

Challenges of International Financial Reporting Standards (IFRS) Adoption in Libya

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Abstract

This study investigates the challenges that face implementing of International Financial Reporting Standards (IFRS) by Libyan firms. In particular, this paper analyses the effect of legal, economic, accounting education and culture structures on adopting of IFRS in the Libyan context. A questionnaire was used to collect data regarding the effect of some selected challenges on IFRS adoption in Libya. The results of the study indicate that IFRS adoption by Libyan companies has faced some obstacles such as accounting education and economic issues. This research extends accounting literature by studying the challenges of IFRS in Libya (a developing country), focusing on the impact of legal, accounting education, economic and culture in IFRS implementation.

Keywords: IFRS, developing countries, Libya and accounting.

1. Introduction

Irvine and Lucas (2006), Faraj and Akbar (2010), Michas (2010) and Siddiqui (2010) all highlight the need that there needs to be further studies about IFRS in developing countries. Gyasi (2010), Laga (2012) and Hibbard (2012) all draw attention to the specific need to focus on IFRS in emerging countries in particular. Several researchers including Kholeif (2008) and Braun and Rodriguez (2014) have suggested that there is a need to undertake more research to examine the challenges that facing implementation of IFRS in developing nations.

According to *Banks Law No. 1 of 2005*, the adoption of IFRS is necessarily for all Libyan banks. Moreover, all listed companies at Libyan Stock Exchange have been asked to follow IFRS by *Libyan Stock Exchange Law No. 134 of 2005*. Consequently, this paper examines the challenges and obstacles that facing Libyan context in adopting of IFRS. In particular, it focuses on answering this question: *What are the effects of legal, accounting education, economic and culture structures on adopting of IFRS in Libya?*

The remainder of this research is organised in 8 parts. Section 2 and 3 critically reviews the literature on IFRS. Section 4 reviews challenges of IFRS adoption in Libya. The method utilised to examine the research question is provided in section 5. Section 5 presents the results of the data obtained from the study questionnaire. Then, the paper discusses the results of the empirical study. The final section provides the conclusion.

2. International Financial Reporting Standards (IFRS)

International Financial Reporting Standards (IFRS) have been known long time ago under the name International Accounting Standard (IAS). IAS was issued since 1973-2000 by International Accounting Standards Committee (IASC). IAS was issued in order to fix the global accounting standard thus there would be better financial understanding of all companies. However, on April 1, 2001 International Accounting Standard Board (IASB) replaces the IASC and took over responsibility to build international accounting standard and named it IFRS (IFRS Foundation, 2010). IFRS has been a trending topic since the European Union (EU) decides to convergence their financial reporting standard to IFRS, leaving the US Generally Accepted Accounting Principles (US GAAP) (Latifah *et al.*, 2012).

IFRS are a manifestation of globalization, with financial reports prepared under IFRS presenting an image consistent with that of multinational corporations and developed nations. Recently, it is over 115 countries around the world require or permit IFRS, including big countries such as EU, China, Japan, South Korea, Australia, Russia, etc. United States who adopt US GAAP for years also accept IFRS (Latifah *et al.*, 2012).

With the growing internationalisation of economic trade and the globalisation of businesses and financial markets, financial information prepared and audited according to a national accounting and auditing system may no longer satisfy the needs of users whose decisions are more international in scope (Zeghal and Mhedhbi, 2006; Carson and Dowling, 2010). As a result of the increasing popularity of participating in the global economy investors are becoming increasingly interested in emerging markets as they present a diversification opportunity according to Levich (2001). A side effect of working in a new or emerging

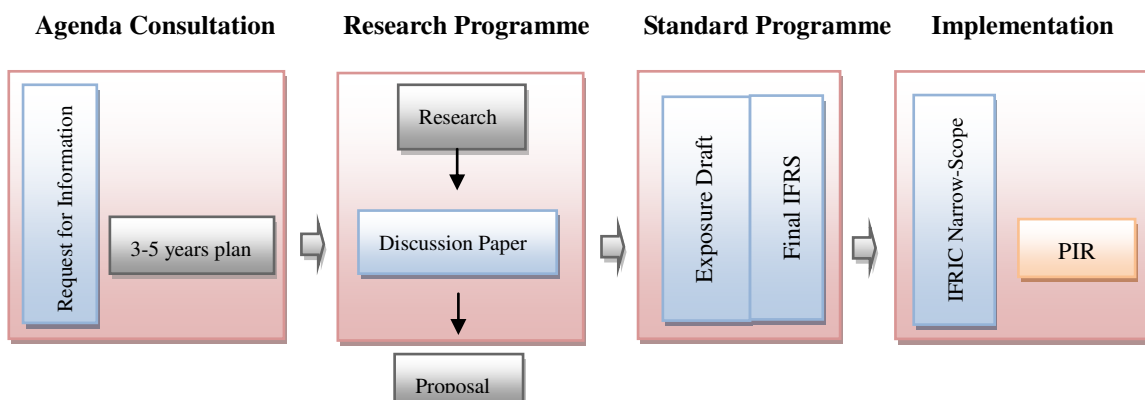
environment is that integration of local and international accounting practices including the audit process needs to be considered.

Part of the rationale as to why international organisations encourage the adoption of IFRS is that it helps the organisations feel that their investment is protected as these standards provide rigorous verification opportunities for stakeholder assessments of investment performance (Carson and Dowling, 2010; Latifah *et al.*, 2012). IFRS are developed through an international consultation process (see figure 1), the "due process", which involves interested individuals and organizations from around the world.

The due process comprises six stages (<http://www.ifrs.org/Pages/default.aspx>, 2014), with the Trustees of the IFRS Foundation having the opportunity to ensure compliance at various points throughout:

1. Setting the agenda
2. Planning the project
3. Developing and publishing the Discussion Paper, including public consultation
4. Developing and publishing the Exposure Draft, including public consultation
5. Developing and publishing the Standard, and
6. Procedures after an IFRS is issued

Figure (1): IFRS Process Stages



Source: (<http://www.ifrs.org/Pages/default.aspx>, 2014)

IFRSs generally contain 14 principles (see table 1) and accompanying application guidance, both of which are mandatory and carry equal weight. Some Standards also include illustrative examples or implementation guidance, neither of which is part of IFRSs. They are therefore not mandatory. Each Standard and Interpretation has a basis for conclusions that explains the

IASB's reasons for developing the particular requirements. The basis for conclusions is not part of IFRSs and is therefore also not mandatory.

Table (1): International Financial Reporting Standards (IFRSs)

IFRS	Purpose	Issued Date
IFRS No.1	<i>First time Adoption of IFRS</i>	2008
IFRS No.2	<i>Share-based Payment</i>	2004
IFRS No.3	<i>Business Combinations</i>	2008
IFRS No.4	<i>Insurance Contracts</i>	2004
IFRS No.5	<i>Non- current Assets Held for sale and Discontinued Operations</i>	2004
IFRS No.6	<i>Exploration for and Evaluation of Mineral Assets</i>	2004
IFRS No.7	<i>Financial Instruments: Disclosures</i>	2005
IFRS No.8	<i>Operating Segments</i>	2006
IFRS No.9	<i>Financial Instruments</i>	2013
IFRS No.10	<i>Consolidated Financial Statements</i>	2011
IFRS No.11	<i>Joint Arrangements</i>	2011
IFRS No.12	<i>Disclosure of Interests in Other Entities</i>	2011
IFRS No.13	<i>Fair Value Measurement</i>	2011
IFRS No.14	<i>Regulatory Deferral Accounts</i>	2014

Source: (<http://www.ifrs.org/Pages/default.aspx>, 2014)

3. IFRS in Emerging Economies

Several researchers (i.e. Zeghal and Mhedhbi, 2006; Hassan *et al.*, 2009; Gyasi, 2010) argued that international accounting harmonization is beneficial for developing countries because it provides them with better-prepared standards as well as the best quality accounting framework and principles. However, others such as Cerne (2009) mentioned that the accounting information produced according to developed countries' accounting systems is not relevant to the decision models of emerging economics. The ultimate decision to adopt IFRS or not, however largely depends on certain motivating or discouraging factors which exist in a particular country or group of countries.

Some emerging economies have taken the initiative to adopt IFRS such as Jordan, China, Poland and the United Arab Emirates (UAE) or adapt them to their particular reality as observed in Egypt. This process is expected to improve the quality and credibility of financial reporting and develop the flow of capital and investment, resulting in economic development.

While most of Middle Eastern Countries require or allow companies under their financial authorities to use the globally known IFRS, only Syria, Morocco, Libya and Algeria have developed their national Generally Accepted Accounting Principles (GAAP) and are still asking companies under their financial authorities to follow them, and are not allowing any company to use other standards (Abd El-Razik, 2009). However, IFRS are also permitted (Abd El-Razik, 2009).

The adoption of IFRS by the developing countries is not only imperative (Faraj and Akbar, 2010), but also required in order to access the capital markets at the global level. It is an international trend, which is recognised as 'best practice' around the world (Obaidat, 2007). In addition, the adoption of IFRS had become a significant global phenomenon (Al-Hussaini *et al.*, 2008). Richter Quinn (2004) concluded that accounting and financial information originating from developing countries is still difficult to trust, despite the urgent need for these countries to attract foreign investment and foreign capital, and despite the pressing demands from individual and institutional investors, lending institutions, and multinational agencies.

Irvine and Lucas (2006) state that substantial benefits have been proposed by the adoption of IFRS, including a decreased cost of capital, greater mobility of capital, greater efficiency in the allocation of resources, improved and more comparable financial reporting, and a decrease in the opportunities for earnings management expression. These, together with the accountability demands of the World Bank (WB) and the International Monetary Fund (IMF), make a compelling case for the adoption of IFRS by developing countries as they seek to participate in the wealth and financial opportunities promised by globalization.

Emerging economies, in pursuing the global financial advantages offered by the adoption of IFRS, face challenges in adapting their regulatory infrastructure and culture to western oriented accounting standards (Irvine and Lucas, 2006; Zhang *et al.*, 2007). Michas (2010) highlights that, in emerging market countries, there are often deficiencies in the accounting and auditing practices. Furthermore, Alp and Ustuntage (2009) and Zhang *et al.* (2007) all

reported that, implementing IFRS by developing countries had posed several challenges. Such difficulties include the complex structure of the international standards, potential knowledge shortfall and other difficulties in the application and enforcement issues. While embracing globalization, and adopting IFRS, it nevertheless has challenges ahead as it makes necessary reforms to its regulatory, legal and economic structures and adapts its culture to westernized forms of expression (Irvine and Lucas, 2006).

Emerging economies face challenges if they want to implement IFRS. Libya, one of many emerging countries do not adopt IFRS yet, faces challenges of culture, regulation and transparency and fraud, all of which threaten to damage the process of the implementation of IFRS.

Considerable research studies have investigated the motivations behind the adoption of IFRS by emerging nations. According to some of these studies, the decision to adopt IFRS derives from the fact that developing nations are generally unable to allocate the financial and technical resources needed to develop high-quality, indigenous accounting standards (Saidi, 2013). (See table 2 for a summary of key previous studies).

Prior accounting research (Irvine and Lucas, 2006; Gyasi, 2010; Laga, 2012; Owolabi and Iyoha, 2012; Okpala, 2012; Schachler *et al.*, 2012) have investigated the influences of several environmental issues on implementation of IFRS. These studies identify several factors, such as availability of capital market and degree of external economic openness, economic and political influences, legal systems, taxation, culture, and accounting education and training system that seem to affect the adoption of IFRS in emerging countries. For instance, Gyasi (2010) and Laga (2012) and Schachler *et al.* (2012) all indicated some challenges that facing the adoption of IFRS in developing countries. There including:

- Since these standards are new and unfamiliar to the local staff, several training must be done to ensure that these accountants are adept with handling these new standards. This invariably leads to increase in the cost of training. Also, the services of consultants must be purchased so as to complete compliance with the new standards adopted which also increases the consultancy cost immensely,
- Some standards do not meet the accounting and financial requirements of the developing countries, and
- The variances in local regulations as one major challenge to the compliance to IFRS in developing countries.

Table (2): Summary of Key Previous Studies

<i>Author(s)</i>	<i>Country's Study</i>	<i>Main Objective (s)</i>	<i>Main Finding(s)</i>
Nnadi (2012)	Ghana, Kenya, Nigeria, Zambia, Sierra Leone, Zambia, Switzerland, South Africa and Uganda	To examine the British influence on the IFRS adoption in their former African colonies, in comparison to other European colonizers.	Most former British colonies of Africa seem to follow their colonial ruler in adopting the IFRS, a trend that shows the subtle influence of Anglo-imperialism in the region through the system of financial accounting reporting. The Franco-German block has lesser influence on their former colonial countries and hence, the low IFRS adoption rate in the block.
Okpala (2012)	Nigeria	To investigate the effect of IFRS adoption on Foreign Direct Investment and Nigeria economy	IFRS has been adopted in Nigeria but only fraction of companies has implemented with deadline for the others to comply
Madawaki (2012)	Nigeria	The study focuses on the adoption process of International Financial Reporting Standards (IFRS) on a developing economy, with particular reference to Nigeria	In implementing IFRS Nigeria will face challenges including the development of a legal and regulatory framework, awareness campaign, and training of personnel.
Kholeif (2008)	Egypt	To examine the symbolic use of International Financial Reporting Standards (IFRS) in an Egyptian state-owned company	The company faced conflicting institutional demands from outside. The Central Agency for Accountancy required the company to use the Uniform Accounting System (as a state-owned enterprise) and The Egyptian Capital Market Authority required the company to use IFRS (as a partially private sector company registered in the stock exchange).
Gyasi (2010)	Ghana	The study seeks to analyze how developing countries and in particular Ghana adopted the International Financial Reporting Standards	External environments such as legal and education that affect the adoption of International Financial Reporting Standards in developing countries.
Sahut <i>et al.</i> (2011)	UK, France, Sweden, Italy, Finland, Spain, Norway and Ireland.	The purpose of this paper is to study the information content of intangible assets under IFRS when compared to local GAAP for European listed companies.	The results suggest that the book value of other intangible assets of European listed firms is higher under IFRS than local GAAP and has more informative value for explaining the price of the share and stock market returns. European investors, however, consider the financial information conveyed by capitalized goodwill to be less relevant under IFRS than with local GAAP.
Qu <i>et al.</i> (2012)	China	This paper aims to examine whether the 2007 IFRS converged Chinese GAAP has improved the quality of accounting information for investors in the A-share market in China	The findings of this study show that earnings per share, relative to book value of equity, is a stronger explanatory factor of market return in both the pre- and post IFRS convergence periods

Table (2) continued: Summary of Key Previous Studies

<i>Author(s)</i>	<i>Country's Study</i>	<i>Main Objective (s)</i>	<i>Main Finding(s)</i>
Irvine and Lucas (2006)	The UAE	This paper aimed to analyze the challenges facing adoption IFRS in the UAE.	This paper suggests that the UAE, in embracing globalization and adopting IFRS, will need to develop appropriate regulatory systems to overcome cultural issues relating to secrecy and fraud.
Schachler <i>et al.</i> (2012)	Libya	This study examines the arguments surrounding the appropriateness of accounting harmonization and the obstacles to achieve it and seeks to apply these arguments in the case of Libya.	The conclusion is that although harmonization with IFRSs is not precluded by any cultural considerations, historical factors and accounting education deficiencies may make the adoption of IFRSs more difficult, while the absence of an active stock market may make it less desirable in Libya.
Hibbard (2012)	United States, European Union, and New Zealand.	This research focuses on the adoption of International Financial Reporting Standards (IFRS) in the United States, European Union, and New Zealand.	The study highlighted the strengths and weaknesses of IFRS adoption and suggested ways to improve the convergence process in the future.
Negash (2012)	Not stated	The purpose of this paper is to examine whether International Financial Reporting Standards (IFRS) can be used for monitoring environmental degradation.	The sustainability reports produced by the companies contained both information and propaganda. The credibility of published sustainability reports is unclear. The size and adequacy of the contributions of the companies towards sharing the costs of decommissioning, rehabilitation and restoration of the environment are not disclosed.
Laga (2012)	Libya	This paper focused on the practical obstacles that will face the process of implementing of International Financial Reporting Standards (IFRS), with particular reference to Libya.	This paper revealed that many necessary steps should be taken to overcome such obstacles which include strengthen professional accountancy body (LAAA) to improve the status of profession, revisions of curriculum for educating and training of professional accountants to enable accountants to gain exposure to international developments in the profession including IFRS application.
Boumediene and Boumediene (2013)	France	To show that in accordance with the expectations of international organizations, the adoption of IFRS increases the information content of financial statements and also to identify the key accounting variables that have been affected by this adoption.	The findings of this paper show that the application of IFRS as accounting standards increases the accounting information.

4. Challenges of adopting IFRS in Libya

The adoption of IFRS in Libya faces several challenges and obstacles including, lack of technical skills and inadequate knowledge of Libyan professional accountants, the difficulty to develop its existing accounting systems, and a regulatory framework to cope with economic and social development, recent evolution in accounting profession including international financial reporting standards application, and inadequate education and training of accountants (Schachler *et al.*, 2012; Laga, 2012; Masoud, 2014).

Laga (2012) suggested several steps that may serve as useful inputs for implementing of IFRS and for accounting profession evolution in Libya. Theses including:

- Adequate professional education and training,
- Strengthen Professional accountancy body Libyan Accountants and Auditors Association (LAAA), and
- Review consistency of existing laws and regulations framework of accounting.

4.1 Accounting and Auditing Regulations

In 1988, Libyan State established the Institute of Public Control (IPC) by *State Accounting Bureau (SAB) Law No. 7*. The IPC is responsible for auditing all the state agencies, departments, organisations aided by or in receipt of loans from the government together with any other corporations to which the state contributes more than 25% of the capital (Libyan State, 1988).

The IPC's responsibilities have been extended to include the auditing of foreign companies and joint ventures operating in Libya, with the purpose of ensuring that these companies operated in accordance with Libya's laws and regulations. IPC membership is the alternative professional qualification for auditors in Libya who work in the public sector.

In the 1970s, with the increase of accounting graduates from the Benghazi University and the return of many graduates from abroad, many Libyan-run accounting firms were established. As a result of the increase of accounting firms in both number and size, and the lack of regulation over accounting and auditing standards and practices, there was an urgent need to set up a professional body, to take the responsibility for developing a general framework of accounting and auditing. To meet the demand, *Accounting and Auditing Professions Law No. 116* was enacted in 1973. It covers (Libyan State, 1974):

- The establishment of the Libyan Accountants and Auditors Association (LAAA),
- Registration of accountants,
- Exercise of profession,
- Fees,
- Pension and contribution fund,
- Obligations of accountants and auditors,

- Penalties, and
- General and transitional provisions.

The LAAA was established in 1974 with the following objectives (Libyan State, 1974):

1. To organise and improve the conditions of the accounting profession and to raise the standards of accountants and auditors professionally, academically, culturally and politically,
2. To organise and participate in conferences and seminars related to accounting internally and externally and to keep in touch with new events, scientific periodicals, lectures and so on,
3. To establish a retirement pension fund for its members,
4. To increase co-operation between its members and to protect their rights, and
5. To take action against members who violate the traditions and ethics of the profession.

Accounting and auditing firms in Libya, which are required to be licensed by the LAAA, can offer services in such areas as preparing financial reports, auditing, tax services, bankruptcy, management consulting, system design and installation (Libyan State, 1974). Because of a shortage of expertise and experience in many service areas, along with low demand from companies and organisations for other services, most of the public accountants are predominantly occupied in preparing and auditing financial reports. Other services are seldom provided (Buzied, 1998).

4.2 *Accounting Education*

Prior studies in accounting education conducted in Libya (e.g. Mahmud and Russell, 2003; Ahmad and Gao, 2004) identified several factors as the main impediments to the development of accounting education in the Libyan context. These include: (a) the outmoded accounting curricula and syllabuses; (b) the scarcity of modern textbooks and references in Arabic, (c) a lack of active professional societies, and (d) insufficient public knowledge of the role of accounting. Mahmud and Russell (2003) found that Libya needs to strategically plan in order to modify and modernize both its accounting education and practice.

Libyan accounting education focused entirely on the intermediate level (pre-university), with the establishment of the first School of Public Administration in 1953, the aim of which was to develop clerks and book keepers (Buzied, 1998).

Accounting education at university level started in 1957 with the establishment of the Accounting Department in the Faculty of Economics and Commerce at the University of Libya (now called Benghazi University) (Buzied, 1998).

The accounting education system in Libya is divided into three levels: pre-university, undergraduate programme, and postgraduate programme. Pre-university level accounting

education extends over 3-4 years of study. It is subdivided into general baccalaureate, specialised baccalaureates, technical and vocational institutes and centres. This level of education is made up of over 30 commercial institutes, colleges and secondary commercial schools. Most of them were established to meet the increasing demand for bookkeepers, accountants, clerks and secretaries for both governmental and private sectors (Buzied, 1998).

Since undergraduate programme inception in 1957, the Accounting Department in the Faculty of Economics and Commerce at Benghazi University has been the most influential force in accounting education in Libya. From 1957-1981, it was the only faculty that offered accounting education at the university level.

The growing demand for accountants and accounting services in the 1980s increased the need for the provision of accounting education at the higher education level. As a result, a few other universities such as Tripoli University and Al-Jabal Algarbi University also began to offer accounting programmes (Mahmud and Russell, 2003).

For the postgraduate programme, the Department of Accounting at Benghazi University has been offering a master's programme since 1988. The programme is organised into three components: core subjects, electives and a dissertation. It includes five core subjects of accounting and accounting related subjects, plus a minimum of three electives from six choices, among which must be at least one from management postgraduate subjects, one from economics postgraduate subjects and a dissertation (Ahmad and Gao, 2004).

Until 2004, there was no Doctor of Philosophy (PhD) programme available in accounting accessible within Libya, even though this qualification was considered to be very important for the advancement of the accounting faculty and the development of accounting research. Staff members with a PhD are either foreigners or Libyans who studied outside Libya in another country such as the US or UK.

The lack of a PhD programme is one of the main factors that have contributed to the slow development of accounting education and research in Libya according to Ahmad and Gao (2004).

Research in accounting in Libya has been quite insignificant (Ahmad and Gao, 2004; Pratten and Mashat, 2009). Only a few staff members of accounting departments in the universities have been active in this field and then only on a small scale. Accounting research in Libya is conducted in two ways: firstly by publishing articles in the journals by academics accountants. The other way to conduct research in Libya is through the research project which is one of the requirements for either MSc or PhD degrees. The study by undertaking research in the Libyan environment is attempting to improve the knowledge of accounting in Libya.

After the revolution of 17th February 2011, the Libyan state has paid more attention to higher education and offered many scholarships for Libyan graduates to pursue their education abroad. For instance, the Ministry of Higher Education (MHE) sent about 121142 students to study abroad (<http://highereducation.gov.ly/>: 2013). Mahmud and Russell (2003) and Ahmad and Gao (2004) have identified that further professional education is required to improve professional practice while Farag (2009) and Michas (2010) emphasise the needs for

professionals in developing countries to improve their practice to meet the challenges of globalisation.

4.3 *Economics System*

In the early 1970s, the Libyan government began a drive for economic development. Over the past 33 years, the expansion in the hydrocarbon sector has driven the country's economy, with the contribution of oil to Gross Domestic Product [GDP] at over 50% in the 1970s and early 1980s (Otman and Karlberg, 2005). While the economy has largely depended on oil as the main source of wealth, the country has allocated a large amount of money to establishing industrial companies in non-oil sectors over the last two decades, following the Government's Development Plans of 1980. Therefore, the non-oil sectors increased significantly, contributing over 70% of GDP (Otman and Karlberg, 2005). Nevertheless, the country still faced difficulty in being able to produce enough capital goods and consumer goods to achieve 'self-sufficiency' (Aгнаia, 1996).

Libyan's economic system consists of private and public sectors. In September 1992, *Privatization Law No. 9* was passed to regulate the private sector business in the national economy and to open up a number of public sector enterprises for privatisation (Libyan Government, 1992). The law's key aim was to regulate and improve private sector investments. The law identified the economic sectors in which the private sector and individuals could invest. These sectors included production, distribution and service activities in industry, agriculture, transport, commerce, finance, and tourism (Libyan Government, 1992). The law authorised the establishment of privately funded businesses, along with family and individual activities.

In 1997, the Libyan Government issued *Foreign Investment Law No. 5*. This legislation is designed to encourage foreign investment in areas that would result in a transfer of modern technology, a multiplicity of income resources, and which would contribute to the development of the national products (Libyan Government, 1997).

In 2005, the Libyan Government established Libyan Stock Exchange [LSE] by *Libyan Stock Exchange Law No. 134*. The objectives of the LSE include (Libyan Government, 2005):

- Encouraging saving by ordinary citizens and raising capital for public companies
- Promoting and encouraging investment in securities
- Creating the necessary investment environment
- Establishing a code of conduct and fairness among the various investors
- Guaranteeing equal opportunities for those dealing in securities in order to protect small investors.

4.4 *Culture Structure*

The main aspects of the social structure of contemporary Libya are the extended family, the clan, the tribe and the village, all of which play a major role in the individual's and

community's life. The Libyan family has a wide connotation which includes father and mother and their unmarried and married sons and daughters with their families as well as many more distant relatives and kinsmen such as grandparents, aunts, uncles, cousins, nieces and nephews. Agnaia (1996) indicated that because the individual is identified with his family, his good or bad deeds bring collective fame or shame to the family members. The individual has to obey and respect the rules and traditions of the family, clan, the tribe and village.

Agnaia (1996) pointed out that personal relations and family contacts can play a greater part in gaining business and career promotion than practical experience or academic qualifications. Loyalty to the family, clan, and tribe along with the emphasis placed on regionalism and sectarianism, occasionally outweigh loyalty to a profession and sometimes the law. Pratten and Mashat (2009) indicated that family; religion and language have a significant effect on the attitude and behaviour of people in Libya and Arabic society. In Libya, the family operates as a small society, with its members being assigned to a hierarchical order, according to age and generation. Authority and leadership are the preserve of the father, grandfather, or eldest son (Ritchie and Khorwatt, 2007).

As most of the Libyan population is Muslim, Islam plays an important role in the community's life and in people's relationships with each other (Lewis, 2001). Furthermore, the revolutionary system is committed to Islam and has on a number of occasions clearly reaffirmed Islamic values (Agnaia, 1997). In societies with a high level of male-domination, there are rewards in the form of wealth or status for the successful achiever. In male-dominated cultures, men are expected to be ambitious, assertive; concerned with money and to admire whatever is big and strong. In contrast, in cultures identified as having low masculinity, trying to be better than others is neither socially nor materially rewarded. In feminine cultures both men and women are expected to be non-competitive, modest, concerned with relationships and to sympathise with whatever is small and weak (Hofstede, 1991).

Pratten and Mashat (2009) indicated that Libyan society is described as one which is characterised as male-dominated. Libya, like all Arab countries, distinguishes clearly between male and female roles. Libyan culture is mainly masculine because the dominant role in Libyan society belongs to men (Pratten and Mashat, 2009). In addition, in Libya, the high degree of collectiveness and solidarity cannot be matched in any modern country. Agnaia (1996) pointed out that Libya as an Arab country may be characterised more as a collectivist culture.

Hofstede (1991) highlighted that culture plays an important part in the culture of organisations. This cultural factor is likely to influence the political and economic structure of organisations within Libya and other Arabic counties and thus needs to be considered when investigating current practices and policies in the Libyan context for accountants and auditors.

5. Study Methodology

To answer study question which is *What are the effects of legal, accounting education, economic and culture structures on adopting of IFRS in Libya?*, self-administered questionnaires were used to collect data concerning the perceptions of academics. Statistical analysis was undertaken on the resulting data.

The first part of the questionnaire was designed to obtain some personal information of participants relating to their background. The second section was designed to gather the opinions of accounting staff members at Libyan universities regarding the effects of legal, accounting education, economic and culture structures on adopting of IFRS in Libya. The third section of the questionnaire used an open question to enable the participants to provide the researcher with additional information which they felt would help the study and to identify any missing subject topics which should be considered in this study.

Likert-type scales are often 5-point scales (Bernard, 2000). 5-point Likert scales were utilised in this study. The reasons behind employing Likert-type scales are (a) it is useful to obtain respondent's feelings or opinions (Mitchell and Jolley, 2009), and (b) to give participants a range of options as shown in table 3 below to choose and therefore increase the response rate.

Table (3): Five Point Scales

	<i>Strongly Disagree (SD)</i>	<i>Disagree (D)</i>	<i>Neither (N)</i>	<i>Agree (A)</i>	<i>Strongly Agree (SA)</i>
Items	1	2	3	4	5

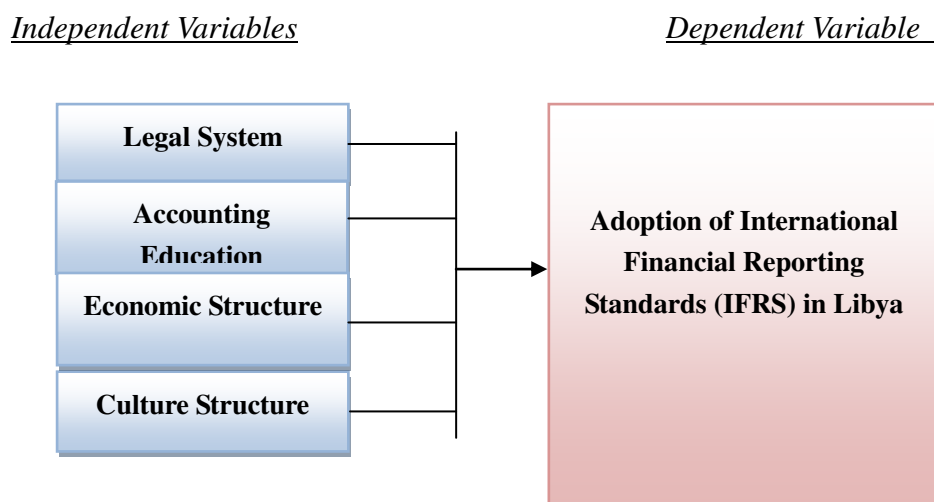
A 5-point Likert-scale ranging from Strongly Disagree (SD) to Strongly Agree (SA) was utilised to measure perceptions regarding the challenges of adopting IFRS in Libya.

In figure 2 on the interconnectivity between the independent variables and the dependent factor for IFRS is displayed. Previous studies by a number of authors including Irvine and Lucas, 2006; Laga, 2012; Owolabi and Iyoha, 2012; Okpala, 2012; Schachler *et al.*, 2012; Saidi, 2013 and Masoud, 2014 highlight a number of variables that impact on adoption of IFRS in developing nations, which include (a) Legal system; (b) Accounting education; (c) Economic structure; and (d) Culture.

The majority of the literature relating to IFRS is based in developed countries but as Laga (2012); Zakari (2013) and Saidi (2013) indicated that very few studies are available on accounting in general and IFRS particularly in the emerging economics such as Libya. Therefore, legal system, accounting education, economic structure, and culture are considered

as independent variables that may affect in implementation of IFRS in Libya.

Figure (2): Theoretical Framework of the Study



Source: Author

6. Empirical Results

Descriptive statistics were used to analyse the background information of participants such as years of experience. 79.3% of the survey participants have Masters Degree, while there was only 10.3% who has PhD. It is interesting to note that the majority of the respondents were lecturers at Tripoli University (See table 4 below for detail).

In table 4, 41.4% of the total respondents had more than 10 years experience, while 68.6% of the total participants had experience between 5 to 9 years

Table (4): Percentage Distribution of Participants by Qualification Achieved, Experience and Occupation

	Total	
	%	No

Participants' education level

High School	3.4	1
First University Degree	6.9	2
Masters Degree	79.3	23
PhD	10.3	3

<i>Total</i>	100	29
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Participants' years of experience

Under 5 years	37.9	11
5- 10 years	20.7	6
Over 10 years	41.4	12
<i>Total</i>	100	29

Participants' occupation

University Lecturer	75.9	22
Auditor	10.3	3
accountant	13.8	4
<i>Total</i>	100	29

By using a Cronbach's Alpha test the reliability was tested for all items in the scales. Cronbach Alpha was used to measure internal consistency for the study survey, based on the sample estimation. Although George and Mallery (2003) suggest 0.7 as the accepted level, a value more than 0.6 is regarded as a satisfactory level (Pallant, 2007). The reliability test was conducted for all 8 items. According to Sekaran (1992: p.173),

"The reliability of a scale indicates the stability and consistency with which the instrument is measuring the concept and helps to assess the goodness of a measure"

After coding all answers from completed questionnaires, the reliability test using Cronbach's alpha was conducted.

Table 5 illustrates the results of this test. In this table, Cronbach's alpha was 0.885; this is acceptable in social science research (Field, 2009). Thus, the Inter-item Consistency Reliability (ICR) of the measures used in this study can be considered to be very acceptable.

Table (5): Cronbach's Alpha Test Result

No. of Items	No. of Cases	Cronbach's Alpha
8	29	.885

Table 6 shows the results of means for all survey items. The overall mean ($\mu=3.61$) indicated that adoption of IFRS in by Libyan companies faces several challenges such as accounting regulation, accounting education, economic structure, and culture. The standard deviations ranged from .841 to 1.211.

Table (6): Means Result

No	The Statements	Mean (μ)	Std. Deviation
1	Weakness of professional accountancy body	4.28	.841
2	Inconsistency of existing laws and regulatory frameworks of accounting in Libya with recent development of accounting profession.	3.28	1.099
3	Lacks of an independent oversight body to monitor and enforce accounting and auditing standards and codes.	3.62	.979
4	Lacks technical skills and inadequate knowledge of Libyan professional accountants.	3.59	1.211
5	Weakness of Libyan accounting education.	3.55	1.183
6	The need for training of relevant professionals.	3.66	1.045
7	The needs of sound ethical environment.	3.55	1.021
8	Economic growth in Libya greatly influenced the adoption of IFRS.	3.41	.946

Table 7 illustrates the results of frequency and percentage for all survey items. The overall mean ($\mu=3.61$) indicated that legal, accounting education, economic and culture have effect on adopting of IFRS in Libya such as statements no. 1, 3 and 5.

At least 40% of participants' answers were between 'agree' (A) and 'strongly agree' (SA)

categories, such seen in items no. 1, 3 and 5.

Table (7): Frequency and Percentage Results

<i>Statements</i>	<i>SD</i>		<i>D</i>		<i>N</i>		<i>A</i>		<i>SA</i>	
	No	%	No	%	No	%	No	%	No	%
1 Weakness of professional accountancy body	-	-	1	3.4	4	13.8	10	34.5	14	48.3
2 Inconsistency of existing laws and regulatory frameworks of accounting in Libya with recent development of accounting profession	1	3.4	6	20.7	11	37.9	6	20.7	5	17.2
3 Lacks of an independent oversight body to monitor and enforce accounting and auditing standards and codes.	-	-	4	13.8	9	31.0	10	34.5	6	20.7
4 Lacks technical skills and inadequate knowledge of Libyan professional accountants.	2	6.9	3	10.3	8	27.6	8	27.6	8	27.6
Weakness of Libyan										
5 accounting education.	1	3.4	6	20.7	5	17.2	10	34.5	7	24.1
6 The need for training of relevant professionals.	-	-	3	10.3	13		4	13.8	9	31.0
						44.8				
The needs of sound ethical	1	3.4	1	3.4	15	51.7	7	24.1	5	17.2
7 environment.										
8 Economic growth in Libya greatly influenced the adoption of IFRS.	-	-	4	13.8	14	48.3	6	20.7	5	17.2

SD = Strongly Disagree (1)

D = Disagree (2)

N = Neither (3)

A = Agree (4)

SA = Strongly Agree (5)

7. Discussion

This section aims to discuss the results of questionnaire in line with the research question as well as the literature on IFRS. This will allow the research to be positioned in terms of its contribution to knowledge.

From the questionnaire results the respondents indicated that 82.8% of participants agreed that weakness of professional accountancy body is challenging that facing IFRS adoption by Libyan companies.

The questionnaire respondents perceived that lacks of an independent oversight body is one of the obstacles that facing IFRS implementation in Libya. These findings are consistent with the results of Laga (2012) who found that many necessary steps should be taken to overcome such obstacles which include strengthen professional accountancy body LAAA to improve the status of profession, revisions of curriculum for educating and training of professional accountants to enable accountants to gain exposure to international developments in the profession including IFRS application.

The second point addressed in the current study was the Libyan accounting regulation and it's consistency with IFRS. The survey results (37.9%) showed that inconsistency of existing laws and regulatory frameworks of accounting in Libya with recent development of accounting profession is one of the difficulties that facing IFRS adoption by Libyan firms.

The survey response was consistent with previous studies in this area (e.g. Gyasi, 2010) who found that external environments such as legal that affect the adoption of International Financial Reporting Standards in developing countries in general and in Ghana in particular. Moreover, Irvine and Lucas (2006) who suggested that the UAE, in embracing globalization and adopting IFRS, will need to develop appropriate regulatory systems to overcome cultural issues relating to secrecy and fraud. In addition, Schachler *et al.* (2012) indicated that the variances in local regulations as one major challenge to the compliance to IFRS in developing countries.

Question four, five and six of the questionnaire investigated the effect of Libyan accountant skills and knowledge, and accounting education and training on IFRS adoption. In the questionnaire the survey participants responded that lacks technical skills and inadequate knowledge of Libyan professional accountants (mean=3.59), weak accounting education (mean=3.55) and training of relevant professionals (mean=3.66) have effect on IFRS implementation in Libya. These findings are compatible with Schachler *et al.* (2012) who concluded that although harmonization with IFRSs is not precluded by any cultural considerations, historical factors and accounting education deficiencies may make the adoption of IFRSs more difficult, while the absence of an active stock market may make it less desirable in Libya.

Survey participants when asked about the ethical environment indicated that 51.7% (mean=3.55) of respondents that IFRS adoption by Libyan companies is need a sound ethical environment.

The survey respondents (37.9%) emphasised that economic growth in Libya greatly influenced the adoption of IFRS ($\mu=3.41$). This was supported by the literature (Irvine and Lucas, 2006; Judge and Pinsker, 2010; Schachler *et al.*, 2012) who found that foreign aid, import penetration, and level of education achieved within a national economy are all predictive of the degree to which IFRS standards are adopted across 132 developing, transitional and developed economies.

8. Conclusion

Libya need to develop its legislation, professional bodies, accounting education, infrastructure and application of practice as this will lead to greater confidence of external International Investors thus creating new opportunities while providing greater access to technology, skills and knowledge that could help in adoption of IFRS. By improving professional practice and meeting the challenges of the new developing economic market structure the recent development such as the stock market can be encouraged to develop and provide greater benefits to the population. Previous researchers such as Ahmad and Gao (2004), Pratten and Mashat (2009) and Faraj and Akbar (2010) have developed recommendations to develop Libya including addressing the current legislation and accounting education issues. Without parliamentary support to address the archaic legislation Libya's development will continued to be stifled and thus the professional challenges and issues identified in this study will continue to be persistent in auditing professional practice within the country. Arabic nations can learn from the Libyan experience and utilise this research to improve their understanding of the issues that developing countries encounter in accounting.

The paper makes a contribution to the accounting literature on developing economies by specifically answering the question of What are the effects of legal, accounting education, economic and culture structures on adopting of IFRS in Libya?. Particularly, the findings of this study presented contribute to the literature addressing IFRS in developing countries (e.g. Zeghal and Mhedhbi, 2006; Hassan *et al.*, 2009; Gyasi, 2010; Laga, 2012). This paper extends this literature by studying the challenges of IFRS in Libya (a developing country), focusing on the impact of legal, accounting education, economic and culture in IFRS implementation.

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