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Obstacles to Implementing of International Accounting Standards on Oil Sectors in Libya

[1]Nuria Abdally, [2]S. M. Ferdous Azam, [3]Albattat, Ahmad

[1,2,3] Post Graduate Centre, Management and Science University, University Drive, Off Persiaran Olahraga, Selangor, Malaysia

Email: [2]drferdous@msu.edu.my

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ABSTRACT

Accountancy discipline aimed at measuring and conveying industrial unit related data and information to different parties. Through the study of the impact of IFRS on the financial information quality contained in the financial statements and highlight the role of the International Financial Reporting Standards adoption in influencing the decisions to increase the investments in the Libyan financial market, furthermore the impact of IFRS on the external audit process. It also analyses the factors that may face the Libyan companies to apply IFRS. A total of 382 respondents have answered the questionnaires, including accountants and financial managers who prepare financial statements and external auditors. The findings suggest that IFRS adoption increases the accounting information quality in the financial statements of the companies in Libya, its impact on the decision of investors and increase foreign direct investment and its impact on an external audit in Libya, the findings also suggest that IFRS adoption in Libya affected by some factors such as economic conditions, tax and legal systems.

1. Introduction

Accountancy discipline aimed at measuring and conveying industrial unit related data and information to different parties. Data get obtained from the main outputs of the accountancy system, which are financial sheets and statements. The data are of great importance to the success of the business, especially in the fields of development, so that excellence in preparation and provision of data became one of the necessary processes for advancing of development projects, where accountancy as a tool has a significant contribution to this (Theresa, and Presha, 2018; Peter, 2016). The role of accountancy is to provide data that help in controlling the performance of different units and make data available for leaders to help them take correct and informed decisions. Informed decisions are those enhance the continuity and feasibility of economic units as they are contributing to the support and empowerment of national economy (Shigufta, 2016).

Regardless of the political reality in country must seek and work to the maximum benefit from the available economic resources in the country, and achieved optimal utilization of economic resources through the creation of the optimal decision for investment and which achieves in turn through the provision appropriate information especially accounting information, increasingly the importance of accounting information to the extent that the authors of financial statements committed to the accounting standards (Dmitrij, and Matthias, 2018). Furthermore, the decisions associated with the investment would significantly affect the accounting-related information, which could affect the individual potential of the investors (Hassan 2014). This feature is not very common in Libya. Owing to the rapid globalization of the trade and industries, the financial information prepared with the help of some local accounting systems does not satisfy the requirements of the international users. Also, this type of information would prove to be an obstacle for international investors and multinational companies (Zeghal and Mhedhbi 2006). These data cannot be of sufficient use unless they are comparable between country and another and between the sector and another and company and other (Kerry, Patti, and Reza, 2016)). Economic condition is the main factor in developing international accounting systems, and it was found that the level of economic growth for a country has its effect on the development of accounting systems and practices (Adhikari & Tondkar, 1992).

Libya is one of the developing countries which lacked special standards, it is difficult to adopt accounting standards for another state because of national sovereign barriers, but adoption of IFRS issued by a neutral body (IASB) would be welcomed, especially after the opening of the stock market and the desire of state to encourage domestic investment and foreign and access to global markets (Syed et al., 2017; Mohammed, Mazni, and Ervina, 2018). Where was issued of the Banking Law No. 1 in 2005 which considers the IFRS implementation is mandatory for all Libya banks with the law of stock market No. 134 for the year 2005 in line with global economic openness and its endeavor for foreign investments' attraction and to engage to global markets and achieving the compatibility between the Libyan accounting practices and the international standards. Consequently, a greater degree of transparency and disclosure will be achieved at the international level. However, companies and banks have not applied IFRS (IASB, 2015).

As for compatibility between the opinion of the external auditor and the disclosure level at the financial statements, the auditor's report shall be the communication means that will convey the data in a clear and understandable manner that is acceptable to the users of such information. The troubles of interpreting bookkeeping terms have been analyzed by specialists over numerous decades (e.g., Rutherford, 1983; Walton, 1991; Parker, 1994; Evans, 2004; Dahlgren and Nilsson, 2012; Evans et al., 2015; Kettunen, 2017). The auditor is performing a crucial communicating and informing job. Wun, and Peter, (2018) incorporates interpretation issues as one of the eight reasons for global contrasts practically speaking under International Financial Reporting Standards (IFRS). Robert et al., (2018) incorporates interpretation and wording in his study of impediments to worldwide similarity of monetary detailing. It is also known that the report of the auditor without conservation would prove the truthfulness of the information at the financial statements and their fairness, which gives the assurance and the trust of the data user. There is an inherent trust relationship between auditing operation and sufficiency of disclosure of financial statements that shall be compiled according to IFRS. The aim of this study is to identify the Obstacles to Implementing of International Accounting Standards on Oil Sectors in Libya.

2. Literature Review

Facing implementation process of IFRS some of challenge that could be considered for transition to IFRS and that these difficulties vary among countries and economies each other, its application requires trained human resources properly in order to understanding and then implementation (Syed et al., 2017; Ajit et al., 2016) as well as the curriculum and accounting education in universities, cultural differences from one geographical area to other and laws and legislations issued by several countries that regulate some of the work which may conflict and consolidated accounting practices that was discussed and issued by international organization and bodies and in coordination with regional and local organizations the oversee and develop the accounting and auditing profession (Wun, and Peter, 2018; Albertus, and Warren, 2017).

Accounting Harmonization

It is distinctly different between the standardization and harmonization. The process of standardization can be described as a method wherein all the participants agree to use similar or the same accounting practices (Christa, Jan, and Bright, 2016). Harmonization can be described as the process which reduces the differences in the various financial reporting practices amongst the countries and aims to make the financial statements more uniform and comparable (Yosra, and Hela, 2017). Muhammad, Xian-zhi, and Zhaonan, (2017) introduce the concept that accounting harmonization is a process characterized by four following and essential components, namely, influences, process, output, and outcome. The accounting harmonization of the most important factors that help under the merger which defines the global economy on providing financial statements that are subject to the understanding and international comparison and then meets the needs of investor's information that helps for adopting a resolution. It has increased the importance of accounting harmonization given the variation in the local accounting systems, which has become an obstacle to international investment and a source of concern to the movement of the global financial markets (Silvia Angeloni, 2016). It also contributes to the provision of appropriate information and with credibility by defining a standard format of the financial statements giving it the status of acceptance, the movement of capital and other resources can be facilitated by the adoption of a uniform accounting system through borders and reduce participation expenses in the financial statements preparation (Syed et al., 2017).

International Accounting Standards Board

The International Accounting Standards Committee (IASC) was founded by accountancy bodies, professionals, financial managers, and scientists in 1973 and based in London from nine countries are Australia, Canada, France, Japan, Mexico, Netherlands, United Kingdom, and Ireland combined, Germany and the United States. The objectives of the standing committee of the formulation and publication of the IASC for being used in the financial statements presentation and enhance its acceptance throughout the world and work for the improvement and harmonization of accounting standards and implemented to reach an agreement among members, many of the standards issued by the IASC were flexible and general (Vafaci, 2010). With the rapid globalization in the mid-eighties to mid-nineties the committee began to take the developed economies seriously and raised the level of its standards to a higher level in response to the request of the organizers of securities markets and with the emergence of the International Organization of Securities Commissions Organization (IOSCO) has begun to exercise solid effect on the IASC and an agreement has been applied between the commission and organization is organization introduce requirement is that the reports of overseas companies which are interested in drawers in the financial markets of the member states must comply with the Standing Committee Standards (Christa, Jan, and Bright, 2016; Mezbah, Ruslan, and Romzie, 2016; Street, 2002).

On 1st January 2001, an international board (IASB) has replaced the committee and took over the responsibility of formulating and building the IFRS (Kenneth & Grazyina, 2013). Comparable outcomes were additionally found by Lantto (2007), Beijerink (2008) and Ismail et al. (2010). Qingliang, Huifa, and Zhijun, (2016) discovered that organizations in Portugal and Spain that deliver data about profit per share are more esteem important utilizing IFRS than utilizing neighborhood GAAP. Comparable outcomes were likewise found by Florou and Kosi (2009) and Capkun et al. (2011). The IFRS has formed the accountancy framework to provide requirements of acknowledgement, measurement, display and disclosure that are related to transactions and financial events (Ikpefan & Akande, 2012). The IFRS, which were developed by the IASB, is a very high standard. The IFRS was primarily established to assist the listed companies in the advanced capital market. However, the IFRS system is being adopted by the emerging economies, regardless of the significance and the suitability of the IFRS to such economies. It was seen that these emerging economies had no option but to adopt the IFRS owing to many external pressures (Phan 2014).

Conceptual Framework

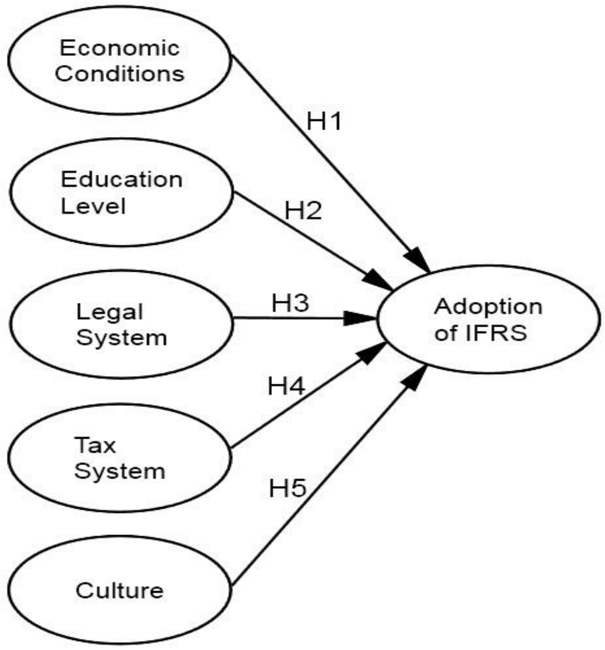

Figure 1 Conceptual Framework

3. Research Methodology

Quantitative research used to involve the quantitative and sent out to Academics, accountants, and external auditors. The quality of accounting information varies according to the quality of the accounting standards applied. Data were gathered respectively by questionnaire with accountants, financial managers, and external auditors in the Libyan Stock Market corporations, analysed independently and finally have been incorporated within the interpretation. Statistical Package for the Social Sciences (SPSS) used as the Measurement tool for this research.

4. Results and Analysis

Reliability Analysis
The reliability mentioned in table1.

Table1 Reliability analysis

No	Factor	Cronbach’s Alpha
1	The quality of accounting information	.657
2	Investors’ decision and foreign direct investment	.775
3	External audit	.557

4	Factors affecting the adoption of IFRS in Libya	.661
Cronbach's Alpha: 0.786		

Table1 shows Cronbach's Alpha values of the study factors. Most of the reliability values from 0.6 to 0.7 and the Cronbach's Alpha for all factors is 0.786, which is more than the recommended level of 0.7.

Normality Test for the demographic variables.

To know whether the demographic variables are following the normal distribution, skewness and kurtosis tests have been done, and the table2 shows the findings for the demographic variables.

Table2 Normality tests for demographic variables

No	Variable	Skewness Value	Kurtosis Value
1	Gender	1.531	.348
2	Age Group	.144	-.194
3	Qualification	.647	-.244
4	Specialization	2.921	7.966
5	Functional Position	-.160	-1.324
6	Experience	-.162	-.888

Table2 shows the values of Skewness and kurtosis tests for the demographic variables used in the study, the most demographic data can be considered normal as the Skewness and kurtosis values are between ±2 that is acceptable according to George & Mallery. Only one variable is considered not healthy which is (*specialization*) as the values of Skewness and kurtosis are more than +2.

Factor Analysis

Factor analysis is an analysis tool used to measure whether the assumed items measure the construct they belong to. Factor analysis of the impact of the international financial reporting standards adoption on the financial information quality in the financial statements factor. Factor analysis is used for this factor to be sure whether there are any other dimensions should be noticed or extracted. The first output of the factor analysis is KMO and Bartlett's test and the result shown in the table3

Table3 KMO and Bartlett's Test for "Factor analysis of the impact of the International financial reporting standards adoption on the financial information quality in the financial statement in Libya" factor.

KMO and Bartlett's Test		
KMO		.681
Bartlett's Test of Sphericity	Approx. Chi-Square	325.601
	df	55
	Sig.	.000

The table3 shows that the value of KMO is (0.681) for this factor, which is more than 0.6, meaning that it can be labeled as "mediocre", also, the significant test value is (0.000), which is less than 0.05 indicates that the patterns of correlation are quite compact, and therefore factor analysis should provide us with distinct and reliable factors.

ANOVA test for age and the study factors
ANOVA test is used to figure out the significant differences among age groups' means with the study factors and table4 shows the results.

Table4 ANOVA results for the age groups with the study factors

Factor		Sum of Squares	df	Mean Square	F	Sig.
IFRS adoption on the financial statement information quality		.224	3	.075	.700	.553
IFRS adoption to increase foreign direct investment and decision of investors		.177	3	.059	.382	.766
International financial reporting standards adoption on the external audit		1.737	3	.579	4.206	.006
The Factors	Economic conditions	.220	3	.073	.347	.791
	Education level	2.709	3	.903	.800	.495
	Tax system	.809	3	.270	.740	.529
	The legal system	.298	3	.099	.321	.810
	Culture	2.981	3	.994	3.569	.015

Table4 shows that only two factors have statistically significant differences between age groups; those factors are "*impact of the international financial reporting standards adoption on external audit in Libya*" and "*culture*" as one of the factors affecting the adoption of IFRS in Libya, with significance values of 0.006 and 0.015, respectively.
To figure out the specialization group that makes the variance significant, the multiple comparison tests have been performed using Least Significant Difference (LSD) test for "*impact of the international financial reporting standards adoption on the external audit in Libya* "factor and table5 shows the results.

Table5 Multiple comparisons using LSD test results of ANOVA results for the specialization groups with "*impact of the international financial reporting standards adoption on external audit in Libya*" factor

(I) specialization group	(J) specialization group	Mean Difference (I-J)	Std. Error	Sig.
Accounting	Administration	.81497	.21423	.002
	Financial	-.05372	.08216	1.000
	Economic	.11127	.21423	1.000

	Others	.19592	.14140	1.000
Administration	Accounting	-.81497	.21423	.002
	Financial	-.86869	.22695	.002
	Economic	-.70370	.30109	.202
	Others	-.61905	.25447	.156
Financial	Accounting	.05372	.08216	1.000
	Administration	.86869*	.22695	.002
	Economic	.16498	.22695	1.000
	Others	.24964	.16002	1.000
Economic	Accounting	-.11127	.21423	1.000
	Administration	.70370	.30109	.202
	Financial	-.16498	.22695	1.000
	Others	.08466	.25447	1.000
Others	Accounting	-.19592	.14140	1.000
	Administration	.61905	.25447	.156
	Financial	-.24964	.16002	1.000
	Economic	-.08466	.25447	1.000

Table5 shows that the qualification group (*Administration*) has a significant difference among the specialization groups in term of "*impact of the international financial reporting standards adoption on external audit in Libya*" factor. Based on the data all the hypotheses were accepted.

5. Conclusion

Despite the changes in the individual factors of each country and the degree of the contribution to the quality of accounting; the current findings and with different study environment came to confirm the findings of most the previous studies regarding the impact of the adoption of IFRS on the quality of accounting information in the financial statements of the companies. That adoption IFRS provide and ensure increase the quality of financial information in the financial statements in Libya. This study of findings indicates that adopting IFRS gives lucidity and straightforwardness in bookkeeping methods continued in the planning of budget summaries that speculators can comprehend. IFRS affirm the utilization of reasonable worth bookkeeping as a reason for monetary estimating gives a high certainty data which adds to improve the nature of fiscal reports to mirror the truth of the financial circumstance of the organization and effects decidedly on speculator discernments about the future vision for the endurance and the continuation of the organization which helps financial specialists for embracing venture choices. Also findings indicate that IFRS increases IFRS norms and hence expanding speculators to put resources into these organizations and IFRS adds to lessening the lopsidedness of data between the contracting parties related with the organization which prompts simplicity of estimation and arrangement of ventures, and then ease merger with multinational companies and encourage and facilitate international trade encouraging encourage worldwide exchange urging to pull in unfamiliar direct venture, which adds to raising the effectiveness of the capital market and increase economic growth.

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