.5.4.3 Association of Southeast Asian Nations (ASEAN) for the Federation of Accountants

The Federation was established in 1977 from the accounting bodies of the Association of Southeast Asian Nations i.e. Indonesia, Malaysia, Philippines, Singapore, Thailand. The first conference was held in 1978 ^[7].

In 1979, the Federation issued its first accounting standards while in 1980 issued the first revision of the standards. Although these standards have been issued by the Federation, Member States should not be considered to pursue a special approach by issuing purely Asian standards. The efforts of the Federation of Accountants of the Southeast Asia countries, however, are complementary to those carried out by both the International Accounting Standards Committee (IASC) and the International Federation of Accountants Committee (IFAC). They should also be considered as the source of the views of the East Asian countries in respect of setting valuable international standards by these two groups. The (ASEAN) is working to modify the international accounting standards in line with their special needs ^[7].

2.3 International Model for Accounting Unification

International Accounting unification reflects the consolidation of structural changes that increased global economic activities and the liberalization of capital movement. These factors urged multinational companies to work at establishing the framework of regulating and controlling the international accounting practice to ensure compatibility and harmony of the international accounting procedures and accounting outputs of the final financial statements to ensure a unified understanding for these statements. These efforts culminated in 1973 in establishing the International Accounting Standards Committee (IASC). The Committee, in 1989, issued the conceptual framework of the international accounting background, which has become a reference in the standardization process and in the issuance of standards; in addition to working hard to ensure the acceptance and application of these standards at the international level ^[41].

2.3.1 International accounting standards board and the international financial reporting standards

2.3.1.1 Structuring the international accounting standards board

The International Accounting Standards Committee (IASC) was established in June 29th 1973 under an agreement between the professional organizations of 10 countries, Britain taking the lead. Until 2001, the Committee was tasked to develop the international accounting standards.

The Basic Law underwent an international structural Revision, resulted in some changes in its structure which became effective on 1st April 2001 and newly formed International Accounting Standards Board replaced the International Accounting Standards Committee. The process and the organizations involved are described below ^[41].

2.3.1.1.1 The International Financial Reporting Standards Foundation (IFRS Foundation)

The former name of the Foundation was International Accounting Standards Committee Foundation (IASC Foundation). IASC Foundation was established in March 2001 as an independent non-profit Organization and renamed as IFRS Foundation on 01 July 2010. It has 22 trustees who are appointed for a term of three years, renewable once, and are distributed as follows:

- 6 members from North America
- 6 members from Europe
- 6 members from Asia/Oceania
- 1 member from Africa
- 1 member from South America
- Two members are appointed from any area, subject to maintaining overall geographical balance.

The main tasks of the Trustees are as follows:

- 1- Appoint members of the International Accounting Standards Board and the formulation of their service contracts and their performance criteria.
- 2- Appoint members of the Committee on interpretations of international standards for financial reporting as well as members of the Advisory Board.
- 3- Annually review of the strategy of the Foundation and to review the effectiveness of the subordinate units.
- 4- Raise funds necessary to conduct Foundation's activities and approve the budget.
- 5- Review the strategic issues that affect the accounting standards, strengthen the institution and its work in addition to strengthening the strict application of international accounting standards and international standards for the preparation of financial reports.

2.3.1.1.2 International Accounting Standards Board (IASB)

It is a private organization whose main task is to develop International Financial Reporting Standards. Its headquarters is located in London and works under the supervision of IFRS Foundation. It is composed of 16 members appointed according

to their expertise and competence. Up to three members may be part-time members.

The geographical distribution of the Board is as follows:

- 4 members from North America
- 4 members from Europe
- 4 members from Asia/Oceania
- 1 member from Africa
- 1 Member from South America
- Two members are appointed from any area, subject to maintaining overall geographical balance.

All board members are appointed for a period of 5 years, renewable once and they receive certain payment for their work.

The Trustees also appoint a member among the full-time members as chairman and up to two as vice chairmen.

The Council has the following main tasks ^[40]:

- To prepare high quality accounting standards for public interest that are understandable and applicable all over the world. These standards must lead to the preparation of financial statements that provide users with high-quality, fair and comparable financial information, and allow them to make sound economic decisions.
- To promote the use and application of these standards in the world.
- To work on convergence of accounting standards, national and international in order to obtain high-quality solutions.

2.3.1.1.3 IFRS Advisory Council (SAC)

The Council, at present is formed of 50 members all are appointed by the trustees of the IFRS Foundation for 3 years, subject to renewal. The members are chosen from different areas of the world in order to provide balanced geographical representation and they are chosen from a wide range of stakeholders such as accountants, financial analysts, users of the financial statements, auditors, academics, etc. the Council provides advice to the Board and in some cases to the Trustees ^[42]. The latter offers a special importance to the ideas and views that the Council adds to the role of the International Accounting Standards Board and to its mandate. The Council aims to:

- Provide advice to the International Accounting Standards Board (IASB) regarding its job priorities.
- Inform the International Accounting Standards Board (IASB) on the contents and effects of the proposed standards for users and preparers of the financial statements.
- Provide advice in other areas of the International Accounting Standards Board as well as to the Trustees

The board usually meets at least 3 times in each year, and must be consulted by the International Accounting Standards Board (IASB) on all the main themes and its meetings must be open to the public ^[19].

2.3.1.1.4 IFRS Interpretations Committee (IFRIC)

It was formerly called International Financial Reporting Interpretations Committee. The Committee is set by the IASB and offers the committee the help needed in improving the accounting standards and financial reporting and to improve the benefit of users of financial statements and auditors. This committee was established by the trustees in March 2002 to replace the Standing Committee of the explanations which was founded in 1997. It is composed of 14 members appointed by the Trustees for 3 years, subject to renewal. The members are selected from different countries and different backgrounds.

The role of this committee is to provide guidance for the preparation of financial reports or guidance on the issues that have been raised or is likely to arise for which explanations in the standards are unsatisfactory or in dispute. Therefore, it encourages precise application and common international practice for the preparation of financial reports as well as it coordinates with the bodies of national uniformity to ensure solutions to the vague issues ^[43].

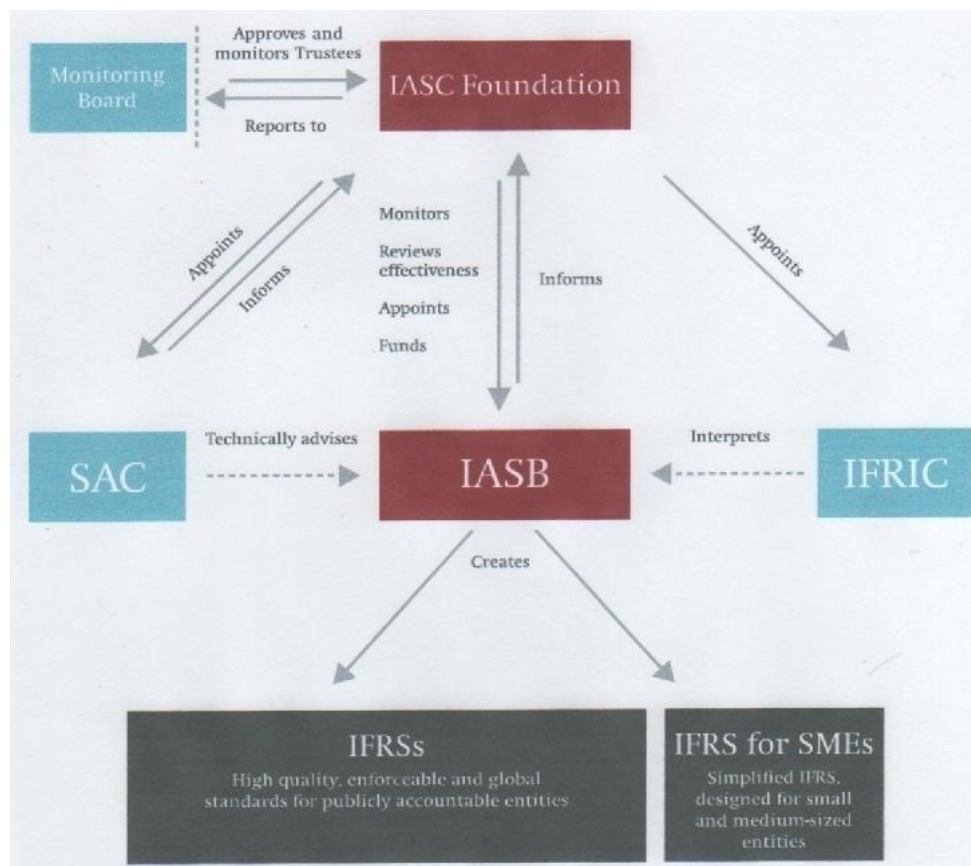


Figure. 1 Organizational Structure of the International Accounting Standards Board [40]

2.3.2 The conceptual framework for the preparation and presentation of financial statements from the perspective of the international accounting standards Board

2.3.2.1 The concept

The main purpose of the preparation and dissemination of financial statements is to provide users with useful information for economic decision-making purposes. The Board offers a conceptual framework in preparation and presentation of financial statements within a theoretical framework. It represents guidance in the process of identifying transactions and processes that must be accounted for and recorded and how to measure the monetary values of the transactions and how to convey these information to users of financial statements ^[13].

Although it is not considered an independent standard in itself, this framework also represents the space in which the standards operate in and as borders on how to formulate any standard. Thus, it is read and understood by requirements of international accounting standards.

2.3.2.2 The purpose of the framework and its current position

The framework of preparation and presentation of financial statements describes the basic concepts that are the basis of preparation of financial statements published for the purposes of general use. Thus, it creates a set of objectives that are related to international standards ^[44].

These purposes are:

- 1- To guide and direct the International Accounting Standards Board (IASB) in issuing new standards, which must directly use the same international concepts and principles contained within the framework, i.e. the components of the financial statements, the accounting assumptions. The framework also provides guidance when amendments to the existing standards are required.
- 2- To play the role of a mentor and a director in dealing with all the accounting issues that are not addressed directly in the international accounting standards or in the interpretations related-terms being characterized by criteria privacy presented by Multi-standard which cannot be addressed to all concepts of accounting applicable in each standard. Because the repetition is considered useless, unless they rather are referenced in the framework, instead.
- 3- To help the external users in understanding the financial statements and the preparation bases. In addition, it depicts a clear picture in which the financial statements represents the financial position of the business as a result of its operations, its cash flows and changes therein, whether by direct users i.e. investors and lenders or by indirect users i.e. financial analysts, audit and regulatory bodies.
- 4- To help the national standard setting bodies to develop their national standards.

5- Provide authorities laying down the national standards i.e. professional organizations as the US Financial Accounting Standards Board (FASB), the British Accounting Standards Board (ASB) and other organizations. Also to help the local governments that seek to regulate the accounting profession through domestic legislation concepts of accounting generally approved by the International Accounting Standards Board, to stand on the foundations on which the process of preparing the financial statements was built.

Currently, there is a joint committee between the International Accounting Standards Board (IASB) and the US Financial Accounting Standards Board (FASB) on a conceptual framework shared between them to ensure the future bridging the gap between the standards that are placed by them in how to process presentation and disclosure requirements. Thus ensuring the final comparability between financial statements prepared according to international accounting standards and US accounting standards ^[12].

2.3.2.3 Components of the conceptual framework of preparation and presentation of financial statements

The scope of the conceptual framework for the preparation and presentation of financial statements is as follows ^[12]:

- Determine the objectives of the financial statements.
- Identify the users of the financial statements and information presented by them.
- Identify the key components of the financial statements, recognition methods and how they are measured.
- Determine the qualitative features of accounting information.
- Identify the key assumptions for the preparation of financial statements.
- Identify the concepts of capital maintenance.

2.3.2.3.1 Objectives of financial statements

The article (12) of the conceptual framework of International Accounting Standards Board (IASB) has identified the objectives of the financial statements which could be summarized as follows:

- Provide information about the organization's ability to create cash and its ability to repay their obligations through the balance sheet and the statement of cash flows.
- Provide information about the organization's performance (actual or expected) through income statement and the statement of change in equity.
- According to the conceptual framework, the financial information included in the financial statements should always be useful to a broad base of users in the process of economic decision-making ^[12].

2.3.2.3.2 Information users and information needs

Many stakeholders resort to use the financial information displayed in the financial statements in decision-making process for economic activities. They are also identified in the conceptual framework in Article (09) in which a number of categories of the users of the financial statements are defined. Financial information users and the nature of the information each category needs are as follows:

1) The current and expected investors

The most important information needed by this group is:

- That information which helps the investors in taking decision of buying or selling their stakes in the company.
- That information which helps the investors in determining the level of distribution of previous, current and future profits and any changes in price of stock.
- That information which helps the investors in evaluating the performance (results of its operations) of the company.
- That information which helps the investors in assessing the company's liquidity and evaluation of company's assets and liabilities in comparison with other companies.

2) Employees

Employees are considered as the most important resources of the company on which the continuity of the company is based.

They must feel secured and satisfied at work. Therefore, they should feel that they are in charge of keeping the high quality of the company in achieving its goals, development, increase in their products and consequent profits. Profitability also leads to the continuity of the payment of salaries, wages and active benefits. Moreover, it would make them insure no-breach to some financial limitation e.g. debt ratio of owner rights. Their pension system and the benefits of post-retirement that the company can be provided would also be secured ^[44].

3) The lenders

They need information to help them in assessing the company's ability to generate enough cash necessary to repay the principal as well as the interest due in a timely manner, and in the estimation of the borrowing capacity of the company by analyzing some financial parameters such as the ratio of debt to equity ^[44].

4) The suppliers and other creditors

This category is considered as a source of funding and they are short-term creditors, as their interests are related to the institution's ability to repay debt by examining efficiency and liquidity ratios, activity and relevant ratios ^[44].

5) Customers

Customers are the lifeblood and the source of income. They are the buyers of the goods and services of the company. Thus, they are interested in the continuity of the institution and its ability to provide them with goods and services ^[44].

6) The government and its different agencies

These groups need information which assists them in making sure the extent of the company's commitment towards the related laws i.e. corporate laws and tax laws. They also need information to help identify the various taxes imposed on the company and the extent of its ability to pay and to learn the company's capability and capacity in both public shareholding and in the national economy ^[44].

7) The general public

The general public has different interests in companies including those related to employment, companies' role in social and developmental activities, as well as in the consumption behavior of the public on the basis of the quality of companies output

of goods and services. It also is worth mentioning that the categories of the financial statements users can be expanded to include all those who may have interest in the organization, either directly or indirectly. Among these categories that are not mentioned within the conceptual framework are enterprise management, analysts and financial advisors, financial market authorities, competitors, etc.

It has been stated in Article (10) of the conceptual framework that providing investors with the information they need who are the providers of equity capital to these companies are the most risk takers and their information needs must be fulfilled first. The financial statements do not supply the users with full information in making their decisions. Simply, because the financial information contained in the financial statements show the financial implications of the events and previous operations while the decisions taken by most of the users of financial statements are related to the future. On the other hand, the contents of the financial statements are only the financial information, while the financial statement users may need various non-financial information ^[44].

2.3.3 Elements of the financial statements and measurement methods

The conceptual framework issued by the International Accounting Standards Board (IASB) classifies the elements of the financial statements as multiple categories represent financial transactions and the events that have been done in the institution, or which would result in the future events as a result of the events related to the current financial period i.e. the assets, liabilities, equity, revenue and expenses.

These elements should be presented in a way to make financial statements more useful to their users and easily understandable by them in order to examine the information contained in them ^[44]. The techniques and methods of measurement used in the preparation and presentation of financial statements include:

- Historical cost.
- The current cost.
- Net realizable value.
- The current value.
- Fair value.
- The recoverable amount.

2.3.4 Qualitative characteristics of accounting information

Qualitative characteristics of the accounting information are characterized by the quality of the information presented in the financial statements. They should represent the basis to enable the financial statement users to make the right decisions, which are ^[45]:

- Understandability
- Appropriateness
- Reliability
- Comparability

2.3.5 Basic assumptions for the preparation of financial statements

Financial statements must be prepared according to the two following basic assumptions:

1) Accrual bases

All the institutions should prepare their financial statements according to the accrual basis (except the statement of cash flows that is prepared according to the cash basis). The accrual basis requires recognition of expenses in the accounting period in which they are incurred, whether paid or not, as well as the recognition of revenues in the accounting period in which they are earned, whether received; in other words, regardless of the payment or collection of cash ^[45].

2) Going concern

It assumes that the company will continue its operation for unforeseeable future. In other words the life of the company is limitless. However, in the case of doubts about its continuity, or in case its management has an intention to liquidate or materially reduce its work, then the financial statements are prepared on liquidation basis ^[45].

2.3.6 Concept of capital maintenance

Concept of capital maintenance is another concept that is that is focused and included in the accounting profession. This concept requires that the capital be maintained and protected from corrosion. The conceptual framework includes two meanings for a

capital i.e. “the financial concept” and the “materialist concept”. Under the concept of financial capital, the capital would represent the net assets or equity, while under the materialist concept of capital, the capital represents the production capacity of the institution. Most institutions follow the concept of financial capital in preparation processes of their financial statements^[46].

2.4 International Financial Reporting Standards (IFRS)

2.4.1 General concepts about international financial reporting standards

Each profession governed by a constitution which directs its practices and unifies its practitioners for similar things, so that there is a unified base for comparison by those who are interested in the profession. Accounting, like any other Scientific Professions which has gained importance from the significant role of information in the economic environment, has its unified global constitution. Global consensus stems from the keenness of employees to show numbers that reflect the results of huge amount of transactions and financial operations in rather fairly, accurately and reliably. International standards for financial reporting can be considered as a constitution. The responsibility for issuing these standards rests with the International Accounting Standards Board (IASB). They include the following:

-International Financial Reporting Standards (IFRS).

The IFRS are issued by the International Accounting Standards Board The narrow meaning of international standards for financial reporting (IFRS) is understood within the following standards:

-International Accounting Standards (IASs).

The International Accounting Standards (IAS) which has been issued by the International Accounting Standards Committee (IASC) before the reform in 2001. It has issued 41 standard until the end of 2000, then some of these standards were merged with other standards while some other standards were canceled ended up in dropping their numbers to only 29 valid at 1st January 2010.

-The number of interpretations issued by the International Financial Reporting Standards Interpretations Committee (IFRIC) up to 1st January 2010 were 14.

-The number of interpretations issued by the Standing Interpretations Committee (SIC) has been only 34 explanations up to May 2002 ^[47].

2.4.2 Advantages of the application of international financial reporting standards

The application of uniform international financial reporting standards on international level could not been possible without any advantages and/or benefits. These advantages could be identified as follows:

1- Harmonization and compatibility

It means that all institutions, regardless the nationality, geographical and political boundaries, should apply the same standards and principles of accounting. It also means unification of principles and rules which are made on the basis of the accounting treatment. Consequently, it shows the financial statements of the institutions as identical and uniform leading to “internationalization of accounting practices and audit” ^[47].

2- Comparability

Due to consolidation of the subsidiaries and methods of accounting treatments, the direct consequence would therefore be the rationality and righteous. Financial statements prepared in this way for the purpose of comparison by their users for differentiation between them would easily be done due to a clear base. Thus, it would rationalize the decision-making process based on symmetric accounting information and accepts the differentiation alternatives on intact and clear basis ^[47].

3- Meet the requirements of globalization

The world in which we live in nowadays has become small due to several reasons i.e. development of means of communication, increased exchange operations between countries, expansion of the economic size of the political blocs, the rely on big scales of economy, spread of multinational corporations and professional organizations to coordinate global issues at the international level with regard to a particular subject, i.e. the World Trade Organization (WTO) and those organizations that follow the United Nations. Such a globalization must have an impact on the accounting

profession in creating a professional organization concerns with the affairs of accounting at international level. This would involve a possible advantage taking phenomenon e.g. the benefits of globalization and to keep away from their risks. This issue has attracted the attention of some of the political and economic blocs such as the European Union countries which committed the listed companies to apply International accounting standards starting from 1st January 2005 ^[44].

4- Meet the requirements of local and international financiers

Since companies cannot rely on themselves, they may need financiers to expand their operations and activities. The financing institutions can lend loans only in the light of a thorough study of the financial statements of the companies that need funding. Any project cannot be achieved successfully unless pending on those financial statements prepared in accordance with standards of a uniform accounting, clearly expressed in company's annual report, supported by opinion of the party that has audited the accounts of the company which issued financial statements. The auditing body should also be checking out company's misconduct of the international accounting standards during preparation of their financial statements which should explicitly states in their opinion annexed to the annual report. Therefore, companies wish to obtain external financing have no choice other than to comply with of these standards ^[44].

5- Access to international financial markets

The companies worldwide currently compete to access the international financial markets to list their shares on an international level and to trade very quickly benefiting from modern means of communication. These companies can achieve their targets only with obligation under certain conditions they should adhered to allow them include their shares in these markets, otherwise will remain isolated from the international financial markets and would lose many opportunities which could be gained from entering these markets otherwise. In addition, international markets, nowadays, getting more financially integrated and companies work hard to be listed in to avoid any consequence loss in shares and assets associated with trading stocks and investment while try hard to occupy a large part of global economic activity and increase their financial instruments.

Perhaps the setbacks which the international financial markets had suffered were due to several reasons out of which lack of accounting information and different methods of preparation played a great deal. The latter had obligatory led to the evolution of the disclosure requirements according to international accounting standards ^[48].

2.4.3 Obstacles for the application of international financial reports standards

There are some obstacles that restrict the application of international accounting standards:

1- No possibility of applying the International Accounting Standards (IAS) fully in all over the world due to the difference in economic environment and culture. In reality, the IAS is directed mostly to regulate the accounting profession in the developed countries in general particularly in USA and UK as they have the upper hand in developing the profession of accounting, development of standards and principles. The role of these two countries in the formulation of modern accounting cannot be denied. Therefore there is no possibility of developing accounting standards in isolation from the accounting standards issued by the American Accounting Standards Board (FASB) and the British accounting standards issued by the UK Accounting Standards Board (ASB) ^[45].

2- The application of certain international accounting standards requires amendments to the laws in some countries as well as amendments in the regulations. There also are some cautions upon amending the laws and regulations which may disturb the sovereign of a country concerned, in addition the stages of development and amendment of legislation may require to be absorbed by both the governments and public. In addition, it can sometimes not be possible to amend the laws to make them compatible with the international accounting standards due to the different prevailing procedures i.e. the International Standard No. 12, on income taxes, where it is seen as purely domestic, as well as for the international standard No. 19 regarding the employee benefits ^[45].

3- Difference in levels of education and training of the professionals in different countries applying these standards. It seems to be not an easy task for practitioners in developing countries who are used to applying local standards to switch international standards quickly. It requires time and effort to train the practitioners in developing

countries in order to make them comprehend the correct application of these standards ^[45].

4- The difference of language is added to all of the above, as great efforts are made to translate the international accounting standards into many languages. International accounting standards are prepared in English, which is the official language of the International Accounting Standards Board (IASB). Although the composition of the Board is multi-national and therefore multi-lingual, the task of translating the standards lies with professionals in the respective countries. Translation of the standards may distort the meaning of the original texts. So, if enough attention is not paid in translations, the meanings in the translated text may quite different from the intended meanings, and this situation prevents the correct application of the standards ^[45].

5- Some argue that the international accounting standards may constitute, sometimes, a heavy burden as they impose businesses to respond to all the pressures of local social, political and economic actors. It would be difficult to adhere to foreign standards and requirements which might be more complex and require the consumption of resources to implement. This situation highlights the existence of differences and conflicts between international standards and local requirements. This conflict may make it harder for the businesses to apply international standards. Businesses should understand the benefits of applying these standards, and these benefits must outweigh the costs. Otherwise, they will be reluctant accept the international accounting standards ^[45].

2.5 The Application of International Financial Reporting Standards (IFRS) in the World

The need for international accounting standards was the result of circumstances and economic developments the world has recently witnessed. These standards has forced most of countries around the world to consider their accounting procedures and make changes accordingly, even those countries that have sophisticated accounting standards are not exempt e.g. the French and British, in addition to the existence of directives governing the work of the accounting profession at the level of European Union ^[49].

Although the United States of America is the first country to develop its own accounting standards (Generally Accepted Accounting Principles-GAAP), it is still in the process of adapting international accounting standards. This process of adoption is proved to be hard and it consumes time and effort and has not been complete yet. Many developed countries such as Canada and Japan has encouraged the adoption and implementation of international standards in financial reporting to overcome the differences in accounting procedures, and to increase confidence in the information contained in the financial statements prepared by their businesses. Many developing countries have also initiated work towards the implementation of international accounting standards to improve the quality of financial reporting and the acceptance of the financial statements prepared by their companies internationally. Overall, the process of adoption of international accounting standards and preparation of the financial statements in accordance with them vary from country to country ranging from full adoption of them due to complete lack of accounting standards or adaptation of these standards to fit in their environments and internal conditions ^[49].

2.5.1 Implementation of the International Financial Reporting Standards (IFRS) in USA

Despite the long history of the United States in setting accounting standards through many organizations such as the Financial Accounting Standards Board (FASB) and the American Institute of Certified Public Accountants (AICPA), the international accounting standards has found widespread application in the US [49]. This situation is a result of the insufficiency of the American national standards to address the international requirements and the occurrence of some financial disasters in America at the beginning of this century, i.e. in *Enrone*. These situations urged both the Securities and Exchange Commission (SEC) and the Financial Accounting Standards Board (FASB) to slowly accept international accounting standards by following a dual strategy to modify some of the USA standards to conform with international standards as well as modifying some of the international standards for compatibility with American standards. As of today these strategy is still being implemented and is called convergence to international standards. The US can exert power to modify

some international accounting standards for its own purposes. Many other countries lack this power ^[49].

2.5.1.1 Recognition of the US Securities and Exchange Commission (SEC) of the International Financial Reports Standards (IFRS)

Before November 2007, almost 15,000 companies had been listed on the Stock Exchanges in America, including about 1,200 foreign companies. These foreign companies had to reconcile their financial statements to US GAAP if they were prepared in accordance with the international accounting standards or national standards.

In November 2007, the American Securities and Exchange Commission (SEC) voted to accept the financial statements of the foreign companies prepared in accordance with international accounting standards without reconciliation to US GAAP. It was noted that this new rule is applicable to financial statements covering years ending after November 15th 2007. This was seen as a very important step towards the recognition of the international accounting standards by the US authorities ^[49].

2.5.1.2 The Norwalk agreement:

In the wake of the joint meeting between US Financial Accounting Standards Board (FASB) and International Accounting Standards Board (IASB), held in October 2002, the two Boards agreed to move forward in the convergence between International Financial Reporting Standards (IFRS) and US Generally Accepted Accounting Principles (US GAAP) and decided to work together in order to:

- make the standards issued by each side compatible and workable.
- conduct joint projects
- Coordinate their future work programs to ensure maintaining the consensus.

The term does not mean here to get consensus on identical criteria, but it rather means no fundamental differences or argument between the two groups. They also decided to work to eliminate the minor differences between two sets of standards ^[50].

2.5.1.2.1 Roadmap for convergence 2006-2008:

In February of 2006, the International Accounting Standards Board and the Financial Accounting Standards Board of US issued a roadmap in which both short- and long-term convergence projects were as follow:

2.5.1.2.1.1 Short-term convergence projects

The goal of those projects that were identified as the short term was to formulate solutions by the year 2008 to the fundamental differences between the international accounting standards and the US GAAP and to work as hard as possible to eliminate these differences ^[50]. Short-term convergence projects include the following:

- For the International Accounting Standards Board:

- 1- Borrowing costs.
- 2- Discontinued operations
- 3- Joint Agreements
- 4-Segment Reporting

- For the US Financial Accounting Standards Board:

1. The fair value option in financial instruments.
2. Investment property
3. Research and Development Costs.
4. Subsequent events.

Joint projects include government grants, impairment and income taxes. The substantial work has not been started or completed for the joint projects yet. But, both of the boards completed substantial work for their own short-term projects listed above ^[50].

2.5.1.2.1.2 Long-term convergence projects

Long-term convergence projects are identified as follows:

- Conceptual framework
- Consolidation
- De recognition
- Fair value measurement
- Financial instruments
- Financial statement presentation
- Business combinations
- Insurance contracts
- Intangible assets
- Leases
- Liabilities and equity
- Post employment benefits
- Revenue recognition.

Converged standards for business combinations, consolidation, and fair value measurement are issued by the International Accounting Standards Board. The works on other projects are on the way. The work for some other projects has not been started yet ^[50].

2.5.2 Application of International Financial Reporting Standards (IFRS) in Europe

2.5.2.1 Law of the European parliament

The process of developing international accounting standards in the past few years has made a number of successes in achieving recognition and great use of international standards in financial reporting. The European Union issued on 19th July 2002 a European Act No. 1606, that obliges the European companies that are listed to apply international accounting standards in preparing their consolidated financial statements starting from 1st January 2005 in order to ensure a high level of transparency and to make financial statements comparable in the European Union.

Following approval by the majority of the European Parliament (492 votes OK, 5 votes rejecting and 29 abstentions) on June 7th July 2002. According to the EU regulations the companies were allowed, in some limited cases, to postpone its application until 01/01/2007 ^[51].

The application of the international accounting standards is a further step in the reform process that began earlier with the aim of creating an effective and liquid European stock market. It would also facilitate the evaluation process of the companies in order to achieve the best transparency anticipated. It also aims to facilitate the work of capital markets and increase trading volume in the EU via protection of the investors and to maintain confidence in the financial markets and help European enterprises gain advantages against its competitors in the process of acquiring funds available in the international financial markets.

The major impact of this law on most countries of the world, whether developed or developing, was great as it was a powerful tool used by the International Accounting Standards Board to negotiate with many countries to harmonize their national standards with international standards ^[52].

2.5.2.2 The context of the application of standards in the E.U.

- On 17th May, 2000, the International Organization of Securities called the Councils and Committees in several countries to ratify the International Accounting Standards and recommend their applications in their respective countries.

- In June 2000 the European Commission issued communication on “EU Financial reporting Strategy: the way forward” proposing that companies listed on the stock exchange should apply the international accounting standards in their consolidated financial statements starting from 1st January 2005 ^[40].

- On 13th February, 2001, the Commission issued an order asking the existing institutions in the stock market to submit their consolidated financial statements in accordance with international accounting standards as of January 2005 ^[40].

- On 15th February 2001, the report has been presented by the Council of Ministry of Finance, which does recognize the application of international accounting standards.
- On May 2001 the principle of fair value to assess the financial position of elements has been adopted.
- On 1st January 2005 the actual application of international accounting standards was practically began in all European institutions ^[40].

2.5.2.3 European procedures for the application of International Accounting Standards (IAS)

To ensure effectiveness of application of international accounting standards, the European Union has followed a special path via creating a framework for the EU's responsibility to consider that these standards has been prepared by an independent and a private body. Accordingly, the European Committee had formed both the European Accounting Regulation Committee (ARC), and European Financial Reporting Advisory Group (EFRAG) ^[40].

2.5.2.4 Mechanism for the adoption of standards by the European Union

The approval path for adoption of international accounting standard in the European Union passes through two different directions: Technical committee for accounting (EFRAG) and a political Accounting Regulatory Commission (ARC) ^[40].

2.5.2.4.1 European Financial Reporting Advisory Group (EFRAG) on financial information

(EFRAG) was founded on 26th 2001 and formed a committee to connect and coordinate between the European Commission (EC) and the International Accounting Standards Board (IASB). It is consisted of professional accountants in charge of studying and assessing the international accounting standards and the prospects for their application in the European environment. Its main duty is to provide technical expertise and advice to European Commission on accounting matters. They also provide input as the perspective of European Union for the preparation of international accounting standards by International Accounting Standards Board ^[53].

2.5.2.4.2 Accounting Regulatory Committee (ARC)

This body was established under Law No. 1606/2002, consists of representatives of the Member States and chaired by a representative of the European Commission, whose role is to offer advice and guidance to the European Commission in order to keep in constant contact with the European Commission on all projects related to accounting standards prepared by International Accounting Standards Board and to express its opinion on the adoption of international accounting standards in the European Union.

This would also mean to establish a mechanism for the adoption of international standards for financial reporting in the European Union in order to offer a legal basis for the accounting texts applicable in the European Union, in order to achieve the following objectives ^[53]:

- Ensure the application of international accounting standards in the European countries.
- Creation of a permanent dialogue with the International Accounting Standards Board to discuss any potential reservations of the European Union regarding the standards that will be published in the future.
- Decide the date on which each new standard is applicable in the European Union.

2.5.3 The experiences of some countries to comply with International Financial Reports Standards (IFRS)

2.5.3.1 Applications of international financial reporting standards in Arab countries

2.5.3.1.1 International accounting standards in Egypt

The accounting standards applicable in Egypt are the translation of the original international accounting standards with minor modifications to suit the circumstances of Egypt. Egyptian Accounting Standards (EAS) are issued by two independent governmental organizations.

- Ministry of Economy (Ministry of Foreign Trade).
- The Central Auditing Agency (CAA)

The first set of standards was issued by a decision of the Ministry of Economy No. 503 in the year of 1997 to amend the financial statements model of the joint stock companies and listed shares. The issuance of Amendments of these standards was followed by ministerial resolutions No. 256 in 1998 and 345 in 2002.

It should be noted that these criteria included a change in Standard No. (1) regarding the presentation of financial statements to replace the Egyptian Accounting Standards No. (1) disclosure of accounting policies, No. (3) data that must be disclosed in the financial statements and No. (9) View assets and liabilities, and the abolition of three other standards.

It is worth mentioning that the Egyptian Accounting Standards essentially issued by the Ministry of Economy as a translation, or as on line with international accounting standards issued by the International Accounting Standards Board with the exception of some minor modifications to align with Egyptian society. Thus, the topics that have not been dealt with in accordance with Egyptian standards would be processed according to the international accounting standards pending Egyptian standards to deal with them in the future ^[54].

As the need to improve the financial reporting and disclosure system had been recognized, a new set of EAS were issued, as a part of many other reforms, pursuant to the Decree No. 243/2006 of the Minister of Investment and thus replaced the old standards issued under the two ministerial decrees Nos. 503/1997 and 345/2002. These standards are applicable to all listed joint stock companies ^[55].

2.5.3.1.2 International accounting standards in Jordan

The Jordanian accounting environment is narrow and limited. Jordan works to engage in the global economy through the transition to a market economy. Jordan has already joined the World Trade Organization, the Mediterranean Partnership with the European Union, and the Organization of free trade with the United States. Jordan accepts on both the International Accounting Standards and International auditing Standards. Jordan accepts these standards because the authorities have realized that it is quite hard for a company to internationalize without transparent financial statements that are prepared in accordance with high quality internationally accepted standards ^[56].

The following are some signs of mandatory application of international accounting standards of the Jordanian Companies Act.

Article (62) the duties of director of the company:

The responsibility of the director of a limited company or the board of directors is to prepare the annual budget of the company and its final accounts including the profit and loss, the necessary disclosures, statement of cash flow all audited by an auditor in accordance with the standards of international accounting being accepted and approved. In addition, the responsibilities include preparing the annual report on the work of the company, submitting it to the General Assembly of the company in its annual ordinary meeting, providing a copy to the observer by the end of the first three months of the new fiscal year^[57].

Article (75) the losses of a company:

If the losses of a company reaches three-quarters of the value of its equity it must be liquidated unless otherwise decided by the General Assembly in an extraordinary meeting to increase its capital to address the situation of loss. Alternatively, it amortize the losses in accordance with the standards of international accounting and auditing conditional on having the remaining total losses not exceed more than half of the capital of the company in both cases.

A) Publicly held companies should organize their accounts and records and keeping their books in accordance with the accounting and auditing standards adopted internationally.

B) The Minister should issue, in coordination with the professional authorities, instructions necessary to ensure the application of the international accounting standards in order to achieve the objectives of this law and guarantee the rights of the company and its shareholders^[57].

C)

1. Apply standards and rules of the international accounting and auditing accepted and approved by the relevant professional bodies.
2. For the purposes of this law, the meaning of the phrase (standards and rules of international accounting and auditing accepted) over any phrase refers explicitly or denote the adoption of standards and auditing rules.

The quality of financial statements issued by the Jordanian publicly held companies, including banks and insurance companies, whose financial statements are considered to be very important and must be as sophisticated as those in developed countries. Despite the fact that Jordan needs to regulate the accounting profession there are regulatory bodies for a number of important activities i.e. the Jordan Securities Committee (JSC) which governs the work of the stock exchange and the depository institutions, brokers and dealers, as well as disclosures in the financial statements and in the report of the Board of Directors. There is Jordanian Central Bank (JCB) which regulates the banks according to the latest international standards. Jordanian Insurance and regulatory Commission is another public body that oversees the insurance companies ^[57].

It is worth mentioning that these regulatory bodies stipulate the use of international accounting standards, which are already contained in the provisions of the Jordanian legislation. There is no doubt that Jordan's accounting environment needs to be developed in terms of consolidation of institutional control in the companies and in the quality and training of accountants and non-accountants on accounting standards and international standards, international scrutiny and new technical developments. As well as work on detailing a number of articles in the legislation and in complying with the instructions issued by both Securities Commission Act and the Companies Act or the Income Tax Act, for the development of the accounting environment and the business environment in Jordan ^[57].

2.5.3.2 Applications of international financial reporting standards in other developing countries

2.5.3.2.1 Application of international accounting standards in China:

The accounting reform in China was initiated in 1993 along with the other economic reforms that were gradually undertaken by the Chinese State starting from the year 1978 under the leadership of “Deng Xioping” who had redirected the state's role in the economy through gradual transition to a market economy. Accordingly, the openness of the state caused foreign investments to increase and caused the establishment of several mixed companies in addition to the increasing number of private companies and joint ventures as well as state institutions, which all played an important role in replacing the former Chinese economic system. The accounting reform in China touched many fields which can be summarized as follows:

- 1). Preparation of the general accounting standards (decision of 30th November (1992) accounting law of 1985, as amended on 28th December 29, 1993).
- 2). Regulating the profession of accounting experts, executive decree of 3rd July 1996 and the Act 31st October (1993).
- 3). Establishment of the Companies Act (Act of 29th December (1993)).
- 4). Tax Reform (Executive Decree 13th December (1993)).
- 5). Legislation Stock Exchange systems.

Despite the contribution of the accounting reform process to the establishment of legal basis for China's accounting it took place with a great caution. Only 7 of the 30 standards have been proposed to be adopted according to instructions from the Minister of Finance since 1994 ^[58].

The last phase of compatibility of the Chinese accounting standards ended with international accounting standards in 2006, where China has adopted basic accounting principles and 38 standards that recommended certain practices on February 14, 2006. Later, it published several explanations for these standards in 2007 and 2008, respectively ^[58].

In order to avoid any inevitable question that may be brought up by some countries about the compatibility and consistency of Chinese accounting standards with the new international accounting standards, the Ministry of Finance, the government body responsible for regulating the accounting practices tasked a working group to convince International Accounting Standards Board (IASB) to sign a memorandum ratifying the involvement of China in the adoption of international Accounting Standards. A Memorandum was signed between China and the IASB, which asserted that the Chinese accounting rules are compatible with IAS but with only three differences, on 8th November 2006. The differences are:

1) Transactions between related companies and the information providers. 2) Impairment of assets and 3) government grants. However, these differences were soon removed and a new standard was issued to comply with the requirements of IAS. Consequently, the future primary task of Chinese accounting committee for the consolidation was to make other nations accept the idea that Chinese accounting standards have the same quality as IAS. The latter was processed upon the fact that the recognition of this quality makes the published financial statements according to Chinese Accounting Standards (CAS) are acceptable directly without making any corrections by the those countries adopting IAS ^[59].

The Institute of Accountants in Hong Kong is considered to be the first professional organization that fully recognized the compatibility between CAS and IAS. There also is a great possibility to accept this agreement by the European Union accompanied by many negotiations conducted in this regard with Australia, Japan, South Korea, Russia and other countries ^[59].

Other differences between the Chinese and international accounting standards are considered as just a supplement to some of the topics in Chinese accounting standards, which do not normally exist in the developing countries e.g. consolidation of a few institutions under the joint control is considered to be one of the accounting issues that is specific to China and a few other countries.

While IAS demand application of fair value, the Chinese standard setters remains reluctant about it. Therefore, the adopted CAS in 2006 do insist to enter the fair value cautiously and gradually in the accounting system of China. That is because the

available prices in the underdeveloped market may not be a good base for determining the fair value. Therefore, the related standards will be prevented for immovable investments, biological assets, the restructuring of debts and the application of fair value unless there is an active market which can reliably evaluate them.

The IASB, therefore, has approved that caution has to be taken by China when adopting the fair value which could be considered as a good example that could be adopted by other emerging markets ^[59].

2.5.3.2.2 Application of international accounting standards in Albania

Albania had faced difficulties in implementing IAS/IFRS due to the need for accounting reform, enhancement and development of accounting professionals, developing accounting structures and standards necessary for implementation and in putting in place of environment for the development of financial reporting. It has gone through two stages that include implementing and introducing a new accounting system that must be in line with the latest trends and to create independent accounting professionals who are able to provide services with high level of professionalism and integrity ^[60].

However, when the implementation of IAS/IFRS based accounting put in practice, Albania faced three obstacles: first lack of knowledge in implementing International accounting Standards in the accountancy field. Second lack of well trained and skilled accountants able to lead such a reform in practice. And third need for application in a very short time including the new accounting rules and legislation that should be adopted so as to open the way for developing accountancy reform [60].

Albania started the adaptation with the following ^[61]:

- 1) Preparation of new regulation and legal framework to reform Albanian accounting system according to the fourth European Union Directive.
- 2) In January 1993, Albanian Parliament approved a new law “On accounting”.

- 3) In July 1993, Albanian Government approved the Albanian National Accounting Code, which is also known as Public Knowledge Project.
- 4) In 1994, Albanian entities have begun preparing and presenting their financial statements and maintaining their accounting systems based on Public Project Knowledge.
- 5) Training seminars with accountants in the country on the recent accounting system and on transformation from the previous system.
- 6) A guide for professional accountants and economic entities.
- 7) Approved chart of accounts for banking sector and for the local and central government departments. For some entities it also included banks and other similar financial institutions. The relevant regulations and laws stipulated the application of two types of standards, local standards and IAS. Sometimes, some institutions are obliged to represent their financial statements in accordance with IASs.
- 8) Preparation of training materials as well as training professionals to enable them to implement this system in practice.

CHAPTER III

3. THE ACCOUNTING SYSTEM AND THE ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) In IRAQ.

3.1 Background of Iraqi Economic System

Iraq is considered to have the fourth largest oil reserves in the world. Iraqi economy substantially depends on oil exports, which has provided about 95% of foreign exchange earnings, and stresses on development over central planning. The Iraq National Oil Company was established in 1964 and at the beginning of 1973 the government took control the oil industry in the country, which was previously run by international oil companies ^[62]. Economic embargo, following Iraq's occupation of Kuwait in 1990 led to an influence collapse in income and severe food shortages ^[62]. In 1998 the program of the oil for food took effect to alleviate the adverse effects of the economic sanctions. UN tightly controlled imports in Iraq after this program had been initiated ^[63].

The agricultural sector is considered to have the second largest sector in Iraq, which employs 15% of the country's gross workforce.

The country's GDP has substantially increased from US\$1 billion in 1960 to US\$ 82 billion in 2012, indeed there was considerable growth in GDP particularly as a result of increased oil prices.

However, the estimated Iraqi loss in its economy as a result of 8-years war damage is at least US \$100 billion. Foreign debt has increased to nearly US \$ 35 billion, in addition the repayment of US \$ 83 billion as a consequence of claims for reparation of default due to invasion of Kuwait. After 2003 invasion by US led coalition, foreign aid from international organizations i.e. the World Bank, the UN and the International Monetary Fund (IMF) has become a significant component for

reconstruction of infrastructure in Iraq (Iraq - Growth and Structure of the Economy) [62].

In fact, Iraq has played a remarkable role in the field of accounting and also in the development of monetary system; but through the years Iraq experienced events that destroyed its rich civilization i.e. Saddam Hussein's up-arrogance brought a series of wars, discovery of weapons of mass destruction and America's declaration of war against Iraq in pursuit of its Anti-terrorism campaign. War after war Iraq became subject to instability, and this instability caused its accounting practice to deteriorate [63].

3.2 Historical Overview of the Iraqi Accounting System

3.2.1 Before independence in 1932

The Iraqi accounting system dates back to the Mesopotamians (4500 BC) which involved keeping records of their trading operations on clay bricks [64]. Since the 7th – 8th centuries the trading and other related transactions were affected by Islamic law (Shari'a) [65]. During the 19th century, the double-entry system introduced as the major method of book-keeping which was remained when Iraq became British colony at the beginning of 1930s [66].

3.2.2 From 1932 until 2003

During this period a number of laws were enacted that governed accounting and finance practices in Iraq, which can be summarized as follows:

- 1) The 1951 Law: Although this law was issued in 1951, it became effective only in 1953; however, it until now represents the basic of Iraq's merchant legal system. This law is inspired by both Islamic Law (Shari'a), and western legal concepts (generally French laws) [67]. The (Shari'a) was applied by the Ottoman Empire. It rules transactions, companies' drafts, leases, courts and other business matters [62].
- 2) The Iraqi Commercial law No. 30 (1984) regulates various business matters i.e. company registration, negotiable instruments, accounting books, letters of credit, commercial mortgages and other financial transactions [62].

3) The Companies Law No. 21 (1997) amended the Iraqi civil and trade law to govern the types of companies permitted in Iraq and their formulation and liquidation [68]. According to these amendments, the accounts of the private companies should be submit to auditing by auditors employed in the general association of the companies.

4) The Companies Law No. 22 of 1997, regulates the public companies under the administration of different ministries such as the Ministries of Industry, Trade, Oil, Transport, Housing, Irrigation, Finance. Other types of companies which have a mixed ownership structure regulates by company Law No. 21. The accounts of these companies should always be subject to auditing by the Board of Supreme Audit (BSA) [68].

According to above Iraqi laws, all companies should to keep both general journal and general ledger and prepare the financial statements, which present the financial position and the results of its operations fairly at the end of the fiscal year.

5). In the 1970s, the Iraqi government was used central planning to manage the national economy, and setting up a commission named “Accounting Uniformity System Committee” to found the unified government accounting system to be applied in public sectors and Tax Authorities [69].

6) In 1982, the Iraqi authority has applied a new unified national accounting system in manufacturing and merchandising sectors. This system led to unification of financial reporting in the country which in turn facilitated the governmental role in decision-making [70].

7) The Iraqi Union of Accountants and Auditors was established in 1985, a member of the International Federation of Accountants Committee (IFAC) has made steps to adoption of International Accounting Standards (IAS). In 1988, the Iraqi Board of Accounting and Auditing Standards (IBAAS) were founded by an order of the Office of the President and tasked to set National Accounting Standards (NASs), National Auditing Standards, and to provide the government with advice on financial services. The IBAAS became the first semi-private accounting professional body in Iraq. Since its founded till 2003, the IBAAS has issued 14 accounting standards and 4 auditing standards. Although this board did not have the power to oblige companies

to apply these standards, it made some steps to compatible NASs with IASs (Iraqi Board of Accounting and Auditing Standards) ^[71].

The decision to issue and develop the accounting standards is a consequence of coordinative decisions made by different organizations including the Financial Control Council, Director General of the State Commission of Tax, Director General of Registered Companies, Director General of Accounting Office, Director General of Baghdad Stock Exchange (Iraq Stock Exchange), Director General of Economic Planning Office, delegate from the Auditors and Accountants Union and delegate of the Higher Education and Scientific Research candidate by the minister from Specialized University faculty.

3.2.3 From 2003 - onwards

When US and coalition forces occupied Iraq in 2003, the country had enormously weak economy, with its physical and industrial infrastructure mostly damaged by war and previous economic embargo. In 2003 the Coalition official Authority initiated a program of economic liberalization, which included reforms in foreign exchange market, taxation and cutting import tariffs in order to attract foreign investment ^[62].

The Iraqi authority made a fundamental steps to establishing a free market economy in 1st April, 2004 when the Coalition and Iraqi authority enacted an amended version of the Companies Law in 1997 permitting private and foreign ownership of the natural resources. This law also facilitated the company registration procedure for foreign investors. The main goal of this amendment was to minimize the role of the government in controlling the private business decisions. Simultaneously, the Coalition official Authority applied the full adoption of IFRS that required all companies listed on the Iraq Stock Exchange to implement international accounting standards ^[73]. Amendments to security's laws also required the related companies to present unified accounts in accordance with IAS unless a few standards which specifically modified to be implemented in Iraq (Iraqi Ministry of Trade, 2004, act 133). Such an action constituted a considerable step toward progress of accounting in Iraq ^[74].

Iraq's membership in the Asian-Oceania Standards-Setter Group (AOSSG) is also promising to smooth IFRS adoption through sharing the experience of the convergence approach and by co-operating with governments, other regulatory bodies and international organizations to promote the quality of financial reporting in the region ^[74].

The Iraqi Government commenced a comprehensive re-structuring of its finance and banking sector in February 2009 targeting to modernize its banking and finance system which was expected to continue beyond 2012. Currently domestic enterprises acquire their financial resources mainly from the banking sector while the Iraqi Stock Exchange is still very small and underdeveloped ^[75]. It is expected that privatization and foreign investment will serve to increase the reliance on equity finance in the future, hence increasing the importance of credible financial reporting by the listed companies. The adoption of IFRS in Iraq seemed to improve the quality of financial reporting for listed companies, hence assisting the continue of development of the stock market.

3.3 Iraqi Accounting Governance

As defined in Article 6 of the Board of Supreme Audit Law (1990), the Board of Supreme Audit (BSA) is the regulatory and supervisory body, which is responsible for the issuance of accounting standards and policies in Iraq. The “BSA” was established to perform the duties, and specialties described in the above-mentioned law as well as promoting its role to participate in improving the performance of the state’s institutions. This will enable the Board to provide the auditing requirements with required resources, capabilities and information. Another task of BSA is to express its opinion about the fairness of the financial situation and the operational performance of the companies, and to assess the performance of the institutions under its jurisdiction to find administrative and organizational structures which go along with the stages in the development of national economy and provides enough flexibility to the Board in planning the assigning duties and specialties. These duties are: to secure the required central supervision, to direct controlling tasks and improving the basic principles, means, ways of implementation and evaluation of the results to enable the Board to cover all the services and institutions of the state, and

perform auditing and supervision with the highest level of efficiency and competence.

The Audit Advisory Board (AAB) is responsible mainly for organizing and supervising the auditing and accountancy profession within the “private sector” in Iraq, while the Board of Supreme Audit (BSA) is responsible for the audit of governmental entities and the Chairman of BSA is also the chairman of the Audit Advisory Board (AAB) ^[73].

3.3.1 Accounting standards

All Iraqi organizations and Foreign Entities, which operate inside Iraq, should apply the Unified Accounting System (UAS) for statutory reporting; including audited financial statements, which needs to match the requirements of the tax authorities, the Central Bank of Iraq and the Registrar of Companies. Any organization may use any accounting Standards internally or for any other reporting purposes; however, reporting to Iraqi governmental authorities must be made in accordance with the UAS requirements. BSA being the legislative body responsible for issuance of standards stated in their accounting standard No.1, the composition of the Board of Accounting and Auditing Standards (AS).

In addition to this there are other standards formulated by the Board (Iraqi Board of Accounting and Auditing Standards) ^[73]:

- AS No.2 Accounting Treatment of Research and Development costs (1992).
- AS No.3 Capitalizing Borrowing Costs (1993).
- AS No.4 Accounting of Foreign Currency Transactions (1993).
- AS No.5 Accounting of Inventory, its evaluation and presentation in Financial Statements (1995).
- AS No.6 Disclosure of Information that are Related to Financial Statements and Accounting Policies (1995).
- AS No.7 Cash Flows (1996).
- AS No.8 Information reflecting the effects of Inflation (1997).

- AS No.9 Contingencies and Events occurring after Balance Sheet (1997).
- AS No.10 Disclosures of financial statements in Banks and Similar Institutions (1998).
- AS No.11 Agricultural Accounting (1998).
- AS No.12 Capital Profit and Loss (2000).
- AS No.13 Accounting for Income Taxes (2001).
- AS No.14 Accounting for Investments (2001).

3.3.2 Iraqi accounting rules - book keeping and ledger maintenance

Accounting practice in Iraq is affected by the cultural dynamism and the environmental behavior that may cause accounting practice to differ from the generally followed rules. Variations in the applied rules leads to the following results [69].

- 1) Due to the Arabic language that is formally spoken throughout Iraq, all organizations operate in Iraq should keep their accounts, ledgers and reports in Arabic language.
- 2) All organizations operating in Iraq can internally use any currency to record their accounting transactions but for the purpose of audited financial statements they should use Iraqi Dinars, because Dinar is the official currency of the country. All reports submitted to the governmental authorities must also be denominated in Dinars.
- 3) Accounting treatments under UAS may carry some vagueness for certain international accounting policies; for instance, the treatment by head office charging a certain percent of its overhead to an executed contract signed in Iraq, or the treatment of the “Management Expenses” incurred by the Head office relevant to the activities of organizations operating in Iraq [74].

3.3.3 Iraqi tax regulations

Tax in Iraq is considered as one of the major sources of income. Five categories of tax are classified in accordance with the law of Ministry of Finance which is recently implemented are: Personal income Tax, Social Security Contributions, Corporation Tax, Stamp Duty, Custom Duty and Sales Tax. The last one is not currently in place yet ^[62].

3.3.3.1 Personal income tax

The tax rates of the personal income are around 3-15% based on the individual taxable income. The individual taxable income earned by an individual is calculated after deducting allowable items i.e. personal allowances, child allowances, as well as other deductible exemptions such as food, accommodation, and transport and risk allowances. Income tax paid abroad on behalf of foreign labor (expatriates) operate in Iraq will be offset against personal income tax liability incurred in Iraq. Staff Personal income has to be settled on a monthly basis, and it is the employer's duty to collect the tax from the employees and remit it to the concerned tax authority in order to avoid penalties ^[77].

3.3.3.2 The social security contributions

The social security contribution of any employee is 5% of the basic salary, while the employer's contribution is 12%. Accordingly, the Social Security paid abroad for expatriate personnel working in Iraq may be offset against their liability for social security as a result of their employment in Iraq ^[77].

3.3.3.3 Corporation tax

Corporation Tax is collected at a flat rate of 15% of the taxable profit. However, the corporation Tax rate for companies operating within the Oil Sector, according to a resolution will increase to 35% of the taxable profit. The latter is the reported profit as per the financial statements adjusted by certain unallowable expenses for tax purposes such as Personal non-business expenses, Provisions and Dividend income ^[77].

Losses can be carried forward for five years in order to offset up to 50% from taxable income of the following years. Foreign Entities operating in Iraq in the form of a limited liability company or branch will be treated in the same way indicated for taxation purposes ^[77].

3.3.3.4 Custom and stamp duty

Except food and very limited types of other materials almost all imported materials are subject to 5% re-building Iraqi fees, and 1% export fees. The local government can also impose additional fees of 1-2% of the fair market value of the imported goods and materials, if such goods are used inside such territory. Stamp Duty may be imposed upon signing contracts with governmental entities. The current rate is 0.2% of the value of the contract, unless the contract itself stipulates that it is exempted from stamp duty ^[77].

3.4 Accounting System in Iraq

3.4.1 Government accounting

The State Accounting Act No.28 of 1940, was an extension of previous Act of 1922 when the annual budget of Iraq was not more than USD 15 million and the Act was adequate at that time. Despite the development of the Iraqi economy via an increase in the annual budget to more than USD 150 billion in the years of 1981-86 economic plans, this system of accounting is still in use. Its supporters are very forceful and it is still taught in universities and institutes; however, the main weaknesses of the government accounting system are as follows ^[76]:

- It depends on the cash basis rather than accrual basis. In other words, the system is basically just a cashbook, in comparison with other accounting systems in Iraq e.g. uniform accounting and commercial accounting do both use the accruals basis.
- The government accounting system does not differentiate between capital and other expenditures, thus it is far from providing useful information to economic planners about the capital assets used by state offices. It seems useless to retain this system any longer, particularly as it is applied only in some state offices but not in others i.e. it is applied in the Ministry of Transportation, but not in the Passengers Transportation Services Company, which is part of the Ministry.

This system is designed specifically for all non-profit state organizations ^[76]. However, this view does not appear to be correct, because hospitals apply the uniform accounting system rather than government accounting while the Ministry of Education has applied uniform accounting system for over 10 years. Consequently, this system has hindered the financial assessment of those governmental entities, which apply it e.g. making the evaluation of the efficiency of a department difficult ^[78].

Legislation is considered to be another factor affecting the development of accounting, as there were many regulations i.e. regulations related to finance, company, and commercial activities. In the past, most of these regulations differentiated between the public and private sectors. After the introduction of the uniform accounting system in order to meet both needs and requirements of national plans, all financial information required whether from the public or other sectors was unified. Furthermore, the accounting profession and its institutions in Iraq has failed to effectively enhance or/and accelerate economic development, mainly due to the absence of accounting skills and for many other shortcomings in accounting education within Iraqi accounting institutions ^[78].

3.4.2 The uniform accounting system in Iraq

Both the growing influence of the Iraqi government in planning and control of the national resources and the increased size of public sector in the economy had led to a necessity to possess more comprehensive and uniform financial information. Formerly, the accounting system used by the public was almost similar to that used by the private sector, which did not provide adequate information neither to the headquarters of a company nor to economic planners. Furthermore, there was no direct link between the government accounting system, particularly the general budget and the national plan ^[78]. The only link available was the categorization of the capital budget for expenditure allocation and for the main sources of revenues for financing projects under construction. A shift to an alternative accounting system became necessary and the uniform accounting system, thus, was chosen as the alternative ^[78].

3.4.2.1 Background and objectives of the uniform accounting system

On the grounds of necessity to have comparable and aggregate statistical data for all Arab Countries, the first step towards unification of the accounting system in Iraq was based on the uniform accounting system that was developed by the Industrial Development Center of the Arab League ^[79]. The main goals are as follows:

- All Arab Countries should have the same national accounting system based on a uniform system.
- There should also be a uniform financial and cost accounting system at the enterprise level. The first application of uniform accounting in Arab Countries was in 1950 in Egypt, where it was introduced in order to control and supervise insurance companies. Later, in 1966, it was applied by most public companies in Egypt. Therefore, Egypt was the pioneer in establishing this system amongst Arab countries.

The first introduction of this system in Iraq was in 1972 when the State Textile Industry applied the system in its companies. After this first application all companies administered by “The Ministry of Industry” applied this system. According to the functional and the natural classification of expenses, the system was divided into 4 main categories, each having a one-digit code e.g. assets, liabilities, use of a resource (expenses) and sources (revenues). The first two categories are related to the financial position of the company while the second two are related to operating accounts. The system was adopted and implemented by “The Ministry of Trade” and its companies beginning from 1971. Since the financial year 1973 the oil companies have applied a uniform accounting system ^[79].

Most Iraqi Ministries has followed the Ministry of Industry in preparing a special uniform accounting system for their companies. Most of these systems contained few elements of uniformity, just a description for the guidebook of accounts. In April 1979, the Revolutionary Command Council issued a decree No.380 to establish a committee responsible for preparing a uniform accounting system for most of the ministries. The committee took into consideration the following points:

- Preparation of a most appropriate uniform accounting content;
- Connection between national accounts and the uniform accounting system;

- Coordination between various finance regulations and cost accounting system to determine and to unify the accounting terminology.

One of the advantages of the uniform accounting system is its reliance on the accrual basis and event recognition, which gives a better idea of the activities carried out by an enterprise, in comparison with the cash basis used by the government accounting system. The uniform accounting system is considered to be an important step for central economic planning, which uses both accounting information and economic budgets in planning for economic and social affairs . In summary the main objectives of the uniform accounting system are the followings ^[79]:

- 1- Providing information and analytical data required for planning, execution and control at different levels. The system assists in providing the statistics that are necessary for planning and control of most economic sectors.
- 2- Linking the accounts of economic units with national accounts. Since the national accounts depend on statistical information, the uniform accounting system will aid the provision of that data.
- 3- Facilitating the collection of accounting information, storage and classification.

The system is described as uniform because it unifies the followings:

- The financial year.
- Account codes.
- Accounting concepts, principles, and definitions.
- Accounting and financial reports; and
- Budgets.

The companies that are obliged to apply the system are those economic units that operate in public and mixed sectors except Banks, Insurance companies, Finance companies, Government Administrations, and Ministries whose budgets depend on the General State Budget. Since 1982, both public and mixed companies have applied the uniform accounting system and the Board of Supreme Audit is responsible for monitoring the system's implementation in these companies. Private

companies which come under Companies Act no.36 of 1983, should follow the system and the Committee of Trade Organization is responsible for its application in these companies ^[69]. However, currently, there is no application of this system in the private sector due to shortages in well trained accountants and the preference of owners for the traditional accounting method for preparing financial reports.

3.5 Factors Affecting the Accounting Practices in Iraq

Countries do not adopt certain accounting standards only to be different, but, every country's accounting standards and practices result from a complex mixed of economic, historical, cultural and institutional effects ^[80]. A few common factors are discussed on this subject include: economic, legislative, political, cultural and international influence ^[81]. The objective of this part is to examine the main factors that affected the development of accounting in Iraq over the past several decades.

3.5.1 Cultural factors

It is a common sense that “the culture of a country influences the choice of accounting practices due to the assumption that accounting is a socio-technical activity that involves an interaction between both human and non-human resources and these two resources interact”. Since human resources involve accounting cannot be culture free ^[82]. For example the religion is a cultural input which has a major effect on how Muslims do business and the religion affects the accounting system chosen.

Iraq, where Islam is recognized as the state religion, has traditionally played a significant role in the Islamic world. Islam has a very significant influence on business dealings and determining sources of finance since Islam prohibits interest. However this influence is now minimized in modern Iraq. Related to this issue, Islamic Banking, there is only one bank that prohibits interest in Iraq ^[83]. Other non-Islamic Banks can as in other Muslim countries, receive interest ^[84]. This is because of Iraq was under a British rule from the beginning of 1920 , with Western accounting regulations being introduced during that time ^{[85][66]}. However, the influence of culture on accounting practices provides an imprudent explanation for the development of accounting in different countries.

It is clear that, in the shadow of the current wave of international compatibility, a lot of nations with specific cultural differences have all decided to adopt IFRS. Therefore, other factors such as the development of financial markets, free movement of capital, and the taxation practices probably provide better explanations [86].

3.5.2 Political factor

The political system is another factor that impacts on accounting practices in Iraq. Iraq has experienced many wars and these wars had negative impacts on the Iraqi economy, for instance Arab-Israeli war during 1940s and Iraq-Iran war during 1980s [87] [85]. The socio-political system affected the choice of planning strategies, which were not always the most right ones. For example, printing money following invasion of Kuwait in 1991 had led to the increase of inflation in Iraq. The oil production was badly affected by the Baath regime through the war. Inflation began to rise after Iraq oil nationalization between 1972 and 1975, and increased rapidly until the early 1990s [88]. This period was known as the Baath era, lasted until 2003 when the government controlled all oil revenues and forced the private firms to act in getting along with the national plan. Non-Arab foreign investment was barred, and the Baathist regime was inordinately corrupted and devastated Iraq's economy [88].

3.5.3 Economic factor

Another considerable factor that affects on accounting practices in Iraq is the economic system. In 1968, the Iraqi government decided to follow socialist economic policy and stated using central planning. In the field of accounting, the government introduced two uniform accounting systems: one for the government entities and the other for industry and trade sectors. In the early 1970s the government revenues began to increase with the growth of oil industry. The oil boom had a severe inflationary effect on the economy with central planning in Iraq and the unemployment rate began to rise during the beginning of the 1990s [89], which mainly was due to Gulf war. In 2003 the coalition officials planned to transform the Iraqi economy into the free market economy.

The most important aspect of Iraqis transformation from centralism to free market was to encourage the private sector. Hence, it was expected that private companies would play a major role in the new economy of Iraq and should lead to macroeconomic stability, reduce government intervention, and bring prosperity. A dynamic private sector, banking privatization and eventually the development of a functioning stock exchange should lay the foundation for competitive free markets. To facilitate the transformation from a central planned economy to a free market economy in Iraq, it became necessary to reform its accounting system. Thus the Coalition Provisional Authority required all listed companies in Iraq to apply IFRS in 2004 ^[85].

3.5.4 The establishment and development of the Iraqi stock market

In 1992 the Baghdad Stock Exchange (BSE) was established under the Baghdad Stock Exchange Law No. 24 of 1991 and its relevant legislations of 1992 and 1997. The BSE is supervised by the Ministry of Finance. Unlike exchanges in other countries where the stock exchanges were open almost all week days, the BSE was open only on Mondays, Wednesdays, and Saturdays from 9.30am to noon. It was not run electronically either, but rather relied on markers and white boards ^[90]. Such a stock exchange was a unique backwardness and was ineffective in encouraging private investments. So, there was a need for institutional reforms ^[64]. As a consequence, the Iraqi government attempted to reform the Arab Investment Law No. 46 of 1988, which organized Arab investment in Iraq in 2000. Amended law permitted the establishment of companies in Iraq by foreigners who are not citizens of Arab countries ^[91].

The Commercial Agency Law No. 51 of 2000 was also activated to regulate the operations of commercial agencies as well as relations between government entities and Arab or other foreign investors. The Arab Investment Law No.46 of 1988 was replaced by the Arab Investment Law number 62 of 2002 which implied more favorable provisions for Arabic investors ^[69]. During 2003, the Baghdad stock market stopped trading due to the war and was closed until June 24, 2004; the stock exchange was reopened under a new name (Iraqi Stock Exchange). The exchange is now supervised by the Iraq Securities Commission (ISC) and is supported by NASDAQ-OMX system that enables the exchange run automatically ^[92].

Three important institutional reforms took place after 2003 in Iraq. The first one took effect in September 2003, when the Iraqi Finance Minister declared a new foreign investment law designed particularly to treat all foreign investors similar to the domestic investors. The new law permits the foreign investors to own 100% of businesses in any industries except the natural resource industry ^[89]. However, in 2009 this law underwent a major change which now allows foreign investment in the oil sector. It was anticipated that with more foreign investors, the quality of financial statements will be improved to assist them make useful decisions ^[92].

The second reform was the declaration of the Iraq Stock Exchange Law number 74 in 2004, requiring all listed companies in the Exchange to comply with the disclosure requirements of the Iraq Stock Exchange, otherwise they will be penalized 250,000 Iraqi Dinars (ID) (US\$200) per month. In addition, the trading of their shares is suspended after 60 days until submitting all required information and paying another two million ID ^[64]. Moreover, the new draft of the security law of 2007 is still under discussion ^[69]. The final reform was the announcement of Central Bank Law number 74 in 2004 that outlines procedures for foreign banks entering the Iraqi market, which include licensing, operation and financial reporting ^[93]. These reforms have also accelerated accounting developments and the adoption of IFRS in Iraq. Similar to Western countries, the development of the capital markets in Iraq is a driving force to improve transparency and comparability of financial information, and hence the adoption of IFRS ^[93].

3.5.5 International impact factor

The accounting practices and other regulations in developing countries are substantially influenced by developed countries through two main forces, which are colonialism and the special conditions stipulated in economic aid agreements ^[94].

Following the end of WW-I Iraq became a British colony, and consequently, the Anglo-Saxon accounting practices and legislations were initially implemented during this era ^{[86][66]}. However, after four decades of the Baath regime with wars and with the weight of debt left behind, Iraq was under pressure from international organizations, which provide financial aid, to improve its financial reporting practices.

Thus, Iraq has undergone a considerable reform in accounting and corporate regulations. Iraq took right steps towards reengagement with the international community; for example, IFRS was introduced in 2004 for all companies listed in the Iraq Stock Exchange ^[74]. Further, in December 2004, Iraq was granted observer-ship at the World Trade Organization (WTO). Iraq intended to obtain membership of the WTO, the Iraqi government submitted its proposal on the Foreign Trade Regime in September 2005, and has undergone a significant process of redevelopment from 2005-2010, where the country has engaged in many working meetings regarding legislative action plan and market access ^[95]. The WTO continued to examine Iraq's foreign trade regime prior to granting membership status. The International Monetary Fund (IMF) and World Bank have also made a considerable contribution to the restructuring of Iraq's debt. With these activities, Iraq can well be to completely recover from previous wars and build a stronger economy in which a better accounting system can be established ^[95].

3.5.6 Legal factor

Previous accounting studies provided evidence to support the view that legal systems influence the development of accounting systems and accounting regulations in different countries ^{[96][97]}. Different legal systems affect the formulation of accounting rules in various ways. This impact depends fundamentally on the strengthening mechanisms which, in turn, depend on the origin of the legal system-common law versus code law ^{[97][98]}. For example the common law countries have tougher financial disclosure requirements and offer a better legal protection for creditors in comparison with firms from code law countries. In addition, A greater demand for financial information encourages greater disclosures of public information by firms in common law countries, which may resolve asymmetric information problems ^[98]. This can be compared to code law countries where asymmetric information problem can be resolved by private communication between managers and agents, or suppliers of labor and capital, as there is a close relationship between agents and principals. As a result, it sounds less likely to disclose public information ^[98].

Iraq is considered as a code law country while Islamic law has been one of the main sources of legislation in Iraq, especially in the development of civil and personal law. The companies' Law No. 21 of 1997 is the legislation governing corporate bodies in Iraq, which maintained a limited investment regime. The latter allows only Iraqi citizens to form a company or act as a commercial agent whereas foreign companies were unable to establish an office in Iraq. In addition, it prohibited private ownership of natural resources ^[99]. In 2003 the Coalition Provisional Authority issued the new foreign investment law No. 39 of 2003 which permits both domestic and foreign investments and protects foreign investors and treats them similar as national investors. The above law was superseded in 2006 by the Iraqi National Investment Law, which in turn encourages investment in all industries and trading sectors and provided a better protection for both national and foreign investors. This has also done through a reform of the Iraqi economy in accordance with modern economic principles to ensure the full investment of its resources, diversification of the economic sources, and the development and encouragement of the private sector ^[3].

The disclosure requirements have encourage transparency as the Iraqi Stock Market Law of 2004 requires IFRS to be implemented for all companies listed in the Iraq stock exchange. In addition, the annual reports, which include balance sheet, income statement, cash flow statement, and statement of change shareholders' equity are subject to auditing in accordance with international auditing standards by an independent auditor ^[74]. Such a legal system in Iraq looks a unique step as it helps to shape its accounting practices. It's notable that differences in the two legal systems, i.e. common law and code law, appear to have not been considered as important internationally in making the decision to adopt IFRS, which in principle were developed to serve the needs of countries with common law countries. It will be interesting in the future to investigate how the different legal systems affect on the outcomes of applying IFRS in different legal contexts particularly in Iraq subject to this study. This implies further changes and modifications in Iraqi laws to eventually adopt the IFRS ^[100].

3.5.7 The accounting education factor

Teaching of accounting in Iraqi universities focuses on theoretical aspects with limited practical application. Therefore, the accounting profession in Iraq is not able to meet the needs of the market, particularly after shifting to a free market economy. In fact, the accounting profession in Iraq seems to be more advanced compared to other countries in the region ^[100]. The Higher Institute of Accounting and Finance, founded by the government in 1999, is in charge of professional certification in accounting is considered as the first Arab governmental agency that offers a professional qualification ^[101]. Moreover, the Board of Accounting and Auditing Standards has attempted to upgrade the accounting profession in Iraq to be in parallel with the profession in the region. There is still more opportunity, however, in ensuring the Iraqi accounting education system to meet the needs of international environment. Accounting training in Iraq was initially designed to meet the needs of state owned or controlled entities, rather than meeting the information needs of external fund providers on an active stock market. Simultaneously, accountants in Iraq would still be in need of continuous training in implementing IFRS ^[101].

3.5.8 Taxation factor

One of the national characteristics, which has a significant impact on a country's accounting policy-making system is the taxation framework ^[87]. However, in developing countries government, both users and regulators, is a most persuasive forces in the development of accounting objectives, standards, and practices ^[102].

In 1927, the first income tax law of Iraq was declared. As it has already been mentioned elsewhere in this thesis, as Iraq is a developing country and a former British colony, its tax system was modeled on the British income tax law. In 1982 the Iraqi government adopted the income tax law No. 113 reducing the tax rate and complexity compared to the previous law ^[77]. During the Baath era there were no noticeable developments regarding the tax legislation, except minor amendments that had no obvious impact on the tax system in general ^[64]. This was because taxes do not play a significant role, mostly used as a method to tackle disparities in the income levels of the citizens. For the Iraqi government the oil revenues represented a greater dependent source for financial resource ^[102]. Another notable feature of the

current Iraqi corporate income taxes is the absence of accounting methods for determining taxable income ^[85]. Consistent with numerous code law countries, accounting regulation in Iraq has conventionally been based on its tax system which is likely changeable with the adoption of IFRS.

3.6 Expected Future Plans on Accounting Policies

Iraq is excluded in the list of countries using the International Financial Reporting Standards as a basis for the accounting rules to be implemented. Uniform accounting is becoming irrelevant while a new accounting approach is necessary. The question which needs to be addressed is "which accounting system is best suited for use in the new Iraq? ". argues that International accounting standards can be considered as a good option ^[103].

Since 1990's a series of 14 accounting standards were announced based on IFRS. However, these accounting standards have fallen behind, one of which is the Standard on research and development costs (IAS 9 research & development costs), an international accounting standard that no longer exists since it was replaced by IAS 38 Intangible assets.

The Central Bank of Iraq had in 2009, pre-announced its intention of converting the Financial Statements into IFRS. Recently, in consultation with the IMF and the World Bank, Iraq has adopted a three-year action plan that identified priority measures in the areas of budget preparation, execution and reporting; cash management; public purchases. and the accounting framework, specifically ^[66]:

In order to improve budget preparation, Iraq needs to clearly define priorities, set ceilings in the budget circular for current and investment spending -in line with a sustainable medium-term budget strategy- and develop overall sector strategies. To robust reporting and cash management, Iraq requires spending units to submit reports on all spending i.e. investment, advances, and letters of credit within two months after the end of each month, and to reconcile these amounts with the cash balances at the beginning and end of the reporting period ^[104].

It has been argued that in order to strengthen internal audit and control systems, Iraq should reexamine its internal policies and procedures in the Ministry of Finance, as well as the accounting systems, processes and internal controls used by the accounting department; and review the internal controls of the largest spending unit's operating systems.

To attract investment agenda and accelerate the reconstruction of Iraq's infrastructure, Iraq has to ask the Board of Supreme Audit (BSA) to review the largest investment projects financed with previous budget allocations. The audit report should involve evaluating the criteria for approving capital investment projects: whether or not a cost benefit analysis was done; the procurement process: whether it conformed to international standards of transparency and competitiveness; and the project management process, or the projects were delivered on time and within budget. The report should provide recommendations that could be used in the following budgeting process to enhance the agenda on public investment ^[104].

It has also been stated that Iraq should undertake an assessment of the functionality of the Iraq Financial Management Information System (IFMIS) developed with the assistance of USAID, and make the necessary changes to ensure that this system is fully operational. Furthermore, Iraq should continue submitting to the BSA and to the Council of Representatives the final accounts for each fiscal year no later than September 30 of the subsequent year. To reform the Iraqi accounting system, it seems necessary that Iraq should take a few serious steps to promote its accounting system to enable it to converge smoothly to the International Financial Reporting Standards (IFRS) ^[104].

3.6.1 Tax reforms

Iraq has shown some development regarding a medium-term tax reform strategy with the objective of streamlining the tax system, broadening and diversifying the national tax base, and increasing revenue collection. In 2008 Iraq introduced a mobile phone tax and looked ahead to introduce a sales tax in the coming years as a precursor for a value-Added Tax (VAT) and is considering reducing the number of income tax allowances. Iraq may also need to seek technical assistance from the IMF and other international partners to support its tax reform efforts and will urge the Council of

Representatives to adopt the new customs law that will establish a transparent and efficient tariff system with fewer exemptions ^[77].

3.7 Interviews with the experts

Series personal interviews (nine person) were conducted throughout this research with academics, professional accountants from both public and private sectors. These interviews are of paramount importance as a major and important source of information. The individuals interviewed include:

- 1) Members of the national purist expert accountants, accounts and governors of chartered accountants.
- 2) The staff of the financial, accounting and auditing in economic institutions.
- 3) Accountants operating in the fiscal interests.

The dialogues focused on the unified accounting system and the reality of the preparation for the transition to international accounting standards in the governmental bodies and economic Institutions. The interviews were also conducted with Iraqi professionals and university professors about the adoption of international financial reporting standards and accounting education. The proposed ways to ensure the effective transition towards International Financial Accounting Reporting Standards (IFRS) were also discussed. The interviews were conducted with the various parties based on specifically structured questions due to the richness and diversity of the views of the parties involved.

- The collection of relevant general observations about the accounting professionals through unofficial visits because the official visits could have been less practical due to the necessity to produce official communications from the universities to obtain a pre-request from the relevant bodies; pre-arrangements with personal secretaries which all delay the main task. Meanwhile, informal interviews enabled me to expand the scope of categories covered by the dialogue specific to the accounting practice in Iraq.

Throughout the field visits to those bodies active in the field of accounting in Iraq e.g. Bureau of Financial Supervision in Kirkuk it has hardly managed to record

observations that helped in directing the research methodology and enabled to drive and highlight information from other sources.

As for the results of the interviews there is a consensus among the respondents on supporting the International accounting compatibility and Iraq's accession to this path, and it is believe that it will reflect positively on the accounting practice in Iraq.

There is a consensus among the respondents that the application of international accounting standards will allow to ensure transparency of accounts and comparability of financial statements used with various parties in order to contain the conceptual framework regulating and controlling the accounting practice and ensures the level of disclosure that meets the requirements of the various parties.

Most of respondents stressed the need for the application of international accounting standards, although some of problems and difficulties may be encountered in Iraqi companies, whether at the level of the accounting treatment or evaluation and classification of the elements of the financial statements of the companies, but they will gradually be solved with time.

As we have noted there is consensus on the need to reform the education and training systems in accounting programs through updated teaching methods applied with the need to change the way for acquiring the accounting experience.

CHAPTER IV

CONCLUSION

Through this research it has been concluded the following results:

- International financial reporting standards (IFRS) were designed to help international investors to make investment decisions in the global financial markets, through the provision of financial information, transparent, reliable and internationally comparable for companies financial situation and their performance.
- The most important characteristic of International Financial Reporting Standards (IFRS) that it is derived from the accounting unification of Anglo-Saxon model, preference for the investors interests, gives the companies economical feature and assists them to making decisions.
- The accounting reform in the worldwide countries became essential to keep pace with developments and changes at the national and international level.
- The internationalization of accounting standards has been driven by the globalization of capital markets. There were major increases in cross border capital flows and multinational firms over the past few decades. This means that investable capital can move more quickly and efficiently to the most attractive investment opportunities worldwide.
- The application of international accounting standards in Iraq would be through the consolidated accounting system compatible with it, which takes into account a large part of them with regard to the conceptual framework, accounting principles, the rules for registration and evaluation the financial statements.

- The adoption of IFRS allows Iraqi companies to access in the international financial markets, which among its conditions is applying international accounting standards, and could be listed its shares in the international financial markets and look for new financial resources.
- The welcome of investors, financial analysts and other users of the financial statements standards to acquire a high-quality information featured by both transparency and comparable standards due to their recognized benefits. In the absence of common standards in economy context, the comparability of the financial information prepared by institutions at different parts of the world, could be a very difficult task to achieve in such increasingly globalized world.
- The use of a single universally accepted language of financial reporting standards characterized by neutrality, credibility and with a high confidence is likely to encourage the investment and would lead to the expansion of the business economy. Such standards could also reduce the chances of financial conclusions which might lead to bankruptcy and the erosion of many major institutions and minor institution.
- Adoption of the IFRS, on the long term, would help in the process of preparation of financial reporting worldwide which could be usable in several cross-border transactions and would lead to implement these high-quality global standards via provision of transparent information and comparable financial reports.
- Application of the IFRS could minimize the knowledge gap between auditing and accounting. It also increases the experiences and practices between them.
- Application of the international accounting standards worldwide would become so necessary due to its international natural credibility and a source of the public acceptance of financial reporting of the financial data published by the institutions.

- The use of a single set of high quality accounting standards could facilitate the investment and other economic decisions cross-borders, increases the
- Efficiency of the market and reduces the cost of collection process of the raising capital.
- Because the development of accounting standards is basically a continuous process; it must therefore be responsive to changes and developments in the markets and the information needed by investors.
- The agencies responsible for the regulation of the accounting profession in Iraq in terms of composition, finance and functions differ from other countries as overcome recipe government official orientation which makes the profession captive instructions and government regulations and the lack of recipe innovation in the practices.
- Iraq, is one of the Middle East countries, the significant change was made in 2003 through its transition from planned economy to a free market policy. As a developing nation, Iraq has witnessed several changes in its accounting system during few last decades.
- The religion has played a considerable role in Iraq culture which is in turn has had an impact on the development of accounting system.
- The economic and political factors have a large influence on the development of Iraqi accounting system and adoption of IFRS.
- There is a gap between the set of Iraqi accounting standards which is currently in effect and IFRS. There is a need for capacity building in accounting and auditing in order to facilitate implementation of standards in those field. There is a need for a system of continuing professional education in accordance with internationally recognized requirements.

RECOMMENDATIONS

Based on the previous findings, the following recommendations are proposed:

- To deal with the international accounting compatibility rather seriously because lifting the border of the investment movement and the expansion of investment activities of the institutions at the international level and freedom of the enterprises resorting to the international financial market, do all impose use a uniform accounting language.
- To work hard to increase the culture of accounting for a better understanding of the financial statements issued by various institutions, by investors and decision-makers.
- To work hard to unite the efforts of the Arab countries towards to convey their voice to the International Accounting Standards Board in order to have their demands and needs be considered.
- To take into account the taxation goals amongst the member states via reducing the likelihood of double taxation or to prevent it.
- Reduce the disparity in both global knowledge and in expertise amongst professionals in the countries in order to minimize the conflicts between governmental agencies, professional bodies and the private sector to control and supervise the profession.
- To unite the efforts of both auditors as well as the accountants to output lists of financial honest and fairly reflect the financial situation of the institutions.
- To match the auditing standards with international accounting standards that have the same goals and the requirements applicable to those of countries or those seeking to be.
- To recommend all enterprise registered in the capital market to provide financial statements that are prepared on the basis of international accounting standards, and to meet the audit requirements.

- To pay attention to educate and train the auditors to keep pace with the modern developments and new topics in audits as well as to play role in application of international accounting standards.
- The necessity to link between the academic education of the accounting issues relevant to application of international accounting standards.
- The necessity to highlight the pros application of accounting standards and their importance for both accounting or auditing office and the beneficiaries of the accounting reports in order to developed the knowledge and experience of professionals that contribute to the application of International Accounting Standards.
- The accounting officers ought to commit to employ those accountants only with competence and experience in the field of International Accounting Standards.
- Improve the quality of University accounting education and training to close relationship between the two sides of the academic and applied research in education. The academic institution should also commit to add the behavioral aspects of both international and local accounting monitoring standards as educational topics for teaching and researching purposes.
- Since Iraq has been encouraged to and has broadened the base of both local or foreign investment, it must therefore broaden the base of responsibility for the regulation of the accounting profession to enable themselves to issue appropriate local standards for the Iraqi environment and synonymous with international standards.
- Iraq's political stability becomes a must in order to attract foreign investment.
- There exists necessity to have a simple and settled taxable system to apply in Iraq.

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APANDEX I

INTERVIEW GUIDE

- 1- Relevant personal information about interviewee.
- 2- With regards to accounting and financial reporting, what do you consider the main differences between planned economy and free market economy?
- 3- How would you evaluate the changes on the accounting practice in Iraq since the application of unified accounting system?
- 4- What do you think of the strategy pursued by the Bureau of Financial Supervision to reform the accounting system of Iraq?
- 5- What's your opinion about the growing international trend towards the adoption and implementation of IAS?
- 6- Do you believe that adoption and implementation of IAS in Iraq will have a positive impact on the accounting practice? Why?
- 7- From your own experience, what do you think where are the main problems facing Iraqi companies when they implement IFRS/IAS ?
- 8- Do you support the idea of reforming the education system and training of accountants in Iraq?

CURRICULUM VITAE

PERSONAL INFORMATION

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EDUCATION

Degree	Institution	Year of Graduation
MBA	CANKAYA University	2013
BSs	MUSL University, Faculty of Management and Economy/Business Administration Department	1988
High School	El Kirkuk High School	1984

WORKEXPERIENCE

Year	Place	Position
2006- Present	Barish Secondary School	Teacher

FOREIGN LANGUAGES

Arabic, advanced English and advanced Turkish

HOBBIES

Reading book, to carry out research about diversified subjects.