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Difficulties in the application of International Accounting Standards and International Financial Reporting Standards IAS/IFRS in Algeria: A literature review

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***Abstract*---**This study aims to highlight the difficulties and challenges associated with implementing International Accounting Standards and International Financial Reporting Standards in Algeria, particularly in light of the accounting reform undertaken by the country in early 2007. This reform led to the adoption of the Financial Accounting System, which is rooted in the philosophy and conceptual framework of international accounting standards. The reform was introduced as part of Algeria's efforts to align with the global business environment and in response to calls from international accounting bodies advocating for greater harmonization of accounting practices worldwide. The study reached several conclusions, the most significant being that Algeria's business environment is not yet

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equipped to effectively apply IAS and IFRS. This is due to the absence of an active financial market and a shortage of qualified experts capable of comprehending the philosophy behind this accounting transition. Additionally, the predominance of tax law over accounting regulations, the weakness of academic and professional training among practitioners, and the lack of continuous updates to accounting laws and regulations in line with international developments further hinder the successful implementation of these standards.

***Keywords*---**Difficulties and challenges, IAS/IFRS, Financial Accounting System, Algeria.

Introduction

IAS/IFRS standards have gained widespread acceptance and increasing adoption globally, thanks to the efforts of international accounting standard-setting bodies, which aim to unify accounting practices and meet the needs of various financial information users. These standards provide transparent and comparable financial data, enhancing the credibility of financial reports and facilitating decision-making, especially in the context of ongoing globalization.

Due to significant developments in the international accounting environment, including the expansion of multinational corporations, the increasing volume of transactions among them, and global economic openness that has facilitated free trade and financial exchanges, Algeria has undergone profound economic transformations over the past three decades. These changes have primarily aimed at the globalization of financial and commercial transactions by transitioning from a centrally planned economy to a market-oriented economy. These reforms were implemented in response to the requirements imposed by international financial and economic institutions.

With the growing number of corporate groups, alliances, and mergers between companies across different countries, financial statement users have increasingly demanded standardized and reliable financial information that accurately reflects the true financial position of entities. This placed significant pressure on the accounting profession in Algeria during the era of the National Accounting Plan (PCN), as it failed to meet international requirements.

In response to these pressures and demands, Algeria adopted the Financial Accounting System (SCF) in early 2007, which was inspired by international accounting standards, and its implementation officially began in 2010. This marked the abandonment of the PCN, which was derived from the French accounting model and had remained unchanged since 1975. The PCN was primarily designed to achieve tax-related objectives rather than address the needs of modern financial accounting.

However, Algeria has not yet officially adopted international standards for accounting and international standards for financial reporting. In the presence of many difficulties, we present the following problem: **What are the most important difficulties facing Algeria to implement international standards for international accounting and standards for financial reporting**?

1. Opportunities Associated with IFRS Adoption

The literature has identified a range of benefits arising from IFRS adoption. It is widely accepted that financial reports prepared in accordance with IFRS are more comprehensive than those based on local accounting standards and provide more information for decision makers. They enhance comparability and transparency and drive improvements in reporting quality and accounting systems that in turn foster economic development. Whittington (2005) and Alkhtani (2012) argue that IFRS adoption can greatly enhance a country's accounting measures and activities, allowing it to keep up with global developments, and make its accounting profession more competitive. By bridging the differences between global accounting systems, IFRS adoption reduces the cost of capital, facilitates international capital mobilisation, leads to wider market development, increases market liquidity and improves value[1].

1.1 Improved Financial Report Quality

Enhancing financial report quality involves improving its reliability, relevance, consistency, and clarity. Empirical research indicates that IFRS adoption enhances relevance and minimizes earnings management compared to reports based on local standards. However, strong evidence suggests that information quality remains influenced by company-specific and national factors, as well as the differences between IFRS and local accounting standards. In other words, financial reporting quality is not solely determined by accounting standards but also by the prevailing legal framework, cultural influences, and institutional practices.

This raises concerns about whether standardized accounting rules can achieve the desired level of quality across all countries. Studies by Zakari (2014) and Masoud (2014b) analyzing Libya's IFRS adoption found that post-adoption financial information failed to meet investor expectations, likely due to weak enforcement mechanisms. Additionally, Masoud (2014) and Cerne (2009) argue that accounting models designed for developed economies may not align with the frameworks and decision-making processes in emerging markets[2].

1.2 Comparability

The extent of IFRS adoption positively influences the comparability of financial statements. Additionally, a higher level of IFRS adoption indirectly enhances foreign investor ownership by improving financial statement comparability. These results align with the views of IFRS proponents, who argue that adopting IFRS enhances comparability, thereby attracting increased cross-border investment[3].

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[1] Manea Salem Almansour, ***Challenges and Opportunities from Adopting IFRS in Saudi Arabia: The Case of the Banking Sector,*** A Thesis Submitted in Partial Fulfilment of the Requirements of Nottingham Trent University for the Degree of Doctor of Philosophy, Nottingham Business School, Nottingham Trent University, 2019, P 36.

[2] Manea Salem Almansour, **op cit**, p p 37-38.

[3] Aria Farah Mita, Sidharta Utama, Fitriany, Etty R. Wulandari, **The adoption of IFRS, comparability of financial statements and foreign investors' ownership**, Asian Review of Accounting, Emerald Group Publishing Limited, vol. 26(3), August 2018, pages 391-411. Available online at: https://ideas.repec.org/a/eme/arapps/ara-04-2017-0064.html

1.3 Economic Growth

The financial side effects of IFRS adoption revealed a negative impact from some determinants, such as the cost of equity. Mandatory adoption of IFRS is expected to decrease the cost of equity, reduce information asymmetry, and enhance comparability. The study examined Australian firms based on factors such as total accruals, total assets, return on assets, sales, accounts receivable, bankruptcy risk, firm riskiness, earnings stream, audit committee independence, and absolute discretionary accruals, among others, to assess their influence on the cost of equity. The estimation results showed an inverse relationship between the cost of equity and reporting quality through mediating channels, indicating that a decline in financial reporting quality after IFRS adoption led to an increase in the cost of capital. The overall conclusion suggests that IFRS implementation proves to be more beneficial for mature firms[4].

2. Challenges Associated With IFRS Adoption

The literature highlights a number of challenges for developing countries considering IFRS adoption. For example, the adoption process may meet with resistance if the standards are not seen as meeting the accounting needs of the country, or if they are seen as incompatible with Islamic law. Organisations may struggle with translating and interpreting the IFRS and with the costs involved in retraining accountants and auditors to manage the transition. Another potential obstacle to harmonisation, according to Yapa (2003) and Joshi, Yapa and Kraal (2016), is the lack of capacity of professional accounting bodies, whose support is central to implementing the accounting standards effectively as the IASB recommends.

Several researchers have explored the challenges that countries face when adopting or aligning their accounting systems with IAS and IFRS. Obazee (2007) argued that the key factors affecting the implementation of IFRS in Europe, America, and other regions are cultural differences, mental frameworks, legal obstacles, educational demands, and political influences, rather than the commonly assumed technical difficulties[5]. The following table outlines the key challenges faced by developing countries such as Algeria in implementing International Financial Reporting Standards (IFRS):

[4] Abdullaeva Mokhirakhon and others, the impact of IFRS adoption on economic growth in transition countries: Evidence from CIS, Financial Internet Quarterly, VOLUME 19, ISSUE 2, JUNE 2023, P 05. Available online at: https://sciendo.com/article/10.2478/fiqf-2023-0008?tab=authors

[5] Ahmed Chemseddine Bouarar, **Challenges of Adopting International Accounting Standards and International Financial Reporting Standards (ias, Ifrs), Algeria as an Example**, A Literature Review., REVUE NOUVELLE ECONOMIE, N°:17, vol 02, 2017, P 44.

Table 1: The key challenges faced by developing countries such in implementing (IFRS)

Challenges	
Regulatory and Legal Challenges	**Lack of a strong regulatory framework**: Some countries lack a well-developed legal infrastructure to enforce IFRS compliance
	Conflicts with national laws: IFRS principles may contradict local accounting and tax regulations, requiring legal amendments
	Slow legislative adaptation: Many governments take time to integrate IFRS into national accounting standards, causing delays in adoption
Technical and Implementation Challenges	**Complexity of IFRS standards**: IFRS requires significant technical knowledge, making it difficult for professionals to transition from local GAAP (Generally Accepted Accounting Principles).
	Frequent updates and changes: IFRS is regularly updated to reflect global financial trends, requiring continuous learning and adaptation.
	Difficulties in fair value measurement: The transition from historical cost accounting to fair value accounting can be complex, particularly in markets with illiquid assets.
	Challenges in impairment testing: Conducting impairment tests for assets requires significant judgment and expertise, which many companies lack.
Economic and Business Challenges	**High implementation costs**: Transitioning to IFRS involves costs for staff training, IT system upgrades, and external consultancy.
	Impact on financial ratios: IFRS adoption can alter financial statements, affecting key financial ratios used by investors and creditors.
	Difficulty for SMEs: Small and medium-sized enterprises (SMEs) may struggle with the cost and complexity of IFRS, as they often lack the necessary resources.
	Limited access to financial markets: In some economies, the absence of a well-developed financial market reduces the perceived benefits of IFRS adoption.
Organizational and Human Resource Challenges	**Insufficient training and expertise**: Many accountants and auditors lack adequate IFRS training, leading to inconsistent application.

Challenges	
	Resistance to change: Organizations often face internal resistance from employees and management who are accustomed to local accounting practices.
	Need for cultural shift: IFRS requires a shift in accounting mindset from rule-based to principle-based reporting, which can be difficult for some professionals.
	Limited guidance and resources: Some countries lack access to IFRS implementation guides and professional expertise.

Source: Prepared by researchers.

3. The Context of the Development of the SCF in Algerian:

In 2002, in Pretoria, South Africa, the Algerian Head of State signed the NEPAD declaration, through which the Heads of State and Government declared their adoption, among other things, of the international accounting framework IAS/IFRS. This commitment was reflected in the adoption of all existing standards at that time[6].

The accounting reform project was jointly developed by two groups: the Algerian working group and the French working group. The French working group was composed of IAS/IFRS experts representing various institutions within the French consortium, which included the National Accounting Council, the Higher Council of the Order of Chartered Accountants, and the National Company of Statutory Auditors. The Algerian group was represented by the National Accounting Council, under the supervision of the Ministry of Finance[7]. The French group proposed three options for the accounting reform :

- A simple revision of the PCN (National Accounting Plan).
- Maintaining the PCN while adapting it to IAS/IFRS standards.
- Developing a new accounting system based on IAS/IFRS standards.

Ultimately, the group opted for the third alternative, which represents accounting convergence. This shift meant transitioning from patrimonial accounting—based on ownership criteria and historically dominated by the historical cost principle to a modern economic accounting system known as "financial accounting." This new system is based on international accounting standards (over legal reality.

The decision of the National Accounting Council to align with international accounting standards was influenced by global institutions such as the World Bank and the IMF, as these organizations favor the application of international accounting standards in countries seeking their support. Therefore, Algeria chose

[6] Djelloul BOUBIR, ***50 cas pratiques en SCF et IAS-IFRS***, Collection comptabilité financière, Edition Sarl Laser Plus, Algérie, 2016, P 07.

[7] Nebeg Kouider, Djekidel Yahia, Boudjelal Ahmed, **Le système comptable financier et les difficultés de son application ainsi que les mesures pour son amélioration**, Finance and Business Economics Review, Volume 5, Number 2, August 2021, P 361. Cite web: https://asjp.cerist.dz/en/article/165081

full convergence toward IAS/IFRS because it involved a complete overhaul of methods, leading to a new governance model for Algerian entities.

This new accounting system, inspired by international accounting standards (IAS/IFRS) and replacing the National Accounting Plan, has remained almost stagnant since its implementation, whereas IAS/IFRS standards have undergone significant evolution in line with global economic developments. In general, the Financial Accounting System was developed without considering the nature of Algeria's economic fabric (industrial and commercial), which is composed mainly of small and medium-sized enterprises, and without accounting for the absence of a financial market. Its evaluation and review now seem indispensable[8].

4. The Consequences of Constraints Related to the Implementation of the Financial Accounting System (SCF):

The consequences resulting from the non-application or insufficient application of certain standards and provisions of the Financial Accounting System by our entities mainly challenge the regularity, reliability, and consequently, the true representation of the financial situation presented by the financial statements. This is due to the lack or insufficiency of training for professionals and employed accountants within these entities, as well as the lack of interest from public authorities in accounting matters. The technical consequences include, in particular:

Inadequate Management Tools: The tools available are either insufficient or ineffective, requiring continuous updates to suit Algeria's specific characteristics.

Complex Annual Impairment Tests: The implementation of annual impairment tests is difficult, further complicated by frequent and unpredictable regulatory updates.

Disorganized Economic System: The lack of a structured economic framework hinders the development of reliable adjustment indicators.

Tax Law Dominance over Accounting Law: Tax regulations take precedence over accounting principles, especially in SMEs that lack appropriate structures for compliance.

Limited Scope of the Financial Accounting System (SCF): The system primarily follows the national chart of accounts without incorporating international accounting standards.

Lack of Explicit Reference to IAS/IFRS: International standards are not clearly mentioned; instead, they are indirectly recognized under various accounting categories such as fixed assets, inventory, and lease contracts.

Limited Awareness of Accounting Combination: Unlike accounting consolidation, which is economically beneficial, accounting combination remains largely unknown among relevant entities.

Lack of Periodic Updates: The FAS requires expertise not only in accounting but also in financial mathematics, but no regular updates are conducted.

Unclear Treatment of Fixed Assets under Concession: There is no clear guidance on accounting for assets held under concession agreements.

Rare Implementation of the Component Approach: The practice of breaking

[8] Nebeg Kouider, Djekidel Yahia, Boudjelal Ahmed, **op cit**, P 361.

down tangible fixed assets into components for separate depreciation is seldom applied.

Rigid Depreciation Methods: The useful life of assets remains fixed, and the straight-line depreciation method is applied based on tax rules rather than actual asset utilization.

Impairment Losses Not Applied: Many entities, especially those in declining sectors, do not apply impairment losses on tangible and intangible assets. The concept of cash-generating units (CGUs) is largely unknown.

Weak Understanding of the Conceptual Framework: Fundamental accounting concepts outlined in the IFRS framework are poorly understood.

Challenges in Completing Financial Statement Annexes: Some entities struggle to properly complete annexes, despite them being an essential part of financial statements.

Deferred Taxation Rarely Applied: The concept of deferred tax accounting is largely underutilized.

Underutilization of the Percentage-of-Completion Method: This method, particularly for long-term contracts in real estate development, is not widely implemented.

Neglect of Actuarial Differences in Retirement Provisions: When retirement provisions are recorded, actuarial differences are often ignored.

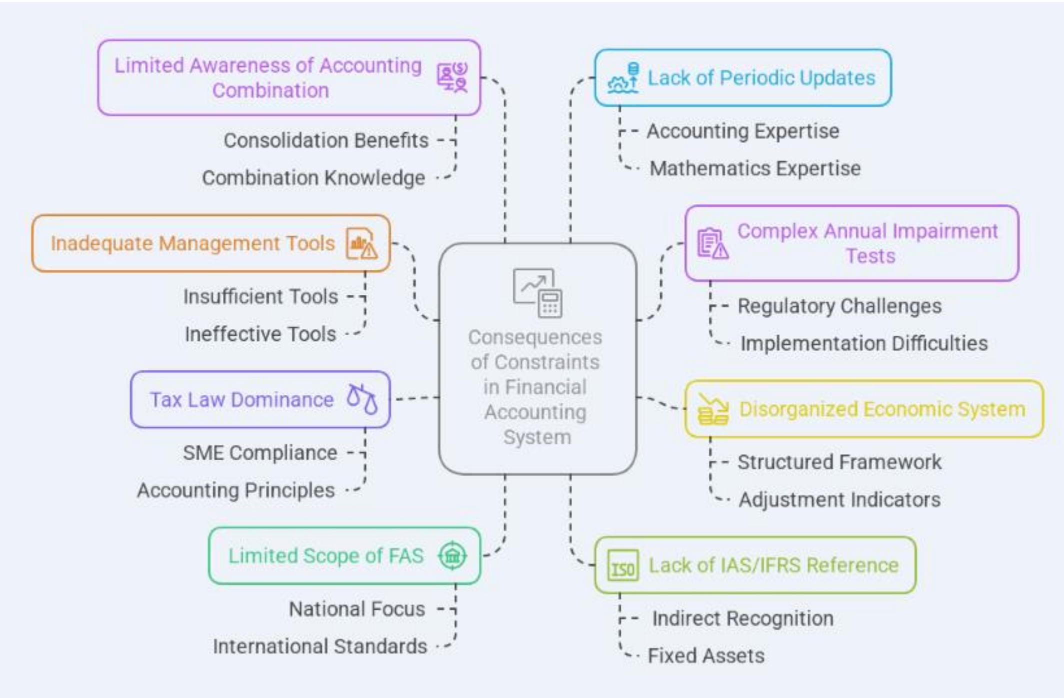

Figure 1: Challenges in Financial Accounting System Implementation.
Source: Prepared by researchers based on the previous elements.

Conclusion

Algeria is still considered a non-adopter of IAS/IFRS, despite its efforts to align its accounting practices with international standards through various reforms. A review of the literature suggests that for Algeria to successfully adopt IAS/IFRS, it must address several key challenges:
Weak financial investment culture and an underdeveloped stock exchange: The lack of a strong financial market and limited investment culture in Algeria reduce both the supply and demand for transparent and comparable financial information, restricting the overall use of accounting data.
Government monopoly over accounting regulation: The Algerian Ministry of Finance exclusively regulates and issues accounting standards without involving professional accounting bodies. This lack of participation makes it difficult for professionals to accept and adapt to changes in accounting practices, as they are not given the opportunity to contribute their expertise. **A limited perspective on accounting as merely a tool for tax compliance:** Many Algerian businesses view accounting primarily as a means to meet tax and government requirements rather than as a system for generating financial information that serves stakeholders and investors. This contradicts the core purpose of IAS/IFRS, which prioritizes financial transparency and investor decision-making.
Challenges in adapting to the dynamic nature of IAS/IFRS: The continuously evolving nature of IAS/IFRS presents a significant challenge for Algeria's rigid accounting system, making it difficult to implement changes whenever the IASB introduces, amends, or eliminates specific standards.

Recommendations:
To successfully adopt IAS/IFRS, Algeria must implement structural reforms, increase the involvement of professional accounting bodies, and enhance the financial market environment to facilitate a smoother transition.

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