CHALLENGES TO THE ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS IN AFRICA

by

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ABSTRACT

Globalisation is causing a convergence of economic, trading, political and social processes. As a result, geographical boundaries are becoming less significant in the world of business and accounting as most countries around the world have chosen to adopt a common language: International Financial Reporting Standards (hereafter IFRS). The problem is that most of the countries on the African continent have yet to become part of this global conversation as there are serious challenges hindering the adoption of IFRS.

The primary objective of this study was to discuss the challenges that continue to hinder the effective adoption of IFRS in the majority of African countries. The objective of the study was explored through the review of: i) current international accounting structures and how Africa fits in; ii) the benefits of adopting IFRS; iii) the current status of IFRS in Africa; and iv) challenges faced by countries in Africa that have already adopted IFRS. An empirical study consisting of a questionnaire (distributed to 35 registered accounting bodies in Africa) and interviews with significant individuals in the international accounting profession were also utilised to meet the objective of the study and the results were analysed and discussed in detail. It was concluded that there are many challenges that continue to hinder the adoption of IFRS in the majority of countries on the African continent and structures are currently being put into place in order that these challenges may be addressed.

Keywords: Africa, Globalisation, accounting, IFRS, challenges, economics

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SUMMARY OF ACRONYMS

The acronyms below are listed in the order in which they appear in the dissertation.

IFRS  International Financial Reporting Standards
UNESCO United Nations Educational, Scientific and Cultural Organisation
ICAN Institute of Chartered Accountants of Nigeria
PAFA Pan African Federation of Accountants
IASB International Accounting Standards Board
ISA International Standards on Auditing
IASC International Accounting Standards Committee
IFAC International Federation of Accountants
EU European Union
ICAEW Institute of Chartered Accountants of England and Wales
CICA Canadian Institute of Chartered Accountants
AISG Accountants International Study Group
SIC Standing Interpretations Committee
IOSCO International Organization of Securities Commissions
JFSA Financial Services Agency of Japan
SEC Securities and Exchange Commission (United States of America)
AICPA American Institute of Certified Public Accountants
IFRIC
IFRS Interpretations Committee

FASB
Financial Accounting Standards Board

USA
United States of America

MoU
Memorandum of Understanding

ECSAFA
Eastern, Central and South African Federation of Accountants

ABWA
Accountancy bodies in West Africa

RO
Regional Organisations

AG
Accountancy Groupings

PAFA
Pan African Federation of Accountants

SME
Small and Medium Entities

GAAP
Generally Accepted Accounting Practice

UN
United Nations

IAS
International Accounting Standards

UNCTAD
United Nations Conference on Trade and Development

ICPAK
Institute of Certified Public Accountants of Kenya

CPA
Certified Professional Accountant

CEO
Chief Executive Officer

NASB
Nigerian Accounting Standards Board

ROSC
Report on the observance of standards and codes

ICASL
Institute of Chartered Accountants of Sierra Leone

CPD
Continuous Professional Development

CA
Chartered Accountant

ACCA
Association of Chartered Certified Accountants
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1. CHALLENGES TO THE ADOPTION INTERNATIONAL FINANCIAL REPORTING STANDARDS IN AFRICA

1.1. Introduction and overview

The introduction of International Financial Reporting Standards (hereafter IFRS) is closely related to the whole issue of globalisation. The United Nations Educational, Scientific and Cultural Organisation (UNESCO) (2011) has defined globalisation as a set of economic, social, technological, political and cultural structures and processes arising from the changing character of the production, consumption and trade of goods and assets that may compromise the base of the international political economy.

Anna Lindh (2011), a Swedish politician, was once quoted stating: “Globalisation has made us more vulnerable. It creates a world without borders, and makes us painfully aware of the limitations of our present instruments, and of politics, to meet its challenges”.

Globalisation forces change. As the world keeps changing, so the way that things are done needs to keep changing as well. Every change brings about a form of discomfort, but it opens doors to endless opportunities which can be exploited, for long term benefits. These sentiments are echoed by Camacho (2011) of the United States of America when he says “Globalisation is an idea whose time has come. Our world is increasingly becoming a unified world and the only thing we can do is to take advantage of the many opportunities that will come from it while overcoming the challenges that will also come from globalisation”.

The focus of this research paper is mainly on a single aspect of economic globalisation namely, international financial reporting. Multinational organisations and financial integration, through trade and financing, at the international level constitute the dynamics of globalisation of the economy (Turker & Yarbasi: n.d.). Accounting and financial reporting are the vessels that will result in the delivery of relevant and reliable information that will aid a healthy global economy.
Cross border investors require harmonised accounting and financial reporting practices in order to make decisions based on worldwide standards (Erhan & Beker: n.d.). Having a single set of global accounting, reporting and disclosure standards would possibly meet this requirement (Erhan & Beker: n.d.). Many countries have taken to this phenomena of global accounting standards and this is evidenced by the 123 out of 196 (63%) countries in the world that have already adopted International Financial Reporting Standards, as established by Deloitte Touche Tohmatsu Limited (2011) and Pricewaterhouse Coopers (2011). The Institute of Internal Auditors are also quoted stating “It’s not surprising that standardisation of various aspects of business would be considered desirable by many. Certainly, that is the case in regard to financial reporting as is evidenced by the momentum of International Financial Reporting Standards (IFRS) all around the world. Listed companies in more than 100 countries are now adopting IFRS” (Harris: 2009).

The concern however is that only 18 of the 53 (34%) countries in Africa have adopted IFRS. The momentum for Africa appears to be much slower than that of the rest of the world. Jeff Van Rooyen (2011), a trustee of the International Financial Reporting Standards Foundation and also an African, saw the value of economic globalisation for our continent by stating the following: “The whole world is converging. Africa needs to be part of this. It is a learning curve for Africa and a learning curve for the world. It is important for us as a continent. We just have to be part of this convergence.”

Nigeria, an economic giant in Africa, is the latest country in Africa to take up the opportunity presented by economic globalisation, by adopting International Financial Reporting Standards as their country’s financial reporting basis. The reason behind this move was presented by Obazee (2009) at the Institute of Chartered Accountants of Nigeria’s (ICAN) 39th Conference as “Nigeria cannot afford staying out of the global market system. It ought to take full advantage of the wealth and financial opportunities promised by globalisation and to do so would require adopting and using global standards”.

This paper will seek to discuss the challenges faced by a majority of African countries in their attempt to adopt IFRS.
1.2. The objective of this research

The primary objective of this study is to investigate the challenges that are hindering the adoption of IFRS in the majority of African countries.

This objective will be achieved through:

- A literature review (to be discussed in chapters 2 to 5).
- An empirical study of the challenges that are prohibiting the adoption of IFRS in the majority African countries. The methodology followed in the empirical study, the findings and the conclusion of the empirical study are discussed in Chapter 6. The empirical study comprises of a questionnaire, which is to be completed by a representative of the registered accounting body in each of the African countries; as well as interviews with the Chief Executive Officer of the Pan African Federation of Accountants (hereafter PAFA), a board member of the International Accounting Standards Board (hereafter IASB) and the Chief Executive Officer of Pricewaterhouse Coopers South Africa.

1.3. Rationale for the study

As the global accounting profession moves towards a harmonised financial reporting system, it appears as though Africa cannot keep up with the changes. As witnessed by Deloitte Touche Tohmatsu Limited (2011a) and Pricewaterhouse Coopers (2011), only 18 of the 53 (34%) countries on the African continent have currently adopted IFRS compared to a global 123 out of 196 (63%) countries in the world (2012). This statistic translates into 66% of African countries not currently reporting on an IFRS basis. The challenges prohibiting the adoption of IFRS on the majority of the continent will be explored in this paper.

The only countries on the continent that have adopted IFRS currently are: Benin; Burkina Faso; Botswana; Cameroon, The Democratic Republic of the Congo; Cote d'Ivoire; Ethiopia; Gambia; Guinea; Kenya; Lesotho; Liberia; Malawi; Mali; Mauritius;
Various research has been done on different country’s IFRS adoption experiences in Africa. This research includes:

1. Kenya and South Africa’s IFRS adoption experiences (United Nations, 2008);
2. Nigeria’s road to adoption (Obazee, 2009);

The results of the research performed, as stated above, are be discussed in chapter 5.

1.4. Extent and scope of the study

Africa has 53 countries of which 18 (34%) have already adopted IFRS successfully (as indicated above). This study will focus on the challenges hindering the adoption of IFRS by the majority of countries (66%) of the African continent.

An investigation will only be done on the challenges faced in the process of adopting IFRS, therefore focusing on accounting issues. It specifically excludes any reference to International Standards on Auditing (hereafter ISA’s).

The challenges experienced by countries on the continent that have already implemented IFRS successfully, during their adoption process, will form an understudy for this research and those challenges will serve as the basis for the design of the questionnaire and interview questions. These countries’ experiences of the IFRS adoption process is discussed in detail in chapter 5.

The questionnaire included in chapter 6 was distributed to all countries in Africa, to establish whether the challenges are relevant and to establish whether there are any other challenges that hinder the adoption of IFRS on the continent, in addition to those already identified from the experiences of countries that have already adopted.
To understand the accounting challenges facing the continent properly, it is imperative that the professional structures underlying and serving as a foundation for financial reporting is properly understood.

1.5. International accounting structures

Formal accounting structures exist globally which govern international financial reporting and the accounting profession. At the forefront is the International Accounting Standards Board which was established in 2001 to replace the International Accounting Standards Committee (hereafter IASC) (Deloitte Touche Tohmatsu Limited: 2011b). The main objective of the IASB have been laid out as: “The development, in the public interest, of a single set of high quality, understandable and enforceable global accounting standards that require high quality, transparent and comparable information in financial statements and other financial reporting to help participants in the world’s capital markets and other users in making economic decisions”(Deloitte Touche Tohmatsu Limited: 2011b).

Although the IASB is responsible for the development of IFRS, they do not work in isolation from organisations who are also directly involved in other areas of the development and implementation of IFRS. According to the IFRS Foundation (2011) these peripheral organisations include:

- The International Federation of Accountants (hereafter IFAC);
- The Monitoring Board
- The IFRS Foundation;
- The IFRS Interpretations Committee; and
- The IFRS Advisory Council.

The composition of all these governance structures, their objectives and how they operate will be discussed in detail in chapter 2. Africa’s contribution and role to these structures are also identified and discussed.
1.6. Overview of the research problem

The first adoption of IFRS happened in January of 2005 in Europe where, by the 1st of January 2005 all listed companies in the European Union (hereafter EU) had to comply with IFRS in their annual financial reporting (ICAEW: 2011). As indicated previously, at the time of this paper the adoption rate for the world was 63% compared to Africa, where only 34% of the continent has adopted.

By 2005 South Africa had already gone through the process of first-time adoption, establishing itself as one of the leaders not only on its own continent, Africa, but also the world. This highlighted the opportunity that existed for the whole continent to participate in the move towards IFRS. Paul Pacter (2011), a board member of the IASB, also shared this sentiment by stating that “Africa has been as receptive as any part of the world to IFRS, and probably more so. The issue has been more how to ensure good quality implementation rather than persuading the countries to adopt”

It has now been six years since EU- listed entities first released financial statements in compliance with IFRS, but in Africa 66% of the continent still has to adopt IFRS. There are challenges that stand in the way of adoption on the continent. These challenges are not hidden from relevant authorities such as capital providers to Africa, as Rahman (2011) of the World Bank remarked that “There is no country resistance to IFRS anymore. It’s the capacity, the professional accounting bodies, educational institutions, regulators and auditors that remain the problem”.

Financial statements of any entity form the basis on which investors will base their decisions on whether to invest or not. Unfortunately, a major consequence that may be faced by the African continent, as a result of not being able to produce financial reports that are compliant with IFRS, is a possible loss of foreign investors. This loss may come as result of foreign capital providers having to incur high costs of information processing and auditing (Barth: 2007). The IFRS Framework Standard of IASB (2011) states, companies need to produce information that is understandable, relevant, reliable and comparable as that will be the basis of an investors decision-making processes.
“Clearly, in all developing countries and emerging economies the big issue is to attract capital. Africa has a wealth of natural resources and human resources, but it lacks the local capital to develop. Capital providers (investors) need information they can be confident about, and that is why the IASB exists. If people see the IFRS brand “they know what they are buying” is how Pacter (2011) reiterated on the issue.

In the past there have been interventions by IFAC, to unite African accountants so that a transformation to IFRS could be implemented. Their proposal, at an Africa Region Learning Workshop in Nairobi, Kenya on 28 and 29 September 2006, was geared towards the development of appropriate structures and institutions to support the establishment of professional accounting bodies in Africa (Muroki, Mwaura & Nyaboga, 2008). The workshop appears to have been successful as the structures are now in place in most African countries. The workshop participants even initiated the formation of an African Focus Group.

This group was supposed to advocate and monitor the progress of the workshop’s proposals. One of the major proposals at the workshop was to establish the African Federation of Professional Accountants. This organisation (the African Federation of Professional Accountants) would be mandated to promote the accounting profession and the welfare of the African economy. The commitment from the participants of the workshop is further evidenced by a declaration that was signed by over 30 countries at the workshop, committing themselves to the objectives of the conference. The declaration signed is shown in table 1.1 below:

Table 1.1

<table>
<thead>
<tr>
<th>DECLARATION OF NAIROBI</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gathered here at the Africa Region Learning Workshop, held in Nairobi, Kenya on September 28 and 29, 2006, we the undersigned Presidents of professional accounting institutes are:</td>
</tr>
<tr>
<td>Conscious of the crucial role in the development of Africa for a professional institute of accountants that is strong, independent and unified.</td>
</tr>
</tbody>
</table>
Convinced of the need for a new African nation founded on the ideals of honesty and integrity.

Convinced of the need for the existence of an accounting profession that is qualified and devoted to the service of the continent.

Convinced that the development of Africa will be achieved, only if Africans countries demonstrate and sustain solidarity and operate effective rules based on transparency and internationally recognized accounting standards.

Determined to play a key role in the re-birth of the African continent and the implementation of the NEPAD framework.

Conscious of the need for implementing action plans in each African country in order that we can assist the professional institutes of accounting achieve the level required to obtain international recognition.

We as signatories agree to establish an ad hoc committee charged with establishing an African Federation of Professional Accountants organization that will comprise all professional institutes of accountants in Africa.

Nairobi, Kenya 29 September 2006

Source: International Federation of Accountants (IFAC): 2011

The declaration still continues to serve as a symbol of unity among African countries in working towards a common goal in the accounting profession. It is evident from the declaration that recognition of Africa on the international accounting platform is imperative. It may have taken a while, but the initiative to have a united African accounting body came to fruition on 5 May 2011. This body was named the Pan-African Federation of Accountants. The composition, objectives and responsibilities of PAFA are be discussed in chapter 2.

Now that a structure has been put in place that will have complete oversight over the accounting profession and financial reporting, there exists a possibility that the challenges that hinder IFRS adoption on the continent may be adequately addressed.
As the reality experienced in Africa seems to deviate from the ideals established by the said body, the following research problem was identified for this study:

<table>
<thead>
<tr>
<th>The stated research problem</th>
</tr>
</thead>
<tbody>
<tr>
<td>An investigation into the challenges hindering the adoption of IFRS on the African continent.</td>
</tr>
</tbody>
</table>

1.7. Overview of the study

The discussion below details the order in which the research is set out and a brief overview of each chapter of the research is also provided.

Chapter 1: Introduction and study overview

In this chapter the background to the study is discussed. The research problem and objectives of the study are also explained. International accounting structures are introduced in this chapter and further discussed in the following chapter.

Chapter 2: International accounting structures and Africa’s role

This chapter discusses in the detail the governance structures involved in international accounting. The history, composition, objectives and responsibilities of these governance structures receive attention. In addition, the process of developing a full set International Financial Reporting Standard is detailed.
Chapter 3: The benefits of adopting IFRS

This section focuses on existing research that has been performed on the benefits of adopting IFRS. It explores the various reasons why it would be beneficial for countries in Africa to adopt IFRS instead of maintaining the current status.

Chapter 4: The current International Financial Reporting Standards status in Africa

In this chapter the current International Financial Reporting Standards adoption status of Africa is explored. Current adoption statistics are gathered for the continent as a whole, as well as for the different regions. The impact of these statistics on the continent is also discussed.

Chapter 5: Challenges faced in the process of IFRS adoption in Africa

This chapter contains a review of the challenges that were faced by countries that have already implemented International Financial Reporting Standards successfully, when they first adopted.

Chapter 6: Empirical study and research findings

Based on the literature study of Chapters 2 to 5, a questionnaire was designed to obtain information on whether IFRS adoption challenges experienced in the past continue to exist and whether any new challenges have been identified. In this chapter the methodology followed for the empirical study as well as the findings from this study are explained and discussed.

Interviews conducted with the Chief Executive Officer of the Pan-African Federation of Accountants and a board member of the International Accounting Standards Board and
the Chief Executive Officer of Pricewaterhouse Coopers South Africa are documented and discussed where the challenges of adopting IFRS in Africa are highlighted.

Chapter 7: Conclusion

In this chapter conclusions are drawn from the literature review. These conclusions are based on information gathered on the governance structures of the accounting profession internationally and on the African continent; current research on the benefits of adopting IFRS; current statistics gathered on Africa’s IFRS adoption status; as well as the review of current research on challenges experienced by countries that have already adopted IFRS. The results of the empirical study, which includes a questionnaire and interviews about the challenges experienced by Africa in the adoption of IFRS, are incorporated into the conclusion. Recommendations for possible areas of further research are made.
2. INTERNATIONAL ACCOUNTING STRUCTURES AND AFRICA’S ROLE

The accounting profession globally is governed by various formal structures. These structures are responsible for the complete oversight of the profession and thus need to operate in a manner that will achieve the pre-determined objectives.

“The governance structure should provide for a standard-setting environment that is independent of vested interests. At the same time, the long time viability of IFRSs as global accounting standards depends on the IASB exercising its independence in a manner that serves the public interest by remaining accountable to investors, markets and other market participants” is quoted from a report issued by the IFRS Foundation Monitoring Board (2012:1) when they were tasked with reviewing the IFRS Foundation's governance. This quote clearly indicates how the IFRS Foundation needs to be governed in order to achieve its objectives.

This chapter will discuss how the profession is governed globally as well as the history behind the formation of the various governance structures. This chapter will also specifically discuss how Africa fits into global accounting governance structures.

Important dates with regards to international accounting structures to be noted are:

<table>
<thead>
<tr>
<th>Date</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>June 1973</td>
<td>The International Accounting Standards Committee (hereafter IASC) is formed.</td>
</tr>
<tr>
<td>October 1977</td>
<td>The International Federation of Accountants (hereafter IFAC) is formed.</td>
</tr>
<tr>
<td>June 2000</td>
<td>Comprehensive reorganisation of the IASC begins.</td>
</tr>
<tr>
<td>March 2001</td>
<td>The IFRS Foundation is formed.</td>
</tr>
<tr>
<td>April 2001</td>
<td>The International Accounting Standards Board (hereafter IASB) is</td>
</tr>
</tbody>
</table>
formed and replaces the IASC.

<table>
<thead>
<tr>
<th>Date</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>April 2001</td>
<td>The IFRS Interpretations Committee is formed.</td>
</tr>
<tr>
<td>June 2001</td>
<td>The IFRS Advisory Council is formed.</td>
</tr>
<tr>
<td>February 2009</td>
<td>The Monitoring Board is formed.</td>
</tr>
</tbody>
</table>

Source: Deloitte Touche Tohmatsu Limited (2011b)

The formation, composition, roles and responsibilities of these structures will be discussed in detail in the sections that follow.

2.1. The International Accounting Standards Board

The IASB is the body responsible for the development and publication of accounting standards known as International Financial Reporting Standards (hereafter IFRSs) (Celluci: 2010)

It was established in 2001 as a replacement of the IASC. It was established as a result of an agreement by accountancy bodies in Australia, Canada, France, Germany, Ireland, Japan, Mexico, the Netherlands, the United Kingdom, and the United States (Deloitte Touche Tohmatsu Limited: 2011b).

2.1.1. History of the IASB


The IASB was formed in 2001 to replace the IASC. From 1973 up until 2000, the IASC was the structure in place for setting International Accounting Standards (hereafter IASs). It operated under the oversight of the IASC Foundation. The IASC was formed in June of 1973 and was functional until a comprehensive reorganisation was completed in 2001. From 2000 a comprehensive reorganisation was performed, after which the IASC became known as the IASB. The IASB operates under the oversight of the IFRS
Foundation, which was created in March 2001, as a replacement to the IASC Foundation (Celluci: 2010).

The number series used by the IASC for the standards they published under their auspices was known as the IASs. When the IASB took over from the IASC they started naming their newly formulated standards IFRSs. They also adopted the existing IASs that were promulgated by the IASC, without renaming those standards. The reason for maintaining the distinction was that the IASB wanted to distinguish the standards it was responsible for (IFRSs), from those of the IASC (IASs) (Lubbe, Modack & Watson; 2011).

2.1.2. Composition and objectives of the IASB

The IASB is currently composed of fifteen members with various backgrounds in accounting and auditing. The board members are appointed by the Trustees of the IFRS Foundation. The appointment process is done through advertising of vacancies or consultation with relevant entities and members are appointed from various countries around the world (IFRS Foundation: 2011).

The IASB is only responsible for the development and publication of the International Financial Reporting Standards, therefore their objectives are focused around the IFRSs only. The constitution of the IASB lays out its objectives as follows:

- “To develop, in the public interest, a single set of high quality, understandable and enforceable global accounting standards that require high quality, transparent and comparable information in financial statements and other financial reporting to help participants in the world’s capital markets and other user in making economic decisions;

- To promote the use of and rigorous application of those standards;

- In fulfilling the objectives associated with the two above, to take account of, as appropriate, the special needs of small and medium-sized entities and emerging economies; and
To bring about convergence of national accounting standards and International Accounting Standards (hereafter IASs) and International Financial Reporting Standards (hereafter IFRSs) to high quality solutions” (Deloitte Touche Tohmatsu Limited: 2011b)

As stated above, the IASB is solely responsible for the development and publication of IFRSs. The term IFRS may have a broad and narrow meaning. The broader meaning would refer to the entire body of IASB pronouncements, including the standards and interpretations approved by the IASB (Deloitte Touche Tohmatsu Limited: 2011b), whereas the narrow meaning would make reference only to the standards (IFRSs).

As IFRSs is the focus area of this study, it is interesting to understand the background of its formulation. The next section will discuss the process involved up until an IFRS is published.

2.1.3. The history behind the development of International Financial Reporting Standards

The IASC was responsible for the development and publication of International Accounting Standards (IASs) from its inception in 1973.

Below is a table outlining the timeline of the most pertinent highlights in the history of the development of IASs. The timeline covers the period from the 1960’s to 2005. The reason for covering this particular period is discussed within the time line below.

### Table 2.2 Timeline of the development of IFRS

<table>
<thead>
<tr>
<th>Year</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>1966</td>
<td>A proposal to establish an International Study Group comprising the Institute of Chartered Accountants of England &amp; Wales (ICAEW), American Institute of Certified Public Accountants (AICPA) and Canadian Institute of Chartered Accountants (CICA) was issued in 1966.</td>
</tr>
</tbody>
</table>
1967
The Accountants International Study Group (AISG), for whom the proposal was issued in 1966, was founded this year. This group was to regularly publish papers on important topics in accounting. The papers that were published are believed to have led the way to the development of accounting standards.

1973
In June 1973 the International Accounting Standards Committee (IASC) is founded. The IASC survived for 27 years, until 2001, when the organisation was restructured and the IASC was replaced by the International Accounting Standards Board (IASB).

Between 1973 and 2000 the International Accounting Standards Committee (IASC) released a series of standards called International Accounting Standards (IASs).

1997
The Standing Interpretations Committee (SIC) is established in 1997 to provide authoritative guidance over interpretations of standards.

2000
International Accounting Standards are now recognised by various Stock Exchanges around the world.

2001
The IASC restructure their organisation which results in the formation of the International Accounting Standards Board (IASB).

The IASB announces a new number series for the accounting standards. The International Accounting Standards will now be known as International Financial Reporting Standards (IFRS).

During this year, the Standards Interpretations Committee is renamed to the IFRS Interpretation Committee (IFRIC)
2003

The first IFRS is published in June 2003 (IFRS 1: First-time Adoption of International Financial Reporting Standards).

2005

Listed companies in the European Union take the lead by reporting on IFRS for periods commencing on or after 1 January 2005.

Source: ICAEW: 2011

It was a long journey from 1967, when an accounting publication/standard was first mentioned, to 2005 (27 years) when companies in the United Kingdom were required to present their financial statements using the international accounting standards adopted by the European Union (Celluci: 2010). As can be seen from the timeline above, the development of a standard that could be issued for compliance purposes required much input from various sources. There is a close network of organisations that supports the IASB in the development of standards and this network is illustrated in figure 2.1 below. Each of these organisations is discussed in detail after the illustration on the following page.
2.2. The Monitoring board

The Monitoring Board is a newly formed body. It was formed in 2009 and did not exist under the previous structures of the IASC.

The Monitoring Board is composed of three major constituents, which are capital markets authorities:

- The Emerging Markets and Technical Committees of the International Organization of Securities Commissions (IOSCO);
- The European Commission, the Financial Services Agency of Japan (JFSA);
The Basel Committee on Banking Supervision participates in the Monitoring Board only as an observer (IFRS: 2011)

This Monitoring Board’s objectives and responsibilities (as defined in its charter) include ensuring that the Trustees of the IFRS Foundation continue to discharge their duties as defined by the IFRS Foundation Constitution, as well as approving the appointment or reappointment of Trustees. The monitoring boards’ duties are defined as “setting the form and content of financial reporting in their jurisdictions” as well as “having a responsibility to protect and advance the public interest and are strongly committed to supporting the development of high quality international accounting standards” (IFRS: 2011).

The duties to be discharged by the IFRS Foundation, as well as the appointment and reappointment of the trustees, are discussed further as part of the IFRS Foundation overview below.

2.3. The IFRS Foundation

The IFRS Foundation reports directly to the Monitoring Board and is responsible for complete oversight over the IASB. The Foundation, over and above responsibilities related to standards, is also responsible for fund raising, approving the IASB’s budget and they have responsibility for any constitutional changes (IFRS: 2011).

The IFRS Foundation is first and foremost a non-profit organisation, which raises funds for the operations of the IASB. It was stated in a journal article (Background information on the IASB: 2002) that the funds are obtained from various global sources such as: market participants from across the world’s capital markets; relevant regulatory bodies and levies introduced for listed and non-listed companies in a many countries across the world.

A geographically and professionally diverse body of trustees who are publicly accountable to a Monitoring Board oversees the IFRS Foundation. The Foundation is supported by an external IFRS Advisory Council and an IFRS Interpretations Committee
to offer guidance where divergence in practice occurs and a thorough, open, participatory and transparent due process including engagement with investors, regulators, business leaders and the global accountancy profession at every stage of the due process (IFRS: 2011).

The Foundation is headed up by trustees. They are appointed for a renewable term of 3 years. Trustees are not involved in any technical matters as these are the responsibility of the IASB; however they are required to be sensitive to any international issues that are relevant to the success of the IFRS Foundation (IFRS: 2011).

Selection of the trustees is done per the Foundation’s constitution which stipulates that six of the Trustees must be selected from the Asia or the Oceania region, six from Europe, six from North America, one from Africa, one from South America and two from the rest of the world. Jeff van Rooyen of South Africa is currently the representative from Africa (IFRS: 2011).

The sole objective of the IFRS Foundation is to guide the IASB “To develop a single set of high quality, understandable, enforceable and globally accepted financial reporting standards based upon clearly articulated principles” (IFRS: 2011).

In developing these standards the IASB makes use of the expertise of various committees such as the IFRS Interpretations Committee as well as the IFRS Advisory Council. These two committees are discussed in detail in the paragraphs that follow.

2.4. The IFRS Interpretations Committee

The IFRS Interpretations Committee (hereafter IFRIC) was established concurrently with the IASB (refer to timeline at the beginning of the chapter). The committee replaced the previous Standards Interpretation Committee.

The IFRS Interpretations Committee was put in place to develop interpretations of IFRS for the IASB and to carry out any other tasks required by the IASB (Deloitte Touche
Tohmatsu Limited: 2011). The IFRS Foundation trustees with the aim of interpreting issues identified in current standards as well as providing guidance on issues where conflicting interpretations have developed appoint the IFRIC members.

The committee is composed of fourteen members of various geographical backgrounds. A major requirement is that they have high technical competence, as they need to be able to identify technical issues and resolve them (IFRS: 2011).

In contrast to the Monitoring Board, IFRIC members receive instruction from the IFRS Foundation, instead of the committee issuing instruction to the Foundation. This is because IFRIC’s activities can only be performed once standards have been published and after problems are experienced in practice. They ensure that in the end the standards are excellent.

Another committee that assists the IASB in developing high quality standards is the IFRS Advisory council.

2.5. The IFRS Advisory council

The IFRS Advisory Council was formed a few months after the IASB and IFRIC. The council is tasked with advising the IASB on various matters which will be further elaborated on below.

The IFRS Advisory Council is currently composed of 40 members, with diverse geographical and functional backgrounds. It was decided by the Trustees in 2009 that selection to the council would be based on organisations that are relevant to the standard setting principles (Deloitte Touche Tohmatsu Limited: 2011).

The IFRS Advisory Council has been noted as a platform that the IASB can use to consult a wide range of interested parties affected by the IASB’s work. The objective of such consultation would be to seek advice on pertinent decisions and priorities relating to the IASB’s work, seeking insight on the views of organisations and individuals that will be users of the proposed standards and seeking other advice that may be needed
by the IASB and the IFRS Foundation Trustees (Deloitte Touche Tohmatsu Limited: 2011).

It can be established from the discussion of the committees above that a vast amount of work goes into developing a standard. It appears from the above that the quality of a standard cannot be compromised even though various parties have had input into the final product. Now that the contributions of the various committees into developing a standard have been established, the core standard-setting process will now be explored.

2.6. The development of International Accounting Standards

The development of an IFRS requires the efforts of various governance structures, as mentioned above. Although the IASB drives the process and is ultimately responsible for the publication of a developed standard, various inputs form part of the process to eventually obtain a high quality standard.

In their constitution the IFRS Foundation set out the following as the activities that the IASB would have to perform to fulfill in order to develop and publish high quality standards (IFRSs) (Deloitte Touche Tohmatsu Limited: 2011):

- Have complete responsibility for all IASB technical matters including the preparation and issuing of International Accounting Standards, International Financial Reporting Standards and Exposure Drafts, each of which shall include any dissenting opinions, and final approval of Interpretations by the International Financial Reporting Interpretations Committee;
- Publish an Exposure Draft on all projects and normally publish a discussion document for public comment on major projects;
- Have full discretion in developing and pursuing the technical agenda of the IASB and over project assignments on technical matters: in organising the conduct of its work, the IASB may outsource detailed research or other work to national standard-setters or other organisations;
• Establish procedures for reviewing comments made within a reasonable period on documents published for comment;

• Normally form working groups or other types of specialist advisory groups to give advice on major projects;

• Consult the IFRS Advisory Council on major projects, agenda decisions and work priorities; and

• Normally issue bases for conclusions with International Accounting Standards, International Financial Reporting Standards, and Exposure Drafts;

• Consider holding public hearings to discuss proposed standards, although there is no requirement to hold public hearings for every project; and

• Consider undertaking field tests (both in developed countries and in emerging markets) to ensure that proposed standards are practical and workable in all environments, although there is no requirement to undertake field tests for every project.

The responsibilities of the IASB with regards to producing high quality standards as discussed above are of great importance as they would result in the development of IFRS that will be used by many organisations and individuals globally. As a result, the process to be followed for the development of a standard is based on the above-mentioned objectives and is illustrated in Figure 2.2 below.
As is illustrated in the diagram above, the process involved in the development of a standard is a quite rigorous one. Various stakeholders are consulted as the interests of the users are of paramount importance to the IASB when developing a standard. The IASB first needs to evaluate whether there is a need for standard. As this stage, various factors like investor and user needs are considered. Once the viability of a new project is agreed upon project planning commences. A major decision to be made at this stage is whether the IASB can conduct the project alone or whether collaboration with another standard-setting body may need to be considered (IFRS: 2011).
The first draft of a standard is referred to as a discussion paper, as this is used to explain the issue to be covered by the proposed standard and to solicit comments from constituents. It is important to note that this step may sometimes be omitted by the IASB and should this be the case they would state the reasons for the omission. A step that can never be omitted however is the release of an exposure draft. The exposure draft closely resembles the proposed standard. It is drafted after considering the comments received on the discussion paper, suggestions brought forward by the IFRS Advisory Council and decisions reached in meetings by the IASB. The exposure draft is then ready to be released to the broader public for commentary (IFRS: 2011).

Once all commentary obtained through public consultation has been consolidated and considered in meetings by the IASB, a final draft of the IFRS will be prepared, however if the outcomes of the meeting are not satisfactory, a second exposure draft will be issued for further commentary. The final draft of the IFRS is normally subject to review by the IFRS Interpretations committee. The IFRS is now ready for issue. The last step of the process is when the IASB members hold regular meetings with various stakeholders to discuss any unexpected issues around implementation and the impact these will have on proposals. This final process could be carried over two years (IFRS: 2011).

IFAC fully supports the IASB with regards to the manner in which the standards are set and has gone as far as issuing public commentary on how the IASB’s standard-setting process is transparent and thus results in high-quality financial reporting standards (IFAC:2011). IFAC has also entered into agreements with other standard-setting bodies, requiring them to follow similar processes (IFAC: 2011). Transparency is achieved through consultation with the public and other relevant stakeholders (IFAC: 2011).
2.7. The International Federation of Accountants

Although the IASB is responsible for the development and publication of International Financial Reporting Standards, IFAC which was founded in 1977, is responsible for the promotion of the accounting profession as well as the standards published by the IASB (IFAC: 2011). The IASC and IFAC had also come to an agreement in 1981 that all standards would only be issued by the IASC (Celluci: 2010).

IFAC was founded on 19 October 1977 in Munich, Germany with the aim of strengthening worldwide the accountancy profession in the public interest by performing the following:

- Developing high quality international standards and supporting their adoption and use;
- Facilitating collaboration and cooperation among its member bodies;
- Collaborating and cooperating with other international organisations; and
- Serving as the international spokesperson for the accountancy profession (IFAC: 2011)

At inception, IFAC established a 12-point work programme in order to achieve its objectives. This programme was intended to be a guideline for committees and staff of IFAC for the first five years of operations (IFRS: 2011). Although developed in 1977, the work programme is still applicable to this day. The work programme includes the following 12 points:

1. “Develop statements which serve as guidelines for international and auditing guidelines;
2. Establish the basic principles which should be included in the code of ethics of any member body of IFAC and to refine or elaborate on such principles as deemed appropriate;
3. Determine the requirements and develop programs of the professional education and training of accountant;
4. Collect, analyse, research, and disseminate information on the management of public accounting practices to assist practitioners in more effectively conducting their practices;
5. Evaluate, develop, and report on financial management and other management techniques and procedures;
6. Undertake other studies of value to accountants, such as a possible study on the legal liabilities of auditors;
7. Foster closer relationships with users of financial statements including preparers, trade unions, financial institutions, industry, governments, and others;
8. Maintain good relations with regional organisations and explore the potential for establishing other regional organisations, as well as assisting in their organisation and development;
9. Establish regular communications among the members of IFAC and other interested organisations, principally through an IFAC Newsletter;
10. Organise and promote the exchange of technical information, educational materials and professional publications, and other literature emanating from member bodies;
11. Organise and conduct an international congress of accountants approximately every five years; and
12. Seek to expand the membership of IFAC”.

Many of the points in the 12-point working programme are still relevant to IFAC and the accounting profession today. IFAC is still working on increasing its members and Africa is part of this vision. Some of the points on the programme have been delegated to the committees of IFAC and are still being pursued. The IFAC committees are discussed further on in this chapter.

In addition to the work programme discussed above, the activities below will be performed by IFAC to achieve its objective:

- IFAC will play an increased role in the regulation of the international accounting profession;
• Communication with international regulators, standard setters, development agencies, the investment community and other stakeholders will be increased;

• The need for high quality financial reporting and financial management through the development of International Public Sector Accounting Standards will be addressed;

• The focus on small and medium practices and developing nations will be increased; and

• Collaboration with IFAC members will be increased and room will be created for greater outreach to regional accountancy organisations and having closer liaisons with the largest accountancy firms through the Forum of firms (IFAC: 2011).

It is important to understand what IFAC’s objectives are, as its members are expected to align themselves with those objectives. IFAC’s responsibilities include governing the international accounting profession, by facilitating collaborations between its members and other international organisations. A major collaboration that is currently supported by IFAC is the convergence project between the IASB and the Financial Accounting Standards Board (hereafter FASB).

2.8. The FASB and its collaboration with the IASB

FASB is the standard setting body of the United States of America (USA). The FASB is independent from the IASB, but is currently working together with the IASB to produce one set of globally acceptable financial reporting standards.

The FASB was established in 1973 and has been designated the organisation in the private sector for establishing standards of financial accounting. These accounting standards are officially recognised by the Securities and Exchange Commission (SEC) of the USA as well as the American Institute of Certified Public Accountants (AICPA). The SEC is the statutory body that governs all publicly held companies in the USA (FASB: 2012).
The FASB and IASB met in September 2002 to discuss a way forward for financial reporting across the globe. They came to an agreement and issued what they named the Norwalk Agreement (more commonly known as the convergence project), in which they “each acknowledged their commitment to the development of high quality, compatible accounting standards that could be used for both domestic and cross-border financial reporting. At that meeting, the FASB and the IASB pledged to use their best efforts to make their existing financial reporting standards fully compatible as soon as is practicable and to co-ordinate their future work programs to ensure that compatibility is maintained” (FASB: 2012).

The practical implications of the agreement between the IASB and FASB involve both bodies identifying differences between the USA standards and IFRS. Once differences are identified, common solutions need to be found. The elimination of these differences over time, together with the commitment by both Boards to eliminate or reduce remaining differences through continued progress on joint projects and coordination of future work programs, will improve comparability of financial statements globally (FASB: 2012).

In February of 2006, the IASB and FASB issued a Memorandum of Understanding (hereafter MoU). The MoU sets forth the relative priorities within the FASB-IASB joint work programs in the form of specific milestones to be reached. The target date for the milestones set out in this memorandum was 2008 (IFRS: 2011).

In 2008, IASB and FASB issued an update to the MoU drafted in 2006. In a joint statement released in October of 2009, the IASB and FASB (2009) reaffirmed their commitment to the 2006 MoU. They committed to being transparent about their efforts to achieve the milestones set out in the 2006 MoU. Both parties committed to reporting on quarterly basis on the progress of the convergence projects. These reports would be made available on both their websites.

In June of 2010, the IASB and FASB drafted a letter to the G20 leaders once again reaffirming their commitment to the convergence project. Since they were also under pressure from the G20 to complete the convergence project by June of 2011, the letter
served as an alert to the G20 that some of the projects set out in the 2006 MoU would not be complete by June 2011. However they are working together more closely to achieve the set targets. The two boards also issued a revised strategy/programme to the G20 leaders, which set out how they planned to achieve the set targets. The update had separated high priority projects from lower-priority projects (IFRS: 2011).

Since then, the IASB and FASB have continued to work expeditiously on the project and also continue to periodic reports on their progress. The latest update was issued on 5 April 2012, clearly indicating projects that have been completed, that are in process and those that will be dealt with later, as they have been assessed as lower-priority projects (Hoogervorst, H. & Seidman, L.F, 2012).

A summary of the status of the convergence project is provided in the tables on the pages that follow.
Table 2.3  Progress on the short-term convergence projects

These are the joint projects of the IASB and FASB that took place between 2006 and 2008.

<table>
<thead>
<tr>
<th>Project</th>
<th>Status</th>
<th>Milestone</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share-based payments</td>
<td>Completed</td>
<td>Converged standards issued in 2004.</td>
</tr>
<tr>
<td>Segment reporting</td>
<td>Completed</td>
<td>IFRS 8 <em>Segment Reporting</em> issued in 2006.</td>
</tr>
<tr>
<td>Non-monetary assets</td>
<td>Completed</td>
<td>The FASB converged the treatment of certain nonmonetary exchanges to require recognition at fair value unless the transaction lacks commercial substance in FAS 153, <em>Nonmonetary Assets</em> issued in 2004.</td>
</tr>
<tr>
<td>Inventory accounting</td>
<td>Completed</td>
<td>The FASB converged the treatment of excess freight and spoilage in FAS 151, <em>Inventory Costs</em> issued in 2004.</td>
</tr>
<tr>
<td>Accounting changes</td>
<td>Completed</td>
<td>The FASB converged the treatment of voluntary changes in accounting policy by requiring retrospective application in FAS 150, <em>Accounting Changes and Error Corrections</em> issued in 2005.</td>
</tr>
<tr>
<td>Fair value option</td>
<td>Completed</td>
<td>Fair value option for financial instruments introduced into US GAAP in 2007.</td>
</tr>
<tr>
<td>Borrowing costs</td>
<td>Completed</td>
<td>Revised IAS 23 <em>Borrowing Costs</em> in 2007.</td>
</tr>
<tr>
<td>Research and development</td>
<td>Completed</td>
<td>US GAAP amended for acquired R&amp;D, as part of business combinations, in 2008.</td>
</tr>
<tr>
<td>Non-controlling interests</td>
<td>Completed</td>
<td>Mezzanine presentation eliminated from US GAAP, as part of business combinations, in 2008.</td>
</tr>
<tr>
<td>Joint ventures</td>
<td>Completed</td>
<td>IFRS 11 <em>Joint Arrangements</em> issued in May 2011. Establishes principles for the financial reporting by parties to a joint arrangement.</td>
</tr>
<tr>
<td>Income tax</td>
<td>Reassessed as a lower priority project. No immediate action.</td>
<td>Joint exposure draft published in 2009. The IASB may consider a fundamental review of the accounting for income taxes at a later date.</td>
</tr>
<tr>
<td>Investment property entities</td>
<td>In process</td>
<td>The FASB issued a proposal to require investment property entities to measure their investment properties at fair value.</td>
</tr>
</tbody>
</table>

Source: Hoogervorst and Seidman: 2012
Table 2.4  Progress on the long-term convergence projects

These are the joint projects of the IASB and FASB that have taken place after 2008.

<table>
<thead>
<tr>
<th>Project</th>
<th>Status</th>
<th>Milestone</th>
</tr>
</thead>
<tbody>
<tr>
<td>2    Derecognition</td>
<td>Completed</td>
<td>Each board has introduced reforms substantially aligning the disclosure requirements and bringing US GAAP accounting requirements closer to IFRSs.</td>
</tr>
<tr>
<td>3    Consolidated financial statements</td>
<td>Completed</td>
<td>IFRS 10 Consolidated Financial Statements and IFRS 12 Disclosure of Interests In Other Entities issued in May 2011.</td>
</tr>
<tr>
<td>(including disclosure about off balance sheet risks)</td>
<td></td>
<td>The FASB issued proposed clarification relating to principals vs. agents in 2011.</td>
</tr>
<tr>
<td>4    Fair value measurement</td>
<td>Completed</td>
<td>FASB Statement No. 157 Fair Value Measurements issued in 2006.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>IFRS 13 Fair Value Measurement issued in May 2011.</td>
</tr>
<tr>
<td>5    Post-employment benefits</td>
<td>Completed</td>
<td>Amendments to IAS 19 Employee Benefits issued in 2011.</td>
</tr>
<tr>
<td>6    Financial statement—other</td>
<td>Completed</td>
<td>Amendments to IFRSs and US GAAP for presentation of other comprehensive income issued in 2011.</td>
</tr>
<tr>
<td>comprehensive income</td>
<td></td>
<td></td>
</tr>
<tr>
<td>7    Financial instruments with the</td>
<td>Reassessed as a lower priority project.</td>
<td></td>
</tr>
<tr>
<td>characteristics of equity</td>
<td></td>
<td></td>
</tr>
<tr>
<td>8    Investment entities</td>
<td>IASB and FASB published proposals in August and October 2011, respectively.</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>The IASB’s proposal would exempt a class of entities whose substantive activity is investing for capital appreciation, investment income, or both from consolidating entities they control. Instead, these investment entities would measure controlled investees at fair value, with any changes in fair value recognised in profit or loss. The FASB’s proposal would amend the existing guidance in US GAAP for investment companies to develop converged criteria for assessing whether an entity is an investment company.</td>
</tr>
</tbody>
</table>

Source: Hoogervorst and Seidman: 2012
There are also four projects on the agenda of the IASB and FASB that are of a much longer term. Technical Decisions are still being made around the topics but the work has begun. These projects are listed in the table below.

**Table 2.5  Progress on the longer-term convergence projects**

<table>
<thead>
<tr>
<th>Project</th>
<th>Status</th>
<th>Milestone</th>
</tr>
</thead>
<tbody>
<tr>
<td>1  Leases</td>
<td>In process</td>
<td>Having exposed joint proposals in August 2010, the boards plan to publish revised proposals in the second half of 2012 that respond to the extensive consultation undertaken.</td>
</tr>
<tr>
<td>2  Revenue recognition</td>
<td>In process</td>
<td>The boards exposed joint proposals in June 2010. The comment period for the revised proposals that respond to the extensive consultation undertaken closed in March 2012. The boards expect to complete their discussions in 2012.</td>
</tr>
<tr>
<td>3  Financial instruments</td>
<td>In process</td>
<td>Described in the financial instruments section of this document.</td>
</tr>
<tr>
<td>4 Insurance contracts</td>
<td>In process</td>
<td>The boards are working towards their next publications for the second half of 2012. The IASB is considering whether it should publish another exposure draft (ED). Doing so would align the boards’ consultative processes because the FASB has yet to publish an ED.</td>
</tr>
</tbody>
</table>

Source: Hoogervorst and Seidman: 2012

2.9. **The role of Africa in international accounting structures**

There are many African countries that have established accounting professions with recognised accounting bodies. Some of these accounting bodies are registered with regional bodies on the continent and these regional bodies fit into international accounting structures which govern the professional internationally, such as IFAC.
2.9.1. Membership with the International Federation of Accountants

Africa is represented on the international accounting platform by various individuals and accounting bodies. Abdeljelil Bouraoui of Ordre des Experts Comptables de Tunisie (accounting body of Tunisia) and Japheth Katto of the Institute of Certified Public Accountants of Uganda are board members of the IFAC (2011) and serve as Africa’s representatives. Various other individuals represent Africa on IFAC’s board committees. These committees will be discussed further on in this section.

On the African continent, countries that are located in the east, central and southern parts of Africa are governed by the Eastern, Central and South African Federation of Accountants (hereafter ECSAFA) and those that are located in west Africa are governed by the Association of Accountancy Bodies in West Africa (hereafter ABWA). ECSAFA and ABWA are members of IFAC as a Regional Organisation and Accountancy Grouping respectively.

Regional Organisations (hereafter ROs) and Accountancy Groupings (hereafter AGs) are defined by IFAC (2011) as independent bodies which share IFAC’s mission and values and can therefore help it carry out its mandate and achieve its objectives. The ROs and AGs play a supporting role to IFAC by aligning their objectives with that of IFAC in trying to develop the accountancy profession in countries that fall within their respective regions. Individual countries also have the option to register as IFAC members.

IFAC’s membership has grown from 63 countries, at its inception in 1977, to 158 member countries in 2011 (IFAC: 2011). The number of African countries that are IFAC members is 21 (from a possible total of 53 countries on the continent) (IFAC: 2011). This membership level reflects that there is an interest in some countries in Africa to align their financial reporting systems with IFAC and therefore the rest of the world.

Africa is currently represented on various IFAC committees, as stated above. The following table reflects the various committees of IFAC and the number of African representatives in comparison to total international representatives.
### Table 2.6  Africa’s membership on IFAC’s committees

<table>
<thead>
<tr>
<th>Board or committee</th>
<th>Number of Africans on the committee - (Name of committee member)</th>
<th>Total number of members on the committee</th>
</tr>
</thead>
<tbody>
<tr>
<td>Professional Accountancy Organization Development</td>
<td>1 member - Irene Lombe Ng’andwe (Zambia)</td>
<td>13 members</td>
</tr>
<tr>
<td>Professional Accountants in Business</td>
<td>2 members – Frederick Banda (Zambia) and Stephen Lugalia (Kenya)</td>
<td>18 members</td>
</tr>
<tr>
<td>Small and Medium Practices Committee</td>
<td>3 members – Abdulwahid Aboo (Kenya), Dorothy Ngwira (Malawi) and Nnamdi Okwuadigbo (Nigeria)</td>
<td>18 members</td>
</tr>
<tr>
<td>Transnational Auditors Committee</td>
<td>This committee is only represented by international audit firms. Some of these firms have firm branches in Africa. For example: Deloitte Touche Tohmatsu Limited.</td>
<td></td>
</tr>
</tbody>
</table>

*Source: IFAC: 2011*

Africa does have a level of international representation in the accounting profession and this could possibly be helpful in the process of adopting IFRS on the continent. Africa now has a new representative body: The Pan-African Federation of Accountants. This new committee and its prospects are discussed in the next section.
2.9.2. Pan-African Federation of Accountants

The Pan-African Federation of Accountants (hereafter PAFA) was formed in May 2011 after several years of deliberation by various African accounting bodies. PAFA came about after an intervention, via a workshop in Kenya in 2006 by IFAC, to unite African accountants so that a transformation to IFRS could be implemented. IFAC had made a proposal that was geared towards the development of appropriate accounting structures and institutions, on the continent of Africa, to support the establishment of professional accounting bodies (Muroki, Mwaura & Nyaboga, 2008). The workshop appears to have been successful as most African countries now have recognised accounting bodies. The workshop participants even initiated the formation of an African Focus Group with a view to advocate and monitor the progress of all the workshop’s proposals. One of the major proposals at the workshop was to establish an African Federation of Professional Accountants. This organisation would be mandated to promote the accounting profession and the welfare of the African economy (Muroki, Mwaura & Nyaboga, 2008). The participants of the workshop signed a declaration as a commitment to the formation of this federation. In May 2011 a federation, namely PAFA, then came to fruition.

PAFA has 35 member countries and is Chaired by Major General Sebastian Owuama, of the Institute of Chartered Accountants of Nigeria. Vickson Ncube was appointed as the Chief Executive Officer (Hayes: 2011) of PAFA. As part of this study an interview was conducted with Ncube about the current status of IFRS in Africa of which the results are included in Chapter 6.

At the time of this research, it doesn’t appear as though a constitution has been established for PAFA yet, however Ncube has been quoted by a publication, The Accountant, stating that “PAFA’s policy is that all its member countries should adopt IFRS as part of its wider efforts to encourage foreign investment, spur economic development across the continent and raise the performance and status of the accounting profession across Africa” (Hayes: 2011). This policy coincides with IFAC’s vision for this federation, as initially discussed at the workshop in 2006.
The introduction of PAFA would possibly result in the dissolution of ECSAFA and ABWA as all their member countries would become members of PAFA (Hayes: 2011). One of the main reasons for this dissolution would be that many members would not be able to pay membership fees to the region (ECSAFA and ABWA) as well as, to PAFA and IFAC (Hayes: 2011).

With that said the next logical step is to explore what the regional bodies have contributed to the current status of IFRS in Africa.

2.9.3. The Eastern, Central and Southern African Federation of Accountants

ECSAFA is the regional accounting body that has overseen accounting bodies in countries located in the eastern, central and southern parts of Africa. ECSAFA is also a Regional Organisation of IFAC (2011). It has contributed largely to adoption of IFRS on the African continent and that is evidenced by the statistics below.

Members of ECSAFA are listed below, along with information on whether they have adopted IFRS or not:

Table 2.7 ECSAFA’s membership and IFRS status

<table>
<thead>
<tr>
<th>Member of ECSAFA</th>
<th>IFRS adopted [YES/NO]</th>
</tr>
</thead>
<tbody>
<tr>
<td>Botswana</td>
<td>YES</td>
</tr>
<tr>
<td>The Democratic Republic of the Congo</td>
<td>NO</td>
</tr>
<tr>
<td>Ethiopia</td>
<td>NO</td>
</tr>
<tr>
<td>Kenya</td>
<td>YES</td>
</tr>
<tr>
<td>Lesotho</td>
<td>YES</td>
</tr>
<tr>
<td>Malawi</td>
<td>YES</td>
</tr>
<tr>
<td>Mauritius</td>
<td>YES</td>
</tr>
<tr>
<td>Namibia</td>
<td>YES</td>
</tr>
<tr>
<td>Rwanda</td>
<td>NO</td>
</tr>
<tr>
<td>South Africa</td>
<td>YES</td>
</tr>
</tbody>
</table>
It is evident from the table above that twelve of the fifteen countries within ECSAFA’s jurisdiction have already adopted IFRS. This equates to 80% of the region and 23% of Africa as a whole.

Temporary members of ECSAFA are: Angola, Eritrea, Mozambique and Sudan of which only Mozambique has adopted IFRS.

ECSAFA (2010) explicitly states in its constitution, its one and only objective is “to co-ordinate development of the accountancy profession and to promote internationally recognised standards of professional competence and conduct within the region”. This objective appears to be in line with that of IFAC.

ECSAFA has specifically set out the activities that will need to be performed to achieve its only objective. These activities as stated by Phirie (2006), ECSAFA President at the time, include, amongst others:

- “Raising the level of professional standards by: promoting the adoption of standards issued by IFAC, IASB and other relevant bodies; developing region-specific guidelines and assisting member bodies to carry out the monitoring of compliance standards by their members; and

- Adding value to member bodies in the various countries by pooling of scarce resources including sharing best practice, leveraging economies of scale and encouraging reciprocity (mutual recognition) among member bodies”.

Like East Africa, the countries west of Africa are also governed by a regional body called ABWA. This organisation’s objective also coincides with that of IFAC, as is evident in the discussion that follows.
2.9.4. The Association of Accountancy Bodies in West Africa

The Association of Accountancy Bodies in West Africa (hereafter ABWA) is an acknowledged Accountancy Group of IFAC. There are only six groupings worldwide that are acknowledged by IFAC. The groupings have been put in place to support the “objectives and pronouncements of IFAC and support the advancement of the accountancy profession within their constituencies”.

It is quite clear from the objectives set out in ABWA’s constitution that they are in place to support those of IFAC. ABWA’s constitution lists the following objectives (ABWA: 2010):

- To develop and enhance the accountancy profession in West Africa;
- To promote the development of common technical and educational guidelines, professional ethics and standards in member-bodies;
- To act as a centre for the development and dissemination of information concerning accountancy standards and practices in West Africa.
- To provide encouragement and assistance with the formation and development of national accountancy bodies.
- To provide advice on and participate in the programme of work of IFAC and to adopt, as appropriate and publish to its members, IFAC’s guidelines, statements and duties.
- To provide advice on and participate and/or collaborate in the programme of work and activities of recognised regional organisations, international or development agencies for the promotion of the accountancy profession.
- To provide a forum for the professional development of member-bodies through seminars, symposia, congresses and interchange of ideas and experiences
- Generally to do such other things as may be incidental or conducive to the attainment of the Associations objectives.

Countries that fall within ABWA’s constituency are listed below along with information on whether they have adopted IFRS or not:
Table 2.8  ABWA’s membership and IFRS status

<table>
<thead>
<tr>
<th>Member country</th>
<th>IFRS adopted [YES/NO]</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bernin</td>
<td>NO</td>
</tr>
<tr>
<td>Burkina Faso</td>
<td>NO</td>
</tr>
<tr>
<td>Cameroon</td>
<td>NO</td>
</tr>
<tr>
<td>Cote d’Ivoire</td>
<td>NO</td>
</tr>
<tr>
<td>Gambia</td>
<td>NO</td>
</tr>
<tr>
<td>Guinea</td>
<td>NO</td>
</tr>
<tr>
<td>Liberia</td>
<td>NO</td>
</tr>
<tr>
<td>Mali</td>
<td>NO</td>
</tr>
<tr>
<td>Niger</td>
<td>NO</td>
</tr>
<tr>
<td>Nigeria</td>
<td>YES (effective 2012)</td>
</tr>
<tr>
<td>Senegal</td>
<td>NO</td>
</tr>
<tr>
<td>Sierra Leone</td>
<td>YES</td>
</tr>
<tr>
<td>Togo</td>
<td>NO</td>
</tr>
</tbody>
</table>

*Source: Deloitte Touche Tohmatsu Limited; 2012*

It appears from the table above that only two of the thirteen countries (15%) within ABWA’s jurisdiction have adopted IFRS compared to ECSAFA’s 80%. This translates into ABWA only contributing to 3% to the total number of countries on the African continent that have adopted IFRS. This research is geared towards finding the reasons why this is so.

It is evident from the above statistics that certain parts of Africa are geared towards adopting IFRS and others not. The following section will discuss how the introduction of PAFA will attempt to resolve this disconnect from region to region on the continent.

### 2.9.5. The way forward for Africa

The introduction of PAFA saw the dissolution of the local regional bodies, ECSAFA and ABWA, at the end of 2011. Going forward Africa will be represented by PAFA only.
Some of the reasons for this decision, as stated by Ncube include the fact that it would be too costly for the members to pay membership fees to regional bodies, to PAFA as well as to IFAC (Hayes: 2011). Another reason noted is that before the formation of PAFA, there was barely any communication between the regional bodies, resulting in disconnect between the regions. The formation of a continent-wide body would aid in removing the boundaries that prohibited effective communication (Hayes: 2011). Ncube was also quoted by *The Accountant* saying: “PAFA’s challenge is to represent the whole of Africa developing all 53 countries including those without any professional association at present” (Hayes: 2011).

2.10. **Conclusion**

The international accounting bodies that govern the profession, and their supporting structures, have been discussed in detail. Africa’s accounting governance structures subsequently received attention as well as how they fit into global governance structures. The chapter that follows will focus on the importance and the value that can be drawn from adopting these IFRS.
3. THE BENEFITS OF ADOPTING IFRS

It is important to look at identified benefits of adopting IFRS in order to understand why the challenges of adopting IFRS need to be overcome. Research has been performed and various reasons why International Financial Standards (hereafter IFRS) should be adopted have been established. This chapter discusses the available research performed and results of the research.

Ramanna and Sletten (2009) studied 102 non-European countries in order to establish the various reasons why IFRS should or should not be adopted. The study was performed over the period from 2002 to 2007. They used the economic theory of networks to test whether IFRS is likely to be adopted by a country if other countries located geographically around it, its trade partners, adopt. According to Ramanna and Sletten this economic theory of networks will apply to IFRS adoption as “adopting a set of standards like IFRS can be more appealing to a country if other countries have adopted it as well” (2009), therefore creating a network effect.

The results of the research reflected that the likelihood of a country adopting IFRS increases for a given country when the number of IFRS adopters in its geographical surroundings (and its trade partners) increases (Ramanna and Sletten: 2009). This possibly renders true for Africa as well, where South Africa started the network by requiring its entities with reporting periods beginning on or after 1 January 2005 to report in compliance with IFRS. Progress has since been made as all countries located in the southern parts of Africa have adopted IFRS, as well as a few in central and east Africa.

This can be seen in the figure depicted on the following page.
Figure 3.1  Countries in Africa who have adopted IFRS
Another academic Barth also highlighted a benefit of adopting IFRS from an economical perspective. She concluded in a study that proponents of IFRS argued that “countries can expect to lower the cost of information processing and auditing to capital market participants” (Barth: 2007). The comparison of financial statements from country to country is difficult where the countries’ report on different bases. The exercise of having to translate financial statements to a basis that can be understood by a potential investor is a costly one. Hence if a global set of financial statements are used for decision-making purposes, the costs are likely to be reduced. Adopting IFRS should then become more attractive to countries seeking foreign direct investment. Olowo-Okere (2009) who conducted research on the challenges of implementing IFRS in Nigeria also came to the conclusion that using IFRS for financial reporting will “reduce confusion, errors and frauds, which will lead to an increase in the degree of governance and trust. This transparency and trust can lead to better corporate governance that cannot be underestimated by investors who are targeted for providing foreign capital flows that cause growth”.

These sentiments are echoed by the EU, who since 1 January 2005 required all companies whose shares are listed on a stock exchange in the EU to produce financial statements that comply with IFRS. The EU’s research shows that a capital investor needs comparable information, which could be quite costly if it still has to convert the information to comparable form, and the same stands true for the companies producing financial statements for multinational investors (University of North Carolina: n.d). A set of financial statements produced in compliance with a single set of global standards would suffice.

The capital required by Africa may only be obtained by enhancing financial reporting by complying with IFRS. Not complying with IFRS tends to “undermine financial stability and financial intermediation, and adversely impacts on the investment climate, which could impede economic growth and poverty alleviation”, stated Olowo-Okere (2009). Olowo-Okere (2009) also includes the following benefits of adopting IFRS from his research:
• The opportunity for more efficient use and availability of accounting resources as the use of IFRS facilitates the development of standardised training programs, eliminates diverse accounting systems and could possibly eliminate third party costs associated with local statutory reporting;

• Controls will be improved as IFRS allow for greater control over statutory reporting, thereby reducing risks of penalties and compliance problems at local level;

• There is opportunity for improved cash flow planning as there would be a standard manner of calculating dividends payable to shareholders which is consistent across countries;

• There would be an increase in the promotion of global trade and investment; as well as

• Investment decisions would be made easier through transparency of financial information.

The South African Deputy Finance Minister, Nhlanhla Nene, was quoted at a 2010 IFRS conference in Cape Town, South Africa stating that “the pervasive message at the conference is that global problems require global solutions”. At the same conference Sir David Tweedie, chairman of the International Accounting Standards Board (IASB) at the time, stood in agreement with Nene at the conference by stating that adopting IFRS has enormous potential for Africa. He noted that the economies that have adopted IFRS have enjoyed a reduction in the cost of capital. This should find favour with governments worldwide as different countries continuously compete for opportunities in a global environment. He also pointed out that trade between nations becomes easier with the use of a common set of financial statements and this would in turn boost foreign direct investment.

McGladrey & Pullen, a firm of accountants in the United States of America also released their own list of the benefits of adopting IFRS, as they are also working on a transition from US GAAP to IFRS for some of their clients, on their website (http://mcgladrey.com). The benefits are listed as:
By adopting IFRS, you would be adopting a “global financial reporting” basis that will enable your company to be understood in a global marketplace. This helps in accessing world capital markets and promoting new business and it also allows your company to be perceived as an international player;

A consistent financial reporting basis would allow a multinational company to apply common accounting standards with its subsidiaries world-wide, which would improve internal communications, quality of reporting and group decision-making; and

In increasingly competitive markets, IFRS allows a company to benchmark itself against its peers throughout the world, and allows a company to compare the company’s performance with its competitors globally.

The American Institute of Certified Public Accountants (2012) also stands in agreement with McGladrey & Pullen by stating on their website that the foremost advantage of adopting IFRS is the common accounting language with foreign countries. It makes comparison easier and bigger companies can now communicate, on accounting matters, with their foreign subsidiaries with much ease.

It may be concluded from the various research discussed above that there are many benefits, economic and otherwise, to adopting IFRS. An understanding of the global benefits of adopting IFRS enhances the need to overcome the challenges that currently stand in the way of Africa adopting IFRS. The following chapter will therefore focus on a discussion of the current IFRS adoption status of Africa. The statistics will be reviewed overall as well as in the different groupings represented in Africa.
4. THE CURRENT IFRS STATUS IN AFRICA

Deloitte Touche Tohmatsu Limited (2011) and Pricewaterhouse Coopers (2011) have both reported that there are currently only 18 countries of the 53 (34%) countries on the continent of Africa that report based on International Financial Reporting Standards (hereafter IFRS).

This chapter will discuss the current IFRS adoption status for Africa. Specific details about the IFRS adoption status for the different accounting regions on the continent will also be discussed.

4.1. Africa’s current status with regards to International Financial Reporting Standards adoption

It is of upmost importance to understand Africa’s current standing in terms of IFRS, as this understanding will form the basis of any progress that can be made on the continent. All available data on the current IFRS adoption on the African continent will be discussed within this chapter.

The first set of data was made available by Deloitte Touche Tohmatsu. Deloitte Touche Tohmatsu gathers annual statistics on the International Financial Reporting Standards (IFRS) status of every country in the world. These statistics are broken down by jurisdiction. For each jurisdiction, information is gathered on whether IFRS has been adopted and to what extent. For example, are all companies required to be on IFRS or is it only a select few that meet certain criteria? The statistics gathered also include information on whether listed and unlisted entities have an obligation to comply with IFRS and IFRS for Small and Medium Entities’ (hereafter SME’s).

A population of 174 jurisdictions, across the world, was used for data gathering purposes (this number excludes the jurisdictions where no information could be located). Only 123 of the jurisdictions in the population of 174 require or permit IFRS adoption for financial reporting purposes (that is 71%).
Although Africa has 53 countries in total, Deloitte Touche Tohmatsu only appears to have assessed 42 of these countries. As no data could be located by Deloitte Touche Tohmatsu for 11 of the African jurisdictions, according to the report, of the 42 countries assessed, only 16 countries had adopted IFRS (that is 38%) by 2011, when the data was last updated by Deloitte Touche Tohmatsu.

Pricewaterhouse Coopers on the other hand gathers data on the IFRS adoption status for every country in the world, where data is available (2011). The data gathered on each country includes the following:

- Whether IFRS is required or permitted;
- If IFRS is adopted, the version adopted;
- Whether subsidiaries of foreign companies or foreign companies listed on the local exchanges are subject to different rules;
- Whether IFRS for Small and Medium-sized Entities’ (hereafter SME’s) is required, permitted or prohibited for statutory filings; and
- Whether in addition to local Generally Accepted Accounting Practice (hereafter GAAP) statutory financial statements, there are any other regulatory financial statement requirements that permit or require the use of IFRS and the country’s plan for converging if they are not currently on IFRS (Pricewaterhouse Coopers: 2011).

To analyse the depth of the problem faced by Africa it becomes necessary to isolate the information gathered on Africa from the rest of the world and to analyse it separately. All the data relating only to African countries obtained from the studies by both Deloitte Touche Tohmatsu and Pricewaterhouse Coopers has been consolidated into the table below. Table 4.1 below summarises all the available information on the current status of IFRS adoption in all 53 African countries, listed in alphabetical order. Included in the table is information on whether each country is:

- A member of the International Federation of Accountants; and
- A member of/ affiliated to a regional body on the African continent and if so which regional body.
Table 4.1 Statistics on the current status of accounting in Africa

<table>
<thead>
<tr>
<th>African country</th>
<th>IFAC member</th>
<th>Regional Body</th>
<th>IFRS</th>
<th>Extent to which IFRS is permitted</th>
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</thead>
<tbody>
<tr>
<td>Algeria (People's Democratic Republic of Algeria)</td>
<td>N</td>
<td>NONE</td>
<td>NP</td>
<td>NP</td>
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<tr>
<td>Angola (Republic of Angola)</td>
<td>N</td>
<td>ECSAFA</td>
<td>NP</td>
<td>NP</td>
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<td>Benin (Republic of Benin)</td>
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<td>ABWA</td>
<td>NP</td>
<td>NP</td>
</tr>
<tr>
<td>Botswana (Republic of Botswana)</td>
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<td>ECSAFA</td>
<td>Y</td>
<td>Y</td>
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<td>Y</td>
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<td>ABWA</td>
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<td>NP</td>
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<td></td>
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<tr>
<td>Central African Republic (Central African Republic)</td>
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<td>Country</td>
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<td>Standards</td>
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<td>Financial</td>
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<td>Chad (Republic of Chad)</td>
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<tr>
<td>Comoros (Union of the Comoros)</td>
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<td></td>
</tr>
<tr>
<td>Côte d'Ivoire (Republic of Côte d'Ivoire)</td>
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<td>NP</td>
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<td>N</td>
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<td>N/A</td>
<td>Y</td>
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<tr>
<td>Ethiopia (Federal Democratic Republic of Ethiopia)</td>
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<td>Unknown</td>
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<tr>
<td>Gabon (Gabonese Republic)</td>
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<td>NONE</td>
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<td>N</td>
</tr>
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<td>Gambia (Republic of The Gambia)</td>
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<td>Y</td>
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</tr>
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<td>Country (Republic of Country)</td>
<td>Accreditation</td>
<td>IFRS Required</td>
<td>IFRS in Practice</td>
<td>Notes</td>
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<tr>
<td>-------------------------------------------------------------------</td>
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<tr>
<td>Guinea-Bissau (Republic of Guinea-Bissau)</td>
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<td>Kenya (Republic of Kenya)</td>
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<td>ECSAFA</td>
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<td>Lesotho (Kingdom of Lesotho)</td>
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<td>ECSAFA</td>
<td>Y</td>
<td></td>
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<tr>
<td>Liberia (Republic of Liberia)</td>
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<td>ABWA</td>
<td>N/A</td>
<td>N</td>
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<tr>
<td>Libya (Great Socialist People's Libyan Arab Jamahiriya)</td>
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<td>Y*</td>
<td>Y*</td>
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<tr>
<td>Madagascar (Republic of Madagascar)</td>
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<td>NONE</td>
<td>N/A</td>
<td>Y</td>
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<tr>
<td>Malawi (Republic of Malawi)</td>
<td>Y</td>
<td>ECSAFA</td>
<td>Y</td>
<td></td>
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<td>Mali (Republic of Mali)</td>
<td>N</td>
<td>ABWA</td>
<td>NP</td>
<td>NP</td>
</tr>
<tr>
<td>Mauritania (Islamic Republic of Mauritania)</td>
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</tbody>
</table>


<table>
<thead>
<tr>
<th>Country</th>
<th>Adoption</th>
<th>Reporting Framework</th>
<th>Standardisation</th>
<th>Use of IFRS</th>
<th>Other Standards</th>
</tr>
</thead>
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<tr>
<td>Mauritius (Republic of Mauritius)</td>
<td>N</td>
<td>ECSAFA</td>
<td>Y</td>
<td>Y</td>
<td>IFRS is required for some and permitted for others</td>
</tr>
<tr>
<td>Morocco (Kingdom of Morocco)</td>
<td>Y</td>
<td>NONE</td>
<td>Y</td>
<td>NP</td>
<td>IFRS is required for banks only. All other entities can choose between IFRS and local GAAP.</td>
</tr>
<tr>
<td>Mozambique (Republic of Mozambique)</td>
<td>N</td>
<td>ECSAFA</td>
<td>Y</td>
<td>Y</td>
<td>IFRS is required for banks and large unlisted companies</td>
</tr>
<tr>
<td>Namibia (Republic of Namibia)</td>
<td>Y</td>
<td>ECSAFA</td>
<td>Y</td>
<td>Y</td>
<td></td>
</tr>
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<td>ABWA</td>
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<td>NP</td>
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<td>Nigeria (Federal Republic of Nigeria)</td>
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<td>Y</td>
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<td>Republic of the Congo (Republic of the Congo)</td>
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<td>ECSAFA</td>
<td>N</td>
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<td>ABWA</td>
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<td>Somalia (Somali Republic)</td>
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<tr>
<td>South Africa (Republic of South Africa)</td>
<td>Y</td>
<td>ECSAFA</td>
<td>Y</td>
<td>Y</td>
<td>IFRS is required for international companies</td>
</tr>
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<td>Sudan (Republic of Sudan)</td>
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<td>ECSAFA</td>
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<td>Togo (Togolese Republic)</td>
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<tr>
<td>Uganda (Republic of Uganda)</td>
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<td>Y</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
4.2. Summary of data gathered

It appears from the table 4.1 that there are 21 countries of the 53 (40%) countries on the continent that are registered members of IFAC. There are 34 countries of the 53 (64%) countries that are registered with regional bodies such as ECSAFA and ABWA. Only 18 (34%) countries currently require local companies that are listed on stock exchanges (locally and otherwise) to report on an IFRS basis and only 13 (25%) countries require local unlisted companies to report on an IFRS basis.
These results translate into the majority of Africa not reporting on the IFRS basis. One of the biggest challenges in the adoption of IFRS in Africa is evidenced by the 13 (25%) countries that are currently not permitted by government and other local governance structures to use IFRS. This then means there are laws in place that prohibit any form of international financial reporting in those countries. In these countries accounting systems are based on their local generally accepted accounting practices.

For 11 (21%) of the countries assessed above, where no data could be obtained, the problem is magnified. In not being able to locate any information on a country’s accounting system one is immediately drawn to an assumption that they likely do not have a formal accounting system in place.

The results of the investigation can be converted into the following figures to illustrate the large proportion of African countries that have not yet registered with IFAC, not registered with a regional body and not adopted IFRS.

**Figure 4.1 IFAC membership**

- 40% of Africa is registered with IFAC
- 60% of Africa is not registered with IFAC
Figure 4.2 Number of countries registered with regional bodies

- 35% of African countries are registered with ECSAFA
- 25% of African countries are registered with ABWA
- 40% of African countries are not registered with a regional body

Figure 4.3 Africa’s IFRS adoption status

- 34% of African countries have adopted IFRS
- 66% of African countries have not adopted IFRS
4.3. African accounting structures statistics

The IFRS adoption statistics discussed above incorporated Africa as a whole, however it is necessary to breakdown Africa into its regional accounting components in order to further understand where the challenges with IFRS adoption are actually located on the continent.

4.3.1. Africa and its division into regional bodies

The African continent can, for accounting purposes, be broken down into smaller components otherwise known as regional bodies by the International Federation of Accountants (hereafter IFAC) (IFAC membership: 2010).

For all countries where data could be located by Deloitte Touche Tohmatsu and Pricewaterhouse Coopers, as discussed above, it has been noted that some form of an accounting profession is in existence. These accounting professions are governed by a registered accounting body in each country. The data gathered reflects that 39 of the 53 (75%) countries in Africa have registered accounting bodies. That equates to 75% of Africa having basic structures in place as a base for IFRS to be adopted.

Each accounting body falls within a regional jurisdiction. As a result of this, each accounting body has the option of registering itself as a member of a regional accounting body. Such a regional body would then be responsible for governing all the accounting bodies that fall under its mandate.

Countries which are located in the centre, east and southern parts of Africa may register with the regional body, The Eastern, Central and Southern African Federation of Accountants (ECSAFA) and countries in the west of Africa may register with The Association of Accountancy Bodies in West Africa (ABWA). Countries in the north of Africa are partnered up with countries in the Middle East to form what is known as the Middle Eastern North African (MENA) countries (Muroki et al.:2008). These countries do not have a registered regional body that they are affiliated to.
Countries that are members of ECSAFA, in alphabetical order, include: Botswana; The Democratic Republic of the Congo; Ethiopia; Kenya; Lesotho; Malawi; Mauritius; Namibia; Rwanda; South Africa; Swaziland; Tanzania; Uganda; Zambia and Zimbabwe (IFAC: 2012). Countries that are members of ABWA, in alphabetical order, include: Benin; Burkina Faso; Cameroon; Cote d'Ivoire; Gambia; Guinea; Liberia; Mali; Niger; Nigeria; Senegal; Sierra Leone and Togo (ABWA membership: 2010)

The countries who are members of ECSAFA and ABWA are illustrated in figure 4.4 on the following page.
Figure 4.4  The African continent broken down into its regional accounting bodies

<table>
<thead>
<tr>
<th>Countries that are ECSAFA members</th>
</tr>
</thead>
<tbody>
<tr>
<td>Countries that are ABWA members</td>
</tr>
<tr>
<td>Countries that are not affiliated with a regional body</td>
</tr>
</tbody>
</table>
Membership numbers for the regional bodies are summarised in the table 4.2 below:

**Table 4.2 Regional body membership**

<table>
<thead>
<tr>
<th>Description</th>
<th>Number of countries</th>
<th>Percentage of Africa</th>
</tr>
</thead>
<tbody>
<tr>
<td>ECSAFA membership countries</td>
<td>21</td>
<td>40%</td>
</tr>
<tr>
<td>ABWA membership countries</td>
<td>13</td>
<td>25%</td>
</tr>
<tr>
<td>Countries not registered with regional bodies</td>
<td>19</td>
<td>35%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>53</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

*Source: own calculation*

40% of African countries are registered with ECSAFA. Of that number 80% are currently on IFRS. ECSAFA is a registered member of IFAC which contributes greatly to the success of IFRS implementation in this region.

25% of African accounting bodies are registered with ABWA. Like ECSAFA, it would be expected that ABWA would contribute a significant number of countries, which have adopted IFRS, to Africa’s statistics. However, the current statistics of West Africa’s IFRS adoption status (15%) raises questions about the challenges faced by this particular region. ABWA is also registered with the International Federation of Accountants and therefore has direct access to all information on how to implement IFRS. The body has direct access to funds, direct access to trainers and any other resources necessary for effective adoption and implementation of IFRS; however it appears that this has been of little significance in the adoption of IFRS.

4.3.2. Africa’s current IFRS adoption status

Statistics (in the table below) currently reflect that 40% of African accounting bodies are registered individually as members of IFAC. When performing a reasonable analysis
based on the statistics below, reflecting that 40% of African countries have direct access to IFAC, you would expect that as a minimum 40% of African accounting bodies would have adopted IFRS or at least be in the process of implementing IFRS. Once again this is clearly not the case as only 28% of IFAC members in Africa have adopted IFRS.

The statistics of IFAC membership are reflected in table 4.3 below:

**Table 4.3 Africa’s membership on IFAC**

<table>
<thead>
<tr>
<th>Description</th>
<th>Number of countries</th>
<th>Percentage of Africa</th>
</tr>
</thead>
<tbody>
<tr>
<td>African countries that are IFAC members</td>
<td>21</td>
<td>40%</td>
</tr>
<tr>
<td>Countries that are not IFAC members</td>
<td>32</td>
<td>60%</td>
</tr>
</tbody>
</table>

4.4. **Conclusion on statistics**

This chapter covered in detail the current status of accounting on the African continent. It can be deduced from the statistics obtained from Deloitte Touche Tohmatsu and PWC that the majority of Africa (66%) is not reporting on an IFRS basis. This seems peculiar as 75% of countries on the continent have registered accounting bodies, indicating an active accounting profession.

It is also evident from the results that there is a lack of participation from the majority of African countries in international accounting structures as only 40% of African countries are registered with IFAC. This may have a direct impact on some of the reasons why most of Africa continues to be challenged in the adopting of IFRS.

The results also show that some regions on the continent are performing better than others in the field of accounting and in the move to reporting on IFRS. 80% of countries in the south, east and the centre of Africa have already made the move to reporting on IFRS whereas in west Africa only 15% of countries in that region are reporting on IFRS,
whilst the rest of Africa is not allocated to a recognised regional body. These statistics highlight the disparity within Africa; however with the introduction of the Pan-African Federation of Accountants (hereafter PAFA) to replace currently recognised regional bodies, this challenge may be addressed directly. As PAFA has a common objective for all African countries, i.e. to ensure all countries are reporting on IFRS (Hayes: 2011), perhaps the move to one umbrella body for the continent, may reduce the disparity from region to region, and from country to country.

Since the current status of accounting on the continent has now been reviewed, an assessment of the challenges that are possibly contributing to the low IFRS adoption statistics will have to be performed. The chapter that follows will cover in detail some of the challenges that have been identified in previous accounting research on Africa.
5. THE CHALLENGES FACED IN THE ADOPTION OF IFRS IN AFRICA

The current status of Africa, in terms of IFRS, was looked at in great depth in chapter 4. It is clear, as discussed in chapter 4, from the results obtained by Deloitte Touche Tohmatsu and Pricewaterhouse Coopers that the majority of countries on the African continent are not reporting on an IFRS basis.

This chapter will therefore discuss the challenges that are prohibiting the majority of countries in Africa from reporting on IFRS. The discussion will be focused on countries that have successfully adopted IFRS, as research was readily obtainable for those countries at the time of this paper. The research obtained included challenges faced by South Africa, Kenya and Nigeria during their process of adoption as well as the challenges faced by Sierra Leone in their local financial reporting standards before IFRS was adopted.

5.1. Challenges faced by South Africa, Kenya and Nigeria in the process of adopting IFRS.

The process of adopting IFRS has presented various challenges for many African countries. However, despite all the challenges, there are countries that have taken up the challenge and have successfully adopted IFRS. According to a report of Deloitte Touche Tohmatsu Limited (2012), there are at present 18 African countries of the 53 (34%) countries on the African continent that have successfully adopted IFRS. The countries listed are the following: Botswana, Ghana, Kenya, Libya, Lesotho, Malawi, Mauritius, Morocco, Mozambique, Namibia, Nigeria, Sierra Leone, South Africa, Swaziland, Tanzania, Uganda, Zambia and Zimbabwe.

This particular section of the paper will only focus on the challenges faced by Kenya and South Africa during their adoption process. The reason for focusing on only the challenges experienced by Kenya and South Africa is because information was readily available only on these two countries. The two countries’ experiences were discussed

At the conference in Geneva, the United Nations (hereafter UN) identified three main categories of challenges experienced by Kenya and South Africa in the IFRS adoption process i.e. institutional, enforcement and technical challenges (UNCTAD, 2008).

5.1.1 Institutional challenges

In this category, the UN identified challenges that arose as a result of introducing IFRS as part of the governance of business entities in any jurisdiction, where laws and regulations already pre-exist. These challenges were evident in the case studies of South Africa and Kenya, where introducing IFRS seemed to cause conflict between existing laws and IFRS requirements for financial reporting (UNCTAD, 2008:3). The UN used an example of formats of financial statements by stating that some company laws require specific formats for financial statements, which often times are contradictory to those in International Accounting Standard (IAS) 1 on Presentation of Financial Statements (UNCTAD, 2008:3).

The UN has also indicated in their study that “IFRS are intended to be used for the preparation of general-purpose financial statements. However as the case studies show, IFRS-based financial statements could also be required to be prepared for statutory purposes. However, while extending the use of IFRS for such purposes might appear cost-efficient, it may create misunderstanding between reporting entities and regulators, particularly in situations where the regulator for a given sector has specific financial reporting requirements that differ from IFRS” (UNCTAD, 2008:4).

5.1.2 Enforcement challenges

Institutional challenges will often create further enforcement issues. A great challenge faced by Africa is not so much an inability to adopt IFRS, but rather the inability to
enforce the adoption of IFRS, which will result in higher quality financial reporting. The issue around enforcement of IFRS is echoed by Simon Ridley (2011), Group Financial Director of Standard Bank Group when he said “The issue has been more how to ensure good quality implementation, rather than persuading the countries to adopt”. Poor quality adoption would inevitably result in further challenges post completion of the adoption process. For example: further costs would have to be incurred at a later stage to rectify any improper implementation. The only way to curtail these types of challenges is to implement it properly first time round.

A professional body of accountants has to accept responsibility for the enforcement process in the countries where IFRS is being adopted. In some countries this enforcement has been supported by securities exchange commissions, banking and insurance supervisory authorities, stock exchanges and capital markets authorities (UNCTAD, 2008: 5). The issue is not so much who will reinforce IFRS, but rather that it is enforceable and enforced.

In order to implement IFRS effectively and efficiently, those involved in the adoption process need to have a thorough understanding of the content of IFRS.

5.1.3 Technical challenges

It appears from the United Nations Conference on Trade and Development (UNCTAD) conference that Africa faces a shortage of professional accountants (technical capacity) who are adequately trained in IFRS. This was identified as a national issue faced by many countries in a Global Leadership Survey performed by the IFAC, through their member bodies (UNCTAD, 2007:4). There are barely enough professionals to ensure first-time adoption, so the constant updating of IFRS by the IASB makes it even more difficult for countries with capacity shortages to keep up to date with challenges.

It appears as though the categories of challenges discussed above are not mutually exclusive, as the presence of one category could result in the discovery of another.
Upon completion of the broad discussion of the categories of challenges at the conference, the more pertinent details of each country subsequently received attention.

The UN took the discussion further at the conference and identified and discussed, over and above the three main categories of challenges above, the challenges that face Kenya and South Africa individually. This section will focus on the challenges identified by the UN, which are unique to Kenya and South Africa.

5.1.4 Kenya

Kenya is a country located east of Africa and it was among some of the first countries on the continent of Africa to adopt IFRS. Kenya (2012) is also the largest economy in east Africa and also the regional trade hub. The challenges of adopting IFRS in Kenya were discussed at the United Nations conference and the results were as follows:

- The gap between accounting education in Kenya and the IASB’s requirements in terms of IFRS;
- The inability of accountants and professional bodies in Kenya to remain abreast of the standards (and changes thereto) as issued by the IASB; and
- The lack of representation by Kenya in the standard-setting process (UNCTAD, 2008).

The UN recognised that Kenya’s biggest challenge is to “guarantee trained persons who understand the use of International Financial Reporting Standards and International Standards on Auditing” (UNCTAD, 2008: 91). This could be achieved by synchronising that which is studied during the qualification process to become a professional accountant and standards issued by the IASB. The problem in Kenya is that the body in charge of the qualification process and the standard-setting body, The Institute of Certified Public Accountants of Kenya (hereafter ICPAK), are different bodies. This disconnect may create difficulties in ensuring that the qualification process keeps up with the application of IFRS issued by the IASB (UNCTAD, 2008: 92), therefore leading to professional accountants without the correct understanding of IFRS.
The other issue related to educational processes in Kenya is the training of their accountants. Two methods of training are followed, namely the conventional university training, as well as training through professional programmes (UNCTAD, 2008: 92). The problem once again is a lack of synchronisation of developments between the two. This reflects a clear split in responsibilities over the governance of the process of qualifying as a Certified Professional Accountant (CPA) and the governance over the profession itself.

Continued professional development of professional accountants is also a major issue in Kenya which directly translates to accountants not keeping up with developments in the profession, as proposed by ICPAK. This problem is mainly attributed to the lack of financial resources, by many of the accountants and the professional institute, ICPAK, which would enable them to update their knowledge on the latest IFRS content. The costs of material, seminars and workshops appear to be too high for qualified accountants whose employers currently do not bear the costs.

Financial issues are stretched even further as ICPAK cannot avail material, training and IFRS support to its users. The cost of making these resources available is just far too costly and ICPAK cannot subsidise every need of all its users. "ICPAK has faced challenges in accessing competent resource persons and, at the same time, ensuring that the training sessions are affordable to all" (UNCTAD, 2008: 92)

Another challenge faced by most of Africa, which Kenya is not immune to, is the lack of representation in the standard-setting process. There are not enough professional accountants and organisations who can contribute to standard setting, even by merely commenting on some of the IFRICs issued by the IFRS Interpretations committee. The result of this lack of participation is that Africa receives complete Standards that must just have to be adopted, but do not comply with local legislation and accounting requirements. “Increased participation would ensure that implementation challenges are anticipated prior to finalisation of standards” (UNCTAD, 2008: 93)
Once Kenya’s challenges had been discussed, the conference discussion moved to the challenges facing South Africa in their IFRS adoption process. In contrast to Kenya, South Africa was at the forefront of adopting IFRS in the world, not just in Africa.

5.1.5 South Africa

South Africa (2012) is located at the most southern point of the African continent. South Africa is the economic powerhouse of Africa, leading the entire continent in industrial output and mineral production and generating a large proportion of Africa's electricity. South Africa’s securities exchange is also ranked among the top 20 in the world and the banking regulations are ranked amongst the best internationally and consistently rated in the top 10 in the world.

The challenges experienced by South Africa discussed at the UNCTAD are mainly technical challenges (UNCTAD, 2008: 120) and these include:

- The realisation that the complexity around the Standards was greater than anticipated;
- The costs of implementation were very high, including an increase in staffing costs (sourcing technically competent staff);
- It was quite evident that the reasoning behind the transition to IFRS was poorly understood; and
- There was also some confusion experienced around company performance information (UNCTAD, 2008: 120).

The challenges faced by South Africa during the IFRS adoption process appear not to be significantly unique to those of Kenya. Both countries managed to overcome the challenges presented to them by the IFRS adoption process. Nigeria, a country west of Africa is the most recent African country to adopt IFRS and it too faced some challenges during its process of adopting IFRS. Research was performed on the
challenges that faced Nigeria by the Chief Executive Officer (hereafter CEO) of Deloitte Nigeria and the results are discussed in the section that follows.

5.1.6 Nigeria

Nigeria is the most recent African country to pioneer into the world of international financial reporting. As of 1 January 2012, Nigeria adopted IFRS (Ramoni, 2012). According to Ramoni, a representative of the Institute of Certified Accountants of Nigeria (hereafter ICAN), the initial adoption would apply to entities listed on the Nigerian Stock Exchange as well as other significant companies (2012). The reason for this according to the chairman of the Nigerian Accounting Standards Board (NASB), Popoola (2010), is because there is a drive towards increasing the capital base of Nigerian Banks as it is the logical thing to do. He also places emphasis on how adopting IFRS, especially for companies listed on the Nigerian Stock Exchange, will expose Nigeria to more foreign direct investment and should therefore boost the economy as a whole.

The CEO of Deloitte Nigeria, Obazee (2009:11-14) has drafted a list of challenges that faced Nigeria ahead of their IFRS adoption. The practical challenges that face Nigeria include those listed below:

- The transition plan from GAAP to IFRS needs to be effectively coordinated and communicated;
- There may be a lack of coherence between existing laws and IFRS at entity level and country level;
- The scope of application of IFRS may not be clear. The issue is whether IFRS is applicable at entity level or consolidation level;
- The state of readiness of relevant professional organisations in terms of resources needed to ensure competent and continuous support post implementation may be doubtful;
- Peer review programs from auditors would be necessary (as a useful oversight mechanism) but may not be in place;
- There is an absence of accounting firms that can identify financial reporting issues and provide clarification to avoid inconsistencies;
- There is a lack of representation on the IASB.
- No contribution is made to the drafting of Standards (there are no firms that contribute to IFRIC commentary);
- A lack of coordination exists between accounting education institutions and professional qualification and regulation requirements;
- A shortage of expertise in the field of IFRS may exist and therefore a lack of technical capacity is experienced;
- Clarification may be needed when applying IFRS due to country specific issues;
- Discrepancies between IFRS introduced at international level and those adopted at national level may exist;
- Some International Financial Reporting Standards may be too complex;
- The extent of preparedness of enforcement authorities to facilitate implementation may be not sufficient for implementation;
- There may be a lack of economic resources required for implementation; and
- The lack of coherence in the regulatory system will cause inconsistencies in the implementation of IFRS.

Once again, the challenges that face Nigeria are not unique to that country. The challenges are similar to those faced by Kenya and South Africa and are assumed to be similar for other countries planning to adopt IFRS. The early identification of challenges may contribute to a smooth adoption process.

Another country whose challenges were identified was Sierra Leone. Before converting to IFRS, an assessment of its local financial reporting standards was performed by the World Bank. The assessment that was performed, the assessments objectives and the results obtained is discussed next.
5.2. Challenges faced by Sierra Leone in their local financial reporting standards before adopting IFRS

Sierra Leone is a country situated in West Africa. The World Bank compiled a report on the observance of standards and codes (hereafter ROSC) in Sierra Leone in 2006 (2006:1). The purpose of the report was to assist the appropriate authorities in the country to develop a country action plan “geared toward strengthening the corporate financial reporting regime in Sierra Leone through building capacities of relevant players” (2006: 1).

When the World Bank compiled the report on the observance of standards and codes in 2006 it reflected that although Sierra Leone was registered with ABWA (ABWA membership: 2012) there was no mandate for it to adopt IFRS, with the exception of banks and similar financial institutions.

Part of the ROSC was to identify existing challenges which were hindering the effective application of accounting systems that are in line with international best practice. Below is an extract of challenges identified from the ROSC:

- The Companies Act of Sierra Leone (Cap 249) sets primary requirements for financial reporting of all companies incorporated in Sierra Leone without indicating any specific standards to follow (2008:6);
- The Bank of Sierra Leone regulates financial reporting by banks and non-banking financial institutions and mandates application of IFRS (formats prescribed by the Bank are not fully in line with IFRS) (2008:7);
- General purpose financial statements are often influenced by taxation rules and regulations. (This results in selective application of local accounting regulations. Preparers often deviate from applicable financial reporting standards, preferring to follow the taxation laws and regulations) (2008:7);
- Lack of enforcement of accounting requirements by the Institute of Chartered Accountants of Sierra Leone (hereafter ICASL) and the Bank of Sierra Leone due to low capacity (2008:12);
• Slow legal processes discourage regulators from taking legal recourse in enforcing compliance with financial reporting requirements (2008:12);

• The Cap 249 outlines obligations of company directors with regard to the preparation of annual financial statements but does not include provisions on auditors’ duties and responsibilities (2008:6);

• Cap 249 permits external auditors to attend general meetings and be available for shareholders’ questions. (In practice the auditors don’t attend, resulting in shareholders not having the opportunity to seek clarification on issues of concern) (2008:7);

• Except for large entities, the corporate sector in general does not have access to professionally qualified accountants (2008:9);

• The ICASL which regulates the accounting profession lacks adequate technical resources and is dependent on volunteer members. The Institute therefore finds it difficult to implement ethical standards and enforce discipline with volunteers (2008:10);

• Continuous Professional Development (hereafter CPD) is mandatory but not monitored. CPD refers to regular technical training of members of ICASL in order to keep up with any developments in the profession (2008:11);

• Professionals lack access to current literature on the applicable accounting standards. (There is no time or money) (2008:11);

• Academic education does not focus on IFRS (Material used focuses on general book keeping practices) (2008:11);

• The quality of audited financial statements is a concern to investors and other users of financial statements. There is a widespread view that low-level skills among accounting professionals and the lack of enforcement mechanisms contribute to non-compliance with established accounting requirements and auditing standards (2008:17); and

• The financial statements of companies are not readily available due to perception that they are confidential (2008:18).
The challenges faced by Sierra Leone in their local accounting standards appear to be collective challenges around enforcement, institutional and technical issues. These challenges echo on those challenges faced Kenya, South Africa and Nigeria with their respective IFRS adoption processes.

This chapter has thus far discussed challenges faced by four of the fifty three African countries. It appears from this discussion that the challenges are quite similar for the four countries that have been discussed. The findings could assist in gaining a better understanding of the challenges that may be prohibiting the majority of African countries from reporting on an IFRS basis.

At an IFRS conference held in Cape Town, South Africa during 2010, the financial reporting challenges that are facing the African continent as a whole were discussed.

5.3. Challenges in Africa as a collective unit

The first ever African IFRS conference was held in Cape Town in November 2010. Topics discussed at the conference included the challenges faced by Africa as a whole in financial reporting and the impact on investor confidence.

This subsection will focus on the challenges discussed at the conference that are unique to Africa as a collective unit. From this subsection one may conclude that challenges experienced in one African country probably apply across the geographical borders on the continent.

Challenges of adopting IFRS presented by Venkat (2010) at the conference are as follows:

- The benefits of adopting IFRS are not fully known and understood;
- There is limited external incentive to encourage countries to adopt IFRS on the continent;
- Diverse (and selective) methods of adopting IFRS exist. This therefore creates inconsistencies across companies;
• A natural tendency to fear the unknown exists and to resist change by retreating to present comfort zones;
• Increased time and costs for maintaining multiple sets of books make IFRS adoption and maintenance expensive;
• Many countries in Africa have multiple official languages. Business language is often not the first language. This could result in pertinent information being lost in translation; and
• IFRS roll out to all sites is time consuming and could be potentially tedious.

Japheth Katto (2010) also presented on the challenges facing Africa. The following are among some of the challenges he listed as prevalent in the accounting profession:

• There is a lack of professional accountants;
• There is a lack of awareness of the value of an audit; and
• Professional accountancy organisations and stock exchanges do not exist in all African countries to promote financial reporting.

Katto (2010) also highlighted the link between financial reporting and Africa’s capital markets. He placed emphasis on the fact that the capital investors require high quality financial reports, with understandable, relevant and adequate information in order to make viable decisions.

The challenges that were discussed at the IFRS conference as facing Africa, as a collective unit, appear to again echo the challenges identified for Kenya, South Africa, Nigeria and Sierra Leone. However, Kenya, South Africa, Nigeria and Sierra Leone all faced similar changes but have all subsequently adopted IFRS successfully.

5.4. Conclusion

The challenges experienced by the different African countries discussed above can be collectively summarised as follows:
Laws and regulations of individual countries contribute to the decision of whether IFRS will be adopted or not. The reasons for this is that once a decision is taken to adopt IFRS by accounting authorities of each country, statutory enforcement appears to be necessary in implementing enforcement of accounting regulations. This coherence between accounting authorities and (government / regulatory bodies) appears to be a challenge in Africa. There also appears to be no coherence between the local standard setting bodies and institutions that are responsible for the qualification of accountants. This creates inconsistencies in the regulatory requirements of the profession. The lack of coherence between these institutions may result in a loss of effective communication and coordination and this may in turn lead to inconsistencies in the implementation of any decisions taken and of IFRS.

Another great challenge that may be prohibiting the adoption of IFRS is the poor representation of Africa on international accounting regulatory bodies, for example: representation on the IFAC and the IASB. This poor representation may result in Africa not contributing to relevant decisions being made about the profession internationally, as well as being excluded from the standard-setting process. It may also mean that Africa is not well positioned to receive adequate information around international developments of the profession. Other challenges presented by poor representation on international accounting regulatory bodies include possible misunderstanding and misinterpretation of the standards produced by the IASB. Interpretation may not be as intended therefore creating possible inconsistencies when implementing the standards. The costs involved in sourcing technical experts before embarking in implementation of IFRS may also be exorbitant, therefore eliminating that as an option.

The sourcing of technical expertise and maintenance of existing technical expertise also presents itself as a challenge as it appears that the accounting bodies in individual countries have insufficient funds to be able to provide training material, seminars and workshops to all their members. They also do not have the finances or technical capacity to monitor the CPD of their members.

The challenges discussed in this chapter were from research that was readily available at the time of this paper. The chapter that follows will be based on the questionnaire that
was sent out to accounting bodies in Africa, enquiring of which challenges are prohibiting the adoption of IFRS in their respective countries. The same challenges were also used to compile the interview questions for the interviews with the Chief Executive Officers of Pan-Federation of Accountants and Pricewaterhouse Coopers and a board member of the IASB.
6. THE EMPIRICAL STUDY

6.1. Introduction

The purpose of the study is to discuss the challenges hindering the adoption of IFRS in the majority of African countries.

Chapter 2 of this study provided an overview of the current international accounting structures and practices. The overview also includes a brief discussion of how Africa features in the international accounting profession. The current IFRS adoption statistics for the world and for Africa are briefly introduced and this forms the basis of the research problem.

Chapters 2-5 comprise the results of the literature review. The literature review includes research on the benefits of adopting IFRS; governance structures in the accounting profession (globally and in Africa); the challenges and lessons learnt by Kenya, Nigeria and South Africa in their IFRS adoption processes; an assessment by the World Bank of Sierra Leone's local accounting practices in relation to IFRS; and a full discussion on the current IFRS adoption status of the world as well as Africa. This literature review forms the basis for the issues to be tested through the empirical study.

The methodology followed for the empirical study comprises of a questionnaire that was sent out to all the professional accounting bodies in Africa that are registered with PAFA; an interview with the CEO's of PAFA and Pricewaterhouse Coopers South Africa and an interview with a board member of the IASB.

This chapter will discuss the approach followed in the empirical study as well as the findings of the empirical study.
6.2. Selection of a population to distribute the questionnaire to

The population that has been selected for this study is all the professional accounting bodies in Africa that are registered with PAFA. The reasons for this particular selection are as follows:

i. Professional accounting bodies form part of the accounting governance structures in any country and they provide guidance on the accounting practices to be followed by their members / entities within their jurisdiction. A technical representative of each accounting body selected was asked to complete the questionnaire.

ii. These professional accounting bodies are easily accessible via PAFA as contact information exists for them. Countries being members of PAFA is an indication that they are involved in accounting matters on the continent and could possibly contribute positively to this study.

6.3. Identification of persons to perform interviews with

Interviews had to be performed as a result of the low response rate obtained with the questionnaire. All the information that was not gathered through the questionnaire would need to be obtained through these interviews. The persons to be interviewed would provide sufficient and relevant information on the challenges hindering the adoption of IFRS in the majority of African countries.

The persons identified as the most appropriate to interview were as follows:

i. Vickson Ncube (CEO of PAFA) – The ECSAFA IFRS adoption rate was 80% under his leadership. Having achieved success while leading ECSAFA, he could provide valuable information on challenges experienced during the adoption of IFRS in the ECSAFA region. He would also be able to provide insight on whether these challenges are common among the majority of African countries. This information would be drawn from his experience in his new role as CEO of PAFA.
ii. Suresh Kana (CEO of PWC South Africa and Africa) – Audit firms are very involved in the implementation phase of the IFRS adoption process. Mr Kana, being an executive head of a firm that penetrates into most African countries, would be able to provide relevant and practical experience on the challenges, related to IFRS, that most businesses on the African continent are facing.

iii. Darren Scott (Board Member of the IASB; Africa representative) – As IASB is the standard-setting body; they (through Mr. Scott) could provide insight, based on practical experiences and knowledge, on why Africa’s IFRS adoption rate is so low compared to the rest of the world.

6.4. The Methodology applied in the empirical study

6.4.1. The questionnaire design

A questionnaire was selected as the manner of testing as factual data needed to be obtained. The questions contained in the questionnaire are primarily closed questions to avoid any form of subjectivity. However, space has been provided at the end of the questionnaire for any other information that the technical representative deemed important for the study to be included.

The questions in questionnaire were mainly based on the challenges identified in the literature review discussed in Chapters 2 to 5. The questionnaire was designed to ensure that participants could complete the questions efficiently. All the questions also provided the participants completing the questionnaire with the opportunity to comment or provide additional challenges where he/she desired. The questionnaire had to be completed manually and returned via facsimile or email through pre-testing. It was also determined that it would take an average of ten minutes to complete the questionnaire.

The respondents were not required to reveal their identities and as a result would remain anonymous for the purposes of this study.
6.4.2. Limitations

As stated above the questionnaire was only distributed to professional accounting bodies that are members of PAFA. This automatically excludes countries where accounting bodies either do not exist or do exist and are not members of PAFA.

6.4.3. The questionnaire

The questionnaires were sent electronically to the relevant parties under a covering message from the research study supervisor. Follow-up reminders were done after 10 days to all parties that had not yet responded.

The questionnaire was structured as follows:

- Question 1 aims to determine if IFRS is permitted in the jurisdiction within which the professional accounting body operates.
- Questions 2 to 6 aim to establish to what extent the country is affected by the posed categories of challenges.

The questions that followed identified the significant challenges within each broad category noted in questions 2 to 6. The details of these challenges were obtained from the literature review (in chapters 2 to 5). The professional body representatives were required to state whether they agree with the challenges identified in the literature review and to what extent. Space was also provided at the end of the questionnaire if the representatives were able to identify any further challenges.

- Questions 7 and 8 focus purely on financial constraints and they aim to establish to what extent finances contribute to making IFRS adoption a challenge.
- Questions 9 to 13 focus on educational constraints with the objective to establish to what extent education contributes to making IFRS adoption a challenge.
• Questions 14 to 19 focus on technical constraints and try to establish to what extent technicalities contribute to making IFRS adoption a challenge.
• Questions 20 to 22 focus on institutional constraints and aim to establish to what extent governance structures contribute to making IFRS adoption a challenge.
• Questions 23 to 27 focus on enforcement constraints and they are intended to establish to what extent enforcement or lack thereof contributes to making IFRS adoption a challenge.
• The general commentary section was aimed at identifying any other challenges, faced by the countries that have not yet adopted IFRS, which might not have been identified in the literature review.

6.4.4. The interview design

The 3 interviews conducted were unstructured interviews with a flexible structure. The questions posed to the respondents were primarily based on the questionnaire discussed above. The unstructured format of the interviews allowed deviation from the questions in the questionnaire and provided adequate room for more questions to be asked in the context of the discussion. The main objective of the interviews was to establish what challenges are hindering the adoption of IFRS on the majority of African countries, and this was kept in mind at all times during all the interviews.

The interviews were in-depth interviews as they took on the form of a face-to-face encounter between the researcher and the respondent/informant and the interviews sought to understand the perspective of the respondent/informant. The rapport established over the face-to-face encounter lead to an understanding between the participants resulting in in-depth and accurate information. In order to maintain the independence of each of the respondents, the interviews were conducted in separate seatings.
6.5. Results of the empirical study

6.5.1. Questionnaire response rate

Thirty five questionnaires were sent out as there are 35 professional accounting bodies that are members of PAFA. Only 4 responses were received from the 35 questionnaires sent out.

The response rate for the questionnaire is depicted in the table below.

Table 6.1 The questionnaire response rate

<table>
<thead>
<tr>
<th></th>
<th>Number of countries</th>
<th>% of population</th>
</tr>
</thead>
<tbody>
<tr>
<td>Responses received</td>
<td>4</td>
<td>11%</td>
</tr>
<tr>
<td>No responses</td>
<td>31</td>
<td>89%</td>
</tr>
<tr>
<td>Total questionnaire sent out</td>
<td>35</td>
<td>100%</td>
</tr>
</tbody>
</table>

6.5.2. Research findings

The findings of each question of the questionnaire will be explained and discussed below:

Table 6.2 Permissibility of IFRS in jurisdictions within which professional accounting bodies operate

<table>
<thead>
<tr>
<th></th>
<th>Number of countries</th>
<th>% of population</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Do your country’s governance structures permit the use of IFRS? YES/NO</td>
<td>4</td>
<td>0</td>
</tr>
</tbody>
</table>

Table 6.3 High-level overview of challenges hindering the adoption of IFRS
These questions provide a high level overview of the challenges hindering the adoption of IFRS in Africa (questions 2-6).

<table>
<thead>
<tr>
<th>Factor</th>
<th>No extent</th>
<th>Low extent</th>
<th>Moderate extent</th>
<th>Large extent</th>
</tr>
</thead>
<tbody>
<tr>
<td>2. Financial Constraints</td>
<td>0</td>
<td>0</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>3. Educational Constraints</td>
<td>0</td>
<td>0</td>
<td>3</td>
<td>1</td>
</tr>
<tr>
<td>4. Technical Constraints</td>
<td>0</td>
<td>0</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>5. Institutional Constraints</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>6. Enforcement Constraints</td>
<td>0</td>
<td>2</td>
<td>1</td>
<td>1</td>
</tr>
</tbody>
</table>

Based on the responses received from the 4 respondents, it appears that there is a general consensus on the challenges hindering the adoption of IFRS in Africa. According to the results above, all 4 respondents seem to agree that finances, education and technical constraints are major challenges. The respondents all gave a different perspective on the impact of institutions (laws and regulations) on the adoption of IFRS in Africa. Half the respondents are of the opinion that enforcing IFRS should not be a challenge whereas the other half believes that enforcement of IFRS is in fact a challenge.

Each of the above discussed constraints is further expanded to more detailed challenges that can be identified.

**Table 6.4 Financial constraints**
These questions are to establish to what extent finances contribute to making IFRS adoption a challenge (question 7-8).

<table>
<thead>
<tr>
<th>Factor</th>
<th>Number of countries</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Scale</td>
</tr>
<tr>
<td></td>
<td>Strongly disagree</td>
</tr>
<tr>
<td>7. There is a serious lack of financial resources.</td>
<td>0</td>
</tr>
<tr>
<td>8. The lack of financial resources impacts directly on educational,</td>
<td>0</td>
</tr>
<tr>
<td>technical, institutional and enforcement constraints.</td>
<td></td>
</tr>
</tbody>
</table>

It can be deduced from the above that the majority of the respondents are of the opinion that there is a lack of financial resources and all the respondents appear to be in agreement that the lack of financial resources directly impacts on all other challenges identified in this study.

**Table 6.5 Educational constraints**

These questions are to establish to what extent education contributes to making IFRS adoption a challenge (questions 9-13).

<table>
<thead>
<tr>
<th>Factor</th>
<th>Number of countries</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Scale</td>
</tr>
<tr>
<td></td>
<td>Strongly disagree</td>
</tr>
<tr>
<td>9. There is a shortage of educational institutions.</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>10. There is a lack of adequately trained professional accountants.</td>
<td>1</td>
</tr>
<tr>
<td>11. There is a lack of people qualified to provide training in the profession/workplace.</td>
<td>0</td>
</tr>
<tr>
<td>12. There is a lack of coherence between educational programs and professional programs.</td>
<td>0</td>
</tr>
<tr>
<td>13. There is limited access to training material, seminars and workshops for working professionals, also known as continuing professional development (CPD).</td>
<td>0</td>
</tr>
</tbody>
</table>

From the results, it appears that there are an adequate number of educational institutions, although one respondent seems to be of the notion that there are not enough. This inadequacy appears to have impacted on the low numbers of professional accountants.

Other challenge that the respondents don’t appear to agree on is the provision of CPD along with the necessary training materials needed in order for such training to take place. Half the respondents identify these two issues as challenges and the other half don’t seem to agree that training poses a challenge to the adoption of IFRS.

The results also seem to reflect a lack of coherence between training provided by the educational institutions and professional training programs. It appears that material taught at educational institutions does not complement what the graduates will be taught once they are out in practice and vice versa. This may have adverse effects on
the knowledge and competency of those going through the qualification process to become accountants.

Table 6.6 Technical constraints

These questions are to establish to what extent technicalities contribute to making IFRS adoption a challenge (question 14-19).

<table>
<thead>
<tr>
<th>Factor</th>
<th>Number of countries</th>
<th>Scale</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Strongly disagree</td>
<td>Disagree</td>
</tr>
<tr>
<td>14. There is a lack of coherence between the qualification bodies and standard setting bodies.</td>
<td>0</td>
<td>2</td>
</tr>
<tr>
<td>15. There is a lack of adequate communication about developments in accounting.</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>16. There is a lack of representation on the IASB.</td>
<td>0</td>
<td>2</td>
</tr>
<tr>
<td>17. There is a lack of representation within the standard setting process e.g. commentary on exposure drafts.</td>
<td>0</td>
<td>2</td>
</tr>
<tr>
<td>18. There is a lack of understanding of IFRS requirements and the reasons / benefits behind the requirements</td>
<td>1</td>
<td>2</td>
</tr>
</tbody>
</table>
There is an atmosphere of selective adoption of IFRS, therefore creating inconsistencies in the level of adoption.

From the results above, it appears as though technical constraints are not a major challenge. For each constraint listed above, most of the respondents appear to disagree that any of them are challenges. However, half the respondents see potential challenges in areas such as coherence between local qualification bodies and the IASB, as well as representation on the IASB is lacking, therefore resulting in a minimal (if any) participation in the standard-setting process.

Table 6.7 Institutional constraints

These questions are to establish to what extent governance structures contribute to making IFRS adoption a challenge (questions 20-22).

<table>
<thead>
<tr>
<th>Factor</th>
<th>Number of countries</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Strongly disagree</td>
</tr>
<tr>
<td></td>
<td>Scale</td>
</tr>
<tr>
<td>20. There is a lack of coherence between existing local laws and IFRS.</td>
<td>1</td>
</tr>
<tr>
<td>21. There is a lack of readiness by professional organisations and entities for IFRS implementation.</td>
<td>1</td>
</tr>
</tbody>
</table>
There is a lack of coherence in the regulatory system of the country (i.e. between government and other regulatory structures).

Depending on what country under observation, it appears from the results that there may be no coherence between IFRS and existing local legislation. Although, half the respondents are of the opinion that the bigger issue is that there is no coherence within local legislation as it currently stands, therefore placing doubt on whether the respective countries are in fact ready to adopt IFRS at all. The other half of the respondents, do not agree with this perspective.

### Table 6.8 Enforcement constraints

These questions are to establish to what extent enforcement or lack thereof contributes to making IFRS adoption a challenge (questions 23-27).

<table>
<thead>
<tr>
<th>Factor</th>
<th>Number of countries</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Scale</td>
</tr>
<tr>
<td></td>
<td>Strongly disagree</td>
</tr>
</tbody>
</table>

| 23. IFRS is complex and therefore too difficult to enforce. | 0 | 0 | 4 | 0 |
| 24. Implementation costs are too high. | 0 | 0 | 4 | 0 |
| 25. Lack of adequate technical resources makes enforcement difficult. | 0 | 0 | 4 | 0 |
Continuous professional development (CPD) is not well monitored.

Absence of involvement of regulatory bodies (including auditors) makes enforcement difficult.

The respondents all alerted to the fact that IFRS is too complex and difficult to understand. They also noted that adopting IFRS would be a very expensive exercise, and adding to this the lack of adequate technical resources, enforcement of IFRS would be onerous. Technical resources that may be provided by regulatory bodies (including auditors) may or may not make a difference, as the respondents differ in opinion on this issue. Continuous professional development is well monitored according to half the respondents and the other half don’t agree.

Additional comments from respondents on the challenges hindering the adoption of IFRS:

One of the respondents is of the opinion that more auditors and lecturers need to be trained in IFRS in order that the knowledge may be passed on to those who need it. They are also of the opinion that IFRS training needs to be incorporated into university curriculum to enable early learning.

Another respondent noted that in their country IFRS has been adopted in tiers. A three tier approach was followed where public interest entities would be the only ones to adopt full IFRS; economically significant entities would only adopt IFRS for SME’s and micro and small entities would adopt Micro generally accepted accounting practices. This tiered approach to adopting IFRS made it more possible to adopt.
6.5.3. Interview findings

The findings of each of the interviews will be explained and discussed below. The following abbreviations are used for each respondent:

- Vickson Ncube: VN
- Darren Scott: DN
- Suresh Kana: SK

Table 6.9 Dominant challenges

The first question posed to the respondents aimed to establish their independent opinion of what challenges are hindering the adoption of IFRS in Africa.

| Question: |
| In your opinion, what challenges appear to be the most dominant challenges standing in the way of Africa keeping up with global accounting developments? |

| Responses: |

**VN:**
He is of the opinion that there are perceptions about Africa that aren't necessarily founded on truth. The problems with adoption and implementation of IFRS are not isolated to Africa; all other countries in the world have faced similar challenges. He highlighted the following as an example: low response rates to the IASB draft papers issued for comment by Africa, may lead to perceptions that Africa lacks the relevant technical skills, therefore resulting in Africans not commenting. However this is not necessarily the case.

**DS:**
His outlook on Africa’s challenges in terms of keeping up with global accounting developments is that IFRS is too complex and sophisticated for Africa’s economy. IFRS is appropriate for listed companies. There aren’t many stock exchanges in Africa; therefore resulting in most companies in Africa not being listed. The relevance of IFRS in the African context then becomes
questionable.

**SK:**
He is of the opinion that technical capacity plays a big role in keeping up with global developments and Africa doesn’t currently have the resources to cope.

There appears to be a general consensus that there definitely are challenges hindering the adoption IFRS in Africa. Some challenges are generic to most countries that would adopt IFRS and others appear to be challenges facing Africa specifically. The challenges are explored further below.

The questions that follow focus purely on the challenges identified in the literature review (in chapters 2-5):

**Table 6.10 Financial constraints**

<table>
<thead>
<tr>
<th>Question: Are financial resources a challenge in the process of adopting IFRS, and why?</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Responses:</strong></td>
</tr>
<tr>
<td><strong>VN:</strong></td>
</tr>
<tr>
<td>Finances cannot be seen as a constraint. Africa will have to work within its means to achieve its goals. Therefore finances cannot necessarily be viewed as a constraint in the decision on whether to adopt IFRS or not.</td>
</tr>
<tr>
<td><strong>DS:</strong></td>
</tr>
<tr>
<td>IFRS adoption is costly. The IASB is aware of this and as part of the strategy to promote IFRS in Africa they have made IFRS for SME’s available at no cost.</td>
</tr>
<tr>
<td><strong>SK:</strong></td>
</tr>
<tr>
<td>Since Africa has a shortage of technical capacity; the skills needed to implement IFRS would need to be sourced externally. This results in financial pressures for many countries in Africa that are keen to adopt IFRS.</td>
</tr>
</tbody>
</table>
It can be deducted from the responses that Africa does have financial constraints. These constraints in adopting IFRS come about as a result of finances being needed for other matters that are more pertinent on the continent. Finances seem to play a crucial role in adoption of IFRS, as it will be needed to purchase the necessary material and to source the necessary skills. However, PAFA has a positive outlook on the matter stating that Africa will have to work within its means to accomplish its goals in terms of financial reporting.

Table 6.11 Educational constraints

<table>
<thead>
<tr>
<th>Question:</th>
<th>Do you agree that there is a lack of professional accountants on the continent? If so, what can this be attributed to?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Responses:</td>
<td></td>
</tr>
<tr>
<td>VN:</td>
<td>There is a shortage of professional accountants in Africa. However this comes as a result of the qualification systems having not been revised to accommodate the needs of Africa post colonialism. The problem will remain until this is addressed. It has also been noted that in some cases, countries have enough accountants and the industries are not developed enough to absorb all of them, whereas in other countries there is definitely a capacity constraint. Another issue creating problems is the ranking of professions on the continent, where some accountants are perceived to be of a better quality than others e.g. CA vs. ACCA. This perception needs to be overcome so Africa can work towards a common goal.</td>
</tr>
<tr>
<td>DS:</td>
<td>The qualification programs for accountants in Africa have created scarce resources on the</td>
</tr>
</tbody>
</table>
The perception that everybody has to be a chartered accountant needs to be addressed, as this is not the case.

The skills needed for an African economy are at a lower level than those of a chartered accountant. As highlighted above, the IFRS most suited to Africa is IFRS for SME’s. An individual with a high school certificate and about two years of training will have the necessary skills and expertise needed in an economy like Africa. However this has not been brought to light. (The IASB has already put in place such training programs, for example: Train-the-trainer). It however remains the responsibility of the professional accounting bodies in each country to respond to the needs of their individual countries and the continent.

The accounting profession is also very new to many on the continent. Over time it will develop.

**SK:**
The low numbers of accountants on the continent contributes largely to the skills shortage in accounting. However, it is a problem that cannot be resolved in the short term.

Those individuals who are privileged enough to leave their countries to study overseas, either never return home or those that do return, quickly realise that the environment in their countries don’t allow for infiltration of new knowledge. It is difficult for one person to make an impact.

Education appears to account for significant part of the reason why Africa is struggling with adopting IFRS. Each of the respondents has highlighted the current lack of professional accountants on the continent, caused by different qualifications within the accounting profession. The lack of professionals unfortunately seems to link directly with the technical capacity needed to adopt IFRS and therefore needs to be addressed. The qualification levels in Africa also don’t seem to be aligned with the needs of Africa’s economy. The economy is emerging and the accounting qualifications need to respond to this.
Table 6.12 Technical constraints

| Question: | If there is a lack of qualified accounting professionals, how well are technical accounting requirements then understood? |
| Responses: | |
| VN: | Where the skills are available they are utilised. The accounting bodies are responsible for complete oversight of accounting in their respective countries and PAFA is working towards making sure every country has a professional accounting body so IFRS adoption can be achieved. |
| DS: | Accounting as a profession is new to most in Africa resulting in low levels of technical knowledge although it is growing rapidly as economies emerge. IFRS is complex and tough for most to understand and interpret. IFRS for SME’s, a simplified version that has removed all the complexities applicable to listed entities, is the solution for Africa. |
| SK: | IFRS is new to most people in Africa and as a result knowledge levels are still low. There are not enough professionals who are well versed in IFRS. South Africa is slightly exempt in this regard as they had already adopted IASs before IFRS was promulgated. The transition for South Africa to IFRS was not as drastic as what it is for many other countries in Africa who continue to use local reporting systems. The low level of technical knowledge has also resulted in the selective adoption of IFRS. Lack of previous exposure to IASs would possibly result in incorrect interpretation of IFRS. This now then requires consultants who know IFRS to come in and interpret the given standards, resulting in further financial constraints. The other problem with consultants is that there are not enough consultancies to provide the technical knowledge for all of Africa. In some instances, its not that standards are misunderstood, it’s that they are not applicable in Africa, making any form |
of application difficult. For example: using fair value as a measurement model, active markets don’t exist for some countries in Africa. Applying the measurement model becomes virtually impossible under such circumstances.

A theme in the responses seems to be the colonial history of the continent, which has resulted in the current low levels of technical capacity. Nevertheless, all the respondents seem positive about the way forward for the continent as they have all set up interventions to tackle the current constraints.

Table 6.13 Institutional constraints

| Question: | Are politics / laws standing in the way of IFRS adoption on the African continent? |
| Responses: |
| **VN:** | Not at all. Accountants need to drive the move to IFRS and that’s why PAFA now exists. Politicians are not particularly well versed in accounting and IFRS, however accountants are and can therefore drive the transition. Although in certain countries in Africa, politicians are directly involved in accounting practices as they hold the mandate to appoint the Chief Executive Officers of professional accounting bodies. The best way is to work together with government and not to avoid them in order to get things done. |
| Francophone Africa uses standards promulgated by the Organisation for the Harmonisation of Business Law in Africa (hereafter OHADA) and Maghreb (Arab) regions have accounting practices different from the rest of Africa due a political past. That needs to be overcome and as a result PAFA initiated the signing of a resolution in Tunisia (North African country) where all African countries present committed to transitioning to IFRS. This resolution was signed during May of 2012. |
| **DS:** | Regulations do not stand in the way of adopting IFRS, however priorities in Africa are different. |
African governments have priorities that are not accounting, for example, tackling poverty. As a result, their interest and participation in accounting is limited.

The IASB has noted this and shifted focus to those countries who need international funding, i.e. those who need financial statements that will be understood by international investors. The governments fund public entities and therefore hold decision-making powers, however the smaller entities need to fend for themselves and reporting on IFRS will assist in this regard.

SK:
Historical trade blocks between countries in Africa account for the current situation that doesn't allow for easy transition to IFRS. For example, none of the countries in Francophone Africa (OHADA) has adopted IFRS. The adoption involves political involvement. The other problem is also that some of these countries are subsidiaries of countries in France. The transition to IFRS cannot happen without the involvement of the holding companies in Africa, who use French promulgated accounting standards.

All parties appear to agree that governments and other regulatory bodies do not stand in the way of IFRS adoption. They may have other priorities; however they do not discourage the involvement in international accounting practices. The leadership for transition to IFRS therefore seems to lie with professional accounting bodies, led by PAFA.

Table 6.14 Enforcement challenges

| Question: | The opportunity to adopt IFRS exists for all countries on the continent. Who should be pioneering the task of adopting? |
| Responses: | |
If all are involved, enforcement cannot be a challenge. PAFA is liaising with all the necessary parties to ensure all countries in Africa adopt IFRS. As mentioned before, PAFA passed a resolution whereby African countries would adopt IFRS and IFRS for SME’s.

As IFRS for SME’s is suggested for Africa, enforcement shouldn’t be a challenge. IFRS would be applicable to smaller entities in all African countries. The IASB is also working on a long-term plan with the World Bank to implement IFRS in governments and public entities. It will take time, however it will happen as creating Africa specific standards would defeat the reason for a single set of global accounting standards.

Implementation is happening in Africa so there is movement. However, creating an Africa specific IFRS to avoid the challenges is not the way to go. It would defeat the purpose of what the IASB is trying to achieve to IFRS.

The respondents don’t seem to think enforcement of IFRS on the continent would be a challenge.

The question that follows was directed at PAFA only, because it was formed very recently and holds the mandate to drive Africa towards a common goal of adopting IFRS.
Table 6.15 International representation

<table>
<thead>
<tr>
<th>Question:</th>
<th>Do you think the current representation is sufficient or does Africa need more international representation?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Responses:</td>
<td></td>
</tr>
</tbody>
</table>

**VN:**
Africa has representation but it needs effective representation. This can be achieved by putting our countries’ best resources forward. This is not necessarily strength in numbers but rather the best skills. If technical skills are needed, then individuals best skilled technically (e.g. through qualifications) are the ones to best represent Africa, if political/negotiation skills are needed, then the individuals who best demonstrate those skills must be put forward.

PAFA has united Africa’s accounting goals and targets and represents every country on the continent.

Africa does have representation in international accounting structures; therefore that is not a constraint. The bigger challenge is rather how effective the representation is and that particular areas need to be addressed.

### 6.6. Summary of findings and conclusion

This chapter explained the methodology followed in the empirical study and the analysis and discussion of the results.

The questionnaire response rate was low (only 4 responses were received from the 35 questionnaires distributed). The responses from the 4 respondents were then consolidated and reviewed. In order to substantiate the low response rate, interviews were conducted with important figures in the accounting profession in Africa and internationally. The results of the interviews were also considered in light of the questionnaire results.
The findings of the empirical study indicated that there are various challenges that continue to hinder the adoption of IFRS in Africa. It is clear that all the respondents agree that finances play a big role in the current status of IFRS adoption in the majority of countries in Africa, although the Chief Executive Officer of PAFA was of the opinion that Africa would have to work within its financial means. Financial constraints also seem to play a negative role in education and technical capacity. The respondents have identified a skills shortage in the accounting profession on the continent. This shortage appears to be attributed mainly to a lack of coherence between educational and professional programmes. The lack of qualified accountants also translates into a shortage of technical knowledge to allow sufficient skills transfer. Although there are educational constraints the respondents don’t seem to consider the relationship between Africa and the IASB strained. Based on the results, the transfer of knowledge between Africa and the IASB doesn’t appear to be as big a challenge as the others. Although, international relations are not strained, there appears to be the perception that some local regulatory systems are functioning well which translates into those countries not being eager for the transition to new financial reporting systems, especially a system that the respondents perceive as complex and costly. The IASB is of the opinion that there is a way around this: implementing IFRS for SME’s which is simplified and less costly. The results also reflect that if IFRS were to be adopted, enforcing its use in Africa would not be challenge.

Chapter 7 will form the conclusion for this study. An overall review of the literature reviews on the international accounting governance structures, the benefits of adopting IFRS, the current status of IFRS adoption in Africa and challenges faced by countries that have already adopted IFRS will be provided. A review of the analysis of the empirical study will also be provided. Recommendations for possible further study areas will also be provided.
7. THE CONCLUSION

7.1. Introduction

This chapter will provide a review of the significant findings from the literature study in Chapters 2 to 5 as well as the main findings from the empirical study in Chapter 6. Areas for future research will also be identified.

7.2. Deductions from the literature review

Through the literature review performed in chapters’ 2 to 5 current research on the challenges hindering the adoption of IFRS in Africa was identified and reviewed.

The research first explored the accounting profession globally (limited to 174 jurisdictions where information was available) and how Africa fits into international structures. It was established that Africa is represented by a member on the International Federation of Accountants board (IFAC); a member on the IFRS Foundation; a member on the International Accounting Standards Board (IASB) and 6 members on IFAC’s subcommittees.

The research showed various challenges that were experienced by different countries that had already undergone the IFRS adoption process. All the challenges identified from the research could be aggregated into five specific categories namely: financial; educational; technical; institutional and enforcement challenges. The literature review also aided in gathering data on the current IFRS adoption status in Africa, which reflected that only 34% of the continent had currently adopted IFRS.

In the literature review research was also identified on why it would be of value for African countries to adopt IFRS. The benefits of adopting seem to make overcoming the challenges, a worthwhile challenge for Africa.
7.3. Deductions from the empirical study

Although the questionnaire had a low response rate, the results received seemed to echo those of the literature review. The respondents agreed strongly with the fact that there were financial, educational, institutional and enforcement challenges. They all disagreed however that technical knowledge was a major challenge. Additional commentary from the respondents also reflected the manner in which some of the challenges were tackled in the respective countries.

The interviews were conducted with 3 parties with different perspectives: A representative of the African accounting profession, an African representative of the international standard-setting body and a representative of an international accounting firm. The interviews conducted echoed the results of the literature review and the questionnaire, where all three independent parties agreed on the challenges facing Africa. The interview process also brought to light the interdependency of the challenges on one another. If one challenge could be tackled, it would make it easier to deal with the rest.

7.4. Areas for further study

As this research only focuses on identifying the challenges hindering the adoption of IFRS in Africa, further research can be performed on the following:

- Possible recommendations and mechanisms for overcoming the identified challenges.
- Recommendations for effective implementation of IFRS in Africa and other developing nations.
- The possibility that IFRS for SME’s may be better suited for Africa and other developing economies, than IFRS.
- The benefits of adopting IFRS for developing nations.
- The relationship between international financial reporting and investor confidence.
7.5. **Conclusion on the study**

The primary objective of this study was to discuss the challenges that are hindering the adoption of IFRS in the majority of African countries.

The literature review brought to light some of the challenges prohibiting the adoption of IFRS in the majority of Africa. Although most of the current research on the challenges hindering the adoption of IFRS on the continent related to individual countries, a comparison revealed that the challenges were similar from country to country. Through the questionnaires distributed to the accounting bodies and the interviews conducted with some significant figures in the profession, challenges similar to those identified in the literature review were highlighted. It appears from the results of this study that there may be challenges that are more significant than others in the attempt to adopt IFRS. In some cases, for example financial constraints, those challenges appear to be the cause of further constraints and so the challenges are greater. From this, the correlation between the high level of challenges and the low adoption rate on the continent becomes clearer. Current statistics show that only 34% of Africa is currently reporting on IFRS compared to the rest of the world where 63% of countries have adopted. This translates into the majority of the world actually communicating in a common accounting language.

There are great benefits to adopting IFRS that have been identified by various researchers and companies. If the challenges can be overcome, it would mean a giant leap for Africa in the world of financial reporting. It would give Africa the opportunity to also participate in this common language that the majority of the world is using and Africa would also then have the opportunity to participate in the worldwide phenomena called globalisation. The establishment of PAFA already provides Africa with a focus, as its introduction has led to the common goal of working towards the whole continent reporting on IFRS. The governance structures over the accounting profession in Africa appear to be closely aligned with international structures.
This study has therefore achieved its objective of discussing the challenges hindering the adoption of IFRS in Africa.
8. REFERENCE LIST


(Accessed 9 February 2011)

(Accessed 20 February 2011)


Phirie, B. (2006). *The role of the accounting profession in economic development. The profession in the ECSAFA region, overview and issues*


Ramoni, A.B. (abramoni@icon.org.ng). (1 March 2012). RE: Nigeria’s adoption of IFRS. E-mail to Siaga, S.F. (fsiaga@uj.ac.za)


2 April 2012

Dear Member

The world is moving towards a singular financial reporting framework known as International Financial Reporting Standards (IFRS). Most countries have taken on the adoption of IFRS aggressively, however the majority of countries in Africa have not even begun the adoption process. There are myriad of challenges prohibiting this adoption from taking place on the continent. Your opinion is essential in providing feedback on the current challenges that could be hindering the adoption of IFRS in your country.

The research is being undertaken by Sedzani Siaga, who is a senior lecturer in auditing at the University of Johannesburg, under the supervision of Professor Nerine Stegmann. It forms part of a master’s study on the challenges that are prohibiting the adoption of IFRS in the majority of countries in Africa.

This short questionnaire should not take longer than five minutes to complete, and your response as part of the population of all the accounting bodies, that are representative of countries that have not yet adopted IFRS, is critical to the success of the research. Your input will be of immense value. All information will be treated as confidential and will only be used to produce aggregate results. If you have any objection to completing the questionnaire, please state your reason and return the questionnaire for control purposes.

We thank you in anticipation of your co-operation.

Kind regards

Professor Nerine Stegmann
# ANNEXURE B

## QUESTIONNAIRE: TO ACCOUNTING BODIES OF AFRICAN COUNTRIES

### INSTRUCTIONS:

1. This questionnaire can be completed manually.
2. Process to follow in order to complete the questionnaire:
   a. Print and complete the questionnaire. Please mark your answer in the appropriate box with a cross (x) or supply the relevant information as requested.
   b. Please return the completed questionnaire by emailing the scanned document:
   c. e-mail: [fsiaga@uj.ac.za](mailto:fsiaga@uj.ac.za)
3. Please do not hesitate to supply additional information that might be of relevance to this research.
4. The return date for the completed questionnaire is **20 April 2012**.
5. Should you wish to contact Faith Sedzani Siaga, you can do so on **+27 82 560 6556** or [fsiaga@uj.ac.za](mailto:fsiaga@uj.ac.za)

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All information will be treated as confidential and will only be used to produce aggregate results.

Your co-operation is greatly appreciated.

Thank you in anticipation.
1. Do your country’s governance structures permit the use of IFRS? YES/NO

Below is list of factors which could contribute to the non-adoption of IFRS. Using the scale provided please indicate the extent to which you think each of the following factors contribute to the non-adoption of IFRS by your members:

<table>
<thead>
<tr>
<th>Factor</th>
<th>Scale</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No extent</td>
</tr>
<tr>
<td>2. Financial Constraints</td>
<td></td>
</tr>
<tr>
<td>3. Educational Constraints</td>
<td></td>
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<tr>
<td>4. Technical Constraints</td>
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<tr>
<td>5. Institutional Constraints</td>
<td></td>
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<tr>
<td>6. Enforcement Constraints</td>
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</tbody>
</table>

Below, each of the above constraints is further expanded to more detailed challenges that can be identified. Using the scale provided please indicate the extent to which you disagree or agree with each of the following challenges that could contribute to the non-adoption of IFRS by your members:

### Financial Constraints

<table>
<thead>
<tr>
<th>Factor</th>
<th>Scale</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>Strongly disagree</td>
</tr>
<tr>
<td>7. There is a serious lack of financial resources.</td>
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<tr>
<td>8. The lack of financial resources impacts directly on educational, technical, institutional and enforcement constraints.</td>
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</tbody>
</table>

### Educational Constraints

<table>
<thead>
<tr>
<th>Factor</th>
<th>Scale</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Strongly disagree</td>
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<tr>
<td></td>
<td></td>
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</tbody>
</table>
9. There is a shortage of educational institutions.

10. There is a lack of adequately trained professional accountants.

11. There is a lack of people qualified to provide training in the profession/workplace.

12. There is a lack of coherence between educational programs and professional programs.

13. There is limited access to training material, seminars and workshops for working professionals.

<table>
<thead>
<tr>
<th>Factor</th>
<th>Strongly disagree</th>
<th>Disagree</th>
<th>Agree</th>
<th>Strongly agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>14. There is a lack of coherence between the qualification bodies and standard setting bodies.</td>
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<tr>
<td>15. There is a lack of adequate communication about developments in accounting.</td>
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<td>16. There is a lack of representation on the IASB.</td>
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<td>17. There is a lack of representation within the standard setting process e.g. commentary on exposure drafts.</td>
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<td>18. There is a lack of understanding of IFRS requirements and the reasons / benefits behind the requirements</td>
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<tr>
<td>19. There is an atmosphere of selective adoption of IFRS, therefore creating inconsistencies in the level of adoption.</td>
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</tbody>
</table>
### Institutional Constraints

<table>
<thead>
<tr>
<th>Factor</th>
<th>Strongly disagree</th>
<th>Disagree</th>
<th>Agree</th>
<th>Strongly agree</th>
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</thead>
<tbody>
<tr>
<td>20. There is a lack of coherence between existing local laws and IFRS.</td>
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<td>21. There is a lack of readiness by professional organisations and entities for IFRS implementation.</td>
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<tr>
<td>22. There is a lack of coherence in the regulatory system of the country (i.e. between government and other regulatory structures)</td>
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</tbody>
</table>

### Enforcement Constraints

<table>
<thead>
<tr>
<th>Factor</th>
<th>Strongly disagree</th>
<th>Disagree</th>
<th>Agree</th>
<th>Strongly agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>23. IFRS is complex and therefore too difficult to enforce.</td>
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<td>24. Implementation costs are too high.</td>
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<td>25. Lack of adequate technical resources makes enforcement difficult.</td>
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<tr>
<td>26. Continuous professional development (CPD) is not well monitored.</td>
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<tr>
<td>27. Absence of involvement of regulatory bodies (including auditors) makes enforcement difficult.</td>
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</table>

### General

28. If there are any other challenges that you think this questionnaire has not addressed, please list and explain them in the space provided below. You are also welcome to provide any commentary that you think will contribute positively to this research study.

____________________________________________________________________
_____________________________________________________________________
Thank you for sparing the time to complete the questionnaire.

Remember to save and return the questionnaire per email.
e-mail: fsiaga@uj.ac.za