The Development of Accounting in Africa in the Era of International Financial Reporting Standards

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Declaration

I hereby declare that the work presented in this thesis has not been submitted for any other degree or professional qualification, and that it is the result of my own independent work.

Charles Gyamfi Agyeman

Candidate

7th December 2020

Date

Abstract

This thesis consists of two separate, but related studies on the development of accounting in Africa in the era of International Financial Reporting Standards. The first part of this thesis presents the first empirical test of a hypothetical classification of financial reporting in Africa based on *de facto* or actual practices as opposed to *de jure* rules. Three multivariate techniques (principal component analysis, cluster analysis, and multidimensional scaling) were used to analyse the accounting policies of large, listed companies in Africa that are required by law to adopt IFRS. It was found that there is a dichotomy between the IFRS policy choices of companies in Francophone and Lusophone countries, on the one hand, and those in common law jurisdictions, on the other, thus confirming the two-group classification schemes proposed by Elad (2015) and Nobes (1983).

The results of this study extend previous research by demonstrating that international differences in financial reporting in Africa have survived in the era of IFRS and that pre-IFRS regulations enshrined in national and regional charts of account appear to have influenced IFRS policy choice. Furthermore, companies in common law countries tend to provide more extensive disclosures in their IFRS financial statements than their counterparts in code law countries.

These findings have important policy implications, particularly in the context of recent recommendations of the World Bank, the International Monetary Fund, and the Pan-African Federation of Accountants that large entities in Africa adopt IFRS. The systematic differences in the choice of IFRS options between companies in civil law and common law jurisdictions suggest that it would be difficult to achieve international comparability and consistency in financial reporting.

The second part of the study uses semi structured telephone interviews to undertake interpretive accounting research (Baker and Bettner, 1997, p.293) to assess the perception of accounting professionals in relation to IFRS adoption and its use in Ghana. It concludes that despite the problems associated with its adoption and implementation, overall, International Financial Reporting Standards are viewed as necessary for the financial reporting needs of the country.

Key words: Accounting classifications; IFRS practices; CFA franc zone; OHADA accounting system; Plan Comptable Général, SYSCOHADA

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probably more than what I would have expected for the whole four-year duration of this study.

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Publications associated with this research

Elad, C., Shah, N., Agyeman, C., Accounting Classification in the IFRS Era: the case of Africa submitted to the International Journal of Accounting, Auditing and Taxation.

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Abbreviations

Acronym		**Definition**
ABWA	-	Association of Accountancy Bodies in West Africa
ACPS	-	Association des Comptables Professionnels du Sénégal
ANAN	-	Association of National Accountants of Nigeria
APB	-	Accounting Practices Board
ASB	-	Accounting Standards Board
BCEAO	-	La Banque Centrale des États de l'Afrique de l'Ouest
BRVM	-	Bourse Régionale des Valeurs Mobilières
CECSB	-	Companied'experts-comptables et de commissaires de Sociétés du Benin
CEOs	-	Chief Executive Officers
CFA	-	Communauté Financière Africaine
CFO	-	Chief Financial Officer
CIMA	-	Chartered Institute of Management Accountants
CNC	-	Conseil National de la Comptabilité
ECOWAS	-	Economic Community of West African States
EU	-	The European Union
FASB	-	Financial Accounting Standards Board
FEE	-	Fédération des Experts-comptables Européens or The Federation of European Accountants, now Accountancy Europe
FIFO	-	First-In First-Out
FRCN	-	Financial Reporting Council of Nigeria

GAAP	-	Generally Accepted Accounting Principles
GDP	-	Gross Domestic Product
GICA	-	Gambia Institute of Chartered Accountants
GSE	-	Ghana Stock Exchange
IAASB	-	International Auditing and Assurance Standards Board
IAS	-	International Accountings Standards
IASB	-	International Accounting Standards Board
IASC	-	International Accounting Standards Committee
IASCF	-	International Accounting Standards Committee Foundation
ICAEW	-	Institute of Chartered Accountants of England and Wales
ICAG	-	Institute of Chartered Accountants, Ghana
ICAN	-	Institute of Chartered Accountants of Nigeria
ICASL	-	Institute of Chartered Accountants Sierra Leone
ICPAK	-	Institute of Certified Public Accountants of Kenya
IFAC	-	International Federation of Accountants
IFRIC	-	International Financial Reporting Interpretations Committee
IFRS	-	International Financial Reporting Standards
IMF	-	International Monetary Fund
IOSCO	-	The International Organisation of Securities Commissions
IPSAS	-	International Public Sector Accounting Standards

ISA	-	International Standards on Auditing
ISAR	-	International Standards of Accounting and Reporting
KPMG	-	Klynveld Peat Marwick and Goerdeler International Cooperative
LICPA	-	Liberian Institute of Certified Public Accountants
MNCs	-	Multi-national Companies
NASB	-	Nigerian Accounting Standards Board
NSE	-	Nairobi Security Exchange
OECCA	-	Ordre des Experts-Comptables et Comptables Agréés
OEC-CI	-	Ordre des Experts-Comptables de Cote d'Ivoire
OECD	-	Organisation for Economic Co-operation and Development
OHADA	-	Organisation pour l'Harmonisation en Afrique du Droit des Affaires
ONECCA	-	Ordre National des Experts Comptables et Comptables Agréés du Sénégal
ONEEAS	-	Ordre National des Experts et Évaluateurs Agréés du Sénégal
ORNATOC	-	Ordem Nacional dos Técnicos Oficiais de Contas da Guinée-Bissau
PAFA	-	Pan African Federation of Accountants
PCG	-	Plan Comptable Général
PCG	-	Plan Comptable Général
PGC	-	Plano Geral de Contabilidade (Standard Chart of Accounts)
PPE	-	Property, Plant and Equipment
ROSC	-	Report on the Observance of Standards and Codes

SAC	-	Standards Advisory Council
SAICA	-	South African Institute of Chartered Accountants
SCE	-	Statement of changes in equity
SEC	-	Securities and Exchange Commission
SMEs	-	Small and Medium Enterprises
SMEs	-	Small and Medium Scale Enterprises
SMO	-	Statement of Membership Obligation
SORIE	-	Statement of Recognised Income and Expense
SSAP	-	Statements of Standard Accounting Practice
SYSCOA	-	Système Comptable Ouest Africain
SYSCOHADA	-	Système Comptable OHADA
UAA	-	Uniform Act of Arbitration
UDEAC	-	Union Douanière et Économique de l'Afrique Centrale
UEMOA	-	Union Economique et Monétaire Ouest Africaine
UK	-	United Kingdom
UNCTAD	-	United Nations Conference on Trade and Development
UNCTC	-	United Nations Centre on Transnational Corporations
WAEMU	-	West African Economic and Monetary Union
WTO	-	World Trade Organisation

1. Chapter 1: Introduction

1.1 Introduction

Several studies have suggested that there are opportunities for systematic differences of practice to exist within IFRS usage (Nobes, 2006; 2013) and that different national versions of IFRS practice have emerged in some jurisdictions as a new feature of comparative international accounting. In particular, Nobes (2006, 2011, 2014) developed and tested some hypotheses on the persistence of national differences under IFRS in industrialised countries, and invited other researchers to investigate this issue further, thus opening up a new research agenda.

This study seeks to contribute to the international accounting literature in two ways. First, unlike earlier accounting classification studies, it attempts to classify accounting systems in Africa using data on actual practices as opposed to rules and regulations. This is important because a number of recent studies have painted a somewhat *misleading picture of the extent* to which IFRS have been adopted in some national settings simply because they relied solely on accounting rules and regulations. One classic example is a paper by Khlif et al. (2020) which arrived at the conclusion that the extent of convergence with IFRS in Algeria is higher compared to Morocco and Tunisia. Contrary to this claim, the level of adoption of IFRS appears to be higher in Morocco than in Algeria or Tunisia because it is the only North African country that allows listed companies to use IFRS in their consolidated financial statements. IFRS are currently prohibited for statutory reporting purposes in Algeria and Tunisia[1]. In addition, IAS 1 (paragraph 16) makes it clear that an entity shall not describe financial statements as complying with IFRS unless they comply with all the requirements of IFRS. Yet, Khlif et al. (2020) inadvertently convey the impression that these countries have actually adopted international standards whereas what is meant is that IFRS influenced the development of national GAAP in Algeria, Morocco and Tunisia to some extent. This is because they used data from the PricewaterhouseCoopers (2011) survey of accounting regulations to support their key arguments.

This survey report states on page 202 that IFRS are "required for consolidated and standalone/separate financial statements" in Algeria[2]. However, the 2015 edition of the report now states unequivocally that IFRS are "neither required nor permitted in Algeria"[3]. This point is re-emphasised in the most recent (2017) edition which also states that "IFRS are neither required nor permitted in Algeria" (PricewaterhouseCoopers, 2017, page 205)[4].

Furthermore, Elad (2015, p. 94) used the PricewaterhouseCoopers (2011) survey

[1] See, for example, the site: https://www.iasplus.com/en/resources/ifrs-topics/use-of-ifrs (accessed July 2020).

[2]See page 202 of the 2011 survey report at: http://www.pwc.com/en_US/us/issues/ifrs-reporting/assets/ifrs_country_adoption.pdf

[3] See page 229 of the 2015 survey report at: https://www.pwc.com/gr/en/publications/pwc-ifrs-by-country-2015.pdf

[4] See page 205 of the 2017 survey report at: https://www.pwc.ru/ru/ifrs/ifrs-17-hub-int/pwc-ifrs-by-country-2016.pdf

data to misclassify Algeria under an Anglo-American accounting cluster. Another recent paper by Boolaky et al. (2020, p. 34) states erroneously that IFRS were required for all companies in Senegal in 2014[5]. These developments readily call to mind an editorial by Zeff (2016), curiously entitled "*In the literature* but wrong: Switzerland and the adoption of IFRS", in which he cautioned that errors in the literature should not be perpetuated in future work just because they are found in previous published research. These concerns were echoed by Nobes (2018) when he suggested that the problems could be alleviated if accounting classifications were based on *de facto* (or actual) practices rather than on *de jure* rules and regulations. Accordingly, the present study uses data on actual practices to test the validity of the hypothetical classification of accounting systems in Africa proposed by Elad (2015).

The second contribution of this study is that it extends previous research by investigating whether systematic differences of practice exist within IFRS usage in Africa. Some of the hypotheses formulated by Nobes (2006, 2013) are tested in a developing country context in order to verify if the findings are generalisable. Africa provides an ideal setting for this study because, in spite of ongoing attempts at harmonisation, the Anglo-American common law and accounting systems still co-exist with the continental European accounting systems of Francophone, Lusophone and Spanish speaking countries. The policy implications of this study can be seen in terms

[5] The only accounting system allowed in Senegal, and other OHADA treaty states, in 2014, is the *SystèmeComptable OHADA* or SYSCOHADA. IFRS were prohibited for all statutory filings in the OHADA zone in 2014.

of recent recommendations of the World Bank, International Monetary Fund (IMF), and the Pan-African Federation of Accountants that large entities in Africa adopt IFRS.

1.2 Research Problem

The World Bank and the IMF have recognised IFRS as one of the international standards and codes that promote transparency, accountability, and good governance. They also require large entities in Africa that receive structural adjustment assistance to adopt IFRS as part of their reform agenda. This unprecedented strategic alliance between the IASB and the World Bank is problematic because some researchers (e.g., Nobes, 2006; 2013) have argued that the adoption of IFRS will not necessarily enhance comparability and consistency in financial reporting since there are opportunities for systematic differences of practice to exist within IFRS usage. Hence, the research problem is to investigate whether international differences in financial reporting are likely to persist in spite of the adoption of IFRS by listed companies in Africa.

Secondly, and related to the above, the extant literature suggests that the use of IFRS are problematic for African nations because they are unsuitable for their financial reporting needs (see Briston, 1978; 1984; Sy and Tinker, 2013). Principally, the conventional purpose of financial reporting in the advanced countries with matured market is to provide investors with information that they need for making decisions, planning and control (Hopper, 2012; Hopper *et al.*, 2017). However, many African countries do not have stock markets, and for those who have, either only few companies are listed, or the stock markets are not as matured as their counterparts in the developed countries. Governments are the main source of funding for investments in most African countries, making them the main stakeholders who should be targeted in financial reporting. As such in these countries, governments need financial reporting information for tax purposes and for national statistics (Briston, 1978).

This makes the use of IFRS unsuitable since the main purpose of conventional financial reporting under IFRS is to provide relevant information to investors and creditors who are the main providers of finance (Briston, 1978). Hence, the needs of all other stakeholders such as governments, staff and society become secondary (Nzakou, 2001; cited in Mayegle, 2014). For this reason, Harris (1975) and Harrison (2004; 2005) have argued that African countries should developed their own unique indigenous accounting systems that take into consideration complex and non-conventional socio-political economy at both micro and macro levels.

Nevertheless, it is important to note that most of the claims of IFRS unsuitability have been made by academic researchers (for example Elad, 2015) who may not have any workplace experience working with IFRS. The research problem is to investigate whether accounting professionals have the same perception of IFRS being unsuitable as claimed by the academic researchers. Ghana was used as a country-specific scenario for this research. With Ghana being a developing country like the other African nations, arguably, the conclusions drawn could be extended to other countries on the continent or could be used as a basis for further studies on this subject across countries on the continent.

1.3 Aims, Objectives and Hypothesis

The purpose of the first part of this study is to build on previous work by Nobes (2006, 2013, 2014) by investigating whether systematic differences of practice can be discerned in the accounting policy choices of large, listed companies in Africa that are required by law to adopt IFRS. Nobes (2006, 2013) offered some hypotheses on international differences in financial reporting, as suggestions for further inquiry, using Germany as an example of a civil law country and the UK as an example of a common law country. He invited other researchers to investigate this issue further, thus encouraging a new research agenda.

Elad (2015) responded to Nobes invitation but his research was focused on Africa. He conducted a similar study to Nobes. However, his research on classification of accounting systems was focused on the dichotomy in the accounting practices between civil law and common law countries in Africa. Although Elad's study did not directly respond to Nobes claim of the persistence of national differences on IFRS application among countries, it confirmed the existence of the common law (Anglo-American) and civil law (Continental European) accounting classes.

This thesis is however in direct response to Nobes' call for further investigation on the differences in the application of IFRS amongst countries that have adopted its use for financial reporting. The study will also, at the same time, seek to test the validity of Elad's classification of accounting practices in Africa. As both studies by Elad and Nobes were based on the differences in the accounting systems of the civil law and the common law countries, this study can adopt a common hypothesis to test the conclusions of both studies. Two of Nobes (1983) hypothesis on national differences in accounting systems even in the era of IFRS were adapted to the context of the present study as follows:

H1: There are systematic differences in the choice of IFRS options between companies operating in civil law and common law jurisdictions in Africa.

H2: Pre-IFRS differences between national practices have a significant effect on the IFRS financial statements of listed companies in Africa.

Inferring from the afore mentioned discussions on both studies by Nobes and Elad, it is contended in this thesis that hypotheses H1 and H2 above are subsumed under Elad's (2015) classification of accounting systems in Africa. Hence, although this study is primarily designed to test Elad's hypothetical classification scheme using data on IFRS policy choices, it will also investigate the validity of hypotheses H1 and H2.

Some researchers (e.g. Cairns, 1997; Alexander and Archer, 2000; d'Arcy, 2001) have challenged the distinction between the continental European uniform accounting system and the Anglo-American judgemental or pragmatic accounting in the current era of globalisation and IFRS. In response to these concerns, Nobes (1998; 2008) reformulated the dichotomy between the two systems in broader terms as a dichotomy between what he called Class A (strong equity, commercially driven) accounting and Class B (weak equity, government-driven, tax-dominated) accounting. Nobes (2003, p. 99) explains that Anglo-American accounting (compared to other forms of accounting) is "oriented towards decision-making by investors; it plays down the measurement of taxable income; it is less worried about prudence; it is more willing to go beyond legal form". He goes on to argue that those who dispute the two-group classification fail to find it because they concentrate on the regulatory system rather than on accounting practices (e.g., Alexander and Archer, 2000); or they concentrate on non-representative accounting (i.e., the consolidated statements of a few large companies in continental Europe, e.g., Cairns, 1997); or they use erroneous data (e.g., d'Arcy, 2001).

The second study explores some of the arguments relating to the first study by investigating whether the use of IFRS are generally supported across Africa. It assesses the claim that is often made in literature that IFRS are not good for developing countries because they are developed by and for countries with advanced economies (e.g., see Briston, 1978; Oliga, 1982; Parker, 1990; Okike, 2004; Sy and Tinker, 2013). Although it is often expected that IFRS adoption will boost economic development of a country (AAA, 1977, p.20), researches like Rivera (1989) have often challenged that IFRS are strongly influenced by the accounting practices and needs of developed countries with advanced economies, and therefore it may be erroneous to insist that the accounting standards of these developed nations should be adopted by less developed ones fully without any alterations. This study will examine the validity of these claims by investigating perceptions of accounting related professionals, using Ghana as a specific test case. Inter alia, the first study raises the question as to whether IFRSs are supported uniformly in Africa. The second study nonetheless explores this to some extent and opens the argument for further studies, as this study particularly relates Ghana - but nevertheless a worthy one - rather than one that can be generalised throughout Africa.

Accordingly, in addition to testing the two hypotheses above, this thesis will also address the research question: *What are the perceptions of accountants with respect to the use of IFRS for financial reporting in Ghana?*

1.4 Overview of Methodology and results (PCA; CA; MS)

This thesis uses three multivariate techniques (principal component analysis, cluster analysis, and multidimensional scaling) to examine the accounting policies of 214 large, listed companies in Africa that are required by law to use IFRS for preparing financial statements. The findings suggest that there is a contrast between the IFRS policy choices of companies in Francophone and Lusophone countries, on the one hand, and those in common law jurisdictions, on the other, thus confirming the two-group classification schemes proposed by Elad (2015) and Nobes (1983). It also supports Nobes claim of the existence of national profiles of IFRS, in the context of Africa.

Secondly, using interpretive analysis (see Baker and Bettner, 1997, p.293), this thesis conducts 10 semi-structured interviews to investigate the perceptions of accounting professionals with respect to the adoption of IFRS in Ghana. The suggests that they welcome the use of IFRS in Ghana, and they are of the view that IFRS are relevant to the reporting needs of the country. These findings contrast with the claims of many researchers who contends that IFRS are not good for the financial reporting needs of developing countries (e.g., Sy and Tinker, 2013).

1.5 Chapter Outline

The remainder of this dissertation is arranged as follows. Chapter two reviews the literature on the causes of international differences in financial reporting. This chapter explains the different environmental reasons that are likely to help shape a countries approach to financial reporting and therefore the differences that may result thereof. Chapter three examines studies on the classification of accounting systems, focusing on the works of Nobes and Elad which form the basis of the hypotheses of this study. The purpose of this chapter is to review the opposing studies on the groupings of national accounting systems globally. This chapter will provide the bases for the analysis of the different financial systems used in Africa. Chapter four evaluates international efforts towards convergence of domestic GAAPs with IFRS and the role of IOSCO, the World Bank and the IMF in this process. Specifically, this chapter will assess the impact of the efforts to harmonise and converge national accounting systems on African countries, especially, in the adoption of International Financial Reporting Standards

Using institutional theory, chapter five will analyse how institutional pressures have shaped the development of accounting systems on the continent, starting from the early years of independence to the current times. The chapter investigates the memetic, normative, and coercive institutional forces that have influenced financial reporting on the African continent. The pivotal role played by global financial institutions such as the World Bank and the International Monetary Fund are investigated to ascertain the coercive pressures that they have brought to bear in influencing financial development in Africa.

Chapter six examines the roles of political, economic, and professional institutions in the development of the different accounting systems on the continent. This will help to ascertain the extent to which Africa's own regional economic bodies, together with regional professional accountancy bodies have played in the development of the continent's accounting practices. Chapter seven assesses the suitability of IFRS to the financial reporting needs of African countries. It also evaluates the purpose of financial reporting in the African context and investigates whether the use of IFRS which are developed by, and for countries with advanced economies are suitable for the financial reporting needs of African nations.

Chapter eight reviews various literature on IFRS options to set the scene for conducting empirical studies on classification of accounting systems in Africa in chapter nine. Also, chapter eight will review existing literature on the perception of accountants on the use of IFRS to also set the scene the interpretive analytical research conducted in chapter 10.

Chapter nine presents the methodology and results of this study. Essentially, it uses Principal Component Analysis, Cluster Analysis and Multidimensional Scaling to test the hypotheses of this thesis.

Chapter ten uses semi-structured interviews to investigate the perception of accounting practitioners in Ghana on various aspects of IFRS adoption in Ghana, ranging from pre-adoption preparations to current issues such as regulation and training on the use of the standards.

Finally, Chapter eleven sums up the entire dissertation. It also highlights the limitations of the study and some suggestions for further research.

1.6 Conclusion

Chapter two to seven provide an exhaustive literature review into the study of the development of accounting in Africa as they review literature on the factors that have influenced the development of accounting in other nations, both developed and some undeveloped. Chapter three provides the foundation for grouping the accounting systems in Africa that are dealt with in this study into two classes based on civil law and common law heritage. Chapter four examines international efforts to converge financial reporting practices and how various institutions have become agents of harmonisation of global accounting systems. Linked to chapter four, chapter five investigates institutional pressures from external bodies that have influenced Africa's accounting systems. The next chapter assesses how Africa's own political, economic, and professional accounting communities have shaped it accounting development. Chapter seven then evaluates how suitable are IFRS to the financial reporting needs of countries on the African continent. Following this,   Chapter 8 sets the scene for the analytical studies in chapters nine and ten by reviewing literature on Nobes (1983) IFRS options that he contends are the main causes of differences in financial reporting globally, even in the era of IFRS adoptions by countries. The two hypothesis that are used for the first part of this study have their basis in these IFRS options.

2. Chapter 2: Factors Influencing the development of Accounting

2.1 Introduction

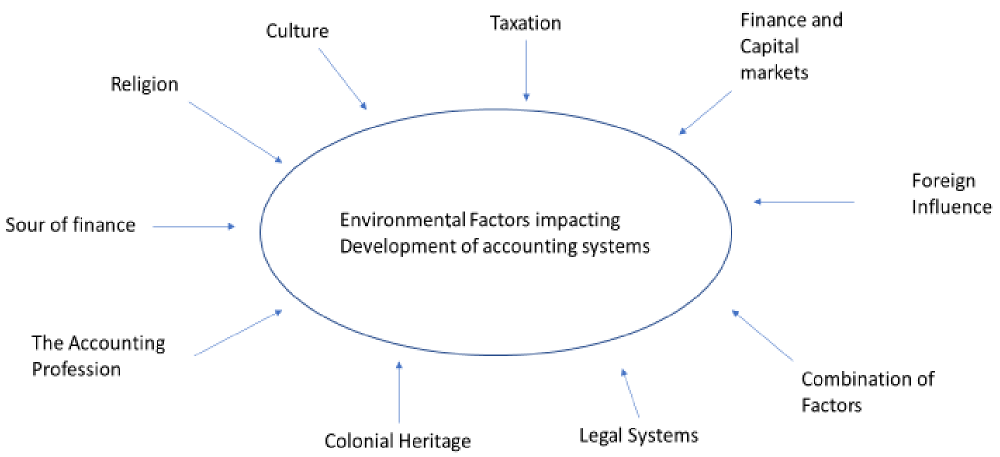
This chapter reviews prior literature on the environmental factors that influence the development of accounting. Several authors have used the term ‘environmental factors’ without any definition, but they commonly refer to the same individual conditions or issues when explaining them (for example, Gray, 1988; Doupnik and Salter, 1995; Nobes’ 1998; Radebaugh et al., 2006). A review of the factors usually mentioned in literature suggest that environmental factors are the dominant economic, political, legal, and social structures of a country that may jointly and severally influence its choice of accounting systems.

Although quite a few of these factors have been mentioned (see Doupnik and Salter 1995), the commonly discussed ones are culture, legal systems, sources of finance, taxation, inflation, political systems, and the accounting profession. Nobes (1998, p.170 & 175) however contends that all the factors can be summarised into two, namely colonial inheritance and financing systems (these will be discussed later in this chapter). He contends that, outside of Europe, most financial reporting systems are influenced by the countries’ colonial past. Inherited colonial systems usually include legal systems, other cultural factors of accounting practices (Nobes 1998). From his claims, Nobes proposes two-class model of financial reporting systems based on importance of the type of financing systems and colonial inheritance.

2.2 Causes of international differences in financial reporting

Gray (1988) suggests that patterns of accounting vary internationally and "that the development of a national system tends to be a function of environmental factors (see D'Arcy, 2001, p. 329). A large list of possible causes of international variations in accounting can be summarised from the previous researchers (see Radebaugh *et al*., 2006; Choi and Meek 2010; Nobes and Parker, 2012). Some selected prior researchers are analysed in Table 2.1, which suggests researchers do not concur uniformly to a single pattern and or the factors that shape the development of different financial reporting systems (Table 2.1). Environmental factors can influence accounting principles and reporting practices either directly or indirectly.

Figure 2.1: Common Environmental Factors



Source; Adapted from Radebaugh et al. (2006, p. 16).

Table 2.1 Prior research on the factors

Author name	Environmental Factors-Direct	Environmental Factors-Indirectly/implied	Research method	Conclusions on classification
Mueller, 1967	Economic Business factors Legal system Political system Social climate	Economic Professional Regulatory Legal	Conceptual – Deductive approach	1. Macroeconomic 2. Microeconomic 3. Accounting as independent discipline 4. Uniform Accounting
Seidler, 1967	Education, Inflation, taxation, political and tradition	Colonial Political Traditional	Conceptual – international accounting education	"Spheres of Influence" 1. British model, 2. US model, 3. French model based on the Code Napoleon
Buckley and Buckley, 1974	Accounting profession			Identifies a morphology of accounting principles and financial reporting, specifically how accounting adapts to social change.
Previts, 1975	Spheres of Influence	Colonial Legal	Deductive approach	Associated countries with the British model; Japan, Mexico and Germany were associated with the American model and the Continental European model is associated with the Southern Europe and territories where Code Napoleon is embodied in the Commercial Code
Frank, 1979	Political, social, economic environment; Culture		Factor analysis using date that includes PWH survey of 233 different accounting principles and practices in 38 countries.	Confirms Sseidler'1967 classification: British model, US model, French model based on the Code Napoleon plus a separate Latin American Model. His conclusion however does not confirm Mueller's 1967 classification.
Hofstede, 1980	Culture Social Values	Individualism Power distance Uncertainty avoidance Masculinity	Inductive Qualitative approach	Identified 10 Classes: More developed Latin Less Developed Latin More Developed Asian Less Developed Asia Germanic Anglo Near Eastern Asian Colonial

Author name	Environmental Factors-Direct	Environmental Factors-Indirectly/implied	Research method	Conclusions on classification
				African Nordic
Nair and Frank, 1980	Economic; culture; language (proxy for culture); Trading ties; Colonial affiliation		Inductive approach - Uses factor analysis on the Price Waterhouse data: Survey using 38 countries in 1973 and 46 countries in 1975	The research was aimed at identifying the validity of the international classifications proposed in prior literature. Confer with Frank, 1979 that the environmental factors are closely associated with accounting system groups.
Gray, 1988	Culture – using Hofstede's dimensions; societal values and the "accounting subculture"	Accounting values associated with culture	Conceptual Deductive approach	Identifies two accounting systems: First based on authority and enforcement which includes Anglo and Nordic culture areas contrast with the Germanic and more developed Latin regions and the Japanese, Near Eastern, less developed Latin, Asian and African regions. The colonial Asian countries are separately classified due to mixed influences. Second, based on measurement and disclosure - "a sharper division of culture area groupings with the Colonial Asian group relating more closely with the Anglo and Nordic groupings in contrast with the Germanic and more developed Latin groupings which appear to relate more closely to the Japanese, less developed Asian, African, less developed Latin, and Near Eastern area groupings".
Radebaugh, Gray& Black – 1993	Tradition Culture	Culture values Legal systems Political Economic Dev	Inductive	
Nobes, 1983	Government Legal Regulations Taxation Business practice Economics	Users of accounting information	Inductive Empirical approach	Extends the work of Mueller. Concludes with two broad judgmental classifications: Macro-uniform Micro-based
Doupnik and Salter (1993)	Government		Quantitative – Inductive	Study confirms Nobes (1983) class of countries into micro-based

Author name	Environmental Factors-Direct	Environmental Factors-Indirectly/implied	Research method	Conclusions on classification
	Economics Taxation Legal Business practice		approach – empirical data to test Nobes Judgmental classification of countries	and macro-uniform
Nobes 1998	Culture Providers of finance Type of company	Strength of equity insiders Government Taxation	Inductive Quantitative – using own data; scoring and testing process	Concludes with two broad classifications: Class A - Strong equity, commercially driven Class B - Weak equity, government driven, tax dominated
D’Arcy, 2001	Questions the influence of environmental factors on accounting		Inductive Quantitative, using KPMG data	Identified 4 classifications, including a continental European cluster, North American Cluster but could not establish Anglo-American accounting model
Elad, 2015	Colonial influence	Language Spheres of influence Zones of Influence Development needs Taxation	Inductive Quantitative – Using PwC data	Confirms the existence of Anglo-Saxon (judgmental) and continental European (uniform) accounting systems in Africa

2.3 Culture

Culture is considered as one of the environmental factors that affect the accounting system of a country (Doupnik and Tsakumis, 2004). Intuitively, culture is easily recognised with religion, social, national, and corporate, but culture is difficult to define in precise terms. Additionally, there exists diversity of culture among individuals within a single nation, professional and organizational culture. Hofstede (1980) defines culture as the programming of the mind that separates one group of people from another. Prior researchers, for example, Mueller (1968) and Seidler (1969) recognised the influence of culture to accounting, and cultural differences may inhibit accounting harmonisation. These writers do not suggest how culture affected accounting (see Doupnik and Tsakumis, 2004). Gray (1988) uses Hofstede's (1980, 1983) work to identify a relationship between culture and the national accounting systems, suggesting that shared cultural values lead to shared accounting values and this impacts the nation's accounting system (see Figure 2.2).

Figure 2.2: Gray's accounting values and Hofstede's cultural dimensions

Hofstede's Cultural Values	***Accounting Values***	***Specific Accounting Systems(see Table 2.1)***
(Individualism/Collectivism	Professionalism	Authority
Power distance (high/Low)	Uniformity	Enforcement
Uncertainty Avoidance	Conservatism	Measurement
Masulinity/Feminity	Secrecy	Disclosure

Source: Adapted Radebaugh and Gray, 1993; Bavdoun and Willett, 1995

Baydoun and Willett (1995) suggest that extending the Hofstede and Gray's idea on accounting practice may be difficult to explain in the developing countries. The different accounting practices existing in the developed and the developing countries may be explained due to local, cultural, and other environmental factors. The challenge here is to observe how well the western accounting systems have been adapted for transparency and integrity of accounting to facilitate efficient flows of investment.

More relevant to this study is the influence of the culture of "mother countries" on the accounting systems that are used in the countries that they have previously colonised. This is particularly prevalent in the African and Asian countries where their colonial relationships shape the direction of the post-colonial accounting practices (Nobes 1998, p.170; Elad, 2015, p.90; Doupnik and Salter, 1993).

2.4 Legal system

The accounting system of a country tends to echo its legal system as national laws can define the nature and scope of financial reporting (Radebaugh *et al*., 2006, p. 16). The legal systems in most countries fall within two major categories, namely the common law or civil law (Seidler, 1967 p. 781; Nobes, 2003, 2008, 1993; Tetley, 2000). Common law in England dates back to the eleventh century and its principles mainly arise from the reported judgements of the higher courts of law. Common law, for example, is found in the US, Canada and the UK. It has also become a tradition that most of the former colonies of Britain follow the common law traditions - e.g., Guyana

(David and Brierley, 1985 as cited in Tetley, 2000). La Porta *et al*. (1997; 1998) explain that the English law is common law, in contrast to the French, German and Scandinavian laws as civil laws that have originated from the Roman law, as codified in the Corpus Juris Civilis of Justinian and later developed in Continental Europe and around the world (David & Brierley, 1985; La Porta *et al*., 1997; Tetley, 2000).[6] In common law jurisdictions, the statutory law is generally unwritten law and it is largely based on legal precedent (judicial decisions that have already been made in similar cases. In civil law jurisdictions, the key principles are stated in the code, while statues complete them. Traditionally, countries have adopted their legal systems based on the legal laws through one of the major European countries that occupied or and colonised the country e.g., on the African continent (see Table 2.3)

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[6] see David, Rene, and John Brierley, 1985, Major Legal Systems in the World Today, (Stevens and Sons, London, U.K.).

Table 2.2 Categories of legal systems

Common Law	Civil Law - Codified Roman Law
England and Wales	France
Ireland	Italy
United State	Germany
Canada	Spain
Australia	Netherlands
New Zealand	Portugal
Ghana*	Japan
Nigeria*	Ivory Coast**
Kenya*	Cameroon**
	DR Congo**

Source: Adapted from Nobes and Parker (2012).

*examples of common law African countries
** examples of civil law African countries

The accounting systems in civil law countries are highly prescriptive, since they tend to be defined by law, and provide little room for the exercise of judgment (Nobes, 2006; Seidler, 1967, p.781). By contrast, common law countries follow a more principles-based approach to accounting systems. In common law countries, emphasis is placed on the use of economic substance over its legal form (Crampton, Dorofeyev, Kobb and Meyer-Hollatz, 2003) For example, for financial reporting purposes, a leased non-current asset is capitalised following the substance over legal form concept (Roberts *et al.*, 2005; Degos, 2012 p. 98; Tchokote, 2019, p. 469).

La Porta, Lopez-de-Silanes, Shleifer and Vishny[7](1997, 1998 and 2006), show that the common law systems are linked to strong investor

[7]La Porta, Rafael, Florencio Lopez-de-Silanes, Andrei Shleifer, and Robert W. Vishny, 1997. Legal determinants of external finance. *Journal of Finance* 52, 1131-1150.

protection, whereas the civil law systems are associated with a weak investor protection, but large share blocks concentrated ownership. The dichotomous legal systems of common law and civil law also exist in Africa. In line with the common law traditions, the Anglophone countries, such as Ghana, Nigeria, Liberia and Sierra Leone use the accounting system, which is rooted in common law principles. This contrasts with the non-English speaking the Francophone, the Lusophone and the Spanish speaking African countries have been using a different accounting system called, the OHADA PCG, which originates from the code law and implementation of prescriptive and detailed legal requirements in line with the civil law tradition (Enonchong, 2007; Asenso-Okofo *et al*., 2011, p. 463; Elad, 2015;).

2.5 Finance and Capital Markets

The financing structure of a country refers to the types of investment and ownership traditions of companies in a jurisdiction (Nobes and Roberts, 2000). Generally speaking, there are two classes of financing structures, namely capital market based, or credit-based systems as illustrated in Table 2.3 (Zysman, 1983; Nobes and Parker, 2000). Within these two classes, investors (shareholders and creditors) may be described as either "insiders" or

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La Porta, Rafael, Florencio Lopez-de-Silanes, Andrei Shleifer, and Robert W. Vishny, 1998. Law and
finance. *Journal of Political Economy* 101, 678-709.
La Porta, Rafael, Florencio Lopez-de-Silanes and Andrei Shleifer, 2006. What works in securities laws?
Journal of Finance, forthcoming.

“outsiders” depending on the degree of control they have in the running of the company (Franks and Mayer, 1997). The UK and the US have an “outsider” system where the wider existence of smaller equity shareholders (dispersed ownership) are unable to exert control over the companies’ management. In contrast, the German and French companies exhibit an “insider” governance model where there are concentrated block holders who can exercise control in the managing of companies. In a comparative analysis of legal rules across 49 countries, La Porta *et al.,* (1997) identify that civil law countries, specifically French civil law, have the weak investor protection and the least developed capital markets, compared to common law countries. This may be partly due to the dominance of the strong equity insiders (Table 2.3) who may not act in the best interest of the minority shareholders.

Nobes (2011) provides examples of four types of financing systems based on the either debt or equity investors and their level of participation (insider or outsider) in the management of the company (see Table 2.3). In a country that is dominated by equity/outsider investor (system IV on the table 2.3), there will be a demand for detailed, audited and frequently published accounting information (Roberts *et al*., 2008). Hence, there is greater emphasis on detailed disclosure, auditing, and regular publication of accounting information to protect providers of finance (La Porta *et al*., 1997; Elad 2015). However, Nobes (2011) also cautions that countries may exhibit more than one type of financing systems in Table 2.3.

Strong equity countries also tend to use the Conceptual Framework of the IASB for financial reporting with the primary aim of providing financial information to enable investors to make relevant decisions (Nobes, 2011). For these companies, annual general meetings are very important as they provide the investors (who are the principals) the opportunity to review the companies' performance (Nobes, 2011). To the contrary, in a country (or in a sector of a country) dominated by credit/insider investors (System I in table 2.3), there will be very little demand for investor-oriented reporting.

Table 2.3 Characteristics of Financing Systems

Dominant Investors	**Strong Credit**	**Strong Equity**
Insiders	System I Continental European countries; Smaller UK and the USA companies; Accounting related to calculating distributable profit and taxable income.	System III Japan
Outsiders	System II Rare, examples of listed debt exist in the New York Stock Exchange.	System IV Larger UK and the USA companies; Enable economic decisions; Accounting detail controlled by accounting profession and stock market.

Source: Nobes (2011, p. 9)

For such countries, in the absence of an outsider purpose, accounting serves the traditional purposes of calculating distributable profits and taxable income (Nobes, 2011). These systems have less agency problems and as such there is less emphasis on auditing and disclosures in the financial reports (La Porta *et al.*, 1997).

The role of the providers of finance, mainly institutions, being able to influence the nature of financial reporting is very relevant to this study as we shall see in chapters 5 and 6, regarding the roles of the World Bank and IMF as one of the main providers of finance to African countries.

2.6 **Taxation**

Although taxation and accounting are two separate disciplines. However, according to Lamb *et al.* (1998), taxation serves as a regulation method that primarily relies on accounting practice to provide regulative techniques. Further, they suggest that tax rules may influence the methods used for making accounting estimates in various regimes (Radcliffe, 1993). This implies that when countries have different tax regimes, their approach to accounting estimation will very likely be dissimilar.

Lamb, Nobes and Roberts (1998) inform that there is a clear distinction between the accounting systems and tax systems between the Anglo-Saxon and continental European countries. They identify five classes of link between tax and financial reporting: (i) Disconnection – tax and financial reporting rules are different for different purposes; (ii) Identity–the difference between a 'specific'(or an individual) a tax and financial reporting rule; (iii) Accounting leads – financial reporting rule is followed for financial purposes and tax purposes; (iv) Tax leads – tax rule is followed for both tax and financial reporting purposes, where there is absence of financial reporting rule and even if there is a conflicting financial reporting rule; (v) Tax dominates –the same taxation rules are applied both for financial reporting and tax purposes.

However, Roberts *et al.* (2008) reduce this to three main types. Firstly, the tax rules and the financial reporting rules are kept entirely, or very largely, independent of each other. Secondly, many of the financial reporting rules also being used by the tax authorities. Thirdly, with many of the tax rules have priority and used for financial reporting purposes (Mueller, 1967; Roberts *et al.*, 2008).

The divergent tax systems observed are influenced by the national economic policies (Radebaugh *et al.*, 2006). The application of the different tax systems will lead to differences in national accounting systems, for example, deferred taxation arises in Anglo-American countries. Accounting for deferred tax provisions in the financial reports of Anglo-Saxon countries require the reconciliation of the tax differences that exist between preparing financial reports for publication, and those that are prepared for the tax authorities. The main reason is that financial reporting systems are disconnected from their tax system.

By contrast, in most continental European countries, their accounting systems mostly follow their national tax rules (see Enthoven, 1973; Hood and Young, 1979; Nobes and Parker, 1995; Elad, 2015). Therefore, for continental European countries, accounting for deferred taxation is not relevant since companies often prepare a single set of accounts for both publication and for tax purposes.

Nobes and Parker (1995, p. 15) cite the prominence of deferred tax as a major source of controversy between Anglo-Saxon accounting practices and Continental European accounting practices because of its ability to impact on the distributable profit of the company. In civil law countries the financial reports are more conservative due to the necessity to comply with the strict taxation rules compared to financial reports from common law countries. In the latter they tend to be optimistic requiring the use of reasonable judgement rather than strict taxation rules (see Gray, 1988; MacArthur 1996; Roberts *et al.*, 2005). Also, part of the optimism may stem from the fact that reporting a higher profit may not necessarily lead to a higher tax obligation since their calculations are based on different rules and accounting standards.

These national differences in taxation regimes are also observable between African countries with civil law heritage and those with common law traditions. These will be discussed in Chapter 6.

2.7 Political and Economic System

Another important cause of international differences in accounting practices is the political and economic system of a country. The nature of politics in a country may define the national institutional structures which may in turn influence the setters of the domestic GAAP and thereby influence the nature of its domestic accounting standards or the adoption of international financial reporting standards (Judge *et al.*, 2010). Also, political, and economic environment can directly influence the ties among countries to adopt similar accounting systems (Mueller, Gernon, & Meek, 1994; Cited in Judge *et al.,* 2010). In the European Union for example, financial reports of listed companies must comply with the accounting requirements laid down in the fourth and the seventh EU Directives (Nobes and Roberts, 2000). Consequently, all financial reports of publicly listed companies within the EU must comply with IFRS, which is a requirement of the fourth and the seventh EU directives (Nobes and Roberts, 1997; Judge *et al*., 2010, p. 167).

Politically, the accounting systems in most capitalist countries will usually lay emphasis on the needs of only one user group, namely shareholders and the stock market investors. On the other hand, in socialist countries, emphasis is placed on a broad range of stakeholders rather than just the shareholders and investors (Phuong, & Nguyen, 2012, p.).

2.8 **Nature of business ownership**

The nature of business ownership may affect disclosure requirements in the financial reports of companies. According to Franks and Mayer (1997), there are two classes of corporate ownership. The “insider ownership” which is prevalent in France and Germany and the “outsider ownership”, which is the pattern of ownership commonly found in UK and USA. Insider ownership companies tend to be small and family owned, and the outsider ownership business are usually are companies, but they have many small shareholders thereby creating a separation between ownership and control (Franks and Mayer, 1997; Hauriasi & Davey, 2009). According to Roberts *et al.* (2008), if companies in a country are generally small or family-owned, there may be less emphasis on external financial reporting and accounting regulations (Hauriasi & Davey, 2009). On the other hand, as they grow into larger companies, there may be the need for external finance either in the form equity shares or debt finance. In either case, the increased financial interaction with the external environment means that their impact on society may also begin to grow, as such there will be greater requirement to satisfy the information needs of the external sources of finance. To meet these demands, the financial reports must be prepared to a higher accounting regulation in order to provide assurance to these investors. For large groups of companies for instance, greater emphasis will be placed upon the regulation of group financial statements and extra disclosure requirements. Therefore, as the size of companies increase, the need for more sophisticated accounting also increases (Roberts *et al.,* 2008).

Similarly, the relative importance of certain types of industry to an economy may also influence wider regulations in financial reporting within that industry or economy. For instance, the UK accounting standard on Research and Development was strongly influenced by the fear of the potential negative effect an alternative accounting method will have the profitability and competitiveness of companies in the aero-engineering and other research and development dependent industries (Hope and Grey, 1982; cited in Roberts *et al.,* 2008).

2.9 **Inflation**

Inflation has shaped the development of accounting in some national settings. It has influenced the countries' choice of accounting systems and companies' choice of accounting policies, including the choice of relevant international accounting standards in order to account for the effect of rising prices items such as non-current assets (Roberts *et al.*, 2005). In countries where inflation has been prevalent, in order to adjust for the effect of inflation on the financial reports, they use methods of general price-level adjustment (Tweedie and Whittington, 2002; Nobes and Parker, 2008, 2012, 2020).

Accounting for inflation in the past has caused changes in accounting practices in some countries such as the U.K., whiles others like France and Germany have maintained historical cost accounting. For example, in order to deal with the effects of inflation in the 1970s, the U.K. adopted a UK GAAP called SSAP7, Accounting for Changes in Purchasing Power of Money. This was later withdrawn and superseded by SSAP16, Current Cost Accounting, which was also later withdrawn when inflation had subsided.

The problems of inflation are still being addressed in various international accounting standards. For instance, Under IAS 16, Property Plant and Equipment, non-current assets may be valued using the cost method (historical cost accounting) or the revaluation method (based on either current cost, fair value or replacement costs) which reflects the current inflation adjusted value of the assets (see Campton *et al.*, 2003). Also, under IAS 40 (Investment Property), land and buildings held for investment purposes may be valued by either using their historical cost or their fair value, which represents how much they could be sold for or have risen in value(Campton *et al.,* 2003).When compared to other environmental factors influencing accounting systems, inflation is one of the few causal factors for which a specific accounting standard has been issued by the International Accounting Standards Board (IASB) which enables companies to make overt options (See Nobes, 2013, p. 92).Finally, the effect of inflation on accounting systems is included in International Accounting Standard Board's, IAS29 (*Financial Reporting in Hyper-inflationary Economies)* sates that;

> "The basic principle in IAS 29 is that the financial statements of an entity that reports in the currency of a hyperinflationary economy should be stated in terms of the measuring unit current at the balance sheet date. Comparative figures for prior period(s) should be restated into the same current measuring unit. [IAS 29.8][8]

2.10 **The Accountancy Profession**

The relative strength of the accounting profession has made the development of accounting different across countries. The relative strength of the Accountancy Profession in a country can impact on their choice of accounting systems (Al-Akra *et al.,* 2009; Judge et al., 2010; Boolaky, Tawiah & Soobaroyen, 2020). In different countries, there are variations in levels of

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[8]https://www.iasplus.com/en/standards/ias/ias29 (accessed 28 May 2020)

influence on the regulation of accounting practice due to the variations in the age, strength, size, and competence of the accountancy profession amongst countries (Roberts *et al*., 2005, p. 159-160). These variations create different abilities of the profession in different countries to develop standards that meet current trends and, in the ability, to adopt any changes in international accounting standards (Boolaky *et al*., 2020). Compared to their European counterparts, in most of the Anglo-Saxon countries, the profession has been long established and traditionally been largely self-regulating and very influential within their countries (Nobes, 2013), and the accountancy practices are based on conceptual framework, accounting standards and principles whereas in the code law countries, accounting practices are regulated by the state, with little or at times no input from the profession.

Although the level of accounting development may influence the nature and regulation of accounting practice in a country, it is not always the case. Rather, it is the influence of the Big 4 that at times determine the nature of accounting practice in a country (see Assenso-Okofo *et al*., 2011; Aboagye-Otchere and Juliet Agbeibor 2012, p. 193; Sy and Tinker, 2013). Because of their size and presence in many countries, and the level of recognition that they enjoy, at time, they can lobby and influence governments in the regulation of accounting practice, using the “goodwill” that they enjoy in many countries. For instance, according to Sy and Tinker (2013), the Big 4 Accounting firms are so powerful that they are even able to successfully lobby the US congress. As they alleged;

> "The pressure for IFRS comes from the Big 4 whose only job is to supply financial statements (not to interpret them or use them to communicate with shareholders). The Big 4 lobby should not be underestimated; it – and its international corporate clients – 'own' large sectors of Congress." (Sy and Tinker, 2013, p. 7)

Sy and Tinker's assertion oh how influential the accountancy profession could be in some countries is also echoed by Nobes (2013). The Big 4, are Anglo-American and they have influenced accounting globally, especially within countries with common law legal systems. Chapter 9 will analyse the influence of the Big 4 in Ghana, an Anglophone country with a common law heritage.

2.11 Conclusion

This chapter has reviewed some the different environmental factors that have been identified prior studies as influencing accounting systems internationally. However, Nobes (1998) combines all these factors and grouped under two important causal reasons, namely colonial inheritance, and the financing systems. Nobes then uses these two factors as the basis to classify global financial reporting systems into two groups comprising Anglo-American accounting school with common law systems; and the continental European accounting systems which are based on civil law traditions. Despite Nobes' claim, researchers still maintain the importance of these factors in influencing accounting systems and have also classify international accounting systems based on these environmental factors (Radebaugh *et al.*, 2006). Whiles Nobes claim on colonial influence may resonates with the views of

Doupnik and Salter (1993) and Elad (2015, p. 90), others have questioned the importance of these environmental factors in shaping countries' accounting systems (Mathews and Perera 1991, p. 305; d'Arcy, 2001). These arguments are relevant to Africa since most of the African countries have a colonial past and have maintained post-colonial links with the previous colonisers (Doupnik and Salter, 1993; Nobes, 1998 p. 170; Elad, 2015, p. 90). For example, Elad (2015) identifies two accounting systems in Africa that have originated from the major European accounting systems and were inherited during the colonial. Elad's classification of accounting systems in Africa will be discussed in chapter 3. The next chapter will examine extant literature on classification of various national accounting practices by different countries.

3. Chapter 3: Classification of Accounting Systems

3.1 Introduction

This chapter reviews prior literature on the classification of financial reporting systems. This topic has been one of the contentious accounting topics which still kindles differences among accounting researchers. Some researchers have used extrinsic factors such as economic and political factors, culture, and colonial inheritance to propose accounting groupings (Gray 1988; Seidler 1967; Mueller; 1968) Other studies on the other hand have used intrinsic factors such as data on accounting regulation and accounting policies and choices by companies, to define suggest the class of their accounting systems (Nair and Frank 1980; Doupnik and Salter 1993; d'Arcy, 2001).

Most of the recent arguments have centred around the existence and the non-existence of Anglo-American and Continental European accounting classes in the application of IFRS for financial reporting. This chapter is relevant to this study because it seeks to extend this argument to Africa, in light of Elad's (2015) classification of the continent's accounting systems. Elad had extended Nobes earlier assertion on the subject to develop his classification of the continent's financial reporting does.

Nobes claim of the existence of the two class accounting regimes has however been challenged by d'Arcy (2001) and Alexander and Archer, (2000). They contend that there is no evidence of the existence of Anglo-American class of accounting practice.

The Oxford English Dictionary (OED) defines classification “as a systematic distribution, allocation, or arrangement of things in a number of distinct classes, according to shared characteristics or perceived or deduced affinities”. The objective of all classification is to bring together those characteristics that are similar and to separate those that are different. Classification has been studied in other disciplines such as chemistry with the periodic table, and in biology with the animal and plant kingdom. The double entry bookkeeping is an example of classification used by accountants.

Thus, the chapter examines the different classifications proposed in prior literature and then expounds on their unresolved differences. It concludes by examining how this argument is relevant to financial reporting in Africa.

3.2 Taxonomy of prior studies

This subject of identifying similarities, differences and then groupings of accounting practices of countries has been the focus of many academic researchers, (for example, Hatfield, 1911 published 1966; Seidler, 1967; Mueller, 1967; 1968; Buckley and Buckley, 1974; AAA, 1977; da Costa *et al.,* 1978; Frank, 1979; Gray, 1988; Doupnik and Salter, 1993; Nobes, 2011; d’Arcy, 2001; Lourenco, Sarquis, Branco and Pais, 2015). Nobes (1983, 1998) and Meek and Saudagaran (1990) provide good reviews, emphasising the grouping as a means towards the progress of harmonisation and convergence of international accounting.

The earliest work on this subject can be tracked back to 1911, the

American Association of Public Accountants convention in San Francisco, where Hatfield discussed the accounting practices and similarities between the UK and the US and between Germany and France (Hatfield, 1966). The argument about the existence of different accounting practices even in the era of IFRS usage is still relevant. Nobes (2008), provides five reasons for the existence of different accounting systems: First, due to the differing levels of change in the IFRS for various purposes allowed by the national regulators; Second, the use of IFRS for business combinations continues for listed companies, but the national accounting rules are still used to a large extent and therefore, the previous classification of national systems is still relevant; Third, classification is useful in predicting the convergence path from the national accounting system to IFRS. Fourth, the acceptance by stock exchanges, e.g., NYSE and UK FTSE, of the foreign countries national accounting systems for listing purposes. Finally, the emergence of national versions of IFRS practices can lead to classification.

Table 3.1 summarises various classifications of accounting systems. The method for classifying used by researchers in international accounting is commonly based on type of reasoning used, either deductive or inductive approaches (Sellhorn and Gornik-Tomaszewski, 2006). Deductive classification is often described as judgemental or an indirect approach to categorisation because of the use of characteristics that influence or help explain the accounting systems of countries as the basis for grouping them (Radebaugh *et al.,* 1993; Roberts, Weetman and Gordon, 2005, p. 210).

Robert *et al.* (2005, p. 641) further suggest that the deductive approach to classification of accounting systems is based on intuition, knowledge and or the beliefs of the researcher. The reliability of using this approach to classification is often questioned as many of accounting systems identified using this scheme have not been empirically tested to ascertain the accuracy of the similarities and differences between the countries that are identified in the different classification groupings (Roberts *et al.,* 2005). According to Gray (1988), the deductive approach requires the identification of the relevant environmental factors (such us culture, legal systems and taxation) and relating to "national accounting practices, international classifications or development patterns are proposed". (Mueller, 1967; Gray, 1988) using the deductive approach identified four approaches for the western countries with market based economic systems. The earlier work was more subjective and has now shifted to a more scientific approach to classification.

Prior studies have used inductive approaches in international accounting. This began before the 1970s with varied analysis over a range of countries and environmental factors, (for example, Mueller, 1967; Nair and Frank, 1980; Nobes, 1988; Gray, 1988; Radebaugh and Gray, 1993; Doupnik and Salter, 1993; Nobes, 1998; d'Arcy, 2001; Elad, 2015).

Nobes and Parker (2012, p. 75) suggest a hierarchical taxonomy of accounting classifications, based on the two classes, extrinsic and intrinsic, whether subject matter is financial reporting practice or the content of the rules. The extrinsic studies are grouped depending on their main economic factor and the intrinsic studies are grouped by the data source as this is clearer than accounting rules or practices.

Figure 3.1: Extrinsic and intrinsic classification

Source: Nobes and Parker (2012, p. 76)

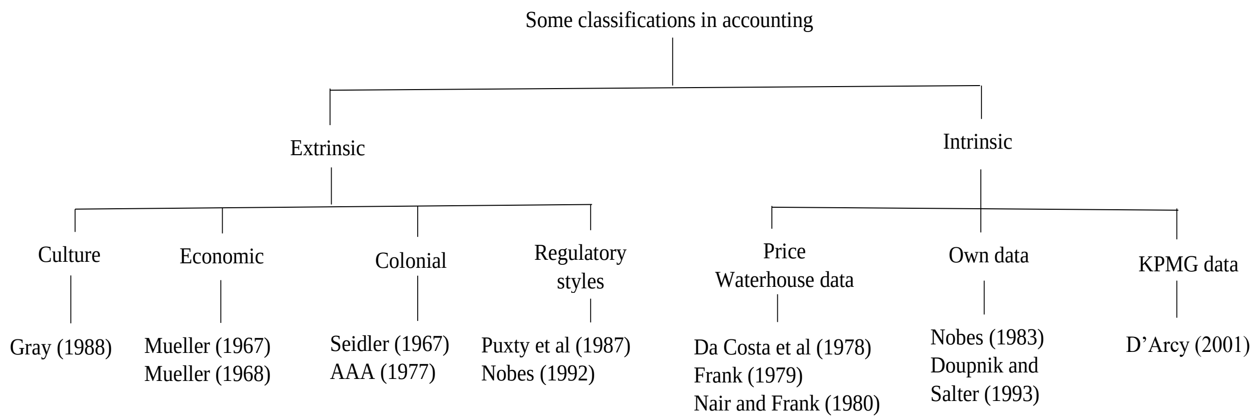


Table3.1: Selected prior studies on classification of accounting systems

		Countries researched					Research Method				
Authors	Type	Total	Developed	Emerging	African	Extrinsic vs Intrinsic	Deductive/ Inductive	Research Method	Data source	Number of groups	Conclusions
Mueller, 1967	Environmental groupings	5	5	0		Extrinsic – business environmental factors	Deductive	Judgmental	Descriptive	4	Subdivides into 4 types based on background that has the most influence: macroeconomics, microeconomics, independent and uniformity Supports Anglo versus Continental European dichotomy.
Seidler 1967	Environmental groupings	13	Up to 11	At least 2		Extrinsic	Deductive	Theoretical	Descriptive	3	"Spheres of Influence" – British US and European continental models
Previts, 1975	Environmental groupings	10	5	5	2	Extrinsic	Deductive	Judgmental	Descriptive	3	Categories include: British Model American Model Continental European Model
Frank, 1979	Data on accounting rules	38	14	24	2	Intrinsic	Inductive	Empirical		4	
Nair and Frank, 1980	accounting rules& practices	1973 - 38 1975 - 46	17	29	0	Intrinsic	Inductive	Empirical	PwC 1973 & 1975	Measurement 4; Disclosure 7	Concludes that there is no correlation between classification based on measurement & disclosure practices.
Gray, 1988	Based on accounting and		4 regions	6 regions		Extrinsic – uses culture in the context of	Deductive	Conceptual		10	First based on authority and enforcement Second, based on

		Countries researched					Research Method				
Authors	Type	Total	Developed	Emerging	African	Extrinsic vs Intrinsic	Deductive/ Inductive	Research Method	Data source	Number of groups	Conclusions
	accounting influence					accounting values					measurement and disclosure resulted in a sharper division of culture area groups (see Figure 3.4 and 3.5).
Nobes, 1983	Accounting measurements	14	14	0		Extrinsic	Inductive (Grays suggest it is deductive, Gray, 88 p2)	Empirical – cluster analysis	published accounts	Primary 2; Secondary 6	Concludes with two broad judgmental classifications: Macro-uniform Micro-based. Supports Anglo versus Continental European dichotomy.
Berry, 1987		48	16	32	4		Inductive	Empirical		Primary 3; Secondary 6	
Doupnik and Salter (1993)		50	20	30	6	Intrinsic	Inductive	Empirical; Clustering	PW data, 1979	2 primary 9 secondary	Study confirms Nobes (1983) class of countries into micro-based and macro-uniform. Supports Anglo versus Continental European dichotomy.
D'Arcy, 2001		14 + IASC	14	0		Intrinsic	Inductive	Empirical; – cluster analysis	Ordelheide and KPMG (1995)	4	Identified 4 classifications, including a continental European cluster, North-American Cluster but could not establish Anglo-American accounting model
Nobes 2011	Accounting practices –	8 - the largest	8	0		Intrinsic	Inductive	Empirical; Clustering	Data from companies	2 primary Subdivided	Confirms Nobes 1983 conclusions of the

		Countries researched					Research Method				
Authors	Type	Total	Developed	Emerging	African	Extrinsic vs Intrinsic	Deductive/ Inductive	Research Method	Data source	Number of groups	Conclusions
	IFRS context	capital markets							published financial reports based on Financial Times 'Europe 500' for 1988/89 financial year	into 3	existence of Anglo American and Continental European accounting groupings even in the era of IFRS adoption
Elad 2015		37	0	37	37	Intrinsic	Inductive	Empirical; Clustering	(uniform) accounting systems in Africa	2 primary 6 secondary	Confirms the existence of Anglo-Saxon (judgmental) and continental European dichotomy in Africa

Source: Author's creation - adapted Nobes and Stadler (2013)

3.3 **Mueller's classification**

A good starting point to discuss classification of accounting practice is Professor Gerhard Mueller's (1967) pioneering work. Using the deductive approach to accounting classification, the environmental analysis by Mueller (1967) bases his groupings on principles and beliefs and then applies them to measurement of accounting practices in different countries (see Roberts *et al*., 2005, p.641). Mueller (1967) uses four-group classification approach to accounting development patterns in western nations, and in 1968 develops another classification based on market orientated economic systems (Gray 1988), which are discussed below:

First, 'accounting within a macroeconomic framework' (Roberts *et al.*, 2005, p.211). Here, a country's accounting practices interrelate closely with its national economic policies (see Briston, 1978; Uche, 2002; Okike, 2004). With this, the country's methods are developed based on the macroeconomic policies established by their governments, (for example, Boolaky, Tawiah & Soobaroyen, 2020). Financial statements produced under this category emphasise on tax, social responsibility, and value-added accounting in line with government policies and expectations (see Briston, 1978). Sweden typically follows the macroeconomic approach and the country's accounting practices were to provide information to facilitate governmental direction of the economy. However, this is less under the influence of macroeconomic factors since Sweden joined the EU.

Mueller’s second is the microeconomic pattern and Netherlands is a primary example where the country’s pattern of accounting development appears to follow the objectives of individual business pathway. Under this pattern, accounting policymakers will ensure that accounting practices will reflect economic reality, for example, in income measurement and asset valuation. Using this parallel, the contemporary accounting standard IAS 16 (Property, Plant, and Equipment) provides us with a good example for the valuation of non-current assets in the financial reports.

Accounting measurements were traditionally validated using historical cost accounting. Later on, in order provide a better information on companies’ financial positions, replacement cost accounting was subsequently adopted. Under this method of measurement, assets and liabilities are stated at their current replacement values rather than at their historical costs. The inflation modules established by the Dutch Professor Limpberg (1920, cited in Goudeket, 1952) will come under this approach. In current times, this method is consistent with the application of IAS 29 (Financial Reporting in Hyper inflationary Economies) in accounts preparation.

The third pattern of accounting development identified by Mueller is ‘accounting as an independent discipline’. With this pattern, accountants make professional judgements and estimates. Besides, accounting practices have evolved independently of government interference and economic theories. In operating as an independent discipline, accounting systems have found solutions to problems that they have encountered in the past. Consequently, that has instigated new methods of accounting treatments to evolve. Accounting theories are therefore applied on an ad hoc and pragmatic basis and are therefore used in emergencies or when there is the need to justify the use of specific policies or practices. Both the UK and the US are examples of countries cited under this category. Both UK and the US have well-developed and established accountancy professions dating back to the 19th century (Choi and Meek, 2010, p.78). The independent concept is fundamental to the Anglo-Saxon accounting practices and regulations. These countries using inductive reasoning from existing business practices resulted in the development of the accounting conceptual framework, which uses similar terminology and account classification to improve the basic reasoning underlying the preparation of financial statements and reports in general (Choi and Meek, 2010; IFRS.org, 2018).

The fourth and final pattern of accounting system developed by Mueller is ‘uniform accounting’. Under this method, accounting provides a basis of control and administration, using uniform accounting standards. This prescriptive approach to accounting is enforced through codified law, and it is heavily influenced by national governments. Under uniform financial reporting, governments use accounting as part of administrative controls. According to Mueller (1967):

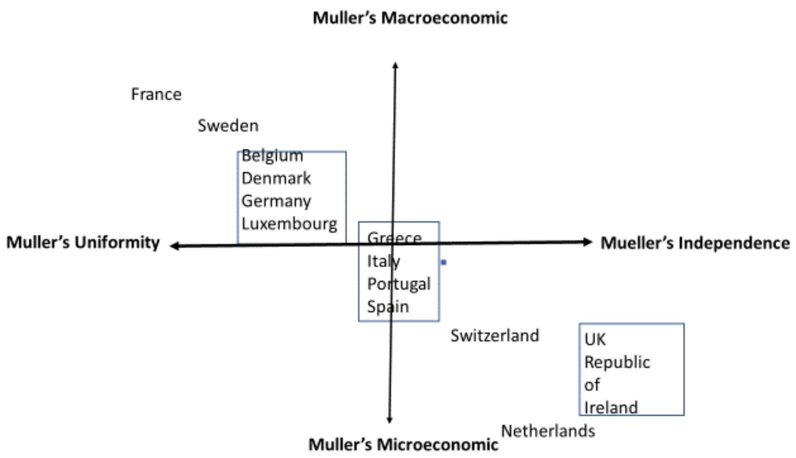
> “accounting can be used to measure performance, allocate

> funds, assess the size of industries and resources, control prices, collect taxation, manipulate sectors of business, and so on. It involves standardization of definitions, measurements and presentation".

Mueller names France as an example because some accounting practices are established by law and hence are compulsory. France uses a uniform chart of accounts (Plan Comptable Général) for many years (Elad, 2015). Other countries within this grouping are Germany and Argentina.

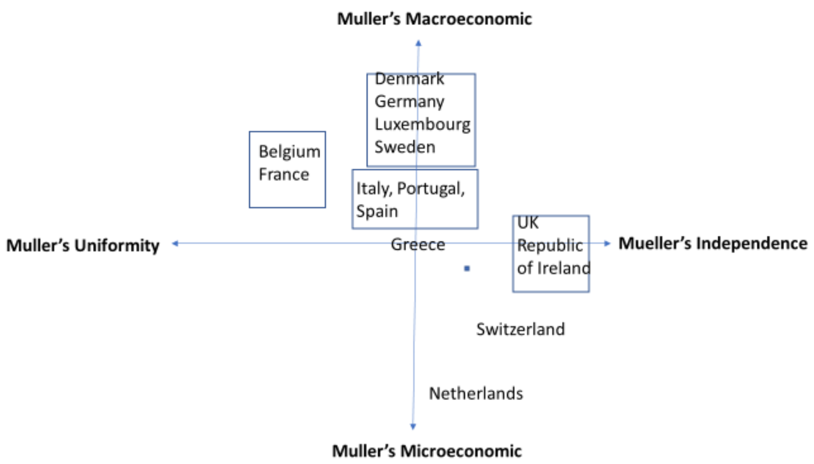
Mueller's classification of the accounting system has been criticised since the grouping variables are complex in the way accounting has developed and the observed within different countries. Mueller treats the four grouping independently of each other and placing each country into one of the categories (Roberts, Weetman and Gordon, 2005 p.210). Nonetheless, Mueller's work is important as a beginning of a new paradigm in accounting classification and other researchers have revised to develop a 2 x 2 classification: micro or macro-orientation vs uniform system or independent and flexible rules, e.g. Oldham (1987) proposes different clusters using Mueller's accounting variables for the mid-1970s and the mid-1980s (see Figure 3.1 and 3.2) and highlights the changing positions of the country's accounting system between the two eras. Oldham's classification is more complex compared to Mueller's. The former can be explained by the adoption and guidance of the recommendations of the EU directives for its members, however, the UK has a relatively strong voice for the development of the EU directives and indirectly the European countries' financial reporting for listed companies and financial regulation (Brewer, Gough and Shah.2011). The French accounting principles would show more uniformity than the UK and this is supported by Oldham (1987) and Walton (1992).

Figure 3.2: Mueller's classification revised using 2x2 matrix – mid 1970s



Source: Oldham (1987), cited in Roberts, Weetman and Gordon (2005, p.212)

Figure 3.3 Shift in clusters from mid-1970s to mid-1980s



Source: Oldham (1987), cited in Roberts, Weetman and Gordon (2005, p.212)

3.4 Spheres of influence

As discussed in the earlier chapter the accounting practices are influenced by factors other than national or cultural environment of individual countries. Cooke and Wallace (1990) evidence that developed and developing countries should be grouped differently. In addition, the accounting practices of the developing countries are strongly influenced by other factors, for example, post-colonisation. This is best described by Seidler's (1967) work and the use of the term "spheres of influence", which are determined by external factors. Seidler names three simple classification systems based on external influences, (see table 3.1). British -UK and countries influenced by UK; American – The US and other countries influenced by the US; and the Continental – France and those countries that base their legal system on the Code Napoleon. Previts (1975) on comparison of the Seidler's classification suggests that the British model is associated with Australia, Canada, New Zealand, Nigeria, South Africa, British West Indies, Thailand and Greece. The American model is adopted by Japan, Mexico and Germany (cited in Frank, 1979).

One could argue that the UK and the US accounting systems are similar, and the US accounting was potentially influenced by the UK and considering that most of the accounting profession were originally UK-trained (Roberts *et al*., 2005).

3.5 **Nair and Frank's classification**

In contrast to the deductive approach of Mueller, Nair and Frank (1980) adopted an inductive (empirical) approach to determine whether the classification of countries applies equally well to the measurement and disclosure subsets of accounting practice. This approach to classifying international accounting differences uses "intrinsic tests" of deviation and similarities and in turn uses this to classify accounting practices inherent in those different countries (Roberts, 1979). Academic researchers have used Price Waterhouse data for the following years 1973, 1975, 1979 and 2011 surveys (such as Frank, 1979; Nair and Frank, 1980; Elad, 2015). The Price Waterhouse data of 1973 and 1975 surveys have been popular in the classification of accounting studies (Table 3.1). The 1973 survey included 233 principles and practices of 38 countries, whereas the 1975 survey included 264 principles and practices of 45 countries Nair 1982).

Nair and Frank use Price Waterhouse 1973 and 1975 data and using a factor analysis approach to determine groups by allocating countries to categories based on their highest factor loadings (Roberts *et al*., 2005).

3.5.1 *Measurement based classifications*

Nair and Frank's findings were split into measurement and disclosure practices. On measurement, Nair and Frank identified four classifications for 1973 survey and five classifications for the 1975, extending the 'spheres-of-influence' classification first suggested by Seidler (1967). Nair and Frank suggest the following groupings for measurement practices: four grouping for the 1973 survey (this was similar to that obtained by Frank 1979) and five groupings for the 1975 survey. These groupings were British Commonwealth, Latin America/South European, Northern and Central European, United States. Chile was the fifth group for the 1975 survey. Furthermore, the 'spheres-of-influence' that they used to establish the classification included language (as a proxy for culture), international trading ties, and different aspects of economic features of the countries. Nair and Frank's classification based on measurement are shown in Table 3.2 below. Comparison of the 1973 and 1975 grouping do not find any difference between the overall composition and character. However, the number of groups have changed (see Table 3.2). The eight new countries included in the 1975 data are interestingly linked to those groups, which one would assume following the classification of Seidler's (1967) "spheres of influence". For example, Denmark and Norway are found in Group III, Continental European Model. This group includes Zaire a former Belgian Colony in Central Africa. Nigeria is included in Group I associated with the British Commonwealth model. The key implication of their findings is that the classification suggested by Seidler (1967) is too simple and mainly applies to the measurement subset of the accounting practices.

3.5.2 *Disclosure practices*

The disclosure practices however show a wider diversity, and Nair and Frank develop seven classification groupings, but they did so without offering any plausible description or explanation of the responsible spheres-of-influence. The measurement groupings are quite distinct from that of the disclosure practices. Nair and Frank find that the groups are blurred for both the 1973 and 1975 data (see Table 3.3). Additionally, the pattern of the groupings underlying the measurement practices and disclosure practices are not the same. For example, Chile does not have its own grouping in the latter (see Tables 3.2 and 3.3). It seems that the groupings between the two years do not provide a systematic way of characterising the differences and commonality between the various groups identified. One of Nair and Frank's findings was that cultural and economic variables might be more closely associated with disclosure practices than with measurements practices, leading to some variations in results the two approaches to classification of accounting systems, using similar data.

Nobes (1983) had questioned the accuracy of Nair and Frank's research on the grounds that the Price Waterhouse data that they used was not suitable for the study and therefore their conclusion was 'misleading'. Nobes (1983) questions the data and states that the data is flawed, which therefore lead to some inaccurate conclusions. For instance, there is an exaggeration of differences between the United States and the United Kingdom (Radebaugh, Gray and Black, 2006, pp. 38-41; Nobes and Sadler, 2013). Another weakness in the surveys is that some confusion existed between the mandatory and non-mandatory rules and the actual practices, as they were found to differ and may have been subject to belief of PwC assumptions. Radebaugh, Gray and Black (2006, pp. 38-41) state that Nair and Frank were not explicit on the influence of culture as a possible major environmental factor underlying differences in international accounting systems.

On methodology, their work was also flawed because of the use of factor analysis as a tool to group countries is "an extreme perversion of the method" (Stewart, 1981, p. 51). Also, as the Price Waterhouse data is categorical and factor analysis requires the use of proportional data, researchers were forced to subjectively transform that data to a ratio-scale (Doupnik and Salter, 1993). Nobes (1987) criticises the empirical studies because by Nair and Frank because they did not directly test a particular hypothetical classification. Nobes therefore concluded that the logical validity of the results cannot be assessed.

Table 3.2: Measurement Groupings: 1973 and 1975

Group 1		Group 11		Group 111		Group IV		Group V	
British Commonwealth Model		**Latin American Model**		**Continental European Model**		**United States Model**			
1973	1975	1973	1975	1973	1975	1973	1975	1973	1975
Australia Bahamas Fiji Jamaica Kenya Netherlands New Zealand Pakistan** Republic of Ireland Singapore South Africa Trinidad & Tobago United Kingdom Zimbabwe	Australia Bahamas Fiji Iran* Jamaica Malaysia* Netherlands New Zealand Nigeria* Republic of Ireland Singapore South Africa Trinidad & Tobago United Kingdom Zimbabwe	Argentina Bolivia Brazil Chile** Colombia Ethiopia India Paraguay Peru Uruguay	Argentina Bolivia Brazil Colombia Ethiopia Greece* India Pakistan** Panama Paraguay Peru Spain** Uruguay	Belgium France Germany Italy Spain Sweden Switzerland Venezuela**	Belgium Denmark* France Germany Norway* Sweden Switzerland Zaire*	Canada Japan Mexico Panama Philippines United States	Bermuda* Canada Japan Mexico Philippines United States Venezuela**		Chile**

Source: adapted Nair and Frank (1980); * - new countries not included in the 1973 data; ** countries shifted groupings between 1973 and 1975

Table 3.3: Disclosure Groupings PwC 1973 and 1975 data

Group 1		**Group 11**		**Group 111**		**Group IV**		**Group V**		**Group VI**		**Group VII**	
1973	1975	1973	1975	1973	1975	1973	1975	1973	1975	1973	1975	1973	1975
Australia Bahamas Fiji Jamaica Kenya Netherlands New Zealand Republic of Ireland Singapore S. Africa Trinidad & Tobago UK Zimbabwe	Belgium Bolivia Brazil Chile Colombia France Greece* Paraguay Spain Uruguay Zaire*	Bolivia Germany India Japan Pakistan Peru	Australia Ethiopia Fiji Kenya Malaysia* New Zealand Nigeria* Singapore S. Africa Trinidad & Tobago	Belgium Brazil Colombia France Italy Paraguay Spain Venezuela	Bahamas Germany Japan Mexico Panama Philippines US Venezuela	Canada Mexico Netherlands Panama Philippines US	Bermuda* Canada Mexico Jamaica Netherlands Republic of Ireland UK Zimbabwe	Argentina Chile Ethiopia Uruguay	Argentina India Iran* Pakistan Peru	Sweden	Denmark* Norway* Sweden	Switzerland	Italy Switzerland

Source: Nair and Frank (1980); * - new countries not included in the 1973 data

3.6 Gray's classification of accounting systems

Research prior to Gray (1988) have shown different patterns of accounting practices and that the development of national accounting systems for financial reporting are under the influence of different attributes selected by authors for classification purposes. Besides the more commonly evaluated environmental factors (see chapter 2), classification of accounting can also be broken into different levels: cultural reasoning for classification (Gray, 1988), regulatory style (Puxty *et al*., 1987) and competencies of authors (Shoenthal, 1989). Gray (1988) and Doupnik and Salter (1995) uses Hofstede's (1980) cultural classification to provide justification for international differences in accounting practices.

Puxty *et al*. (1987) distinguish different levels of regulation within the scope of market, state and community and label them across a continuum: associationism, corporation, legalism, and liberalism. Puxty *et al*., applies this to four different countries: (i) US: exhibit elements of legalism and associationism; (ii) UK: principally associationism; (iii) Germany: Legalism predominant and (iv) Sweden: corporatism. Related to the regulatory classification, Leuz (2010) extends this to include various regulatory variables that include large stock market, ownership concentration, outsider shareholder rights, legal enforcement.

According to Gray (1988) the impact of culture has been under researched. Gray (1988) theoretically builds a two-dimensional classification using the impact of culture on the development of national accounting systems. Commencing from Hofstede's work (1980, 1983), Gray (1988) develops a framework for developing a classification system to understand the international differences in accounting that links the accounting values and systems and combining the relationship with Hofstede's (1980) cultural dimensions. Gray's hypothesis was linked to the culture of the country, and therefore proposed a framework that links a countries culture with the development of international accounting systems. (Salter and Niswander, 1995; Salter and Lewis, 2011).

Extending Hofstede's cultural dimension to accounting, Gray identifies four major accounting values, which he mapped them on two dimensional maps and used this to classify countries: First, on the basis of who regulates accounting - statutory control versus professionalism, using professional judgment and self-regulation; second, uniformity versus flexibility in the rules set, where standardisation and consistent accounting practices may be determined by the level of enforcement. third, conservatism versus optimism, prudence on one hand as opposed to optimistic and risk-taking approach; fourth, secrecy or transparency. The latter two dimensions are based on the measurement and disclosure rules. Countries are then included on the charts based on judgement (see Figures 3.4 and 3.5).

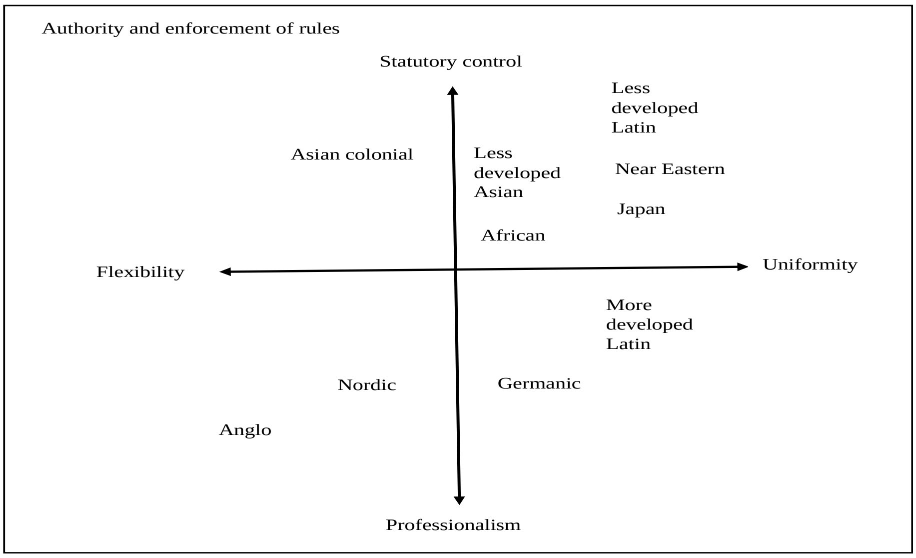
The first accounting value, professionalism is the practice where individuals can exercise professional judgment, rather than statutory control of the profession. The latter focuses on legal enforcement and legislative regulation of the profession. According to Gray's (1988) classification, professionalism is more indicative of the practices in the UK and the US (Anglo-Saxon countries; see Nobes, 2008). Conversely, statutory control is more symptomatic with continental European countries such as France and Germany where the rules on accounts preparation are linked to taxation and national income, and are government controlled through codified law (Nobes and Parker 1985; Elad, 2015).

The second Gray's accounting value, uniformity of accounting represents preference for standardised accounting practices between companies, usually prescriptive and enforced through government legislation and mostly associated with civil law countries (e.g., see Einthoven, 1973, Briston, 1978, 1984). In contrast, flexibility allows pragmatism in financial reporting.

The third Gray's accounting value, conservatism is a preference for a cautious approach to measurement allowing for uncertainty of future events. For example, Germany traditionally reflects a strong tendency toward conservatism (Nobes, 1984; Choi and Mueller, 1984; Arpan and Radebaugh, 1985). Optimism on the other hand is a positive, non-interventionist, risk-taking approach and laissez-faire thinking, which are common with Anglo-Saxon accounting systems.

The fourth, Gray's accounting value, secrecy involves a preference for confidentiality and the strict regulation of disclosure of information about the company only to those who are closely involved with the business. In contrast, transparency involves an open, full disclosure and publicly accountable approach where information is readily available to stakeholders. Countries like Germany with family-owned and bank financed firms tend toward secrecy (Nobes, 1984).

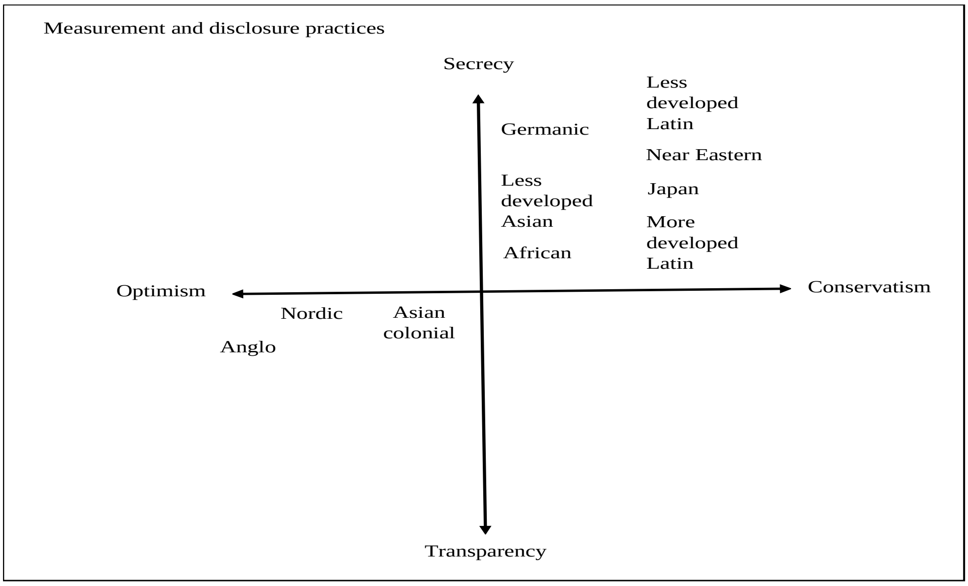
Figure 3.4: Gray's authority and enforcement rules approach



Source: Gray (1988, pp. 12-13)

Figure 3.5: Gray's measurement and disclosure practices pattern

Source: Gray (1988, pp. 12-13)



3.7 American Accounting Association

The American Accounting Association (AAA) classification of accounting systems grouped countries under zones of influence, which is inspired by previous colonial affiliation, historical ties, political ideology, geographical proximity, and common language. Seidler (1967) suggested three groups: British, American and continental Europe (see Tables 2.1 and 3.1), whereas the AAA identified five zones of influence made up of British; French-Spanish-Portuguese; German-Dutch; US; and Communist (AAA,1997, p. 129-130; Nobes and Parker, 2012, p. 62). This type of classification is more useful in explaining why developing countries which have been under the influence of their previous colonisers tend to adopt accounting systems similar to their previous colonizing powers.

This classification, which is based mostly on extrinsic environmental factors is however limited in that it is rigid and lacks a hierarchical approach and therefore fails to consider some relationships that may exist between the accounting systems of different countries. For examples previous classifications (both extrinsic and intrinsic) have established the relationship that exist between the US and the British accounting systems and have classified them under the Anglo-Saxon grouping, whiles acknowledging the similarities (for example culture, economics providers of finance) and differences between them (e.g., regulations). Roberts (1995) defines extrinsic accounting classifications where accounting in different countries was classified in terms of factors, which influence the nature and practice of accounting (see Table 3.1)

3.8 Nobes -Hierarchical classification of accounting systems

Nobes has extensively researched classification and we separate his work into three main categories: Proposition I, II and III. This section is relevant to research question because the purpose of this study is to extend Nobes' (1983, 1998, 2008, 2011) classification of accounting systems to financial reporting in Africa. The hypothesis of this study is therefore partly based on Nobes conclusions from these three proposals.

3.8.1 *Nobes 1983 Classification; Proposition I (Author emphasis)*

The research conclusions on the groupings developed for example, using the PwC data of 1973. 1975 and 1979, depending on the researcher are blurred. Nobes cites other examples, which suggest that the use of empirical data, which may be flawed and probably not designed for this purpose (see Goodrich, 1982). Extending the pioneering work of Mueller (1967) and Nair and Frank (1980) to determine a classification system of countries based on the financial reporting practices of public companies, Nobes (1983, p.15) proposes a classification 'based on evolution and general knowledge of background factors.

Nobes (1983) pans prior classification research and divides into four key limitations: reduced clarity in the "definition of what is been classified", lack of comparative models for the statistical results, lack of a hierarchical approach that helps in classification relative to the size of the countries and authors' subjectivity in the choice of important "discriminating features". He tries to remedy the above limitations and proposes a classification based on measurement practices for 14 western developed countries using the year 1980 for his data (see Figure 3.5).

Definition of what is been classified

He uses the financials statement of listed companies of the developed Western countries for the year 1980 and considers the measurement practices as they determine the size of the company in terms of profit, capital and total assets.

Comparative models and a hierarchical approach

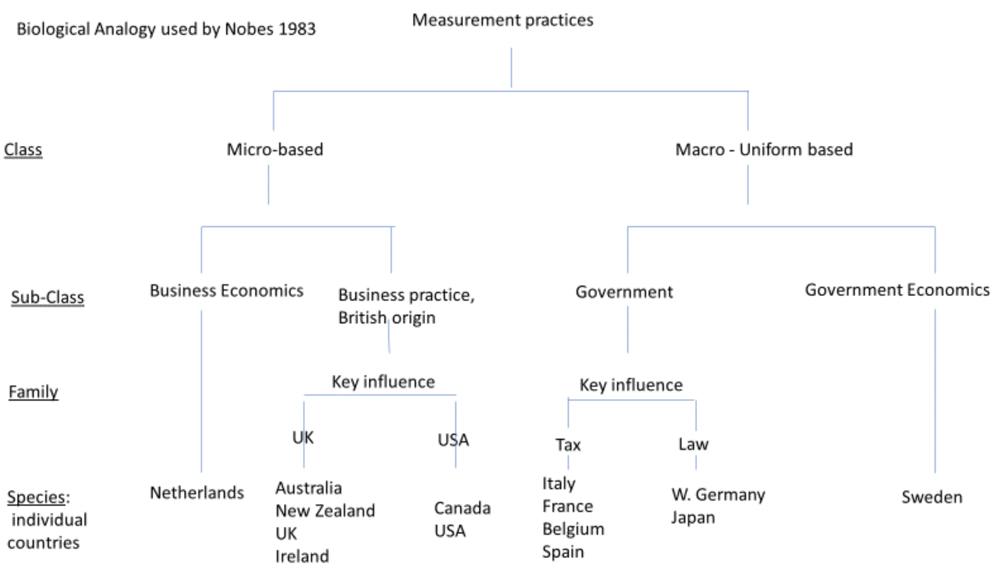
With the aid of international comparative research and the accounting evolution, uses 14 countries, which were also included in the PwC surveys to predict the manner in which countries can be grouped together on the basis of their measurement practices. Previous classification, e.g., Nair and Frank (1980) use separate groups (see Tables 3.2 and 3.3) for both the UK and the US, whereas Nobes (1983) suggest that they should be grouped together compared to the continental European countries. For example, da Costa *et al*., consider that both the UK and the US are characterised under different groups.

Discriminating features

Nobes (1988, pp. 7-8) bases his study on nine "discriminating features", considered to be long-run and structural, using listed companies only. These include:(i) users of accounting information; (ii) the degree to which laws and standards impose details and excludes subjective judgements;(iii) the importance of taxation rules in measurements; (iv) conservatism/prudence concepts for valuation of both current and non-current assets; (v) application of historic cost accounting; (vi) replacement cost adjustments; (vii) business combinations for consolidation purposes; (viii) generosity in provisions and a means to smooth income and finally (ix) uniformity between countries in application of rules (Nobes 1983, p. 8).

Figure 3.5 illustrates that Nobes' classification is similar to previous deductive classifications e.g., Muller (1967). Figure 3.5 provides an illustration of the Nobes (1983) classification, where the measurement practices generate two key classes: Microeconomic and Macroeconomic. The former is based on addressing the needs of the company and the latter is directed towards the society needs. The classes are further divided into four subclasses and then families based on either UK/US influence or tax/law orientation, again similarities observed with Muller (1967). Finally, the species level includes individual countries.

Figure 3.6: Nobes' classification using measurement practices



Source: Nobes (1983, p.7)

3.8.2 *Nobes 1998 classification; Proposition II (author emphasis)*

Following his judgmental classification of accounting measurement practices in 1983, and the subsequent criticisms by Roberts (1995) and Cairns (1997), Nobes eliminates the term 'species of his previous 1983 classification. Nobes (1998) improves on the 1983 classification of financial reporting systems by using the differences in financing systems of ‘strong equity-outsider’ and or ‘weak equity outsider’ as a basis of his classification. Nobes follows the Zyman (1983) distinction of the financing system, where company’s reliance on the outside sources of finance (debt and equity) are grouped into three types: capital market based; credit government based, and credit financial institutions based. The Zyman classification is extended to include the insider and outsider financiers. The insider and outsider type of financiers’ concept is rooted in the finance literature, which has been often discussed in areas of accounting and corporate governance (Franks and Mayer, 1992; Shah, 2014). Based on Zyman financial classification, Nobes (1998) assumes that four main types of financial reporting systems exist and in any particular country elements of any of the four types will be present. However, he places emphasis on only two out of the four groups possible as they are more commonly seen. The two classes are: (i) the strong equity and outsiders’ dominant type and (ii) strong credit and insiders dominant type. The key accounting system distinction between the two types of financing systems is that the former is characterized as follows: reporting for public disclosure, rules for reported earnings are moderately optimistic, providers of finance have no involvement in management and no private access to financial information. For the latter, the concerns are for protecting the creditors and calculation of distributable profit is relatively prudent.

Nobes further proposes for developed countries, linking to the financing system, in general terms for distinguishing the financial reporting system into two key classes: A (Anglo-Saxon) and B (Continental European). The main accounting practices differences between the two classes as summarised by Nobes (1998) are shown in Table 3.3.

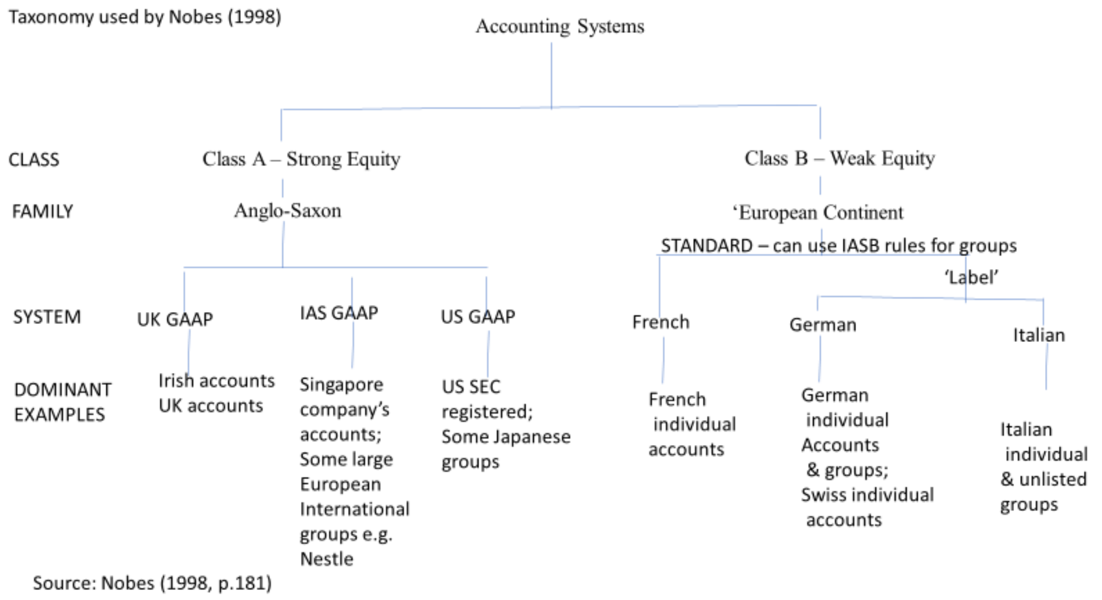
Table 3.3 Class A and Class B financial reporting systems

Accounting treatments	**Accounting practice**	
	Class A: Anglo-Saxon	**Class B: Continental European**
Depreciation and pensions provision	Different from tax rules	Follows tax rules
Long-term contracts	Uses percentage of completion method	Completed contract method
Unsettled currency gains	Taken to income	Deferred or not recognised
Legal reserves	Not found	Required
Profit and loss format	Functional classification of expenses	Expenses are recorded by nature
Cash flow statements	Compulsory requirement	Not required
Earnings per share disclosures	Required by listed companies	Not required

Source: Nobes (1998, p. 168)

Nobes (1998) further suggests that many of the environmental factors, previously discussed, may have less explanatory relevance to the two classes of financing system. However, he argues that culture may provide a better explanation of the financing system of a country, but not necessarily a direct determinant of the reporting system. Nobes concurs with Gray (1988) that culture is a plausible cause of accounting differences. Nobes proposes that depending on the culture types, “culturally self-sufficient” and “culturally dominated” could group countries in either Class A or Class B. He improves the 1983 classification, and this is shown in Figure 3.6, and prefers to use the accounting system type rather than country as the lowest level and this should be able to accommodate outsider companies in countries with weak equity-outsider markets to move to Class A accounting. This classification is by no means complete, and there is room for further amendments, for example, it now allows for inclusion of developing countries in the classification, and countries could move their dominating accounting system towards Class A.

Figure 3.7: Nobes proposed classification (1998)



Roberts (1995) criticised Nobes' classification for several reasons: "lack of originality", not evolutionary, linking it to the biology discipline, companies within a country may either use the same accounting system or use different system at the same time, use of the word 'species' to describe countries is misleading. The existence of different accounting systems within the same country makes it questionable to use the word 'species' to describe countries. Following this criticism, Nobes revises his 1983 classification and avoids accounting groupings based on countries, but instead revises his classification using accounting practices (options) for groups of companies. For example, using US GAAP instead of US influence.

D'Arcy (2001) sought to test the validity of Nobes' classification by using data from KPMG and Ordelheide to produce classification and a dendrogram based on cluster analysis. He concluded that, contrary to Nobes classifications in both 1983 and 1998, no Anglo-American cluster exists. Similarly, Cairns (1997) and Alexander and

Archer (2000) also cast doubt on the existence of Nobes two-group classification. They argue that the distinction between Anglo-American accounting and Continental European accounting systems is becoming less and less important overtime. Rather it is becoming confusing as there are now probably far more parallels between German and American accounting systems than there are between British and American accounting systems (Alexander and Archer, 2000).

Finally, Elad (2015) questions the validity of Nobes proposition that a culturally dependent country has an accounting system imported from its dominating country, irrespective of the strength of the culturally dependent country's equity-outsider system. Elad contends that this is not the case in some African countries as some have moved away from the accounting systems that were used by their earlier colonial rulers and have adopted the accounting systems that are currently in use by their current regional economic bodies. For example, Equatorial Guinea, a former Spanish colony, abandoned the Spanish accounting system it inherited from colonial rule when it signed the OHADA treaty (a French-influenced accounting system) in 1993 (Elad, 2015, p. 90).

3.8.3 *Nobes 2006/2008 Classification: Proposition III (author emphasis)*

The use of IFRS for financial reporting has enhanced global comparability. Nobes (2006, 2008, 2011), uses the concept of earlier classification of accounting systems to analyse the national accounting approaches to IFRS. Despite various criticisms (Alexander and Archer, 2000; d'Arcy, 2001) the two-group classification of accounting system is still commonly used (cited in Nobes, 2008 – Guenther and Young, 2000; Hung, 2000; Ali and Hwang, 2000; Ball et al., 2000).

From the beginning of the 20th Century, the two main contrasting groups for accounting classification studies were based on continental Europe and the UK to illustrate two different accounting traditions (Kvaal and Nobes, 2012). Nobes (2008) begins by using the two-group classification for accounting systems. Nobes (2008) identifies that countries can be assigned to various groups based on the following criteria: (i) full adoption of IFRS; (ii) IFRS adopted in national standards (iii) IFRS used for certain purposes either compulsorily or voluntarily basis. Nobes 2011 paper address whether the dichotomous classification is still distinct in the IFRS usage of large listed companies.

The evidence suggests that the prior classifications are still justified in the presence of IFRS because the use of IFRS are only compulsory for the consolidated accounts and hence most countries continue to have national accounting rules. The purpose of Nobes (2006, 2008, 2011) classification was to examine why international differences in financial reporting still exists even though countries have adopted IFRS. Nobes identify that the differences between the application of IFRS in national accounting practices are two-fold because of their common causal factors (Nobes, 2011, p. 4):

> "the degree to which IFRS has been mandated or allowed for particular companies or types of reporting, and the degree to which the practice of IFRS differs along national lines".

Nobes (2011) classification of accounting systems was one of the first to be done in the era of IFRS and it was based on the differences in the accounting choices made the largest listed companies in eight countries, seven of which are European and have adopted EU's Fourth and Seventh Directives of 2005 aimed at harmonising accounting practices amongst member states (Nobes and Roberts, 2000; Judge *et al.*, 2010 p. 167; Nobes, 2011), These EU directives require member countries to use IFRS in financial reporting for listed companies (Nobes, 2011). His work originated from the 14 countries (see Figure 3.5) that were analysed in his 1983 paper and the 2011 paper reduced this to include eight countries since Canada, Japan and the US were excluded as they did not adopt IFRS for the year 2008/9. He also did not include financial reports from, Belgium, Ireland and New Zealand as the size of their listed companies was much reduced compared to the eight countries he had selected. Of the eight countries, only Australia is outside the EU.

Nobes justification for using the largest companies in each of the eight countries is that, they are likely to be adopt IFRS rather than conform to national accounting traditions. The empirical research, using accounting practices in the context of IFRS, suggest that the Anglo and continental European countries classification for accounting system groups is observed in the IFRS practices of very large companies.

The study concludes that, even in era of IFRS, companies have stuck to their national accounting practices and differences are still present among countries. Countries are still forming groups as per his 1983 and 1998 paper, for example, Australis and the UK form one group under the Anglo – Saxon family and the European countries e.g., France and Germany are under the Continental Europe family (see Figure 3.6).

This persistence of the different accounting systems even when countries have adopted IFRS are at the core of this study. Nobes' study had been set for the published financial reports of companies in developed economies in the EU states and Australia. This study is extending Nobes (2006) research to Africa to ascertain as to whether financial practices of large listed companies in African countries are divided along the lines of Anglo-American accounting systems and that of Continental European systems as per their colonial heritage.

3.9 Doupnik and Salter (1993) classification

Doupnik and Salter (1993) extend the hierarchical classification of accounting systems using the works of 14 countries used by Nobes (1998) and 37 countries used by Berry (1987) as the basis on which to build their own study. The purpose of their study was to improve on the shortcomings in the methodology that was used by Nobes and Berry to build their classification. Their empirical classification was based current unbiased data that they organized into "families" of systems similar to those of Nobes and Berry.

They sought to improve the methodology by using a multi-source database in order to provide more reliable data on country practices than the single-source (Price Waterhouse) surveys used in Nobes' prior research, and also by grouping countries directly through the use of hierarchical cluster analysis, rather than indirectly grouping them through the application of factor analysis as was done by Nobes. They used a questionnaire and the final data set consisted of 174 responses from fifty countries, which include Nobes fourteen countries and Berry's 28 out of the 37 countries used in the classification studies. Using 100 financial reporting practices for the 50 countries were grouped using cluster analysis. The choice of optimal number of clusters was established by the pseudo-F factor. The two-cluster solution resulted in two groups of countries that corresponded to Nobes (1983) hierarchical classification as micro and macro classes of countries. A further nine-cluster solution corresponded to the UK influence group, US influence group and seven group split into Costa Rica, Latin American, European, Arab/Hybrid, Sweden/Finland, Germany and Japan.

The result of this study broadly supports Nobes (1983) hierarchical classification of accounting systems and the extension that was done Berry (1987). One of the main differences that exists between the two systems is that the micro class countries on average exhibit greater compliance with IASC's International Accountings Standards than the macro class countries. This explains why the accounting systems of United Kingdom and Ireland (micro classed countries) are more IFRS compliant than the financial reporting systems of France and Germany (macro classed countries) (See Nobes, 1983; 1998)

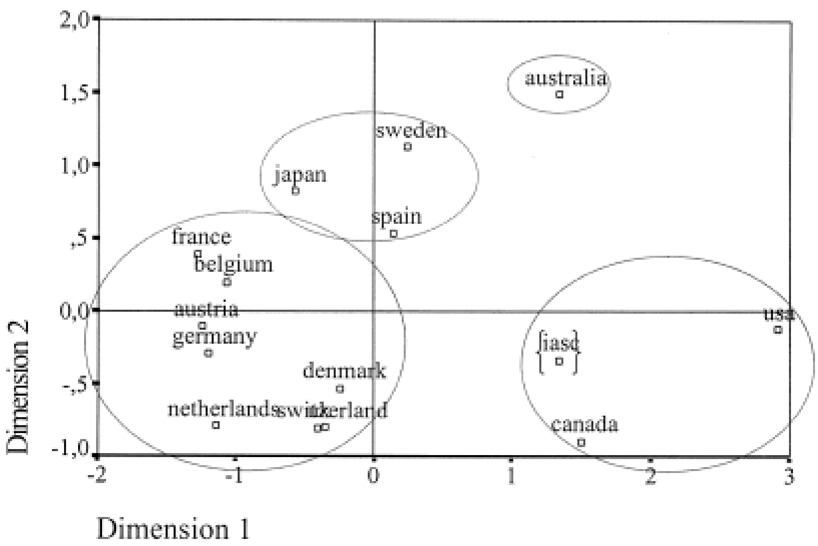
The main difference that exists between Doupnik and Salter's classification on one hand and that of Nobes and Berry on the other hand is at the "family" level of the hierarchical classification. At this level, Nobes hierarchy perhaps should be amended with regard to the Netherlands (member in the U.K.-influence family) and Japan (single-member family). These proposed amendments could be because of mistakes made in Nobes original classification or the fact that these two countries' accounting systems have evolved over the years into different systems national accounting systems (Doupnik and Salter,1993). For instance, as Doupnik and Salter (1993) pointed out, the 1980s adoption of EC accounting directives in both the U.K. and the Netherlands could have brought their accounting systems closer together since 1983, when Nobes developed his classification.

3.10 d'Arcy's (2001) classification

Contrary to Nobes (1983, 1998) and Doupnik and Salter (1998), d'Arcy (2001) questions whether the use of the two grouping of Anglo Saxon and continental Europe are appropriate for classification of international accounting systems. However, the

consistency and statistical proof disputes the use of the two-dichotomy classification. Using data from Ordelheide and KPMG (1995) to produce classification and a dendrogram based on cluster analysis, d'Arcy did not find an Anglo-American cluster that included the UK and the US (d'Arcy, 2001, p 327). Rather, his study produced a two-dimensional diagram, prepared from a multi-dimensional scaling that shows, contrary to Nobes (1983 1998) earlier works, Switzerland and UK had more in common in their accounting practice (Fig 3.7). d'Arcy's research findings produced four different accounting clusters (Figure 3.7), as the research findings completely rejected the existence of the Anglo-American and the continental European accounting clusters (also see Alexander and Archer, 2000). The study rather concluded that there is a broader European accounting grouping that places France, Germany Netherlands, Denmark, Austria, Switzerland and Belgium the same class. The study also proposed a North American cluster that is made up of the US, Canada and the International Accounting Standards Committee (IASC), thereby suggesting that the international accounting standards are more aligned to US accounting systems than that of the UK (Figure 3.7). The findings also isolated Australia in solitary class of its own, contrary to other studies that had identified it as part of the Anglo-American class (Figure 3.7). d'Arcy's conclusion is that, contrary to Nobes classifications in both 1983 and 1998, no Anglo-American cluster exists. In support of his conclusion, he argued that, unlike Nobes (1998), the data used for his study were more recent and covered fewer countries and did not mix rules and practices. Rather, they were based on accounting regulations alone. This was designed to make it better and resolve some of the doubts that that were expressed against the data that Nobes had used in his research.

Figure 3.8: d'Arcy's classification



Source: d'Arcy (2001, p. 343)

d'Arcy's classification was however limited by the fact that the data used were not designed for his purpose and therefore relevant questions to the study were not addressed (Roberts *et al.*, 2005).

Also, Nobes (2003, 2004) defended the existence of Anglo-American and continental European accounting systems by asserting that the method that d'Arcy used to code the data introduced errors in the processes and that if the data was adjusted, d'Arcy's isolated classification of Australia will be reversed back into an Anglo-American group.

3.11 **The unresolved differences in classification**

So far, this chapter has examined different literature on classification of accounting systems using both inductive and deductive approaches.

Under the deductive approach, Mueller (1968) based is work on economic data, whiles Gray (1988) had used cultural differences as the basis of his classification. Inductively, Nobes, Nair and Frank had used data from Price Waterhouse for their analysis whiles Nobes (1983) and Doupnik and Salter (1983) had used their own data. Finally, d'Arcy (2001) used data from KPMG. For most of the classification carried out, the accuracy of the third-party data used by the researchers, and those that they created specifically for the research have often been branded to be either erroneous in some cases, or unsuitable since they were produced for a different purpose (d'Arcy, 2001).

Different studies have used different conceptual and methodological research methods which have produced differences in classification of accounting systems (d'Arcy 2001). Most of these classifications have been based on the use of the Environmental Determinism Theory which presumes a correlation between a country's accounting practice and the environmental factors that have been discussed in chapter two of this thesis. However, the link between these factors and accounting methods have often been merely explained but have not been analysed further or empirically tested to proof the extent to which they are connected (d'Arcy' 2001; p 329). As d'Arcy (2001, p 332) contends'

"One of the core criticisms of the environmental based classification attempts was the insufficient specification of the dependency between the accounting system and the environmental factors".

Furthermore, according to Mathews and Perera (1991, p. 305) there is a lack of agreement in literature to support the main environmental factors that shapes a country's accounting system (cited in d'Arcy, 2001). Consequently, classification of accounting systems has been influenced by the prejudice of the various authors on this subject (Roberts, 1995, p 641; cited in D'Arcy, 2001).

Having evaluated the conclusions drawn by various studies on classification of accounting systems, this study is of the view that even though African countries may not have indigenous accounting systems specific to Africa, the main modules of classification of accounting systems in this chapter that have been extended to include African countries may not be suitable for their financial reporting needs (for example, Briston, 1978; 1984; Sy and Tinker, 2013). A better classification of accounting systems in Africa should take into consideration the complex nature of the continent's socio-political economy both at micro and macro levels (Harris, 1975; Harrison, 2004, 2005). There is therefore the need for more studies in accounting that is based on Africa's unique social and political settings in order to understand their effect on the society (Hopper et al., 2017). One of the few known comprehensive study that has been carried out specifically on Africa is by Elad (2015).

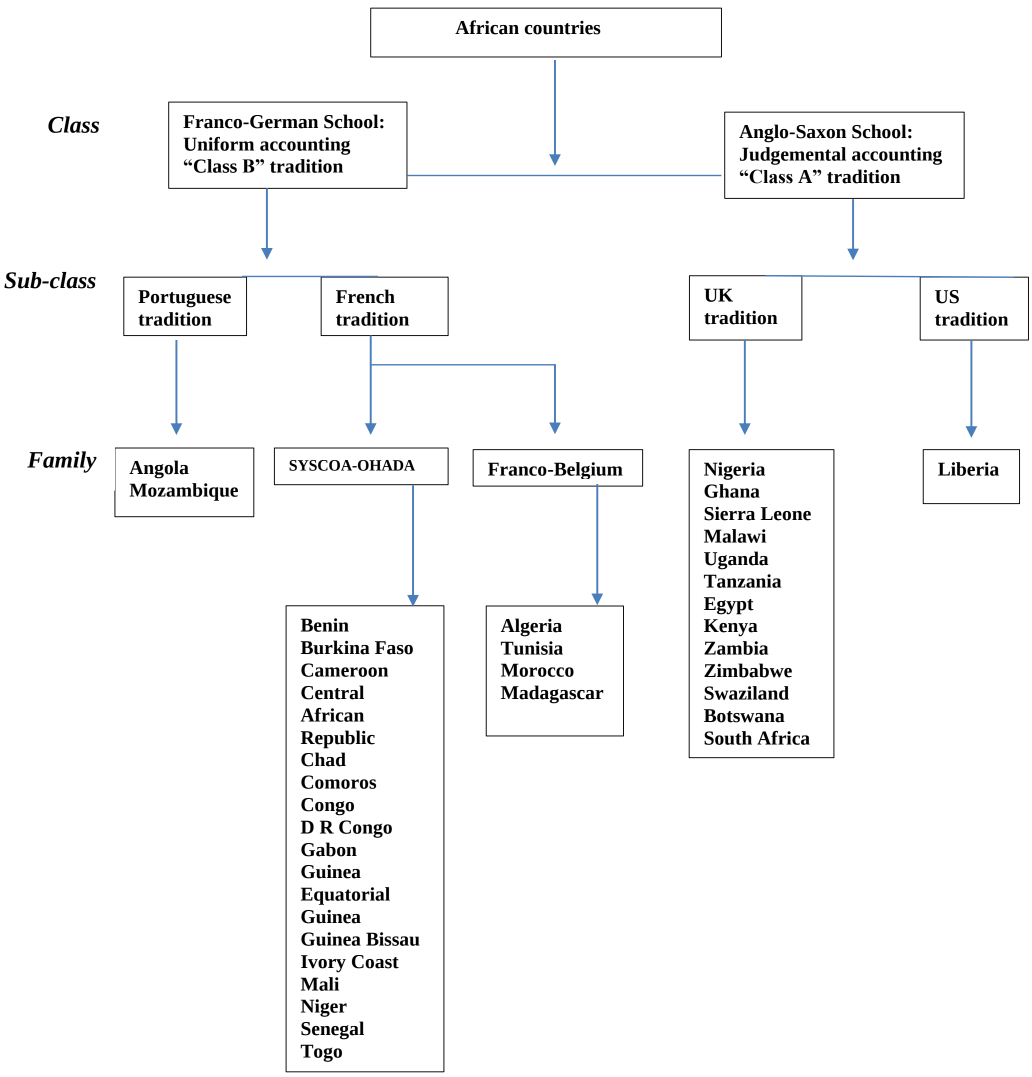
3.12 Elad's Classification of Accounting systems in Africa

The most comprehensive study of Classification of accounting systems in Africa in the era of IFRS adoption was carried out by Elad (2015). The research involved 30 Africa countries, and it is the most comprehensive study of national reactions to IFRS adoption in Africa to date. Elad's study used data covering two periods. First in 1992, for accounting systems in Africa just after independence, and then for 2004-2005 which shows the current accounting systems post-independence. Using data from PricewaterhouseCoopers (PwC, 2011) covering over 30 African countries, the study extended Nobes' (2008; 2011) classification of accounting systems to the African context. He used a hierarchical cluster analysis (for example see Doupnik and Salter, 1993) to test the validity of Nobes 2008 classification. This involved the use of Ward's method, applying 'the squared Euclidean Distance as the similarity measure (Elad, 2015, p. 92). Elad's study confirmed the existence of Nobes (2008) two-group classification of national accounting systems in Africa. This comprises of the 'Franco-German School' approach of standardised accounting systems on one hand, and the existence of the 'Anglo-Saxon School' judgmental accounting practices on the other (Figure 3.9). Elad's research also established that weak equity countries (see Nobes, 2008) are slow in the process of adopting IFRS. On the other hand, strong equity countries (see Nobes, 2008; 2011) were faster in adapting their national GAAPs to IFRS.

Similar to Nobes, Elad's classification of accounting system was hierarchical with the Franco-German class further divided into two subgroups made up of Portuguese influence and French influence. The French influenced subgroups were further separated into two families comprising the SYSCOA-OHADA and the Franco-Belgian countries (Figure 3.9). For example, a country like Mozambique was classed under Franco German group with Portuguese influence, whiles countries such as Ivory coast, Senegal Algeria and Morocco were grouped under French influence (Figure 3.9). Examples of countries with the Anglo-Saxon accounting class included Nigeria, On the other hand, the Anglo-Saxon School class of countries were sub-divided into two families with some states grouped under UK influence and others coming under US influence. Examples of countries with the Anglo-Saxon accounting class included Nigeria, Ghana, Kenya, Zimbabwe, and South Africa, all of which were classified under UK influenced. Only Liberia came under US influence.

The main limitation of Elad's study is that he tested his proposed classification of accounting systems in Africa using PricewaterhouseCoopers (PwC) data on accounting regulation. This raises questions on the validity of his proposed classification since it did not reflect the actual accounting practices by companies in these countries. This study seeks to test the validity of Elad's classification by using data on IFRS policy choices from annual reports from firms operating in Africa.

Figure 3.9: **Classification of Accounting systems in Africa 2005-2014**



Source; Adapted from Elad (2015, p.91)

3.13 **Conclusion**

This chapter has examined the different but sometimes opposing studies on subject of international classification of accounting systems, and in particular Nobes 'assertion of the existence of two classes of accounting practices between countries of Anglo-Saxon tradition and those of Continental European traditions. It then examined

Elad's testing of Nobes (2006, 2008) classification in the African context and in the process, revealing the effects of colonial inheritance and types of finance on financial reporting in Africa. Elad's research has also echoed the similarities and differences in accounting systems on African continent. By exposing the dissimilarities in African nations' accounting systems, his classification suggests there may be challenges in efforts at harmonisation and convergence of accounting practices among African states, despite institutional pressures from global financial institutions such as the World Bank and the IMF (see Alfredson *et al.*, 2007; Khlif Ahmed and Alam, 2020). Elad's findings supports Nobes assertion that even in the era of IFRS adoptions by countries, differences in national patterns of accounting have survived. The next chapter will evaluate the international efforts that have been made to harmonise or converge international accounting practices and how it affects financial reporting in Africa.

4. Chapter 4: Convergence of domestic GAAP with IFRS

4.1 Introduction

According to Zeff (2012, p. 809) global efforts at converging international accounting standards commenced in the 1960s, and it is still ongoing with more institutions joining resources towards achieving this objective (Zeff, 2012, p. 832).

This chapter examines attempts by various global and regional institutions to harmonise and converge international financial reporting. Firstly, it assesses the need for, and the benefits of harmonisation and convergence of financial reporting globally. Secondly the chapter will examine and evaluate the efforts of international bodies involved in the drive towards harmonisation and convergence of international accounting.

The third part will investigate the attempts that have been made to harmonise and converge the accounting systems in Africa with IFRS by international players such as the World Bank and IMF who are a major source of finance its nations. In addition, this part will assess the role of other institutions like Pan African Federation of Accountants (PAFA), and OHADA (whose membership is from French and Spanish speaking) in Africa's harmonisation debate. Finally, this chapter will examine obstacles to convergence of international accounting systems. It will conclude by assessing how global efforts towards convergence has impacted on the financial reporting in Africa in the current period of globalisation and International Financial Reporting Standards.

4.2 Harmonisation and Convergence

The term ‘harmonisation’ has been defined in different ways in international accounting literature. Nobes and Parkers (2002; Choi, Fost & Meek, 1999) define harmonisation as “the process of increasing the compatibility of accounting practices by setting bounds to their degree of variation”. Saudagaran & Diga (1997) identify three levels of accounting harmonisation, namely, global harmony, regional harmony and total disharmony. Global level of accounting harmonisation envisages a ‘borderless environment’ where financial statements are comparable across countries and are readily available to all users. At regional level, accounting harmonisation envisages harmonisation of accounting practices among countries with geographical proximity (Saudagaran & Diga, 1997)

In a financial reporting context, ‘convergence’ is the process of harmonising accounting standards issued by different regulatory bodies, with the objective to produce a common set of high-quality accounting standards to enhance consistency, comparability and efficiency of financial statements (CIMA, 2008, p. 3). International convergence is the process of merging a country’s domestic accounting practices to the International Financial Reporting Standards (Nobes, 2008, p. 194). It is important to note that convergence does not mean ‘uniformity’ in financial reporting. Ball (2006) reminds us that the belief that applying uniform international standards alone will produce uniform financial statements seems far-fetched. He cautions that in the drive towards global adoption of IFRS, there will be substantial differences among countries in their implementation, which risk being concealed under the pretext of uniformity in accounting standards.

On the global level, an example of the drive towards convergence is the 2002 joint programme between the US's Financial Accounting Standards Boards (FASB) and the IASB to synchronise some of their accounting standards towards each other's (CIMA, 2008 p.4). For instance, the two institutions have worked together to harmonise their accounting systems in areas such as corporate performance reporting, accounting for deferred taxation, and standards for convergence of International Accounting Standards (IAS) and US Standards (Nobes, 2008, p.194).

The main objectives of convergence with the IFRS are to harmonise the diversities in accounting policies and the subjectivity in the treatment of transactions and to enhance high quality financial report presentation. It will also improve the consistency, comparability and efficiency in international financial reporting (CIMA, 2008, p. 3; Zeff, 2012, p. 810)

Countries and their institutions may pursue the road to convergence of accounting practices through either "de facto" or "de jure" methods (see Tay and Parker, 1990). Boolaky (2006) describes de jury harmonisation as the study of accounting standards and their related regulations. On the other hand, de facto harmonisation is the study of actual accounting practices of measurements and disclosures (see Nobes, 1995). According to Tay and Parker (1990), *de jure* harmonisation of accounting systems is achieved through national regulations whereas de factor harmonisation is achieved when actual accounting practices are in conformity to international accounting standards. Similarly, Canibano and Mora (2000, p.1) attempt to establish the relationship between de facto and de jury harmonisation and the fact that they strengthen each other by suggesting that;

> "Two different forces are involved in the international harmonisation of accounting: institutional endeavours to harmonize

> accounting internationally by developing common accounting rules and reporting standards, and spontaneous efforts by 'global players' to adopt accounting methods that will improve communication with users in other countries. These two developments are proceeding side by side, generally reinforcing one another but occasionally moving independently"

Nobes (2008) has however challenged this claim that both the *de jury* and the de *facto* elements of harmonisation and convergence of global accounting practice always work hand in hand. He cautions that, even in the wake of a unified set of international accounting standards (IAS and IFRS), national and institutional differences in accounting practices have still survived (Nobes, 2006, 2008). In order to assess the motivation behind global effort towards convergence of accounting practices, the next session examines the benefits of converging global accounting systems.

4.3 Benefits of harmonisation/convergence

Because of the perceived benefits of harmonisation, more countries have either developed their national GAAPS based on IFRS or have either completely or partially adopted IFRS (Boolaky, 2006).

Wolk and Heaston (1992) argue that converging their national accounting standards with IFRS in full or in part, countries can produce a better national GAAP which will enhance the quality of their corporate financial reporting. This can be achieved at less cost and time as countries will not have to go through the lengthy process of developing their own standards (Tetley, 1991). This is particularly advantageous to developing countries who often do not have the resources needed to create their own standards (Zori, 2015). For national governments, however, the cost saving advantages may be offset by the loss of control over the nature and content of the national accounting standards, granted that these governments will still have to ensure compliance with the standards (Roberts et al., 2005, p.10). And in the case of developing countries this is even more severe as they may not be able to influence the setting of international accounting standards and therefore may have to follow standards that may not be conducive to their needs (Briston, 1978, 1984; Samuels & Oliga 1992; Sunder, 2002). This point is echoed by Roberts et al., (2005, p.10) who argue that “there is no reason to believe that one system fits all.”

Belkaoui (1988) and Peavy & Webster (1990), claim that the drive towards harmonisation makes countries attractive to investors and therefore will facilitate the inflow of foreign direct investments. This assertion is however challenged by Kirby (2001) who contends that not all aspects of harmonisation are advantageous and that harmonising on full disclosure may be disadvantageous to emerging economies by placing them at a competitive disadvantage against advanced economies.

Thirdly, harmonisation provides advantage to shareholders and would-be investors in measurement and disclosure of accounting information (Nobes, 1995). If companies from different countries produce figures using different methods or provide different information, then their statements will not be comparable with each other (see Saw, 2011). Normally, not enough disclosure of information is given to allow users to convert the figures in the reported financial statements to those that would have been produced under a different set of accounting rules. The investors and users of financial statements produced by foreign companies may thus have some difficulty in understanding what the figures mean (for example see Nobes, 1983; Zeff, 2012, p. 808).

The fourth benefit is that, harmonisation helps to facilitate the development of global capital markets and therefore promote economic growth from easy movement of capital (Nobes, 1995: Boolaky, 2006). According to Boolaky (2006), harmonisation of financial reporting practices will help in the development and growth of global capital markets by enhancing the quality of information that is available to providers of finance. Harmonisation of financial reports means companies will produce financial reports that can be compared to their competitors', thereby enabling potential investors to compare and take decisions on different financial reports, profits, and assets (Roberts et al. 2005, p. 230).

Finally, harmonisation will help companies that operates in different markets or seeking to list their shares in different countries. As harmonisation will lead to mutual convergence of national GAAPS, companies seeking to list their shares in other countries will not have to prepare separate financial reports, as this can be expensive and generate different results. For example, an agreement of mutual convergence between IASB and US Security and Exchange Commission will mean that companies that are listed on both the UK and the European Markets will not have to produce two different sets of financial statements in order to meet the different reporting requirements of the two markets (Pacter, 2005)

4.4 Agents of International Harmonisation.

Internationally, there is a wide range of harmonisers and converging agents of international accounting practices. They range from global, regional, public sector, governmental or private sector institutions (Table 4.1). At these levels, there are institutions that are either directly or indirectly dedicated to promoting harmonisation in financial reporting. Table 4.1 shows current and past examples harmonisation agents and their scope of influence, and role of some of these institutions is examined in this chapter.

Table 4.1: Agents of harmonisation

Agencies	**Scope of Influence**	
Type of harmoniser	**Global**	**Regional**
International Governmental Bodies	UN, OECD	EU, OHADA
Financial and Capital Market Players	World Bank, IMF, IOSCO	
Trade and Commerce	WTO	
Accounting Profession	IFAC, "The Big 4"	ABWA, Accountancy Europe (Formerly, FEE), PAFA
Independent Bodies	IASC, IASB	

Source; Adapted from Nobes and Parker (2012, p. 91)

One of the main drivers of harmonisation of international accounting is globalisation, as it has created major changes to the world's socio-economic order which in turn has affected the flow of goods and services, information, and capital flows (Graham & Neu, 2003; Phuong and Nguyen, 2012). This has led to the establishment of international institutions with the objectives of creating a new 'global accounting norm to reduce differences and resolve contradictions that have been exposed between nations as a result.

As globalisation has influenced the development of the accounting profession and its practices (Phuong and Nguyen, 2012), it has led to the establishment of international institutions with the sole purpose of harmonising international accounting practices. Similarly, some existing organisations have re-directed some of their efforts towards harmonisation and convergence of global accounting systems in order to facilitate the liberalisation of international financial markets. This is a key feature of globalisation (Ashbaugh, 2001; Cooke 2001; Phuong and Nguyen 2012). These different types of harmonisers discussed in detail in the next section.

4.5 The IASC

The IASC was formed with the primary objective to formulate and publish, in the public interest, accounting standards to be observed in the presentation of financial statements. In the course of its existence, the IASC became a leader in international accounting harmonisation by way of developing standards that served as a model on which national standard setters based their own standards (Nobes and Parker 2012; Larson and Street, 2004). It was established in 1973 through an agreement made by professional accountancy bodies from Australia, Canada, France, Germany, Japan, Mexico, the Netherlands, the United Kingdom and Ireland, and the United States of America (Pacter, 2005; Zeff, 2016 p.807). Additional sponsoring members were added in subsequent years, and in 1982 the 'sponsoring members' of the IASC included all the different national professional accountancy bodies that were members of the International Federation of Accountants (IFAC)[9].

Since its birth, the IASC struggled to gain acceptance and legitimacy as an organization because other international organisations such as the United Nations and the OECD had questioned the committee's dominance in the developing international accounting standards (Zeff, 2016, p. 813). This led to delays in its

[9]https://www.iasplus.com/en/resources/ifrsf/history/resource25 (accessed on September 3, 2018)

endorsement by stock exchange regulators around the world (e.g., Zeff, 2016). For instance, it was not until 1988 before IOSCO first collaborated with IASC to endorse its accounting standards (Cairns, 1995; and Deloitte, 2013). One of the main perceived weaknesses of IASC is that it accounting standards could not be rigorously interpreted and applied (Turner & Godwin 1999; Larson and Street 2004) The fact that IASC was restructured and replaced with the International Accounting Standards Board (IASB) to continue the with the pursuit of convergence and harmonization of international financial reporting practices, is an admission that the IASC had been unsuccessful in achieving legitimacy and endorsement among key international players such as the United Nations, US, OECD, and the Security and Exchange Commission (SEC) by the year 2000 (Zeff, 2007; 2016). Effectively, it was not successful in its search for a single set of global accounting standards and there was therefore the need for a new direction in the effort to converge national accounting standards (Pacter, 2005). This led to the creation of the International Accounting Standards Board (IASB) to replace IASC.

4.6 The IASB

The International Accounting Standards Board (IASB) replaced the IASC in April 2001 with the aim of continuing with the existing roles of the defunct IASC (see Pacter, 2005, p. 67; Zeff, 2012; 2016). It was charged with the objective of undertaking major revisions of some of the existing IASs and establishing new International Financial Reporting Standards (IFRS), and to streamline accounting treatments by removing options in IASs (see Zeff, 2016, p. 814). These options available in international accounting standards have been seen by some as hindering efforts at harmonising and converging global accounting practice (See Nobes, 2008; 2011). Nobes (2006) describes these options as "overt and covert" accounting choices that continue to cause differences in national financial reporting practices even when nations have adopted and are applying IFRS in preparation of financial statements. Therefore, IASB's objective to eliminate these options is expected to reduce differences in measurements and disclosure practices and thus, create comparable financial reporting systems, capable of satisfying the information needs of investors (Zeff, 2016, p. 823).

This was expected to build confidence in IASB and its standards and win the support and legitimacy that had eluded its predecessor, the IASC (see Zeff, 2016, p. 814). Accordingly, one of the main objectives of IASB was to promote convergence of accounting practices and to establish a globally accepted set of accounting standards (Pacter, 2005). This objective is reflected in the constitution of IASB that states that the aim of the Board is "to develop, in the public interest, a single set of high quality, understandable, enforceable and globally accepted financial reporting standards based upon clearly articulated principles. These standards should require high quality, transparent and comparable information in financial statements and other financial reporting to help investors, other participants in the world's capital markets and other users of financial information make economic decisions"[10].

[10]http://archive.ifrs.org/About-us/IFRS-Foundation/Oversight/Constitution/Documents/IFRS-Foundation-Constitution-December-2016.pdf (accessed on September 3, 2018)

In retrospect, IASB has faced a similar fate to that of its predecessor, the IASC. It has an ongoing struggle to achieve its main objective to converge global financial reporting practices. In revealing its failures in the U.S. for example, Kaya and Pillhofer (2013), concluded that:

> "Our analysis of the 2009 (2010) annual reports filed with the SEC reveals that only 19 (23) percent of all foreign issuers file IFRS reports, although the reconciliation to U.S. GAAP requirement was eliminated in 2007. Thus, our results indicate that the majority of foreign filers in 2009 and 2010 use U.S. GAAP disclosure practices. Moreover, we provide evidence that cross-listed firms rarely change their filing behavior over the two-year sample period. Our analysis shows that the International Accounting Standards Board (IASB) is subject to problems connected with its structure and its limitations as a non-governmental organization (NGO)" (Kaya & Pillhofer, 2013).

Overall, although the IASB has accomplished some significant success in extending the adoption of IFRS, it has also been saddled with opposition at national and regional levels. Some of this opposition arises from differences in national accounting cultures that have persisted even when countries have adopted IFRS (Gray, 1988; Nobes, 2008; 2011; 2013). These cultures are evident in the market structures, institutional and legal frameworks within which business in different countries operate (Whittington, 2008).

4.7 The World Bank and International Monetary Fund

Since the 1990, the World Bank and the International Monetary Fund (IMF) have emerged as one of the principal agents of globalisation (Wolf, 2003, p. 393; Neu, Gomez, de Leon, & Zepeda, 2002). To facilitate this process, they have been promoting the adoption of IFRS, especially among developing countries, often making it a condition for granting financial assistance. To give an example, an editorial by Elad (2011) in the International Journal of Critical Accounting concluded that during the global financial and economic crisis in the 1990s, the World Bank and the International Monetary Fund (IMF) as part of the structural adjustment assistance programme, compelled many countries to prepare their financial reports in accordance with the IFRS (World Bank, 2004; Hassan *et al.,* 2014; Zori, 2015). According to Joshi & Al-Basketi (1999) international financial institutions such as the World Bank maintain that full adoption of IFRS by developing countries is good for corporate governance regimes. These Bretton Woods institutions have endorsed IFRS as a code that promotes good governance, transparency, and public accountability (see World Bank, 2005, 2010 a.b.c.; Elad, 2015; Lassou *et al.,* 2017). This endorsement further drew acceptance by other world bodies like the Organisation for Economic Co-operation and Development (OECD)[11], World Trade Organisation (WTO) and United Nations Conference on Trade and Development (UNCTAD), requiring their usage in their various sphere of control (for example, Nobes and Parker, 2012, p. 86). In the case of Africa, the World Bank is one of the major institutions promoting harmonisation of accounting systems through its policy of requiring African nations to embrace IFRS as one of the conditions for offering financial assistance (see Khlif, Ahmed and Alam, 2020).

[11]https://www.oecd.org/russia/implementinginternationalfinancialreportingstandardsifrsinrussia.htm - (accessed on 13 June 2020)

4.8 Professional body: the IFAC

The International Federation of Accountants (IFAC) is the leading global community of professional accountants, founded on 7 October 1977.

Its objective is to promote adherence to high quality professional standards and serves as a platform on which professional accountants discuss the further possibilities of standardising global accounting practices. It requires its member bodies to comply with IASB standards (Botzem and Dobusch, 2012). By so doing, IFAC facilitates the adoption, harmonisation and convergence international accounting standards. As of November 2018, it has a membership made up of more than 170 professional accountancy bodies from 130 countries and 'jurisdictions', with a total individual membership in excess of three million professional accountants worldwide[12].

Though IFAC has not directly attempted to develop accounting standards at an international level, it is one of the main backers of IASB. It also directly helps in standardisation of global accounting practice by lending support of the IASB in the setting of global accounting standards. As part of their mission statement, IFAC have indicated that:

> "We contribute to and promote the development, adoption, and implementation of high-quality international standards".13

This statement suggests that they are actively involved in the process to make IFRS the main accounting standard for preparing financial reports globally.

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[12]https://www.ifac.org/who-we-are/membership (Accessed 18 June 2020)

[13]https://www.ifac.org/supporting-international-standards (Accessed 18 June 2020)

4.9 Capital Market Regulator - IOSCO

The International Organisation of Securities Commissions (IOSCO) is not that is directly promoting harmonisation of international accounting systems. However, it supports the works of the IASB in its efforts to converge global financial reporting practices (see Pacter, 2015). IOSCO is a global association of national securities regulatory commissions, such as the Securities and Exchange Commission in the United States and the Financial Services Authority in the United Kingdom. It has a membership of more than 120 securities regulators overseeing 95% of the world's securities markets (IOSCO, 2013; IFRS, 2013). IOSCO ensures that its members adhere to internationally recognised standards for securities regulation, including the recognised standards in financial reporting, IFRS and the US GAAP (Pacter, 2015).

IOSCO at various points, in 1988, 2000 and 2013, has entered into collaborations with the IASC, IASB and the IFRS Foundation to ensure the highest standards of financial reporting globally by ensuring multi-national companies (MNCs) of IOSCO's international markets use the IFRS to prepare the same set of financial reports rather than different financial reports previously required for different markets (see Zeff, 2012). For example, on 18th September 2013, IOSCO and IFRS agreed 'joint protocols to enhance consistency in the implementation of IFRS globally. In the joint press release that was issued following the agreement, Mr Michael Prada, the chairman of IFRS Foundation Trustees said;

> "IOSCO and the IFRS Foundation have a common interest that global accounting standards be well developed and consistently applied in practice across varying national settings. Indeed, it was decisions taken by IOSCO back in 2000 that led to the creation of the IASB with the objective of global accounting standards. Today's agreement with IOSCO is consistent with the conclusions

> of the IFRS Foundation 2011 Strategy Review and represents a big step forward to achieving that vision." (IOSCO 2013).

Mr Prada's statement is an attestation that IOSCO had been part of the setting up of IASB and IFRS because they are interested in contributing towards achieving the harmonisation of international financial reporting in order to improve the quality of corporate financial reporting, which consequently facilitate the flow of capital globally.

4.10 The EU as a regional harmoniser

The European Union (EU) has been a major harmoniser of international accounting standards for over half a century. Since 1957 when the Treaty of Rome was signed, the EU has continued to pursue strategies towards harmonizing accounting standards throughout its member states[14]. The IASB's accounting standard provided the EU with a compromise on its objective of harmonisation of accounting practice among member states in order to facilitate its objectives of integrating capital markets across the union (Pacter, 2005, p.75). In 2002, the European Union adopted IFRS standards as the required financial reporting standards for the consolidated financial statements of all European companies whose debt or equity securities trade in a regulated market in Europe, effective in 2005 as directed in Article 4 of the Regulation Number 1606/2002 of the European Parliament and of the Council. Moreover, non-listed companies were also required by Article 5 of the

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[14] https://www.europarl.europa.eu/about-parliament/en/in-the-past/the-parliament-and-the-treaties/treaty-of-rome (Accessed 15 June, 2020)

regulation to prepare all annual accounts in according with the international accounting standards (Pacter, 2005, p.75). One of the main reasons for this move beside ensuring transparency and investor protection, was to ensure that the trading of securities in the EU and on international markets are harmonised on the basis of international financial reporting standards (Botzem and Quack, 2006).

The EU though a regional union, unlike the international bodies such as World Bank or the IMF, still has a strong influence on other world economies due to its developed financial market and the fact that countries of the EU are one of the major providers of capital and financial assistance to developing countries. These countries include African nations with former colonial ties (for example, see Elad, 2015). As the EU commissioner for International Cooperation and Development, Neven Mimica claimed in 2016[15]:

> "I am proud that the EU remains the world's leading provider of Official Development Assistance – a clear proof of our commitment to the UN Sustainable Development Goals. We call on all development actors to re-double their efforts to do likewise. And we do not stop there. *Leveraging* private sector investments, helping mobilise domestic resources and intensifying joint efforts with EU Member States, we seek to make the most of all financing sources for development." (EU, 2017)

Because EU's position as one of the global economic powerhouse and leading provider of finance and assistance, its adoption of the IFRS in 2005 gave a major boost to the IASB in its harmonisation efforts. This contributed to its widespread global adoption in other emerging economies at the time with countries like Australia, New Zealand, South Africa and Mexico also announcing their

[15] https://ec.europa.eu/commission/presscorner/detail/en/IP_17_916 (Accessed 18 May 2020)

intentions of adopting IFRS around the same time because of its increased credibility (Zeff, 2012, p. 823; 2016).

4.11 **Assessing the effectiveness of harmonisation and convergence**

According to Canibano & Mora (2000, p.2), there are two classes of players that are in operation to facilitate harmonisation of global accounting. These are, institutions such as ISAB who are responsible for setting accounting standards and encouraging their use; and the continuous efforts of "global players" made up of countries, companies, IFAC, World Bank and IMF. These global players are either responsible for adopting IFRS or encourage others to use them. According to Canibano & Mora (2000), these players often work hand in hand, and in so doing, strengthening
the efforts of one another. However, they sometimes act independently of each other and in the process hinder international harmonisation of accounting practices (see Larson and Street, 2004).

Despite the obstacle noted above, some level of success at harmonisation and standardization has been achieved with Multi-National Companies through their auditors, accountants, and subsidiaries/parents (Perera, Rahman & Cahan, 2003; Urif 2015). Some of these successes have been achieved through institutions like IOSCO who requires globally listed multinational companies operating in different judications to use IFRS to produce a common set of financial reports (Zeff, 2012).

Also, the achievement of IASC towards of global accounting methods can be acknowledged in terms of the fact that with the exception of United States of America, most of the founding members of IASC have adopted IFRS either in full or in part as at the year 2000 (Zeff, 2012; 2016). They include Australia, Canada, France, Germany, Japan, Mexico, the Netherlands, the United Kingdom and Ireland. Furthermore, the 2005 formal adoption of international accounting standards by the European Union (Larson, 2002; Zeff 2012; 2016), has added to the growing numbers of countries that have adopted IFRS. These countries have provided international financial reporting with a common platform to use, and thereby enhancing the drive towards harmonisation and convergence of international financial reporting.

Even with the U.S., some progress towards harmonisation has been made. From 2017, the use of IFRS standards are required or permitted for U.S. listings by foreign companies[16]. The collaboration between IASB and Financial Accounting Standards Board (FASB) of U.S. signalled landmark changes to international adoption of IFRS. The announcement of IASB and FASB to work together to design a single set of global accounting rules in 2002 was a breakthrough for the acceptance of IAS[17]. The U.S. capital market is the largest and has more foreign companies listed than any other stock market (see Pactor, 2005, pp. 71-72) and therefore it is probably the largest and most important in the world (Zeff, 2012 p. 820). Acceptance of IAS by the U.S. markets without reconciliation would therefore encourage companies as well as regulators of other countries to further consider the use of IAS. The aim of the cooperation between these two bodies is the elimination of

[16] https://www.ifrs.org/use-around-the-world/use-of-ifrs-standards-by-jurisdiction/united-states/ (Accessed 15 May 2020)

[17] https://www.fasb.org/news/nr102902.shtml

differences between IASB standards and the FASB standards (Pacter, 2005; Zeff, 2012). They agreed to work closer together and to make their agendas more similar in future (Pacter,2005). Before this, FASB had insisted that a convergence would take place only on the basis of US-GAAP. It stated as well that the US standards are the best in the world and that it could not accept any other standards of less quality, and therefore this corporation provided a major boost to IASB and the global acceptance to IAS (see Zeff, 2016).

This change of stance by the FASB is believed to have been caused by the decision of the EU to adopt international accounting standards (IAS) in 2005 (see Pacter, 2005), which meant that almost 7000 EU listed companies in 2005 were now going to use IAS. Also, it is thought that the corporate accounting scandals of Enron and WorldCom had decreased the faith of Americans in their own accounting practices, and had therefore now caused them to be ready to accept corporation and compromises (Pacter, 2005 p. 79; Carnegie and Napier, 2010; Zeff, 2012).

Overall, despite any shortcomings that the steps towards harmonisation might have encountered, good progress has been made. According to IFRS Foundation's website, as the end of 2019, about 120 countries and 'reporting jurisdictions' either permit or require the use of IFRS for domestic listed companies. Of this number, approximately 90 states have completely adopted IFRS as set by the IASB, and in addition, do require auditors to report to state whether companies have fully complied with IFRS[18].

Figure 4.1 shows the global map of countries that require the use of IFRS standards for domestic public companies financial reporting. Although the countries have not been named on the map, the extent of the shading shows the level to which countries around the world have accepted the use of IFRS for their financial reporting.

Figure 4.1: Countries requiring the use of IFRS for domestic reporting

Source:https://www.ifrs.org/use-around-the-world/use-of-ifrs-standards-by-jurisdiction/
(Accessed 14 June 2020)

Despite all these positives stated earlier, the journey towards harmonisation and convergence is fraught with limitations. In the first place, adoption of IFRS does not automatically lead to harmonisation or convergence of global accounting systems (see Nobes, 2006, 2008, 2011, 2013; Elad 2015). Most of the accounting standards

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[18]https://www.ifrs.com/ifrs_faqs.html#

that have been issued by IASB and its defunct IASC, allow for options in their application in accounting practices (Nobes, 2006, 2008, 2011, 2013). This is probably because IAS and IFRS framework are all based-on Gray's (1988) accounting classification of professionalism and flexibility which are less prescriptive and therefore have allowed a lot of overt and covert options (Grays, 1988; Nobes, 2006; 2013 p. 91) which allows companies to use different methods in their accounting measurements.

Furthermore, IASB's work is limited because unlike FASB in the USA, the IASB does not have any authority or power to enforce the use of its accounting standards (Practer, 2005 p. 81). It is for countries to decide if, how and when they will adopt IFRS. Furthermore, the conceptual framework adopted and used by the IASB and for preparing accounting standards, is often accused of being Anglo-American biased (Choi and Meek, 2010, p. 80; Nobes, 2008). It therefore often does not suit the culture, economic, and taxation needs of the non-Anglo-American class of countries such as the continental European states. Nobes (2008) alleges that, IASC and IASB's accounting standards are often a compromise between the US and UK accounting systems. This is shown in table 4.2 which provides some evidence to support Nobes' assertion that the work of the IASC and IASB are biased towards Anglo-American accounting. For example, the accounting treatments of Research and Development costs, Goodwill, Inventory valuation and Provision for Deferred Tax were either on the same basis of US or UK treatment (see Table 4.2). This perceived bias created a suspicion among some countries in Europe who saw IFRS as a 'trojan horse concealing the Anglo-Saxon accounting enemy inside a more respectable international façade' (Nobes and Parker, 2012, p. 84-85). However, this suspicion was abated when IASC conducted few reforms in the 1990s, including increasing the number of representation of non-Anglo-American states on its Board and then appointing non-Anglo-Saxon persons for the first time; a French and a Japanese to head its board (Nobes and Parker 2012 p. 85).

Table 4.2 Some international standards compared to US and UK rules (pre-1993 to 2008)

Accounting treatment	**United States**	**United Kingdom**	**Pre 1993 IAS treatment**	**Post 1993 revised IAS treatment**
Inventories (IAS 2)	LIFO permitted, with disclosure of FIFO.	LIFO not permitted	LIFO allowed.	From 1995 to 2004: **<u>Same basis as UK</u>**: LIFO permitted- Use of FIFO must be disclosed From 2005: **<u>Same basis as US</u>**- Use of LIFO is not permitted.
Research & Development (IAS 9; IAS 38)	All expensed in Profit and Loss	Research cost is expensed; certain qualifying development cost can be capitalised as intangible asset	Research cost is expensed; certain qualifying development cost can be capitalised as intangible asset	From 1995: **<u>Same basis as UK</u> -** Research cost is expensed; certain qualifying development cost must be capitalised as intangible asset
Goodwill (IAS 22)	Up to 2001: amortised over up to 40 years. From 2001: Not amortised but tested annually for Impairment loss.	To 1998: Amortised over useful life; or (normally)written off against reserves in the year incurred. From 1998: Amortised over a period of up to 20 years	Amortised over expected useful life; or written off against Reserves in the year incurred.	From 1995 to 1998: **<u>Same basis as UK</u> -** Amortised over up to 20 years. From1999 to 2004: **<u>Same basis as UK</u> -** Amortised over up to 20 years From2005: **<u>Same basis as US</u> -** Not amortised but tested annually for Impairment loss.
Provision for Deferred Tax (IAS 12)	From 1992: full allocation; liability method in the Balance Sheet .	Liability method; Treated in Profit or Loss. To 2001: partial allocation. From2001: Full allocation.	Partial or full allocation; deferral or liability method; Profit and Loss basis	From 1998: **<u>Same basis as US</u>**– Full allocation; liability method in the Balance Sheet

Source: Adapted from Nobes and Parker (2012, p.82)

Another obstacle to the drive towards harmonisation and convergence of international accounting practices is that, over a period of time, the enforceability of IFRS has been toned down as more options and alternative treatments are allowed in new accounting standards, and by so doing diluting its effectiveness in harmonisation of accounting practices (Larson, 2002; Turner & Godwin 1999). By allowing alternative accounting options, the international accounting standards did not pose a threat to the different national accounting practices that existed at the time, as they could continue, even when the countries adopt IFRS. Also, Fleming (1991) noted that the reason why most IASs had allowed for acceptable alternative treatments was political. Allowing for alternative accounting treatments was a compromise that was needed if the standard setters were going to secure the required 75 per cent of the 14 members of the Board to vote in favour of accepting any new international accounting standard.

Although one of the reasons why international accounting standards (developed by IASC) are being replaced with international financial reporting standards (developed by IASB), there is still a long way to go before all the existing 41 IAS developed by IASC are completely replaced. To date since its inception in 2000 IASB has only managed to issue 17 IFRS[19].

Ball (2006) reminds us that the notion that uniform international standards alone will produce uniform financial reporting seems far-fetched. Despite the drive towards global adoption of IFRS, there will be substantial differences among countries in their implementation, which risk being concealed under the pretext of uniformity in

[19] Source: https://www.iasplus.com/en-gb/standards (Accessed 15 July 2020)

accounting standards. Ball (2006) also points out that the quality of financial reporting is determined not only by accounting standards but also by other environmental factors such as economic and political (see Roberts *et al*., 2005, p. 145). Ball (2006) again cautions that IFRS adoption will only be beneficial if certain institutional, economic and political variables are present in the adopting country. This suggests that adopting IFRS may not be beneficial to all countries, and brings into question, the suitability of IFRS adoption by African countries (see for example, Briston, 1978; 1983; Sy and Tinker, 2013); this will be discussed in chapter 7.

Again, while the primary justifications for the increasing recognition given to these standards (IFRS) are the perceived economic benefits in terms of good corporate governance and attracting foreign direct investment. Chua and Taylor (2008) question whether the empirical evidence to date has generated convincing support for these arguments (see Belkaoui, 1988; Peavy & Webster, 1990; Tetley 1991; Wolk & Heaston, 1992; Zori, 2015).

Chua and Taylor (2008) also caution that outsourcing the setting of accounting standards to a single independent entity (IASB) will only be beneficial, if it reduces both economic and political costs for individual countries, and as long as the countries continue to retain the decision-making rights, with respect to the adoption of IFRS or not. Unfortunately, some have argued that most African countries have not been able to retain their decision-making rights to either to accept or reject IFRS. Various institutional pressures (will be treated in chapter 5) have been brought to bear to force most countries on the continent to adopt these standards (see Elad, 2015). The next section examines the implication of international efforts at harmonisation for Africa.

4.12 **Implications for Africa**

The relevance of IFRS to Africa can be challenged by the following reasons. Rivera (1989) pointed out that IASs are strongly influenced by the accounting practices of developed countries, and therefore it may be wrong to insist that the accounting standards of these countries should be adopted by others lock, stock and barrel without any modifications. Secondly the African economies are mostly made up of small and medium size enterprises (SMEs) and Public Sector Organisations comprising mostly of governmental institutions (for example, Zori, 2015).

Although in 2002 IASB announced a process for developing accounting standards for small and medium-sized entities, this was still based on the fundamental concepts and principles from the IASB framework and from IFRS and interpretations. This meant that even with this process, there was no change to the principles of recognition and measurement in IFRS, making it relevant mostly to the needs of developed economies (Larson and Street, 2004; Roberts *et al.*, 2005, p. 10). Consequently, the needs of the small companies in the developing countries are still not met even with the setting of IFRS for SMEs and therefore these countries are likely to have problems in in harmonising or converging their local GAAPs with IFRS.

Besides, the structures of the IASB and the board of the IFRS foundation suggest that poorer countries and continents such as Africa are underrepresented in the standard setting process (see van Wyk and Rossouw, 2009; Aboagye-Otchere and Agbeibor, 2012). This hinders countries' willingness and ability to harmonise and converge their accounting methods to systems they can hardly influence. This is especially true for small businesses, for whom most of the provisions under IFRS may be irrelevant (Zori, 2015). Not having adequate representation suggests that the continent's peculiar needs are overlooked (Wallace in Roberts *et al*., 1998).

The IASB Board, as well its trustees are mainly from the developed western nations such as UK, Continental Europe, the U.S., Canada and Australia (Table 4.4). Although some work has been done to address this imbalance, not much has been achieved. In fact, the current structure of the board even makes things worse for Africa's representation. For example, following the review of its constitution in 2015, the size of the number of the IASB board was reduced from 16 to 14. And to maintain geographical balance and international diversity, IASB's constitution currently requires 4 members from the Asia/Oceania region; 4 from Europe; 4 from the Americas; 1 from Africa; and 1 appointed from any area, subject to maintaining overall geographical balance (Deloitte, IASPlus.com, accessed 20 June 2020). Of the 14 members, only 1 is from Africa. This current structure suggests that Africa is still marginalised on the board, which is dominated by developed countries who have at least 10 members on it, including the chair and the vice-chair.

Table 4.3 shows the membership of the ISAB Board as of 31 December 2019. It shows that the only representative from African is Darrel Scott from South Africa. He was formerly chief finance officer of the FirstRand Banking Group, one of the largest financial institutions in South Africa. He had responsibility for both statutory and regulatory financial reporting under the Basel II Accords and served on various governance, risk, operation and strategic committees of the group. Clearly, his profile shows that he has been associated with larger multinational institutions whose governance is more biased towards Anglo-European practices rather than African. Moreover, South Africa, where he comes from, has a better developed economy and capital markets that hardly reflects the underdeveloped economies of the rest of Sub-

Saharan African nations. It can therefore be argued that the rest of Africa has no representative on the IASB board and therefore the accounting standards that will be generated by the board could hardly represent the views of any of the remaining African countries.

Table 4.3: IASB Board Membership as of 31 December 2019

No.	Board Member	Term began	Term ends	Region Represented
1	Hans Hoogervorst (Chair)	2011	2021	-
2	Sue Lloyd (Vice-Chair)	2014	2023	-
3	Nick Anderson	2017	2022	Europe
4	Martin Edelmann	2012	2021	Europe
5	Tadeu Cendon	2019	2024	Americas
6	Françoise Flores	2017	2021	Europe
7	Jianqiao Lu	2017	2022	Asia-Oceania
8	Gary Kabureck	2013	2020	Americas
9	Darrel Scott	2010	2020	Africa
10	Tom Scott	2017	2022	Americas
11	Chungwoo Suh	2012	2022	Asia-Oceania
12	Rika Suzuki	2019	2024	Asia-Oceania
13	Ann Tarca	2017	2022	Asia-Oceania
14	Mary Tokar	2013	2022	Americas

Source: Adapted from: https://www.iasplus.com/en/resources/ifrsf/iasb-ifrs-ic/iasb-board:

Furthermore, Africa is not only marginalised in the standard setting process, it is also ‘thinly’ represented at the very top of the IFRS foundation, the highest body responsible for oversight the activities of the IASB. As Table 4.4 shows, out of the total of 22 trustees of the foundation, only one comes from the African continent. The structures of both the IASB and the IFRS foundation suggests that this is a ‘rich countries’ club with the only country from Africa, being it’s richest (by GDP per capita) and industrialised country. Effectively there is no representation from the rest of Africa. It makes the IASB looks like a “rich countries” club and therefore raises doubts as to the extent to which IFRS are relevant to the needs of the poor countries of Africa.

Table 4.4- Trustees of IFRS Foundation

Region/Geographical Area	Countries	Numbers
Africa	South Africa	1
Asia & Oceania	Hong Kong, South Korea, Japan New Zealand, India China	6
Europe	Netherlands United Kingdom, Germany, France Finland, Italy	6
The Americas	Mexico USA (3), Brazil, Canada	6
Random from any Area	Saudi Arabia, France, Japan	3
Total Membership		**22**

Source – Authors own creation from Information adapted from IFRS.org (2020).

4.13 Conclusion

This chapter has defined harmonisation and convergence, drawing on literature to show the distinction between them, why they are necessary in the era of Globalisation. It also examined some key institutions that have either spearheaded or been involved in processes of creating congruity in international accounting financial reporting systems. Furthermore, it assessed the effectiveness of the efforts of the major harmonisers and the obstacles to the convergence of global accounting practices. The chapter concludes by examining the impact and implications these harmonisation efforts have on African countries. The next chapter will review institutional pressures involved in shaping the nations of Africa's accounting development, especially, in the adoption of IFRS by some major countries on the continent.

5. Chapter 5: Institutional Pressures and Development of Accounting in Africa

5.1 Introduction

This chapter analyses the development of accounting in Africa, drawing from neo-institutional theory, using DiMaggio and Powell's (1983, 1988) notion of institutional isomorphism. Using the institutional theory, this chapter will examine how institutions, professions and nation-states are conceptualised as social actors, in conforming to achieve legitimacy and social acceptance. The chapter begins by explaining the principles of the institutional theory of isomorphism. This concept then used to explain how institutional pressures have influenced the development of accounting practices in some African countries and institutions. In line with Nobes (2006) and Elad (2015) classification of accounting systems, this chapter will look how institutional pressures have influenced the development of accounting systems of African states with common law and Anglo-American heritage on one hand, and those with civil law and Continental European or Franco-German heritage tradition on the other. These countries respectively consist of the Anglophone nations on one hand, and the Francophone and the Lusophone on the other.

Isomorphism is commonly used in areas of biology, chemistry, and mathematics. It was discovered by Eilhard Mitscherlich in 1819, who suggested that isomorphous substances have similar chemical formulas, and has featured prominently in early atomic theory. The Cambridge dictionary defines isomorphism to represent the same or similar in shape or structure. The theoretical framework is used to explain how accounting practices are diffused from one organisation or national setting to another, and the mechanism through which they become similar.

5.2 **Theoretical development**

According to Judge *et al* (2010) the path towards international comparability and harmonisation of national accounting systems via the adoption of IFRS has been growing, to avoid any disparity among the understanding of the financial statements empowers us to focus on what affects the adoption of IFRS by the African countries that originally may have followed national accounting systems or colonial influenced systems.

As was discussed in chapters 2 and 3, environmental factors, in particularly, colonial heritage and providers of finance can influence the development of a country's accounting methods (Nobes, 2004). The World Bank and the International Monetary Fund, being major providers of finance to most developing countries, insistently influence their decisions to implement IFRS for financial reporting (see Hassan *et al*., 2014; Elad, 2015). According to Judge *et al.* (2010), there is need to understand the accounting system of different countries and how they have been fashioned by their institutional environmental factors. This chapter uses the institutional theory of isomorphism to help understand the driving force behind a country's adoption of IFRS with the view of making its financial reporting legitimate and trustworthy.

5.2.1 *Institutional theory and isomorphism*

Institutional theory can also be used to explain the influence that powerful institutional forces, operating on a global scale, have on individual countries (Irving, 2008). This impact can influence can shape the development, nature and application of accounting systems in a nation. A useful framework to use is that provided by Scott (2001) who uses three levels of analysis. The top level is associated with societal and global institutions where structures are formally proposed, within an institutional context emphasising acceptability and legitimacy of structures at lower levels. An example of global institution is the International Accounting Standards Board (IASB), the institution responsible for setting IFRS.

The middle level consists of governance structures focusing on organisational fields that encompass the industry/service existing in the same domain, for example the banking sector or the accounting profession. Here, organisation differ by function, size, culture and structure (Judge *et al*., 2010) At the lowest level there are the actors in institutional settings. Each of these levels influences or is influenced by the forces of diffusion and imposition of institutional norms and seeks newer ways to operate and negotiate the construction of institutional norms (Judge *et al*., 2010).

The key assumption underlying institutional theory is that all actors will pursue legitimacy within the institutional setting, since any deviations of structures or reporting processes will attract criticism. Therefore, institutional constraints will converge to create isomorphism, or similar structures, thoughts, or actions within a defined environment (Judge *et al*., 2010, cited in Hassan *et al*., 2014). Legitimacy theory challenges organisations to follow actions that adhere to the norms and expectations within their respective environment. Thus, countries may align regulatory practices and accounting standards with those legitimate ones existing within or outside their countries. For example, the use of bilateral/multilateral treaties; common phenomena such as religion; geographical proximity; and post-colonial attachments.

The term isomorphism is a key element of institutional theory. DiMaggio and Powell, (1983, p.149) explain that isomorphism is a constraining process that compels an organisation's behaviour to resemble that of another organisation with the same set of environmental conditions.

The commonly identified isomorphisms processes are competitive, institutional and structural (see e.g., Hannan and Freeman, 1977; DiMaggio and Powell, 1983; Leiter, 2005; Tuttle and Dillard, 2007). Structural isomorphism encourages institutions “to be like” others in structure, even if it the copied structure that may not improve their efficiency. On the other hand, competitive isomorphism exists because of the existence of competitive forces in business. Whenever there is one best or the most cost-effective way of doing something, then the existence of competition will create a situation where competing institutions will tend to adopt the best-established practice in order to improve their performance. This means that the existence of the competitive forces will eventually impose that one best way upon the competing organisations (Carruthers, 1995, p. 317; DiMaggio and Powell, 1983). Institutional isomorphism arises when because of common institutional pressures from similar organisations or industries force other institutions or organisations are to adopt the same practices. This means that institutional isomorphism arises because other organisations are the “major factors that organisations must take into account” (DiMaggio and Powell, 1983, p. 150).

DiMaggio and Powell (1983) suggest that competitive isomorphism must be supplemented and identified three forms of institutional isomorphism: coercive, mimetic and normative through which institutional isomorphic change can take place. This concept explains the adoption of accounting standards and the reasons why organisations may adopt particular accounting practices in a country. The three forms of Isomorphism were summarised by Rodriques and Craig (2006, p.743) as follows:

5.2.2 Coercive Isomorphism

First, coercive isomorphism stems from political influences, the ways in which organisations (applies to countries as well) are subject to external pressure, both formal and informal, either from organisations they depend upon, or from more general cultural expectations (Carruthers, 1995, p. 317; DiMaggio and Powell (1991, p. 150). Such pressures are felt in a diversity of ways such as "force, persuasion, conditions to meet before…… , or invitations to join in collusion", (DiMaggio and Powell, 1983). In addition, they later note that in cases where alternative sources are either not readily available or require effort to locate, the stronger party to the transaction can coerce the weaker party to adopt its practices in order to accommodate the stronger party's needs (DiMaggio and Powell, 1991, p. 154). In other words, resource providing or controlling organisations are able to influence resource-dependent organisations.

Similarly, countries can be forced to follow international standards (such as IFRS) due to coercive institutions that can pressure actors to adopt them (Samaha and Khlif, 2016). Hasan, Rankin and Lu (2014) show that IMF and World Bank were influential in Iraq moving towards the adoption of IFRS. In the African contest for example, we can also relate this to financial dependency and other conditions attached by donors such as a requirement of donor countries or international financial institutions (Boolaky *et al*., 2020). Countries, such as Ghana and Nigeria provide good examples of coercive isomorphism in their adoption of IFRS (see Elad, 2015).

5.2.3 Mimetic Isomorphism

Mimetic isomorphism is driven by uncertainty, encompasses the ways in which organisations (or nation states) "mime" the actions of organisations that are perceived to be more legitimate or successful within the institutional environment. For example, organisations struggling to establish clear and well-defined technologies are likely to import institutionalised rules, processes and practices from other well established or advanced legitimate institutions (DiMaggio and Powell, 1983, p. 155). In other words, organisations facing uncertainties imitate “the best in class” or industry leaders perceived to be legitimate and or successful. Therefore, when organisations face problem(s) with ambiguity causes and or unclear solutions, it is practical to imitate with little cost (Cyert and March 1963). Globalisation of the world’s economies has encouraged mimetic behaviour of countries and their institutions. In the current era of international integration of businesses and nations’ economies, countries whose economies are well placed within the global marketplace are more likely to fully adopt IFRS due to mimetic isomorphism (Judge *et al*., 2010, p. 164). For nations, mimetic isomorphism, in response to symbolic uncertainty, arises from the copying of practices from more successful countries that have potentially received benefits and social acceptance. This has come as a result of key national enabling organisations that are potentially affiliated with IFRS adoption (Nurunnabi, 2015; Boolaky *et al*., 2020). Chua and Taylor (2008) in the context of international harmonisation of accounting standards explain that mimetic isomorphism has resulted in standardisation through efficient copying behaviour.

5.2.4 *Normative Isomorphism*

Chua and Taylor (2008) in the context of international harmonisation of accounting standards explain that normative isomorphism has been brought about by authoritative agencies, for example, accounting professional bodies. Professionals share common or similar backgrounds in education, practice, beliefs or philosophy that creates a sense of community or belonging, and these attributes add towards conformity (Judge *et al*., 2010; Rodrigues and Craig, 2007). Considering education as an important feature for the development of all professions, Guler *et al*. (2002) found that the professional technical knowledge stemming from a nation can expect the adoption of international standards due to professional norms. In a normative environment, professionals frequently participate in professional networks, groups and associations that creates the environment for ideas and norms to shared and reinforced among participants (Greenwood *et al*., 2002). Membership of international institutions have tended to create conformity to established and agreed best practice (DiMaggio and Powell, 1983). This creates a society with institutions that sign up to common norms of practice (IFAC, 2014; Botzem and Dobusch, 2012).

Normative isomorphism recognises how individuals of a similar calling will create professional organisation to promote a cognitive base, diffuse shared orientations and organisational practices, and legitimise their activities. The two key aspects of professionalisation include: first, through formal education and legitimation of the cognitive base by discipline specialists in universities; and second, through the elaboration of professional networks that span organisations and facilitate the rapid diffusion of new models and practices. Professions exert normative isomorphism through their control of registration and certification procedures, accreditation of higher education courses, and promulgation of normative, mandatory rules for use by members. The fulfilment of institutional isomorphism lends legitimacy to the way organisations are run, and therefore enables them to continue their operations in the acceptable fashion. Such legitimacy takes various forms including the provision of economic or financial support for the organisation's operations. According to

Parboteeah *et al*., (2002 - Cited in Judge *et al*., 2010), uses Japan and the US to support the notion of "normative logic", where accounting professional norms effect on accounting practices is higher when compared to the national cultures. In this respect, countries at different stages of social and economic development show different concerns and priorities (Mueller, 1968)

The problem that is often associated with normative isomorphism is that institutions in search of external support and stability may adopt incompatible structural elements that could negatively impact their efficiency (Meyer and Rowan, 1977, p.356). Even though isomorphism creates legitimacy and stability or assurance in times of uncertainty; or may help firms to compete against well-established ones, it is often criticised for the lack of logic. As Rodrigues and Craig (2007, p.742) state that it is imperative to attain legitimacy and social acceptability from external sources. The downside of this is that companies/governments may accept potentially unsuitable practices inherent in some accounting standards.

Academic researchers are often vague on the adoption of specific procedures or practices to avoid alienating related issues, for example, political and cultural factors. They allege that international accounting standards are selected for efficiency and enhancing organisational reputation thus legitimately showing responsibility to their stakeholders and legally compliant (Carruthers, 1995, p. 316; Meyer and Rowan, 1977, p. 45 cited in Rodrigues and Craig, 2007). The next section will review the influence of the institutional isomorphism (DiMaggio and Powell, 1983) framework to the development of accounting practices in Africa and the extent to which institutional pressures have influenced the Anglophone, Francophone and Lusophone countries of the African continent.

5.3 **IFRS adoption in Africa**

Given the extent to which IFRS adoption has been influenced by institutional pressures of legitimisation associated with these three mechanisms of isomorphic behaviour, it important to note that the adoption of IFRS by many countries, especially foreign aid dependent countries in Africa is more likely motivated by social legitimisation pressures rather than economic logic. This brings into question whether IFRS adoption are suitable for all countries.

Financial reporting in Africa has been influenced and shaped by a combination of institutional pressures from international financial institutions such as the World Bank and the IMF (Zeff, 2012; Elad, 2015; Khlif Ahmed and Alam, 2020). In addition, the countries' membership of international accountancy bodies such as International Federation of Accountants (IFAC), IASB, Association of Accountancy Bodies in West Africa (ABWA) and Pan African Federation of Accountants (PAFA) have also shaped their financial reporting practices. Moreover, belonging to and interacting with international financial institutions such as the World bank and IMF can influence countries' accounting systems (Judge, Li and Pinsker 2010; Zeff, 2012, p. 832). All these organisations have a role in applying various forms of institutional pressures on countries to adopt what they consider to be the recognised global accounting norms or practices.

Within Africa, the response to these institutional pressures varies between the Anglophone countries, which have common law traditions inherited from colonial influence, and the Francophone Lusophone and the Spanish speaking nations which have civil law civil law backgrounds from their previous colonial relationships. The next section will discuss how institutional pressures have influence accounting practices in these states.

5.4 Institutional pressures in Anglophone African countries

The development of accounting in Anglophone Africa has partly been influenced by the normative institutional behaviour that has led to the adoption of international accounting standards among the Anglophone countries, and the development of other accounting practices amongst the Francophone countries.

Firstly, institutions that are major contributors to the normative accounting discourse include International Federation of Accountants (IFAC)[20], Association of Accountancy Bodies in West Africa (ABWA) and Pan African Federation of Accountants (PAFA). IFAC was found in 1977, in Munich, and comprises 179-member organisations in 130 countries. It has amongst its objectives, the standardisation of global accounting practice by lending support of the IASB in the setting of global accounting standards (IFAC, 2014). As part of its objective of standardisation of global accounting practice, it requires its member bodies to comply with IASB standards (Botzem and Dobusch, 2012). Since most English-speaking African countries are members, it implies they have signed up to its 'Statement of Membership Obligation' (SMO) to adopt IFRS for financial reporting in member countries. This requirement creates institutional obligation for its members to adopt IFRS, thus reinforcing the norms of global accounting practice amongst its members (see Grenwood *et al*., 2002).

Secondly, for some countries, the decision to adopt IFRS suggests coercive isomorphic pressures imposed by authoritative institutional players (see Rahman and

[20] https://www.ifac.org/; https://www.iasplus.com/en/resources/global-organisations/ifac (accessed 11 July 2020)

Neu, 2003; Elad, 2015; Khlif Ahmed and Alam, 2020) such as the World Bank and the IMF to use IFRS in their financial reporting (Judge, Li and Pinsker 2010). Internationally, the World Bank, together with International Monetary Funds (IMF) and World Trade Organisation (WTO) are among the leading agents of globalisation, promoting the neo-liberal agenda of "integration of markets for goods, services and factors of production" (Wolf, 2003, p. 393), and "the integration of national economies and the development of international markets" (Bordo *et al*., 1999:1). The main objective of the neo-liberalism is to encourage trade among nations, ease the movement of capital across countries and to facilitate the growth of incomes due to increased national productivity. One of the motivations why the World Bank and the IMF are promoting the neo-liberal agenda in Africa is the belief that this will lead to improved incomes on the continent (e.g., Sachs & Warner, 1995; Aggestam, 1999). These international financial institutions also believe that the accounting profession can play a central role in facilitating the viability of a democratically governed society by instilling trust in its social and economic systems (Tuttle and Dillard 2007).

Consequently, because of these beliefs in the potential positive impact of right accounting systems in a country, the World Bank has become one of the main backers of IASB's agenda of promoting IFRS as one of the international standards and codes that promote good governance, transparency, and public accountability within its market-oriented reform program involving privatization, deregulation, and trade liberalization (See World Bank, 2005, 2010a,b; Elad, 2007, 2015: Boolaky *et al*., 2020). The bank's support for IFRS is rooted in their agenda that effective corporate governance requires institutions to produce accurate and reliable financial information for their stakeholders (Judge *et al*., 2010). The next sections will examine the role of institutional pressures in the history of accounting development in some of the major English speaker countries in Africa, including, Ghana Nigeria South Africa and Kenya.

5.5 **Ghana**

There is limited information on accounting practices in Ghana during the pre-colonial period as to when and how accounting practices began (Wilks, 1989). Before independence, the accounting system in use was based on that of Britain. In the colonial era, businesses in Ghana were set up by British investors and their management personnel, including the accountants of the British owned businesses were all expatriates who had been trained and sent to Ghana from Britain and were therefore used to the British accounting system. These systems were therefore imported into Ghana during the colonial era. At the time, all accountants in Ghana were UK trained (Wijewardena and Yapa, 1998).

Few years after gaining independence from Britain, Ghana began to take steps towards developing its own accounting standards. The Institute of Chartered Accountants, Ghana (ICAG) was subsequently established in 1963 and became the only institution that is charged with the regulation of accounting practice in Ghana (Zori, 2015). From gaining independence to the early 1990s, Ghana's accounting practice was influenced by normative pressure to conform to acceptable global accounting practices (Zori, 2015). First, Ghana National Accounting Standard Board established its own national GAAP, which was based on International Accounting Standards which means that the country's own accounting standards did not depart from the established global norms (Appiah *et al.*, 2016).

However, due to lack of resources to sustain its own standard setting process, it fully adopted IFRS. Ghana's membership of IFAC (Since 1982: IFAC[21],) means that it has subscribed to IFAC's Statement of Membership Obligations (SMOs) which form the basis of the IFAC's member compliance program. They serve as a framework for credible and high-quality professional accountancy organisations focused on serving the public interest by adopting, or otherwise incorporating, and supporting implementation of international standards and maintaining adequate enforcement mechanisms to ensure the professional behaviour of their individual members (IFAC[17]). Among its obligations, SMO 7 requirements state that:

> "As the de facto accounting standard setter, ICAG has fully adopted IFRS in cooperation with regulatory bodies, such as the Bank of Ghana, National Insurance Commission, Securities and Exchange Commission and State Enterprises Commission,………………. To support implementation, ICAG has organized seminars and continuing professional development courses to educate members on the application of IFRS and IFRS for SMEs and distributes copies of IFRS for SMEs to its members. The institute monitors IFRS compliance to ensure successful implementation of the standards" (IFAC[17]).

IFACs SMOs is an indication of the reinforcement of norms amongst its members, and ICAG's continuous membership of IFAC is dependent on compliance with its membership obligation (see Greenwood *et al*., 2002).

In addition to membership of IFAC, Ghana's normative obligation to use IFRS in financial reporting is also further reinforced by its membership of institutions such as ABWA (in 1982) and PAFA (in 2011). The membership obligations to these institutions

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[21]https://www.ifac.org/about-ifac/membership/country/ghanaaccessed on 13 June 2019)

require members to comply with IFRS. This supports literature that continuous membership of an institution requires members to follow their codes of practice which will identify them as a member of their community (March & Olsen, 2006); in order to enable you to become part of their collective identity (Greenwood *et al.,* 2002). Ghana had to fulfil all these membership obligations and hence the decision to adopt IFRS.

In addition to the normative institutional pressure on Ghana's accounting development, the current era of globalization has brought with it, coercive institutional pressures exerted by powerful international financial institutions such as the IMF and the World Bank (Alfredson, *et al*., 2007). Ghana's adoption of IFRS has also been shaped by the intervention of World Bank and the IMF as part of their carrot and stick approach to granting financial assistance to struggling economies (see Elad, 2015; Irvine, 2008). Following Ghana's approach to The World Bank for financial assistance in the late 1990s, the Bank, acting together with the IMF and conducted a study on the Report on the Observance of Standards and Codes (ROSC) on Accounting and Auditing in Ghana in 2004(see, e.g., IMF, 1999, 2000, 2003; World Bank, 2005). The objective of this study was to assess of the level of Ghana's compliance with International Accounting and Auditing Standards. The study concluded that;

> "Both Ghana National Accounting Standards and the Ghana National Standards on Auditing are outdated. At present, there are several gaps between the national standards and the international standards. The ICAG has not made any effort to review and update the national standards since they were adopted in the 1990s. The ICAG also lacks technical skills for the task" …. and that the legal requirements on accounting and reporting by companies, banks, and insurance companies were not consistent with International Accounting Standards" (ROSC Report Ghana, 2004).

Following the ROSC report, the World Bank's recommendation to the

Government of Ghana was for businesses to adopt IFRS to improve the quality of financial reporting by its institutions. Despite the fact that it was a recommendation rather than a requirement, the government had no choice since it was one of the conditions that must be met in order to qualify for financial assistance from the Bank (See Alfredson, *et al*., 2007). To achieve this, the government, using national regulators (such as the Bank of Ghana, the SEC, and the Ghana stock exchange) worked together with ICAG to fully adopt IFRS from January 2007.

Internally in Ghana, the institutions that have driven the adoption of IFRS are, the Ghana Stock Exchange, Institute of Chartered Accountants, and the Securities and Exchange Commission (SEC). The SEC regulates all listed companies in Ghana (as per Securities Industry Law 2003), and the Ghana Stock Exchange (GSE) also regulated companies who share are traded on the GSE under the Stock Exchange listing regulation 1990 (World Bank, 2004).

On the positive side, according to the World Bank's investment survey of 2009, following Ghana's adoption of IFRS, that international investors were showing optimism in investing in Ghana because of the improved financial reporting (see Abor, 2007). The net inflows of foreign direct investment, for example, increased from US$1,519m in 2000 to US $2,139m in 2007 (The World Bank Annual Report, 2009; Belkaoui, 1988). This supports Nobes (1998) assertion that one of the main environmental factors influencing a country's accounting system is providers of finance who are the investors (see Chen *et al.,* 2014; Zeghal and Mhedhbi, 2006; Ball, 2006).The report however, did not show whether the adoption of IFRS was beneficial or relevant to other stakeholders such as the government and the society at large, in terms of economic benefit (e.g. Briston, 1978, 1984 ; Einthoven, 1973) ; and to the indigenous companies which do not require foreign investment (see Samuels and Oliga, 1992).

5.6 Nigeria

Nigeria is the most populous country in Africa and has the largest economy by total GDP on the continent, including the largest stock market in Africa. They have the oldest accounting professions in West Africa, dating back to 1960 (Wallace, 1990). The nation's history of accounting practice can be traced to an era before trade by barter, where kings took stock of their lands for territorial claims (Chibuike, 2008). During the colonial era, the accounting system that was in use in Nigeria was essentially that of Britain, the colonizing power.

From the post-independence period from 1960 to the early 1990s, Nigeria's accounting has been influenced by its membership of international institutions such as IFAC which has driven the country's accounting practice to undergo transformation from being a local GAAP to that of using IFRS. Immediately following independence to the late 1990s, the country developed its own local GAAP. As a former British colony with a common law heritage and with its basis in Anglo-American financial reporting (Nobes, 2008, 2011), this country had a relatively well-established accountancy profession, compared to its Francophone neighbours who have civil law traditions and Continental European accounting heritage (see Holzer, 1984; Nobes and Parker, 2012). It therefore had the capability to set its own accounting standards compared to most countries in the region.

The Nigerian Accounting Standards Board (NASB) was first set up under the auspices of Institute of Chartered Accountants, Nigeria (ICAN) to develop the countries local accounting standards, and then its activities were confirmed in statute to make its accounting standards compulsory. The accounting standards that were developed by the board were similar to IFRS, but they had been altered to reflect the countries unique socio-economic circumstances (Briston, 1978; World Bank, 2004; Uche, 2002; Okike, 2004). For instance, there was the requirement to produce value added statement which extended the objectives of financial reporting beyond the information needs of just the investors to include other stakeholders such us the government, employees, and society (Briston 1978).

Nigeria continued to develop its own accounting standards until 2011 when normative pressures come from its membership of IFAC (in 1977) and to some extent, ABWA and PAFA meant that it had to fully adopt IFRS for financial reporting in order to honour its membership obligation under IFAC[22]:

> "All companies are required to prepare annual financial statements in accordance with standards issued by the Financial Reporting Council of Nigeria (FRC) as established by the Financial Reporting Council of Nigeria Act of 2011 (FRC Act). Under the FRC Act, accounting standards adopted by the FRC must be in line with the standards issued by the IASB"

IFAC membership therefore meant that Nigeria had to migrate from its own national GAAP to the full adoption of IFRS from January 2012 in order to improve the quality of its financial reporting and make it conform to acceptable global norms (see Botzem and Dobusch, 2012). From this date (January 2012), IFRS are required for all

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[22] https://www.ifac.org/about-ifac/membership/members/institute-chartered-accountants-nigeria (accessed 18 June 2018)

listed companies, MNCs operating in Nigeria, and from January 2014, IFRS are permitted for SMEs. Prior to the adoption of IFRS, plethora of sharp practices among some banks and accountants had brought about disdain to the profession of accounting in Nigeria. Continual public outcry as well as the urgent need to adopt IFRS therefore necessitated the need for the enactment of the Financial Reporting Council of Nigeria (FRCN) in 2011 (Sanusi, 2010; Otusanya and Lauwo, 2012). In addition to the adoption of IFRS, under its IFAC obligation, Nigeria has also partly adopted IES for the education and training of its accountants in order to improve their skills in financial reporting. Furthermore, the country has fully adopted International Standards on Auditing and International Public Sector Accounting Standards. These changes and improvements were meant to improve the country's financial reporting to the level of acceptable global norms.

For Nigeria, because of the previous bad reputation as a result of plethora of sharp accounting practices by some banks and accountants, adopting IFRS either in full or through the local standards probably helped the country to achieve better accountancy practice with more comprehensive disclosure (Wolk and Heaston, 1992). According to Belkaoui (1988), adopting IFRS is a sign of the country joining the global harmonisation drive, facilitating foreign direct investment, standardising the profession, and also becoming part of the international community. Joshi & Al-Basketi (1999) also argued that adopting international standards in full is most appropriate because it keeps pace with the international harmonisation drive and increases the faith of investors in financial reports from that country.

Nigeria's drive towards IFRS adoption was not only directed by the need to conform to norms of global accounting practice. At the same time that the country was trying to harmonise its financial with international reporting standards, it was under institutional coercive pressure to improve their financial reporting from international financial institutions such as the World Bank and the IMF who arguably, as major investors and lenders to the country are key stakeholders in the country's economic performance. According to Joshi & Al-Basketi (1999), the World Bank and the IOSCO believe that full adoption of IFRS is most appropriate for developing countries because these standards will improve their accounting practices and reduce the cost of having to set their own GAAPs.

Nigeria's relationship with the World Bank dates back to the late 1990s when it suffered severe economic downturn and then it had to approach the World Bank and the IMF for financial assistance (see Elad, 2015). As a condition of receiving any financial assistance, these institutions required the government of the country to improve corporate governance and the quality and reliability of financial reporting. Consequently, the World Bank and the IMF commissioned a ROSC report in 2004 (World Bank, 2004) to assess the quality of the country's financial reporting. The report concluded that, as in the case of many African countries, Nigeria, was not in full compliance with IFRS and that they should adopt IFRS without any modifications. At the time, although the NASB had issued 21 national accounting standards that were based on IFRS, the IASB had issued 41 standards which meant that compared to IFRS, the Nigerian accounting standards were not enough. At the initial stages of IFRS adoption, the World Bank supported the Securities and Nigeria's Exchange Commission (SEC) through a twining partnership arrangement with the Institute of Chartered Accountants of England and Wales (ICAEW) with the ICAEW providing technical training to the staff of SEC staff to enable the commission to monitor the compliance of

IFRS by listed companies (Zori, 2015, p. 165).

In the periods leading to the adoption of IFRS, in 2006 the World Bank had embarked on what may be described as a normative sensitization drive by the Bank through a grant to the ABWA for purchase of IFRS manuals from the IASB for distribution among professional accountants in Nigeria with the aim of disseminating the standards to familiarize professional accountants ahead of intended accounting reforms (Zori, 2015). The influence of the World Bank and the IMF on Nigeria's transition to IFRS demonstrates how pressures exerted by more powerful institutions can compel weaker institutions (or countries) to change their accounting practice in order to standardised their practice with established global norms (Neu *et al*., 2010; Graham and Annisette, 2012). Also, Nigeria's decisions to adopt IFRS have shown that different institutional actors have exerted different isomorphic pressures to compel them to change their accounting practice in exchange for the perceived benefits (in the form of financial assistance) of using acceptable global accounting practices (see Irvine, 2008; Cited in Hassan *et al*., 2014).

The institutional factors like membership of IFAC, and the influence of World Bank and IMF that have shaped the development of accounting in Ghana and Nigeria are equally applicable to South Africa and Kenya in a similar fashion. Therefore, the next section on South Africa and Kenya will not provide the same level of details. It will rather concentrate on the factors that are unique to these countries.

5.7 **South Africa**

South Africa had been colonised by Britain for 150 years until it attained its independence on 31 May 1961. Because of this long period of association, it inherited the British accounting system at independence (see Oberholster, 1999; Zori, 2015; Elad, 2015).The post-independence financial reporting has followed the path similar to those taken by previously British colonised developing economies like Ghana and Nigeria. After its independence and gaining a republic status in 1961, it continued to mimic the British accounting system owing to its entrenched nature within its economy (Oberholster, 1999).

Although the nation may be considered as relatively developed in the African context, and certain parts of its economy may show features that are typical of an advanced country, it is still be considered as a developing country (see Samuels 1990 p. 69; Todaro, 1994, p.28; Oberholster, 1999, p. 233). As such, its accounting systems may be subjected to institutional pressures from advanced countries and institutions on which it may depend for assistance (see Zori, 2015). Consequently, the accounting systems of South Africa are a product of 'international transfer of accounting technology'(Wallace and Briston, 1993, p. 215) imported through; its previous colonial legacies and its resultant Anglo-Saxon heritage from the UK. This was also reinforced by the normative isomorphic influence of British accountancy qualifications such as ACCA and CIMA who have regional offices in the country. CIMA for instance has its only one office in Africa located in South Africa[23].Moreover, the country's membership of international accountancy bodies such as IFAC (since 1977) and IASB, together with the influence of multinational companies operating in the country (for example, see Wallace and Briston; 1993: p. 215) exerted normative isomorphic pressures for their

[23]https://www.cimaglobal.com/Contact-us/?location=south+africa (Accessed on 01 September 2020)

accounting system to reflect international norms in financial reporting practices.

South Africa's journey to harmonise its accounting standards with international accounting is reported as follows: In 1973, South African Institute of Chartered Accountants (SAICA) in collaboration with other relevant stakeholders formed the Accounting Practices Board (APB), and developed a SA GAAP, a modification to the "inherited GAAP" to suit its economy's need at the time. The APB in 1995 harmonised the SA GAAP with IFRS standards and this according to Mockler (1993) cited in Oberholster (1999) was attributable to the close ties South Africa kept with the IASC (now IASB) by way of maintaining its active membership status over the years to keep up with accounting trends. From 2003, IFRS standards were issued without amendment as SA GAAP by the APB and the SA GAAP was used by all firms, listed or unlisted. As of January 1, 2005, all listed firms were to conform to the IFRSs instead of the harmonised SA GAAP (IFRS Foundation, 2016).

As noted by Stainbank & Wells (2007) cited in van Wyk &Rossouw (2009), the mandatory usage of the SA GAAP by all firms, which by extension of the harmonisation were the IFRSs, placed burden on the SMEs due to their complex nature and the cost burden of complying with the full IFRSs. These SMEs however form a significant part of the economy and could not be ignored and for that matter needed to be taken care of (Coetzee, 2007 cited in van Wyk &Rossouw, 2009). To address these concerns, South Africa became one of the earliest countries to adopt the IFRSs for SMEs in 2007 when they were promulgated by the IASB (van Wyk &Rossouw, 2009). Following the adoption of a new Companies Act Regulations by the South African government in 2011, it initially permitted the use of IFRS standards, the IFRS for SMEs standards and SA GAAP depending on the public interest score of each firm. Due to similar nature of the SA GAAP and the IFRS, the SAAP GAAP was withdrawn and from 2012 all listed firms and firms with public interest are to comply with IFRSs and SMEs without public interest are to comply with the IFRS for SMEs Standards (IFRS Foundation, 2016).

In summary, the post independent accounting practice was copied partly from Britain and then also later from IFRS, demonstrating that the country's post independent accounting system was a product of memetic isomorphic influence. Following that, the country's membership to international institutions such as IASB and IFAC meant that they had to adopt their statement of membership obligation (SMO7) which required member countries to use IFRS for financial reporting. This is complimented by coercive institutional pressures from financial bodies such as the World Bank and IMF, whom after commission the ROSC report in 2003 to audit the countries accounting systems, recommended to use of IFRS. The country the responded to this pressure when, taking other institutional factors into consideration, decided to adopt IFRS as from January 2005.

5.8 **Kenya**

Prior to Kenya's independence in 1963, legislations and the framework that governed the activities of companies and financial reporting in the country were that of their former colonial power, the Great Britain. This was so because the accountancy profession in colonial Kenya was completely dominated by British expatriates to the near-total exclusion of the indigenous Africans and the Asian population (Sian, 2007). Most of these expatriates remained in the country and continued to dominate the accounting profession and therefore it is not surprising the Kenya's accounting systems have been impacted by its colonial affiliation, with the post-colonial accounting system mimicking that of UK. This is partly because it would be easier for the expatriates to continue with the status quo rather than a completely new system. Also, the lack of qualified indigenous Africans meant that there was little knowledge to pursue a system that will be unique to the needs of the country. Consequently, following the agreement for independence, a new Companies Act (CAP 486) was enacted in 1962 which to a large extent was "borrowed from the U.K. Companies Act of 1948" according to UNCTAD (2006 p. 5) to govern companies, including their financial reporting. In 1978, the Institute of Certified Public Accountants of Kenya (ICPAK) was formed to regulate the accounting profession in Kenya. The ICPAK by way of strengthening its structures and helping members to adapt to modern trends issued accounting standards that suited the Kenyan economy at the time, albeit with huge adoptions from the international accounting standards issued by the then international accounting standards committee. This shows that the post-colonial accounting standards that were issued by Kenya was preoccupied with achieving legitimacy hence the decision to model it on the 'already established accounting norms' (e.g., Appiah et al., 2016).

Following the era of banking failures in the 1980s and 1990s, in order to address corporate governance issues and exult investor confidence in its capital market and the general business environment, Kenya was force by pressure from international bodies such as the World Bank to adopted fully the IAS standards (now IFRS) in 1998, effective 1st January 1999, under the directive of the ICPAK (King'wara, 2015 in Olaoye&Aguguom2017; IFRS Foundation, 2016). By this, Kenya became the first to adopt IFRS in the sub region, East and Central Africa (World Bank, 2001 in Atsunyo, Gatsi & Frimpong-Manso, 2017). It mandated only companies publicly trading on the

Nairobi Security Exchange (NSE) to report accordingly. The IFRS was then incorporated into regulations of all regulatory bodies and the Companies Act after its amendment in 2002 and by that mandated all firm to comply with IFRS, both listed and unlisted (Olaoye&Aguguom2017; Outa, 2011 in Atsunyo, Gatsi & Frimpong-Manso, 2017).

Since the country adopted IFRS, it has yielded dividends from providers of finance, probably due to the improvements in accountability and in its corporate governance regime (e.g., Annisette, 2004; van Rooyen *et al*., 2012). The NSE which was established in 1954 is now the most vibrant and largest in the sub region, with a market capitalization of $20 billion as at the close of 2016 (Atsunyo, Gatsi & Frimpong-Manso, 2017; Injeni, McFie, Mudida & Mangena, 2019). With a GDP of about $69.5 billion in 2016, Bhorat & Tarp (2016) in Injeni, McFie, Mudida & Mangena (2019) described the Kenyan economy in as a dominant one in East Africa and ninth in Africa. Kenya has attracted many investors and multinationals through its capital market and has gained rich experiences in the use of IFRS which has been a rich source of insights to the International Standards of Accounting and Reporting (ISAR) in developing strategies to aid other countries in the implementation of IFRS according to UNCTAD (2006). Kenya has also adopted the IFRS for SMEs Standards by the IASB. Following the amendment of its Companies Act in 2015, it mandates all listed firms to comply with the IFRS standards whilst unlisted firms are at liberty to either use the IFRS for SMEs Standards or the full IFRS Standards (IFRS Foundation 2016).

The above literature on Kenya suggest that the country's accounting development has been influenced by its colonial affiliation with Britain. The country's first accounting system was mimicked from the UK practices just after achieving independence in 1963.

Then later in the post-colonial period, the accounting systems was shaped by normative factors such as membership of IFAC and then also by coercive persuasion by institutions such as the World Bank.

Having examined how institutional factors have influence financial reporting in some Anglophone (common law) countries in Africa, the remaining sections of this chapter will examine institutional pressures that have influenced the development of accounting in the Francophone and Lusophone (civil law) states on the continent.

5.9 Institutional Pressures in Francophone and Lusophone states

Although previously it was often cited that there was little research on accounting on Africa (Enthoven, 1973; Briston, 1978, 1983; Asechemie, 1997; Chamisa, 2000; Elad, 2015; Boolaky, Tawiah & Soobaroyen, 2020; Lassou, 2020), these studies that have been undertaken tended to concentrate on the Anglophone African countries with very little studies conducted on of the Francophone, Lusophone and the Spanish speaking nations (see Elad, 2015; Lassou, 2020). Yet, these states form a significant part of the African continent in terms of the size of their population, the size of their economies, and their historical backgrounds of accounting development (Lassou and Hopper, 2016).Citing West Africa for example, these countries make up 7 of the 15 nations in the region, and they have had a similar history of institutional pressures that have influenced the development and the nature of their financial reporting (see United Nations 1991; OHADA, 2010; Elad, 2015). This section will analyse how institutional pressures have influenced two Francophone (Ivory Coast and Senegal) and one Lusophone (Mozambique) countries on the continent to show the similarities and differences on how institutional pressures have influenced accounting systems of the Anglophone countries, who have Anglo-American and common law traditions on one hand, and those of the Francophone, Lusophone and Spanish speaking states, who have the continental European accounting traditions and have civil law tradition.

5.10 **Ivory Coast**

The history of accountancy practice in Ivory Coast is very similar to that of the other Francophone African states. From independence, Ivory Coast, together with the other former French colonies in West Africa were using antiquated version of the French PCG (see Elad, 2015; United Nations, 1991). To change financial reporting and make it relevant to the needs of the government and the society, through the country's membership of West African Economic and Monetary Union (WAEMU), the OHADA accounting system was developed as part of the OHADA treaty which was born in October 1993 (OHADA, 2010; Elad, 2015). The member countries of the OHADA were of the civil law tradition and their accounting practices followed the Continental European accounting systems (See Nobes, 2008; Elad, 2015).

The OHADA system was not a completely new system but it was based on the French Accounting system. Instrumental in its development was the French academic, Claude Pérochon who provided technical help in its development (Zori, 2015). This accounting Plan has tried to blend two normative accounting practices by incorporating within the Plan features of both Anglo-American and Franco-German practices (Elad, 2015). The adoption of the OHADA PCG which included elements of IFRS was a confirmation of the continuous existence of continuous pressure on these Francophone countries to adopt IFRS even though they had so far resisted and continued to practice their own strands of the Franco-German accounting practice that is based on civil law rather than common law (Nobes, 2011). These pressures were bound to exist because, the Ivory Coast, through its accountancy body, Ordre des Experts Comptables et Comptables Agréés de Côte d'Ivoire (OECCA-CI) has been a member of IFAC since 1997. Besides, the membership of IFAC comes with the commitment - referred to as Statement of Membership Obligation 7 (SMO7) -to adopt IFRS, which has its basis in Anglo-Saxon accounting practice (Nobes, 2011, p.10). Because it hosts the only OHADA West African regional stock exchange called Bourse Régionale des Valeurs Mobilières (BRVM) in Abidjan, the capital city, the country is considered to be one of the economically dominant, and important member of the OHADA council and therefore can influence other member states to endorse the use of IFRS for financial reporting.

Unlike in the cases of South Africa, Ghana and Nigeria, Ivory Coast's acceptance of its IFAC's SMO7 did not appear to have compelled them to adopt IFRS immediately[24]. Rather, the country appears to have been given time, with other members of OHADA to enable them to benchmark their local accounting standards against IFRS (See OHADA, 2010; IFAC[20]). The county's IFAC membership SMO7 acknowledges that:

> "The OEC-CI has no direct responsibility for the adoption of accounting standards, but it actively promotes and participates in the processes to converge regional standards with IFRS. It is involved in regional discussions to benchmark local accounting standards against

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[24] https://www.ifac.org/about-ifac/membership/country/ivory-coast(accessed 18 June 2019)

IFRS and to revise them to incorporate IFRS requirements." (IFAC[20]).

Eventually, from January 2019, the country now requires all listed companies to produce IFRS compliant financial reports (IFRS, 2019).

Prior to its eventual adoption of IFRS, there had been an ongoing dilemma between Ivory Coast's membership of IFAC and OHADA, which have placed the country under two opposing normative pressures. Its colonial links with France has meant that the country's accounting plan (PCG) has been closely aligned with the French PCG, even if somewhat different. This position had been reinforced through its membership of the OHADA accounting system which is also based on the same plan. On the other hand, their membership of international institutions such as IFAC, ABWA and PAFA has required them to pursue the course of IFRS adoption. This is the same institutional pressure faced by the all the other members of the OHADA treaty (see IFAC, 2019). Ultimately, the lance seems to have swung towards the adoption of Anglo-American accounting practice by these civil law countries because, as reported in The Accountant online[25]

> "The Organisation for the Harmonisation of Corporate Law in Africa (OHADA) has adopted IFRS meaning that public and listed companies in all 17 member states will comply with the international standards, effective 1 January 2019.OHADA member states are: Benin, Burkina Faso, Cameroon, Central African Republic, Chad, Comoros, Côte d'Ivoire (Ivory Coast), Democratic Republic of Congo, Equatorial Guinea, Gabon, Guinea, Guinea-Bissau, Mali, Niger, Republic of the Congo, Senegal and Togo. As part of the resolution, non-listed companies in OHADA can use IFRS on a

[25] http://www.theaccountant-online.com/News/west-africas-economic-zone-adopts-ifrs-6042573 (Accessed 15 July 2018)

voluntary basis (IFRS, 2018)".

The other institutional pressure that seems to have compliment the normative drive to adopt IFRS came from the international financial institutions. The World Bank is one of the main sources of financial assistance to Ivory Coast (World Bank, 1989; 2012; 2019) and are influential in the adoption of the neoliberal policies as part of its condition for granting financial assistance (Alfredson *et al*., 2007). For example, in 1989 the World Bank provided for the first time, financial assistance to Ivory Coast (Naiman and Watkins, 1999). However, as a precondition, the Ivorian government had agreed to economic policy changes which included a set of structural adjustment programs as dictated by the World Bank and the IMF. It was a program of accelerated privatisation, reduction in government expenditures followed by currency devaluation with the main objective of improving the country's economic development (Stiglitz, 2001, p. 213). Also, similar to what the World Bank had commissioned in 2004 on Ghana and Nigeria, in 2009, it sponsored a ROSC report for the entire WAEMU region to assess the standards and practices of accounting and financial audit in the private and semi-public sectors, using as reference the International Financial Reporting Standards (IFRS) and International Standards on Auditing (ISA) and taking into account best practices at the international level in these two areas (The main objective of this assessment was to formulate recommendations to the Government to strengthen the practices of accounting and financial audit and financial transparency in the private and semi-public sectors in the WAEMU region.

The report concluded among other things that, financial reporting in the region was of poor quality. The Bank's reason was that, the SYSCOA-OHADA accounting system was outdated as it has not been updated since it was first adopted in 2000 (See

ROSC Report Ivory Coast, 2009). They therefore recommended that the region adopts IFRS. Since 2012, the bank acting in conjunction with West African Accounting Council, has facilitated IFRS training for qualified accountants in the WAEMU region. The World Banks involvement in demanding a change and facilitating training in IFRS shows the level of pressure it is ready to impose on Ivory Coast and the OHADA countries to compel them to adopt international financial reporting standards. The country's IFAC SMO statement below provides an indication that the bank is actively involved in changing the laws of these countries towards the acceptance and implementation of international accounting standards:

> "OHADA is working on aligning its standards with IFRS. With support from the World Bank, a new Uniform Act on accounting standards is being finalized and will be submitted to the Council of Ministers for review" (IFAC, 2016).

The consequences of the Bank's compulsion are that, from January 2019, the Ivory Coast now requires all listed companies and companies 'making a public call for capital' and all foreign companies whose securities trade in a public market to produce IFRS compliant financial reports (IFRS ,2019). As this requirement is recent, companies are yet to produce IFRS compliant financial reports.

The case against this requirement is that, even if the listed companies in Ivory Coast and OHADA countries were to report using IFRS, this will have little impact on the broader financial reporting in the region as there are very few listed companies on the Abidjan regional stock exchange, The Bourse Régionale des Valeurs Mobilières (BRVM). Of the 46 companies currently listed on the BRVM, only 5 are from Senegal, 4 from Benin, 3 from Burkina Faso, 2 from Mali, 2 from Niger, and 1 from Togo (BRVM, 2019). This means that apart from Ivory Coast, IFRS will only be compulsory for only 17 companies in the remaining eight West African OHADA countries.

The above developments in IFRS adoption implies that, for now, companies producing IFRS compliant financial reports will be in the minority and therefore the vast majority of financial reports will continue to be based on the OHADA PCG which is different from IFRS (Elad and Tumnde, 2009). The OHADA PCG is a mixed capital macroeconomic accounting model that is influenced heavily by government and thereby making it rules based. Governments using this accounting system control wealth creation and distribution through their decisions and are also the primary users of the accounting information produced largely for purposes tax and national statistics (Briston, 1978). Contrastingly, financial reporting under IFRS has the objective of providing relevant information to investors and creditors (Briston, 1978). This makes the needs of all other stakeholders like the governments, staff, and society secondary (Nzakou, 2001; cited in Mayegle, 2014).

Although the World Bank and the IMF are creditors, they mainly lend to governments in the region and not to the individual companies and therefore they are not direct stakeholders in these companies. On the other hand, the nature and purpose of financial reporting under the OHADA PCG takes into consideration the interest of the wider stakeholders such as the government (for taxation purposes) and the social interest, such as the requirement to produce social balance sheet (Enthoven, 1973; Hood and Young, 1979). The reason for this is because of the differences in the providers of finance (see Nobes, 2008). IFRS are relevant for strong equity finance companies whiles companies in the region are weak equity finance companies since they rely on families, banks, and the state for provision of finance (Nobes, 2008).

Again, due to the fact that Ivory Coast economy's main attraction is from small blocks of investments in the agricultural sector, as against the purchase of equity shares in established companies by investors (Martor *et al.*, 2004; cited in Zori, 2015, p. 191), it makes it questionable for the institutional lenders such us the World Bank and the IMF to compel Ivory Coast, and for that matter, the WAEMU countries to adopt IFRS since IFRS are predominantly suitable for listed companies (Briston, 1978, 1984). This probably explains why despite the fact that this country is one of the biggest beneficiaries of World Bank and IMF borrowings, it managed to insulate itself from the coercive pressure to adopt IFRS for a long time (Klaas, 2008; Lavelle, 1999, 2001).

Again, one of the reasons why the World Bank and the IMF have had limited success to influence the country and the members of the OHADA PCG to fully adopt IFRS is because, while the World Bank and the IMF have tended to pursue neo-liberal strategies of economic development and governance (Harrison, 2004) and allocating capital in the hands of the private sector (Graham and Annisette, 2012), the Ivorian economy has for decades relied on the public sector as the engine of its economic future. In consequence, modernisation of accounting governance systems to reflect global trends of accounting standards is viewed by accounting practitioners as a divergent strategy (Zori, 2015, p. 195).

5.11 **Senegal**

The history of Senegal's accounting development after attaining independence from France is very similar to that of Ivory Coast in many respects. Like the Ivory Coast's accounting system, during the colonial rule by France was based on the French PCG of 1947 and 1957 (Mayegle, 2014; Elad, 2015). Its accounting development has been shaped by both regional and global normative institutional pressures as a result of its membership of diverse international organisations. Following independence in 1960, the country has followed the same accounting systems that have been used by the other Francophone countries in the region. This includes the OCAM accounting plan in 1970s and currently, the SYSCOHADA PCG (IFAC, 2016).

The normative regional institutional pressure has influenced the country's preference for standardized accounting methods (under SYSCOHADA PCG) in use in the region. From December 1996, the country adopted SYSCOA PCG, which were developed under The Central Bank of West African States (BCEAO) and adopted into law by all member countries (World Bank, 2006). As a member of BCEAO, Senegal was obliged to conform to the agreed standards of the OHADA Uniform Act Organizing and Harmonizing Company Accounting Systems and enacted it into law in the year 2000 (IFAC, 2016).

Similar to the Ivory Coast, which is also a civil law country, this makes its financial reporting prescriptive and less prone to the use of judgement which is permitted under common law and IFRS (Nobes, 2008). Therefore, by virtue of its membership of BCEAO, according to March and Olsen (2006), to maintain continuous membership of an institution (OHADA) requires that Senegal follow their codes of practice (agreed norms) which identifies it as a member of the OHADA community. This suggests that, unlike Ghana and Nigeria, Senegal chose to conform with the standardised rules set by the OHADA community rather than set its own GAAP. This is in contrast to the Anglophone countries like Ghana and Nigeria, who like the U.K. and U.S.A. have maintained flexibility and intercompany comparability in financial reporting which is allowed under common law (Choi and Mueller, 1984; Holzer, 1984; Arpan and Radebaugh, 1985).

From the 1990s to date, as a member of the West African Economic and Monetary Union (WAEMU) and OHADA, Senegal's accounting standards are defined in WAEMU Regulation No. 04/96/CM/UEMOA, WAEMU Regulation No. 05/CM/UEMOA, OHADA Uniform Act Relating to Commercial Companies and Economic Interest Groups 4/1997 (revised January 2014). But, from January 2019 OHADA now requires its members to use IFRS Standards for financial reporting for all listed companies and companies 'making a public call for capital and for all foreign companies whose securities trade in a public market (IFRS,2019). As this requirement is very recent, it remains to be seen the extent to which this change will affect financial reporting in Senegal and how many companies will adopt this new reporting requirements since currently there are just five (5) listed Senegalese companies on the regional stock market, BRVM in Abidjan (BRVM, 2019).

The likely outcome looking at current situation would be a bulk majority of businesses continuing to prepare their financial reports under the OHADA accounting plan. This means that even though in principle, Senegal has adopted IFRS in financial reporting, the differences will continue to exist between it and its English-speaking neighbours like Ghana and Nigeria where IFRS and IFRS for SMEs are compulsory for all businesses (IFRS, 2016).

It is important to note that Senegal's decision to adopt IFRS was not necessarily directly as a result of its membership obligation from IFAC, but it was rather from its membership of OHADA as it is the latter that has agreed for all of its members to use

IFRS for listed companies from January 2019 (IFAC, 2019; OHADA, 2019[26]).The current period of integration of world economies has brought about interaction and integration among people, companies and governments globally. Some have referred to it as a form of capitalist expansion which entails the integration of local and national economies into a global, unregulated market economy. As has been previously stated earlier in this chapter, the IMF and the World Bank are among the key players who are facilitating the converging of the world's economies through promoting the "logic of capitalism" among both developed and developing countries. (World Bank, 2001; Chossudovsky, 1998, pp. 33-44; Colás, 2005). This has led to the World Bank and the IMF imposing pressures on less developed countries like Senegal to embrace IFRS for financial reporting by companies in the country.

Wallace (1990 p.3) defines a developing country as;

> "a country seeking to advance to a higher state of economic well-being. This term would therefore include a wide range of countries mostly found in Africa, Asia and Latin America. Apart from the quest tor economic development, most of these countries received their independence from the colonial powers from the late 1950s onwards, and share the common characteristic of the presence of poverty, while experiencing wide disparities in their development levels (Todaro,1994 p, 34; Wallace, 1990: 3)."

These countries are often characterised by poverty of its citizens; high rate of unemployment; inequalities in income and national wealth distribution; lack of savings; countries have large national debts and loans repayment commitments; low levels of technology application; poor education and high level of illiteracy; regional inequalities;

[26]https://www.ohada.org/index.php/en/news/latest-news/2302-entry-into-force-of-revised-syscohada-ohada-puts-the-finishing-touches (Accessed on 17 June 2018)

and high population growth rate with often poor national infrastructure (Samuels 1990 p. 69; Todaro; 1994, p.28; Oberholster, 1999)

Coercive institutional pressures are very noticeable (Irvine,2008; cited in Hassan *et al.*, 2014), because in an institutionalised environment there is an explanation of rules and their regulations including pressures for conformity to institutional expectations and requirements. Organisations can only gain and maintain legitimacy by compliance with these rules and regulations, even if any changes made are more symbolic than actual (DiMaggio & Powell, 1983, p. 150). Weaker or dependent countries can therefore be coerced to conform to international regulations and standards by coercive institutions outside their economy.

The World Bank and the IMF fit the description of coercive institutions because of their carrot and stick approach to granting financial assistance to developing countries like Senegal (Elad, 2015, p. 4). These two providers of finance have been consistent in applying pressure to most developing and least developed countries that have approached them for financial assistance in times of economic difficulties (see Hassan *et al*., 2014, p.373). The adoption of IFRS is one of the key tools that these two Britton Woods institutions have used to encourage countries to improve transparency in financial reporting and corporate governance in order to improve their competitiveness in attracting investors (Elad, 2015).

In the case of Senegal, the World Bank's pressure is not only directed through OHADA and its 17 member African countries (IFRS, 2016), but it has also directly required that member countries adopt IFRS for financial reporting for good corporate governance (Tawiah, 2019). According to the World Bank, if Senegal is going to improve its corporate governance and confidence in its financial reporting, it had no choice but to accept the bank's requirement for it to adopt IFRS for corporate financial reporting (e.g. Tawiah, 2019).

5.12 Mozambique

Mozambique, a former Portuguese colony, had its independence in 1975.At that time, the statutory regulations that governed accounting were the Commercial Code and Tax Laws dating back to 1888 which were inherited from their former colonial power, Portugal. It was a codified system with a standardized chart of accounts called Plano Geral de Contabilidade (PGC) which only mandated companies to keep books that recorded only daily balances and inventories without any need for the preparation and auditing of financial statements according to the ROSC – it was mainly for tax purposes (World Bank, 2008). This implies that in the context of Nobes (2006) and Elad (2015) classification of accounting systems, Mozambique belonged to the Continental European (Franco-German) class of accounting practice with its civil law background, highly prescriptive accounting system, and the direct link between financial reporting and taxation.

The inherited accounting systems was later updated with new decree. Decree 36/2006, enacted in 2006 to replace the old PGC, detailed categories of accounts which were to be kept by companies and the new Companies Code 2005 mandated compliance to the new PCG which was a modification of the inherited one to suit the economy at the time. However, enforcement for non-compliance was poor because was no penalty for breaching the rules, according to the World Bank 2008 ROSC report on the country. Consequently, another law, Decree 34/2007 was enacted to sanction penalties for non-compliance. All these legal reforms were designed to improve confidence of investors and also, to improve the quality of corporate governance in the country.

As part of those public sector reforms requested by the World Bank, the Mozambique government decreed to establish a professional accountancy body and took steps towards incorporate IFRS in its corporate reporting structure which was to serve as a means of providing greater transparency and comparability (Deloitte IAS Plus, 2020). The new Accounting System for the Business Sector (SCE) comprises a Chart of Accounts for large and medium-sized companies (PGC-NIRF) based on the November 2008 IFRSs, albeit with some omissions, and another Chart of Accounts for small-sized companies (PGC-PE), with the size of a company being determined by its turnover, net assets, number of employees listing status (World Bank, 2008).

The adoption of IFRS was in four tranches. Bank of Mozambique was the first to adopt IFRS in 2006. This was then followed by other financial institutions who were also required to fully comply with IFRS from 2008. The third tranche was partial adoption by large firms (listed companies, public companies, companies with a majority state shareholding, as well as other large companies) who were required to use a modified local version of IFRS from 2010. A year later, medium size firms were then required to use IFRS from 2011 (IFAC, 2019; Deliotte IAS Plus, 2020).

Small-sized firms are however not required to use IFRS. They are to comply with the local PGC-PE since even, IFRS for SMES was considered to be too complex for them, according to the World Bank's 2008 ROSC report on Mozambique. So for now, the IFAC considers Mozambique to have partly adopted IFRS, however, the country is still making strides towards full adoption by engaging stakeholders in discussions to enact two new legislations: one to fully adopt IFRS and another to conform the tax code to IFRS especially in aspects such as classification of assets and depreciation (Deloitte IAS Plus, 2020).

All these changes that have been stated above happened at a time when the country did not have an established professional accountancy body. The Ordem dos Contabilistase Auditores de Moçambique (OCAM) which when translated into English means 'Order of Accountants in Mozambique' was established in 2012, with most of its members having their certification from other IFAC affiliates from Portugal, South Africa, Ireland and the UK (IFAC, 2019; World Bank, 2008).The fact that most of the accountants in Mozambique are foreign trained in countries that have subscribed to IFRS suggest that the country's adoption of IFRS might have been partly influenced by normative isomorphic influence from the accountancy training that is based on IFRS. Although Mozambique is an associate member of IFAC, it appears that the country started its journey towards IFRS even before its accountancy body was formed in 2012.

Despite the changes in financial reporting that have occurred in the country, the tax laws have remained largely unchanged and have been insulated from the new financial reporting standards. This signals a separation between taxation and financial reporting, a key feature of Anglo-American accounting tradition (Nobes, 1983; Elad, 2015)This implies that although the country's legal tradition is civil law, it has embraced an accounting system that is partly rooted in common law and Anglo-American practise. This suggest that for the purposes of financial reporting, the country seems to have blended the continental European model, which is prescriptive and standardised (Nobes, 1983, 2006), with some Anglo-American based accounting systems, which separates taxation from financial reporting (Nobes and Parker 1985; Lamb, Nobes and Roberts, 1998; Nobes, 2008)

5.13 Differences between Anglophone and Francophone states

So far, this chapter has examined the development of accounting practices between the Anglophone and the Francophone countries from the period immediately after their colonial independence to date. What has emerged is that they use different financial reporting systems, and these systems have been by and large shaped by their colonial inheritance (see Nobes,1998, 2014).

Table 5.1 below provides a historical overview of the nature of the accountancy profession in Africa by 1990 and beyond. It also provides an overview of the current membership of IFAC by some accountancy bodies in Africa. South Africa Kenya Zimbabwe, Malawi Botswana, Tanzania Nigeria, Ghana, Liberia, Sierra Leone, and the Gambia are the countries with Anglo-American accountancy practice and have common law heritage. Compared to their Francophone nations, who are predominantly civil law countries, they have well established accountancy bodies (see Nobes, 2011, 2013; Elad, 2015).

Table 5.1: The accountancy profession in some African countries

	Country	**Number of qualified accountants by 1990**	**Accountancy body in 2019**	**Year accountancy body was established**	**IFAC Membership**
1	Benin	73	Ordre Des Experts Comptables et Comptables Agréés du Bénin (OECCA)	2006	Associate
2	Botswana	130	Botswana Institute of Chartered Accountants (BICA)	1990	Full Member
3	Burkina Faso	15	Ordre National des Experts Comptables et Comptables Agrée de Burkina Faso (ONECCA-BF)	1996	Associate
4	Burundi	5	Ordre des Professionnels Comptables du Burundi	2001	None

	Country	Number of qualified accountants by 1990	Accountancy body in 2019	Year accountancy body was established	IFAC Membership
5	Cameroon	55	Ordre National des Experts-Comptables du Cameroon (ONECCA-Cameroon)	1985	Full Member
6	Cape Verde	N/A	Ordem profissional de auditorese Contabilistas (OPACC)	2000	None
7	DRC	N/A	Ordre National des Experts Comptables de la République Démocratique du Congo (ONEC DRC)	2015	None
8	Egypt	9,900	Egyptian Society of Accountants and Auditors (ESAA)	1946	Full member
9	Gambia	9	Gambia Institute of Chartered Accountants (GICA)	1991	None
10	Ghana	504	Institute of Chartered Accountants of Ghana (ICAG)	1963	Full member
11	Guinea	5	Ordre des Experts Comptables et Comptables Agrées de Guinée (OECCA G)	1985	None
12	Guinea Bissau	N/A	Ordem Nacional dos Técnicos Oficiais de Contas da Guinée-Bissau (ORNATOC)	2007	None
13	Ivory Coast	25	Ordre Des Experts-Comptables et des Comptables Agréés Cote D'Ivoire (OECCA)	1995	Full member
14	Kenya	1,520	Institute of Certified Public Accountants of Kenya (ICPAK)	1978	Full member
15	Liberia	12	Liberian Institute of Certified Public Accountants (LICPA)	1933	Full member
16	Madagascar	38	Ordre des Experts Comptables et Financiers de Madagascar (OECFM)	1962	Full Member
17	Malawi	120	The Institute of Chartered Accountants in Malawi (ICAM)	1969	Full Member
18	Mali	29	Ordre National Des Experts-Comptables et Comptables Agréés du Mali (ONECCA)	1986	None
19	Mauritius	175	Mauritius Institute of Professional Accountants (MIPA)	2005	Full Member
20	Morocco	135	Ordre des Experts-Comptables du Royaume de Maroc (OEC-Morocco)	1993	Full member
21	Mozambique	N/A	Ordem dos Contabilistas e Auditores de Moçambique	2012	Associate
22	Niger	19	Ordre National des Experts Comptables et des Comptables Agréés du Niger (ONECCA)	2003	None
23	Nigeria	3,280	Institute of Chartered Accountants of Nigeria (ICAN) Association of National Accountants of Nigeria (ANAN)	1965 1979	Full member Full member
24	Rwanda	46	Institute of Certified Public Accountants of Rwanda (iCPAR)	2008	Associate

	Country	Number of qualified accountants by 1990	Accountancy body in 2019	Year accountancy body was established	IFAC Membership
25	Senegal	38	Ordre National des Experts Comptables et Comptables Agréés du Sénégal (ONECCA)	1996	Full member
26	Sierra Leone	43	Institute of Chartered Accountants Sierra Leone (ICASL)	1988	Full member
27	South Africa	N/A	South African Institute of Chartered Accountants South African Institute of Professional Accountants (SAIPA)	1977 1982	Full Member Full Member
28	Tanzania	949	The National Board of Accountants and Auditors (NBAA)	1972	Full Member
29	Togo	989	Ordre National des Experts Comptables et des Comptables Agréés du Togo (OECCA)	2001	Associate
30	Tunisia	120	Ordre des Experts Comptables de Tunisie	1982	Full Member
31	Uganda	35	The Institute of Certified Public Accountants of Uganda (ICPAU)	1992	Full Member
32	Zambia	450	Zambia Institute of Chartered Accountants (ZiCA)	1982	Full Member
33	Zimbabwe	526	Institute of Chartered Accountants of Zimbabwe (ICAZ)	1918	Full Member

Source: Author’s own creation adapted from UN (1991) and IFAC (2016)
Note: N/A represents number of qualified accountants by 1990Not Available

Most of the Anglophone countries had established accountancy bodies by1990 (UN, 1991). When compared to the non-Anglophone nations, the majority had accountancy bodies established after 1990. Furthermore, in terms of numbers of qualified accountants by 1990, the Anglo-American countries had more. This pattern supports Nobes’ (2008) assertion that the development of self-regulating professional accountancy bodies are much more firmly established in common law countries such as the U.S.A. and the U.K. (and by default, the Anglophone African countries) than in the civil law countries (see Holzer, 1984; Nobes and Parker, 1985; Radebaugh *et al.,* 2006).

Another important observation from Table 5.1 is that, currently, almost all the Anglophone African countries are full members of IFAC and have therefore signed to adopt IFRS for financial reporting in line with their membership obligations (March &

Olsen, 2006; Zori, 2015, p. 117). This is somewhat different from the Francophone, Lusophone and the Spanish speaking countries where the majority are either not members or associate members of IFAC. (Table 5.1). This implies that most of the civil law countries are not under normative pressure to confirm with IFRS since they have not signed up to IFAC's SMO7 which require members to use IFRS for financial reporting (Botzem and Dobusch, 2012. On the contrary, the overriding normative pressure that bears on the civil law countries in the OHADA jurisdiction is the convergence of the accounting practices within the community though compliance of its members of the standardized (codified) accounting practice, defined under the OHADA Uniform Act 2/2000 (see Elad 2015).

Table 5.2: Analysis of coercive pressure from World Bank and IMF using ROSC reports

ANGLOPHONE			NON-ANGLOPHONE		
Country	**Year(s) ROSC Report(s)**	**Year of IFRS Adoption**	**Year of IFRS Adoption**	**Year of ROSC**	**Year of IFRS adoption**
Botswana	2006	2003	Benin	2009	2019
Ghana	2004	2007	Burkina Faso	2010	2019
Kenya	2001/2010	1999	Burundi	2007/2014	N/A
Liberia	2011	2018	Cameroon	2000	2019
Malawi	2007	2016	Cote d'Ivoire	2009	2019
Mozambique	2008	2007	DRC	2009	2019
Mauritius	2003	2001	Egypt	2002	2019
Nigeria	2004/2011	2012	Madagascar	2008	N/A
Sierra Leone	2006	2009	Morocco	2002	2008
South Africa	2003/2013	2005	Rwanda	2008	2008
Tanzania	2005	2004	Senegal	2005	2019
The Gambia	2010	2013	Tunisia	2005	N/A
Uganda	2005/2014	1998			
Zambia	2007	2005			
Zimbabwe	2011	1996			

Source: Adapted from Zori (2015); Tawiah (2019); IFAC.org; IFRS.org

5.14 Conclusion

This chapter has analysed how institutional pressure has shaped the development of accounting practices of some countries in Africa. It has examined how the three types of institutional theory of Isomorphism have defined the accounting systems used in the Anglophone, Francophone and Lusophone countries of the continent.

It has examined the progress made from the accounting practices that these countries inherited from the colonial era and how normative and coercive institutional pressures have directed the Anglophone countries to embrace IFRS in their financial reporting. Even though on paper, from January 2019, all listed companies in the OHADA are to use IFRS for financial reporting for their listed companies, to date, few financial reports from companies in the region have prepared on that basis. Even if they comply in future, is it going to be a complete shift from the OHADA PCG? Or will they be producing dual accounting, one for OHADA and the other for IFRS in order to satisfy investors?

Whiles it appears that most of the Anglophone countries have already fully embraced IFRS for their financial reporting without any major alterations (see Figure 5.1), the Francophone and the Lusophone are still playing catch-up. Although these non-English speaking nations speaking adopted IFRS from January 2019, their use are limited listed and large companies, which are very few within the OHADA jurisdictions. For the majority (small and medium size companies) however, they continue to use the OHADA accounting plan. One major factor that affects almost all the countries is the influence of their colonial heritage on the development of their accounting systems (Nobes, 1998). At independence, most of them have continued to use, or mimicked the accounting systems of their colonisers, albeit with some alterations (Elad, 2015).

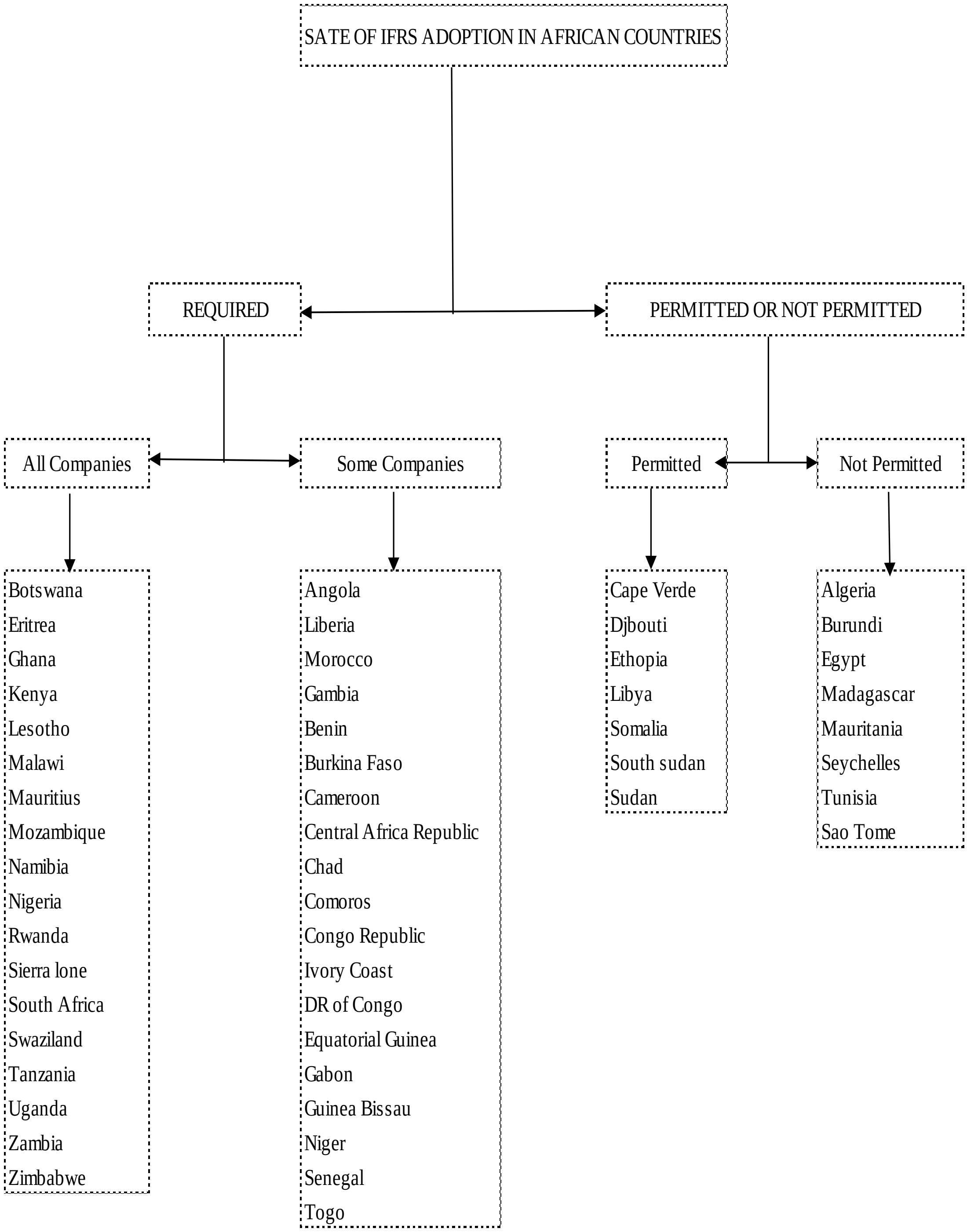
Also, most of the countries have also responded to coercive pressures from institutions like the World Bank and IMF to take up IFRS for financial reporting.

However, it appears that the common law countries, who are mainly English speaking have often quickly responded to these pressures from the World Bank, which is normally formalised through the publication of the Bank's ROSC report. As table 5.2 suggests the Anglophone countries often adopt IFRS within 3 to 5 years of publication of these reports. On the other hand, the civil law countries seem oblivious to these reports and respond at their own timing. Again, Table 5.2 suggests that, it took most of the non-Anglophone countries, most of whom belong to OHADA accounting system, up to 10 years (2009 to 2019) from the date of the initial ROSC reports to when they embraced IFRS. Even then, they have not fully endorsed IFRS for all financial reporting.

Finally, these countries have also experienced normative isomorphic pressure, especially from their membership of IFAC. Whiles most of the common law countries are full members IFAC and have completely subscribed to their 'SMO 7', which requires them to take up IFRS for financial reporting, some of the civil law countries either have associate membership and/or have only partially welcome the use of IFRS.

Drawing conclusions from the aforementioned discussions, despite the fact that more nations have welcome the use of IFRS, the discussions in this chapter suggests that there is a dichotomy between the accounting systems of the civil law and common law countries on the continent (Nobes, 2006; Elad, 2015). Overall, majority of the common law countries on the continent have endorsed IFRS, when compared to the nations in the civil law jurisdictions (Figure 5.1). With more countries in Africa having responded to institutional pressures to move away from their local GAAPs to endorse the use of IFRS, the next chapter will examine how financial reporting in African countries have been shaped by national membership of different political economic and professional institutions on the continent. Very often, these institutions have conflicting missions that hinders any effort to converge accounting practices on the continent.

Figure 5.1: Current State of IFRS adoption in Africa



Source: Adapted from Tawiah (2019 p. 647)

6. Chapter 6: The role of political, economic and professional communities in accounting development

6.1 Introduction

This chapter examines the history of financial reporting in Africa from the perspective of the roles played by political and economic communities on the continent. The chapter is divided into five sections. The first part provides brief account of institutions involved in Africa's regional and sub regional economic integration efforts and their impact on the development of accounting systems on the continent. This includes various regional economic communities such as; The Economic Community of West African States; Community Market for Eastern and Southern Africa (COMESA); Southern African Development Community (SADC); Arab Maghreb Union (AMU); and the East African Community (EAC).

The second section will then divide Africa into a community of languages inherited from past colonial rules, made up of Anglophone, Francophone Lusophone and Spanish speaking states, then examine the development of financial reporting within them. This section will also examine the differences between the OHADA Plan Comptable General (Also termed as the OHADA PCG), which has been used by Francophone and Lusophone countries, and IFRS, which is predominantly used by the Anglophone countries on the continent (see Elad, 2015). The third section will then examine the role that regional professional accountancy bodies in Africa have played in development of financial reporting on the continent. The fourth part will compare and contrast the OHADA PCG with IFRS, and the final analyse the prospect for convergence of accounting systems on the continent.

6.2 Regional Economic Communities in Africa

The African Union (AU) was setup on 8th July 2001 and was officially launched in July 2002 in Durban, South Africa, following a meeting of Heads of States on 9th September 1999 in Sirte in Libya to form the AU. It has a current membership of 55(AU, 2019)[27]. Its main objective is to accelerate the process of integration of African countries, and to address the economic social and political challenges that have resulted from globalisation. The AU was formed to replace its predecessor, the Organization of African Unity (OAU) was established in 1963 with main objectives to;

> "rid the continent of the remaining vestiges of colonization and apartheid; to promote unity and solidarity among African states; to coordinate and intensify cooperation for development; to safeguard the sovereignty and territorial integrity of Member States; and to promote international cooperation within the framework of the United Nations"

Article 11 of the African Union states that the official languages of the Union and all its institutions shall be Arabic, English, French, Portuguese, Spanish, Kiswahili and any other African language (AU, 2019, pp. 4-5) However, the dominant official languages used on the continent are Arabic, English and French as shown in Figure 6.1. According to the United Nations, the estimated population of Africa in the year 2000 is 1.3 billion, represented the 17% of the world's population[28]

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[27]https://au.int/sites/default/files/pages/31829-file-au_handbook_2019_english.pdf (Accessed 20 July, 2020)

[28]https://www.un.org/en/sections/issues-depth/population/(Accessed 20 July 2020)

Although AU boasts of a lot of treaties on trade, economic integration, and development[29], there is hardly any treaty with the objective of harmonisation or convergence of financial reporting practices on the continent. Besides, unlike the European Union, the African Union does not currently have any agency charged with overseeing the development of accounting practice of the continent. However, in 1979, under its predecessor, the Organisation of African Unity (OAU), the African Accounting Council (AAC) was formed on 10th June 1979 in Algiers (Algeria) by 27 African countries with the aim of "assisting in the establishment of bodies entrusted with accounting standardization in African countries and promoting and carrying out studies in the field of accounting standardization" (Parker, 1992).

AAC was subsequently adopted by the OAU as its specialist agency for accounting standardisation in Africa in 1985. However, nothing has been heard about it in recent times and it appears that it is non-operational. To the contrary, the European Union, as part of its economic integration has adopted a common approach to financial reporting on the continent. It requires all listed company to use IFRS for financial reporting under its fourth and seventh Directives (see Nobes and Roberts, 1997; Judge *et al.*, 2010 p. 167).

Despite the lack of a unified approach to harmonise or converge financial reporting on the continent, efforts directed towards harmonisation are being made by some regional economic communities. These include; (i) Economic Community of

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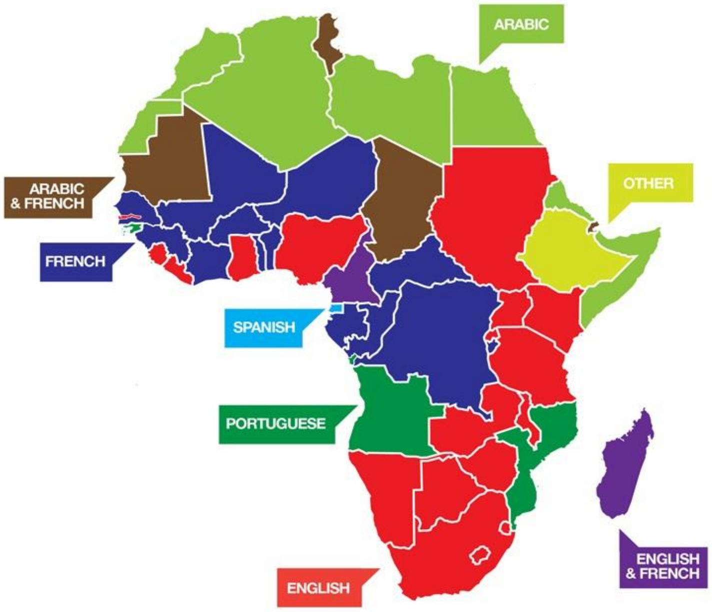
[29] https://au.int/en/treaties/1161 - Accessed on 16 June 2020

West African States (ECOWAS); (ii) Common Market for Eastern and Southern Africa (COMESA); (iii) East African Community (EAC); (iv) Southern African Development Community (SADC); and (v) Organisation for the Harmonisation of Accounting; and Organisation for the Harmonisation of Business Law In Africa (OHADA)

Figure 6.1 Official languages used in Africa countries



Source: https://geographyeducationdotorg.files.wordpress.com/2014/03/5-african-business-languages.jpg?w=736(Accessed 20 July 2020)

6.2.1 ECOWAS

The Economic Community of West African States (ECOWAS) was established in 1975 as a regional group of fifteen (15) countries with a mission to promote economic integration in "all fields of economic activity, particularly in industry, transport, telecommunications, energy agriculture, natural resources, commerce, monetary and financial questions, social and cultural matters." (ECOWAS, 2018). The member states of the ECOWAS are Benin, Burkina Faso, Cape Verde, Ivory Coast, the Gambia, Ghana, Guinea, Guinea Bissau, Liberia, Mali, Niger, Nigeria, Senegal, Sierra Leone and Togo. This institution in West Africa is considered to be one of the strongest economic communities in the African continent. Politically and socially, the membership is made up of a mixture of former colonies of Britain, France and Portugal. The Anglophone member states (Ghana, Liberia, Nigeria, the Gambia and Sierra Leone) are linked to Britain just as the Francophone member states (Benin, Burkina Faso, Ivory Coast, Guinea, Mali, Niger, Senegal and Togo) and Lusophone states (Cape Verde and Guinea Bissau) are connected to France and Portugal respectively. By definition, Anglophone includes English-speaking countries, where two or more languages are spoken; Francophone refers to a country that is "French-speaking", commonly as a primary language; Lusophone are Portuguese-speaking African countries [30].

In addition to being members of ECOWAS, the Francophone, Lusophone and the Spanish speaking countries are members of the Communauté Financière Africaine (CFA), a block of countries using the same currency that was previously pegged to the French Franc before France joined the Euro. Moreover, these countries are members of the Organisation for the Harmonisation of Business Law in Africa, commonly recognised by the French acronym OHADA.

[30] See https://www.isbn-international.org/content/francophone-and-lusophone-countries for the African countries listed as Francophone and Lusophone (accessed 15 April 2020)

Figure 6.2 The map of ECOWAS countries

Source: ecowas.int (2018)

The evolution of financial reporting standards in the ECOWAS

The effect of colonisation is one major factor that has shaped the nature of accounting in many countries outside Europe (Briston, 1978). Colonial legacy extends beyond financial reporting because it has also influenced legal systems, culture, and other backgrounds (Parker, 1990). Generally, the history of accounting in the ECOWAS, can be divided into three time periods, namely, the period of colonial rule, the period immediately after achieving colonial independence (1967-1998) and the current period of globalization which spans from 1998 to date (Elad, 2015). All the accounting systems in use within the individual ECOWAS states have been structured either directly or indirectly by the colonial heritage, and thus reinforcing Nobes (1998) argument that colonial inheritance is one of the major factors that determine a county's accounting practice outside of Europe

6.2.2 Southern African Development Community (SADC)

Another regional body for economic and political integration is the Southern African Development Community (SADC). The present SADC was established from its predecessor, The Southern African Development Coordinating Conference (SADCC) on 17 August 1992 in Windhoek, Namibia with the mission to:

> "promote sustainable and equitable economic growth and socio-economic development through efficient, productive systems, deeper co-operation and integration, good governance, and durable peace and security; so that the region emerges as a competitive and effective player in international relations and the world economy"[31].

It is made up 16 member states, including Angola, Botswana, Comoros, Democratic Republic of Congo, Eswatini, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Tanzania, Zambia and Zimbabwe. Although SADC has legally binding protocols on regional corporation in areas such as education and training, legal affairs and trade, unlike in the case of ECOWAS, there is no specific mention of economic integration and common accounting practice. This means that members of SADC can pursue their own accounting traditions. This is probably so because the membership of SADC is from different colonial affiliations such as the Anglo American, Francophone and Lusophone, making it difficult to adopt one accounting system (see Nobes, 1983, 1998, 2008, 2011; Elad 2015).Furthermore, the colonial heritage has influenced the legal systems along the lines of civil law and common law traditions which tend to foster different approaches to financial reporting (see Nobes, 1983, 1998, 2006, 2008).

6.2.3 Common Market for Eastern and Southern Africa (COMESA)

One of the most ambitious regional economic integration community with a similar mission to that of the European Union is COMESA (see Cini and Borragán, 2016, p. 19; COMESA, 2018). It started as the Preferential Trade Area (PTA) for the countries in

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[31] See https://www.sadc.int/about-sadc/overview/sadc-mission/ (accessed 28 June 2020)

the Southern and Eastern Africa in 1981 and was adopted within the framework of the then Organisation of Africa Unity (OAU) that is now changed to the African Union. A part of its reorganisation, the PTA was changed into COMESA in 1994 to take advantage of its larger market size and allow for a broader socio-economic corporation. It has a mission to:

> "Endeavour to achieve sustainable economic and social progress in all Member States through increased co-operation and integration in all fields of development particularly in trade, customs and monetary affairs, transport, communication and information technology, industry and energy, gender, agriculture, environment and natural resources" (COMESA, 2018).

Its ambitions and institutions are very similar to that of the European Union (Cini and Borragán, 2016, p 19). The ambitions include the setting up of a free trade area guaranteeing free movement of goods, a customs union, free movement of capital and investment, a payment union by establishing a COMESA Clearing House, a common currency free movement of people and a regional court of justice (COMESA, 2018, pp. 1-11). Although the setup is similar to that of the EU, one of the main differences between the two institutions is that, there is no specific mention of harmonisation or convergence of financial reporting practices. For instance, the EU requires all listed companies to adopt International Financial Reporting Standards and to prepare financial reports in compliance with its fourth and seventh directives (Nobes and Roberts, 1997; Judge *et al*., 2010 p. 167). COMESA has 21-country membership made up of: Burundi, Comoros, Democratic Republic of Congo, Djibouti, Egypt, Eritrea, Eswatini, Ethiopia, Kenya, Libya, Madagascar, Malawi, Mauritius, Rwanda, Seychelles, Somalia, Sudan, Tunisia, Uganda, Zambia and Zimbabwe. Again, similar to ECOWAS and SADC, the membership of COMESA is divided between Anglo-Saxon, Francophone and Lusophone countries, with almost all the countries having a colonial affiliation to either Britain or other continental European countries (Table 6.1). This probably explains why there are no formal attempts to harmonise or converge accounting practices (See Elad 2015). Again, in terms of the legal framework, the countries are divided between those with civil law and common law traditions, and therefore making it difficult to converge their accounting systems (see Elad, 2015).

Table 6.1–Legal Tradition and multiple associations of COMESA countries

Country	**International Language(s)**	**Heritage Legal System**		**OHADA Membership**	**EAC Membership**
		Civil law	Common Law		
Burundi	French	Civil law			Yes
Comoros	French, Arabic	Civil law		Yes	
DRC	French	Civil law		Yes	
Djibouti	French, Arabic	Civil law			
Egypt	Arabic	Civil law			
Eritrea	Arabic, English	Civil law			
Eswatini	English	Civil law	Common law		
Ethiopia	English	Civil law			
Kenya	English	Civil law	Common aw		Yes
Libya	Arabic English	Civil law			
Madagascar	French	Civil law			
Malawi	English		Common Law		
Mauritius	English, French	Civil law	Common law		
Rwanda	French, English	Civil law	Common law		Yes
Seychelles	English, French	Civil law	Common law		
Somalia	Arabic, English		Common law		
Sudan	Arabic, English		Common law		Yes
Tunisia	Arabic, French	Civil law			
Uganda	English		Common law		Yes
Zambia	English		Common law		
Zimbabwe	English		Common law		

Source – Author’s own creation

6.2.4 East African Community (EAC)

Like COMESA, the East African Community is another regional economic integration community with a membership of just six countries but with similar objectives to that of COMESA and the EU. It was established in July 2000 with its headquarters in Arusha, Tanzania, with a mission to "widen and deepen economic, political, social and cultural integration in order to improve the quality of life of the people of East Africa through increased competitiveness, value added production, trade and investments"[32]. Its membership includes Burundi, Kenya, Rwanda, South Sudan, Tanzania, and Uganda. Similar to the EU and COMESA, the EAC has a customs union to ensure free trade of goods and services among member countries, with a common external tariff; a common market to ensure free movement of goods and services, persons, labour, capital and right of residence.

EAC is currently working towards a monetary union, where member states will use a common currency by the year 2023[33]. It has the aim of a political federation where they will have a common foreign and security policies. Although these objectives are like those of the EU, there is no regional institution responsible for convergence or harmonisation of accounting systems that can facilitate the objectives of a common market and a customs union. This is essential because in a common market, comparability of data and information is a major requirement in assessing regional performance. This requires member states to adopt common practices in compiling, processing, and disseminating financial data (Al Mansouri and Dziobek, 2006, p.6). Therefore, there is the need for member states to use a common regional or global standards and accounting frameworks to compile corporate financial reporting data (see

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[32] See https://www.eac.int/overview-of-eac (accessed 29 June 2020)

[33] See https://www.eac.int/monetary-union (accessed June 2020)

Al Mansouri and Dziobek, 2006, p.6)

A common observation from these four regional institutions is that, while they may have similar objectives of economic and some political integration, none of them has any protocol for convergence of financial reporting among member states. Consequently, financial reporting among member states may continue to be influenced by other environmental factors such as previous colonial influence, language, culture, economics and political factors (D'Arcy, 2001, p. 329; Radebaugh *et al*.,2006, p.16). As table 6.1indicates, one of the reasons why it will be difficult for one of these economic and political communities to converge their accounting systems is the overlap of membership of different groups with different European accounting orientation. Also, the influence of the colonial past weighs heavily on the accounting systems pursued by these countries as against any morning economic affiliation that they may belong to. As long as these diversities and different colonial orientation exist among members of ECOWAS, COMESA and SADC it will be difficult for them to converge their accounting systems, or even contribute meaningfully to any attempt to harmonise and converge the accounting systems of Africa countries.

This also raises the question as to whether the accounting systems on the continent of Africa will continue to be influenced by their strong colonial heritage and also by institutional isomorphic pressures imposed by international organisations such as the World Bank, IMF and IASB. (see DiMaggio & Powell, 1983; 1991).

Having examined African countries from the perspective of regional economic communities, this chapter will next group Africa countries into a community of languages, made up of Anglophone Francophone and Lusophone states to study their financial reporting from the perspective of Anglo-American and the continental

European accounting classification (See Nobes, 2006, 2008; Elad, 2015).

6.3 Evolution of financial reporting in the Anglophone African Countries

Following independence from Britain at various dates in the 1950s, to the 80s, the English-speaking countries in Africa would have been expected to have developed their own accounting and legal systems and then move away from those that they had inherited from their colonial past. Rather, they continued either directly or indirectly with those that they had inherited from the past, and in addition, continued to use the English language as their official mode of communication. This could partly be alluded to the reason that, immediately after independence, these countries would have faced uncertainties with establishing their own accounting and legal systems (e.g., National Companies Acts) since, in the first place, they did not have the experienced personnel and knowhow to undertake these tasks (see UNCTC, 1991; Owolabi and Iyoha, 2012).

Overtime, these inherited systems were modified into various national versions all in the bid to adapt them suit their national needs (Ngantchou, 2011). However, academic commentators have often argued as they were still modelled on that of Britain, a country whose economy was far developed than these nations' and therefore were too advanced to their requirements. For example, Parker (1990; cited in Elad,2015) argued that Nigeria's conversion (or mimicking) of the British Companies Act of 1908 designed for West Africa during the colonial era did not amount to progress, as it was too advanced for their requirements. Similarly, Okike (2004) cited in Elad (2015) notes that, by mimicking the UK's Companies Act, the Nigerian Companies Act of 1968 failed to deal with issues that were relevant to the economic and commercial development of the country. Later in the 1990s however, some of these countries developed their own local GAAPs. These were not original, but they were based on IAS and the UK accounting standards as the basis for financial reporting (e.g., Appiah et al., 2016).

In the current period of globalisation from 1999 onwards, the accounting systems used by these Anglophone countries have been imposed on them by international agencies such as the World Bank and IMF (Elad, 2015). These countries experienced severe economic crises during the late 1990s, and as a condition to help them, the World Bank compelled them to implement structural adjustment programmes that have been demanded by the IMF. Included in the requested structural adjustment programmes was the requirement for the countries to adopt IFRS for financial reporting. This was meant to promote good governance, transparency, market-oriented reforms, deregulation and trade liberalisation (for example World Bank, 1992, 2002, 2008, 2018; Lassou *et el.,* 2018). Although the countries have sought to comply with the demands of the World Bank and other donor agencies, the countries have attained different levels of IFRS adoption, with countries like South Africa, Kenya, Ghana and Nigeria well ahead of the others (Figure 5.1).

In the first place, the Anglophone states' adoption of IFRS which is principles-based than rules-based, could be attributed to their inclination with the common law, even though many researchers have suggested that it is rather due to globalisation and integration of capital markets (Essien-Akpan, 2011) that have imposed the pressure on them for them to adopt IFRS as earlier suggested.

Table 6.2 summaries the state of financial reporting in some Anglophone countries from the period they gain their respective independence to the early 1990s.

Of the five countries, with the exception of Liberia, the rest's accounting, legal and regulatory framework that were in use were influenced by the UK's accounting, legal and regulatory framework in varying degrees. Countries like Sierra Leon were basically using UK accounting standards without any change probably just because with the UK being their former coloniser, Sierra Leone considers the UK's accounting standards as better and/or using the UK standards will grant their accounting and legal framework some legitimacy (DiMaggio and Powell, 2003). Again, like most African countries in the periods before the 1990s, Sierra Leone did not have enough qualified accountants to develop its own accounting standards (UNCTC, 1991, p. 159). This meant that it was easier for the country to embark of a wholesale adoption of the UK accounting and auditing standards.

Similarly, major Anglophone countries like Kenya, South Africa, Ghana and Nigeria had adopted some aspects British and IASC's legal and accounting framework and international accounting standards in their local accounting and legal framework with some modifications to suit their local requirements (Appiah et al., 2016). Gambia on the other hand, had very little legal and regulatory framework for accounting of their own, instead, their companies act was based on the UK's companies act of 1948. The country did not have any accounting standard setting body and therefore its accounting practice was based on IASC and UK accounting standards (UNCTC, 1991, p. 102).

Liberia, a former Colony of the United States of America, did not have any legal or regulatory framework of accounting before the 1990s. In fact, the country did not have any specific law or act defining accounting rules. Its Business and Corporation Act of 1976 just mentions the need for companies to maintain adequate books and records without giving any guidelines. Consequently, the accounting practices in operation were based on United States accounting standards (UNCTC, 1991).

Table 6.2: Summary of Accounting Practice in some Anglophone states before 1990

COUNTRY	Accounting, Legal and Regulatory Framework in use	Existence of enforceable accounting standards	Existence of National Accountancy Bodies	Existence of Local Examinations to Professional level	Underlining Foreign Accountancy Influence
Gambia	Very little legal framework for accounting: Gambia Companies Act is based on UK Companies Act 1948	No Accounting Standard Setting Body but Accounting Practice is based on IASC and UK Accounting Standard	Gambian Association of Accountants – but not statutory recognised	Non: Professional Accountancy study in UK mostly by correspondence	Based on UK accounting Standards and IASC
Ghana	Legal &regulatory Framework Accountants Act of 1963 Companies Act 1963	Yes: - Standards set by ICA (Ghana) based on modifying UK/IASC accounting and auditing standards.	Institute of Chartered Accountants Ghana 1963	Yes: Local professional organized by ICA (Ghana)	Based in UK/IASC Accounting and Auditing Standards
Liberia	No legal framework: No Specific law or Act defining Accounting rules	No Specific accountancy law The Business and Corporation Act of 1976 just mentions the need to maintain adequate accounting books and records.	Liberian Institute of Certified Public Accountants - Act of 1933 but was not implemented until 1980	None: Mostly university graduates calling themselves Certified Public Accountants	Accounting practices in government departments based on United States Accounting Standards
Nigeria	Legal and regulatory Framework Nigeria GAAP set by NASB	Independent: Standard Setting Body - Nigeria Accounting Standards Board (NASB)	Institute of Chartered Accountant of Nigeria (ICAN)	Yes: Local exams controlled by ICAN	Based in UK/IASC Accounting and Auditing Standards
Sierra Leone	Legal Framework Based on UK Accounting Laws in is in use for more than 30 years. Regulatory Framework exists but not enforced.	UK Accounting Standards in use.	Institute of Chartered Accountants – established in 1988; - No code of ethics or norms to conform	Non: Local examinations are for UK qualifications: ACA, ACCA and ACMA, & CA	Based on UK

Source: Author’s own creation but adapted from materials in UNCTC (1991)

This backs the trend in Africa where the countries have adopted and/or adapted the accounting practice of the developed and more advanced former colonizers either, because they did not have their own, or they did that to legitimise their accounting practice by copying from a more recognised source. The problems that the countries faced for adopting this approach is that, often, they were using accounting practices that were either too advance for their economies or for them to understand, given that all the countries' economies were mostly agro-based, and did not have adequate and experience qualified accountants who could probably adapt them to meet their local needs. Overall, due to various institutional and environmental factors ranging from colonial influence, membership of IFAC, and pressures from international bodies, most of the English-speaking countries on the continent have adopted IFRS in full compared to the non-English speaking ones.

6.4 Evolution of financial reporting in the Francophone & Lusophone African Countries

From the colonial era to the late 1990s, the Francophone, Lusophone and Spanish speaking countries in Africa were using the *accounting plans* which was based on mainly on the accounting system of France and other continental European states like Portugal. After achieving political independence in the 1960s until the late 1990s, most of the former French colonised countries for example, continued to use the French accounting plan of 1957 (Degos, 2011). Even after this period, the new accounting plans that were designed for the socio-economic needs of the states were still based on French accounting traditions. Unlike the Spanish and Portuguese speaking countries, the influence of the French accounting practices endured due to the fact that most of these Francophone countries have continued to have a closer economic and political associations with France after independence (Degos, 2012).

6.5 Joint African and Malagasy Organisation (OCAM)

Following independence, the accounting framework that was used by these countries were designed to meet the macroeconomic needs of these countries (Ngantchou, 2011) rather than to provide the information need of the investors. Accounting information was therefore supposed to provide information that was relevant for the computation of total basic national income. In order to achieve these, the accounting system was set as a legally enforceable chart of accounts which was based initially on the French Accounting plan of 1947-1957 (Elad, 2015; Tchokote, 2019). However, the French system was too advanced for the needs of these least developed countries and therefore was not relevant to their requirements. These deficiencies in meeting their accounting information needs led to the creation of African and Malagasy Common Organization accounting plan in 1968 in Niamey, Niger. This was later adopted by the Joint African and Malagasy Organisation (OCAM) in Yaoundé, Cameroon in January 1970 (Fortin and Dicko, 2009)

One of the main objectives of this new accounting system was to harmonise the accounting practices of the member countries (Pérochon, 2009). In order to achieve this objective, it was to be written into individual national laws. This accounting plan was based on codified law traditions of the continental European accounting systems as it was prescriptive, standardised and did not allow for the use of judgement (see Roberts *et al.*,2005, p. 151). However, the OCAM accounting plan failed because these countries were torn between adopting capitalism (market economies) and socialism (state-led economies). This created inconsistencies between accounting plan and accounting law, statistical & fiscal reporting and financial statements, and the absence of an available text regarding consolidation (Mayegle, 2014).

Consequently, rather than fostering a harmonised accounting practices, the differences in the political climates in the member countries intensified the divergences in financial reporting (Pérochon, 2009). Table 6.3 provides us with some evidence that not all the Francophone countries in African had adopted OCAM by 1991, even though it all these countries hand been signatories to it. It also shows the lack of enforcement and professional training in most countries, together with the fact that the majority did not have an accountancy body to regulate the profession by then. For example, countries like Benin, Guinea and Mali were all still using their own version of national accounting plans that were based on France's accounting plan of 1957 (see UNCTC, 1991). Even for countries like Ivory Coast, Burkina Faso and Niger who that had adopted the OCAM and had written it into their law, they either did not have any national bodies to enforce compliance, or even when they did, these were non-functional is indicated in Table 2 (UNCTC, 1991).

Surprisingly also, these countries did not have national accountancy bodies by 1991 which meant that in these countries there were also no professional regulatory bodies to ensure compliance OCAM (Table 6.3). The lack of accountancy body was probably due to the fact that, apart from Senegal, none of these jurisdictions offered accountancy training up to professional level (see UNCTNC, 1991). All the local institutions were mostly offering accounting training up to bookkeeping and degree levels. Given these national limiting factors of lack of enforcement, no accountancy bodies and lack of professional accounting training, it is not surprising that there was proliferation of different accounting practices in these countries, despite the main objective of OCAM being standardisation of accounting practice (Kinzonzi, 1984, cited in Elad, 2015).

Despite its failure, the OCAM PCG is nevertheless credited with laying the initial foundation for the framework of standardisation of accounting in the French-Speaking countries in Africa (Tchokote, 2019). It also provided a platform on which the OHADA accounting plan of 2000 was birthed as some of its practices were still used.

Table 6.3: Summary of Accounting Practice in Francophone Africa before 1991

Country	Accounting framework before 1990	Statutory regulation and enforcement	Existence of national accountancy bodies	Existence of local examinations to professional level
Benin	Plan Comptable General adopted in 1988	CNC-but not operational	Yes	No: local training to bookkeeping and degree levels
Burkina Faso	Adopted Plan Comptable of 1973 based on OCAM	CNC - not operational	No:	No: local training to bookkeeping and degree levels
Cameroon	Using 'undefined' international standards	No – voluntary compliance of International standards	No	No: Local training to accounting technician level
Congo	Plan Comptable of 1978 based on OCAM	Commissariat National aux Comptes - inoperative	Yes : but not organised.	No: local training to bookkeeping and diploma levels
Guinea	Plan Comptable National of 1961	CNNC	Yes	No: local training to bookkeeping and degree levels
Ivory Coast	Plan Comptable based on OCAM	CNSNC	No	No: local training to bookkeeping and degree levels
Mali	Plan Comptable based on 1957 French accounting plan	2 Government ministries responsible – creating inconsistences	Yes	No: local training to bookkeeping and degree levels
Mauritania	Plan Comptable undefined and not enforced	CNC–but not enforce compliance	Yes	No: local training up to bookkeeping level
Niger	Plan Comptable of 1976based on OCAM	CNC - but not operational	No	No: one institution offers Professional training but not based on localised professional examinations.
Senegal	Plan Comptable OCAM Plan	CNC	Yes	Yes : but these are not locally controlled examinations
Togo	Plan Comptable based on OCAM	CNC – but not operational	Yes	No: Local training to bookkeeping and degree levels

CNC - Conseil National de la Comptabilité
CNNC - Conseil National des Normes Comptables
CNSNC - Comité National de la Statistique et de la Normalisation comptable

Source: Author's own creation: adapted from materials in UNCTC (1991)

6.6 SYSCOA OHADA (FROM JANUARY 2000)

Due to the shortcomings of the OCAM, it was replaced with the SYSCOA OHADA (hereinafter called OHADA) which was widely implemented and well established among these countries in the early 1990s in the West African Economic and Monetary Union (WAEMU) and the Central African Economic and Monetary Union, (CEMAC). The transition from OCAM, a culturally based accounting system to OHADA, a system that rooted in a conceptual framework which is inspired by IASB's international financial reporting standards represents a significant improvement in financial reporting in the WAEMU region (Degos, 2012)

In 1993, upon the establishment of the Organisation pour l'Harmonisation en Afrique du Droit des Affaires (OHADA) also known as the Organisation for the Harmonisation of Business Law in Africa, in Port Louis (in Mauritinia) a new treaty for the convergence of business laws was signed by majority of the former French colonies and other African countries (Enonchong, 2007). The Francophone and the Lusophone (Guinea Bissau) ECOWAS states are subscribed members of the OHADA, which seeks to improve the investment climate in its member states. Among other things, the OHADA treaty prescribes accounting guidelines for member countries, which are enshrined in law, and supersedes any existing accounting legislation of any individual member state. This was adopted by member countries in January 2000.The SYSCOHADA framework is a combination of capital macroeconomic accounting model that is influenced heavily by government and thereby making it rules based. It recognises the presence of private and public capitals in the economies of member countries and therefore aims to provide relevant information to both sources of capital.

Government of member states controls wealth creation and distribution through their decisions and are also the primary users of the accounting information produced largely for purposes of tax and national statistics. This makes all other stakeholders secondary (Nzakou, 2001 cited in Mayegle, 2014). The purpose of providing accounting information is very similar to that of the Franco-German accounting system. Additionally, under this framework, accounting information is also intended to provide the information needs all other stakeholders, including shareholders, creditors, employees or management (Colasse, 2009; Fortin and Dicko, 2009).This accounting system operates three levels of compliance, making it appropriate to African business operations The normal (accrual-basis) system for large companies, the simplified accounting system for small and medium enterprises (SMEs), and the minimal cash-basis accounting system for very small enterprises.

The purpose of the three-fold approach is to make it relevant to companies of all sizes and therefore eliminate the presence of any informal system in the member states (Fortin and Dicko, 2009). This has been considered as very innovative due to how well it fits the African context (small, medium, and large enterprises). It also enhances the provision of better information to accounting information users (Fortin and Dicko, 2009). OHADA PCG's financial report is made up of two sections. The first segment involves presenting balances of items such as the internal financing capacity, operating working capital and cash flow from operating activities, investments, and net increase (decrease) in cash. The second part provides less detailed notes to the statements and without statement of changes in capital

(Foundation for a Unified Business Law in Africa, 2000).

Figure 6.3 The map of OHADA countries

The member states include - Benin, Burkina Faso, Cameroon, Central African Republic, Côte d'Ivoire, Congo, Comoros, Gabon, Guinea, Guinea Bissau, Equatorial Guinea, Mali, Niger, the Democratic Republic of Congo (DRC), Senegal, Chad and Togo

Source: www.ohada.com (accessed 11 June 2020)

6.7 SYSCOA OHADA (Revised January 2017)

When the SYSCOA OHADA accounting was first introduced in 2000, it was considered as very innovative due to how well it fits the African trade system (small, medium and large enterprising). It is also credited with enhancing the provision of better information to accounting information users (Fortin and Dicko, 2009). Most importantly, it was seen as a first effort of the countries using the PCG to acknowledge some elements of IFRS in their financial reporting. In recent times however, coercive pressure from providers of Finance (e.g., World Bank and IMF), investors and multinational companies have continued to mount on these countries to embrace IFRS for financial reporting (see DiMaggio and Powell, 1991, p. 150;

Carruthers, 1995, p. 317). It appears that these countries have yielded to the pressure and have revised the OHADA accounting system more in line with IFRS (OHADA.org, 2020). Ivory Coast, one of the leading members of OHADA and a full member of IFAC is described by IFAC as having partially adopted IFRS. IFAC[34] states that:

> In January 2017, the Commission de Normalisation Comptable de l'OHADA (CNC)-OHADA, established in 2009 through an OHADA Uniform Act, adopted the OHADA Uniform Act on Accounting and Financial Information (AUDCIF) to update the previous OHADA Uniform Act on Organizing and Harmonizing Company Accounting Systems 2/2000. The previous Act had outlined the OHADA Accounting System and applicable standards—known as SYSCOHADA.
>
> The OHADA AUDCIF revised the SYSCOHADA, namely the OHADA general accounting plan, as well as the consolidated and combined accounting rules to serve as a single accounting reference in all OHADA member states. The OHADA AUDCIF became effective on January 1, 2018 for individual accounts and on January 1, 2019 for consolidated accounts. The SYSCOHADA continue to differ from the International Financial Reporting Standards (IFRS) and are generally applied by small and medium-sized entities (SMEs); however, the AUDCIF now requires that listed companies and companies seeking financing in a public capital market to apply IFRS in consolidated statements. All other companies are permitted but not required to use IFRS.

This statement is repeated by IFAC on its website for all the other members of OHADA. Although these countries have accepted IFRS for financial reporting, it marks a partial adoption as it is not a requirement of all companies. As this is new and only took effect from 1st January 2019, the first reports only come out after 31 December 2020. Currently there are not many financial reports produced by listed

[34]https://www.ifac.org/about-ifac/membership/country/ivory-coast (Accessed 1 July 2020)

companies with the OHADA jurisdictions for us to access the extent of compliance with IFRS. However, this study will be using data from. 25 companies from OHADA jurisdiction to access the level of compliance and compare their IFRS practices with those of the Anglo-American heritage. This study will now examine the revised OHADA PCG of 2017 and then compare it to IFRS to evaluate the extent to which the revised accounting plan is IFRS compliant.

With this new accounting system's approval on 26 January 2017 at Congo Brazzaville (OHADA.org, 2020), it has taken 17 years after OHADA, which was first introduced in 2000 to replace OCAM, to be updated. It is interesting to note that the World Bank was the main financial backer of the new accounting standard as it was one of the main sponsors the first workshop that was organised in Grand-Bassam, Ivory Coast from 4th to 9th December 2017 to train delegates from member countries for its implementation (OHADA.org, 2020)[35]. The Bank's involvement demonstrates the relentless institutional pressure (coercive isomorphic pressure; see DiMaggio and Powell, 1991; Irvine, 2008) that it has applied on these countries to encourage them to adopt IFRS. The table below shows the slow journey of accounting evolution that the Francophone countries have embarked on, partly in response to their unique economic needs, and partly due to the pressures that have been exerted on them by the relevant international institutions who have become stakeholders in their economic development.

[35]https://www.ohada.org/index.php/en/news/latest-news/2302-entry-into-force-of-revised-syscohada-ohada-puts-the-finishing-touches (Accessed on 7 March 2020)

Table 6.4: The development of Accounting from OCAM to OHADA

Items	Description	OCAM – 1968 Affiliation	OHADA2000 - Affiliation	OHADA 2017 - Affiliation
Standardisation Body	OHADA, a regional organization, depends on treaty signatories of OHADA	French	French	Anglo-American
Objectives of accounting standards	Traditional design of accounting data exchange that retains a plurality of end users	French	French	Anglo-American
Reference to conceptual framework	Explicit conceptual framework	French	Anglo-Saxon	Anglo-American
Sources for standardization	Plurality of sources	French	French	Anglo-American
Role of the state	OHADA is an organization under the tutelage of the ministries of Justice and Finance	French	French	Anglo-American
Role of the accounting profession	Development of accounting standards ensured by members of FIDEF[27] and African accounting experts	French	Anglo-Saxon	Anglo-American
Role of end users	Represented in the development procedure for standards	French	French	Anglo-American heritage
Characteristics of standards	Accounting framework, including rules for accounting and evaluation, rules for bookkeeping, structure and operation of accounts, and summary of documents	French	French	Anglo-American

Source – adapted from Degos (2012)

Table 6.4 outlines the accounting development of the Francophone countries which commenced in the 1960's being heavily aligned to that of France, bearing the characteristics of the continental European accounting practice with features such as, codified law, linkage between accounting and taxation, and rigid accounting format. Slowly, the various accounting plans have metamorphosed over time and embraced more of the Anglo-Saxon accountancy practice, as shown in Table 6.4. The journey towards Anglo-American accounting standards seems now near completion but it is not over yet. It still remains as to whether what is left of the SYSCO OHADA accounting framework will in future just be a mere legal requirement (de-jury) whiles the de-facto accounting practice will become IFRS based or although the de jure accounting system for the OHADA countries is now IFRS (for publicly funded and listed companies), the de facto practice will be IFRS based or a combination of 'OHADA-IFRS'. This will be ascertained when more comparable data becomes available over the next few years of financial reporting.

6.8 ABWA and PAFA

So far, most of this study has concentrated on the external institutions that have influenced the financial reporting in Africa. This section will now examine the contributions that pan African accountancy bodies.

6.8.1 *Association of Accountancy Bodies of West Africa (ABWA)*

The Association of Accountancy Bodies of West Africa (ABWA) was formed in 1992, with 15 members[36], through the encouragement and involvement of IFAC (Tawiah 2019) with the mission;

> • to develop and enhance accountancy profession in West Africa, align its strategies with global best practices and thereby improve governance, eliminating waste and corruption, reduce poverty and enhance the standards of living of the citizenry.
>
> • to provide for the development of professional ethics and standards in member-bodies and act as the centre for dissemination of information on accounting standards and development of accountancy practices in West Africa.

[36]Available at: www.abwa-online.org/membership.htm (accessed 01.07).

- to partner with national government through the member institutes in the development of public financial management systems (ABWA, 2018).

ABWA has made some modest achievement in the development of harmonised framework for professional accounting education and practice, commencing with the Accounting Technician Scheme across West Africa which has to date produced over 4000 graduates (ABWA, 2019). This scheme equips successful candidates with skills and competences to work as middle level accountants providing technical support in accounting, auditing and taxation. It has also organised training programmes on the adoption and implementation of IFRS and IFAC Code of Ethics at various locations for trainers and has also Co-hosted a seminar on IFRS for SMES with the World Bank for the Anglo Phone trainers. ABWA’s relationship with IFAC and its involvement with training on IFRS and IFAC Code of Ethics, and organising training on with and on behalf of World Bank suggests that it endorses the embracing of IFRS in the region, and has become one of the agents for its diffusion. Since these two organisations are advocates for IFRS adoption through normative persuasion by IFAC and coercive persuasion by the World Bank, ABWA’s involvement with them in this direction confirms it as an agent for IFRS usage in West Africa.

However, despite all the help that ABWA has received from both IFAC and World Bank, it has had limited success in trying to persuade its 16-member accounting bodies (from the 15 ECOWAS states that they represent) to converge their financial reporting systems. This is because the region is made up of civil law countries like Ivory Coast, Mali and Senegal whose accounting systems are rooted in the Franco-German tradition, and common law countries like Ghana, Nigeria and Sierra Leone, whose practices are based on the common law principles of the Anglo-American school (see Nobes, 2008; Elad, 2015).

6.8.2 The Pan African Federation of Accountants (PAFA)

Another Institution that is involved in the development of accounting in Africa is The Pan African Federation of Accountants (PAFA), which has its head office in South Africa. It is a body that represents Africa's professional accountants. Established in May 2011, it represents 55 Professional Accountancy Organisations from 44 countries in Africa[37]. Its mission is to

> "accelerate and strengthen the voice and capacity of the Accountancy profession to work in the public interest, facilitate trade, and enhance benefits and quality services to Africa's citizens" (Pafa.org.za, 2020).

According to PAFA, this objective will be achieved by engaging and collaborating with the members and other stakeholders at continental, regional, and national levels to develop the accountancy profession on the continent (PAFA.org, 2020)[12]. It has stressed the importance of accountability in good corporate governance, acceleration of economic growth, and the reduction in poverty on the continent. This organisation represents the voice of the accountancy profession in Africa on the board of IFAC. Therefore, by working closely with both the accountancy bodies on the African continent on the one hand and the IFAC on the other, PAFA is one of the driving forces for accelerating the development of the accounting profession in Africa and considers

[37]https://pafa.org.za/ (Accessed on 15 June 2020)

international accounting standards as a valuable tool to help to achieve accountability and good corporate governance (Annisette, 2004; van Rooyen *et al*., 2012). Technical information on PAFA's websites suggests it expects its members to converge their accounting systems by using IFRS for financial reporting.

6.9 Similarities and differences between SYSCOHADA and IFRS

Although the countries of the countries in the OHADA region have adopted the use of IFRS, it is restricted to financial reporting of large public businesses and listed companies. Most of the businesses in this region are small size and are unlikely to use IFRS to produce their financial reports (see Zori, 2015). Also, even with the listed companies, in addition to IFRS, they will still have to produce accounts under OHADA for taxation purposes. This thesis will now examine some similarities and differences between the two systems.

The two systems are influenced by similar Anglo-Saxon principles underlying the preparation of financial reports (Degos, 2012; Dicko and Fortin, 2014). These include the principle of transparency aimed at producing a true and fair view of accounts. Also, under the two systems, accounts are prepared based ongoing concern assumptions, matching and prudence concepts. They also have in common, the principles of reliability, relevance and neutrality of accounting information which although are implied in OHADA's conceptual framework, they are not specifically mentioned in its concepts (Dicko and Fortin, 2014).

Moreover, the SYSCOHADA accounting system is a blend between the Anglo-American and the French uniform accounting models, suggesting that the

OHADA accounting plan complies with IFRS in some respect (see Degos, 2012, Tchokote, 2019).

Despite these similarities, significant differences between the two systems remain. IFRS are rooted in common law tradition and hence, principles-based whiles the OHADA system is built on civil law practises of the French Uniform Accounting model and for that matter, it is more rules-based (Elad and Tumnde, 2009).

Moreover, OHADA accounting is prescriptive as it is based on a Uniform Act of Accounting and series of guidance documents which provide guidance on definition of account codes, routine bookkeeping procedures, model financial statements, accounting rules for specific activities (e.g. agriculture and service concession arrangements), accounting rules for consolidated financial statements, cash flow accounting for microbusinesses, uniform terminology, a nomenclature system for goods and services, and a comprehensive glossary of accounting terms (Elad, 2015). Discussed below are of some specific differences between the two financial reporting systems:

Additionally, under Article 346 of the OHADA Uniform Act of Arbitration (OHADA UAA), it is required of companies to create legal reserves, equal to 20% of share capital, from annual appropriations of 10% of profits, until the required size (equal to 10% of nominal capital) of the reserves is reached. This is very similar to the practice in the civil law countries in Europe (e.g., France and Belgium) but this is not a requirement under IFRS (see Mackenzie *et al*., 2014, p. 69.)

There are also differences in accounting recognition and measurements of certain transactions such as long-term contracts. Article 60 of the OHADA UAA allows companies to recognise profit on long-term contracts using either the "percentage of completion method" or the "completed contract method". However, in practice, most Francophone companies used the completed contract method. Under IFRS 15 *(Revenue from Contracts with Customers*) however, the percentage of completion method is used, only when the outcome of the contact can be reliably estimated, and all expected losses must be recognised in full immediately.

Thirdly, prior to the OHADA UAA, member countries were not required to produce statement of cashflow. Even though the OHADA UAA requires companies to prepare a statement of cashflow, the structure of the statement of cashflow under the OHADA UAA is different from the one prescribed under IAS7 (*Statement of cashflows*). Cashflow statement under the OHADA UAA consists of a complex series of tables which are intended to be used as template for determining sources and applications of funds. The statement of cashflow under lays a stronger emphasis on working capital opposed to those prepared under IAS 7, it lays emphasis on cash balances (Tchokote, 2019)

There are also differences in how foreign exchange translation is treated under OHADA, compared with the treatment of foreign exchange translation under IFRS. Under IAS 21(*The Effects of Changes in Foreign Exchange rates*), there is a requirement that all unsettled foreign currency gains or losses should be taken to income statement. However, Article 54 of the OHADA UAA, requires unsettled gains on foreign currency transactions should be excluded from income. On the other hand, unsettled losses are recognized in the income statement.

Another area of dissimilarity is in the structure of the income statement preparation. Under the OHADA UAA, the income statement has a macroeconomic bias that requires costs to be classified "by nature" (e.g., depreciation, raw materials, and personnel). Contrastingly, IAS 1 (*Presentation of Financial Statements*) allows both the "by nature" and the "by function" approaches. Income statement is classified "by function" (e.g., production, administration, selling and distribution) which is a feature of the Anglo-American accounting system. Table 5.1 below is an abridged income statement adapted from the OHADA UAA system (Elad, 2015; Tchokote, 2019). Despite the fact that both approaches are allowed under IAS 1, there is however a clear international difference in the choice of income format in countries with predominantly Anglo-American accounting tradition and those with the Franco-German (or continental European) tradition. Those with Anglo-American tradition prefer "by function" approach whereas those of the Franco-German tradition prefer "by nature" approach, as shown in Table 6.5 below.

Table 6.5: Abridged income statement from the OHADA UAA.

OHADA accounting system - Abridged "by nature" income statement

Commercial margin[a]	**X**
Add - Production:	
Sold[b]	X
Added to Inventory[c]	X
Capitalised	X
Total Production for the period	**XX**
Less intermediate consumption:	
Raw materials & other consumables	(X)
Value added	**XXX**
Less:	
Operating expenses	(X)
Depreciation & other provisions	(X)
Staff costs	(X)
Taxation	(X)
Operating profit after tax	**XXXX**

[a] – is the gross profit on goods purchased from external sources for resale

[b] – Sales of finished goods and services
[c]- Changes in inventory of finished goods and work in progress
Source: Adapted from Elad (2015)

Table 6.6: Structure of income statements by countries

Country/Class	**Presentation Type**	**Classification Method**
Continental European		
Anglophone countries	Vertical	By function
France	Mainly two-sided	By nature
Germany	Vertical	By nature
Japan	Vertical	By function
OHADA countries	Two-sided	By nature
Spain	Two-sided	By nature
Anglo-Saxon		
United Kingdom	Vertical	By function
United States	Vertical	By function
Ghana	Vertical	By function
Nigeria	Vertical	By function
South Africa	Vertical	By function
Kenya	Vertical	By Function
Anglophone Africa	Vertical	By function

Source - Adapted from Nobes (2006, p. 45)

Finally, *deferred tax* (IAS 12) also presents another area of differences between the OHADA UAA and international accounting standards. Deferred taxation is a feature of Anglo-American accounting because accounting practices differs from tax rules. Consequently, two sets of accounts are normally produced, one for publication, and the other for the tax authorities. However, the OHADA accounting system largely follows tax rules and therefore deferred taxation is not a very significant issue for companies (Degos, 2012).

The above differences suggest that although in principle Francophone countries have accepted to adopt IFRS for financial reporting by listed companies, there will still be many opportunities for differences in financial reporting to exist in practice. Francophone countries are currently still using the SYSCOHADA PCG for unlisted companies. In addition, since no new legislation was enacted to revise the link between accounting and taxation, the dichotomy between the Anglo-Saxon accounting practice and Continental European accounting methods are likely be repeated in the region between the two classes of Anglophone and Francophone countries.

6.10 Accounting Harmonisation in Africa: Problems and Prospects.

The study of the difference between the OHADA accounting system and IFRS suggest that efforts to converge accounting practices in the region will be met with serious challenges as these two systems been influenced by national cultures inherited through colonisation and have become part of society (see Grays, 1988). Although the recent adoption of IFRS by the civil law countries of the OHADA region signals a positive step towards convergence of accounting practices on the continent, differences in culture, and the continuous influence of the colonial past will continue to hinder progress (see Nobes, 1998).

In addition, differences in the ownership and capital structures among the companies in the Anglophone and Francophone states will influence the decision by some companies as to whether to adopt IFRS for financial reporting. The ownership structures of the countries in the OHADA region are more based on family-owned small scale businesses with less requirements for external reporting, hence little motivation for adoption of IFRS with all its additional cost (Owolabi and Iyoha, 2012; Sy and Tinker, 2013; Khlif, Ahmed and Alam 2020). Investors in the OHADA states may be described as credit or equity insiders (Frank and Mayer, 1997). This structure is like that of continental European countries like Germany with family-owned and bank financed firms (e.g., Nobes, 1984). This also may explain why the number of companies listed on stock markets in the OHADA regions of west and central Africa are very low (Table 9.2).

The two OHADA regions consist of 17 countries, but between them, there are only 50 listed companies. This compares less favourably with the Anglo-Saxon cultured countries like Nigeria, with 170 listed companies, and South Africa, with 317 companies. As Table 9.2 suggests, the civil law countries in Africa (mostly the Anglophone countries) have a capital market-based financing system with a lot of 'equity outsider' investors, hence the need for stock market listing (Franks and Mayer, 1997).

Furthermore, the common law countries in Africa are strong equity countries hence the higher tendency for them to embrace the use of IFRS, a system that is rooted in conceptual framework for financial reporting (see Nobes, 2011). On the other hand, civil law countries have least developed markets, partly due to low 'outside' investor protection, since the companies are run by family members (La Porta *et al.*, 1997). There is therefore they are not likely to use IFRS, unless they must.

Another potential hindrance is the cost of conversion. the potential cost of convergence to IFRS challenges presents a barrier to changes. The high cost setting up the system, changing previous reports and information, retraining accounting professionals, as well as monitoring and ensuring that the required standards are adhered to in order to achieve the needed harmonisation, will provide enough barrier to put them off (Owolabi and Iyoha, 2012; Carneiro, Rodrigues, and Craig, 2017).

Despite these challenges there are great potential benefits Africa stands to gain they are successful at converging the accounting practices amongst its member states. One of the good characteristics of an accounting information is comparability. The convergence of accounting reporting system will eliminate the cost of converting financial reports from one framework to another; and enhance analysis of financial information and comparability to ease investment decision making. The enhancement in comparability can increase the inflow of foreign investment in Africa (Owolabi and Iyoha, 2012; Appiah *et al.*, 2016).

Similarly, convergence will help in the consolidation of financial statements of multinational firms who have several subsidiaries across the continent. This will in turn facilitate assessment of performance and control by management of firms. Moreover, it will increase the transparency and integrity of accounting information produced by firms in the region. This will ease cross-border transactions, improve monitoring, facilitate analysis of financial performance, ease the compilation of firms' performance data as well as government revenue in terms of taxes (Demaki, 2013; Samaha and Khlif, 2016).

6.11 **Conclusion**

This chapter has reviewed the role played by political, economic, and professional communities in the development of accounting systems on the continent. There are regional institutions whose objectives (either directly or indirectly) are promote convergence of accounting systems among its members. However, the influence of colonial inheritance has led to the creation of two systems. The anglophone countries (with ties to Britain), who are predominantly common law oriented, tend to use IFRS because they have a well-developed capital market based on equity outside capital structures. On the other hand, the civil law countries (majority with ties to France), with equity or credit insider capital structures, have relatively fewer listed companies, and are less likely to embrace the use of IFRS.

Also, despite the changes that have been made to the OHADA accounting plan, it is still different from IFRS in many respects. These lingering differences will hinder the prospects of harmonisation of accounting systems on the continent. With the prospects of African countries converging their accounting systems around the use of IFRS, the next chapter will assess whether these standards all relevant to the financial reporting needs of African countries.

7. Chapter 7: How suitable are IFRS for Africa?

7.1 Introduction

This chapter will consider whether IFRS are suitable for financial reporting in Africa. As previously stated in the preceding chapters of this study, institutional pressures have been applied on the countries in the region to adopt IFRS for financial reporting in order to gain financial recognition in the world in order to increase their ability to access foreign capital. There is however the unanswered question as to whether IFRS are suitable for the countries in the region, given their unique socio-economic makeup, when compared to the developed Western countries who have developed economies with correspondingly developed capital markets. The suspicion is that, the imposition of international financial reporting standards on these least developed nations will benefit the investors of these multinational companies rather than these poorer nations (Sy and Tinker, 2013). As Sy and Tinker (2013, p.2) warn;

> "Africa should be wary about 'Greeks bearing gifts' [or in this case, those who have the most to profit from boosting, international financial reporting standards (IFRS)]. The promise of increased access to capital for Africa and African corporations is a chimera. Improvement in global comparability may benefit to multinational corporations, and their Big 4 accounting firm audit/consulting providers, but companies with primarily domestic operations will not recognise the same benefit"

Consequently, this chapter will review the purpose of financial reporting in both developed and least developed countries. It will then assess the benefits and challenges of using IFRS in Africa. The chapter will conclude by assessing the suitability of IFRS for financial reporting by countries on the continent.

7.2 The purpose of financial reporting – who's needs are met?

The primary purpose of accounting prepared under IAS or IFRS is to provide financial information mainly for investors and creditors (providers of finance) as against the information needs of other stake holders (see Briston, 1978; Enthoven, 1973). Essentially, accounting provides investors with information that they need for making decisions, planning and control (Hopper, 2012; 2017). The use of IFRS is to promote this main objective of financial reporting on the global stage by providing a common platform for financial reporting. It has therefore become one of the essential tools of globalisation that investors use determines how and where to channel their investment globally.

Consequently, since 1990s, international development agencies such as the World Bank, IMF and WTO have sought to recommend neo-liberal economic policies and reforms to demonstrate 'good governance' and the 'capable state' policies as instruments to facilitate globalisation. To this end, the addition of IFRS for financial reporting is meant to give the assurance of good governance and to enhance countries' reputation as capable states (Annisette, 2004; van Rooyen *et al*., 2012). Regrettably, little is known about how the use accounting, among other things, can help businesses and countries to provide these assurances that investors need, especially in least developed countries (Lassou, 2020).

Afterall, the use of IFRS has not reduced the level of corporate failures in the world. Rather there has been arguments that the overt and the covert options in international accounting standards (see Nobes, 2008) allow companies to justify and at times to hide evidence of poor corporate governance. The consequence is that this provides unsuspecting investors with ‘false assurance’ of good corporate governance and thereby deceive them into making the wrong investment decisions.

In developing countries, accounting systems are not just used for corporate reporting to provide investors with relevant and reliable information for decision making. They are also national tools relevant in providing information for economic development as they provide for national income computations, planning and control for national governments (Hopper *et al*., 2012; 2017). Accordingly, the nature of financial reporting is considered vital for the developing needs of the poorer countries. They have pressing needs to meet challenges in economic development in areas such as poverty alleviation, infrastructural development, and increasing literacy amongst their population (Lassou, 2020). Many writers such as Enthoven (1973) have argued for a different definition of accountancy that will be more relevant to the needs of the poorer African countries. He identifies three major areas of accountancy that should be combined into a single accounting framework for financial reporting that is suitable for these nations as;

- “Enterprise accounting – which consists of financial accounting, management accounting, and auditing)
- Government accounting – consisting of financial recording, budgeting and taxation
- Social accounting – comprising national income, fund flow statements, balance of payment accounts, and many more.”

Enthoven’s proposed definition exposes the current bias in the definition of Anglo-American accountancy practice which emphasises on the provision of information for enterprise and de-emphasizes on the provision of information to other stakeholders such as governments and society. Broadly speaking, the main purpose of publishing financial reports is to give an account of an entity's financial and economic activities (Botzem, 2012, p. 7). For businesses, financial reporting provides information to market actors and public bodies and assist them in making decisions such as acquiring and/or disposing equity shares, provision of loans and credit facilities, and purchasing products (Botzem, 2012). However, according to Botzem (2012), the main stakeholders who are targeted by the information that is provided by financial reporting (by listed companies) differ between the Anglo-American countries and that of continental European countries. In the Anglo-American countries, the main stakeholders who are targeted in financial reporting are shareholders and investors. To the contrary, in continental Europe, financial reporting is also designed to serve tax authorities.

This suggests that the assertion that the main purpose of producing financial statement is to provide for the information needs of shareholders and creditors (providers of finance) is strictly relevant in the Anglo-American context. It is therefore not surprising that IASB's conceptual framework, which is rooted in Anglo-American accounting principles defines the main objective of corporate financial reporting as providing relevant information to creditors and shareholders (Choi, Frost and Meek, 2010, p.80; Nobes, 2011).

Even though continental European countries such as Germany and France, have adopted IFRS, they still interpret the main objectives of financial reporting to include providing relevant information to tax authorities. These differences in the perceived objectives of financial reporting between these two groups of developed economies makes one to suggest that the objectives of financial reporting in African should be tailored to serve the needs of the nations on the continent. The definition should include meeting the economic development and the social needs of countries in the region. For example, the purpose of financial reporting in Africa could be to, ‘provide relevant and reliable information for enterprise, governments and society to help them in decision making, taxation, planning and controlling’.

Inferring from the arguments above regarding the purpose of financial reporting, it is not surprising that since gaining independence from colonial rule, most African countries have not been able to forge their own accountancy systems. These countries lack financial statements that can serve their specific socio-economic and political needs (see Manson 1978, p. 124). They have either previously used and or are currently using accounting procedures that are still linked to their previous colonizers.

Far from being indigenous, financial reporting in Africa and for that matter, developing countries, evolved by a combination of formal and informal means of ‘international transfer of accounting technology’ over many years (Wallace and Briston, 1993, p. 215). These sources include;

- “previous colonial legacies;
- the importation of accounting qualifications from developed countries;
- the activities of transnational enterprises in these countries;
- the role of international organisations like the World Bank and regional development agencies like the African Development Bank;
- efforts by the developed countries' aid institutions;
- the role of the International Federation of Accountants and the International Accounting Standards Committee, and regional groups such as the African Accounting Council and the Association of Accounting Bodies of West Africa;
- the fact that English is the first or second language in many of these countries, has led to the use of British, American or Australian textbooks for accountancy training, as local textbooks are rarely available”.

(Wallace and Briston, 1993, p. 215).

Even for local institutions such as the African Accounting Council and the Association of Accounting Bodies of West Africa, their mission is not to develop an indigenous African accounting system, but to reinforce the use of the imported international accounting technology to satisfy the demands of globalisation (see Tawiah, 2019). The fact that most of different accounting systems on the continent are imported from outside the continent raises the doubt as to whether they are relevant to meet the financial reporting needs of its countries.

7.3 The Benefits and Challenges of IFRS Adoption in Africa

In spite of the misgivings associated with the use of international accounting standards in Africa, it is often argued that in the current era of globalisation resulting in businesses without borders, the adoption of recognised international financial reporting standards will grant access to foreign capital and attract foreign investments. The use of these standards will create the right climate to attract inward foreign investments and multinational companies (Annisette, 2004; van Rooyen *et al*., 2012)

Like many developing countries, the nations of Africa have also been subjected to coercive pressures from international financial agencies, and in particular, the World Bank and the International Monetary Fund (IMF). These institutions are the main providers of loans and financial assistance and are therefore very active in assisting poor countries with economic development across many jurisdictions. With their global status as one of the main players in world capital markets, these institutions are deeply embedded in capitalism (Annisette, 2004) and are therefore active facilitators of globalisation (Neu, Gomez, de Leon, & Zepeda, 2002). In many cases, the World Bank has often instructed developing countries to adopt international accounting standards, and in some cases, making it a precondition for granting loans (Alfredson, Leo, Picker, Pacter, & Wise, 2007).

It is believed that these conventional Anglo-American financial reporting practices may make a country's economy attractive to foreign investors and providers of finance. However, the question that is yet to be answered is the extent to which IFRS has helped in achieving the development of accounting needs of Africa (see Enthoven 1973; Briston 1978; 84). What makes this doubt pertinent is the fact that African is a developing continent and most economies of its nations are under-developed and are different from the advance western economies for whom and by whom IFRS were developed. As Tables 4.3 and 4.4 imply, there is hardly any meaningful representation of continent in the whole institution of IFRS foundation and its various organisations responsible for setting international financial reporting standards.

Africa is anthropologically diverse, with different ethnicities, different languages, diverse ways of living. In terms of business, a lot of transactions take place in the informal sector without adequate information or accounting records; and lacks any organisation of social and business activities, especially its 'informal sector' (Verick, 2006). However, the continent is often branded monolithically using the socio-economic and political structures of advanced western countries and institutional frameworks, and thereby neglecting its realities. For example, traditional methods of production in farming and manufacturing, and in the financing business activities; and in social activities such as marriages and funerals often use non-banking means of finance and therefore hardly provides any audit for financial reporting (Lelart, 1990). This raises the doubt as to whether the use of international accounting standards will help to completely capture all transactions in order to provide a financial report that are relevant and faithfully represents the phenomenon they claim to represent.

Part of the problem of the imposition of the western style accounting practice on African countries is due to lack of accounting literature on the continent. Despite early research on accounting and development generally (Enthoven, 1973) and later on Africa (Asechemie, 1997), studies that can question the relevance of the international accounting standards to the needs of Africa have been neglected, especially in leading accounting journals. The little studies that have been conducted have tended to concentrate on the Anglophone African states to the neglect of the Francophone countries (Lassou, 2020). Nevertheless, Francophone Africa is an important part of the continent in terms of the size of their population, the size of their economies, and their similar historical backgrounds of accounting development (Lassou, Hopper and Ntim, 2017).

Furthermore, due to the complex nature of the continent's political economy both at micro and macro levels (Harris, 1975; Harrison, 2004, 2005), there is the need for more studies on accounting that is based on its unique socio-political setting in order to understand the effect of the imported foreign accounting practice on the society (Hopper *et al*., 2017).

What the African countries share in common is that they are low-income countries that tend to often rely on World Bank concessionary loans and IMF enhanced structural adjustment funding to support their economy. They also have small, relatively open economies, with national income highly reliant on the export of a limited number of primary commodities. Besides, agriculture is the main activity that generates employment for the majority of the working population, and in addition most nations of the continent have a relatively small and underdeveloped industrial sector. Consequently, the national governments play a major role in investment and employment in their economies (see Dicko and Fortin, 2014, p. 144; Zori, 2015).

The above-mentioned characteristics of the African economies suggest that they are likely to be less reliant on capital markets. This raises doubt about the extent to which the use of international accounting standards, designed for the sophisticated global economies (see Larson and Street 2004; Roberts *et al*., 2005 p.10), will be helpful in assessing the performance of businesses on the continent. Consequently, the use of IFRS may not be able to generate the reliable and relevant information that African investors may need. In this regard, Briston (1984) contends that little attention is paid to the fact that the current form of international financial reporting standards is investor biased and may not be appropriate to underdeveloped economies like that of most African countries.

7.4 The suitability of IFRS for financial reporting in Africa.

The development of accounting in Africa has been complicated since often local collective cultural patterns differ from the individual philosophies of the West. Given these economic conditions in Africa, Briston (1984) argued that financial reporting under IFRS is unhelpful as they fail to meet the needs of the governments of these countries, and that, they are also harmful as they stop these countries from developing their own financial reporting standards that can meet their specific needs.

Manson (1978, p. 124, cited in Briston, 1984) also contended that by encouraging developing countries to adopt IAS and IFRS rather than developing their own standards, this has benefited foreign investors, multinational companies and the Big 4 international accounting firms that operate in their countries. Consequently, in the current period of globalisation and the drive towards convergence of financial reporting practice, one of the main losers are developing countries who have been discouraged from designing their own accounting systems that will recognise their governments as the main investors in their economies, rather than the private individuals and institutions.

The unsuitability of the UK and the US accounting systems (and for that matter IFRS) for the African countries can be inferred from the main objective of financial reporting. Accounting is primarily concerned with the collection, analysis, and evaluating data to help in decision making in terms of the allocation of the limited resources by mainly investors and managers of an enterprise (Briston, 1978). By analysing this objective of accounting in the African context, there is generally a very high degree of incompatibility because, following independence from colonial rule, various African governments began to exercise control over their economies to the extent that the governments became the key players in their economies. They set up large-scale government enterprises and there was the rapid development of state owned and state-controlled sectors such as local authorities, cooperative societies, district and regional development councils. The primary aim of the governments is not for profit making as require by enterprise, but for the development of their economies. This meant that the financial reporting that the governments will require goes beyond the financial reporting for mainly enterprise as promoted in IFRS. Rather, the government requires information that will be relevant for its socio-economic development such as the level of employment in the economy, taxation, and national income. This requirement cannot be provided by financial reporting under IAS and/or IFRS in their present form (Briston, 1978).

Again, one of the main motivations for developing countries seeking to attract MNCs is for them also to help the host countries in terms of local employment, training, and building of national infrastructure. Again, the current nature of financial reporting under IFRS does not provide the financial reporting that will satisfy the information needs of these countries. Instead, these MNCs tend to prepare accounts based on IFRS, which are prepared and audited by one of the large international accounting and auditing firms, popularly called Big Four accounting firms, and mainly from UK and US (Chua and Taylor, 2008; Assenso-Okofo *et al*., 2011). The Big 4 have a presence in developing countries to serve the needs of these multi-nationals, international financial institutions, and to promote the western accounting culture (predominantly IFRS) in these nations, even though they are not suitable to their needs (Chua and Taylor, 2008). Even the local staff that they employ tend to sit foreign professional accountancy examinations (e.g., ACCA and CIMA) rather than local examinations, adding to the fact that even among the few trained qualified accountants that the developing countries need, some have been trained to serve the needs of foreign institutions rather than local.

Hood and Young (1979), cited in Briston (1984), have also challenged that since MNCs wield major influence on the economies of developing countries, the financial reports that they produce, should not only be directed to meeting the needs of enterprise, but they should also meet the needs of other stakeholders such as their host governments and the society. Briston (1984) suggests that a relevant financial reporting should address:

- "Purchase of inputs locally.
- Exports of final products and export market controls.
- Transfer pricing practices.
- Profit and capital repatriation.
- Basis of calculating royalty payments and management fees.
- Form in which parent company finance is to be made available.
- Access to local capital markets.
- Extent of local equity participation, now or future.
- Local participation of top management.
- Level of employment provided.
- Obligation to train local personnel.
- Taxation concessions.
- Subsidised interest rates, energy costs, and transport costs.
- Extent and nature of competition.
- Nature of technology transferred and provision for maintenance.
- Environmental protection.
- Construction of social overheads, such as roads and housing.
- Use of locally owned transportation."

In Africa, as the Anglophone countries like Ghana and Nigeria have adopted IFRS, financial reports by both MNCs and local companies will hardly address the important issues raised by Hood and Young (1979) in meeting the needs of other stakeholders. For example, this suggests that in Anglophone African nations, most of whom have fully embraced the use of IFRS, financial reporting will only address enterprise accounting and not government and social accounting (Enthoven, 1973).

The picture is somewhat different with the Francophone and Lusophone countries that had previously used the OCAM accounting plan and are now using the OHADA accounting plans. For example, one of the characteristics of the Cash Flow Statement under the OCAM PCG was that it was closely geared to macro accounting. It comprised of management flows, long-term flows and short-term flows in credit, and physical flows and financial flows in debit. The long-term cash flows corresponded to the capital account in macro accounting whereas the short-term flows corresponded to the financial accounts of the national income computation. This indicates that some aspect of financial reporting had a direct impact on the computation of national income, and therefore relevant to the needs of the government in terms of measuring national prosperity, and the needs of the society. Also, under the OCAM, it was a requirement to produce value added statement in financial reporting. Under this, income and wealth production, and its allocation were presented in the value-added statements (Moussa, 2010). Overall, although the OCAM plan itself was created to provide the information requirements for enterprise accounting of the member countries, the clear articulation between micro accounting and macro accounting is one of the features that it also emphasised on.

Similarly, the OHADA provides a better financial reporting needs as it takes into consideration the information needs of enterprise, government, and society. The main features under the OHADA included some aspects of the Franco-German accounting practice that it had inherited from the French accounting plan of 1957. It also embraces some elements of Anglo-American and International Accounting Standards, it requires national economic and financial analysis, as well as considering the African specificities in financial reporting (Moussa, 2010). Arguably, this makes the OHADA plan better in providing for the informational needs of the member countries, when compared to IFRS. It is better because it incorporates the features of enterprise accounting, government accounting, and social accounting (see Enthoven, 1973).

This is further illustrated in Table 7.1 below which shows that out of the eight groups of identified stakeholders of financial reporting under the OHADA accounting plan, at least three of them (BCEAO, the State, and the personnel) clearly identifies the needs of the Government and Society in the financial reports, in addition to reporting for enterprise.

By reference to Table 7.1, MNCs operating in the OHADA member states are more likely to produce financial reports that will alleviate some of the limitations of financial reporting not meeting the needs of the governments and the society. For better financial reporting therefore, countries should not only adopt IAS and IFRS but rather, they should in addition develop local GAAPs that will also concentrate upon evaluating their information needs for enterprise accounting, government accounting and national accounting, and they should seek to establish training programmes that will locally produce accountants who are qualified to manage these requirements. In addition, where they choose to use IFRS either in whole or in part for financial reporting, it should be accompanied with a very good enforcement regime as the economic consequences for adopting them will depend on the quality of the enforcement policies and procedures that are put in place (Palea, 2013, p. 249).

Table 7.1The Stakeholders and the information needs under OHADA

Users	**Financial Objectives**	**Nature of Information**	**Decisions**
Company and management	To provide information on financial position, performance and cash flow position	Economic perspective and management financial analysis (modular according to the size of the company)	Short-term management of long-range strategies on the principal partners through their financial statements
Customers and suppliers	To provide information on the creditworthiness and going concern of the company	Economic and financial perspective	Creation and relations with the company, development or cease of these relations
Associates and Investors	To provide information on current situation, the economic structure and the performance of the company	Economic, financial and management perspective	To invest or not to invest
Lenders and Financial Institutions	To provide information on the immediate and future solvency and on the going-concern status of the company	Economic and financial perspective and even of strategic management	To contact or not with the company in short-term, long-term and medium-term
BCEAO	To provide information on key performance indicators for refinancing with the bank	Financial perspective by rebounded economic and management	To refinancing or not
Employees	To provide information allowing a good appreciation of going concern risk the risks of the company	Economic and social perspective	To contact or not with the company, appreciation of the employer’s condition
Government and general public	To provide information for taxation, statistics, and national accounting for decision on of economic policies	Tax, statistical and macroeconomic perspective	Economic policy and budgetary
Other partners outside OHADA jurisdiction	To provide information on company policies, international accounting standards used for clarity and transparency in the preparation of financial statements.	International practices perspective	To invest or not in the zone according to the reliability of financial information

Source: Moussa (2010, p. 73)

7.5 Conclusion

This chapter has examined the suitability of the use of IFRS in financial reporting in Africa. In the process, it compared the objectives of financial reporting in the developed Western economies, to those that will be relevant to the needs of African nations. This study is of the view that the objectives of financial reporting that meets the development needs African states should 'provide relevant and reliable information for enterprise, governments and society to help them in decision making, planning and control'. This is different from the conventional objectives of financial reporting under IFRS, which is, 'providing information for the decision needs of investors'.

The concluding part of the chapter has questioned the suitability of the use of IFRS for financial reporting in Africa. By reviewing the benefits and the challenges of adopting international accounting standards, this chapter has compared the OHADA accounting plan, rooted in civil law traditions to the use of IFRS, which is rather based on common law heritage, The conclusions were that the OHADA system is more relevant to the needs of enterprise, governments and society. This suggest that a standardised accounting plan, that is established by civil law provisions, with less room for the exercise of judgement and is specific on the economic needs of the countries in Africa is to be preferred to the use of IFRS which is foreign and does not address to the specific needs of African countries.

8. Chapter 8: Setting the scene– Accounting Classification in Africa and Perception on IFRS use in Ghana

8.1 Introduction

This chapter uses relevant literature to set the scene for empirical studies of listed companies in Africa who are required by law to use IFRS for financial reporting, and the use of interviews to determine the perceptions of accounting professions on the use of IFRS, in chapters 9 and 10 respectively. The chapter is divided into two sections. The first section will explore literature on the overt and the covert options under IFRS that that have caused international differences in financial reporting to survive even when countries have implemented the use of IFRS (Nobes 2006; 2008). It will then discuss Nobes (2006) hypothesis on the subject from which two will be adapted to form the basis for this thesis' research.

The second part will review existing literature on the perceptions of accounting professionals, as against academics in use of IFRS. The views of the accounting professionals on IFRS are very important and probably neglected in many literatures as most research have been conducted by academics who often have no practical workplace experience with the use of IFRS in any shape or form. This thesis is of the view that it is important evaluate the perceptions of professional accountants on the use of IFRS, against the backdrop of the doubts of the suitability of IFRS in Africa as have been suggested by different academic research. Chapter 7 of this thesis assessed the relevance of IFRS to financial reporting needs of African countries, using research by academics who often are not professional accountants, or have no work experience in the accounting profession. Again, the arguments raised in chapter 7 did not take into consideration the perception of accounting professionals who work with IFRS. This thesis addresses this gap in literature by investigating the views of those accountants who are directly working with IFRS in their workplace.

8.2 Prior Research on IFRS options.

Nobes (2006) made a bold and contentious assertion that the adoption of International Financial Reporting Standards (IFRS) will not necessarily lead to comparability in financial reporting because pre IFRS national differences will continue to exist even in the era of IFRS. His assertion is based on the fact that accounting treatment under IFRS contains options which has led to systematic differences in the way in which countries have exercised these options. He classifies these options into two categories: covert options and overt options.

An IFRS option is called ‘overt’ if it is expressly specified as a choice within a standard. By contrast, ‘covert’ option exists where no choice is explicitly offered but where the degree of judgement involved might allow scope for the preferences of the preparers of financial statements (Nobes, 2013, p. 91). This implies that covert options arise because of imprecise criteria that exist in IFRS, leading to different interpretations. By contrast, overt options are options or differences in accounting treatments that are specifically allowed in IFRS. Examples of covert and overt options allowed in some in some specific standards under IFRS are shown in Table 8.1.

Table 8.1 Examples of overt and covert options in IFRS in 2010

IAS/IFRS No.	Overt options	Covert options
IAS 1	▪ Choice of content of statement of changes in equity (paras. 8, 96 ▪ No format requirements for statements of financial position or comprehensive income (paras 79 and 82)	▪ Determination of whether a liability is current on the basis of the expected date of settlement or purpose of holding (para. 60).
IAS 2	▪ Either FIFO or weighted average for the determination of the cost of inventories (para. 25). ▪ Marking to market. allowed for inventories of commodity broker-traders (para. 3).	
IAS 7	▪ Net basis allowed for cash flow statements (para. 21). ▪ Choice of classification for interest and dividend flows (para. 31).	
IAS 8	▪	▪ The determination of materiality for various purposes (para. 5).
IAS 11	▪	▪ Use of percentage of completion method only if the outcome of a contract can be estimated reliably (para. 22).
IAS 12	▪	▪ Recognition of a deferred tax asset for a loss carry forward only if future taxable profit is probable (para. 34). ▪ Recognition of a deferred tax liability on unremitted profits from subsidiaries only if dividends are probable in the foreseeable future (para. 39).
IAS 16	▪ Either cost or fair value measurement basis for classes of property, plant and equipment (para. 29).	
IAS 17	▪	▪ Lease classification based on ‘substantially all the risks and rewards’ with no numerical criteria (para. 8).

IAS/IFRS No.	Overt options	Covert options
IAS 19	▪ Actuarial gains and losses can be taken; (a) immediately in full to the statement of recognised income and expense (SORIE), (b) immediately in full to the income statement, (c) in full to income over the remaining useful lives of employees in the plan, (d) in full to income over a shorter period (paras 92–93A).	
IAS 20	▪ Asset grants can be shown either as a deduction from the asset or as deferred income (para. 24). ▪	
IAS 21	▪	▪ Determination of functional currency based on a mixture of criteria (paras 9–12).
IAS 23	▪	▪ Cessation of capitalisation of borrowing costs when 'substantially all' the activities to prepare the asset are complete (para. 22).
IAS 27	▪ In parent statements, subsidiaries can be shown either at cost or as available-for-sale investments (PARA 37)	▪ Identification of a subsidiary on the basis of 'power to control' (para. 4).
IAS 28	▪ In investor statements, associates can be shown either at cost or as available-for-sale investments (para. 38).	▪ Identification of an associate on the basis of 'significant influence' (para. 2).
IAS 31	▪ In group statements, there is a choice of either proportional consolidation or equity accounting for joint venture entities (para. 30). ▪ In venture statements, joint ventures can be shown either at cost or as available-for-sale investments (para. 46).	▪ Identification of a joint venture on the basis of joint control of 'strategic financial and operating decisions' (para. 3).
IAS 36	•	• Identification of an indication of impairment based on a mixture of criteria (paras. 12–14).
IAS 37	•	• Recognition of a provision based on probability of outflow of

IAS/IFRS No.	Overt options	Covert options
		resources (para. 14).
IAS 38	• Either cost or fair value measurement for some types of intangible asset (para. 72).	• Capitalisation of development costs when all criteria are met (para. 57). • Amortisation of intangible assets only if useful life is assessed as finite (para. 88).
IAS 39	• Choice of either cost basis or marking to market for some financial assets and liabilities (para. 9). (Other choices are also available within para. 9.)	• Use of cost basis where equity instruments cannot be measured reliably (para. 46). • Estimation of hedge effectiveness as a condition for use of hedge accounting (para. 88).
IAS 40	▪ Permission to classify a property held under an operating lease as an investment property (para. 6). ▪ Entity-wide choice of either cost or fair value as the measurement basis for investment property (para. 30).	▪ Use of cost basis, despite entity-wide choice of fair value, for an investment property whose fair value cannot be measured reliably (para. 53).
IAS 41	▪	▪ Use of cost basis for a biological asset whose fair value cannot be measured reliably (para. 30).
IFRS 3	▪ Choice on the calculation of goodwill in the context of non-controlling interests (para. 19).	▪ Identifying the acquirer in a business combination presented as a merger of equals (para. 20)
IFRS 5	▪	▪ Treatment of assets as held-for-sale if expected to be sold within one year (para. 8).
IFRS 8	▪	▪ The determination of reportable segments based on a mixture of factors (para. 11).

Sources: Nobes (2011, pp. 23-24)

In the 1990s, IASs allowed overt options (see Table 8.1 for examples) partly due to the fact that most of them had been written before the publication of the International Accounting Standard's Committee's conceptual framework of accounting in 1989 (e.g., Choi and Meek, 2010, p. 200), and hence allowed different interpretations in accounting treatments. Also, the overt options were allowed in order to attain the 75% required votes on the International Accounting Standard Boards for the standards to be passed (Zeff, 2002; cited in Nobes, 2006). As shown in Table 8.1, for instance, overt options persist in IAS 1 (Presentation of Financial Statements) where there is no specific format required in the presentation of balance sheet or income statement. Also, under IAS 2 (Inventories), companies have the choice of determining the cost of inventory by either using FIFO or weighted average, which may result in different accounting measurement. Again, under IAS 40 (Investment Property), companies can either chose cost or fair value as the basis of measuring the carrying value of investment properties in their books.

Table 8.1 also shows examples of gaps in IAS that has led to the exercise of covert options. For instance, under IAS 21 (The Effects of Changes in Foreign Exchange Rates), the determination of functional currency is subject to a "mixture of criteria", all of which are subject to interpretation and judgement not specifically defined in the standard. Similarly, under IAS 27 (Separate Financial Statements), the identification of a subsidiary based on 'power to control' may be subject to different interpretations in different jurisdictions hence potentially creating differences in the preparation of group consolidated financial reports.

Using these overt and covert options, Nobes (2006, 2013) developed 8 hypotheses (Table 8.2), using the UK and the Germany as examples of common law and civil law countries respectively. He used these hypotheses as the bases to highlight the differences in accounting practices between UK and Germany, and by extension, between common law countries and civil law countries, and by further extension, between the Anglo-American and the continental European accounting systems. As well, he used these propositions to highlight some of the areas of international differences in financial reporting instigated by the exercise of covert and overt options that are inherent under IFRS as shown in Table 8.1. In the next chapter of this thesis will analyse further hypothesis H4 and H7 in the context of financial reporting in African countries.

Table 8.2: Nobes Hypotheses

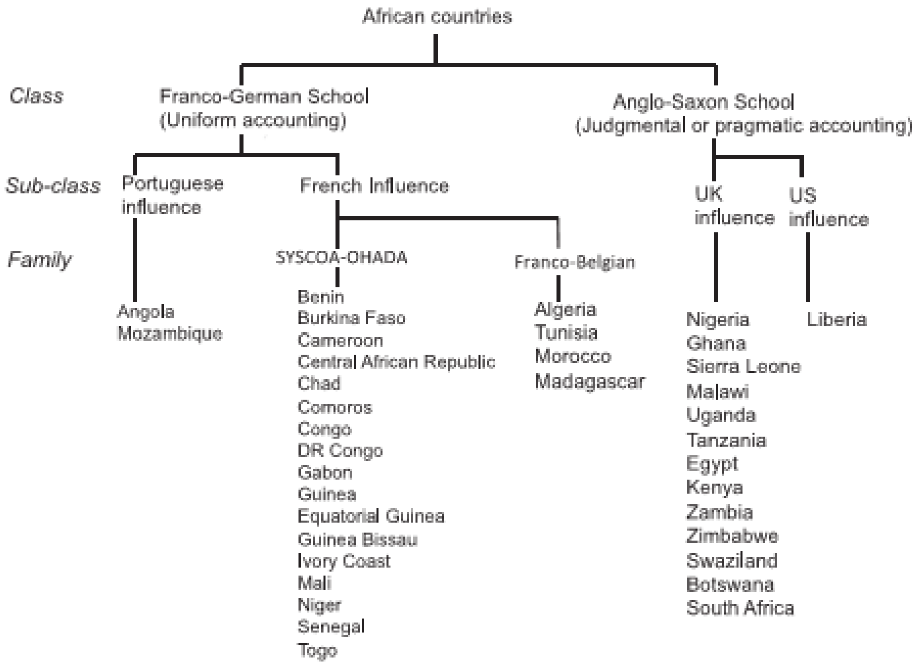
Hypothesis	Details
H1	International differences in practice exist among IFRS companies due to differences in the version of IFRS being used.
H2 -.	For some topics, different translations of IFRS lead to different practices
H3 -.	For topics on which there are no specific rules in IFRS, German practice is different from UK practice
H4 -.	The choice of IFRS options by the UK and German groups is different
H5 -	Covert options in IFRS are exercised differently by UK groups than by German groups.
H6 -.	Estimations under IFRS are biased differently in German than in UK groups
H7 -	Pre-IFRS differences between national practices have a significant effect on IFRS financial statements.
H8 -.	Compliance with IFRS by German groups is lower than that by UK groups

Source – Nobes (2006, pp. 237-243)

On Africa, Elad (2015) uses a similar argument to Nobes' and asserts that even in the era of IFRS, and despite the pressure from the World Bank and the IMF for African countries to converge their accounting practices to international accounting standards, the systems in use in the OHADA countries are still based on long established French traditions inherited through past colonial relationship (see

Briston 1978; Nobes, 1998). Using arguments on the exercise of overt options, similar to Nobes, he proposes the existence of two classes of accounting methods in Africa. As shown in Figure 8.1, Elad classified financial accounting systems in Africa into two main groups. These are the Anglo-Saxon accounting classification (common law) and the Franco-German classification (civil law). This grouping is however contrary to the views expressed by Alexander and Archer (2000), who had questioned Nobes (1983) assertion of the existence of Anglo-Saxon accounting practice in the era of IFRS. Although Nobes (2003) had issued a rebuttal of Alexander and Archers claim by challenging them for using regulatory system rather than actual accounting practices for their analysis, Elad's paper of 2015 reinforced the existence Nobes original two-group classification of accounting traditions.

Figure 8.1: Classification of accounting systems in Africa in the era of globalisation: 2000 -2014



Source: Elad (2015, p.17)

However, one of the shortcomings of Elad's study was that he had used PricewaterhouseCoopers data on accounting regulation, rather than actual data on IFRS policy choices to develop his hypothetical classification of accounting systems in Africa. His hypothesis has therefore not been tested using policy choices made under actual accounting practices by listed companies in Africa. The present study seeks to remedy this deficiency by using data on actual accounting policy choices of companies in Africa to test Elad's (2015) classification.

On the continent of Africa, whiles the English-speaking countries mostly follow the Anglo-American model of accounting, most of the Francophone and Lusophone countries have adopted Franco-German accounting system called the OHADA accounting plan. This system is used by countries such as Benin, Burkina Faso, Cameroon, Chad, Comoros, Democratic Republic of Congo, Gabon, Guinea, Equatorial Guinea, Guinea Bissau, Ivory Coast, Mali, Niger, Senegal, Togo and Republic of Congo. The OHADA accounting system currently used by the countries named above combines some features of the Anglo-American approach with the French uniform accounting model by codifying some of the provisions of IFRS, and incorporating them as numbered articles within its framework, in line with the civil law tradition. The accounting codes and statutes used are highly structured and systematized (Elad and Tumnde, 2009; cited in Elad, 2015). This is an ambitious modernisation programme as Elad (2011) puts it:

> "a very ambitious accounting modernisation initiative in Africa's CFA franc zone (Communauté Financière Africaine) that ushered in two-new systems, namely: Système Comptable Ouest Africain (SYSCOA) PCG for the West African franc zone countries, and l'Organisation pour l'Harmonisation en Afrique du Droit des Affaires (OHADA) PCG for the franc zone countries in Central

Africa”

The accounting system is ambitious because it covers a very wide geographical region, involving different countries with different cultures. Some of these countries are far apart (see figure 6.3). It is also ambitious because SYSCOHADA PCG is trying to combine the two different accounting systems of Anglo-American and Franco-German heritage. These are incompatible since they are based on two different legal traditions of common law and civil law practices. Financial reporting in civil law countries are highly prescriptive, structured by law, and hardly allow for the exercise of judgment (Roberts *et al.*, 2005, p. 151; Nobes, 2006). By contrast, common law countries use principles-based approach to accounting practices and therefore allow for the use of judgements. They are characterised by use of economic substance over its legal form (Crampton, Dorofeyev, Kobb and Meyer-Hollatz, 2003).

8.3 Perception of Accounting Professionals on IFRS

Much literature has been published about Africa on IFRS adoption issues such as, the processes leading to adoptions (Zori 2015); the problems of IFRS adoption process (Owolabi and Iyoha, 2012); the role of institutional players in IFRS usage (Rahman and Neu, 2003; Elad, 2015; Khlif Ahmed and Alam, 2020); and the suitability of IFRS for the countries on the continent (Sy and Tinker, 2013). However, there is very little literature on the overall perception of accounting professionals on suitability of the use of IFRS in Africa.

Phan and Mascitelli (2014) conducted interviews using questionnaires to ascertain the views of auditors, professional accountants and accounting academic to determine the timeline suitable for the adoption of IFRS in Vietnam. Their research concluded that on the whole, over 60% of the accountants welcome the adoption of IFRS, but the adoption process should be over a period of 5 years. They advocated for a piecemeal approach to implementation to ensure that all stakeholders were well prepared. The accountants' views were that, any adoption should first start with multinationals and listed companies, rather than a wholesale adoption by all companies. Although, to date Vietnam has not adopted IFRS, this was a valuable exercise as it provided an insight of the views of accounting professionals on IFRS adoption in the country. For a good implementation of IFRS in any country, it is important that the accounting professionals are either ready or feel that they are ready for the change.

In a similar exercise, but this time on the post-IFRS adoption benefits and challenges, Mbawuni (2018) surveyed 762 members of the Institute of Chartered Accountants Ghana and concluded that the main benefit of IFRS was the comparability of financial reports across borders. This effectively means that the accounting professionals saw the convergence of accounting practices as a major perceived benefit of IFRS. On the other hands some researchers have suggested that the unique nature of the continent's political economy both at micro and macro levels (Harris, 1975; Harrison, 2004, 2005) requires for the development of an indigenous accounting system, designed for the specific needs of Africa, rather than the use of foreign imported ones for the sake of convergence with international accounting practices (see Hopper *et al.,* 2017). Mbawuni's study concluded that the main challenges seen by accountants with the use of IFRS comes from the need for them to update themselves on regular basis with amendments and new standards developed by IASB. The relevance of Mbawuni's study is that the issues that are of importance to the accounting professionals may not normally be the priorities of the academic researchers, as not much has been mentioned of problems posed by IFRS updates for developing countries in literature.

In a related study, Owolabi and Ayoha (2012), using interviews had conducted studies of the benefits and the challenges of IFRS usage in Africa, based on the perceptions of accountants. Again, from their conclusions, the perception of accountants appears different from other literature (e.g., Manson,1978, p. 124, cited in Briston 1984; Chua and Taylor 2008; Assenso-Okofo *et al*., 2011) that question the relevance of IFRS for Africa. They conclude that:

> "IFRS adoption in Africa will have the potential to be beneficial to a wide range of stakeholders. The benefits notwithstanding, there are however, a number of challenges to be faced in the process of adoption of the new standard including the ethical environment in Africa. The study recommends among others that a rigorous IFRS capacity building programme should be embarked upon by all regulatory bodies, firms and training institutions in order to provide the needed manpower for IFRS implementation, monitoring and compliance."

Boateng, Arhin and Afful (2014) also conducted studies on the benefits and challenges of IFRS adoption in Ghana from the perspectives of 18 professional accountants working in companies that are listed on the Ghana Stock exchange (GSE). Their conclusion on the perception of the accountants seems to reject of the main arguments that the coercive institutional pressure from the World Bank (WB) and International Monetary Fund (IMF) have influenced Ghana to adopt IFRS (e.g., Elad, 2015). According to their findings:

> "The main reason why Ghana adopted IFRS was because of its membership in the global community. The need to adopt a standard which was internationally recognised was needed for comparison, credibility and transparency in order to increase investors 'confidence. The study also disclosed that IFRS improved the transparency of financial statements, credibility of financial statement and made consolidation easier. On the other hand, IFRS was described as sophisticated and cumbersome. The study showed that most respondents agreed that IFRS had a positive impact on a firm's balance of retained earnings which was contrary to literature. Finally, the results of the study contradict with the position that the adoption of IFRS in Ghana was due to pressures from the WB and IMF".

Although the issues investigated in the current studies in chapter 10 appears similar to the prior studies above, the current study differs on the following grounds. It is based on semi-structured interviews rather than on questionnaires to get more reliable answers. According to Benard (1988; cited from Cohen and Crabtree, 2006) this type of interview enables the interviewees to answer questions in their own terms and therefore can help in generating a reliable and comparable data for qualitative research.

Also, the scope of the interviews in this thesis is much wider than those in the literature above. It also encompasses a broader range of issues ranging from the adoption and implementation by the **same professionals** who have previously worked with Ghana GAAP, transitioned through initial IFRS adoption, and are still using IFRS in their current workplaces. They are therefore able to give a holistic insight on the various matters and at different stages of Ghana's IFRS journey and usage to date.

Therefore, unlike prior studies, this study will provide an expansive account on the views of these 'rare' accounting professionals. They are rare because in a country like Ghana with a very high youth population[38], there are not many accountants who have transitioned through this IFRS metamorphosis and are still in practice or in active employment.

In addition, scope of the subjects on which the interviews conducted in this thesis span beyond those of the earlier studies stated above. The topics covered include the problems associated with the use of IFRS in Ghana; its impact on multinational companies in the country and vice versa; the role of the Big 4 accounting firms; training on IFRS; the regulatory environment; audit fees; effect of IFRS adoption on taxation; and their overall perception of the use of IFRS in the country.

8.4 **Conclusion**

This chapter has set the scene for the next chapter to conduct empirical studies on accounting classification in Africa using data from listed companies on the continent, to determine patterns of national practices in the use of IFRS. It has also laid the foundation for using Ghana to conduct a country-specific study on how accounting professionals in the country view the use of IFRS, in Chapter 10.

[38] https://www.unfpa.org/data/GH - Accessed 8th Feb 2021

9. Chapter 9: Accounting Classification in Africa– Empirical evidence

9.1 Introduction

International Financial Reporting Standard (IFRS) has spread to 120 nations and reporting jurisdictions allow or require IFRS for domestic listed companies, although approximately 90 countries have fully adapted with IFRS as promulgated by the IASB and include a statement acknowledging such conformity in their audit reports.[39]This study has followed the number of citations using google scholar accessed July 2020 and find that Nobes papers on classification have been widely cited: 2006 – cited 495 times, 2008 – 146 times, 2011 – 208 times and 2013 – 170 times. However, Elad's (2015) work on the classification of African accounting system has been cited much lowly to 30 times. To my knowledge, this is the first article to develop any form of accounting classification for Africa. This further, reinforces that the research on African countries is only just beginning to emerge sporadically and therefore justifies the studying of classification system in Africa. The above-named articles have been used by other researchers on the discourse of survival or effects of international accounting variability and comparability purposes. So far, the articles relating to Africa tend to examine the adoption of western accounting models and international accounting standards. A google

[39]https://www.ifrs.com/ifrs_faqs.html#ftnt1 (accessed 13 July 2020)

scholar search for “accounting systems in Africa” generated 29 articles and some of these with the highest number of citations of journal articles were those that were written by Lassou, Hopper and Soobaroyen. All the papers were read and gave an insight into different theories such as coupling and different accounting systems due to colonial inheritance such as Anglophone and Francophone countries. However, they concentrated on public sector accounting (for example, Abdul-Rahaman, Gallhofer, Haslam and Lawrence, 1997; various papers by Lassou, Hopper and Soobaroyen). Hence, much of the literature on developing countries stresses the deficiencies in research on accounting systems for listed companies in Africa.

Primarily, the emphasis has been on previous British colonies and the predominance of Anglo-American bias that is observed in emerging market accounting research (Colasse, 2004), as accounting systems were largely inherited from colonisation. A notable exception is Elad (2015)’s article, which additionally includes in-depth analysis of Francophone, Lusophone and Spanish-speaking countries, which are signatories to the Organisation pour l’Harmonisation en Afrique du Droit des Affaires treaty (OHADA). One of the reasons for the imbalance in the prior literature, for example, using OHADA accounting system, is the lack of translation into English of the Francophone normative research culture. However, the use of IFRS improves on this as they are translated into the local language, e.g., French or Portuguese are common national languages of the OHADA jurisdictions and IFRS are translated into both languages.

Several studies have suggested that there are opportunities for systematic differences of practice to exist within International Financial Reporting Standards (IFRS) usage (Ball, 2006; Nobes, 2006; Zeff, 2007). They also maintain that different national versions of IFRS practice have emerged in some jurisdictions as a new feature of comparative international accounting. Nobes (1983, 1998, 2006, 2008), developed and tested some hypotheses on the persistence of national differences under IFRS in industrialised countries, and invited other researchers to investigate this issue further, thus opening up a new research agenda. The present study is a direct response to his call for further research.

9.2 Contribution

This thesis seeks to contribute to the international accounting literature in two ways. First, unlike earlier studies (e.g., Elad, 2015), it attempts to classify accounting systems in Africa using data on actual practices as opposed to rules and regulations. This is important because a number of recent studies have painted a *misleading picture of the extent* to which IFRS have been adopted in some national settings simply because they relied solely on accounting rules and regulations. One classic example is a paper by Khlif *et al*. (2020) “Accounting Regulations and IFRS Adoption in Francophone North African Countries: The Experience of Algeria, Morocco, and Tunisia” which arrived at the following conclusion:

> “We find that the extent of convergence with IFRS in

> Algeria is higher compared to Morocco and Tunisia. This has been mostly due to greater foreign investor flows from Western countries in Algeria. …Algeria's adoption of IFRS is more advanced than that of Morocco and Tunisia".

Contrary to the above claim, the level of adoption of IFRS appears to be higher in Morocco than in Algeria or Tunisia because it is the only North African country that allows listed companies to use IFRS in their consolidated financial statements. IFRS are currently prohibited for statutory reporting purposes in Algeria and Tunisia[40]. In addition, IAS 1 (paragraph 16) makes it clear that an entity shall not describe financial statements as complying with IFRS unless they comply with all the requirements of IFRS. Yet, Khlif *et al.* (2020) convey the impression that these countries have actually adopted international standards whereas what is meant is that IFRS influenced the development of national GAAP in Algeria, Morocco and Tunisia to some extent. One of the reasons is that they used Elad's (2015) analysis of PricewaterhouseCoopers (2011) survey data to support their key arguments. Unfortunately, there are errors in this survey report which led Elad to misclassify Algeria under an Anglo-American accounting cluster. For example, the PwC survey report states incorrectly on page 202 that IFRS are "required for consolidated and standalone/separate financial statements" in Algeria[41]. This error was corrected in the 2017 edition of the report which now

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[40] See, for example, the site: https://www.iasplus.com/en/resources/ifrs-topics/use-of-ifrs (accessed July 2020).

[41] See page 202 of the 2011 survey report at: http://www.pwc.com/en_US/us/issues/ifrs-reporting/assets/ifrs_country_adoption.pdf

states unequivocally that "IFRS are neither required nor permitted in Algeria" (PricewaterhouseCoopers, 2017, page 205)[42]. Another recent paper by Boolaky *et al*. (2020, p. 34) states erroneously that IFRS were required for all companies in Senegal in 2014[43]. These developments readily call to mind an editorial by Zeff (2016), curiously entitled, "*In the literature* but wrong: Switzerland and the adoption of IFRS", in which he cautioned researchers that errors in the literature should not be perpetuated in future work just because they are found in previous published research. These concerns were echoed by Nobes (2018), in an earlier issue of the journal, British Accounting Review, when he suggested that the problems could be alleviated if accounting classifications were based on *de facto* (or actual) practices rather than on *de jure* rules and regulations. Accordingly, the present study uses data on actual practices to test the validity of the hypothetical classification of accounting systems in Africa proposed by Elad (2015).

The second contribution of this study is that it extends previous research on accounting policy choices by investigating whether systematic differences of practice exist within IFRS usage in Africa. Some of the hypotheses formulated by Nobes (2006, 2013) are tested in a developing

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[42] See page 205 of the 2017 survey report at: https://www.pwc.ru/ru/ifrs/ifrs-17-hub-int/pwc-ifrs-by-country-2016.pdf

[43] The only accounting system allowed in Senegal, and other OHADA treaty states, in 2014, is the *SystèmeComptable OHADA* or SYSCOHADA. IFRS were prohibited for all statutory filings in the OHADA zone in 2014.

country context to verify if the findings are generalisable. Africa provides an ideal setting for this study because, despite ongoing attempts at harmonisation, the Anglo-American common law and accounting systems still co-exist with the continental European accounting systems of Francophone, Lusophone and Spanish speaking countries. The policy implications of this study can be seen in terms of recent recommendations of the World Bank, International Monetary Fund (IMF), and the Pan-African Federation of Accountants that large entities in Africa should adopt IFRS.

9.2.1 *The research hypothesis*

This research extends the previous work by Nobes (2006, 2013, 2014) by investigating whether systematic differences of practice can be discerned in the accounting policy choices of large, listed companies in Africa that are required by law to adopt IFRS. Nobes (2006, 2013) offered some hypotheses on international differences in financial reporting, as suggestions for further investigation, using Germany as an example of a civil law country and the UK as an example of a common law country. Two of Nobes hypotheses (H4 and H7, see Table 8.2) have been adapted to the context of the present study. Nobes H3 (see Table 8.2) refers to covert options, which is not the subject of this study because it is difficult to determine. H4 refers to overt options in IFRS, for example, the option to use either FIFO or weighted average for inventory valuation according to IAS 2 (see Nobes, 2011b). The hypotheses for this study are shown below:

H1: There are systematic differences in the choice of IFRS options between companies operating in civil law and common law jurisdictions in Africa.

H2: Pre-IFRS differences between national practices have a significant effect on the IFRS financial statements of listed companies in Africa.

It is contended in this study that hypotheses H_1 and H_2above are subsumed under Elad's (2015) classification of accounting systems in Africa. Hence, although this study is primarily designed to test Elad's hypothetical classification scheme using data on IFRS policy choices, it will also investigate the validity of hypotheses H_1 and H_2 above.

Some researchers (e.g., Cairns, 1997; Alexander and Archer, 2000; D'Arcy, 2001) have challenged the distinction between the Franco-German uniform accounting and the Anglo-American judgmental or pragmatic accounting in the current era of globalisation and IFRS. In response to these concerns, Nobes (1998; 2008) reformulated the dichotomy between the two systems in broader terms as a dichotomy between what he called Class A (strong equity, commercially driven) accounting and Class B (weak equity, government-driven, tax- dominated) accounting. Nobes (2003, p. 99) explains that Anglo-American accounting (compared to other forms of accounting) is "oriented towards decision-making by investors; it plays down the measurement of taxable income; it is less worried about prudence; it is more willing to go beyond legal form". He argues that those who dispute the two-group classification fail to find it because they concentrate on the regulatory system rather than on accounting practices (e.g., Alexander & Archer, 2000);

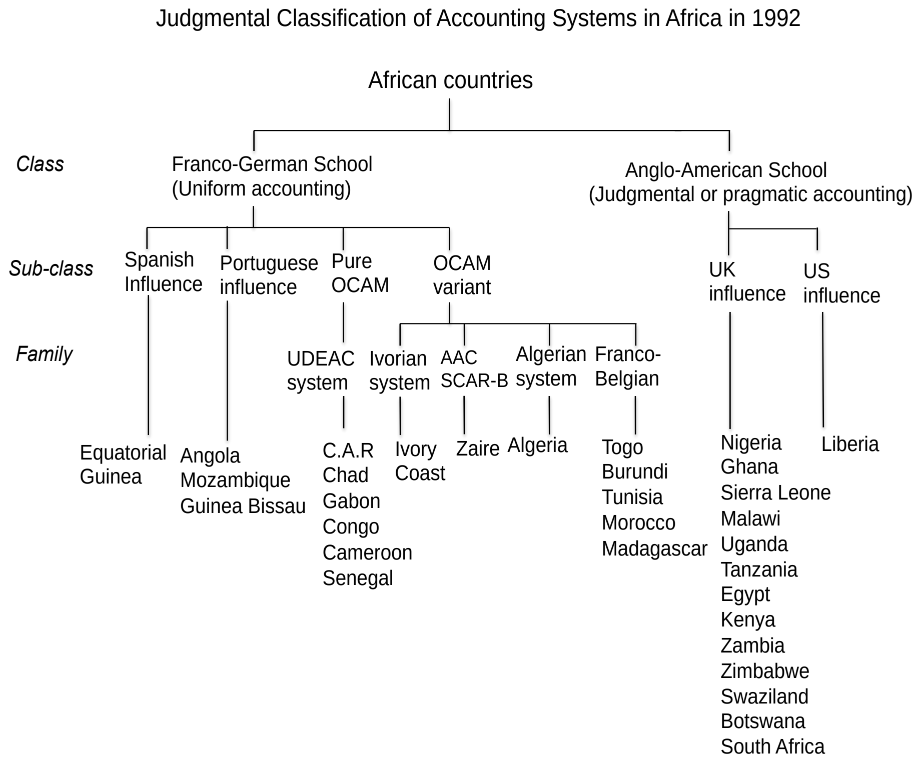
or they concentrate on non-representative accounting (i.e., the consolidated statements of a few large companies in continental Europe, e.g., Cairns, 1997); or they use erroneous data (e.g., d'Arcy, 2001).

9.2.2 *A Hypothetical Classification of Financial Reporting in Africa.*

Elad (2015) periodised the development of accounting in Africa into three epochs, namely: the colonial era, the early post-colonial period (1967-1998), and the current era of globalisation (1998 onwards). During the colonial era, most African countries were using the accounting systems of the colonising powers who partitioned and colonised the continent, as illustrated in Figure 9.1. Essentially, these accounting systems can be classified broadly into two groups: the Anglo-American (Class A) judgmental accounting approach and the Franco-German (Class B) uniform accounting model.

However, the early post-colonial period witnessed some modest attempts at developing accounting systems that are tailored to the needs of newly independent emerging nations following the formation of the African Accounting Council (AAC) in 1979. The AAC was granted the status of a specialised agency of the Organisation of African Unity — now the African Union — that offers assistance to institutions in member states on the development of accounting standards. The AAC designed a new accounting system called SCAR-B (*Système Comptable Africain de Référence de Base*) that was intended to meet the needs of developing countries.

Figure 9.1: Accounting Systems Classification in Africa in 1992



Source: Elad (2015, p.89)

However, SCAR-B turned out to be more or less a replica of a uniform chart of accounts (*plan comptable général* or PCG) that was developed by the now defunct *Organisation Commune Africaine et Malgache (OCAM) in 1970. The classification in Figure 1 shows that the OCAM PCG was adopted by all the member states of the Customs and Economic Union of Central Africa, or UDEAC*[44]*, that was* reconstituted in 1994 as the Central African Economic and

[44] UDEAC refers to *Union Douanière et Économique de l'Afrique Centrale*

Monetary Community or CEMAC[45]. Some French accounting historians have hailed the OCAM PCG as a landmark document in the history of uniform charts of account that not only served as a forerunner to the modern French PCGs of 1982 and 1999. OCAM PCG also influenced the development of national and regional charts of account in post-colonial Africa, heralding the birth of what is now referred to as the "Francophone school of accounting" (see Kinzonzi, 1984; Causse, 1999; Gouadain and Wade, 2002, p 111; Pintaux, 2002, p. 45; Gouadain, 1995).

Many African countries began to experience severe economic and financial crises during the late 1990s and were compelled to undertake structural adjustment programmes as required by the World Bank and the IMF. The World Bank recognised IFRS as one of the international standards and codes that promote good governance, transparency, and public accountability within its market-oriented reform programme involving privatisation, public sector downsizing, deregulation and trade liberalisation (IMF, 2003). All large entities privatised public utilities, and parastatals in countries that receive structural adjustment assistance from the World Bank and the IMF were expected to prepare their financial statements in conformity with IFRS (see e.g., IMF, 1999, 2000).

The World Bank-inspired reforms in the current era of globalisation

[45] CEMAC refers to *CommunautéÉconomique et Monétaire de l'Afrique Centrale*

and IFRS occasioned a shift from the classification scheme in Figure 9.1 to that in Figure 9.2. One important consequence of the World Bank's neoliberal policy discourse was the need to modernise the antiquated variants of French, Spanish, and Portuguese PCGs in some African countries in the context of global strategies for the convergence of domestic accounting principles with IFRS. Such external pressures led to the development OHADA (*l'Organisation pour l'Harmonisation en Afrique du Droit des Affaires*) PCG for the franc zone countries in Africa (see, for example, Ollier, 1999; Gouadain, 2000; Elad 2004). All of these countries have a civil law tradition, except for the Anglophone regions of Cameroon, which have the common law legal system. The OHADA PCG metamorphosed into a new accounting system called the *Système Comptable OHADA* or SYSCOHADA[46] which was adopted by the Council of Ministers in 2017. SYSCOHADA must now be used in separate, or standalone, company financial statements (OHADA, 2017).

In addition, all listed companies and companies making a public call for capital in OHADA jurisdictions are required to use IFRS with effect from January 2019. Also, Article 81 in Title 4 of the OHADA Uniform Act Relating to Commercial Companies and Economic Interest Groups[47] states

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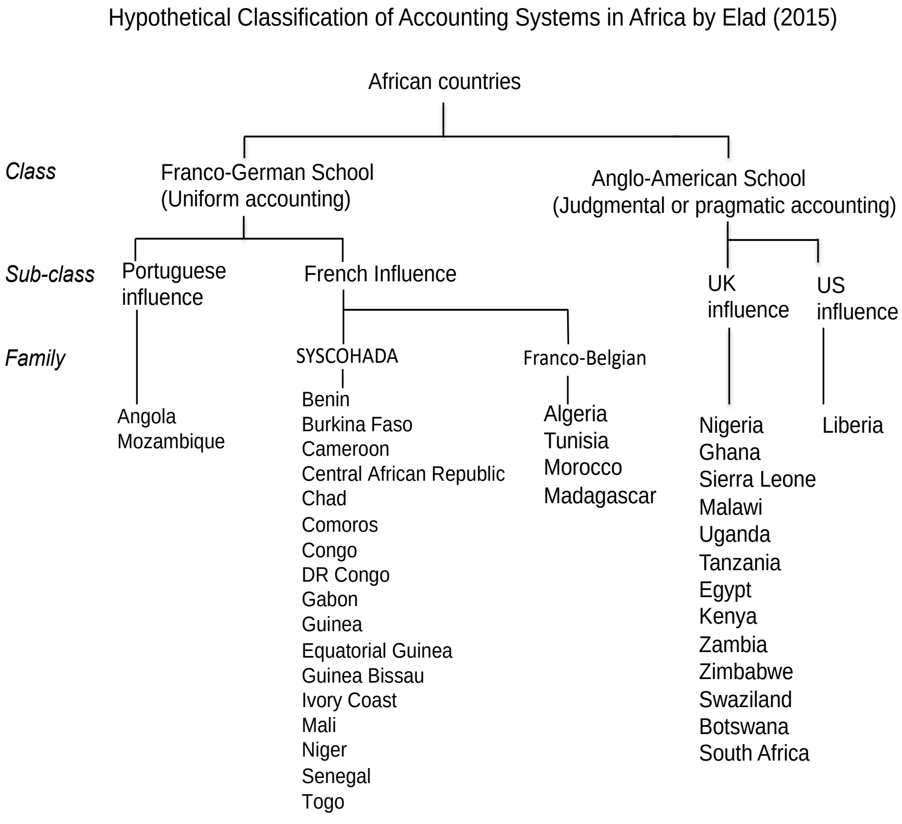
[46] See details at https://www.ohada.org/index.php/en/news/latest-news/2302-entry-into-force-of-revised-syscohada-ohada-puts-the-finishing-touches (accessed July 2020)

[47] See Title 4, Article 81 of the Uniform Act Relating to Commercial Companies and

that a company is automatically deemed to be making a public call for capital if it has more than 100 shareholders. This means that companies with more than 100 shareholders are required by law to use IFRS, even if their securities do not trade in a public market. However, there is widespread non-compliance in practice and barely 14 companies in the entire OHADA zone have actually adopted IFRS.

Figure 9.2*:* Hypothetical Accounting Systems Classification in Africa by Elad



Source: Elad (2015, p.91)

Economic Interest Groups
on page 129 at https://www.droit-afrique.com/uploads/OHADA-Uniform-Act-1997-commercial-companies.pdf(accessed July 2020)

Although SYSCOHADA offers a valuable tool for bookkeeping, and a robust template for filling in tax returns, it is still not only incompatible with IFRS but also highly deficient in accounting principles relating to many measurement and valuation issues that are dealt with in detail by Anglo-American accounting pronouncements. IFRS follow the Anglo-American (or Class A) approach which lays emphasis on accounting and disclosure requirements that are intended to protect stock market investors. By contrast, the PCG model is driven by the needs of a wider range of stakeholders, including government (for national income accounting and macroeconomic analysis), tax authorities, creditors, and national statisticians.

The classification schemes in Figure 9.1 and Figure 9.2 are consistent with Nobes' (1998, 2014) argument that international differences in financial reporting systems could largely be explained by colonial inheritance and financing systems. Figure 9.1 shows clearly that culturally dominated countries (i.e., former colonies) are likely to be using an accounting system based on that of an influential country even if this seems inappropriate to their current commercial needs. The propositions P3 and P4 are developed from Nobes (1998, 2011b).

The argument here is that differences in accounting systems would be observed for indigenously prepared systems between developed and developing countries. However, this is less likely as the developing country will have mimicked the accounting system of its dominating colonial inheritance. Hence, it is plausible to predict the accounting systems in the developing countries through at the source of finance available, but this will be overshadowed by the colonial inheritance as a major explanatory factor. Thus, a country with weak equity market can develop a strong equity outsider system and can expect a shift in the accounting system towards Class A.

> P3. A culturally dominated country has an accounting system imported from its dominating country, irrespective of the strength of its equity–outsider system.

Class A and Class B are associated with different legal systems, the former is associated with the common law countries and later with the Roman (codified) law countries (Nobes, 1998, 2011b). Class A uses the Anglo-American accounting system and Class B to continental European. Prior research on accounting practice differences has buttressed the two-class model for differences in accounting practice (see Doupnik and Salter, 1993)

> P4. As a country establishes a strong equity–outsider market, its accounting system moves from Class B to Class A (see Chapter 2 & 3 for the differences between Class A and B).

Nobes' proposition P3 suggests, for example, that the accounting system in Guinea-Bissau, a former Portuguese colony (and culturally dominated country), is imported from Portugal (i.e., its culturally dominating country). This was true during the early years of independence as shown in the classification scheme in Figure 9.1. In fact, Guinea-Bissau was formerly known as Portuguese Guinea, and gained independence in 1974 after more than five centuries of Portuguese rule. It signed the OHADA treaty in 1993, then adopted the CFA (*Communauté Financière Africaine*) franc in 1997 and changed its accounting system from the Portuguese model to the French-inspired OHADA PCG, thus justifying its classification under "French influence" in Figure 9.2 (see Elad 2015). Similarly, Equatorial Guinea, a former Spanish colony, abandoned the Spanish accounting system it inherited from colonial rule when it signed the OHADA treaty in 1993. It is consequently using a French-influenced accounting system. Furthermore, Zaire switched from the colonial Belgian accounting system to the SCAR-B system in the early years of independence as indicated in the classification in Figure 9.1. But Zaire changed its name to Democratic Republic of the Congo in 1997. It signed the OHADA treaty in 2012 and is *ipso facto* classified under a French-influenced accounting system in Figure 9.2.

While the foregoing examples indicate that there have been nuanced changes in the Class B accounting system in Africa over time, which appear inconsistent with proposition Nobes'P3, this study acknowledges that propositions P3 and P4 are invariably true for other nations. The next section uses data on actual practices to test the hypothetical classification in Figure 9.2, and hypotheses H_1 and H_2 on the existence of national patterns of IFRS policy choice, outlined in section 9.2.

9.3 METHODOLOGY AND RESULTS

The validity of Elad's (2015) hypothetical classification scheme in Figure 9.2 was tested using three multivariate statistical techniques comprising principal component analysis, cluster analysis and multidimensional scaling. Although Elad had used cluster analysis in his research, this thesis employs additional multivariate analytical tools to extend his singular method. This research methodology is similar to that used by both Nobes (1983, 2011) and d'Arcy (2001) in a similar study on classification of international accounting systems. Again, Nobes and Sadler (2013) applied principal component analysis, cluster analysis and multi-dimensional scaling for their empirical analysis involving classification of the accounting systems of 15 major economies. Likewise, Lourenco, Sarquis, Branco and Pais (2015), adopted this method to expand Nobes (2011) classification of accounting systems to a broader set of European countries. Accordingly, the empirical research method employed in this study is well-placed because it is similar what others have used to undertake similar investigations on classification of accounting choices by countries based on IFRS.

The list of overt options that is used in this study was adapted from Nobes (2013, p. 94). In view of the need to minimise missing data, only IFRS options that are easily observable, and apply to virtually all listed companies in Africa, were considered. For example, the list of topics does not include overt options relating to investment property (IAS 40) or financial instruments (IAS 39, IFRS 9) because they are not applicable to many African companies.

One obvious limitation is that some of the overt options included in Table 9.1 are more important than others. This limitation is not seen as a major cause for concern because the purpose of this study is to investigate whether or not there are systematic differences in the choice of IFRS policy options which point to the existence of deep-seated differences that are resistant to change. The sampling method, statistical analyses and results are presented below.

Table 9.1:Overt options within IFRS

1	a. Income statement by function b. Income statement by nature
2	a. Inclusion of a separate line for EBIT or operating profit b. No such line
3	a. Equity accounting results in operating profit b. Excluded from operating profit
4	a. Balance sheet assets = credits b. Balance sheet shows net assets
5	a. Balance sheet presents assets with increasing liquidity b. Balance sheet presents assets with decreasing liquidity
6	a. Operating cash flows are presented by the indirect method b. Operating cash flows are presented by the direct method
7	a. Dividends received shown as operating cash flow b. Dividends received not shown as operating cash flow
8	a. Interest paid shown as operating cash flow b. Interest paid not shown as operating cash flow
9	a. Comprehensive income in a single statement b. Comprehensive income in two statements
10	a. Some property plant and equipment at fair value b. All property plant and equipment at cost
11	a. Some inventory at FIFO b. All inventory at weighted average cost.

Source: Nobes (2011b, p. 26)

9.3.1 *Sampling*

This study analyses the accounting policy choices of the largest non-financial companies from major jurisdictions in Africa where listed companies are required to adopt IFRS. The sizes of the companies were determined on the bases of values of their relative market capitalisation within their countries' stock markets. The initial sample included 245 companies of which 40 were selected from each of the two largest equity markets, Nigerian Stock Exchange and Johannesburg Stock Exchange. Companies with significant foreign influence (e.g., British American Tobacco plc) were not considered. Table 9.2 provides a breakdown of the number of companies selected by jurisdiction. It includes 15 companies from Zambia, 20 companies from Botswana, 20 companies from Ghana, and 25 companies from each of Kenya, Morocco, Zimbabwe, and the OHADA zone. In addition, 10 non-financial companies domiciled in Mozambique that report in accordance with IFRS, and publish their financial statements in English, were considered in the final sample because they appear to represent the entire population.

But a small number of Botswanan, Ghanaian, Moroccan and Zambian companies were excluded from the final sample, shown in the last column in Table 9.2, because they were financial institutions or entities whose IFRS financial statements for 2019, or earlier, were not readily available.

Financial institutions are excluded because there are significant structural differences between their financial reports and those of non-financial institutions (Jeanjean and Stolowy 2008; Glaum *et al.,* 2013; Lourenco *et al.,* 2018). Similarly, Nobes (2011, pp. 26 and 35; 2013, p. 94) in his studies on international variations in IFRS adoption and practice, used data from only non-financial entities for the same reasons of substantial structural differences in financial statements of financial and non-financial entities.

Finally on the matter of sampling, the study also discovered that although all the listed companies in OHADA jurisdictions are required to adopt IFRS, with effect from January 2019, only a small number of non-financial companies (8) have, thus far, complied with this requirement and therefore could be included the data analysis. Accordingly, a total of 214 companies were selected for this study as indicated in the final column in Table 9.2. The data collection and the coding process the countries and the companies are elaborated in appendix 12.4 and 12.5.

Table 9.2: Breakdown of number of companies by jurisdiction

<table>
<tr><th>Jurisdiction</th><th>Stock Exchange</th><th>Market Capitalisation (billion US$)</th><th>No of listed companies</th><th>Initial sample</th><th>Final sample</th></tr>
<tr><td>Botswana</td><td>Botswana Stock Exchange</td><td>38.7</td><td>34</td><td>20</td><td>18</td></tr>
<tr><td>Ghana</td><td>Ghana Stock Exchange</td><td>11.2</td><td>38</td><td>20</td><td>17</td></tr>
<tr><td>Kenya</td><td>Nairobi Securities Exchange</td><td>39.2</td><td>63</td><td>25</td><td>25</td></tr>
<tr><td>Morocco</td><td>Casablanca Stock Exchange</td><td>61.5</td><td>76</td><td>25</td><td>17</td></tr>
<tr><td>Mozambique</td><td>Bolsa de Valores de Moçambique</td><td>1.6</td><td>11</td><td>10</td><td>10</td></tr>
<tr><td>Nigeria</td><td>Nigerian Stock Exchange</td><td>84</td><td>170</td><td>40</td><td>40</td></tr>
<tr><td>OHADA – West Africa</td><td>Bourse Régionale des Valeurs Mobilières (BRVM)</td><td>14.6</td><td>46</td><td rowspan="2">25</td><td rowspan="2">8</td></tr>
<tr><td>OHADA – Central Africa</td><td>Bourse des Valeurs Mobilières de l'Afrique Centrale (BVMAC)</td><td>0.4</td><td>4</td></tr>
<tr><td>South Africa</td><td>Johannesburg Stock Exchange</td><td>977.5</td><td>317</td><td>40</td><td>40</td></tr>
<tr><td>Zambia</td><td>Lusaka Stock Exchange</td><td>9.6</td><td>22</td><td>15</td><td>14</td></tr>
<tr><td>Zimbabwe</td><td>Zimbabwe Stock Exchange</td><td>16.4</td><td>63</td><td>25</td><td>25</td></tr>
<tr><td colspan="2">Total</td><td>1254.7</td><td>844</td><td>245</td><td>214</td></tr>
</table>

9.3.2 *Data*

Data on IFRS policy options, for the 11 topics listed in Table 9.1, were hand collected from the annual reports of all 214 companies in the final sample. The annual reports for 2017 (and 2019 for OHADA) were used. Although the annual reports used were for two different years, it is important to note that there had not been any changes in the policy choices of the companies used in this study between these two years. Therefore, the different years did not have any effect on the results. Also, the reason why 2019 was used for OHADA is because that is the year when earliest data on IFRS reporting was available. A summary of the results is presented in Table 9.3.

A cursory inspection of the data indicates that none of the companies from civil law jurisdictions (Morocco, Mozambique and OHADA) valued their property, plant and equipment at fair value. The data also show that very few companies from civil law jurisdictions in Africa use the “by function” income statement format and that none of the companies from Morocco and the OHADA zone adopted the FIFO method of inventory valuation. There are at least three main reasons why this pattern of results supports hypothesis H_2 that pre-IFRS national rules influence the IFRS policy choices of listed companies in Africa.

First, the government of Mozambique issued a decree in 2009 that introduced IFRS into the national chart of accounts (*Plano Geral de*

Contabilidade or PGC)[48]. While this legislation allows companies to prepare their income statement using a classification of costs "by function", it nonetheless emphasises that the normal income statement format in Mozambique is based on the "by nature" approach (see Deloitte and Touche, 2017, page 329, Title II, Articles 13 and 14). Also, Article 91 of the new accounting law[49] in the OHADA zone, known as the *Système Comptable OHADA* (or SYSCOHADA), prohibits the income statement format by function. It stipulates that all entities shall adopt the "by nature" approach as the sole presentation format for income statements. Interestingly, there is a similar regulation in Morocco where the "by nature" approach is the only income statement format allowed by law under Section 2a of the *Code Général de la Normalisation Comptable* or CGNC[50] captioned *Analyse par nature des charges et produits*. Hence it may be concluded that the presentation of income statements in civil law jurisdictions in Africa is normally based on the "by nature" approach and that this established pre-IFRS practice appears to have influenced IFRS policy choice on this topic in

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[48]SeeDecree70/2009 issued by Government of Mozambique at https://www.acismoz.com/wp-content/uploads/2017/06/New-PGC.pdf (accessed July 2020).

[49]See Article 91 on page 43 of the Syscohada at: http://www.ohada.com/content/newsletters/3349/audcif-2017_jo-final.pdf (accessed July 2020).

[50] See full text of the Moroccan CGNC at: http://www.befec.ma/documentation/comptabilite/Plan_comptable/CGNC/cgnc.pdf (accessed July 2020).

Francophone and Lusophone countries. By contrast, the common law countries, which have a long tradition of preparing income statements by function, continue to use this approach under IFRS (see Table 9.3).

9.3.3 *Exclusion of "voluntary" adopters of IFRS*

The sourcing and category of data used for the analysis in this study were similar to the approach used by Nobes (2011). These were data from countries that require the use of IFRS for financial reporting by domestic listed companies, whether they were of national or foreign origin. In some African countries such as Egypt, Tunisia and Algeria, although the use of IFRS may be permitted, these countries have not officially adopted their use (by listed companies) to replace their national GAAPs. Therefore, they do not require all listed companies to use it for financial reporting. In fact, the use of IFRS sits alongside their national GAAPs for large public entities. For the purpose of this study, these countries may be described as 'voluntary adaptors'. This is because, in most cases, the use of these standards is on voluntary basis by the public limited liability companies. The businesses that tend to use them are those with foreign capital injection or ownership. Also, in some cases, their use may be restricted to specific industries within the country, rather than permitting all public companies from all sectors to be able to use them, if they choose to. Accordingly, this is not a full IFRS adoption (or alignment of national GAAP with IFRS), and as such could not be included in the data.

For example, Tunisia is excluded from the data because IFRS are only applicable to banks and insurance companies[51]. Also, data from Egyptian companies were excluded because the country has not fully adopted IFRS. In fact, their use is not permitted for domestic public companies although foreign listed companies are allowed to use them for financial reporting[52].

Another country that was excluded is Algeria. Although as from 1 January 2010, the Algeria accounting standards (Algerian GAAP) was amended to be based 'substantially' on IFRS, this does not amount to formal adoption since the standards remain officially as Algerian GAAP. Therefore, data from that nation could not be included in this study[53].

These three countries mentioned may be described as voluntary adopters of IFRS in that they have either partially adopted IFRS, substantially aligned their national GAAPs to IFRS, or permitted the restricted use of them for some financial reporting. In all these countries, the use of the international standard is not required for financial reporting by 'all listed companies'. Like Nobes (2011) this research is based IFRS policy options from companies operating in countries that require the use of IFRS for all listed companies. Therefore, countries like Egypt, and Algeria were excluded.

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[51] https://www.ifac.org/about-ifac/membership/country/tunisia – accessed February 2021

[52] https://www.ifrs.org/use-around-the-world/use-of-ifrs-standards-by-jurisdiction/egypt/ - Accessed February 2021

[53] https://www.iasplus.com/en/jurisdictions/africa/algeria - accessed February 2021

Although Morocco has not formally adopted IFRS, Data from Moroccan listed companies were used because all listed companies in morocco can either report using IFRS or the Moroccan GAAP (https://www.ifac.org/about-ifac/membership/country/morocco). This means there is no restricted use of IFRS for listed companies in the country (*de facto* adoption), and therefore data from companies in the country that have reported using IFRS could be used in this thesis.

Table 9.3: Percentage of IFRS policy choices by topic and jurisdiction

Topic		BW	GH	KE	MA	MZ	OHADA	NG	ZA	ZM	ZW
		%	%	%	%	%	%	%	%	%	%
1	Income statement by function	89	94	96	0	17	13	100	92	100	96
2	Line for EBIT or operating profit	72	88	92	100	75	88	90	88	100	96
3	Equity accounting results in operating profit	38	50	17	13	100	20	0	12	33	9
4	Balance sheet formula: assets = liabilities and shareholders' equity	72	94	72	100	100	100	95	93	85	100
5	Assets with increasing liquidity	78	94	100	94	100	88	100	97	100	100
6	Indirect method for cash flow	78	94	96	100	100	100	88	90	100	96
7	Dividends received in operating cash flow	17	33	13	25	0	60	0	79	0	33
8	Interest paid in operating cash flow	55	54	52	76	25	25	16	80	92	79
9	Comprehensive income in one statement	78	82	92	6	67	14	85	48	93	80
10	Some PPE at fair value	6	13	4	0	0	0	3	15	43	16
11	FIFO for some inventory	38	33	8	0	33	0	38	46	14	44

Country names are abbreviated according to their two-letter *ISO codes as follows: Botswana (BW), Ghana (GH), Kenya (KE), Morocco (MA), Mozambique (MZ), Nigeria (NG), South Africa (ZA), Zimbabwe (ZW) and Zambia ZM.*

Source: Author's own generated data using companies' annual financial reports for 2017 and 2019 (for OHADA only).

The second area where pre-IFRS national practices have had a significant effect on IFRS financial statements relates to the valuation of property, plant and equipment (see topic 10 in the penultimate row in Table 9.3). Unlike companies in common law countries, none of the companies in civil law jurisdictions valued their property, plant and equipment at fair value. Both SYSCOHADA and Moroccan GAAP prohibit fair value measurement and require tangible fixed assets to be valued at cost.

The third reason is that the pre-IFRS practices in civil law countries tend to be based on uniform formats prescribed by mandatory charts of account which must be adopted in all statutory filings. Consequently, all companies must, by necessity, follow the same approach. This explains why the three civil law jurisdictions in this study have extreme scores of 100 or zero for many of the policy options in Table 9.3. For example, companies tend to present very detailed balance sheets wherein assets appear on one side and liabilities and shareholders' equity on another side, justifying a score of 100 for topic 4 in Table 9.3. Another example is that cash flow statements tend to be based on the indirect approach in uniform charts of account, resulting in a perfect score of 100 for each of the three civil law jurisdictions. This is despite the fact that Mozambican GAAP gives companies the option to report cash flows from operating activities using the direct method. A final example relates to comprehensive income. The notion of comprehensive income (topic 9 in Table 9.3) does not exist in SYSCOHADA, or in Moroccan GAAP, and companies tend to present it in two separate statements in their IFRS accounts. This is in contrast to most of the common law countries where a substantial number of companies present an income statement that combines all components of profit or loss, and other comprehensive income, in a single statement.

It would be remiss not to mention that the pre-IFRS accounting rules in two of the three civil law jurisdictions (Morocco and OHADA) are broadly similar while those in Mozambique are based on the *Plano Geral de Contabilidade* which is compliant with IFRS. This explains why FIFO, and a single-statement format for comprehensive income, are more commonly used in Mozambique than in Morocco and the OHADA zone. Further exploration of national patterns of IFRS policy choice was undertaken using multivariate techniques. This involved principal component analysis, cluster analysis, and multidimensional scaling. The results are presented in turn below.

9.3.4 *Principal Component Analysis*

A principal component analysis was carried out using the data summarised in Table 9.3. The Statistical Package for Social Sciences (SPSS) was employed in the analysis. Sampling adequacy was assessed using the Kaiser-Meyer-Olkin (KMO) test. The value of KMO, which ranges from 0 to 1, should be greater than 0.5 if the sample is adequate (Cleff, 2019, p. 435; Hair *et al.*, 2010; Hinton et al., 2014; Kaiser, 1974). In this regard, Hinton *et* *al.* (2014, p. 341) point out that "if the KMO test comes out at 0.5 or higher, we can then continue with the factor analysis as our data is suitable for it". However, some authors (e.g., Dugard *et al.*, 2010, p.186; Pallant, 2005, p.182; Kaiser and Rice, 1974) recommend a value of at least 0.6. The KMO for this study is 0.655 (see Table 9.4) indicating that we can proceed with the factor analysis. Another important test that is used to determine whether data are suitable for factor analysis is the Bartlett's test of sphericity. This test indicates whether there is a high enough correlation among the variables for factor analysis to make sense. In other words, it tests the null hypothesis that the correlation matrix is an identity matrix (i.e., the variables are uncorrelated). This null hypothesis is rejected if the p-value < 0.05. As Table 9.4 shows, the null hypothesis is rejected in this study because the results of Bartlett's sphericity test are: $\chi^2 = 145.845$, $df = 45$, and $p < 0.000$. This means that there are significant relationships between the variables which make the dataset appropriate for factor analysis.

Table 9.4: KMO and Bartlett's Test

Kaiser-Meyer-Olkin (KMO) Measure of Sampling Adequacy		**0.655**
Bartlett's Test of Sphericity	Approx. Chi-Square	145.845
	df	45
	Sig.	0.000

The results of the principal components analysis, after Varimax rotation, are presented in Tables 9.5 and 9.6. It is evident from Table 9.5 that there are two factors with eigenvalues greater than 1, which explain 85.69 %

of the cumulative variance, and indicate a two-factor solution. This is consistent with the graph in Figure 9.3 showing two components (or factors) that lie above the elbow of the scree plot.

The final solution is summarised in Table 9.6 which provides the Varimax rotated factor loadings on the two components. Each of the IFRS jurisdictions in this study is assigned to the component on which it loads the greatest. These results support Elad's (2015) classification because they reveal a clear dichotomy between the IFRS policy choices of listed companies in common law African countries (*Botswana, Ghana, Kenya, Nigeria, South Africa, Zambia and Zimbabwe) and those that are domiciled in civil law jurisdictions (Mozambique, Morocco, and OHADA).* It therefore seems reasonable to label Component 1 "Anglo-American School" and Component 2 "Franco-German School" in conformity with Elad's (2015) classification. These components could also be labelled "Anglo or Class A accounting" and "Continental European or Class B accounting" following Nobes (1998).

Table 9.5: Total Variance Explained

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	%			%			%		
	Total	Variance	Cumulative	Total	Variance	Cumulative	Total	Variance	Cumulative
1	7.304	73.042	73.042	7.304	73.042	73.04	5.431	54.310	54.310
2	1.264	12.642	85.685	1.264	12.642	85.69	3.137	31.375	85.685
3	.867	8.671	94.356						
4	.327	3.274	97.630						
5	.119	1.187	98.818						
6	.089	.893	99.711						
7	.017	.168	99.879						
8	.007	.069	99.948						
9	.004	.042	99.990						
10	.001	.010	100.000						

Figure 9.3: Scree Plot

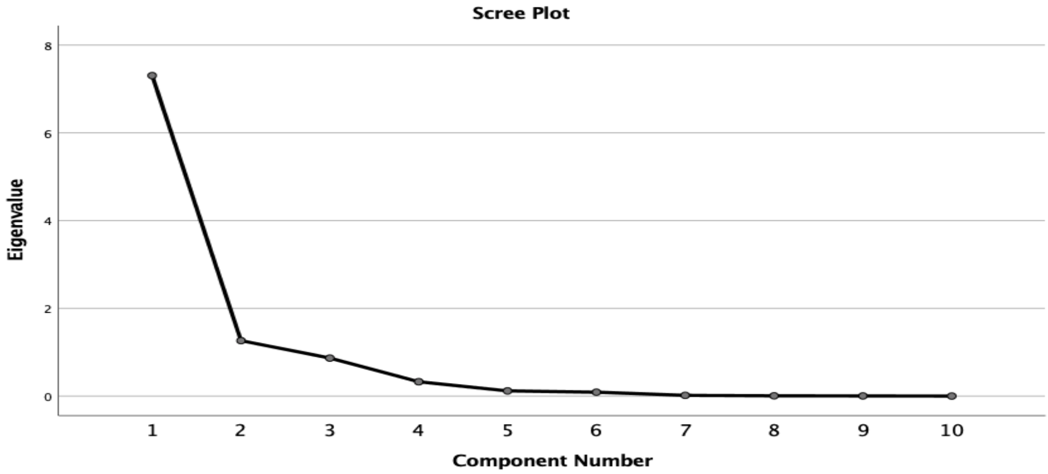


Table 9.6: Rotated Component Matrix

Rotated Component Matrix		
	Component	
	1	2
Botswana	.947	.245
Ghana	.870	.439
Kenya	.926	.327
Morocco	.286	.912
Mozambique	.327	.643
Nigeria	.896	.297
OHADA	.233	.946
South Africa	.593	.554
Zimbabwe	.870	.417
Zambia	.875	.260

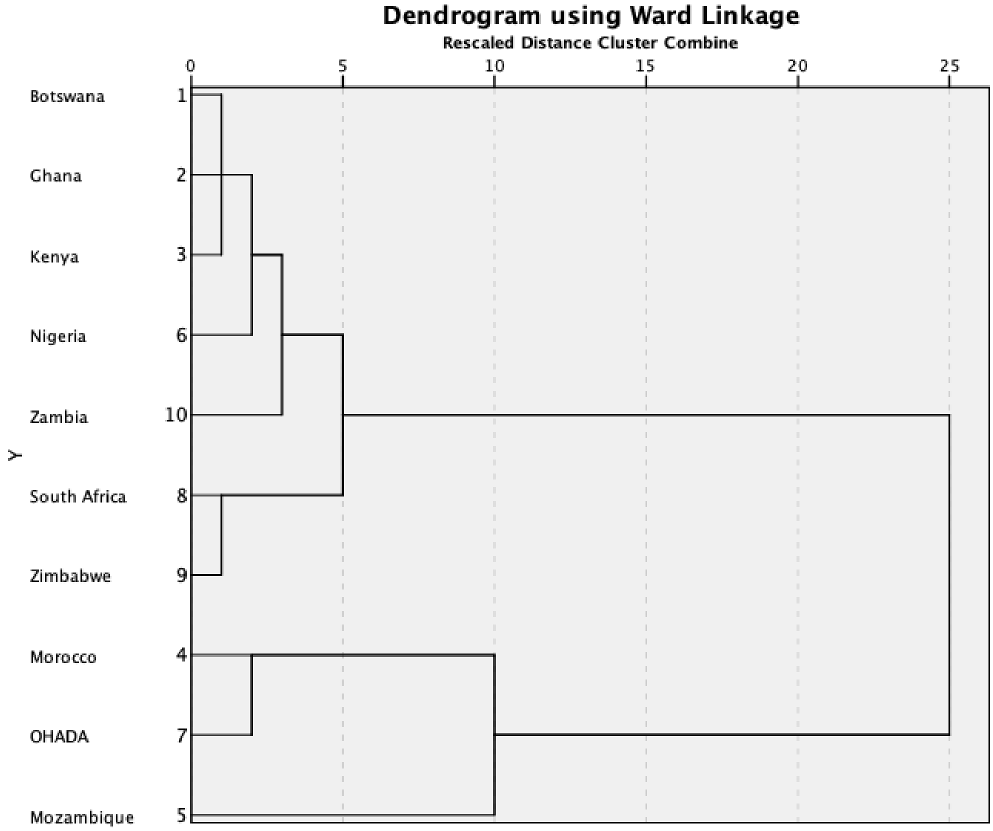
Extraction Method: Principal Component Analysis.
Rotation Method: Varimax with Kaiser Normalization.
Rotation converged in 3 iterations.

9.3.5 Cluster Analysis

A hierarchical cluster analysis was used to further test the validity of the Elad's (2015) classification scheme. This approach was adopted by Doupnik and Salter (1993) in their empirical investigation of the validity of Nobes' (1983, 2011b) judgmental classification of financial reporting systems.

In this study, a hierarchical cluster analysis was carried out using Ward's method applying the squared Euclidean Distance as the similarity measure. SPSS was employed in the analysis. Using the data in Table 9.3 on policy choices statistical analysis was used to determine whether the countries can be classified into groups. The results of the cluster analysis are summarised in the dendrogram in Figure 9.4, which reveals a two-group classification of IFRS jurisdictions in Africa and provide empirical support for the classification scheme proposed by Elad (2015). It shows that there is a clear dichotomy between the IFRS practices of Francophone and Lusophone countries (Morocco, Mozambique and OHADA zone) on the one hand and those in common law jurisdictions on the other. Previous researchers have identified similar groupings based on the Anglo group and the Continental European group (Nobes, 2011; d'Arcy, 2001).

Figure 9.4: Clusters found in Africa for 2019 (or earliest available)



9.3.6 Multidimensional Scaling

Multidimensional scaling is similar to cluster analysis because it provides a visual representation of patterns in a dataset. However, it differs from cluster analysis in the sense that the results are not displayed in the form of dendrograms or hierarchical structures. Rather, it creates a spatial diagram in such a manner that objects that are more similar (or have shorter distances) are closer together than objects that are less similar (or have longer distances).

Earlier researchers on classification of financial reporting (Frank, 1979; d'Arcy, 2001; and Nobes 2011) used multidimensional scaling to corroborate the results of principal component analysis or cluster analysis. In this study, I also check my earlier results using this approach. Multidimensional scaling was performed on the IFRS policy data using the PROXSCAL procedure in IBM SPSS Statistics Version 25. This programme created proximities from the raw data.

Table 9.7 reports two measures of goodness of fit, namely stress (Normalized Raw Stress, Stress-I, Stress-II and S- Stress), on the one hand, and Dispersion Accounted For (D.A.F.) and Tucker’s congruence coefficient, on the other. Stress values are based on differences between predicted and actual distances and range from 0 to 1; values closer to zero indicate a good fit. The most important stress measure here is Normalised Raw Stress because the PROXSCAL scaling algorithm tries to minimise it. The Normalised Raw Stress for the two-dimensional map in this study is 0.00303, which, according to the criteria proposed by Kruskal (1964), represents a near perfect fit. All the other stress values in Table 9.7 are small and meet Dugard *et al.*’s (2010, p.275) suggestion that stress values below 0.15 represent a good fit. The second type of goodness of fit measures are D.A.F. and Tucker’s congruence coefficient. Values of these measures close to 1 indicate a good fit. This means that values reported in the last two rows of Table 9.7 are excellent.

Table 9.7: Goodness of Fit

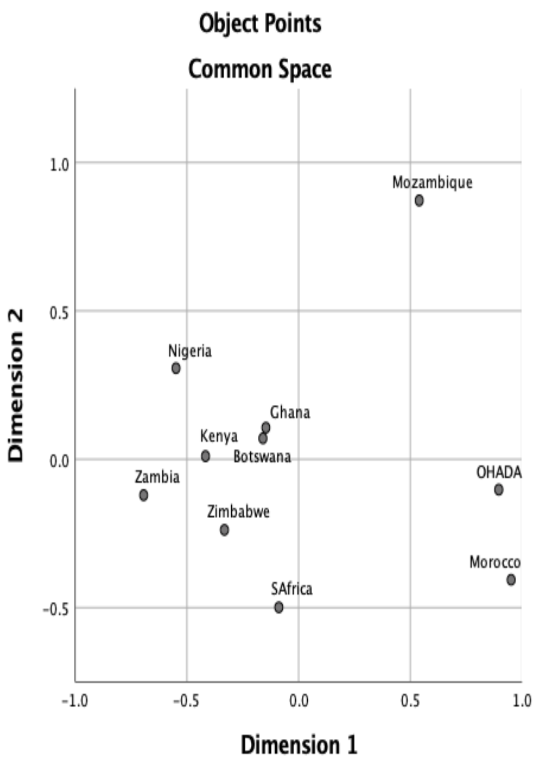
Stress and Fit Measures	
Normalised Raw Stress	.00303
Stress-I	.05507[a]
Stress-II	.11708[a]
S-Stress	.00669[b]
Dispersion Accounted For (D.A.F.)	.99697
Tucker's Coefficient of Congruence	.99848

PROXSCAL minimises Normalized Raw Stress.

a. Optimal scaling factor = 1.001.

b. Optimal scaling factor = .999.

Figure 9.5: Multidimensional scaling of two dimensions



The two-dimensional solution, displayed in Figure 9.5, confirms a two-group classification with common law jurisdictions constituting one group, and the civil law jurisdictions constituting a second group, in line with the hypothetical classification in Figure 9.2. The common law countries include Nigeria, Kenya, Ghana, Botswana, Zambia and South Africa. From figure 9.5, it can be seen that these countries are placed closer to each other in four cells next to each other to the left, meaning that they share some common features in financial reporting, and therefore belong to the same class. Far removed to the right are two countries, Morocco and the OHADA nations, occupying the same cell to the right, and thereby placing them in the same class of financial reporting. These are civil law nations. Again, being position close to each other shows that they share some common characteristics. However, Mozambique, although placed in a cell to the right (depicting a civil law country) appears as an outlier in the civil law group. They are isolated to the top in a separate cell, reflecting the fact that its pre-IFRS accounting rules are based on older international standards which allowed many of the current IFRS options.

9.4 **Conclusion**

The three multivariate analyses in this study (principal component analysis, cluster analysis, and multidimensional scaling), all lead to the same conclusion that a two-group classification (Anglo-American School and Franco-German School) can be discerned in the IFRS practices of listed companies in Africa. These results support hypothesis H_1 that there are systematic differences in the choice of IFRS options between companies operating in civil law and common law jurisdictions in Africa. Hypothesis H_2 that pre-IFRS national rules influence IFRS policy choice is also supported.

Unlike earlier work by Elad (2015), which provides a test of the hypothetical classification in Figure 9.2 using data on *de jure* regulations from the PricewaterhouseCoopers (2011) survey, this paper presents the first-ever classification of financial reporting in Africa that is based on *de facto* practices. Nobes (2018, p. 241) enjoins researchers to follow this approach, noting that some classifications that exhibit fair presentation may not be useful because they concentrate on regulations rather than on practices. Generally speaking, classifications that are based on statutory rules rather than accounting practice run the risk of leading researchers astray if the rules are not followed in practice. The fact that there is a regulation does not mean that the regulation is automatically followed, particularly in Francophone countries (Scheid and Walton, 1992, p. 4).

The most glaring example relates to Article 8 of the recent Accounting and Financial Reporting Law[54] which requires all companies whose securities are traded in a public market in OHADA jurisdictions to prepare IFRS-based

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[54] See penultimate paragraph of Article 8 on page 16 of this legislation at http://bibliotheque.pssfp.net/index.php/institutions/institutions-internationales/1819-acte-uniforme-relatif-au-droit-comptable-a-l-information-financiere-et-systeme-comptable-ohada/file (accessed July 2020)

financial statements, in addition to statutory accounts based on SYSCOHADA, from 1 January 2019. The IFRS Foundation promptly updated the jurisdiction profiles[55] at its website to indicate that IFRS are now mandatory for listed companies in each of the 17 countries in the OHADA zone. Unfortunately, this new accounting law has, thus far, remained a dead letter because of widespread non-compliance[56]. None of the companies that are listed on Bourse Des Valeurs Mobilières De L'Afrique Centrale (BVMAC), the regional stock exchange for the franc zone countries in Central Africa, adopted IFRS in their financial statements although they are required by law to do so. Similarly, only a small number of companies that are listed on the Bourse Régionale des Valeurs Mobilières (BRVM), the regional stock exchange for the West African franc zone, adopted IFRS in their financial statements.

Strangely, Article 8 of the new OHADA Accounting and Financial Reporting Law affirms that IFRS-based financial statements are "intended *exclusively* for financial markets and they cannot be used as a basis for determining distributable profit. The word "exclusively" here means "to the exclusion of other stakeholders" such as governments, employees, trade unions, and tax authorities. Interestingly, many company auditors in the

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[55] See details at: https://www.ifrs.org/news-and-events/2018/01/ifrs-foundation-updates-jurisdiction-profiles-to-reflect-decision-by-17-african-countries/ (accessed July 2020)

[56] See, for example, a news report at: https://www.7info.ci/38-societes-sur-45-cotees-a-la-brvm-epinglees-pour-mauvaise-pratique-de-linformation/ (accessed July 2020)

OHADA zone felt the need to re-emphasise this provision of Article 8 in their report. For example, the auditors of Société Multinationale de Bitumes, an Ivorian company that is listed on the BRVM, mentioned in their audit report that the company has not yet adopted IFRS which are intended for use in financial statements that are prepared exclusively for financial market participants.[57] Also, the auditors of Société des Caoutchoucs de Grand Béréby, another company that is listed on the BRVM, declared in their audit report that IFRS-based financial statements are intended exclusively for financial markets and cannot serve as a basis for determining distributable profit under OHADA law.

These observations, which appear to downplay the relevance of IFRS, can be explained in terms of the contrasts between the government-driven, tax-dominated, and weak equity Class B accounting system and the Class A system that is in place in most Anglophone African countries where IFRS have *replaced domestic GAAP* for statutory reporting. In some respects, the low level of compliance with Article 8 in OHADA jurisdictions can be attributed to a lack of accounting personnel who are conversant with IFRS.

[57] This annual report is at: http://smb.ci/content/Doc%20pdf/RAPPORT%20SMB-2019-247_web.pdf

10. Chapter 10: Perceptions of IFRS by accounting professionals in Ghana

10.1 Introduction

The previous chapter results suggested an existence of a dichotomy between the International Financial Reporting Standards (IFRS)[58] policy choices of companies in Francophone and Lusophone countries, on the one hand, and those in common law jurisdictions, on the other, thus confirming the two-group classification schemes proposed by Elad (2015) and Nobes (for example, 1983, 2006). This chapter is divided into three sections. The first reviews the theoretical framework underlying the research. The second segment deals with the research methodology. The final examines the findings and the analysis of the interviewees' responses.

This chapter seeks to answer the third and final research question – *What are the perceptions of accounting related professionals with respect to the adoption of (IFRS) in Ghana?* - The study uses semi structured telephone interviews to assess the relevance, perception and the experience of the accounting professionals in relation to IFRS adoption and its use in Ghana. For this we interview Ghanaian accounting professionals and accounting academics with regards to adoption of IFRS in Ghana. It is commonly believed that IFRS adoption will enhance economic development within a

[58] IFRS is used as a general term for the adoption of both International Accounting Standards (IAS) and the International Financial Reporting Standards (IFRS).

nation and among nations (AAA, 1977, p. 20). This is deemed to be especially crucial for developing countries like Ghana who want to attract inward foreign investments. However, Briston (1978) and Samuels and Oliga (1982) question the use of accounting systems of developed countries for application in developing countries which differ in the socio-political, culture and economic attributes.

The usage of IFRS in preparing financial statements is a call for harmonisation and convergence of corporate reporting systems. This will enable businesses wanting to cross-list on different stock exchanges to do so without the need to reconcile their financial statements. However, if the accounting standards materially differ from IFRSs (i.e., not use full IFRS), there will be a need for a reconciliation statement. Rahman, Lei and Courtenay (2014) in their response to Pathak's (2014) article, conclude that accounting research needs to explore the adoption of IFRS further. This is a complex process as some countries have adopted IFRS gradually and others have adopted in a single big step. This is further complicated due to the institutional pressures both local and external. According to Nobes (2011) IFRS practices may differ from company to company and even between countries depending on how and when they adopt IFRS. For example, different versions of IFRS will be adopted due to timing and options available. In case of Ghana as interview 1 states, "There was also a problem with the initial comparability statement when accounts that has been prepared using Ghana GAAP had to be restated in line with IFRS".

Why Ghana?

Ghana has been selected for the following reasons: First, an example of a British colony and during the colonial period, the large businesses were set up by British investors. The accountants at that time were generally expatriates from the UK and the acquisition of the professional accounting membership was via one of the British professional bodies (Wijewardena and Yapa, 1998). The post-independence Ghanaian accounting system began to take shape along the British accounting system, and ultimately, the British influenced International Financial Reporting Standards.

Secondly, this is one of the first countries in West Africa to adopt IFRS and thus extend its commitment to expand the private sector. The Ghana National Accounting Standards (GNAS) was in existence prior to the adoption of international accounting standards. The GNAS was a mixture of UK's Financial reporting standards (FRS) and the old international accounting standards' indicating that Ghana was not completely new to the accounting provisions under IFRS. The Council of the Institute of Chartered Accountants Ghana (ICAG) focused on reducing the gaps between the GNAS and the international accounting standards by shifting to reporting using the IFRS. In 1999, the ICAG called for businesses in Ghana to comply with international accounting standards (IFRS and IAS). By 2007, all listed companies should be preparing their financial statements using IFRS.

Finally, Ghana was chosen because I received my secondary school and university education in the country, therefore I am very conversant with the nation. This makes it comparatively easier to gain access to accountants either due to the fact them we were in the same university or friends from secondary school. Moreover, my connections the country facilitated in snowballing recommendations from people that I have known and worked with before, being an accountant myself.

The choice of interviewees and sample size

The choice of the interviewees from a wide range of institutions is to provide a holistic picture of how the use of IFRS in Ghana is currently assessed by professionals of different institutional backgrounds in Ghana. The chapter uses qualitative analysis based on ten telephone interviews. 10 accountants had been interviewed for this research, however, only 8 were used in the analysis since the last two interviewees did not agree until very recently.

The season why the sample size is small is because, there were not many accountants, who had worked with the old Ghana GAAP, have been involved in the transitions to IFRS and are still in post to evaluate the post IFRS issues that examined in this study. Only a few could be interviewed because the current pandemic (Covid-19) situation has restricted my plans to travel to the country to interview a few more. The interviews are designed to assess an individual's perception as to whether the adoption, the use of, and the monitoring of IFRS for financial reporting in Ghana is relevant to the financial reporting needs of the country.

The choice of interviewees from different institutional background helps this study to examine the validity of the different arguments that have been made in favour and/or against the use of IFRS in Ghana. This study should hopefully set the ball rolling for similar comprehensive studies in African countries to assess the perceptions of their accountants, on the usefulness of IFRS for financial reporting in their respective nations.

The usefulness of IFRS will be analysed from perspective of actors from different institutions including; academics (e.g. Zori, 2015); stock market regulators – Ghana Stock Exchange - (see, for example, Cairns 1995; Larson 2012; Deloitte,2013); partners and employees of the Big 4 accounting firms (see, for example, Owolabi and Iyoha, 2012; Sy and Tinker, 2013); and multinational companies (e.g. Wallace and Briston; 1993: p. 215).

This study is a qualitative research, using the responses from semi-structured telephone interviews of 8 accounting related professionals. The results show that most of the interviewees agreed that adoption of IFRS was good for Ghana and the country did not have much of a choice if they wanted to encourage foreign investment. The old Ghana GAAP was drawn from the international accounting standards and the adoption to IFRS caused little issues. However, it was noted that the transition from the Ghana GAAP to IFRS initially caused issues with restating financial reports for comparability between the financial statements spanning the two periods.

The IFRS and the Ghana tax regime are independent of each other similar to that of the Anglo-Saxon countries such as UK.

Most interviewees agreed that the Big 4 accounting firms dominated the audit of the large, listed companies, and the associated fees were higher than those of the local firms. This trend existed before the adoption of IFRS and therefore, the higher audit fees is not as a result of IFRS adoption.

The diversity in obtaining training for accountants both inhouse and external to ensure that the skill and expertise of accountants were fully trained to adopt IFRS.

The overall regulation is conducted by the ICAG, but also the Bank of Ghana and the country's Security and Exchange Commission (SEC) are responsible for companies that fall under their jurisdiction. SEC is responsible for all listed companies whiles Bank of Ghana regulates the financial institutions.

10.2 **SECTION 1 – THEORETICAL FRAMEWORK**

10.2.1 *Why Institutional theory*

Samaha and Khlif (2016, p. 33) have suggested that the economic justification for the adoption of IFRS in developing countries may be rooted in two theories, namely institutional theory of Isomorphism (already covered in detail in chapter 5) and the economic theory of network (Katz and Shapiro, 1985).

From the viewpoint of the economic theory of networks, developing countries like Ghana, are likely to adopt IFRS if the countries with whom they trade or other nations within continent adopt it (Ramanna and Sletten, 2009). This theory considers IFRS as an economic product with both intrinsic and network values to countries that use it (Katz and Shapiro, 1985). Tamanna and

Sletten (2009) suggest that countries are likely to adopt IFRS if their perceived combined intrinsic and network values exceed that of the local accounting standards. In the case of Ghana since the local GAAP was modelled around IFRS, it would have been easier for Ghana to formalise it's use in 2007 when countries the European Union (EU), some of whom are a major trading partner of Ghana, adopted it in 2005. Similarly, Samaha and Khlif (2016, p. 35) suggest that the adoption of IFRS by the EU in 2005 globally increased both its intrinsic and network values, and this probably has influenced some African nations that have a trading relationship with the EU member countries (trading network value) to do the same.

Despite the fact that, economic theory of networks might be used to evaluate the perceptions of the accounting professionals in Ghana on the use of IFRS, this study will adopt institutional theory to analyse it as it will be consistent in the arguments raised in chapters 5, 6 and 7 of this thesis. Chapter 5 assessed the roles played by institutional players in the use of IFRS for financial reporting in Africa, including Ghana. Chapter 6 assessed the role played by Africa's own political, economic and professional institutions in its accounting development. Chapter 7 assessed the suitability of IFRS for Africa, and also questioned the roles played by institutional agents of globalisation for the adoption of IFRS in some African countries.

In addition to the above reasons, as per previous research (Boolaky, Tawiah and Soobaroyen, 2020; Appiah *et al*., 2016) there is stronger support of the institutional theory of isomorphism inevitably influencing the direction of Ghana's accounting practices through coercive, mimetic and normative isomorphic forms (DiMaggio and Powell, 1983, 1991). Besides, this study compliments other studies on the adoption of IFRS by some African countries. In those studies, institutional theory has been used to assess the impact that established, dominant and powerful global institutions and developed or richer countries can have on other countries (see Graham and Neu, 2003; Irving, 2008; Elad, 2015; Zori, 2015; Khlif Ahmed and Alam, 2020). This influence, when exerted explicitly or implicitly, can influence the development of a county’s accounting methods. In the case of Ghana, there are some credence that Britain, a former colonial power, the World Bank and IMF, together with major international professional institutions such as the IASB and the Big 4 accounting firms, have swayed its decision to embrace the use of International accounting standards.

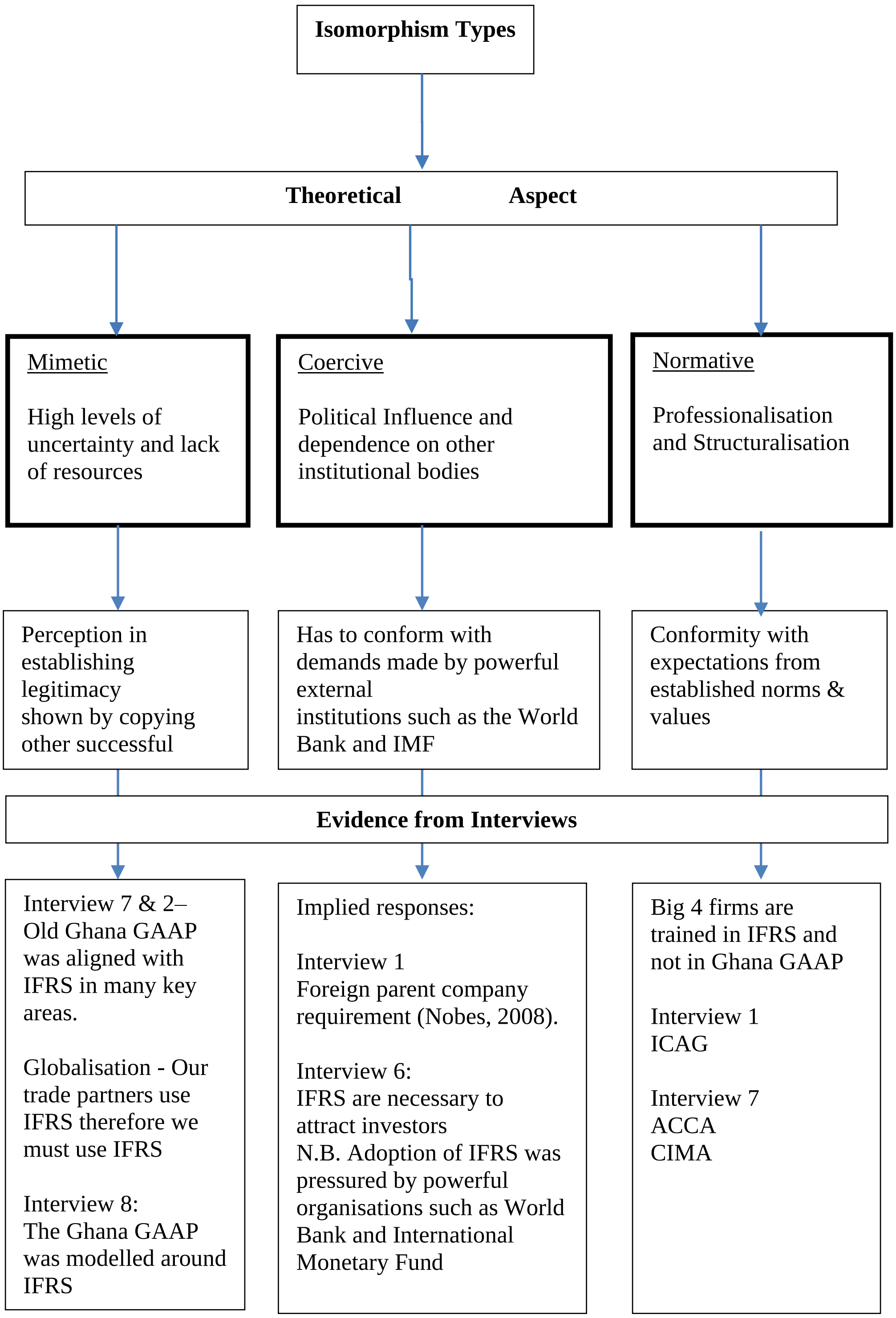
For example, the old Ghana GAAP was already based on international accounting standards (Appiah *et al*., 2016) before the official adoption of IFRS in 2007. In the case of Ghana, the movement towards the adoption of IFRS started with its local GAAP modelled around IFRS and therefore exhibiting the mimetic isomorphism. The advantage here is that the Ghanaian accounting institutions having less resources and experience were enabled to mimic already existing international accounting standards, albeit with minor alterations. Additionally, the new Companies Act 2019, draws considerably on the international best practices from jurisdictions such as the United Kingdom, New Zealand, South Africa and Mauritius. This shows that that institutional theory of mimetic isomorphism is implied in Ghana following the same steps as other nations or organisations that are viewed as being successful or legitimate (Judge *et al.*, 2010)

The coercive isomorphism is exhibited by the World Bank report in 2004 suggesting that the GNAS was out-of-date and significantly diversified from the international accounting standards. For example, IAS 41, Agriculture, was exempted from the GNAS and this shows incoherence as agriculture forms a major part of the gross domestic product of Ghana. ICAG, based on the World Bank's recommendation began adopting the IAS/IFRS, thus promoting good governance, transparency, and accountability. International pressures for enhancements on comparability of financial reporting practices and disclosure arise from many diverse groups (Roberts *et al*., 2008) and specifically for African countries from external and powerful organisations. According to Elad (2015), countries receiving "structural adjustment assistance" from the World Bank and the International Monetary Fund (IMF) are required to conform their financial reporting practices with IAS/IFRS. In effect, the alliance with the World Bank and the International Accounting Standards Board legitimises the convergence to IFRS.

Normative isomorphism can be explained by the role and influence of the global accounting profession. Uddin and Tsamenyi (2005), in the case of Ghana, state that the external and large institutional bodies such as IMF, World Bank and western capitalist states have been responsible for the organisation and technical infrastructure focusing on the privatisation agenda.

In the Ghana context, normative isomorphism is present, for example, Interview 2 states Ghana's membership of International Federation of Accountants (IFAC) is indicative of its acceptance of international accounting norms. Similarly, Interview 7 says that a lot of the country's accountants are members of ACCA and CIMA, and hence easier adoption of IFRS.

Figure 10.1: Institutional Isomorphism



Source: Adapted DiMaggio and Powell (1983)

10.3 SECTION 2 – THE RESEARCH METHOD

10.3.1 Interpretive Analysis

This chapter uses interpretive analysis to explain how corporate accountants have embraced the use of IFRS which has replaced the national GAAP in Ghana. To understand this, semi-structured interviews were used to generate the information. Also, the analysis of the interview data will be relevant in establishing the relationship that exists between diverse institutional bodies for the use of IFRS in Ghana. It will also provide us with information to enable us to understand the 'social reality' within the framework of how IFRS operates in Ghana (see Ahrens & Chapman, 2006; Lawrence & Suddaby, 2006; both cited in Aburous, 2019). Again, the analysis of the interview data will help to identify the various actors in the IFRS usage in Ghana, their skills, motivations, positions and authority.

10.3.2 Why Interpretive analysis

According to Baker and Bettner (1997, p. 293) interpretive accounting research is lacking in most mainstream academic accounting studies. The term interpretive research reflects a methodological approach in research. According to Baker and Bettner (1997, p. 293);

> "interpretive research attempts to describe, understand and interpret the meanings that human actors apply to the symbols and the structures of the settings in which they find themselves".

This type of research can be used to assess the role of accounting in forming 'forming political hierarchies, preserving organisational structures and masking conflicts', (Baker and Bettner, 1997). The use of interpretative accounting research will help in evaluating the role of accounting in society. As Baker and Bettner claim, the influence of accounting can be identified in important societal environmental issues such as political ideologies, environmental sustainability social justice and in wealth creation activities. This portrays accounting as a highly divisive profession rather than just being a 'static reflection of economic reality'.

Chua (1986) calls for more use of interpretative accounting research rather than the mainstream accounting research methods. He argues that:

> "Mainstream accounting is grounded in a common set of philosophical assumptions about knowledge, the empirical world, and the relationship between theory and practice. This particular worldview, with its emphasis on hypothetico-deductivism and technical control, possesses certain strengths but has restricted the range of problems studied and the use of research methods. By changing this set of assumptions, fundamentally different and potentially rich research insights are obtained. Two alternative worldviews and their underlying assumptions may be elucidated—the interpretive and the critical" (Chua, 1986, p. 601).

Despite Chua's claim and challenge for increased interpretative research there are still very few. Some notable authors of critical studies in accounting research are Cooper (1995), Sikka and Willmott (1995). This chapter has therefore adopted the challenge and is using this method to analyse the use of IFRS in Ghana. Ghana is an interesting case study as they have embraced IFRS in totality including IFRS for SMEs.

10.3.3 *Semi-structured Interviews*

The academic research interviews can take three forms. They can be either structured, unstructured or semi-structured and the method used should be determined by the research questions and the analytical method involved (Cachia and Millward, 2011).

Structured interviews take the form of fixed questions with a range of answers for the interviewee to choose from. This approach allows the answers given by the different interviewees to be quantified and compared. However, this approach is not appropriate for an inductive research since the areas of investigation are limited to only the topics contained within in the interview questions (Cachia and Millward, 2011, p. 268).

In an unstructured interview however, the questions are not fixed, rather, they evolve as the interview progresses. The interview will normally start with broad open-ended questions that will set the scene for further questions, depending on how the interviewee answers them. With this approach, the interviewer controls the flow of the interview by using probes asking further questions, seeking explanations where necessary. The data that will be derived from this approach provides a rich in-depth understanding of the interviewee's personal perception which is then used for analysis using the appropriate qualitative data analysis method (Cachia and Millward, 2011).

A semi-structure interview combines features of both structured and unstructured approaches. This approach uses a fixed set of questions to serve as a guide, but further exploratory questions may be asked to clarify issues that are raised by the interviewee (Cachia and Millward, 2011; Saunders, Lewis and Thornhill, 2009). This method works better if the interviewer is able to put the interviewee at ease in order to establish a rapport, whiles at the same time, maintaining control of the whole discussion process (Brewerton and Milward 2001).

This study has adopted a semi-structured interview approach as it is appropriate for the inductive research method. Also given the time limitation involved, this approach offers a more appropriate research method. According to Benard (1988; cited from Cohen and Crabtree, 2006) this method is best served if the interviewer is not likely to be able to get the chance to conduct a further interview with the interviewee. Even more so important during the 2020 worldwide restrictions on international travels, movements and physical contacts meant that it was going to be difficult to have the chance and the space to re-interview the participants. The international lockdown restrictions caused by Covi-19 in 2020 meant that this approach was even better under the circumstances. Another advantage of this method is that it enables the interviewees to answer questions in their own terms and therefore can help in generating a reliable and comparable data for qualitative research.

10.3.4 *How the interviews were conducted.*

As mentioned earlier some of the interviewees were known to me from school and at university. Also, others were contacted through snowballing recommendations. The semi-structured interviews will enable the accounting professionals to express their own views. The interviews were non-standardised and was not strictly according to the script. They were conducted using one to one telephone/internet mediated using Zoom and WhatsApp media applications. The interviews lasted from 40 minutes to 80 minutes, depending on the number of exploratory questions that were induced by the answers given by the interviewees. They were recorded to facilitate the transcription at a later stage. All the interviews were conducted in English. The questions were designed by me and all the interviewees answered the same questions with some variations. The recorded transcriptions were analysed to identify themes that emerged from the answers provided by the participants.

The questions were slightly modified for different types of interviewees to make sure that they are relevant to them, without deviating from their emphasis. The age range suggests that the participants all had experience of the Ghana GAAP and the subsequent shift to the IFRS. All the interviewees are Ghanaians and had completed their first degree in the country. Their profiles are summarised in Table 10.1.

Table 10.1: Profiles of interviewees

Interviewee	Age range	Gender	Qualifications	Position	Major entities worked for
Interview 1	50- 60	Male	MBA, Ghana ICA	Consultant	MNC and Big 4
Interview 2	61-70	Male	ACCA, MBA	Senior Lecturer	Accounting firms; University teaching
Interview 3	50- 60	Female	ICAG; MBA	Practicing accountant	Big 4;
Interview 4	50- 60	Make	MBA	Partner- Big 4	Big 4
Interview 5	61-70	Male	ICAG Barrister PhD	Executive Director	SEC Ghana

Interviewee	Age range	Gender	Qualifications	Position	Major entities worked for
Interview 6	50- 60	Male	ICAEW	Executive Director	Mining companies
Interview 7	50- 60	Male	ACCA	Practicing accountant	n/a
Interview 8	50- 60	Male	ACCA	Practicing accountant	University teaching

Notes: Interview 2: has taught in UK universities; Interview 3: was part of the advisory bodies that advised ICAG on the implementation of IFRS. Interview 5 was a regional accounting standards stability board who advised and made recommendations to IASB on IFRS decisions.

10.4 Analysis and Discussion

The analysis is based on the eight interviews who all had knowledge of accounting to the highest level and have occupied relevant positions in their workplace to appreciate the differences and similarities in both the IFRS and Ghana GAAP. These individuals were selected as they were present during the use of Ghana GAAP and the transition to the IFRS period for financial reporting purposes. The analysis will use quotes from those interviewees who have made a significant comment. The interviewee's responses are summarised in Table 10.2.

Table 10.2: Interviewees perception

	Research Question	Interview 1	Interview 2	Interview 3	Interview 4	Interview 5	Interview 6	Interview 7	Interview 8	Yes count	No count
1a	Was Ghana ready to adopt IFRS	Yes	Yes	No	No	Yes	Yes	No	Yes	5	3
1b	Happy to use IFRS/return to Ghana GAAP	Yes	Yes	No	Yes	Yes	Yes	Yes	Yes	7	1
1c	Initial problems for the adoption of IFRS by local companies and MNCs	Expertise; Comparability Adjustments Fair value Depreciation	Fair value: measurements recognitions disclosures	Weak regulatory system	Lacking understanding of IFRS requirements	Speed of adoption and conversion. Costs, Training Lack of experts	The learning curve for small companies but cost relief for MNCs	Treatment of capital structure	Increased audit & non-audit fees		
1d	Enhance the regulation of listed companies	No	Yes	No	Yes	No	No	Yes	No	3	5
2a	Two parts MNCs : (i) relating to regulation and (ii) profit differences.	(i)No (ii) no comment	(i) Not clear (ii) no	(i) Not clear (ii) no	(i) Not clear (ii) no	(i) Not clear (ii) no	(i) Not clear (ii) no	(i) Not clear (ii) no	(i) Not clear (ii) no		
2b	Does IFRS favour MNCs to pay less tax?	No	No	No	Not sure	No		No	No		7
2c	How relevant are IFRS to Ghana's tax needs?	No relevance	No	No Link between the two	No relevance	IFRS does not affect tax	IFRS not relevant	No effect	They are separate		

	Research Question	Interview 1	Interview 2	Interview 3	Interview 4	Interview 5	Interview 6	Interview 7	Interview 8	Yes count	No count
2d	How consistent is IFRS to Ghana's company law's requirements?	No relationship between the two – independent of each other	IFRS prescribed more disclosures than companies law	New companies law acknowledges IFRS but not the previous one	New companies law require compliance with IFRS	They co-exist Company law only changed in 2019 to specifically mention compliance with IFRS	No – The exist independently. However, the new companies code recognises IFRS	Yes- as copied from English Law	Initially independent, until the new company law in 2019		
3a	Who are the accountants and auditors of the listed companies	Big 4	Big 4	Big 4	Big 4	Big 4	Big 4	Big 4 and less than 10% are local firms	Big 4	8	0
3b	Big 4 accounting firms stifled local competition	Yes	Yes	No	Yes	Yes	Yes	Yes	Yes	7	1
3c	How do you compare the audit fees of the big 4 firms with that of the local firms?	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	8	0
3d	Why use Big 4 over local firms	Parent company's requirement	Foreign affiliation	Brand	Brand	International	Skills and resources	Confidence in potential investors	Brand		

	Research Question	Interview 1	Interview 2	Interview 3	Interview 4	Interview 5	Interview 6	Interview 7	Interview 8	Yes count	No count
4	Training needs	Through ICAG	ICAG and Big 4	Materials purchased from IFAC and used by local trainers	Materials and training from Big 4	Most accounting firms are able to provide IFRS training	From differed sources – ICAG Big 4 Inhouse corporate training	ACCA and CIMA	Most accounting firms offer training to their clients		
5	Overall regulator of IFRS	ICAG but appears ineffective	ICAG	ICAG but there is lack of it	ICAG	ICAG. Other sub regulators like Bank of Ghana and SEC	ICAG Bank of Ghana SEC	Not clear – Bank of Ghana or the Stock Exchange	ICAG but some regulation by Bank of Ghana and SEC		
6	IFRS Challenge	Lack of experts High compliance cost High Audit fees	Effective implementation of some of the standards	Lack of regulation and enforcement of standards in the country	The stringent requirements of IFRS including disclosure	Training staff when new standards are issued	IFRS has not introduced any new problems. The lack of training existed before IFRS and is still a problem	Quality of Financial reporting is still poor	Lack of training and experience		
7	IFRS options	Limited – ICAG issues virtual guide	Companies use similar options due	The use similar options	Majority do not understand	I do not know much	IFRS choices are	Recommended by the	I am not sure. Options		

	Research Question	Interview 1	Interview 2	Interview 3	Interview 4	Interview 5	Interview 6	Interview 7	Interview 8	Yes count	No count
			to lack of skills	because the auditors require them to	IFRS They find the disclosure requirement's burdensome	about this	influenced by Parent companies outside the country	auditor	may be determined by parent of subsidiaries.		
8	SYSCOAHADA Accounting System	Preparing IFRS for their Parents	No idea	No idea	We have a specialised team that audit them. Firms have been producing two sets of accounts: One under OHADA and the other under IFRS for the group	I do not know much about it	Subsidiaries of MNCs had to also prepare accounts in IFRS for their foreign parents	No information	Not really		

10.4.1 Question 1 Theme: Adoption of IFRS vs Ghana GAAP

a) If you cast your mind back to 2007 when Ghana first adopted IFRS do you think the country was ready, then? What were the initial problems in general?

The purpose of this question was to ascertain whether Ghana had been rushed into adopting IFRS by global institutional powers such as the Word Bank and the IMF, with less preparation (see Owolabi and Iyoha, 2012; Zori, 2015). A mixed observation from the interviews: 5 interviews considered that the country was ready, and 3 interviews. The key reason for non-readiness for the adoption of IFRS was that the country lacked an effective regulatory structure. The respondents stated other reasons, for examples, differences in profit on restating of financial statements from old Ghana GAAP to IFRS. Empirical evidence shows that IFRS profit has been higher than that reported under previous national GAAP (Fifield *et al.*, 2011)

Interview 1: There was a problem with expertise. There was also a problem with the initial comparability statement when accounts that has been prepared using Ghana GAAP had to be restated in line with IFRS. This created huge differences with profit figures.

Interview 2: The country was ready since some of the listed companies were already using IFRS. Therefore, the transition was not bad. The unlisted companies however were not ready. Some of the listed companies were multinational companies and were therefore already reporting using IFRS. In de facto terms, they were using IFRS but in de jure terms, they were supposed to use Ghana GAAP. Also, the old Ghana GAAP was based on the old IFRS and therefore there was not much difference.

Interview 3: Did not consider that Ghana was ready and suggested that the problems were associated with a weak regulatory system and proposed *establishment of the financial reporting council for enforcement did not happen.*

Interview 4: No, the country was not ready. Systems were not in place to welcome IFRS.

Interview 5: Ghana was ready. The problem was lack of understanding of the new accounting system. Also, the lack of experts with IFRS. Accountants were charging excessive. Cost of transition and training costs to prepare for IFRS were high.

Interview 6: The country needed IFRS because it became a business necessity for international investments in Ghana. Also, it was necessary for Ghana's integration in this period of globalisation.

Interview 8: We were not ready, but it was necessary. Although the Ghana GAAP was modelled around IFRS, it was too old and had not been updated for years. That was not attractive to any potential serious investor.

b) Are you happy with the use of IFRS or will you prefer the return to Ghana national GAAP?

This question is meant to gauge the perception of these professionals who have been working with IFRS as to whether they think it is a foreign product that has been forced on the country (Sy and Tinker, 2013; Phan and Mascitelli, 2014S), or whether they fully embrace it after working with it for over a decade. All except one agreed that they preferred IFRS and would not want to go back to the old Ghana GAAP. The reasons suggested were globalisation, common language (see, Jacob and Madu, 2004), confidence in financial reporting in Ghana as the old Ghana GAAP was outdated and easier comparability for the investors. A further reason suggested that the accountants were trained to use IFRS and therefore easier conversion to adopting IFRSs. However, interview 3 preferred the IFRS for the reason that it is updated regularly. But the downside is that they are not enforceable by law, although they are a mandatory requirement for listing on the Ghana Stock Exchange. This should enhance the quality of reporting, which is an essential part of good corporate governance process. Prior research has shown that certain countries have benefited from IFRS, in the area of accounting reporting quality and cost benefit analysis (Apergis, Christou and Hassapis, 2014; Houqe and Monem, 2016).

> *Interview 4: I am generally happy with the use of IFRS as it makes financial statements acceptable and comparable with other countries. However, some of the requirements come with undue cost. I believe that more companies should be using the IFRS for SMEs framework. This is less complex and fit for purpose for most companies. However, because IFRS for SMEs was issued in 2009, most companies seem to have run with IFRS. Additionally, because of "SMEs" in the name, most companies were misled to believe it was for companies that are small and medium in size, and therefore using them will class their company as small.*

c) What were some of the initial problems encountered by listed companies when they first adopted IFRS?

This question was meant to ascertain whether adequate preparation had been made for a smooth adoption of IFRS, and therefore minimise the initial problems that would be encountered during the transition from the Ghana GAAP to the new accounting standards. Here, I was trying to separate the initial problems encountered on the first adoption of IFRS following the mandatory adoption in 2007 and further problems for the MNCs. However, it was difficult to distinguish between the two, as most of the participants provided their experience of the initial problems experienced in 2007 and the problems with the MNCs at the same time. As interview 8 suggested that the MNCs will have fewer issues to the transition. The respondents indicated that the transition to IFRS has affected many accounting principles. The critical areas include depreciation and provisions, fair value measurement and lack of active market (see Amanamah and Owusu, 2016), comprehensive income. Empirical evidence from Italian companies shows higher discrepancy between IFRS and the Italian GAAP, for example in the areas of fair value reporting, depreciation, amortisation, intangible assets, impact on net income and equity (Soderstrom and Sun, 2007). Callao, Jarne and Laínez (2007) found that using fair value accounting causes problems to investors due to the differences between book and market values. Additionally, affected the liquidity and profitability of financial institutions as loans had to be measured using fair values (Interview 1). Other problems encountered were the speed of adoption, lack of understanding of the systems, lack of experts with IFRS and costs associated with accounting/audit fees and training (Interview 5 and 7).

> *Interview 1: There were issues with measurements like depreciation and provisions. IFRS measurements are stricter than Ghana GAAP. The banks began having problems with liquidity and profitability as loans had to be written off to their fair values. This was a shock to the financial institutions initially*

> *Interview 2: To me the main issue was the use of 'Fair Value measurement'. There were issues with measurements, recognition and disclosures. The standards for the use of fair value posed problems for some companies in Ghana. At the time of IFRS adoption, IFRS 13 (Fair Value) did not exist. There were no active markets there and therefore the use of level 1 – Fair Value determination was not possible. They used level 3 which was subjective. Most listed companies are subsidiaries of international parent companies, so some were already IFRS compliant in 2007. The Ghana Revenue Authority was not up*

to speed with IFRS and the concepts of comprehensive income and reserves in 2007.

Interview 4: The initial problem was lack of understanding and appreciation of the requirements of a new accounting framework.

Interview 6: Although the multinationals did not have much of a problem. However, training was minimal for the local companies. For the MNC it was a huge relief to the big ones like AngloGold, Ashanti, Unilever, Stanchart, Guinness, Total Société General and Fan Milk. For these companies it was reduction in cost for preparing only one set of accounts rather than two; IFRS for their parents and Ghana GAAP for the local reporting. The smaller companies had to go through a learning curve. There are more ACCA and CIMA qualified accountants in Ghana than those with CA Ghana which means most of the accountants were familiar with IFRS. Also, the Big 4 were very knowledgeable with IFRS. There was conversion cost. Ledgers had to be reconfigured. However, there was not much difference between Ghana GAAP and IFRS, therefore the conversion cost was not much.

d) Did the adoption of IFRS enhance or hinder the ability to regulate the listed companies in Ghana?

The interviewees were asked this question to determine whether the use of IFRS in Ghana improved the financial reporting environment through adequate regulation of the profession. Again, the question was also meant to find out if the country had been able to establish adequate regulatory framework to enforce and improve the use of the reporting standards (Roberts *et al*., 2008, pp. 159-160; Boolaky *et al*., 2020).

Interviewees provide a mixed response here, five interviews felt that no additional or improved regulation and three interviews felt that the adoption of IFRS improved the regulation.

Asking this question also enabled us to ascertain whether IFRS has unintended consequences of creating new regulatory issues for a country adopting IFRS for the first time. The consensus was that there was no change to the regulation, and there were three separate institutional regulators, which were: ICAG, SEC and the Bank of Ghana (see Interview 6). These three institutions have caused confusion as to who regulates? The adoption of IFRS suggests that any regulation would be easier as all listed companies use the same accounting standards irrespective of their sources of finance. Nobes (1998) claim that the two key factors that influence the countries accounting systems are colonial inheritance and sources of finance. For Ghana, the post-colonial era as a previous British colony suggest the presence of strong equity type of financing (class A, system as suggested by Nobes (1998) would encourage more of outsider-based shareholders (class A, see figure 9.1 in chapter 9) .

The International Accounting Standard Board (IASB) does not have any authority or power to enforce the use of its accounting standards, unlike Financial Accounting Standard Board (FASB) in the USA where one of its role is in monitoring implementation[59], (Practer, 2005 p. 81). It is for countries to decide if, how and when they will adopt IFRS. The usage of the IFRS in Ghana are now fully operational, but the monitoring and enforcement remain with the national government who appears not

[59]https://www.fasb.org/jsp/FASB/Page/LandingPage&cid=1175805317350 (accessed 01 September 2020)

ready to do so (see Nobes, 2006).

In Ghana, government intervention into accounting standard setting is possible as has happened in the UK on several occasions. However, like in the UK, there is preference for non-governmental private institutional settings to be involved in Ghana. The adoption of IFRS is encouraged and the potential regulation by the three main Ghanaian institutions, ICAG, SEC and the Bank of Ghana, acting as quasi-independent regulators of the accounting of the accounting profession in Ghana. However, the general belief by the interviewees is that this has not been effective.

> *Interview 1: Regulation is done by SEC of Ghana and they seem not be directly enforcing the use of IFRS by the listed companies. They did not have any severe sanctions for companies in breach, unlike the registrar of companies and the Ghana tax authorities who imposed some severe penalties for breaches. The overall regulation of IFRS in Ghana is done by the Institute of Chartered Accountants Ghana. Some companies do not appear to file their IFRS financial statements on time to the Ghana Stock exchange, but it does not affect their share prices and reputation. It appears that the stock market in Ghana is not very responsive to the financial reports filed by the companies*
>
> *Interview 2: On the contrary, it should help the regulators. The old Ghana GAAP were not regularly updated and therefore it was difficult for the regulators. Therefore, IFRS was a big plus for the regulators since they were dealing with up to date standards.*
>
> *Interview 5: That was not an issue. It did not change anything. IFRS are just for presentation. Before the formal adoption by the country, some companies had adopted IFRS to report to their parent companies and foreign investors.*
>
> *Interview 6: I do not think so. Ghana GAAP was somehow aligned with IFRS in many key areas and therefore there was not much to be done. The regulators*

are ICAG, SEC, and Bank of Ghana. IFRS did not change anything with respect to regulation.

Interview 7: IFRS enhanced the ability to regulated listed companies. All listed companies, irrespective of their source of finance were using the same accounting standards and therefore making it easier to regulate their activities based on the same accounting standards.

Interview 8: No. The laws on regulation of companies in Ghana is not linked to IFRS. ICA Ghana who are supposed to regulate IFRS do not inspect the books of companies. Rather, it is the auditors that they tend to regulate. Usually, they do not do anything until there are crises.

10.4.2 *Question 2 IFRS and Multinational companies*

a) Did IFRS enhance or hinder the country's ability to regulate the financial reporting of Multinational Companies (MNC) in Ghana? Did their financial reports show high or low profits when reporting in IFRS?

This question was asked to probe whether MNCs, who are very often considered to have powerful influence on the economies of developing countries (such as Ghana) were better regulated under IFRS or not as alleged by Hood and Young (1979), cited in Briston (1984). This question is relevant because Multinational companies provide the much-needed foreign direct investment (FDI) in the Ghanaian financial markets, to contribute to economic development. Ghana through its liberalisation policies has significantly increased its share of FDI. Despite the idea of developing strong institutions, the interviewees imply that this is not so. The overall view is that, little/no change was observed on the transition to IFRS. Most interviewees were not clear about the enhancement/hinderance to regulate financial reporting. A plausible reason is that

IFRS brought in the requirement for new regulation, but the country had weak institutions and lacking resources to provide efficient regulation. In terms of compliance with international accounting standards there was no specific requirement under the Ghana Company Law or ICAG, suggesting there was no legal basis for enforcement of IFRS (see response of interview 5).

All the participants felt that there was no change in the reporting profit figure between the Ghana GAAP and the IFRS. This contrasts with the evidence from prior literature. Roberts *et al*. (2008) state that significant differences existed for profit reported under UK GAAP and the US GAAP. Ali, Akbar and Ormond (2016) showed a significant difference in the reporting profit for the Alternative Investment Market of the London Stock Exchange on transition from the UK GAAP to IFRS adoption.

The interviewees' perception that the reported profit figure for Ghana listed companies was not materially different under the Ghana GAAP and the IFRS provides further evidence that the Ghana GAAP was already modelled on the IFRS, indicating the influence of memetic isomorphic pressure in the drafting of Ghana's GAAP before the country adopted IFRS. Copying already established international standards would most probably have given the Ghana GAAP some legitimacy (see DiMaggio and Powell, 1983, p. 155). This was also probably the case because for Ghana, copying from well-established institutions would provide the assurance of quality at a lower cost (see Cyert and March, 1963).

> *Interview 1: The MNC's are more interested in the audit opinion of their auditors who are always from one of the Big 4. In terms of regulation from the Registrar of companies and the tax authorities, nothing changed much. The company law of Ghana was not revised until 2019 even after adopting IFRS.*

Interview 2: I do not have any data on that. It is an empirical issue. There was not much change in measurement since companies were already using IFRS related GAAP and therefore the change was not drastic. There was no drastic change. Their profit calculation was consistent with previous ones.

Interview 5: The subsidiaries of MNCs had adopted IFRS even before the country adopted it. Ghana companies act did specifically state that you must use Ghana GAAP. The companies act did not specifically ask this and that in my view, the ICAG Ghana did not have any mandate by law to set standards. The requirements to prepare accounts to comply with Ghana standards was set by SEC in its Legislative Instrument.

Interview 6: No they don't.
Tax adjusted financials is different from accounting financials and therefore did not make any difference in their reported profit. The Ghana tax laws did not change with IFRS and therefore it did not make any difference.
What makes the MNCs to get away with reduced tax is the lack of regulation from the appropriate bodies.

Interview 8: Not really. Nothing changed for the Multinationals. They were already preparing accounts under IFRS for their parent companies and their foreign headquarters. It was status quo. But I guess that it rather reduces the burden and the cost of preparing accounts since they do not have to prepare separate set of accounts under Ghana GAAP and under IFRS. If anything at all the reduction in the cost of accounting preparation should rather boost their profit since accounts preparation and audit cost can be high.

b) Does IFRS favour multinational companies to pay less tax?

This question was designed to confirm or deny Nobes' claim in Anglo-American countries that accounting systems and taxation are different disciplines (Nobes 1983;

Lamb, 1998) and that tax systems are influenced by national economic policies rather than the accounting systems (Radebaugh *et al.*, 2006). All agreed that the MNCs tax payment is independent of the accounting standards under IFRSs as the tax authorities require the companies to restate their accounts in line with Ghana tax laws. Therefore, like in the UK, the accounting profit will be adjusted for allowable and disallowable expenses to calculate the chargeable profit for tax purposes.

Interview 3 suggested that the tax advantage emerges from the level of capital inputs and these companies see more incentives e.g. on transfer pricing. The responses of the interviewees support the assertion that taxation and accounting rules are independent for Ghana. Taxation serves as a regulatory method that uses accounting practices for regulation of companies (Lamb, Nobes and Roberts, 1998). Ghana's tax rules will influence the accounting estimates that are made by these MNCs (e.g. Radcliffe, 1993). The responses of the interviewees on the relationship between taxation and IFRS appears to support the literature that there is a separation between the accounting systems and the taxation systems in line with the Anglo-American countries. Seven respondents agreed that there was no relationship between IFRS and the tax payment, one respondent was unsure.

c) How relevant are IFRS to Ghana's tax needs?

This question investigates the nature of the relationship between taxation rules and financial reporting in Ghana, and the extent to which IFRS has influenced it. Lamb, Nobes and Roberts (1998) claim that there are differences in the relationship between taxation and financial reporting in civil law countries and common law countries. The relationship ranges from a close link where the tax rules are incorporated to financial reporting rules, to a looser relationship where both exist independently of each other.

On this issue of taxation, the overall view from the respondents was that the adoption of IFRS did not have any immediate direct impact. However, they anticipate that any future changes under IFRS (in areas such as provisions for contingent liabilities) may affect profits which in turn will affect level of taxes. This is in contrast, for example, with the concerns that were raised with the implementation of IFRS in the civil law countries in Europe. It was feared that IFRS was going to affect their tax regimes since their accounting systems mostly follow their national tax rules, and that this may not be possible under with the new financial reporting (see Enthoven 1973; Hood and Young, 1979; Nobes and Parker, 2012; Elad, 2015).

> *Interview 8: IFRS does not affect our tax system. We have our tax laws which is different from the standards that are used in preparing account. With IFRS therefore our tax laws did not change. Any change in tax laws is usually in response to changes to our economic needs.*

.

d) How consistent is IFRS to Ghana's company law's requirements?

This question examines whether IFRS was enforceable under Ghana’s company law or it was just regulated by the accounting profession and the markets. It has taken over 12 years after its first implementation before changes were made in the countries law to merely acknowledge its existence in Ghana's Company's Act 2019[60] which

[60]https://rgd.gov.gh/Amended.pdf (accessed 21 August 2020).

replaces Companies Act, 1963 (Act 179). This is in contrast with the civil law OHADA countries where its adoption by listed companies was made compulsory when it was incorporated into law before the implementation date of 1 January 2019[61].

The 2019 Act draws on the experience of more developed Jurisdiction and specifically incudes international best practices from jurisdictions such as the United Kingdom, New Zealand, South Africa and Mauritius, and is now consistent with the use of IFRS. Six respondents agreed that the new Company's Act considers the adoption of IFRS. However, two responds felt that the adoption of IFRS and the Company's Act exist independently of each other. The latter was certainly true prior to the new Company's Act.

> *Interview 2: Ghana's companies code had not been updated and there were conflicts, but the companies code has been revised last year and therefore should be consistent with IFRS. The companies code does not prescribe measurement rules and therefore it is irrelevant. However, for disclosure, the code was inadequate and therefore IFRS enhanced the disclosure requirements of companies.*

> *Interview 5: Companies law state that accounts should confirm with IFRS or any other standards adopted or approved by the ICAG. This was not done until last year. Bank of Ghana and SEC requires companies to prepare accounts in line with IFRS from 2016. This means that there was a gap period before some of the regulators made IFRS mandatory*

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[61] http://bibliotheque.pssfp.net/index.php/institutions/institutions-internationales/1819-acte-uniforme-relatif-au-droit-comptable-a-l-information-financiere-et-systeme-comptable-ohada/file (accessed July 2020)

Interview 6: Company law has been changed recently but did not change at the time of IFRS adoption. Ghana Companies law exist irrespective of the GAAP being used, and it is for the regulation for company. These two co-exist and the auditors will form opinion on company's compliance with both.

Interview 7: Ghana company law was copied from English law and therefore the consistency with IFRS which is Anglo Saxon is there.

Interview 8: I think they are separate. We do not change our company law because of IFRS. However, the new company law from last year recognises international financial accounting standards and any other standards recognised by ICAG to be the standards used for preparation of financial reports.

10.4.3 *Question 3 The Big 4 Audit firms*

a)	Who are the accountants and auditors of the companies listed on the Ghana Stock Exchange?

This question was intended to probe the claim in literature that the Big 4 are present in developing countries, often to represent the interests of the multinational institutions, and the institutional lenders like the Word Bank and the IMF who regularly provide funding to these countries (World Bank, 2004; Elad 2015). The Big 4 accounting firms in Ghana include Deloitte, Ernst and Young, KPMG and PWC. The earnings by the Big 4 from auditing of 23 companies, with a market capitalisation of GHC 53.9 billion, are approximately GHC 17.4 million. The total 41 listed companies on the Ghana Stock Exchange have a market capitalisation of GHC 56.8 billion.[62] In the manner similar to the adoption of IPSAS, the Big 4's engagement provide legitimacy to these companies, in particular for developing countries (Anisette, 2004). "This level of engagement underlines the importance attached to accounting as an instigator of economic policy change, particularly by the World Bank and the IMF" (see Hopper et al., 2012; IMF, 2008 cited in Lauwo and McCartney, 2017).

All interviewees agree that the Big 4 audit the MNCs as their parent companies prefer them to use the same auditors they use. However, for other companies there is a combination of local accounting firms and the Big 4. The dominance of the Big 4 in the audit of the listed companies and in particular the MNCs lends weight to the often accusation of the Big 4 that they are there to support the interest of the MNCs (see Briston 1984; Sy and Tinker, 2013).

Question 3 allowed us to differentiate as to why the Big 4 were more popular and the reasons suggested were the following: Parent company requirement, international affiliation, brand, available skills and resources, and generating confidence for the investors (see 3d in Table 7.2).

b) Have the Big 4 accounting firms stifled local competition in the accounting profession in the area of auditing and accounts preparation?

The Big 4 accounting firms have often been accused of dominance in the accounting profession in developing countries. This question was asked to assess if this claim is

[62] https://www.ghanaweb.com/GhanaHomePage/business/The-big-four-firms-dominate-audit-of-listed-companies-on-Ghana-Stock-Exchange-1038076 (accessed 22 August 2019)

applicable to Ghana (Nurunnabi, 2015; Boolaky *et al*., 2020). All interviewees agreed that the Big 4 accounting firms were in direct competition with the local firms. However, interview 2 makes an interesting point that pre and post adoption of IFRS the local firms did not have the capacity to audit large firms. Interview 3 strongly believes that it is the ICAG, Ghana Revenue Authority; Registrar Generals Department who have to be blamed for competitive advantage that the foreign accounting firms have over the local firms. As with prior literature (e.g., Singh and Newberry, 2008) one of the problems emerging included the lack of capacity to deal with complex issues.

> *Interview 2: In Ghana we had a peculiar rule before IFRS, where the foreign firms were to be audited by local firms. It is to do with capacity. Local firms however did not have the capacity to audit the large firms. Most of the listed companies had foreign affiliations and therefore it was natural for them to use the Big 4 accounting firms. This was the situation that existed prior to IFRS and continued after IFRS adoption. The small firms have remained small basically due to lack of capacity.*

> *Interview 3: I don't think it is the Big 4 who have stifled the profession. It is the regulators ICAG, Ghana Revenue Authority; Registrar Generals Department and the Banks should take a significant part of the blame. The general indifference to financial reporting in Ghana downplays the importance of auditing and accounts preparation.*

> *Interview 6: They are the market leaders and seem to audit the multinationals and large companies. The local companies do not have the capacity for that and therefore in some respect, they are not in competition.*

> *Interview 7: Yes, they have Because of their names they have much recognition.*

The companies use them to instil confidence in potential investors. They have brand names which sells them Any MNC that comes to Ghana wants to use or is already using one of the Big 4.

Probably. I believe that if they were not present in the country, local firms would have expanded. However, their presence is needed since they are a recognised global brand, if we are to get investors from abroad.

c) How do you compare the audit fees of the big 4 firms with that of the local firms?

The purpose of this question is to examine the claims that are often made that one of the unintended consequences of IFRS adoption by poorer African countries is higher audit fees. These fees are supposedly paid to the Big 4 firms due to their market leadership positions that provide them with monopolistic advantages over local firms (Owolabi and Iyoha, 2012; Khlif Ahmed and Alam, 2020, p. 28). In answering this question, all the interviewees agreed that the audit fees of the Big 4 accounting firms are considerably higher, and sometimes 4 times what a local accounting firm would charge.

Notwithstanding, some local firms have managed to charge higher fees as they have merged with international firms or created their own market niches (Interview 3). The high cost of audit fees has often led to the claim that one of the unintended consequences of the adoption of IFRS is that, it legitimises the charging of higher fees by the Big 4 and therefore makes the adoption of IFRS in developing countries often expensive and probably unnecessary (Owolabi and Iyoha, 2012; Sy and Tinker, 2013). Khlif Ahmed and Alam (2020, p .28) claim that empirical studies have confirmed a link between higher audit fees charged by the Big 4 with the adoption of IFRS, in developing countries. This appears to be the case in Ghana also.

Table 10.3 shows that there were 28 listed companies audited by the Big 4, seven listed companies audited by local Ghanaian firms and three listed companies were audited by PKF (Panel Kerr Forster is the 11th largest accounting firm in the UK). Reporting of audit fees was either in GHC or US dollars. The table breaks down the firms' charges into audit and non-audit fees (e.g., Taxation services). The table shows that the Big 4 audit fees are larger than the local accounting firms. However, it appears that the adoption of IFRS did not lead to the provision of non-audit services by these audit firm, as majority of the companies (34 out of 38 listings) did not show non-audit fees. Since this study is for the post IFRS adoption period, it appears that the auditing firms are no longer used for non-audit services in the forms of training and consultancy. This contrasts the empirical work of Coffie and Bedi, (2017) who found that the implementation of IFRS led to increases in both audit and non-audit fees for financial institutions in Ghana. Abdullah, Naser and Al Enazi (2017) suggest that the determinants (such as size, profitability) of audit fees are contextual and differ from country to country especially from developing country perspective. The Big 4 are dominating as auditors and charges are higher for the listed companies as they are reputable, have an international visibility, and have resources to employ highly qualified and experienced staff (see Wang, Sewon and Iqbal, 2009: El-Gammal, 2012).

Table 10.3: Audit and non-audit fees

Number	Company	Multinational	Auditor	Audit Fees Ghana Cedis (GHC)	Non audit fees GHC millions
1	Access Bank Ghana	Yes	PwC	GHC 585,000	n/a
2	Agricultural Development Bank	No	KPMG	GHC 460,000	n/a
3	AngloGold Ashanti Limited	Yes	Ernst & Young	6.87$m	2.0 $m
4	AngloGold Ashanti Depository	Yes	Ernst & Young	n/a	n/a
5	Aluworks LTD	No	KPMG	GHC 70,000	n/a
6	Benso Oil Palm Plantation Ltd	No	PwC	GHC 125,000	
7	CalBank PLC	No	KPMG	GHC 210,000	n/a
8	Clydestone (Ghana) Limited	No	Boateng, Offei & Co.	GHC 35,027	n/a
9	Camelot Ghana Ltd	No	PKF	GHC 47,000	n/a
10	Cocoa Processing Company	No	KPMG	$ 37,000	n/a
11	Digicut Advertising and Production Limited	No	Adom Boafo & Associates	GHC 15,000	n/a
12	Ecobank Ghana Ltd	Yes	KPMG	GHC 635,000	GHC 114,769
13	Enterprise Group Limited	No	KPMG	GHC 67,000	n/a
14	Ecobank Transnational Incorporation	Yes	Deloitte &Touche and Grant Thornton, Côte d'Ivoire	$ 51,028	n/a
15	Fan Milk Limited	Yes	PwC	GHC 237,000	n/a
16	Ghana Commercial Bank Limited	No	KPMG	GHC 1,364,000	GHC 932,800
17	Guinness Ghana Breweries Ltd.	Yes	PwC	GHC 145,000	n/a
18	NewGold Issuer Limited	Yes	Deloitte		n/a

Number	Company	Multinational	Auditor	Audit Fees Ghana Cedis (GHC)	Non audit fees GHC millions
19	Ghana Oil Company Limited	No	PKF	GHC 150,000	Audit report removed
20	Golden Star Resources Ltd	Yes	PwC		n/a
21	HORDS LTD	No	CFY Partners		n/a
22	Mega African Capital Limited	No	UHY Voscon	GHC 36,425	n/a
23	Mechanical Lloyd Company Plc.	No	PwC	GHC 164,880	n/a
24	Meridian-Marshalls Holdings	No	VT Consult	GHC 15,000	n/a
25	MTN Ghana	Yes	PwC	GHC 2,567,000	n/a
26	Produce Buying Company Ltd.	No	PKF	GHC 65,000	n/a
27	PZ Cussons Ghana Ltd	Yes	PwC		n/a
28	Republic Bank (Ghana) Ltd	No	Ernst & Young Inc.	GHC 375,000	n/a
29	Samba Foods Ltd	No	IAKO consult	GHC17,000	n/a
30	Standard Chartered Bank Ghana Ltd	Yes	Deloitte & Touche	GHC 549,000	n/a
31	Standard Chartered Bank Ghana Ltd	Yes	Deloitte & Touche		n/a
32	SIC Insurance Company Limited	No	Deloitte & Touche	GHC 229,211	n/a
33	Societe Generale Ghana Limited	Yes	Ernst & Young Inc.	GHC 458,000	n/a
34	Sam Wood Ltd.	No	IAKO Consult	GHC 17,000	n/a
35	Trust Bank Limited (THE GAMBIA)	Yes	PKF	GHC 554,000	n/a
36	Tullow Oil Plc	Yes	Deloitte	1.9 $m	1.5 $m
37	Total Petroleum Ghana Ltd	Yes	KPMG	GHC245,000	n/a
38	Unilever Ghana Limited	Yes	KPMG	GHC 397,000	n/a

Source: Author's own creation (from 2017 financial reports of companies)

__10.4.4__ Question 4 Training and Knowledge on IFRS

a) Where do you receive training and literature on IFRS? Is it produced locally?

To assess the availability and adequacy of IFRS training in the country, this question evaluates whether the resources needed to train and provide information on updates are readily available locally or not. The answers from the respondents suggest that there are several modes of training available in Ghana, ranging from ICAG, the Big 4, small firms of accountants, and commercial training firms. Also, since a lot of accountants in Ghana are ACCA and CIMA qualified, their qualifications are based on IFRS and therefore most of the newly qualified accountants are 'IFRS conscious'. Ironically, the abundance of training channels does not appear to have suppressed the often claim of lack of expertise in developing countries to effectively implement IFRS as most of the respondents also suggested lack of expertise with the use of IFRS in Ghana (see UNCTC, 1991; Owolabi and Iyoha, 2012).

According to the ICAG Annual Report 2019, the Statement of Comprehensive Income (p. 42) shows a total revenue of Ghana Cedis, (GHC) 25.1 million, of which student and continuous professional development (CPD) related revenue equals GHC 15.9 million, which represents 63% of total revenue for the year. The related expenditure for students and CPD is GHC 6.5 million, which is 29.5% of total operating expenditure. Therefore, the de facto motivation of ICAG is to provide a platform for the enhancement of skills and expertise of the accounting profession in Ghana. The higher revenue from training in the post IFRS era by ICAG suggests that the IFRS training has become a major revenue earner for the Institute. Also, this suggest that the post IFRS adoption period in Ghana has been dominated by local institutions engaged in training rather than continuous dependent on foreign organisations as it was in the case of the initial adoption (e.g., Zori, 2015, p.165)

Additionally, it was noted that the Big 4 are involved the adoption of new IFRS it makes it easier as they have become one of the institutions that facilitate IFRS globally. This supports Sy and Tinker's (2013) assertion of how powerful the accountancy profession could be in some countries in influencing their accounting systems (e.g., Assenso-Okofo *et al*., 2011; Aboagye-Otchere and Juliet Agbeibor 2012, p. 193).

For the listed companies adopting IFRS is a requirement, again suggesting that to remain/list on the Ghana Stock Exchange, companies will have to disclose their financial statements using IFRS. This will increase the costs for the companies.

> I*nterview 1: ICAG are always conducting training on IFRS. At least twice every month. Also, the Big 4 in Ghana organise IFRS training for their corporate clients and for the public for a fee. For example, PwC in Ghana always has training department with resource personnel who conduct regular training on IFRS to the public and their clients. ICAG has produced a "virtual CPD guide" for the preparation of financial statements under IFRS for SME. Most of the companies follow the guide religiously.*

> *Interview 3: Purchased online from IFAC and in bookshops. ICAG sometimes offers copies for sale to practitione**rs.***

> *Interview 7: Larger organisations sponsor their staff abroad. Most accounting firms offer IFRS training to their clients. Some of the Big 4 have dedicated training departments that train for a fee However the main institution that is always organising training is ICAG. I think IFRS has increased training cost of firms.*

10.4.5 Question 5 Overall regulator of IFRS compliance in Ghana

a) Who is the overall regulator of IFRS compliance in Ghana? Do they have the right personnel to ensure compliance?

In order the evaluate the adequacy and suitability of the regulatory environment within which IFRS operates in Ghana, this question seeks to assess the institutions responsible for regulating the country's financial reporting and whether they have adequate resources for the task. All those interviewed agreed that ICAG[63], in the absence of the financial reporting council (interview 3), holds the regulatory role but are inadequately resourced to ensure compliance (interview 3). The financial reporting council was supposed to have overseen the regulatory, but this did not get established. There was confusion whether the SEC and the Bank of Ghana had any regulatory roles.

Among all the interviewees the concerns were that regulation was not effective. Currently there is no independent audit oversight body. The ICAG have recognised this and suggest that this will be overcome by the enactment of the revised Companies Act (2019) and in their 2019 Annual Report (p.6) state the following:

> "Once the new law is enacted, the tentacles of the Institute will extend beyond its current reach to regulate, control, set standards and manage the practice of accountancy in Ghana. Regulations and byelaws will be promulgated to enforce standard practices expected of professional accountants in line with ethical and professional standards. This will also include the enforcement of mandatory membership of ICAG by CAs and other affiliate international bodies in both public and private practice".

In contrast, IFRS regulation is legally enforceable and is well defined in Kenya,

[63] See https://www.ifac.org/about-ifac/membership/country/ghana

creating a better regulatory environment than that of Ghana. Unlike Ghana, IFRS was incorporated into regulations of all regulatory bodies and the Companies Act after its amendment in 2002 and, mandatory for both listed and unlisted companies (Olaoye & Aguguom, 2017; Outa, 2011, cited in Atsunyo, Gatsi & Frimpong-Manso, 2017).

10.4.6 Question 6 IFRS On-Going Challenges

a)	What do you see is the biggest problems that Ghana has faced with IFRS adoption?

The question was intended to establish what could be by far, the major problem that may influence the perception of the participants on the use of IFRS in the country. The responses were however mixed, ranging from lack of experts, high cost of compliance with IFRS, high audit fees, quality of financial reporting disclosure and poor as well as lack of training. Most of these issues were noted by the accounting practitioners who are probably auditing small and medium sized enterprises and for whom the above issues are a major concern.

10.4.7 Question 7 IFRS policy options

a)	IFRS treatments come with options? Do companies in Ghana turn to use similar options of IFRS treatment? If not, what factors do you think determine the IFRS options that companies adopt?

Question seven was designed to confirm whether companies in Ghana have different IFRS practices from using different covert and overt options for preparing financial reports, and to determine the factors or variables that may influence the choices that they make (see Nobes, 2011, p. 195). Various literature have suggested that variables such as financing systems, legal systems and tax systems shape a countries accounting systems and might provide companies with some motivation for their choice of overt and covert options under IFRS (see Nobes, 2008; Seidler 1967; Gray, 1988; Doupnik and Salter, 1995). In the case of Ghana, the interviews suggest that the IFRS options adopted by a significant number of listed multinational companies are influenced by the accounting policy choices of their parents (18 out of 38 companies listed). The accounting choices made by these companies do not appear to be influenced by taxation, as the tax rules are independent of IFRS, like in most Anglo-American countries (see Nobes, 2008, p. 193). However, some variations in IFRS still exist due to the companies being influence by one of the following: auditor's influence, multinational parent company's requirements, and ICAG recommendations.

Most companies follow the guide produced by ICAG to prepare their financial statements under IFRS. Therefore, it appears that there is limited use of the covert and overt options under IFRS by companies in Ghana (Interview 1). This means that companies adopt similar policies in IFRS usage.

Interview 1: A significant number of companies use the virtual guide produced by ICAG to prepare their financial statements under IFRS. Therefore, it appears that there is limited use of the covert and overt options under IFRS by companies in Ghana. This means that companies adopt similar policies in IFRS usage.

Interview 2: A lot of options under IFRS has been eliminated with the new standard. It appears that companies in Ghana use the same option as they may not have the skills to use different options. For instance, under IAS 16 most companies use the cost option. The problems with fair value mean they will all use the cost model. The same with IAS40, Investment properties. Therefore, although there are choices, most firms are limited to the same choices.

Interview 3: I think they use similar options because the auditors will require them to do so.

Interview 4: The industry the companies are in is the factor that influences accounting policy elections. Companies in the insurance industry tend to use the fair value measurement for their Property, Plant and Equipment (PPE) whilst most banks use the cost model for example. Another factor is multinational companies who normally align their accounting options with their Parent Companies'.

Interview 6: Policy choices of multinational are dictated by their parent companies.

Interview 7: Companies in Ghana use similar options under IFRS due to the auditor's recommendations.

Interview 8: I am not sure. I guess that companies will always adopt policies in line with their parent companies. I do not think any options here in Ghana will make one pay less tax since they tax rules and definition of expenses are all fixed.

10.4.8 *Question 8 IFRS and Surrounding countries*

Have you ever worked in any company using the SYSCOAHADA Accounting System? If so, what is your perception of it?

The objective of this question to assess if the interviewees were conversant with the OHADA accounting systems so that further questions could be asked to compare the accounting systems of the two jurisdictions. Only three of those interviewed had some knowledge of them.

Their responses indicate that although companies are required to prepare accounts under the OHADA accounting system, those with foreign parents also had to prepare accounts under IFRS, especially if their parent company is from a country that operates under IFRS. This suggests that companies operating in the OHADA jurisdiction but have foreign parents reporting under IFRS are likely to prepare two sets of accounts. The statutory one that is published locally for tax purposes under the OHADA regulations; and a non-statutory one under IFRS for consolidation with the parent's (group) financial reporting. The responses from the three indicate that this was existing before the formal adoption of IFRS in 2019 by OHADA.

It appears however that this dual reporting systems for subsidiaries operating in the OHADA jurisdiction has been acknowledged in prior literature on this subject (see Elad, 2015). Consequently, Interviewee 1 suggests that for listed multinationals operating in the OHADA countries, the requirement to use IFRS for financial reporting from 1 January 2019 will not change much since they were already reporting using both systems. On the Ivorian stock exchange, BRVM, for instance there are quite a few multinationals such as Air Liquid, Nestle CI, Societe Multinationale de Bitumes and Uniliver Cote d'Ivoire. These companies would report under IFRS for their parent companies, although these are not published. The published ones are those produced under the OHADA PCG which is heavily influenced by the taxation needs of the Ivorian government.

Two interviewees travel regularly between Francophone and Anglophone African countries. Due to working with subsidiaries of multinational mining companies in SYSCOAHADA[64] jurisdictions, they had experience and knowledgeable in the OHADA accounting systems~~.~~

[64] SYSCOAHADA and OHADA are interchangeable.

Two interviewees (1 and 6) confirm that the financial reporting was done using both SYSCOAHADA and the IFRS, thus reporting using two different accounting systems. This concurs with Elad's (2015) argument that the SYSCOAHADA countries were not fully using IFRS. Interview 1 emphasised that the SYSCOAHADA was too different, too rigid and difficult to use and therefore he did not like it. Those who have not been working in this jurisdiction were not aware of how to use it.

Interview I: have been training personnel in Mali to use IFRS for financial reporting to be sent to the office of the parent company in USA. Although they have been producing financial reports locally under the SYSCOAHADA PCG, they also always been producing financial reports under IFRS for their parent companies, which is completely different.

Interview 4: We have a specialised team that audit the OHADA countries in the region. They produce two sets of accounts. One for local taxes and the other for the group. The group accounts have been prepared under IFRS.

Interview 6: I was an African regional director traveling to Mali. Our operations in Mali prepare accounts in IFRS to send to head office. They also prepared accounts under the OHADA rules for local reporting.

10.5 SECTION 3 – FINDINGS AND CONCLUSION

10.5.1 Findings and analysis of the responses –

The chapter has revealed that there is a gap between the practitioners view and some academic perspective as to the importance of IFRS to Ghana and maybe to other countries in Africa (see Sy and Tinker, 2013, p. 2).

Nobes (1998) had argued that the two main factors influencing the development of a country's accounting system, outside of Europe are colonial inheritance and the sources of finance. This assertion is evidenced in the old Ghana GAAP, which originally was based on the old English colonial system (Appiah *et al*., 2016). For over 300 years and more the British empire has carried English law into their colonies. It was customary to enact the law at specific dates. For example, in Gold Coast (now Ghana) in 1874 (Matson, 1993). Interview 7 states that the post-colonial Ghana's 'company law' was mimicked from the 'English law' and therefore greater compliance with IFRS was observed. Interview 8 states that prior to the adoption of IFRS Ghana GAAP were modelled around IFRS. Further, since the accountants are following the professional bodies qualifications and therefore being educated under IFRS, then it is natural occurrence to adopt IFRS readily i.e., the *de facto* convergence with IFRS was totally in place.

However, there are several countries where adoption of IFRS was not wholly done. For example, IFRS standards came into force due to accounting directives by the European Union, and the previous accounting standards in a code law country began to fade, however in many European countries the *de facto* harmonisation did not occur fully (Guerreiro, Rodrigues and Craig, 2015). As such the "Roman/common dichotomy could still affect financial reporting practice", (Nobes, 2006) as in the case of Mali one of the Francophone countries.

Most of the interviewees agree that IFRS are good for the country, because of the attraction of foreign investment. As interview 5 suggest that it is imperative that they adopt IFRS and improve the financial reporting to gain investor's confidence as this will improve the flow of foreign funds in the country. Although the responses concur with prior literature that IFRS are more complex for developing countries (Chamiza, 2000), they are of the view that adoption is necessary to modernise the national GAAP in order to instil confidence in the financial reporting regimes of the country and attract foreign investment (Owolabi and Iyoha, 2012; Appiah *et al.,* 2016) This argument chimes with the institutional pressure that has often be exerted by international financial institutions such as the World Bank and the IMF for developing countries to use IFRS for financial reporting IFRS (World Bank, 2004; Hassan *et al.,* 2014). Their response seems to vindicate the World Bank for their coercive isomorphic pressure that they placed on Ghana (see World Bank, 2004) to adopt IFRS. Also, their response that it is necessary for Ghana to adopt IFRS is a tacit acceptance of the normative isomorphic pressure that is placed on countries (Essien-Akpan, 2011) in the current era of globalisation. They all accept that we must follow the global accounting norms to make our financial reporting legitimate in the eyes of foreign institutions. Again, by confirming that Ghana's old GAAP was based on the old British Accounting systems and also on the old international accounting standards was an acknowledgement of the fact that memetic isomorphic pressure has also influenced the development of Ghana's accounting systems.

Almost all the respondents confirmed that the key organisation responsible for the regulation of IFRS in Ghana is the ICAG, which is independent of the counting. This confirms Ghana as a country with Anglo-American class of accounting practices. This is echoed by the fact that the profession regulates accounting and not the government, and accounting exists independent of the tax systems (Roberts *et al.*, 2008). Also, the existence of the two sets of accounts, one for publication and the other for taxation purposes echoes another feature of Nobes (1983, 1998) class A accounting systems for the Anglo-American class of countries.

Although the Big 4 have often been accused of using IFRS to entrench their competitive advantages in developing countries and then charging higher audit and non-audit fees (Cameran and Perotti, 2014; Kim, Liu and Zheng, 2012), the findings of this chapter were mixed. The study confirmed that the audit gees often charged by these multinationals are high, but they were not linked to IFRS. Most interviews linked the higher audit fees to their "brand" names, expert skills and the fact that multinationals are often required to use the Big 4 as per the requirements of their parent companies. All the 18 multinational companies listed on the Ghana Stock Exchange were audited by the Big 4 (Table 9.4). On others there was no evidence of extra revenue from non-audit services. There were only four companies who were charged for non-audit fees, and most of these fees were less, compared to the audit fees, apart from Tullow Oil. This is further supported by the response of most of the interviewees that ICAG is a market leader in IFRS training in the country,

On the use of IFRS options, the response echoes Nobes claim that in the same country, there are reasons for companies to use different IFRS options (see Nobes, 2006; 2008). In the case of Ghana for instance, most respondents mentioned that the IFRS options of the multinational are influenced by the IFRS practices of their parent companies. For the other companies however, they either use the standardised IFRS proforma issued by ICAG Ghana or one by their auditors.

Finally, three interview responses exposed some similarities that have existed and continue to exist between the Francophone and the Anglophone countries in Africa, which has hardly been mentioned by extant literature. Listed multinationals in the countries appear to produce two sets of accounts, one for taxation and the other for their parents which tend to be based of IFRS. This challenges the notion that in the class B countries, accounts preparation is linked only linked to taxation. In fact, a very plausible arguments is that, in both countries the accounts that are prepared in IFRS format are those that will be relevant to investors, since they are the one that will and can be incorporated by their parent companies in the preparation of the groups' financial reports. This suggests that in the OHADA region the commercial effect of certain companies in order to comply with the international accounting standards may result in adopting Class A accounting system by using flexibility in the national rules or producing two sets of financial statements. This is similar to some German examples such as Bayer (see Nobes, 1998).

MNCs were expected to use IFRS by their parent company and therefore the early acceptance of IFRS practice was present even before the mandatory had adoption of IFRS by ICAG. The adoption of IFRS by these multinationals even before Ghana had officially adopted IFRS also supports Nobes (2004) claim that the source of finance influences a company's accounting choices. Although Ghana had not adopted IFRS, these multinational institutions were using IFRS for financial reporting way back before 2007.

Also, the early use of IFRS by these multinationals were to fulfil the requirements of IOSCO. At various times, in 1988, 2000 and 2013, IOSCO entered into partnerships with the IASC, IASB and the IFRS to ensure that MNCs of IOSCO's international markets use the IFRS to prepare the same set of annual financial statements rather than using different financial reports as was previously required for different stock markets (see Zeff, 2012). This would explain why multinational in Ghana had prepared second set of accounts using IFRS even before the country had adopted officially IFRS. This suggest that in a country that is dominated by MNCs, there will be the use of IFRS through the 'backdoor'.

The dominance of the Multinationals on the Ghana Stock market, together with the Big 4 firms bring their auditors, provided two key national enabling organisations that are potentially affiliated with IFRS adoption and therefore they were able to influence Ghana's decision in that direction (Nurunnabi, 2015; Boolaky *et al*., 2020).

Overall, IFRS appears to have a positive review in Ghana. Also, institutional pressures might have influenced Ghana's adoption of IFRS, and the fact that the country might not need all the provisions under the international standards, it provided a better alternative to the country's GAAP. This is a fact that was accepted by most of the

10.6 **Conclusion**

This study has investigated the perceptions of senior accounting professional in Ghana, all of whom have been directly linked to the use of IFRS in the country at very senior levels, with roles ranging from prior IFRS adoption advice; IFRS regulation; organisation training; partner in Big 4; Senior roles in multinationals; stock market regulation and consultancy services. Eight questions were asked to determine their perception of IFRS and to also link their response the roles of institutions in IFRS adoption and usage.

This study has highlighted on the normative, coercive and mimetic isomorphic influences on the use of IFRS in Ghana. Despite these institutional pressures, the interview responses suggest that that there is a gap between the accounting practitioners view and some academic perception as to the importance of IFRS to a developing country like Ghana (Sy and Tinker, 2013, p. 2). This raises the question as to whether the often-raised arguments against the use of IFRS in Africa is a valid one.

As this study concentrated on Ghana, similar studies in other countries will be encouraged before the findings can be generalised. However, the findings have exposed the possibility that the views of academics on the use of IFRS on the continent of Africa may be in contrast the those held by the professionals who use it for financial reporting and other related activities. For Ghana, this study has exposed the differences. However, for the rest of Africa, a similar study comprehensive study is encouraged before the findings of this study can be generalised.

11. Chapter 11: General Conclusion and suggestion for further studies

11.1 Introduction

This chapter sums up this thesis by restating its main objectives and explaining how the stated objectives have been met. It provides a summary of the methodology, main findings, policy implications and limitations of the study It concludes with some suggestions for further research on some of the topics covered.

11.2 Objectives of the research

This thesis consists of two separates but connected studies on the development of accounting in Africa in the era of International Financial Reporting Standards. The purpose of the first part was to build on the previous work of Nobes (1998; 2006; 2008) by investigating whether systematic differences exist in the IFRS policy choices of large, listed companies in Africa. The objective was also to test Elad's hypothetical classification of accounting systems in Africa, using data from the policy choices of these listed companies. Consequently, two hypotheses were adapted to the context of this study as follows:

H1: There are systematic differences in the choice of IFRS options between companies operating in civil law and common law jurisdictions in Africa.

H2: Pre-IFRS differences between national practices have a significant effect on the IFRS financial statements of listed companies in Africa.

The second part of this study examined the validity of the claim that is often made by academics (for example Briston, 1978; Oliga, 1982; Parker, 1990; Okike, 2004; Sy and Tinker, 2013) that IFRS are not suitable for African countries. This dissertation examined the validity of these claims by investigating perceptions of accountants, using Ghana as a specific test case to determine the views of accountants in the country. Accordingly, in addition to testing the two hypotheses above, this thesis also addressed the research question: *What are the perceptions of accountants with respect to the use of IFRS for financial reporting in Ghana?*

What makes this study different from others is that the interviewees taking part in this research are experienced accountants who have used Ghana's old GAAP and have also been involved in its transition to IFRS. Moreover, they have continued to work with IFRS for over 13 years since its adoption in the country. They therefore have working knowledge of both systems and are able to give a holistic evaluation of them. Consequently, they are in the unique position to provide a well-informed assessment of the usefulness of IFRS to the country.

11.3 **Methodology**

The two hypotheses were tested using three multivariate techniques, including principal component analysis, cluster analysis, and multidimensional scaling, to analyse the accounting policy choices of large, listed companies in Africa. Data from financial reporting policy choices from 214 listed companies from 9 countries plus the two OHADA regions of West Africa and Central Africa were used.

For the second objectives, this study used semi structured telephone interviews to undertake interpretive accounting research to assess the perceptions of accounting professionals in Ghana regarding the adoption of IFRS by the country. Whiles the two hypotheses were tested using quantitative research (chapter 9), the second objective was carried out using qualitative research analysis (chapter 10).

This thesis acknowledges the differences in the research methods in chapters 9 and 10. The former uses conventional quantitative method that is considered to be a more objectivist approach to accounting research (see Boland and Pondy 1983). On the other hand, chapter 10 is based on interpretive analysis and is more of a subjectivist approach (Boland and Pondy, 1983). Although Burrell and Morgan's (1979, p. 25) classification of research paradigms suggest that these two approaches may be mutually exclusive, Chua (1986, p. 626) has challenged the use of mutually exclusive research methods that cannot be combined. Chua contends that this singular approach to research fails to overcome the efforts to promote integrated research and therefore ignoring their combined benefits. Accordingly, this study has combined these seemingly mutually exclusive paradigms in a complimentary manner to carefully interpret the results the quantitative analysis used in chapter 9, using Ghana as a test case in chapter 10.

11.4 **Findings**

The findings from the use of the three multivariate research techniques involving principal component analysis, cluster analysis, and multidimensional scaling were all similar leading to the same conclusion that a two-group classification consisting of Anglo-American School and Franco-German School can be identified in the IFRS practices of listed companies in Africa (Nobes 2011; Elad, 2015). These results also support both hypothesis $H_1$and H2 that; there are systematic differences in the choice of IFRS options between companies operating in civil law and common law jurisdictions in Africa; and that pre-IFRS national rules influence IFRS policy choices made by listed companies in Africa.

In addressing the research question the findings of the interviews concluded that accounting professionals in Ghana believe that IFRS if good for the reporting needs of the countries and that it has improved the financial reporting of the country. There were also other results that evolved from the interviews. The first result appears to support the notion that the major determining factor that influenced Ghana to adopt IFRS was normative institutional pressure rather than coercive pressure from the World Bank and the IMF (see Elad, 2015). Ghana's old GAAP was already based on the old IFRS even before the World bank started exerting institutional pressures in the late 1990s. The country had already based its first national GAAP on some aspect of IFRS which suggest that it recognised IFRS as the accepted norm of financial reporting. The details of the other findings for both studies are detailed in section 9.7 of chapter 9 and 10.5 of chapter 10.

Although the findings of this research confirms the existence of a two-fold classification of accounting systems made up of the Anglo-American and the continental European schools of accounting practices, the existence of this classification is challenged by researchers such as Alexander and Archer (2000) and d'Arcy (2001). Alexander and Archer contend that the notion of Anglo-American accounting systems is a myth and although it may have some factual foundations due to some shared common believes and approach to accounting by these English speaking (common law) countries, the “belief in this rests on bases that are non-factual” (Alexander and Archer, 2000, p. 539). They argue that although previously, UK and the US had a shared history of a micro and capital market orientation, that has now become the basis of international accounting regulation in global capital markets. This has now become a global norm and therefore accepted internationally. This means that this is no longer uniquely attributable to these so-called Anglo-American countries.

d'Arcy (2001) also challenges the notion of classification of international accounting systems based on Anglo Saxon (common law) and continental European (civil law) practices. d’Arcy’s empirical studies did not find the existence of an Anglo-American group consisting of UK and the US (d’Arcy, 2001, p 327). The results of the research conclude among other things that Switzerland and UK for example, had more in common in their accounting practices than the commonality that Nobes suggests exists between the UK and the US accounting systems.

11.5 **Policy implications and conclusion**

Given the recent recommendations by the Word Bank, The International Monetary Fund and the Pan-African Federation of Accountants requiring large entities in Africa to implement IFRS for financial reporting, the results of this study have generated some policy implications that may be relevant to some countries on the continent. In the first place, the results of the study in chapter 9 reinforces Nobes (2006; 2008) assertion of the dominance of pre-IFRS practices even when countries have embraced the use of IFRS. For example, the listed companies in the OHADA region were expected to report using both IFRS and the OHADA accounting plan (from

1 January 2019). However, most of them seem to have ignored the requirement to produce IFRS compliant report. For example, out of a total of 50 companies that are listed on the OHADA countries' exchanges, only 8 had reported under IFRS, out of the initial sample of 25 companies that were used in this study (see chapter and section 9.2.1). It appears that although they are by law required to produce accounts in IFRS by the same law, they are also expected to produce accounts for taxation purposes using the OHADA PGC, which is based on the civil law tradition of standardised prescribed accounting plan.

On the other hand, the companies in the common law jurisdiction such as Ghana, Nigeria, Kenya and South Africa (with common law traditions) were fully compliant with IFRS in their financial reporting, and their accounts had more disclosures, compared to those from the civil law jurisdictions (see La Porta *et al.,* 1997; Nobes 2011, p. 9). This raises the possibility that institutional pressures from powerful international agents of globalisation like the World Bank and the IMF may not be able to achieve the aim of getting African countries fully adopt and utilise IFRS for corporate reporting. For example, the Francophone countries, with civil law traditions may continue to combine reporting under IFRS with producing financial statements under the OHADA PCG which is heavily influenced by the taxation needs of their governments (see Hood and Young, 1979; Nobes and Parker, 2012; Elad, 2015).

Consequently, even in the era of IFRS, there is still the doubt that there will be conversions by the African countries with civil law traditions to completely adopt IFRS which is often depicted as being Anglo-American biased accounting standards (Choi and Meek, 2010, p. 80). For the civil law countries of Africa, given the nature of their legal, socio-political, and economic frameworks, it appears that the use of IFRS may exist broadly in name only due to the *de jury* requirement that is placed on them. However, the *de facto* reporting may continue to be heavily influenced by their civil law predispositions. There is therefore the prospect that differences in financial reporting options will continue to persist since IFRS have their foundations in common law traditions, and therefore may not be suitable for their financial reporting needs of these civil law countries (Elad and Tumnde, 2009).

Another policy implication is that, the setting of international accounting standards has often been influenced by political compromises between the 14 members of the IASB who require 75% of the votes before a standard can be accepted (Fleming 1991). Therefore, these members have often argued for alternative accounting treatments that are in their respective national interests. These accounting standards are therefore suitable for the developed countries whose members form the majority of the International Accounting Standards Board. Only one member of the board comes from Africa. This implication is that African countries are being required by major international bodies like the World Bank to use accounting standards they hardly have any input their setting. This is likely to make these standards somehow alien to the financial reporting needs to most of the nations on continent of Africa.

Although the conclusions of the study conducted in chapter 10 suggests that the use of IFRS is considered as an important requirement for countries like Ghana, this could be because they have not been able to develop their own standards, and therefore it is convenient to use a product that is developed by and for advanced economies, though it may not be appropriate for their financial reporting requirements (see Rivera

1989; Parker, 1990; Okike, 2004; Sy and Tinker, 2013).

In conclusion, this study has confirmed that there are systematic differences in the choice of IFRS options between companies in civil law and common law jurisdictions in Africa. This suggests that it would be difficult to achieve international comparability and consistency in financial reporting on the continent. Also, it remains to be seen how the requirements of the OHADA countries to prepared two sets of accounts one under civil law tradition (OHADA PCG) and another under common law tradition (IFRS), will be enforced and/or regulated.

11.6 **Limitations**

This study has some limitations which should be acknowledged. First, all the eleven topics in Table 9.1 were given equal weight. This limitation applies to all other international accounting classification studies (e.g., Nair and Frank, 1980; d'Arcy, 2001; Nobes, 2011). It is not seen as a major cause for concern here because the main objective of this research is to determine whether there are national patterns of IFRS accounting policy choice in Africa which might be a manifestation of deep-seated differences in accounting systems. For instance, the topics in Table 9.1 do not take cognisance of the fact that IFRS financial statements of companies in civil law jurisdictions include legal reserves which are not found in the financial statements of companies in common law countries in Africa. Mackenzie *et al*. (2014, p. 69) emphasise this point:

In some jurisdictions, notably in continental Europe, the law requires that a portion of retained earnings, equivalent to a small proportion of share capital, be set aside as a legal reserve. Historically, this was intended to limit dividend distributions by young or ailing businesses. This practice is expected to wane, and in any event is not congruent with financial reporting in accordance with IFRS and with the distinction made between equity and liabilities.

But there is no indication that this *practice will wane* in the future as claimed above by Mackenzie *et al*. (2014). Indeed, Elad (2015) contends that legal reserve is one of the distinctive features of the vintage continental, or Class B, approach to accounting in Francophone and Lusophone Africa which have remained resistant to change despite the unprecedented success of IFRS, as a global set of financial reporting standards, and external pressure for reform from the World Bank and the IMF.

This study did not address the fact that some companies may have resorted to highly standardised *boilerplate reporting promoted by auditors and consulting firms using, for example, the template in KPMG (2019)*[65]*. Relatedly, it was found that old habits die hard since national and regional charts of accounts had a significant influence on the IFRS policy choices of companies in civil law jurisdictions in Africa.* It was also found that, in general, companies in common law jurisdictions in Africa provided far more extensive disclosures and notes to IFRS financial statements than their counterparts in Mozambique, Morocco and the OHADA zone.

Also, because the OHADA countries have just adopted the use of IFRS from 1 January 2019, the end of 2019 was their first year of IFRS reporting. Consequently,

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[65] See for instance https://home.kpmg/content/dam/kpmg/fr/pdf/2018/01/fr-Traduction-fran%C3%A7aise-Guide-to-annual-FS-2017.pdf

given the timing of this study there were not many reports available from the OHADA countries to choose from. Hopefully, with time, this problem will be resolved as more companies' report using IFRS in the OHADA region.

On the second study on the suitability of the use of IFRS in Africa, as the research was done specifically on Ghana, the conclusions arrived at may not be generalised to the whole African continent, although the country shares a lot in common on the use of IFRS with the common law nations of Africa. A broader study involving countries from the civil law and common law jurisdictions is recommended before any generalised conclusions may be drawn. Nonetheless, this study has exposed some the perception of accounting related professionals in Ghana, which arguably may be similar to that of some countries on the continent.

11.7 Recommendation for further research

Because the OHADA countries have just adopted IFRS, at the time of this research only 8 companies had produced IFRS compliant financial reports. Consequently, the number companies from the OHADA region was few. Maybe in 5 years' time when the OHADA countries have become fully conversant with IFRS and implemented them for some time, their IFRS policy choices, if any, will become clearer. It will therefore be a good idea to repeat this research in about 5 years' time. Again, the fact that only 8 companies produced IFRS compliant financial report suggest that, either the OHADA countries had not had adequate preparation for the introduction of the new financial reporting system from January 2019. It could also be that the enforcement regime for this new reporting standards had been week and therefore the companies think they can ignore it for the time being. A further study into the bottlenecks on the implementation of IFRS in these civil law countries where accounting standards are incorporated into legislation is recommended by this study, when the dust has settled on the whole adoption processes. Relatedly a further study can be conducted into the readiness of the institutions that are meant to enforce the correct adoption/implementation of new standards.

As mentioned earlier on in the limitation, in both the civil law and the common law regions of Africa, the use of highly standardised b*oilerplate* reporting templates recommended by accountants and their auditors (especially the Big 4 accounting firms) is likely to influence the policy choices used in their financial reporting. Therefore, the use these uniform financial reporting templates in Africa offer the opportunity for future research into the extent to which they impact on financial reporting on the continent. A future study could ascertain the extent to which companies' IFRS policy choices in the civil law and common law African countries are shaped by the highly standardised boilerplate reporting templates issued by their accountants, auditors or consultants.

The data used in this study had excluded those from countries such as Egypt, Algeria and Tunisia that may be described as voluntary IFRS adaptors for reasons stated in chapter section 9.3.3. Perhaps a future study to compare the accounting practices of these countries that permit the limited use of IFRS and those who have wholly embraced IFRS may be a worthy extension to this study.

Finally, the second study of this thesis creates the opportunity for a more comprehensive study on the perception of accounting professionals on the adoption of

IFRS by countries in the African region. This may be carried out using the economic theory of network (Katz and Shapiro, 1985) to test if the findings of this study will be confirmed by the use a different theoretical framework, instead of institutional theory.

12. Appendix

12.1 **Transcript of interview questions and responses**

Interview Questions – All interviews are semi structured -

Interview guideline – The questions were modified for different types of interviewees for the comparative case studies to make sure that they were relevant to them.

Average length: 1 hour

12.1.1 *Respondent 1*

Interview date - 10/08/2020

Main Questions

Question 1: Ghana's IFRS adoption and related problems

a) If you cast your mind back to 2007 when Ghana first adopted IFRS do you think the country was ready, then? What were the initial problems in general?

There was a problem with expertise. There was also a problem with the initial comparability statement when accounts that has been prepared using Ghana GAAP had to be restated in line with IFRS. This created huge differences with profit figures.

b) Are you happy with the use of IFRS or will you prefer the return to Ghana national GAAP?

Yes, it is better than Ghana GAAP.

c) What were some of the initial problems encountered by listed companies when they first adopted IFRS?

There were issues with measurements like depreciation and provisions. IFRS Measurements are stricter than Ghana GAAP. The banks began having problems with liquidity and profitability as loans had to be written off to their fair values. This was a shock to the financial institutions initially.

d) Did the adoption of IFRS enhance or hinder the ability to regulate the listed companies in Ghana?

Regulation is done by SEC and they seem not be directly enforcing the use of IFRS by the listed companies. They did not have any severe sanctions for companies in breach, unlike the registrar of companies and the Ghana tax authorities who imposed some severe penalties for breaches. The overall regulation of IFRS in Ghana is done by the Institute of Chartered Accountants Ghana.

Most companies do not appear to file their IFRS financial statements on *time to the Ghana Stock exchange, but it does not affect their share prices and reputation. It appears that the stock market in Ghana is not very responsive to the financial reports filed by the companies.*

<u>Question 2 – Ghana's IFRS adoption and use - Influence of Multi-Nationals</u>

Did IFRS enhance or hinder the country's ability to regulate the financial reporting of Multi-National Companies in Ghana? Did their financial reports show high or low profits when reporting in IFRS?

The MNC's are more interested in the audit opinion of their auditors who are always from one of the big 4. In terms of regulation from the Registrar of companies and the tax authorities. Nothing changed much. The company law of Ghana was not revised until 2019 even after adopting IFRS.

a) Does IFRS favour Multi-National companies to pay less tax?

Not really. The tax laws are different from IFRS measurements. Therefore, the Tax authorities will also restate companies' accounts in line with Ghana tax laws. There are therefore certain allowable and disallowable expenses. There is therefore different profit calculation under IFRS and under tax laws.

b) How relevant are IFRS to Ghana's tax needs?

It does not make much difference.

c) How consistent is IFRS to Ghana's company law's requirements?

It does not make much difference. They exist independent of each other.

<u>Question 3 – Ghana's IFRS adoption and use - The Big 4 Audit firms</u>

a) Who are the accountants and auditors of the companies listed on the Ghana Stock Exchange?

It is a combination of the local firms and the big 4. However, for the multinationals, it is always one of the big 4 since they tend to use the same auditors as their parent company.

b) Have the big 4 accounting firms stifled local competition in the accounting profession in the area of auditing and accounts preparation?

On course they audit the multinationals and therefore the local firms are not involved. They also compete in the audit of the local firms.

c) How do you compare the audit fees of the big 4 firms with that of the local firms? Are they higher?

The audit fees of the Big 4 are much higher (at least 4 times) and they are in foreign currencies – Dollars.

d) Why do you think that the listed companies prefer to use the Big 4 over local audit firms?

Parent company's requirement.

Question 4 - Training and Literature on IFRS

Where do you receive training and literature on IFRS? Is it produced locally?

ICAG are always conducting training on IFRS. Al least twice every month.

Also, the Big 4 in Ghana always organize IFRS training for their corporate clients and for the public for a fee For example PwC in Ghana always has training department with resource personnel who conduct regular training on IFRS to the public and their clients. ICAG has produced a "virtual CPD guide" for the preparation of financial statements under IFRS for SME. Most of the companies follow the guide religiously.

Question 5 - IFRS Regulation in Ghana

Who is the overall regulator of IFRS compliance in Ghana? Do they have the right personnel to ensure compliance?

ICAG. Yes, they do but they do not have many personnel.

Question 6 - IFRS on-going Challenges

What do you see is the biggest problems that Ghana has faced with IFRS adoption?

There is still continuous lack of experts. Too costly for IFRS compliance. Audit fee is very high especially by the Big 4

Question 7: The environmental factors influencing the use of IFRS options in Ghana

IFRS treatments come with options. Do companies in Ghana tend to use similar options of IFRS treatment? If not, what factors do you think determine the IFRS options that companies adopt?

A significant number of companies use the virtual guide produced by ICAG to prepare their financial statements under IFRS. Therefore, it appears that there is limited use of the covert and overt options under IFRS by companies in Ghana. This means that companies adopt similar policies in IFRS usage.

IFRS and Surrounding countries.

I have been training personnel in Mali to use IFRS for financial reporting to be sent to the office of our parent company in USA. Also, they have been producing financial reports locally under the SYSCOAHADA PCG they also always been producing financial reports under IFRS for their parent companies, which is completely different.

Question 8: Ghanaian accountants' perception of SYSCOHADA

Have you ever worked in any company using the SYSCOAHADA Accounting System? If so, what is your perception of it?

It is too different, too rigid and very difficult to use. I don't like it.

12.1.2 *Respondent 2*

Interview - 10/08/2020

<u>Main Questions</u>

<u>Question 1: Ghana's IFRS adoption and related problems</u>

a) If you cast your mind back to 2007 when Ghana first adopted IFRS do you think the country was ready, then? What were the initial problems in general?

The country was ready since some of the listed companies were already using IFRS. Therefore, the transition was not bad. The transition was not moved.
The unlisted companies however were not ready.

Some of the listed companies were multinational companies and were therefore already reporting using IFRS. In de facto terms, they were using IFRS but in de jure terms, they were supposed to use Ghana GAAP
Also, the old Ghana GAAP was based on the old IFRS and therefore there was not much difference.

b) Are you happy with the use of IFRS or will you prefer the return to Ghana national GAAP?

Yes because of globalisation to have a common accounting language to be able to communicate with investors. To provide comparability for foreign investors.
For domestic companies it did not make much of a difference.

c) What were some of the initial problems encountered by listed companies when they first adopted IFRS?

To me the main issue was the use of 'Fair Value measurement'. There were issues with measurements, recognition and disclosures. The standards for the use of fair value posed problems. At the time of IFRS adoption, IFRS 13 (Fair Value) did not exist. There were no active markets there and therefore the use of level 1 – Fair Value determination was possible. They used level 3 which was subjective.

There were also problems with disclosure requirements. Some firms struggle to comply with disclosure requirements. This is due to the secretive culture like Holstead's work. For instance, there were a lot of related party transactions that were not disclosed.

d) Did the adoption of IFRS enhance or hinder the ability to regulate the listed companies in Ghana?

On the contrary, it should help the regulators. The old Ghana GAAP were not regularly updated and therefore it was difficult for the regulators. Therefore, IFRS was a big plus for the regulators since they were dealing with up to date standards.

<u>Question 2 – Ghana's IFRS adoption and use - Influence of Multi-Nationals</u>

a) Did IFRS enhance or hinder the country's ability to regulate the financial reporting of Multi-National Companies in Ghana? Did their financial reports show high or low profits when reporting in IFRS?

I do not have any data on that. It is an empirical issue. There was not much change in measurement since companies were already using IFRS related GAAP and therefore the change was not drastic. There was no drastic change. Their profit calculation was consistent with previous ones.

b) Does IFRS favour Multi-National companies to pay less tax?

IFRS did not make any difference to the taxation of multi-national. The tax authorities base their tax calculation on the tax rules which is independent of IFRS. This did not change when Ghana adopted IFRS.

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c) How relevant are IFRS to Ghana's tax needs?

It is not relevant because there are different rules for tax from published profit.

d) How consistent is IFRS to Ghana's company law's requirements?

Ghana's companies code had not been updated and there were conflicts, but the companies code has been revised last year and therefore should be consistent with IFRS.

The companies code does not prescribe measurement rules and therefore it is irrelevant. However, in the area of disclosure, the code was inadequate and therefore IFRS enhanced the disclosure the requirements of companies.

<u>Question 3 – Ghana's IFRS adoption and use - The Big 4 Audit firms</u>

a) Who are the accountants and auditors of the companies listed on the Ghana Stock Exchange?

The auditors of the listed companies are predominantly Big 4.

b) Have the big 4 accounting firms stifled local competition in the accounting profession in the area of auditing and accounts preparation?

In Ghana we had a peculiar rule before IFRS, where the foreign firms were to be audited by local firms. It is to do with capacity. Local firms however did not have the capacity to audit the large firms.

Most of the listed companies had foreign affiliations and therefore it was natural for them to use the Big 4 accounting firm. This was the situation that existed prior to IFRS and continued after IFRS adoption. The small firms have remained small basically due to lack of capacity.

c) How do you compare the audit fees of the big 4 firms with that of the local firms? Are they higher?

The big 4 charge more because you are paying for the brand name. Their fees are higher than the local firms.

d) Why do you think that the listed companies prefer to use the Big 4 over local audit firms?

Most of the listed companies had foreign affiliations and therefore, it was natural for them to use the Big 4 accounting firms.

<u>Question 4 - Training and Literature on IFRS</u>

Where do you receive training and literature on IFRS? Is it produced locally?

ICA Ghana provides training as Professional Development courses. Also, the Big 4 also provide training. In addition to that, Ghana exams are based on IFRS and therefore the accountants study and qualify under IFRS.

I do not think ICA Ghana insists on CPD rules therefore it is likely that some accountants will not update their skills. Training is not compulsory. Accountants of Ghana ICA Ghana did not insist on CPD.

<u>Question 5 - IFRS Regulation in Ghana</u>

Who is the overall regulator of IFRS compliance in Ghana? Do they have the right personnel to ensure compliance?

ICA Ghana. They are the body named in Ghana company code to regulate the accounting profession. However, they are severely limited in regulating the Big 4. The recent banking crises in Ghana is a confirmation of lack of regulation. The accountants did not pick up unauthorized practices. The big 4 are powerful in Ghana and there was no proper task force that could identify the inadequacies in their audit of the Banks.

<u>Question 6 - IFRS on-going Challenges</u>

What do you see is the biggest problems that Ghana has faced with IFRS adoption?

The issue of how to effectively implement some of the accounting standards. Fair Value accounting is still posing a major problem. The measurement is still a problem for many.

<u>Question 7: The environmental factors influencing the use of IFRS options in Ghana</u>

IFRS treatments come with options. Do companies in Ghana tend to use similar options of IFRS treatment? If not, what factors do you think determine the IFRS options that companies adopt?

A lot of options under IFRS has been eliminated with the new standard. It appears that companies in Ghana use the same option as they may not have the skills to use different options. For instance, under IAS 16 most companies use the cost option. The problems with fair value mean they will all use the cost model. The same with IAS40, Investment properties. Therefore, although there are choices, most firms are limited to the same choices.

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<u>Question 8: Ghanaian accountants' perception of SYSCOHADA</u>

Have you ever worked in any company using the SYSCOAHADA Accounting System? If so, what is your perception of it?

No I have not dealt with them before.

12.1.3 *Respondent 3*

Interview - 12/08/2020

Main Questions

Question 1: Ghana's IFRS adoption and related problems

a) If you cast your mind back to 2007 when Ghana first adopted IFRS do you think the country was ready, then? What were the initial problems in general?

No. We have and continue to have a weak regulatory system, and the proposed establishment of a financial reporting council never happened.

b) Are you happy with the use of IFRS or will you prefer the return to Ghana national GAAP?

I say no to both questions. At least with IFRS there is a standard that is updated regularly, which was not the case with the Ghana GAAP. There was no enforcement with Ghana GAAP and neither is there any with IFRS.

c) What were some of the initial problems encountered by listed companies when they first adopted IFRS?

Most listed companies are subsidiaries of international parent companies, so some were already IFRS compliant in 2007. The Ghana Revenue Authority was not up to speed with IFRS and the concepts of comprehensive income and reserves in2007.

Did the adoption of IFRS enhance or hinder the ability to regulate the listed companies in Ghana?

Neither- there is very minimal regulation regarding financial reporting in our country.

Question 2 – Ghana's IFRS adoption and use - Influence of Multi-Nationals

a) Did IFRS enhance or hinder the country's ability to regulate the financial reporting of Multi-National Companies in Ghana? Did their financial reports show high or low profits when reporting in IFRS?

No, again due there is minimal regulation as I said earlier.

b) Does IFRS favour Multi-National companies to pay less tax?

No. IFRS does not directly make them pay less tax. What gives them tax advantage is thin capitalisation, significant tax incentives to win them over, transfer pricing. facilitate the payment of less tax more than just the adoption of IFRS.

c) How relevant are IFRS to Ghana's tax needs?
Ghana tax laws are separate from IFRS. There is no link.

d) How consistent is IFRS to Ghana's company law's requirements?
The new companies Act 2019 requires companies to prepare financial statements compliant to IFRS. It is now consistent.

<u>Question 3 – Ghana's IFRS adoption and use - The Big 4 Audit firms</u>

a) Who are the accountants and auditors of the companies listed on the Ghana Stock Exchange?
Mainly Big 4.

b) Have the big 4 accounting firms stifled local competition in the accounting profession in the area of auditing and accounts preparation?

I don't think it is the Big 4 who have stifled the profession. It is the regulators ICAG; Ghana Revenue Authority; Registrar Generals Dept and the Banks should take a significant part of the blame.

The general indifference to financial reporting in Ghana downplays the importance of auditing and accounts preparation.

c) How do you compare the audit fees of the big 4 firms with that of the local firms? Are they higher?
There is no comparison. Some local firms – what we term mid-tier firms have managed to increase their fees either by merging with international firms or creating niches, but generally non big 4 firms cannot compete in the same arena as the Big4. Far higher fees.

d) Why do you think that the listed companies prefer to use the Big 4 over local audit firms?
The big 4 are recognized brands.

<u>Question 4 - Training and Literature on IFRS</u>

Where do you receive training and literature on IFRS? Is it produced locally?

Purchased online from IFAC and in bookshops. ICAG sometimes purchases copies for sale to practitioners.

<u>Question 5 - IFRS Regulation in Ghana</u>

Who is the overall regulator of IFRS compliance in Ghana? Do they have the right personnel to ensure compliance?

Without the Financial Reporting Council, ICAG is the regulator. No, they are not adequately resourced to ensure compliance.

Question 6 - IFRS on-going Challenges

a) What do you see is the biggest problems that Ghana has faced with IFRS adoption?

ICAG – but There is a complete lack Regulation and enforcement of standards in the country. There are no organisation that has taken the responsibility for this.

b) When there is a change in IFRS or a new IFRS, how quickly are businesses able to incorporate that in their financial reports.

It depends on whether the company has external links or is audited by the big 4. In those cases, adoption is prompt. Otherwise it is fair game.

c) What benefits have your company derived from the use of IFRS locally within Ghana?

I think the main benefit is the preparation of accounts that are comparable worldwide.

d) What benefits have your company derived from IFRS use outside of Ghana?

None

e) How have arguments in favour and against IFRS changed over time?

There is minimal change. It remains the same.

f) What do you see is the biggest problems that Ghana has faced with IFRS adoption?

Ghana's problem is the lack of regulation and enforcement of IFRS in the country.

Question 7: The environmental factors influencing the use of IFRS options in Ghana

IFRS treatments come with options. Do companies in Ghana tend to use similar options of IFRS treatment? If not, what factors do you think determine the IFRS options that companies adopt?

I think they use similar options because the auditors will require them to do so.

Question 8: Ghanaian accountants' perception of SYSCOHADA

Have you ever worked in any company using the SYSCOAHADA Accounting System? If so, what is your perception of it?

What is it? No idea.

12.1.4 Respondent 4

Interview - 12/08/2020

Main Questions

Question 1: Ghana's IFRS adoption and related problems

a) If you cast your mind back to 2007 when Ghana first adopted IFRS do you think the country was ready, then? What were the initial problems in general?

No, the country was not ready. Systems were not in place to welcome IFRS. The initial problem was lack of understanding and appreciation of the requirements of a new accounting framework.

b) Are you happy with the use of IFRS or will you prefer the return to Ghana national GAAP?

I am generally happy with the use of IFRS as it makes financial statements acceptable and comparable with other countries. However, some of the requirements come with undue cost. I believe that more Companies should be using the IFRS for SMEs framework. This is less complex and fit for purpose for most companies. However, because IFRS for SMEs was issued in 2009, most companies seem to have run with IFRS. Additionally, because of "SMEs" in the name, most companies were misled to believe it was for companies that are small and medium in size.

c) What were some of the initial problems encountered by listed companies when they first adopted IFRS?

d) Did the adoption of IFRS enhance or hinder the ability to regulate the listed companies in Ghana?

I believe it enhanced regulation of listed companies.

Question 2 – Ghana's IFRS adoption and use - Influence of Multi-Nationals

a) Did IFRS enhance or hinder the country's ability to regulate the financial reporting of Multi-National Companies in Ghana? Did their financial reports show high or low profits when reporting in IFRS?

It made no difference.

b) Does IFRS favour Multi-National companies to pay less tax?

I wouldn't think so. Determining tax liability is largely based on the tax laws of the country and not IFRS. IFRS acknowledges this. If multi-national companies pay lower taxes, then it will be the tax laws and tax authorities that give such consideration and not IFRS.

c) How relevant are IFRS to Ghana's tax needs?

No relevance to the tax systems of Ghana.

d) How consistent is IFRS to Ghana's company law's requirements?

The Company laws require companies to comply with the adopted accounting framework (s) of the country, IFRS inclusive.

Question 3 – Ghana's IFRS adoption and use - The Big 4 Audit firms

a) Who are the accountants and auditors of the companies listed on the Ghana Stock Exchange?

Largely, the Big Four.

b) Have the big 4 accounting firms stifled local competition in the accounting profession in the area of auditing and accounts preparation?

Somehow. They are more competitive in branding.

c) How do you compare the audit fees of the big 4 firms with that of the local firms? Are they higher?

The Big Four firms charge much more than the local firms.

d) Why do you think that the listed companies prefer to use the Big 4 over local audit firms?

The Big Four are recognized brands and are well known internationally.

Question 4 - Training and Literature on IFRS

Where do you receive training and literature on IFRS? Is it produced locally?

From work at a big four accounting firm.

Is it produced locally?

No.

When there is a change in IFRS or a new IFRS, how quickly are businesses able to incorporate that in their financial reports.

They normally comply with these at the dates those amended or new IFRSs become effective.

Question 5 - IFRS Regulation in Ghana

Who is the overall regulator of IFRS compliance in Ghana? Do they have the right personnel to ensure compliance?

I would say the Institute of Chartered Accountants, Ghana. I have no idea.

Question 6 - IFRS on-going Challenges

What do you see is the biggest problems that Ghana has faced with IFRS adoption?

The stringent requirements of the standards and the frequent changes to old standards and issuance of new ones.

How have arguments in favour and against IFRS changed overtime?

With the issuance of new standards like IFRS 9 Financial Instruments, there is more disaffection towards IFRS. However, most people believe there is no going back to a local GAAP. Others also believe Africa should have its own accounting standards which will be more suited to our environment and circumstance.

What do you see is the biggest problems that Ghana has faced with IFRS adoption?

Majority of people still don't appreciate the standards. The Companies believe the disclosures are burdensome and don't add much value for users of the financial statements.

<u>Question 7: The environmental factors influencing the use of IFRS options in Ghana</u>

IFRS treatments come with options. Do companies in Ghana tend to use similar options of IFRS treatment? If not, what factors do you think determine the IFRS options that companies adopt?

No, they don't. The industry the companies are in is the factor that influences accounting policy elections. Companies in the insurance industry tend to use the fair value measurement for their Property, Plant and Equipment (PPE) whiles most banks use the cost model for example. Another factor is multinational companies who normally align their accounting options with their Parent Companies'.

<u>Question 8: Ghanaian accountants' perception of SYSCOHADA</u>

Have you ever worked in any company using the SYSCOAHADA Accounting System? If so, what is your perception of it?

We have a specialised team that audit the OHADA countries. They produce two sets of accounts. One for local taxes and the other for the group. The group accounts have been prepared under IFRS.

12.1.5 *Respondent 5*

Interview - 12/08/2020

<u>Main Questions</u>

<u>Question 1: Ghana's IFRS adoption and related problems</u>

a) If you cast your mind back to 2007 when Ghana first adopted IFRS do you think the country was ready, then? What were the initial problems in general?

Ghana was ready. The problem was lack of understanding of the systems. Also the lack of experts with IFRS. Accountants were charging excessive. Cost of transition. Training costs to prepare for IFRS.

b) Are you happy with the use of IFRS or will you prefer the return to Ghana national GAAP?

I prefer IFRS because it is international standards that enables comparison across the world. For investment decisions.

c) What were some of the initial problems encountered by listed companies when they first adopted IFRS?

Speed of adoption and conversion. The same problems stated above.

d) Did the adoption of IFRS enhance or hinder the ability to regulate the listed companies in Ghana?

That was not an issue. It did not change anything. IFRS are just for presentation. Before the adoption, some companies had adopted IFRS even before.

<u>Question 2 – Ghana's IFRS adoption and use - Influence of Multi-Nationals</u>

a) Did IFRS enhance or hinder the country's ability to regulate the financial reporting of Multi-National Companies in Ghana? Did their financial reports show high or low profits when reporting in IFRS?

The Subsidiaries of MNCs had adopted IFRS even before the country adopted it. Ghana companies act did specifically state that you must use Ghana GAAP. The companies act did not specifically ask this and that in my view, the ICAG Ghana did not have any mandate by law to set standards.

The requirements to prepare accounts to comply with Ghana standards was set by SEC in its legislative instrument.

b) Does IFRS favour Multi-National companies to pay less tax?

I am not sure that IFRS affects tax issues.

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c) How relevant are IFRS to Ghana's tax needs?

Apart from ensuring accounting confirms with international standards, it has no direct impact on taxation. Changes in provisions under IFRS will affect profits which may affect tax.

d) How consistent is IFRS to Ghana's company law's requirements?

Companies aw state that accounts should confirm with IFRS or any other standards adopted or approved by the institute of CA Ghana. This was not done until last year. Bank of Ghana and SEC requires companies to prepare accounts in line with IFRS from 2016. This means that there was a gap period.

<u>Question 3 – Ghana's IFRS adoption and use - The Big 4 Audit firms</u>

a) Who are the accountants and auditors of the companies listed on the Ghana Stock Exchange?

The financial reports indicate most of the listed companies use the big 4 for their audit. They capture major part in Ghana as they do internationally.

b) Have the big 4 accounting firms stifled local competition in the accounting profession in the area of auditing and accounts preparation?

They dominate the account markets. Purely because they are international.

c) How do you compare the audit fees of the big 4 firms with that of the local firms? Are they higher?

Their fees are higher than the local firms.

d) Why do you think that the listed companies prefer to use the Big 4 over local audit firms?

They think they are international even though most of their partners are Ghanaians.

Question 4 - Training and Literature on IFRS

Where do you receive training and literature on IFRS? Is it produced locally?

Training is done by accountants in the country. Most accounting firms do it.

Question 5 - IFRS Regulation in Ghana

Who is the overall regulator of IFRS compliance in Ghana? Do they have the right personnel to ensure compliance?

As at now there is no regulator of IFRS. However, there is a regulator of accounting, which is ICA, who regulate its members. However, accounts will be rejected by the appropriate agency who will require you to do so.

SEC law says it should comply with IFRS. SEC will fine you if your accounts is late. It is rather the registrar general who fines you. The banks will also fine banks that file their report late. SEC will withdraw your license and delist you from the stock exchange if you do not file your accounts.

Question 6 - IFRS on-going Challenges

What do you see is the biggest problems that Ghana has faced with IFRS adoption?

The challenges are education, training, and conversion costs. Currently there are no issues with the use of IFRS. The only challenge is to train staff on new standards. When new standards are issued, the ICAG will inform the public about it in their news. We have no choice; we need funds and therefore we need IGFRS to give investors' confidence to invest in your country.

Question 7: The environmental factors influencing the use of IFRS options in Ghana

IFRS treatments come with options. Do companies in Ghana tend to use similar options of IFRS treatment? If not, what factors do you think determine the IFRS options that companies adopt?

I do not know much about this. But I think that once the options are available you can use any.

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Question 8: Ghanaian accountants' perception of SYSCOHADA

Have you ever worked in any company using the SYSCOAHADA Accounting System?

If so, what is your perception of it?

I do not know what they are using now.

NB: Interviewee 5 is of the view that the way the standards setting has been democratic is through Regional Standards Stability Boards who make recommendation of IASB and other bodies on IFRS decisions. He was part of the board representing Ghana.

12.1.6 *Respondent 6*

Interview - 13/08/2020

Main Questions

Question 1: Ghana's IFRS adoption and related problems

a) If you cast your mind back to 2007 when Ghana first adopted IFRS do you think the country was ready, then? What were the initial problems in general?

There were two categories of companies at that time. The small companies were using Ghana GAAP and the multinationals were using the IFRS anyway. It was advantageous to the MNC since they now have to prepare only one set of accounts. IFRS did not come as a shock to them.

The country needed IFRS because it became a business necessity for international investments in Ghana. Also, it was necessary for Ghana's integration in this period of globalisation. Although the multinational did not have much of a problem, for the local companies, the level of training was minimal. However, training was minimal for the local companies.

b) Are you happy with the use of IFRS or will you prefer the return to Ghana national GAAP?

I am happy Ghana is using IFRS because it is encouraging international investments. IFRS may not have directly driven the investments but it was other economic factors. However, it was a big plus for confidence in financial reporting, since Ghana GAAP had no application outside Ghana, not even in West Africa.

c) What were some of the initial problems encountered by listed companies when they first adopted IFRS?

For the MNC it was a huge relief to the big ones like AngloGold Ashanti Unilever, Standard Chartered Bank, Guinness, Total Société General and Fan Milk. For these companies it was reduction in cost for preparing only one set of accounts rather than two: IFRS for their parents and Ghana GAAP for the local reporting.

The smaller companies had to go through a learning curve. There are more ACCA and CIMA qualified accountants in Ghana than those with CA Ghana which means most of the accountants were familiar with IFRS. Also, the big 4 were very knowledgeable with IFRS.

There was conversion cost. Ledgers had to be reconfigured. However, there *was not much difference between Ghana GAAP and IFRS, therefore the conversion cost was not much.*

d) Did the adoption of IFRS enhance or hinder the ability to regulate the listed companies in Ghana?
I do not think so. Ghana GAAP was somehow aligned with IFRS in many key areas and therefore there was not much to be done. The regulators are ICAG, SEC, and Bank of Ghana. IFRS did not change anything with respect to regulation.

<u>Question 2 – Ghana's IFRS adoption and use - Influence of Multi-Nationals</u>

a) Did IFRS enhance or hinder the country's ability to regulate the financial reporting of Multi-National Companies in Ghana? Did their financial reports show high or low profits when reporting in IFRS?
Tax adjusted financials is different from accounting financials and therefore did not make any difference in their reported profit. The Ghana tax laws did not change with IFRS and therefore it did not make any difference.
What makes the MNCs to get away with reduced tax is ack of regulation from the appropriate bodies.

b) Does IFRS favour Multi-National companies to pay less tax?
No, they don't.

c) How relevant are IFRS to Ghana's tax needs?
IFRS ere not relevant to Ghana's tax needs. They exist separate of each other.

d) How consistent is IFRS to Ghana's company law's requirements?
Company law has been changed recently but did not changed at the time of IFRS adoption. Ghana Companies law exist irrespective of the GAAP being used, and it is for the regulation for company. These are two co-exist and the auditors will form opinion on companies' compliance with both.

<u>Question 3 – Ghana's IFRS adoption and use - The Big 4 Audit firms</u>

a) Who are the accountants and auditors of the companies listed on the Ghana Stock Exchange?
The listed companies are mostly audited by the Big 4

b) Have the big 4 accounting firms stifled local competition in the accounting profession in the area of auditing and accounts preparation?
They are the market leaders and seem to audit the multinationals and large companies. The local companies do not have the capacity for that and therefore in some respect, they are not in competition.

c) How do you compare the audit fees of the big 4 firms with that of the local firms? Are they higher?
Very high because they have high reputation and established brand names
Very high fees charged by them. Often in foreign currencies.

d) Why do you think that the listed companies prefer to use the Big 4 over local audit firms?

Because they have high reputation and established brand names.

<u>Question 4 - Training and Literature on IFRS</u>

a) Where do you receive training and literature on IFRS? Is it produced locally?

From different sources ICA Ghana; Big Auditing Firms, In-house training by companies.

b) Who is the overall regulator of IFRS compliance in Ghana? Do they have the right personnel to ensure compliance?

ICAG for all firms; SEC for listed companies and Bank of Ghana for Financial institutions.

<u>Question 5 - IFRS Regulation in Ghana</u>

Who is the overall regulator of IFRS compliance in Ghana? Do they have the right personnel to ensure compliance?

ICAG for all firms; SEC for listed companies and Bank of Ghana for Financial institutions.

<u>Question 6 - IFRS on-going Challenges</u>

What do you see is the biggest problems that Ghana has faced with IFRS adoption?

I do not see any major problems. It is the same problems that you have existed without the IFRS adoption. It is all about training.

<u>Question 7: The environmental factors influencing the use of IFRS options in Ghana</u>

IFRS treatments come with options. Do companies in Ghana tend to use similar options of IFRS treatment? If not, what factors do you think determine the IFRS options that companies adopt?

Policy choices of multinational are dictated by their parent companies.

<u>Question 8: Ghanaian accountants' perception of SYSCOHADA</u>

Do you have any ever worked in any company using the SYSCOAHADA Accounting System? If so, what is your perception of it?

I was an African regional director traveling to Mali. Our operations in Mali prepare accounts in IFRS to send to head office. They also prepared accounts under the OHADA rules for local reporting.

***12.1.7** Respondent 7*

Interview - 14/08/2020

Main Questions

a) If you cast your mind back to 2007 when Ghana first adopted IFRS do you think the country was ready, then? What were the initial problems in general?

Ghana was not ready. The initial problems were in the application of the IFRS. Converging Ghana GAAP with IFRS was a problem.

Lack of understanding of IFRS.
Lack of adequate literature on IFRS.
Lack of training.

b) Are you happy with the use of IFRS or will you prefer the return to Ghana national GAAP?

I am happy with the use of IFRS. Ghana GAAP was outdated. Also with Globalisation, the use of IFRS is in the right order. Our trade partners use IFRS and therefore it is important that we use it also.

c) What were some of the initial problems encountered by listed companies when they first adopted IFRS?

How Ghana stock exchange was treating their capital structure. Ghana was using stated and IGRS uses share capital. There was a conflict in reconciling the two.

d) Did the adoption of IFRS enhance or hinder the ability to regulate the listed companies in Ghana?

IFRS enhanced the ability to regulated listed companies. All listed companies, irrespective of their source of finance were using the same accounting standards and therefore.

Question 2 – Ghana's IFRS adoption and use - Influence of Multi-Nationals

a) Did IFRS enhance or hinder the country's ability to regulate the financial reporting of Multi-National Companies in Ghana? Did their financial reports show high or low profits when reporting in IFRS?

There is no effect on the profit. The function of profit remained the same as under old Ghana GAAP.

b) Does IFRS favour Multi-National companies to pay less tax?

It does not matter due the Ghana tax laws which distinct from IFRS.

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c) How relevant are IFRS to Ghana's tax needs?

IFRS has no effect on Ghana's s tax Needs.

d) How consistent is IFRS to Ghana's company law's requirements?

Ghana company law was copied from English law and therefore the consistency with IFRS which is Anglo Saxon exists.

Question 3 – Ghana's IFRS adoption and use - The Big 4 Audit firms

a) Who are the accountants and auditors of the companies listed on the Ghana Stock Exchange?

The companies are audited by Deloitte Ernst and Young and PwC. However local firms like Morrison Associates audit some of the listed companies. Less than 10 % of local firms audit the listed companies.

b) Have the big 4 accounting firms stifled local competition in the accounting profession in the area of auditing and accounts preparation?

Yes, they have because of their names they have much recognition. The companies use them for instil confidence in potential investors. They have brand names which sells them any MNC that comes to Ghana wants to use or is already using one of the Big 4.

c) How do you compare the audit fees of the big 4 firms with that of the local firms? Are they higher?

The Big 4 charge higher audit fees than local firms because they cover wider ranges of services than local firms. Also, they employ well trained and more experienced personnel.

d) Why do you think that the listed companies prefer to use the Big 4 over local audit firms?

Answer included in 3b.

Question 4 - Training and Literature on IFRS

Where do you receive training and literature on IFRS? Is it produced locally?

Training companies COP training have huge resources for their training and both large and small organisations them for their training. Other larger organisations sponsor their staff abroad.

Question 5 - IFRS Regulation in Ghana

Who is the overall regulator of IFRS compliance in Ghana? Do they have the right personnel to ensure compliance?

No idea since it is not clear as to whether it is bank of Ghana or the stock exchange regulator SEC.

Question 6 - IFRS on-going Challenges

What do you see is the biggest problems that Ghana has faced with IFRS adoption?

Quality of the financial reporting disclosures are still poor. It was not the best initially although it has improved now.

Question 7: The environmental factors influencing the use of IFRS options in Ghana

IFRS treatments come with options. Do companies in Ghana tend to use similar options of IFRS treatment? If not, what factors do you think determine the IFRS options that companies adopt?

Companies in Ghana use similar options under IFRS due to the auditor's recommendations.

Question 8: Ghanaian accountants' perception of SYSCOHADA

Have you ever worked in any company using the SYSCOAHADA Accounting System? If so, what is your perception of it?

I have not done anything in these countries.

12.1.8 *Respondent 8*

Interview - 14/08/2020

Main Questions

Question 1: Ghana's IFRS adoption and related problems

a) If you cast your mind back to 2007 when Ghana first adopted IFRS do you think the country was ready, then? What were the initial problems in general?

We were not ready, but it was necessary. Although the Ghana GAAP was modelled around IFRS, it was too old and had not been updated for years. That was not attractive to any potential serious investor.

The major issues at the start was that of training although a lot of noise had been made about the conversion to IFRS.

b) Are you happy with the use of IFRS or will you prefer the return to Ghana national GAAP?

Of Course. We are proud to be one of the early African countries to embrace IFRS completely. The Ghana GAAP was not helpful. Even before we changed to IFRS, some of the CA Ghana example were modelled around IFRS. If your accountants are being educated under IFRS, then it is natural occurrence if we adopt it.

c) What were some of the initial problems encountered by listed companies when they first adopted IFRS?

The listed companies did not have too much problems. The main issue was the increased audit fees. It gave to auditors the chance and excuse to charge them higher fees for training, account preparation and audit. This was much more with the local companies as they had not reported using IFRS before.

d) Did the adoption of IFRS enhance or hinder the ability to regulate the listed companies in Ghana?

No. The laws on regulation of companies in Ghana is no linked to IFRS. ICA Chana who are supposed to regulate IFRS do not inspect the books of companies. Rather, it is the auditors that they tend to regulate. Usually, they do not do anything until there are crises.

Question 2 – Ghana’s IFRS adoption and use - Influence of Multi-Nationals

a) Did IFRS enhance or hinder the country’s ability to regulate the financial reporting of Multi-National Companies in Ghana? Did their financial reports show high or low profits when reporting in IFRS?

Not really. Nothing changed for the Multi Nationals. They were already preparing accounts under IFRS for their parent companies and their foreign headquarters. It was status quo.

b) Does IFRS favour Multi-National companies to pay less tax?

No, but I guess that it rather reduces the burden and the4 cost of preparing accounts since they do not have to prepare separate accounts under Ghana GAAP and under IFRS. If anything at all the reduction in the cost of accounting preparation should rather boost their profit since accounts preparation and audit cost can be high.

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c) How relevant are IFRS to Ghana’s tax needs?

IFRS does not affect our tax system. We have our tax laws which is different from the standards that are used in preparing account. With IFRS therefore our tax laws did not change. Any change in tax laws is usually in response to changes to our economic needs.

d) How consistent is IFRS to Ghana’s company law’s requirements?

I think they are separate. We do not change our company law because of IFRS. However, the new company law from last year recognises international financial accounting standards and any other standards recognised by ICAG to be the standards used for preparation of financial reports.

Question 3 – Ghana’s IFRS adoption and use - The Big 4 Audit firms

a) Who are the accountants and auditors of the companies listed on the Ghana Stock Exchange?

Most of the listed companies are audited by one of the Big 4 firms. Almost all the MNCs are audited by the Big 4. They dominate the audit of the bigger institutions.

b) Have the big 4 accounting firms stifled local competition in the accounting profession in the area of auditing and accounts preparation?

Probably. I believe that if they were not present in the country, local firms would have expanded. However, their presence is needed since they are a recognised global brand if we are to get investors from abroad.

c) How do you compare the audit fees of the big 4 firms with that of the local firms? Are they higher?

Excessive? The fees are very high and they at times quote in UD dollars. It is just a few of them and so they have some monopolistic powers.

d) Why do you think that the listed companies prefer to use the Big 4 over local audit firms?

They are recognized global brands

<u>Question 4 - Training and Literature on IFRS</u>

Where do you receive training and literature on IFRS? Is it produced locally?

Most accounting firms offer IFRS training to their clients. Some of the Big 4 have dedicated training departments that train for a fee. However, the main institution that is always organizing training is ICA Ghana. I think IGRS has increased training cost of firms.

<u>Question 5 - IFRS Regulation in Ghana</u>

Who is the overall regulator of IFRS compliance in Ghana? Do they have the right personnel to ensure compliance?

Overall, it is ICAG and B of G They exist on paper, but I am not sure they are functional. Look at the banking crises for example. If these companies had been properly supervised by Bank of Ghana, we would not have been in that mess. SEC is supposed to regulate the listed companies, but I am not sure of what they do with regulation.

<u>Question 6 - IFRS on-going Challenges</u>

What do you see is the biggest problems that Ghana has faced with IFRS adoption?

I think that now IFRS has become part of the corporate norm in Ghana. The problems will always be lack of training and probably experience.

<u>Question 7: The environmental factors influencing the use of IFRS options in Ghana</u>

IFRS treatments come with options. Do companies in Ghana tend to use similar options of IFRS treatment? If not, what factors do you think determine the IFRS options that companies adopt?

I am not sure. I guess that companies will always adopt policies in line with their parent companies. I do not think any options here in Ghana will make one pay less tax since they tax rules and definition of expenses are all fixed.

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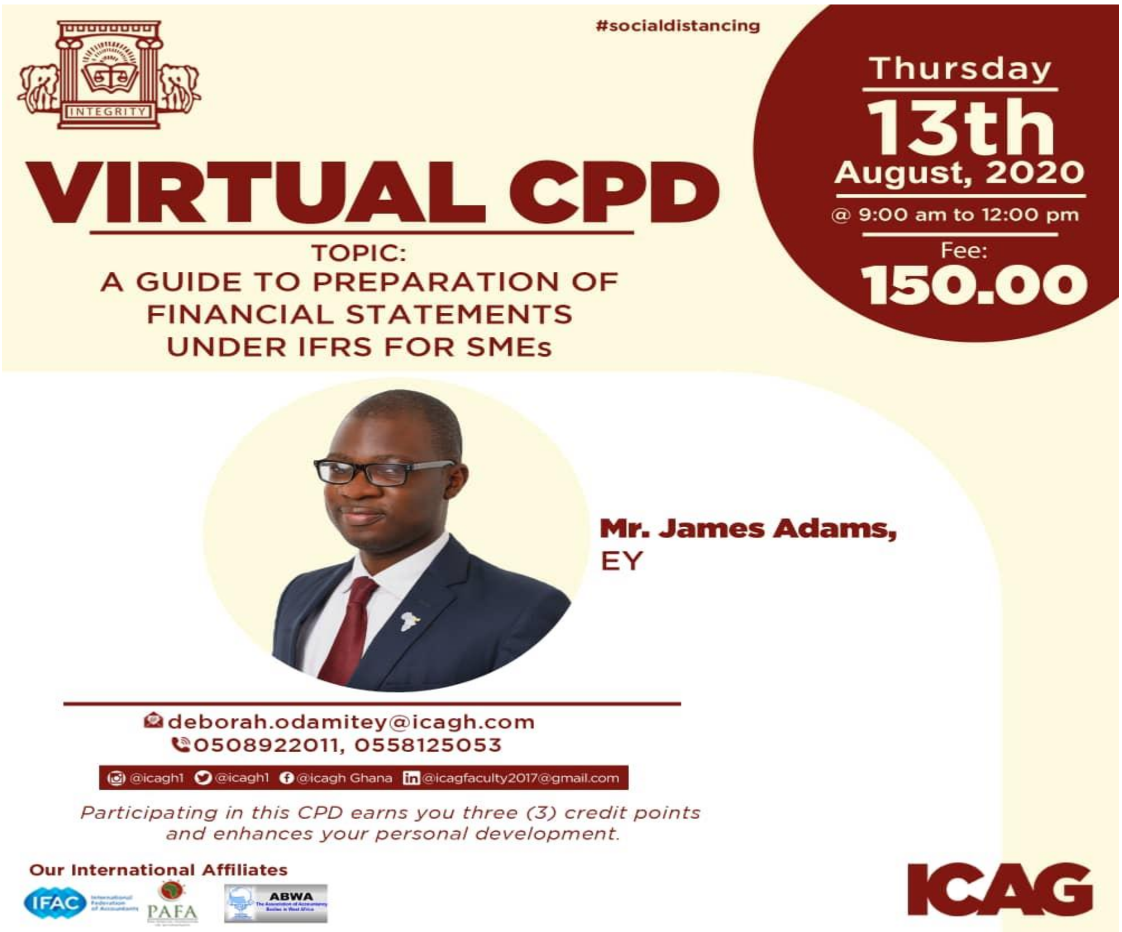
<u>Question 8: Ghanaian accountants' perception of SYSCOHADA</u>

Do you have any ever worked in any company using the SYSCOAHADA Accounting System? If so, what is your perception of it?

Not really.

12.2 Evidence of IFRS CPD training in Ghana by ICAG

This appendix provides evidence that the Institute of Chartered Accountant (Ghana) is involved in continuing professional development training for accountants in Ghana



12.3 The Practice Society of the Institute of Chartered Accountants (Ghana)

Response to the ICAG's invitation to comment about the suitability of IFRS prior to its adoption.

The Executive committee of the Practice Society of the Institute of Ghana at their meeting on Wednesday 16th November 2005 reviewed the Invitation to Comment document regarding Ghana's proposed migration to IFRS and comment as follows:

1. Should convergence with IFRS be an objective for financial reporting in Ghana?

Response: Yes. Outright adoption or convergence with International Financial Reporting Standards (IFRS) (formerly known as the International Accounting Standards (IAS)) is now a global phenomenon that is rapidly gathering pace. The EU, Australia, Russia and several other countries in the Middle East and Africa have decided on a wholesale, mandatory change to IFRS. Furthermore, the United States (US), South Africa, Singapore, Turkey and Malaysia are committed to convergence with the international benchmark. The United States is also looking at ways of making its standards more principles-based achieving greater convergence between IASB standards and US GAAP. It is generally held that countries which adopt internationally-recognised and –understood accounting standards for financial reporting will be positioned at a significant advantage to those who do not.

These developments increase the possibility that IASB standards will be applied globally within a reasonable timeframe.
We therefore believe we do not have much of a choice as a nation and as an IFAC registered accounting body not to comply since we want to encourage foreign direct investment into our economy.

2. Should IFRS be applied in all circumstances or only to standards for certain types of entities.

Response: Since the basis and aim of the IFRS are for the global investment markets, IFRS should be mandatory for all companies/ entities on the Stock exchange, those with foreign partners, financial institutions, financial service companies, mining and construction companies and similar organisations. The IRS's grouping of companies in the Large Taxpayers Unit (LTU) could also be used as a yardstick to identify companies who will be required to report under the IFRS regime. IPSAS should also be applied to all public sector bodies and State owned/ managed entities.
Companies outside these may however opt to use IFRS.

We also propose a 2-tier approach to compliance whereby the larger entities, i.e. those identified above be obliged to comply in 2007 and others given a year to comply i.e. in 2008. This will allow smaller firms and Practitioners to become more conversant with the reporting requirements and thereby comply effectively.

3. Should differential reporting be extended to public companies, so that some public companies would be subject to different standards than others (companies being differentiated on the basis of size, participation in international capital markets or some other characteristics)? In general terms and within the context of

the Task Force's objective of developing high-quality standards consistent with its conceptual framework, how might standards for different types of entities differ? How could this approach be justified relative to an objective of harmonizing with IFRS or global convergence?

Response: Once the company is public it should be mandatory for it to use IFRS or IPSAS.

We have noted that a set of standards is being developed for smaller entities. We believe that this set of standards for smaller entities will be applicable to many Ghanaian businesses and therefore recommend that these standards become mandatory for all other entities operating in Ghana.

4. Should convergence with IFRS be set at 2007 (accounts ending 31 December 2006)?

Response: Yes, for companies in the first tier, but earlier adoption should be recommended to all entities that can comply earlier.

5. Are there any other matters?

Response: We believe that the following issues should be addressed so as to get optimum results from the migration to IFRS:

Training of practitioners in IFRS should be intensified.

- The ICA should put in place professional development and accounting education programs geared to the adoption of IASB standards.
- The ICA should also publish material, which seeks to raise awareness in the business community about the proposed changeover and on the financial impact of the adoption for Ghanaian businesses.
- Surveys should also be conducted by the ICA and the major accounting firms to assess levels of preparedness in the business sector.
- The tax authorities should be roped into the implementation programme at an early stage.

Monitoring of progress at the international level: The ICA is member of the IFAC, and will need to use this membership to keep abreast with development on the International scene to ensure full compliance.

Resourcing of the accounting standard setting and review process: A special council for monitoring the adoption of standards will need to be established even though Ghana appears to have decided to adopt the IFRS in totality. This body will need to be adequately resourced.

6. Any general recommendations?
Response: Same as above

Mrs. [redacted]

cc: [redacted]
Mr. [redacted]
Mr. [redacted]
Ms. [redacted]
Mr. [redacted]
Mr. [redacted]
Mr. [redacted]
Mr. [redacted]
Mr. [redacted]
Mr. [redacted]

12.4 **Data collection and coding process**

This Appendix provides details on how the data on observable IFRS policy choices (overt options) were collected and coded in order to produce binary choice data that was used for the analysis in this study

The coding procedure

The main procedure is to record the IFRS policy choices using the information provided in the body financial statements or from the notes section. In cases where there was insufficient information, other parts of the notes of the financial reports are searched for information that is relevant to the policy options.

Source of Data

The data is produced from the published accounts of large listed African companies. The sizes of the companies were determined on the basis the relative amounts of their market capitalisation within their stock markets. There accounts were derived from the various companies' websites. The link to these websites is either from the companies' listings on the country's stock exchange, or from a link generated from searches on "https://www.african-markets.com/en/stock-markets". Data were generated from financial reports for 2017 for the non OHADA countries. However, for the OHADA countries, data were generated from their 2019 financial reports. This is because, 2019 was the first time data was available since that was the first year they were required to produce financial reports under IFRS. Using reports from two different years did not affect the results of the analysis since accounting policy choices of companies hardly change over time, in line with the accounting convention of consistency in financial reporting.

Observable IFRS options (overt options)
Option 1 (Format of income statement) – The binary option choices are determined by establishing whether or not the statement of profit or loss is 'by nature' or 'by function'.

Option 2 (Separate lines disclosing EBIT or operating profit) – The binary option choices are determined by establishing whether the statement of profit or loss contains a line showing operating profit or EBIT or whether there is no such line shown in the report.

Option 3 (Treatment of equity accounting results in the statement of profit or loss) – The binary option choice is defined by distinguishing whether equity accounting result is included in the operating profit or not. They are recorded as not included if they are separately recorded below the operating expenses items.

Option 4 (Balance sheet format – display net assets or credits): Balance sheet format showing 'net current assets' is treated as showing 'net assets'. Any different format is shown as balance sheet assets 'equals to credits'.

Option 5 (Balance sheet format – increasing or decreasing liquidity): The binary option is determined by arrangement of the current assets items such as inventory receivables and cash and cash equivalents

Option 6 (Operating cash flow – using direct or indirect method): The information on the binary option is collected from the statement of cash flow or any information contained in the notes to the financial statements. The option is between those using the direct or indirect method to calculate cash flow from operating activities.

Option 7 (Dividends received in statement of cash flow – treated as operating cashflow or not): In the preparation of cash flow statement, the binary option is between whether dividends received from investments are included as part of operating cash flow or not. It is considered as 'not operating cash flow' if it is treated under any section other than under cash flow from operating activities.

Option 8 (Interest paid in statement of cash flow – treated as operating cash flow or not): The assumption for recording the binary option is that companies incur interest expenses (finance costs) unless there is evidence against it. Therefore, if a company uses the indirect method and the statement of cash flow does not show interest paid, it can be deduced that interest expense is treated under operating cash flows unless it is recorded under different heading such as financing activities. In cases where both options are used, no binary option is recorded.

Option 9 (Statement of Profit or loss Comprehensive income – shown as a single statement or two statements) – The binary option is between whether the statement of profit or loss shows comprehensive income in just one statement or in two statements.

Option 10 (Measurement of some property plant and equipment at cost or at fair value):

The binary option is whether a company uses the cost model or the revaluation model for measuring property, plant and equipment in the statement of financial position.

Option 11 (Method of inventory valuation – using some FIFO or weighted average cost): The binary option is between the choice of FIFO or weighted average measurement. Any other method used is ignored.

12.5 **Coding of Overt IFRS options**

This appendix catalogues the coding of Overt IFRS options among top listed firms in African countries with considerably larger capital markets. It details definition of the coding used for countries, type of industry, and IFRS options in different accounting treatments are defined in

12.5.1 *Country, industry, and IFRS options codes defined*

Country	1	Ghana
	2	Nigeria
	3	Botswana
	4	Zimbabwe
	5	Kenya
	6	Morocco
	7	Mozambique
	8	OHADA Countries
	9	Zambia
	10	South Africa
Industry	1	Consumer goods
	2	Consumer services
	3	Basic materials
	4	Oil & Gas
	5	Telecommunication
	6	Technology
	7	Health care
	8	Industrial goods
	9	Utilities
	10	Energy
	11	Construction
	12	Conglomerate
	13	Automobile

Income statement format	1	Nature
	2	Function

EBIT or Operating profit	1	No inclusion of separate line
	2	Line included

Equity accounting results	1	Included in operating profit
	2	Excluded in operating profit
	3	Not available in annual report of years considered

Balance sheet financial position	1	Net assets
	2	Assets=Credit

Balance sheet liquidity	1	Decreasing liquidity
	2	Increasing liquidity

Operating cash flows	1	Presented as indirect
	2	Presented as direct

Dividend received	1	Shown as operating profit cash flow
	2	Not shown as operating profit cash flow
	3	Not available in annual report of years considered

Interest paid	1	Shown as operating profit cash flow
	2	Not shown as financing cost
	3	Not available in annual report of years considered

Comprehensive statement	1	Presented in two different statement
	2	Presented in a single statement

Property, plant & equipment	1	Some or all at fair value
	2	All at cost
	3	No clear firm policy stated in annual report of years considered

Inventory	1	Some or all at FIFO
	2	All at weighted cost
	3	No clear firm policy stated in annual report of years considered

Auditor's confirmation of compliance with IFRS	1	Yes
	2	No

Year of annual report	1	2017
	2	2019

12.5.2 *Overt IFRS option among listed firms in the selected African Countries*

OVERT IFRS OPTIONS AMONG TOP LISTED FIRMS IN AFRICAN COUNTRIES WITH CONSIDERABLY LARGER CAPITAL MARKETS															
Country (Refer to Code Ref worksheet)	Company	Industry (Refer to code Ref worksheet)	Income statement format	EBIT or Operating profit	Equity accounting results	Balance sheet financial positon	Balance sheet liquidity	Operating cash flows 6	Dividend received 7	Interest paid	Comprehensive statement	Property, plant & equipment	Inventory	Auditor's confirmation of IFRS	Year of AR
			1	2	3	4	5	6	7	8	9	10	11		
1	TULLOW OIL PLC	4	2	2		1	2	1		2	1	2	1	1	1
1	ANGLOGOLD ASHANTI	3	2	2	2	2	2	1	1	2	1	1	2	1	1
1	UNILEVER GHANA	1	2	2		2	2	1		1	2	2	2	1	1
1	GOIL	4	2	2		2	2	1	2		2	2	2	1	1
1	FAN MILK	1	2	2		2	2	1		1	2	2	2	1	1
1	GUINNESS GHANA	1	2	2		2	2	1		1	2	2	2	1	1
1	TOTAL	4	2	2		2	2	1		1	2	2	2	1	1
1	GOLDEN STAR	3	2	1		2	1	1			2	2	2	1	1
1	BENSO OIL PALM PLANTATION	1	2	2		2	2	2			2			1	1
1	PZ CUSSONS	1	2	2	1	2	2	1		1	1	2	1	1	1
1	COCOA PROCESSING COMPANY	1	2	2		2	2	1		2	2	2	1	1	1
1	ALUWORKS	8	2	2		2	2	1		1	2	1	2	1	1
1	PRODUCE BUYING COMPANY	1	2	2	1	2	2	1		2	2	2	1	1	1
1	INTRAVENOUS INFUSION	7	2	2		2	2	1			2	2		1	1
1	AYTON DRUG	7	2	2		2	2	1		1	2	2	2	1	1
1	HORDS CO LTD	1	2	2		2	2	1		2	2	2	1	1	1
		COUNT	17	17	4	17	17	17	3	13	17	16	15		
		FREQUENCY	16	15	2	16	16	16	1	7	14	2	5		
		SCORE GHANA	94	88	50	94	94	94	33	54	82	13	33		

			1	2	3	4	5	6	7	8	9	10	11		
2	DANGOTE CEMENT	8	2	2		1	2	1		2	1	2	2	1	1
2	MTN NIGERIA	6	2	2		2	2	2		1	1	2	2	1	1
2	NESTLE NIGERIA	1	2	2		2	2	1		2	2	2	1	1	1
2	NIGERIA BREWERIES	1	2	2		2	2	1		2	1	2	2	1	1
2	SEPLAT PETROLEUM	4	2	2		2	2	1		2	2	2	1	1	1
2	UNILEVER NIGERIA	1	2	2		2	2	1		1	1	2	1	1	1
2	CEMENT COMPANY OF NOTHERN NIGERIA	8	2	2		2	2	1		2	2	2	1	1	1
2	INTERNATIONALL BREWERIES	1	2	2		1	2	1		2	2	2	2	1	1
2	LAFARGE AFRICA	8	2	2	2	2	2	1	2	2	2	2	1	1	1
2	DANGOTE SUGAR REFINERY	1	2	2	2	2	2	1		1	2	2	2	1	1
2	GUINNESS NIGERIA	1	2	2		2	2	1		2	1	2	2	1	1
2	NOTORE CHEMICAL IND.	8	2	2		2	2	1		2	2	2	2	1	1
2	DANGOTE FLOUR MILLS	1	2	2		2	2	1		1	2	2	2	1	1
2	OKOMU OIL PALM	1	2	2		2	2	1		2	2	2		1	1
2	FLOUR MILLS OF NIGERIA	1	2	2	2	2	2	1		2	2	2	1	1	1
2	11 PLC	4	2	2		2	2	1		2	2	2	1	1	1
2	PRESCO	1	2	2		2	2	1		2	2	2	2	1	1
2	OANDO	4	2	2	2	2	2	1		1	2	2	2	1	1
2	TOTAL NIGERIA	4	2	2		2	2	1		2	2	2	2	1	1
2	NASCON ALLIED IND.	1	2	2		2	2	2		2	2	2	2	1	1
2	TRANSNATIONAL CORPORATION	12	2	2		2	2	1		2	2	2	2	1	1
2	TRANSCORP HOTELS PLC	1	2	2		2	2	2		2	2	2	2	1	1
2	FORTE OIL	4	2	2		2	2	1		2	2	2	2	1	1
2	BETA GLAS	8	2	2		2	2	1		2	2	2	1	1	1
2	PZ CUSSONS NIGERIA	1	2	2		2	2	1			2	2	1	1	1
2	JULIUS BERGER NIGERIA	11	2	2		2	2	2	2	2	2	2	1	1	1
2	CAP	8	2	2		2	2	1		2	2	2	2	1	1
2	UACN	12	2	2	2	2	2	1	2	1	2	2	2	1	1
2	CADBURY NIGERIA PLC	1	2	2		2	2	1		2	2	2	2	1	1
2	MED-VIEW AIRLINE PLC	2	2	1		2	2	1		2	2	2	1	1	1
2	UPDC REAL ESTATE	11	2	2	2	2	2	1	2	2	2	1	2	1	1
2	CONOIL	4	2	1		2	2	1		2	2	2	2	1	1
2	E-TRANZACT INTERNATIONAL	6	2	2		2	2	2			2	2	1	1	1
2	GLAXOSMITHKLINE	7	2	1		2	2	1		2	2	2	1	1	1
2	CHAMPION BREW. PLC.[BLS]	1	2	2		2	2	1		2	2	2	2	1	1
2	HONEYWELL FLOUR MILL PLC	1	2	2		2	2	1		2	1	2	2	1	1
2	CAVERTON OFFSHORE SUPPORT GRP PLC[BLS]	2	2	2		2	2	1		2	2	2	1	1	1
2	TOURIST COMPANY OF NIGERIA PLC.[DIP]	2	2	2		2	2	1			2	2	2	1	1
2	FIDSON HEALTHCARE PLC	7	2	2		2	2	1		2	2	2	2	1	1
2	CWG PLC[BLS]	6	2	1		2	2	1		2	2	2	1	1	1
		COUNT	40	40	6	40	40	40	4	37	40	40	39		
		FREQUENCY	40	36	0	38	40	35	0	6	34	1	15		
		SCORE NIGERIA	100	90	0	95	100	88	0	16	85	3	38		

			1	2	3	4	5	6	7	8	9	10	11		
3	ANGLO AMERICAN PLC	3	2	2	2	1	2	1	1	2	1	2	1	1	1
3	LUCARA DIAMOND CORPORATION	3	2	2		2	1	1			1	2	2	1	1
3	SECHABA BREWERH HOLDINGS	1	2	1	1	2	2	1	2	2	2	1	1	1	1
3	CA SALES HOLDINGS	2	2	2	2	2	2	2	2	1	2	2	1	1	1
3	ENGEN BOTSWANA	4	2	2	2	2	2	1	2	1	2	2	1	1	1
3	WILDERNESS HOLDINGS BOTSWANA	2	2	2	2	2	2	1	2	1	2	2	2	1	1
3	SEED CO INTERNATIONAL	1	2	2	2	2	2	1	2	2	1	2	1	1	1
3	BOTSWANA TELECOMMUNICATION CORP	6	2	1		2	2	1			2	2	2	1	1
3	CHOBE HOLDINGS	2	2	2	1	2	2	1		1	2	2	2	1	1
3	CHOPPIES ENTERPRISE	1	2	2		2	2	1		2	2	2	2	1	1
3	RAVEN ENERGY	4	2	1		2	1	2			2	2		1	1
3	MINERGY	3	2	2		2	2	1		1	2	2		1	1
3	TLOU ENERGY	4	1	1		1	1	2			2	2		1	1
3	A-CAP RESOURCES	3	2	1		1	1	2			2	2		1	1
3	SHUMBA ENERGY	10	1	2		2	2	1			2	2	1	1	1
3	G4S BOTSWANA	2	2	2	1	1	2	1		2	1	2	1	1	1
3	CRESTA MARAKANELO	2	2	2		2	2	1		1	2	2	2	1	1
3	BOTSWANA DIAMONDS	3	2	2		1	2	1			2			1	1
		COUNT	18	18	8	18	18	18	6	11	18	17	13		
		FREQUENCY	16	13	3	13	14	14	1	6	14	1	5		
		SCORE BOTSWANA	89	72	38	72	78	78	17	55	78	6	38		

			1	2	3	4	5	6	7	8	9	10	11		
4	Delta Corporation	1	2	2	2	2	2	1	2	1	2	2	2	1	1
4	Econet Wirelss Zimbabwe	5	2	2	1	2	2	1	2	2	2	2	2	1	1
4	Innscor Africa	8	2	2	2	2	2	1	2	1	2	2	1	1	1
4	Padenga Holdings	1	2	2		2	2	1		1	2	2	2	1	1
4	British American Tobacco	1	2	2	2	2	2	1	1	2	1	2	2	1	1
4	Simbisa Brands	2	2	2		2	2	1		1	2	2	1	1	1
4	OK Zimbabwe	2	1	1		2	2	1		1	2	1	1	1	1
4	National Foods Holdings	1	2	2	2	2	2	1		1	2	2	1	1	1
4	Hippo Valley	1	2	2		2	2	1	1	1	1	2	1	1	1
4	Seed Co Limited	1	2	2	2	2	2	1	2	2	1	2	1	1	1
4	Axia Corporation Ltd	8	2	2	2	2	2	1		1	2	2	2	1	1
4	Nampak Limited	8	2	2	2	2	2	2		1	2	2	1	1	1
4	RioZim	3	2	2	2	2	2	1		2	2	2	2	1	1
4	TSL	8	2	2		2	2	1	1	1	1	2	1	1	1
4	Rainbow Tourism	2	2	2		2	2	1		1	2	2	2	1	1
4	Meikels Limited	2	2	2		2	2	1		2	2	2	1	1	1
4	African Distillers Limited	1	2	2		2	2	1			2	2	2	1	1
4	Bindura Nickle Corporation	3	2	2		2	2	1		1	2	2	2	1	1
4	Zimplow Holdings Limited	8	2	2		2	2	1	2	1	2	1	2	1	1
4	Lafarge Cement Zimbabwe Ltd	8	2	2		2	2	1		1	2	1	1	1	1
4	Pretoria Portland Cement	8	2	2	2	2	2	1		1	1	2	2	1	1
4	Proplastics Limited	8	2	2		2	2	1		1	2	2	2	1	1
4	Powerspeed Electricals Limited	8	2	2		2	2	1		1	2	2	2	1	1
4	African Sun	2	2	2		2	2	1		1	2	2	2	1	1
4	Starafrica Corporation	1	2	2	2	2	2	1	2	1	2	1	1	1	1
		COUNT	25	25	11	25	25	25	9	24	25	25	25		
		FREQUENCY	24	24	1	25	25	24	3	19	20	4	11		
		SCORE ZIMBABWE	96	96	9	100	100	96	33	79	80	16	44		

			1	2	3	4	5	6	7	8	9	10	11		
5	Safaricom Limited	5	2	2	2	1	2	1		2	2	2	2	1	1
5	East African Breweries	1	2	2		1	2	1	2	1	2	2	2	1	1
5	BAT Kenya	1	2	2		1	2	1		1	2	2	2	1	1
5	Kenya Electricity Generating Company Limited	9	2	2		2	2	1		1	2	2	2	1	1
5	Umeme Limited	9	1	2		2	2	1		1	1	2	2	1	1
5	Nation Media Group	2	2	2	2	1	2	1	2		2	2	2	1	1
5	Kenya Power and Lighting Company Limited	9	2	2		2	2	1		1	2	2	2	1	1
5	Kenya Airways	2	2	2		2	2	1		1	2	2	2	1	1
5	Kakuzi Plc	1	2	2		1	2	1		1	2	2	2	1	1
5	Crown Paints Kenya	3	2	2		2	2	1		1	2	2	2	1	1
5	Total Kenya	4	2	2		2	2	1		2	2	2	2	1	1
5	WPP Scangroup	2	2	2		2	2	1	2	2	2	2		1	1
5	Sasini	1	2	2		2	2	1	2	2	2	2	2	1	1
5	TPS Eastern Africa	2	2	2	2	1	2	1		2	1	1	2	1	1
5	Longhorn Publishers	2	2	2		2	2	1		2	2	2	2	1	1
5	Unga Group	1	2	2		2	2	1		2	2	2	2	1	1
5	Williamson Tea Kenya	1	2	2	1	2	2	1	2	2	2	2	2	1	1
5	Carbacid Investments	3	2	2		2	2	1	2		2	2	2	1	1
5	Standard Group	2	2	1		2	2	1		1	2	2	2	1	1
5	B O C Kenya	3	2	2		2	2	1	2		2	2	2	1	1
5	East African Portland Cement	8	2	2		2	2	1		1	2	2	1	1	1
5	TransCentury	8	2	2		2	2	1	1	2	2	2	2	1	1
5	Sameer Africa Plc	1	2	2	2	2	2	2		1	2	2	2	1	1
5	Car & General (Kenya) Plc	2	2	1	2	2	2	1		2	2	2	2	1	1
5	Limuru Tea Plc	1	2	2		1	2	1			2	2	1	1	1
		COUNT	25	25	6	25	25	25	8	21	25	25	24		
		FREQUENCY	24	23	1	18	25	24	1	11	23	1	2		
		SCORE KENYA	96	92	17	72	100	96	13	52	92	4	8		

			1	2	3	4	5	6	7	8	9	10	11		
6	Centrale Danone	2	1	2	2	2	2	1	1	1	1	2	2	1	1
6	Groupe Timar	2	1	2	2	2	2	1	2	1	2	2		1	1
6	Ciments d'Atlas	8	1	2	2	2	2	1	2	1	1	2		1	1
6	Residences dar Saada	11	1	2	2	2	2	1	1	1	1	2	2	1	1
6	Samir Maroc	4	1	2	2	2	2	1	2	1	1	2	2	1	1
6	Total Maroc	4	1	2	2	2	2	1	1	1	1	2	2	1	1
6	OCP Maroc	8	1	2	1	2	1	1	2	1	1	2	2	1	1
6	Maroc Telecom	5	1	2	2	2	2	1	2	2	1	2	2	1	1
6	Lafarge Maroc	8	1	2	2	2	2	1	2	1	1	2	2	1	1
6	Consumar	1	1	2	2	2	2	1	2	2	1	2	2	1	1
6	Sonasid	8	1	2	2	2	2	1	2	1	1	2	2	1	1
6	Auto Hall	13	1	2		2	2	1		2	1	2	2	1	1
6	RISMA Maroc	2	1	2	2	2	2	1	1	1	1	2	2	1	1
6	Managem Maroc	3	1	2	2	2	2	1	2	1	1	2	2	1	1
6	Maghreb Oxygene	8	1	2	2	2	2	1	2	1	1			1	1
6	Afriquia Gaz SA	4	1	2	2	2	2	1	2	1	1			1	1
6	Lesieur Cristal	1	1	2	1	2	2	1	2	2	1	2	2	1	1
		COUNT	17	17	16	17	17	17	16	17	17	15	13		
		FREQUENCY	0	17	2	17	16	17	4	13	1	0	0		
		SCORE MOROCCO	0	100	13	100	94	100	25	76	6	0	0		

			1	2	3	4	5	6	7	8	9	10	11		
7	CDM - Cervejas de Moçambique	1	2	2		2	2	1		1	2	2	1	1	1
7	CMH - Companhia Moçambicana de Hidrocarbone	4	1	2		2	2	1			2	2	1	1	1
7	Tata mozambique	13	1	2		2	2	1				2	2	1	1
7	CFM - Portos e Caminhos de Ferro de Moçambiqu	2	1	1	2	2	2	1	2			2	2	1	1
7	Hidroeléctrica de Cahora Bassa	10	1	2		2	2	1		2				1	1
7	Ncondezi	10		2		2	2	1		2	1	2		1	1
7	EDM - Electricidade de Moçambique	10		1		2	2	1				2	2	1	1
7	Telecomunicações de Moçambique	5	1	2		2	2	1		2		2	2	1	1
		COUNT	6	8	1	8	8	8	1	4	3	7	6		
		FREQUENCY	1	6	1	8	8	8	0	1	2	0	2		
		SCORE MOZAMBIQUE	17	75	100	100	100	100	0	25	67	0	33		

			1	2	3	4	5	6	7	8	9	10	11		
8	Société Internationale de Plantations d'Hévéas	8	1	2	**2**	**2**	**2**	**1**	**1**	**2**	**1**	**2**	**2**	1	2
8	Société de Distribution d'Eau de Côte d'Ivoire- SC	12	1	2	2	2	2	1	2	2	1	2	2	1	2
8	Compagnie Ivoirienne d'Electricité - CIE	10	1	2	2	2	2	1		2	1			1	2
8	ENEO Cameroun	10	2	2		2	1	1		1	1	2	2	1	2
8	Total Gabon	4	1	1		2	2	1		2	2	2	2	1	2
8	La Forestière Equatoriale	2	1	2		2	2	1	1	2	1	2	2	1	2
8	Groupe SIFCA Côte d'Ivoire	12	1	2	2	2	2		2	2		2	2	1	2
8	Groupe Sonatel Senegal	5	1	2	1	2	2	1	1	1	1	2	2	1	2
		COUNT	8	8	5	8	8	7	5	8	7	7	7		
		FREQUENCY	1	7	1	8	7	7	3	2	1	0	0		
		SCORE OHADA	13	88	20	100	88	100	60	25	14	0	0		

			1	2	3	4	5	6	7	8	9	10	11		
9	Zambia Forestry & Forest Industries Corporation	8	2	2		2	2	1			1	2	2	1	1
9	Metal Fabricators of Zambia Plc	8	2	2		2	2	1		1	2	1	2	1	1
9	Zambian Breweries Plc	1	2	2		1	2	1		1	2	2	2	1	1
9	Zambia Bata Shoe Company plc	1	2	2	2	2	2	1		1	2	1	1	1	1
9	Zambeef Products Plc	1	2	2	2	2	2	1	2	2	2	1	2	1	1
9	Taj Pamodzi Hotel Plc	2	2	2		2	2	1		1	2	2	2	1	1
9	Zambia Sugar Plc	1	2	2		2	2	1	2	1	2	2	2	1	1
9	Puma Energy Zambia Plc	10	2	2		2	2	1		1	2	1	2	1	1
9	National Breweries Plc	1	2	2		1	2	1		1	2	2	2	1	1
9	Lafarge Zambia Plc	11	2	2		2	2	1		1	2	1	2	1	1
9	Copperbelt Energy Corporation Plc	10	2	2	1		2	1		1	2	1	2	1	1
9	British American Tobacco Plc	1	2	2		2	2	1		1	2	2	2	1	1
9	Airtel Networks Zambia plc	5	2	2		2	2	1		1	2	2	2	1	1
9	African Explosives Zambia Plc	8	2	2		2	2	1			2	2	1	1	1
		COUNT	14	14	3	13	14	14	2	12	14	14	14		
		FREQUENCY	14	14	1	11	14	14	0	11	13	6	2		
		SCORE ZAMBIA	100	100	33	85	100	100	0	92	93	43	14		

			1	2	3	4	5	6	7	8	9	10	11		
10	ALLIED ELECTRONICS CORPORATION Ltd.	6	2	2	2	1	2	1	1	1	2	2	1	1	1
10	RCL FOODS LTD.	1	2	2	1	2	2	1	1	1	1	2	2	1	1
10	ROYAL BAFOKENG PLATINUM LTD	3	2	1	2	2	2	1	1	1	2	2	2	1	1
10	AECI LIMITED	8		2	1	2	2	1	1	1	1	2	1	1	1
10	ADCOCK INGRAM HOLDINGS LTD	7	2	2	2	2	2	1	1	1	2		2	1	1
10	ASTRAL FOODS LIMITED	1	2	2	2	2	2	1	2	2	2	2	1	1	1
10	AFROCENTRIC INVESTMENT CORP	7		1		2		1	1	1	2	2	2	1	1
10	NASPERS LIMITED	6	2	2	2	2	2	1	1	1	1	2	1	1	1
10	ANGLO AMERICAN PLC	3	2	2	2	1	2	1	1	2	1	1	1	1	1
10	ANGLO AMERICAN PLATINUM LTD	3	2	2	2	2	2	1		1	2	2	2	1	1
10	VODACOM GROUP LIMITED	5	1	2	1	2	2	1		2	1			1	1
10	SASOL LIMITED	4	2	2	1	2	2	2	1	1	1	2	1	1	1
10	MTN GROUP LIMITED	5	2	2	2	2	2	1	1	2	1	1	2	1	1
10	KUMBA IRON ORE LTD	3	2	2	2	2	2	1	1	1	1	2	2	1	1
10	ANGLOGOLD ASHANTI LIMITED	3	2	2	2	2	2	2	1	2	1	2	2	1	1
10	BID CORPORATION	7	2	2	2	2	2	1	1	1	1			1	1
10	REMGRO LIMITED	12	1	2	2	2	2	1	1	1	1	2	1	1	1
10	SHOPRITE HOLDINGS LIMITED	2	2	2	2	2	2	1	1	1	2	2	2	1	1
10	THE BIDVEST GROUP LIMITED	12	2	2	2	2	2	1	1	1	1			1	1
10	GOLD FIELDS LIMITED	3	2	1	2	2	2	1		1	1	2	2	1	1
10	PEPKOR HOLDINGS LIMITED	2	2	2	2	2	2	1	1	1	1	1	1	1	1
10	MULTICHOICE GROUP LTD	2	2	2	2	2	2	1	1	1	2	2	1	1	1
10	CLICKS GROUP LTD	2	1	2	2	2	2	1		1	2	2	2	1	1
10	IMPALA PLATINUM HOLDINGS Ltd	3	2	2	2	2	2	1	2	1	2			1	1
10	WOOLWORTHS HOLDINGS LIMITED	2	2	2	2	2	2	1	1	1	2	2	2	1	1
10	ASSORE LTD	3	2	1	2	2	2	1	2	1	1	2	2	1	1
10	MR PRICE GROUP LIMITED	2	2	2		2	2	1		1	1	1	1	1	1
10	TELKOM SA LIMITED	5	2	2		2	2	2		1	2			1	1
10	ASPEN PHARMACARE HOLDINGS	7	2	2		2	2	1		1	2	2	1	1	1
10	SIBANYE GOLD LIMITED	3	2	1	2	2	2	1		1	1	2	2	1	1
10	THE FOSCHINI GROUP LTD	2	2	2		2	2	1		1	1	1	1	1	1
10	TIGER BRANDS LTD	1	2	2	2	2	2	1	1	1	1	2	1	1	1
10	AFRICAN RAINBOW MINERALS	3	2	2	2	2	2	2	1	1	1	2	2	1	1
10	MEDICLINIC INT PLC	7	2	2	2	2	2	1	2	2	2	2	2	1	1
10	MONDI LIMITED	3		2		1	2	1		2	1	2	1	1	1
10	THE SPAR GROUP LTD	2	2	2	2	2	2	1		1	2	2	2	1	1
10	PICK N PAY STORES LIMITED	2	2	2	2	2	2	1	1	1	2	2	2	1	1
10	LIFE HEALTHCARE GROUP HOLDING	7		2	2	2	1	1	2	2	2	2	1	1	1
10	AVI LTD	1	2	2	2	2	2	1	2	1	2	2	1	1	1
10	TRUWORTHS INTERNATIONAL LIMITED	2	2	2		2	2	1	1	1	2	2	2	1	1
		COUNT	36	40	33	40	39	40	29	40	40	34	35		
		FREQUENCY	33	35	4	37	38	36	23	32	19	5	16		
		SCORE SOUTH AFRICA	92	88	12	93	97	90	79	80	48	15	46		

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