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# What are the challenges that face Libya as it considers the adoption of International Financial Reporting Standards (IFRS)?

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# What are the challenges that face Libya as it considers the adoption of International Financial Reporting Standards (IFRS)?

**المستخلص**

هدفت هذه الدراسة إلى التحقق من التحديات المحتملة التى تواجهها ليبيا في اعتماد معايير التقارير المالية الدولية, والمنهج المتبع في هذه الدراسة هو المنهج الكمي, وقد استخدمت استمارة استبيان كأداة لجمع البيانات المتعلقة بهذه الدراسة. هذا وقد تم توزيع عدد 110 استبيان, وقد تم الحصول على عدد 71 استبيان , أي ما يقارب 64% من حجم العينة المختاره. ومن أبرز النتائج التى أظهرتها الدراسة هي أن الدين الإسلامي واللغة العربية لن يكون من القضايا الثقافية التي تؤثر على اعتماد المعايير الدولية لإعداد التقارير المالية في ليبيا, ومع ذلك فان القوانين واللوائح المحاسبية والسياسات الحكومية وتعليم المحاسبة هي من التحديات المحتملة. ونظراً للوضع السياسي الحالي في ليبيا اعتمدت هذه الدراسة على منظمات محددة, على الرغم من أنه تم اختيار هؤلاء بشكل معتمد نظراً لأهمية اعتماد المعايير الدولية لإعداد التقارير المالية, وبالتالي لا يمكن تعميم النتائج على جميع أصحاب المصلحة فيما يتعلق بتبني المعايير الدولية لإعداد التقارير المالية. وقد ركزت هذه الدراسة على أدبيات المحاسبة المالية في البلدان النامية بشكل عام وفى ليبيا بشكل خاص لتبنى تحديات واعتماد المعايير الدولية لإعداد التقارير المالية, لذلك يساهم هذا الأساس في إجراء المزيد من الإصلاحات والتغيرات في المحاسبة الليبية. ومن أهم التوصيات التى يمكن استنباطها هي ان اللوائح والقوانين المحاسبية في ليبيا يجب أن تخضع للإصلاح بما يتمشى مع المعايير الدولية لإعداد التقارير المالية . وايضاً, تحديث مناهج التعليم المحاسبي في ليبيا أمر ضروري وخاصة في الكتب والمناهج ذات العلاقة بالمعايير الدولية . وأخيراً , من أهم التوصيات هناك جهات ذات العلاقة مثل هيئة المحاسبين والمراجعين الليبيين وديوان المحاسبة هم من يجب ان يساهموا في نجاح اعتماد المعايير التقارير الدولية في ليبيا.

**الكلمات الدالة:** معايير التقارير المالية الدولية، التقارير المالية في ليبيا، أدبيات المحاسبة المالية، اللوائح والقوانين المحاسبية.

# 1. INTRODUCTION

## 1.1 Background statements

The globalization of capital markets is an irreversible process. Efforts have been made to establish a set of single financial reporting standards. There are many benefits to consider from adopting mutually recognized and respected international financial reporting standards (Madawaska 2012).

In 1973, as a solution to the gap between different accounting standards globally, professional accounting bodies founded the International Accounting Standards Committee (IASC). Its principal aim was to make uniform and create universal accounting standards, which could be used globally to reduce the inconsistencies found in reporting practices and accounting principles (Deloitte 2015). Since then, the IASB has advocated the standardisation of accounting principles (Alfredson 2009).

More than 140 countries, including the majority of G20 member countries, have adopted IFRS as their standard practice. However, for a developing country like Libya, according Essa et al. (2014) the Libyan Banks Law No. 1 of 2005, states that applying IFRS is permitted for all Libyan banks. Moreover, the Libyan Stock Market (LSM) Law No. 134 of 2005 requires all Libyan companies, which hold more than one million Libyan Dinars in capital and are public companies, are required to be listed in the LSM and follow IFRS. Other than these, organizations are still complying with domestic financial reporting accounting regulations (Essa et al. 2014; Shareia 2014). Given the temporary closure of the LSM and the options given to the banks, it is perhaps not surprising that IFRS have not yet been considered.

## 1.2 Statement of problem

According to Siaga (2012), there are opportunities for developing countries, which have not adopted IFRS, to follow these financial reporting standards and obtain significant benefits in protecting against the inconsistencies of accounting principles, which are considered by IASB. However, Cerne (2009) noted that even for those nations that have adapted to IFRS, certain differences might still exist alongside the adoption of IFRS, specifically for developing nations.

Schachler et al (2012) argue that the systems and information of accounting used by developed markets in their existing accounting standards, referring to IFRS, are not in line with the orientation to be adopted by these developing countries and emerging economies' accounting systems. This is due to challenges that stand in the way of adoption for these countries. As such, these challenges accede to variations in capital markets and technology availability, capacity of professional accounting bodies, educational institutions, government policies, economic systems, inconsistencies in applicable laws of accounting and other factors including cultures e.g. religions and languages, which influence how and if IFRS is adopted in many developing countries. Thus, IFRS adoption and joining globalization poses challenges since it usually means reforming economic structures, legal and regulatory practices (Irvine 2008).

All these challenges are questionable. Not only about whether countries should adopt IFRS, but also if they are capable of doing so (Irvine 2008). Essa et al. (2014) indicate this could be relevant to the current Libyan environment, which seems to be more complex since the banking sectors and listed companies are unwilling to apply IFRS, with various Libyan financial reporting systems being imposed. Therefore, Libya may not be excluded from challenges that have been illustrated in similar developing countries. In this scenario, however, it is not enough to understand why there is hesitation in Libya about adopting IFRS, especially considering that other countries with none of these issues and factors have decided to adopt IFRS (Schachler et al 2012). According to Zakari (2014), whether or not a country decides to adopt IFRS is dependent on the specific issues related to that country, which either motivate or dissuade from the adoption.

### 1.3 The research objectives

This study's principal aim is to undertake an investigation about adopting IFRS in Libya. The study specifically considers some of the challenges facing Libya as it considers IFRS adoption. The study investigates whether cultural factors (Islamic religion and Arabic language) might influence the adoption. It also considers that there is a need for more research to evaluate and examine accounting law and regulations, government policies, professional body development, and accounting education. Therefore, this study will investigate cultural issues, which should necessarily be taken into consideration when adopting IFRS in Libya, and the challenges that may act as barriers and prevent adoption.

## 2. BACKGROUND OF ACCOUNTING IN LIBYA

### 2.1 Aspects of Libyan culture

Haniffa and Cooke (2002) stated that all human activities are affected by culture, including behaviour and attitudes towards accounting practices. Essa et al. (2014) stated that Libya has been described as a collective society and male-dominated culture. Its reputation, Islam and the Arabic language are the aspects that characterise Libyan culture.

### 2.2 Accounting system and profession body in Libya

Until 1952, when Libya gained its independence, the country relied heavily on advisers from the UK and USA to develop its accounting system. This meant the Libyan accounting profession modelled itself on those in the UK and the USA. Therefore, both UK and US Generally Accepted Accounting Principles (GAAP) are enforced by America and the British (Ahmad and Gao 2004). However, there were no frameworks or regulations established for Libya’s accounting and auditing profession during the 1960s.

From 1969 and by 1973 it became necessary to establish a professional body, to develop an accounting framework in Libya. In 1973, Libya's government established the Libyan Accountants and Auditors Association (LAAA) under law 116, and stated its activities in 1976. Essa et al. (2014) clarified that this was the first accounting and auditing profession law seeking to organize Libyan accounting practice.

Although the LAAA was established to evolve and regulate an appropriate framework for Libya’s accounting profession, it had very little success in achieving its objective. There remains a lack of Libyan Accounting standards (LASs), resulting in the LAAA’s inability to monitor members’ educational and professional backgrounds and enforce accounting requirements. Consequently, accounting and auditing firms have been left to establish accounting practices based on their interpretation of different accounting rules (e.g. UK and USA GAAP) alongside accounting regulations and laws (Shareia, 2014).

## 2. 3 Regulatory and legal frameworks of Financial Reporting in Libya

The Libyan government, like many others, has introduced laws for legal and regulatory accounting practices, which have influenced the accounting systems. Thus, accounting practice has mainly been influenced by the Libyan Commercial Code (LCC), General Financial Regulation (GFR), Income Tax Law (ITL), Libyan Bank Law (LBL) and Libyan Petroleum Law (LPL). These legal and regulatory bodies have given guidelines to Libyan firms and institutions about preparing financial reporting (Shareia 2014). To enact those laws the Libyan Audit Bureau's (LAB) was establish under law No 79/1975. The LAB is the highest government authority, its function being to prevent and mitigate fraud and corruption, in public organisations and control the country's resources in terms of revenues and expenses. This includes monitoring, controlling and verifying how companies apply the accounting regulations and rulings issued by the State in the preparation of financial reporting and reporting (Shariha, 2014). Thus, Libyan companies, including banking sectors and listed companies, have been left to prepare their financial statements taking into account the existing accounting regulations, prior to the IFRS/GAAP, with which they follow (Mukhtar et al. 2008).

## 2.4 Libya's accounting education history

Education systems are helpful in preserving robust, professional accounting practices. Libya established the Faculty of Economics and Commerce in the late 1950s. However, the professional bodies and universities in the UK and the US were approved the main sources of accounting education and training of Libyan students. This foundation was effective at the time (Mahmud and Russell 2003). Ritchie and Khorwatt (2007) added that accounting and auditing textbooks in Libyan universities were mostly British and American oriented, then translated to Arabic and rewritten by Arab authors.

In 1969, Libya's government departed slightly from the USA and UK accounting education system. It established and adopted many other education systems to educate and qualify accountancy students at university level (Ahmad and Gao, 2004). Essa et al. (2014) also note that the Libyan education system does not yet offer a PhD programme in accounting.

More recently, Libya's accounting education have been concerted by efforts to evolve by focussing on creating rigorous university education and training to educate accountants with a greater degree of professionalism. Since 2011, the Libyan government has concentrated on developing education and systems in Libya, including accounting education at different levels (Essa et al. 2014).

## 3. LITERATURE REVIEW

Alsaqqa and Sawan (2013) indicate that accounting standards are based on and constitute a set of rules, agreements and assumptions, known as Generally Accepted Accounting Principles (GAAP). They note that these principles and rules differ, depending on countries' legal systems, regulation, political, economic and professional body developments, together with the education level. All these cause differences among countries applying accounting standards. While Radebaugh et al. (2006) describe that the causes of different accounting standards are also affected by the outcome that is needed in any given country.

Furthermore, Chanchani and Willett (2004) suggest that differences in culture, described by Hofstede's Model, explain another reason for differences in accounting procedures. These variations are not only between developing and developed nations, but can be found between countries, which share broadly similar cultures. For instance, Egypt and Libya have similar cultural characteristics such as language, but Egypt has adopted or harmonized IFRS procedures, while Libya has not (Abd-Elsalam and Weetman 2003; Shareia 2014).

### 3.1 Cultural factors

Pratten and Adel (2009) discussed how the role of culture, in most countries, is a hugely significant factor and this almost certainly influences accounting practice. Alsaqqa and Sawan (2013) discuss, using Hofstede's model, where Anglo-American influences exist. Arabic-speaking and Muslim countries have particular needs in terms of accounting practice, as they highlight that the Islamic faith and the Arabic language influence accounting systems significantly, including IFRS adoption.

#### 3.1.1 Islamic factor

Halbouni (2005) examined how the environment related to Islamic regions' factors needs to be taken into consideration when adopting IFRS. This is because, Sultan

(2012) observed, accounting practices specific to Islamic countries are not often mentioned within universal accounting classifications such as IASBs' standards.

Haniffa (2013) noted that influences from the Quran and Sharia[1] are applied in Islamic financial law. There is flexibility, which allows for scholarly Islamic interpretation, while being mindful of sensitivity towards Islam is necessary if IFRS is to be workable within Islamic law. Haniffa (ibid) added that there is an understanding in some circles that the universal acceptance of IFRS is not absolute and that they are not compatible with Sharia. As such, this would warrant an alternative set of accounting principles for financial reporting according to Islamic financial transactions' rules, in respect of Islamic requirements. In this scenario, however, PwC (2010) suggest that IFRS are applicable for accounting and financial transactions to Islam, so do not require separate accounting standards, because IFRS are provide reasonably frameworks which can be used with additional disclosures.

There are many examples of researchers identifying that IFRS has limitations with regard to Islamic countries (Sultan 2012; Haniffa 2013). This understanding is shared by Maria et al. (2014) who believe that it is particularly so in terms of financial reporting in an Arab Gulf State like Saudi Arabia, since it is a centre for interpretation of Islam and Sharia for Islamic countries. Besides this, Hassan and Lewis (2009) discuss the role of Islam in financial practice in Egypt, noting that it affects the nature of transactions according to Islamic financial law. For example, how the banking sector and financial sector are run according to Islamic law. Specifically this can be seen in the fact that Islam does not allow finance leases and borrowing costs 'interest', but IFRS have no provision for this, meaning that the IASB's IFRS may be inadequate for Islamic countries.

It is the case, however, that this assertion may not be founded. Mashayekhi and Mashayekh; (2008); Sultan (2012) looked at Islamic environment considerations in terms of accounting practice in Iran and Saudi Arabia. They could not find a great deal of evidence that would prevent the adoption of IFRS, though Iran has not adopted IFRS

[1] The Quran is a divine revelation, the word of God and the absolute truth. The Hadith are historical accounts of the life of Prophet Mohammad, written by different people in Muhammad's circle, The Sharia is Islamic Law based on the teachings of the Quran an the Prophet.

in their entirety. It is also recognised that the United Arab Emirates (UAE), which is home to many Islamic financial institutions, does not seem to have any difficulties in applying IFRS (Schachler et al 2012). Additionally, Alsaqqa and Sawan (2013) have noted that the banking sector in UAE made a commitment to adopting IFRS, including certain transactions accruing borrowing costs 'interest'. The word 'interest' is not used, however, within the UAE due to cultural sensitivities. Zakari (2014) asserts that the likelihood of a country adopting IFRS depends on certain in-country factors, which either motivate or discourage its implementation.

### 3. 1.2 Language factor

There is a language influence around the adoption of IFRS, since the IASB offers IFRS in English. Tyrrall et al. (2007) discusses how approximately 30% of those countries which adopt IFRS found the language factor to be an issue. Tyrrall et al (ibid); McGee and Preobragenskaya (2004) considered how language issues have affected the adoption of IFRS in Russia and Kazakhstan. They perceive the fact that the IASB has not translated IFRS as a barrier to IFRS global adoption. However, Tyrrall et al. (2007) noted that the Kazakh government was eager not to delay IFRS adoption and the issue of language may be exaggerated with the benefits of IFRS exceeding the issues. In addition, Elbannan (2011) considered the effects of widespread Arabic usage on Egypt's IFRS adoption, including the fact that difficulties have been encountered by businesses due to differences in the language of IFRS implementation and the local language. Sultan (2012) adds to this noting the difficulties that will be encountered in Saudi Arabia, by small companies with limited resources for translating IFRS.

In this case, the literature also indicates a problem with translating accounting terminology (Evans 2004). In particular, translation into Arabic may be problematic since the language is not closely related to English as some European languages are (Pratten and Adel 2009). Although Libya's official language is Arabic (Essa et al. 2014), and as highlighted by IFRS (2013) the Arabic IFRS book has been published by the IFRS Foundation since 2013, Sultan (2012) argues that there are widely differing regional dialects within the country. Consequently, one Arabic translation may not be sufficient to convey meaning to all Arabic speakers in the country, unless the terminology is standardised by IASB. Additionally, there are insufficient updates of the Arabic translations.

However, the adoption of IFRS is relatively straightforward in countries with an Anglo-American culture (Zeghal and Mhedhbi 2006). This observation is supported by Halbouni (2005); Aljifri and Khasharmeh (2006) in the cases of the UAE and Jordan which have Anglo-American influences and where IFRS have been relatively easily adopted. In these cases, IFRS language has enormous potential to increase local and overseas investment and to standardise records for comparison, reliability and relevancy.

Therefore, religion and language appear to be the two greatest cultural issues to influence widespread adoption of IFRS. Accordingly, their influence in Libya's IFRS adoption merits investigation.

### 3.2 Challenges in the process of adopting IFRS

Many studies have focused on challenges related to IFRS adoption (Ogiedu and Okafor 2011). These problems need to be fully considered in the context of Libya to make adoption of IFRS a success, so that the country can benefit fully from IFRS adoption.

At the academic level, research by Irvine and Lucas (2006) showed that differences in accounting procedures arise in different countries because of diverse regulation methods and differences in legal systems. Full-scale adoption of these new accounting procedures (IFRS) has implications for necessary modernisation and globalisation of other systems such as the law and regulatory systems of accounting. All these systems of various institutions need to be strengthened before successful IFRS adoption, to enhance the adoption and implementation (Jain 2013).

Furthermore, in developing countries, like Libya, requirements of the accounting regulation and institutions on financial practices can be more onerous than elsewhere (Zehri and Chouaibi 2013). This is illustrated by the fact that, financial practices in Libya, the tax law (LTL) and Commercial Code (LCC) are considered the most important legislation for the prepare the of financial reporting (Essa et al. 2014). Essa et al (ibid) added this is the reason behind both listed companies and banks complying with the LTL and LCC, rather than the use of IFRS, which they are permitted to use.

Madawaki (2012); Jain (2013) note that India and Nigeria have financial practices largely dictated by such laws as banking and insurance. These researchers have commented on how difficulties arise because the IFRS is incompatible in some ways with local legislation of these laws, causing difficulties for accountants who have to fully follow IFRS procedures, without divergence, for compliance whilst adhering to local laws. Thus, it may appear that changes are needed for a smooth transition to IFRS.

Furthermore, Madawaki (2012) identifies that taxation and other related legislation orientates the accounting practices in some countries towards reporting to government and users. Nigeria’s implementation of IFRS will alter the format of almost all financial statements items, thereby requiring tax law to also undergo change. This requirement globally will be a major challenge to the adoption of IFRS. Jain (2013) illustrated that changes to tax laws will need to be wide-ranging enough that nations recognise IFRS financial records so that firms are not left to produce two sets of financial reporting.

In many developing countries, IFRS may entail privatisation of state-run businesses. These changes will affect the regulatory and accounting laws already in place including altering employment prospects and policies (Irvine 2008). Zezhong et. al. (2004) indicate that, in China, IFRS alongside UAS became a natural choice rather than an enforced one by Chinese accounting policy-makers. The researchers concluded that was a political influence, which not only restored choice but also provided an explanatory power model in adopting IFRS.

Akra et al. (2009) investigated the legal, political and cultural factors affecting the adoption of IFRS in Jordan. They decided the political aspect was the biggest contribution to IFRS implementation. Similarly, Alsharairi and Al-Abdullah (2009) articulated the idea that national sovereignty can feel challenged by the global adoption of IFRS. Alali and Cao (2010) noted that the literature suggests the IASB is politically influenced. As such, its standards are subject to differences of interpretation and application in different countries; this conclusion was also found by Kvaal and Nobes (2010).

Odis and Ogiedu (2013) refer to the difficulties of ensuring appropriate accounting education in terms of IFRS adoption, since this necessitates additional training for accountants, changes to university level curricula and alterations to training within businesses. However, Akra et al. (2009) noted that in Jordan, better accounting education and auditing regulation would be enhanced and improved by gradual IFRS adoption.

Zeghal and Mhedhbi (2006) discuss how certain developing countries, including Indonesia and Malaysia, adopted Anglo-American cultural practices meaning that their accounting education procedures are based on a system which might be more closely allied to IFRS and those of the USA and UK. However, Alsaqqa and Sawan (2013) observe that in many cases, developing countries are incapable of meeting accounting education needs, at a similar level to western countries. This means developing countries can lack professional qualifications and that further training and education of practitioners is required to ensure that IFRS adoption is as effective as possible.

This may well be Libya's experience of IFRS adoption. Its education system is largely drawn from overseas educational models and the country has encouraged its accountants to study in the UK and USA through financial support (Ahmad and Gao 2004). Shareia (2014) acknowledges that Libya's education system is still substantially different from those in developed nations.

## 4 RESEARCH METHODOLOGY

### 4.1 Data collection methods

The main purpose of applying a research method is to collect and generate data (Creswell 2013). For this purpose, two data collection methods will be applied in this study, namely primary and secondary data. In terms of the former, a quantitative approach via a questionnaire was used. Secondary data (e.g. annual reports, publications books and journals, etc.) usually includes existing data previously collected by other scholars and considered as valid (Siaga 2012).

### 4.2 Translation of the questionnaire

The current study examines IFRS adoption in Libya where the Arabic is the official language. English is rarely used in business and industry in Libya. Thus, the questionnaire was translated into Arabic to avoid any misunderstanding of the questions. In doing so, highlighted a number of techniques for translating questionnaires. One has been used in this study, back-to-back translation. This technique requires comparing the two questionnaires' sources to produce the final version.

### 4.3 Sample selection

In this study, the questionnaire was distributed in Tripoli[2], Libya. In total, 110 questionnaires were distributed. The participants in this study were chosen on the basis on their knowledge and experience that they have in the Libyan accounting environment, which is made them appropriate for studying the adoption of IFRS in Libya and answering the study research questions. Moreover, these two groups are:

1. Accounting and auditing companies: they are organizations registered under the Libyan Accounting and Auditors Association (LAAA), which are responsible for preparation the financial statements of Libyan private and public organizations. They were chosen because they are experienced in the accounting field.

### 4.4 Research hypotheses

As suggested by Dörnyei (2007) the existing literature should drive the formation of research hypotheses. Hence, several hypotheses are proposed for the current study.

Hypothesis 1:

H0: There will be cultural issues (Islamic religion and Arabic language) that might influence IFRS adoption in Libya.

Hypothesis 2:

H0: There will be challenges (e.g. accounting regulations, government policies, and professional body and accounting education) faced by Libya in adopting IFRS.

## 5. EMPIRICAL ANALYSIS OF RESPONDENTS' RESPONSES

### 5.1.1 Respondents' Profiles

**Table 5-1 Respondents' profiles**

| Gender | Frequency | Percent |
|---|---|---|
| Male | 56 | 78.9 |
| Female | 15 | 21.1 |
| **Total** | **71** | **100%** |
| **Qualification** | **Frequency** | **Percent** |

[2] Tripoli is Libya's capital city.

| | | |
|---|---|---|
| Diploma | 11 | 15.5 |
| Bachelor | 44 | 62.0 |
| Masters | 14 | 19.7 |
| Other (specific)[3] | 2 | 2.8 |
| **Total** | **71** | **100%** |
| **Experience** | **Frequency** | **Percent** |
| Less than or up to 5 years | 11 | 15.5 |
| 6 - 10 years | 29 | 40.9 |
| 11 – 15years | 16 | 22.5 |
| 16 to 20 Years | 15 | 21.1 |
| **Total** | **71** | **100%** |
| **Respondent's position** | **Frequency** | **Percent** |
| Chief Executive Officer – CEO | 1 | 1.4 |
| Chief Financial Officer – CFO | 5 | 7.0 |
| Internal Auditor | 2 | 2.8 |
| External Auditor | 17 | 24.0 |
| Accountant | 46 | 64.8 |
| **Total** | **71** | **100%** |

Based on Table 5-1, 78.9% of the respondents' were male and 21.1% female. Aside from this study, the result indicates that Libyan culture is male-dominated, which is consistent with the background chapter about Libya. However, in terms of respondents' qualifications, they have an appropriate level. 62.0% held at least a BSc degree, and those with a Master's degree accounted for 19.7%. With regard to experience, almost 41% had professional experience of between 6 to 10 years, and 43.6% (22.5% and 21.1%) had a total of between 6 years to more than 20 years' experience. Furthermore, the analysis shows 64.8% of the respondents are accountants, with 24.0% being external auditors.

In identifying the initial population to answer the questionnaire, it was necessary for respondents to have a range of years of expertise and experience in their areas, including an appropriate level of accounting education. This is indicated by the results in Table 5-1. From the research perspective, this experience is essential to ensure they would present experienced judgements and opinions to achieve the study's objectives. To some extent, the respondents have adequate knowledge or confidence to provide useful information. For example, the target group perform their work under current accounting practices in Libya, which enables them to understand the various issues relating to IFRS adoption. As such, it will be interesting to observe if respondents'

[3] (1) Commercial and accounting diploma. (2) Intermediate Diploma in accounting, with 15 years' experience.

experience and backgrounds will have a considerable effect on their opinions towards Libya's IFRS adoption.

### 5.1.2 Knowledge and experience about IFRS

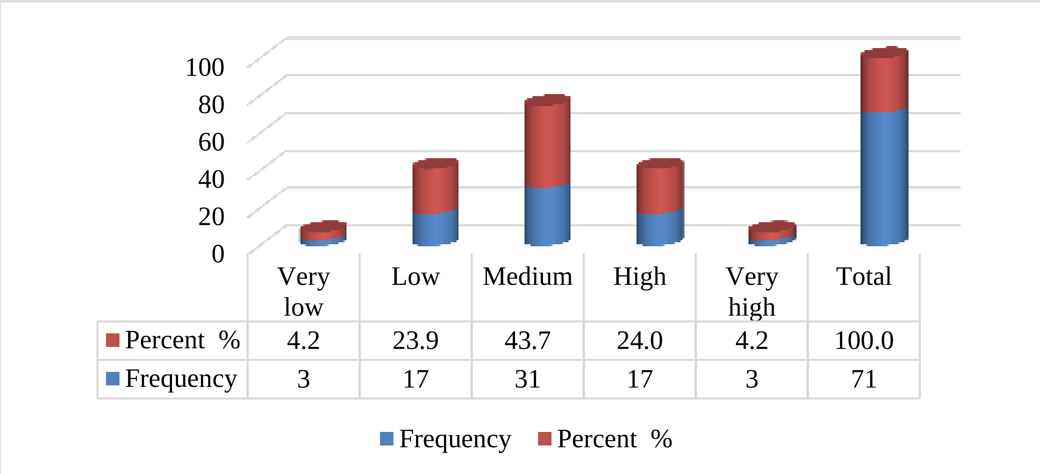


**Figure 5-1 Respondents' knowledge and experience about IFRS**

Generally, the respondents had an appropriate level of knowledge and experience about IFRS, since the findings of this questionnaire show that 43.7%, 24.0% and 4.2 % have a medium, high or a very high level a total. These responses represent 71.9% (71 respondents), as highlighted in Figure 5-1. These data will assist in drawing a more exhaustive finding about considering the potential challenges to adopting IFRS in Libya.

## 5.2 Perceptions about cultural factors and challenges of IFRS adoption in Libya.

The purpose of part two of the questionnaire (statements 6- 21) is to answer the first research question: *What are the basic factors (cultural issues) that might influence the adoption of IFRS in Libya, and which issues may be considered as challenges for IFRS adoption?*

### 5.2.1 Questionnaire results about cultural factors

The questionnaires' statements from 6 to 12 proposed certain cultural issues, and asked respondents' opinions to determine whether the Islamic religion and Arabic language might influence Libya's IFRS adoption.

#### 5.2.1.1 Islamic factor

**Table 5-2 Islamic factor**

| Statement | Disagreement Level (1 or 2)%[4] | Agreement Level (3 or 4)%[5] | No Respons e %[6] |
|---|---|---|---|
| 6. The adoption of IFRS is not possible in Libya due to differences between IFRS and Islamic interpretation (e.g. interest) of accounting and financial transactions. | 39.4 | 60.6 | - |
| 7. Islamic environment in Libya will influence the level of adoption IFRS. | 62.0 | 36.6 | 1.4 |
| 8. Adopting an alternative set of accounting principles for financial reporting of Islamic rules would need to be compatible with IFRS adoption in Libya. | 21.1 | 77.5 | 1.4 |

Table 5-2 illustrates that the vast majority (60.60%) of respondents, in answering statement 6, agreed that it would not be possible to adopt IFRS in Libya if the adoption were to involve accounting and financial transactions including borrowing costs e.g. interest. These would not be accepted because Islamic law forbids such transactions.

By contrast, statement 7 shows that the Islamic environment in Libya would not hinder the level of IFRS adoption with the percentage being 62.0%. The reason behind this result, as noted in statement 8, indicates that 77.5% of respondents suggested that alongside IFRS adoption in Libya's Islamic environment, an alternative set of accounting principles for financial reporting, according to Islamic rules, would need to be compatible with IFRS. Hence, the respondents tended to minimize the influence that might oppose Islamic law, as per statement 6, in order to adopt IFRS.

In relation to statement 26 in the questionnaire, one participant responded:

"It is necessary to adopt IFRS, taking into account that some amendments go alongside the Libyan environment and religion".

By contrast, another participant added:

[4] 1=strongly disagree, 2=disagree.
[5] 3=agree and 4=strongly agree.
[6] No response: information not provided

"Taking the Islamic factor into account, when adopting IFRS, will not help to achieve accounting development in Libya at all".

#### 5.2.1.2 Language factors

**Table 5-3 Language factors**

| Statement | Disagreement Level (1 or 2)% | Agreement Level (3 or 4)% | No Response % |
|---|---|---|---|
| 9. The differences between IFRS language and Arabic language are an influence for Libya to adopt IFRS. | 60.5 | 39.5 | - |
| 10. The translation of some accounting terminology of IFRS to Arabic is difficult (e.g. True and fair view!). | 49.3 | 49.3 | 1.4 |
| 11. Availability of consistent high quality translations of IFRS into Arabic is achievable in future. | 9.8 | 90.2 | - |
| 12. To enhance the comparison and relevance to financial statements, IFRS should only be prepared in the English language | 76.1 | 19.7 | 4.2 |

It seems that the language factor was not problematic for most respondents. It is noted that in statement 9 (Table 5-3) 60.5% confirmed that the different language (Arabic) in Libya is not an issue influenced by the main IFRS language (English). Statement 10 shows a similar level of agreement /disagreement about translating accounting terminology to Arabic. This could be because the 'True and fair view', from auditors' perspectives, was better understood, whereas 64.8% of study sample are accountants. Furthermore, it was acknowledged by respondents that language is not necessarily an issue concerning the IFRS adoption due to the availability of high-quality translation of IFRS into Arabic; 90.2% showed their agreement with statement 11.

the preparation of financial statements could have implications from above results. Statement 12 shows 76% of respondents recommended that the financial reporting should not only be prepared in the English language.

### 5.3.2 Questionnaire results about challenges of adoption IFRS

This section addresses the second part of research question one. The questionnaire's statements from 13 to 19 examine the challenges that may be considered as barriers and prevent Libya's complete IFRS adoption. The following challenges are examined in the Libyan context.

#### 5.3.2.1 Accounting law and regulations and Government Policy

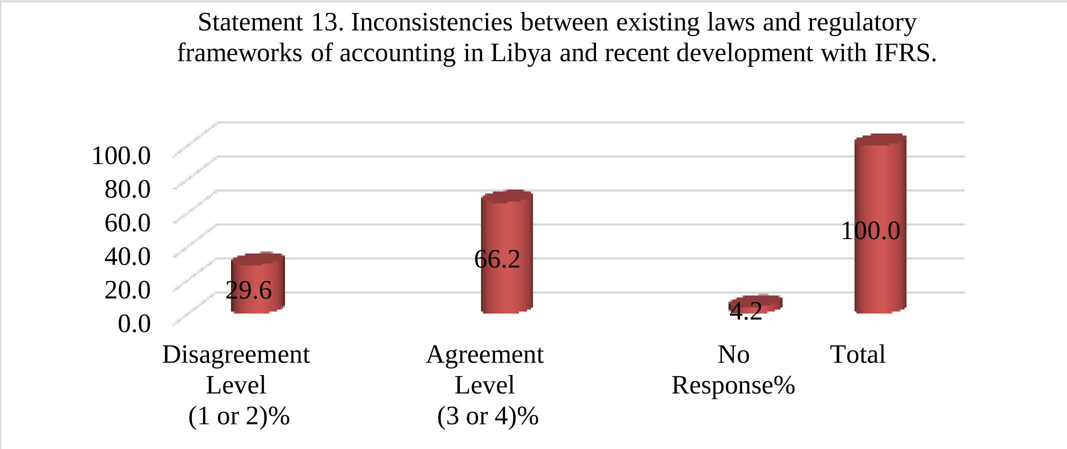


**Figure 5-2 Accounting law and regulations**

The result in Figure 5-2, from Statement 13, suggests that there may be inconsistencies between Libyan accounting law and regulation frameworks as they currently stand and recent developments with IFRS. The majority of respondents' opinions (66.2%) considered it one of the bigger obstacles of IFRS adoption that Libya will face.

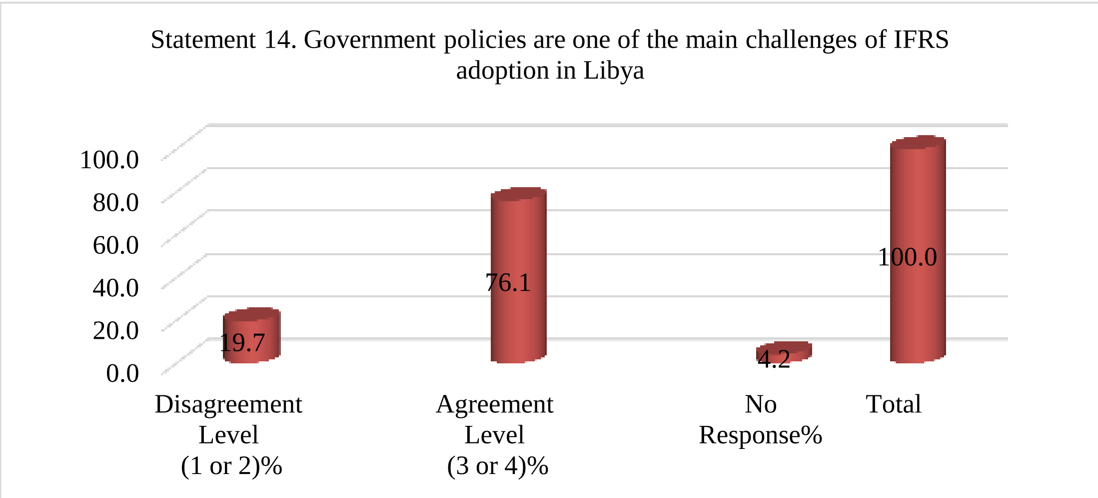


**Figure 5-3 Government policies**

In the case of government policy (Statement 14), although Libya's previous regime was removed, 76.1% of respondents considered current government policies to present challenges to Libya's IFRS adoption, as shown in Figure 5-3.

### 5.3.2.2 Professional body development

**Table 5-4 Professional body developments**

| Statement | Disagreement Level (1 or 2)% | Agreement Level (3 or 4)% | No Response% |
|---|---|---|---|
| 15. Lack of an independent oversight body to monitor and enforce IFRS in Libya, which hinders their adoption. | 14.0 | 86.0 | - |
| 16. Lack of facilities that help Libyan professional accountants to improve their skills and knowledge with IFRS. | 9.8 | 90.2 | - |

The professional body is supposed to, on behalf of the government, manage a country's accounting and auditing practices. However, responses to Statement 15 (Table 5-4) show 86.0% agreement by respondents who felt that the professional body (LAAA) has lacks independent oversight to monitor and enforce IFRS in Libya, which would hinder their adoption.

Moreover, as might be expected, the finding of Statement 16 is that the majority (90.2%) agree that professional accountants lack the facilities needed to help them develop and improve their knowledge and skills in line with IFRS.

### 5.3.2.3 Accounting education

**Table 5-5 Accounting educations**

| Statement | Disagreement Level (1 or 2)% | Agreement Level (3 or 4)% | No Response% |
|---|---|---|---|
| 17. The different environment of accounting education system in Libya from educational systems in developed countries is an obstacle to achieving IFRS adoption. | 28.1 | 69.1 | 2.8 |
| 18. The curricula of accounting education in Libya are weak and may be a barrier to understanding teaching the concept and process of IFRS. | 35.2 | 63.4 | 1.4 |
| 19. Limited access to libraries, seminars and workshops in Libyan universities and other academic institutions that would impact understanding of IFRS. | 14.1 | 84.5 | 1.4 |

Table 5-5 illustrates statements from 17 to 19 in the questionnaire, which indicated that the accounting education in Libya has a number of challenges in regard to IFRS adoption. It is noted that 69.1% of respondents emphasized that the Libyan accounting education system is not in line with those in developed nations, and could be a barrier to achieving IFRS adoption. Furthermore, the most impeding elements are the weak curriculum, which might leave university students without an understanding or background applicable to the IFRS, and a dearth of resources including libraries and workshops at educational institutions. As highlighted in Statements 18 and 19 respondents gave these elements 63.4% and 84.5% respectively, indicating barriers to IFRS adoption.

## 6. DISCUSSION OF THE KEY FINDINGS

### 6.1 Cultural factors and challenges of IFRS adoption in Libya

#### 6.1.1 First research hypothesis - cultural factors

The literature review clarified how culture may influence IFRS adoption, especially language and religious factors in Arabic and Islamic countries. Furthermore, the Libyan cultural characteristics are Islam and the Arabic language. Accordingly, the study's first hypothesis was: *"There will be cultural issues (Islamic religion and Arabic language) that might influence IFRS adoption in Libya"*.

Firstly, 62% of the responses in this study presented that the Islamic environment in Libya would not be an issue affecting the adoption of IFRS in Libya. This finding is similar to one found in Saudi Arabia, where the culture is similar to Libya's (Sultan 2012). Furthermore, the literature showed debate about whether IFRS covers Islamic financial principles (Haniffa 2013; PwC 2010). Data from this study supports the need for separate principles for Islamic accounting and financial transactions to be compatible with the IFRS.

To the best of the researcher's knowledge, this result could be accounted that IFRS must be workable according to Islamic law. This is very much steady and on the right track to adopting IFRS in Libya, as there are no major issues with IFRS that would occur by having accounting principles according to Islamic laws. For example, Table 5-2 in this study indicates that the IFRS may involve transactions such as borrowing costs. This is a major issue that would not be acceptable due to religious sensitivities, as emphasised in the study carried out in the UAE by Alsaqqa and Sawan (2013).

Secondly, for the language factor, the finding was that the majority of respondents (60.5%) were not concerned about it influencing IFRS. This result was consistent with a Jordanian study (Halbouni 2005). In fact, as far the researchers know, this issue has not been considered because many Libyan organizations are encouraging their staff to learn English, especially in the accounting field. As such it is not anticipated that language will be a problem in Libya.

Nevertheless, a few respondents did mention language as an issue. One explanation for this may be that they do not speak good English and have difficulties understanding English terms or translations like ‘true and fair view'. However, it is concluded that Arabic language is not importantly a concern since the IFRS Arabic book has been available since 2013 and 90.2% of respondents believed there are translations of IFRS into Arabic available with high quality. Meanwhile, the respondents stated they prefer to use Arabic rather than English for financial reporting. This may indicate that IFRS concepts and principles are better delivered and understood in the mother language, among Libyan accounting professionals. It also could be understood that official IFRS translations, outside Anglo-American cultures, were still less familiar to respondents, or there may be other cultural issues e.g. pride. This outcome is inconsistent with a previous empirical study where Anglo-American culture exists, as it found that preparation of financial reporting in the English language would be better understood (Alsaqqa and Sawan, 2013).

From the discussion above, it is concluded that the Islamic religion and Arabic language will not be cultural issues influencing Libya’s IFRS adoption in Libya and this study's first hypothesis is rejected.

### 6.1.2 The second research hypothesis - IFRS challenges

Researchers argue that there are significant challenges when IFRS are adopted in many developing countries. Therefore, the second research hypothesis suggests that: *"There will be challenges (e.g. accounting regulations, government policies, and professional body and accounting education) faced by Libya in adopting IFRS.*

It has been noted, from the literature, that law and accounting regulations may be incompatible with IFRS adoption, together with government policies. Both challenges involve these standards (Jain 2013; Alali and Cao 2010). This is confirmed by this study as 66.2% respondents considered that there would be inconsistencies between the Libyan accounting regulations and IFRS and 76.1% responded that the government policies would be an issue.

There is reliable evidence that Libya has numerous accounting regulations affecting the preparation of financial reporting, which should be taken into an account e.g. Libyan Tax Law . From the author's work experience, the frameworks of accounting regulations in Libya are given some guidelines on how to the financial statements are prepared and accounting records, although they do not specify which accounting standards and principle should be complied. As result, the process of IFRS adoption is likely to contradict existing accounting regulations, which IFRS does not recognize when financial statements are prepared. Therefore, it could be understood that accounting regulations in Libya are either obsolete or unsatisfactory and would require revision for IFRS adoption.

This defect in accounting regulation might have become more visible with government policies’ influence on accounting in Libya. As noted, the Libyan Audit Bureau (LAB), which is involved in the country’s accounting practices tends to address government preference and interests . It is therefore logical to assume that the responses refer to this as a level of challenges from government policies toward IFRS adoption. This contradicts Akra et al (2009), which considered that there had been political influence in Jordan in adopting IFRS. Another interpretation for this result, the researcher believes, might be because of Libya’s current political conflict. If the government cannot resolve these issues, enhancing or developing of accounting and IFRS adoption would seem unlikely. Furthermore, the research adds that the reason behind the announcement of applying IFRS in banking sector and listed companies was for political purposes. Therefore, an unwillingness to follow IFRS was acknowledged by the government.

Prior studies, detailed in Literature review, noted that professional body deficiencies can affect IFRS adoption for several reasons (Schachler et al., 2012; Arif 2014). 86% of responses in this research highlighted the same problems. Indeed, respondents believed that the lack of independent oversight by the professional body in Libya, would hinder IFRS adoption. The possible explanation for this result is that accounting regulations and government policies present challenges for the Libyan professional body. Therefore, monitoring IFRS adoption is likely not to be with LAAA. This could affect LAAA as they lack good technical skills and knowledge about IFRS. As such, it could be understood why LAAA has not yet been able to issue Libyan accounting standards, as described in section 2.5.

It has been noted that Libya's accounting education is based mainly on that of the UK and US (Mahmud and Russell 2003). However, this study found that aggregated responses confirmed the following are not sufficient to adopt international standards : the accounting curriculum, programmes and materials (63.4%), limited access to libraries, seminars and workshops (84.5%) and Libya's different educational system (69.1%) . These issues supports prior studies like Elbannan (2010); Shareia (2014). Among the plausible explanations for these findings is that accounting education in Libya may appear as a challenge because the country's accounting profession is struggling with domestic regulations and government, in which there may be not sufficient IFRS familiarity with IFRS and its requirements within education. This provides evidence that there are deficiencies in Libya's accounting education.

In sum, IFRS adoption in Libya is highly likely to face significant challenges. Hence, the findings support the invalidity of the second research hypothesis.

## 7. CONCLUSION

The cultural factors that might influence Libya's IFRS adoption, namely religion and language, have been considered in this study. Firstly, the findings observed that the Islamic religion will not be an issue influencing Libya's IFRS adoption. However, the adoption would need to be compatible with an alternative set of Islamic accounting principles for financial reporting, which was noted by the majority of respondents. The reason behind having a new set of accounting principles, is that some IFRS financial and accounting transactions, for instance borrowing costs and finance leasing have limitations in terms of Islamic law .

Secondly, the findings noted that the Arabic language would not pose an issue for Libya. The respondents were not concerned about a potential gap between corresponding translations and IFRS language with IFRS adoption in Libya. The point that emerged from the present investigation is that respondents are satisfied using existing Arabic translations to help them overcome any language issues if IFRS are adopted . This was expected since the delivery of financial statements in a native language is more relevant and better understood by IFRS principles and concepts, as the respondents suggested. Nevertheless, the study's findings about IFRS adoption have considered some challenges that will face Libya.

The findings reveal that Libya’s existing accounting law and regulations are inconsistent with IFRS. This could require appropriate financial reporting to support successful adoption of IFRS. Therefore, the respondents suggested that Libyan accounting frameworks do pose barriers to the country’s IFRS adoption. Moreover, the majority of respondents acknowledged that IFRS adoption might face government policy as another major obstacle. Another finding presenting a challenge is the lack of an independent and oversight professional body in Libya. This refers to the Libyan Accountants and Auditors Association (LAAA), in currently lacks regulatory and enforcement mechanisms. This may be true in view of the influence of accounting regulations and government policy in accounting practices in the country. As result, the LAAA has inadequate skills and knowledge to meet its expectation and appears to lack the ability to make decisions about IFRS adoption.

Additionally, the findings have shown that Libya’s accounting education would impede IFRS adoption. The respondents were not convinced that accounting education system in Libya is as good as in countries where IFRS have been adopted. The major challenges considered to delay the adoption included weak and limited teaching resources e.g. textbooks, libraries and workshops that are needed provide better understanding of IFRS concepts and processes.

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**Appendix 1: The Questionnaire (English and Arabic version)**

**Part One:** Information about the respondent:

Please kindly answer the following question from **1** to **5**, by tick **[√]** in front of the appropriate answers:

| | |
|---|---|
| **1. Gender:** | |
| Male **( )** | Female **( )** |
| | |
| **2. Please select the highest qualification you obtained:** | |
| Diploma **( )** | Bachelor **( )** |
| Masters **( )** | PhD. **( )** |
| Other (specific) **………………………** | |
| | |
| **3. Working Experience:** | |
| Less than /or up to 5 years **( )** | 6 - 10 years **( )** |
| 11 – 15years **( )** | 16 to 20 Years **( )** |
| | |
| **4. Job title:** | |
| Chief Executive Officer – CEO ( ) | Chief Financial Officer – CFO |
| External auditor **( )** | Internal Auditor ( ) |
| Accountant **( )** | Other (specific) ……………………… |
| | |

| | | | | |
|---|---|---|---|---|
| **5.** How do you evaluate your knowledge and experience about IFRS? | | | | |
| Low High | | | | |
| **1 ( )** | **2 ( )** | **3 ( )** | **4 ( )** | **5 ( )** |

**Part Two:** About your perception towards principal factors e.g. Islamic religion and Language as well as challenges, which are could be influenced and prevented IFRS adoption in Libya.

**1.1.**The IFRS not easy to be comparable , this is because the issues covered by these standards, such as borrowing costs, may not be relevant to local users and may conflict with some of principal factors such as Islamic faith.

**1.2.** The IASB issued and IFRS by English language and also it issued Arabic version, although some of the terminology is difficult to be translated.

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| After careful reading of the two statements of above, **to what extent do you agree with the following statements?** | | | | | | | |
| Strongly disagree **1** | Disagree **2** | Agree **3** | Strongly agree **4** | | | | |
| **Islamic Religion and Language Factors** | | | | | | | |
| **6.** The adoption of IFRS is not possible in Libya due to differences between IFRS and Islamic interpretation (e.g. interest) of accounting and financial transactions. | | | | **1** | **2** | **3** | **4** |
| **7.** Islamic environment in Libya will influence the level of adoption IFRS. | | | | **1** | **2** | **3** | **4** |
| 8. Adopting an alternative set of accounting principles for financial reporting of Islamic rules would need to be compatible with IFRS adoption in Libya. | | | | **1** | **2** | **3** | **4** |
| **9.** The differences between IFRS language and Arabic language are an influence for Libya to adopt IFRS. | | | | **1** | **2** | **3** | **4** |
| **10.** The translation of some accounting terminology of IFRS to Arabic is difficult (e.g. True and fair view!). | | | | **1** | **2** | **3** | **4** |
| **11.** Availability of consistent high quality translations of IFRS into Arabic is achievable in future. | | | | **1** | **2** | **3** | **4** |
| **12.** To enhance the comparison and relevance to financial statements, IFRS should only be prepared in the English language | | | | **1** | **2** | **3** | **4** |
| **Challenges of IFRS adoption in Libya** | | | | | | | |
| **13.** Inconsistencies between existing laws and regulatory frameworks of accounting in Libya and recent development with IFRS | | | | **1** | **2** | **3** | **4** |
| **14.** Government policies are one of the main challenges of IFRS | | | | **1** | **2** | **3** | **4** |

| | | | | |
|---|---|---|---|---|
| adoption in Libya | | | | |
| **15.** Lack of an independent oversight body to monitor and enforce IFRS in Libya, which hinders their adoption. | **1** | **2** | **3** | **4** |
| **16.** Lack of facilities that help Libyan professional accountants to improve their skills and knowledge with IFRS. | **1** | **2** | **3** | **4** |
| **17.** The different environment of accounting education system in Libya from educational systems in developed countries is an obstacle to achieving IFRS adoption. | **1** | **2** | **3** | **4** |
| **18.** The curricula of accounting education in Libya are weak and may be a barrier to understanding teaching the concept and process of IFRS. | **1** | **2** | **3** | **4** |
| **19.** Limited access to libraries, seminars and workshops in Libyan universities and other academic institutions that would impact understanding of IFRS. | **1** | **2** | **3** | **4** |

***Your cooperation is greatly appreciated***

***Best Regards***