A Suggested Approach to Adapt the Implementation of International Financial Reporting Standards (IFRs) in the Less Economically Developed Countries: A Syrian Case Study.

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□ ABSTRACT □

This paper is concerned with the regulation of international accounting and the difficulties that condition its successful implementation, particularly in the context of developing countries such as The Syrian Arab Republic. Although international bodies are devoted to internationalize accounting practices, most studies have acknowledged the international differences in accounting, which are attributed to the fact that national accounting systems are consequences of environmental factors (economic, political, professional and cultural) in which they are developed. As a result, it is possible to hypothesize that the problem of appropriate accounting standards will imply a different norm of compliance and practices of IASs/IFRs. Consequently, this research suggests an adaptation or customization approach to meet the local needs of cultural, political, economic and other environmental factors in Syria.

Keywords : International Financial Reporting Standards (IFRs), Less Economically Developed Countries (LEDCs), International accounting, environmental factors, Syrian Accounting Systems

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مدخل مقترح لتكييف تطبيق المعايير الدولية للتقارير المالية IFRs في الدول النامية اقتصادياً: دراسة الحالة السورية نموذجاً

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□ ABSTRACT □

يهدف هذا البحث إلى اقتراح عدم تطبيق المعايير الدولية للتقارير المالية دون تكييفها بما يتلائم مع البيئة القانونية و المهنية و الاقتصادية في سوريا. حيث يناقش التناغم الدولي لمعايير المحاسبة و الصعوبات التي تعيق تطبيقها الناجح لاسيما في الدول النامية. و على الرغم من جهود المنظمات الدولية المكرسة لتوحيد الممارسة المحاسبية على المستوى الدولي، اعترفت معظم الدراسات باختلاف الممارسات المحاسبية دولياً. و لقد عزي السبب إلى أن الأنظمة المحاسبية الوطنية هي ناتج العوامل البيئية التي تطورت ضمنها (اقتصادية، سياسية، مهنية، ثقافية، و قانونية الخ...). و بالنتيجة، يبين هذا البحث أن مشكلة معايير المحاسبة الملائمة سوف يعني ضمناً أساليب مختلفة من الالتزام و الممارسات عند تطبيق المعايير الدولية للتقارير المالية (معايير المحاسبة الدولية). وبناء عليه، يقترح أن المدخل المناسب لتطبيق المعايير الدولية هو تعديلها أو تكييفها بما يتلائم مع محددات بيئة الأعمال السورية (الاقتصادية، السياسية، الثقافية، الخ...)

الكلمات المفتاحية : المعايير الدولية للإبلاغ المالي (IFRs)، الدول النامية اقتصاديا (LEDCs)، المحاسبة الدولية، العوامل البيئية، الأنظمة المحاسبية السورية.

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A Suggested Approach to Adapt the Implementation of International Financial Reporting Standards (IFRs): A Syrian Case Study.

Introduction :

This paper is concerned with the notion and regulation of international accounting and the difficulties that condition its successful implementation, particularly in the context of Less Economically Developed Countries (LEDCs) such as Syrian Arab Republic.

International accounting is taken here as referring to the harmonization of accounting standards, and practices which are used for presenting financial reports in more than one country. The International Accounting Standards (IASs), issued by the International Accounting Standards Committee (IASC) and now International Financial Reporting Standards (IFRs) issued by the International Accounting Standards Board (IASB), represent an important part of the process of international harmonization. However, the notion of enforcing worldwide accounting standards is still under debate and the extent to which such standards have been implemented internationally is questionable.

Although efforts devoted by international bodies to internationalize accounting practices are enormous, almost all studies have acknowledged the existence of international differences in accounting. These differences are mainly attributed to the fact that national accounting systems are consequences of environmental factors in which they are developed. Variations in national environments encompass differences in economic, political, professional and cultural factors.

The possibility of implementing IASs/IFRs in Less Economically Developed Countries (LEDCs) has been under much dispute. It is argued that environmental factors and the characteristics of their accounting systems limit the benefits of international standards to the process of economic development. To the contrary, it is argued that international standards will assist economically those countries, in general and even more specifically, if these standards have been locally customized. As such, this paper addresses this research question: *how could the characteristics of the Syrian accounting systems facilitate a successful implementation of the IASs/IFRs.*

The rest of this paper is divided into seven sections. The second section presents research importance and objectives. The third section suggests a radical structuralism methodology and a case study method. Discussion section comes forth. It highlights the professional bodies involved in regulating international accounting. It also points out that international differences still exist in spite of IASs/IFRs being issued. Additionally, this section considers briefly the debate about the difficulties associated with the harmonization within the international context. This is followed by a description of the characteristics of the LEDCs' accounting systems in which there is a dispute about the suitability of these systems to implement IASs/IFRs and the possibilities of any feasible success. The fifth section presents the characteristics of the public and private Syrian accounting systems along with their environmental background. The sixth section proposes a suggested approach to facilitate the Syrian implementation of IASs/IFRs. The final section presents the paper conclusions and recommendations.

Research Importance and Objectives :

The importance of this paper streams out from the recent Syrian regulations and modernization measures that have taken place since the year 2000. Specifically, these include Private Banks Law No. 28 of 2001, the Law No 22 of 2003 that has established the Syrian Commission for Financial Securities and Market, Damascus Exchange Law No. 55

of 2005, Commerce Law No. 33 of 2007, the 2008 Companies Law No. 3, and the Decree No 33 of 2009 for organizing accounting profession in Syria. The common feature of these regulations is the legal enforcement of IASs /IFRs adoption.

The objective of this paper is to suggest adapting or customizing the approach of International Financial Reporting Standards (IASs/IFRS) in a way that meets the local needs of cultural, political, economic and other environmental factors in the context of Syria. It also aims to draw the attention of the Syrian accounting policy makers to the fact that it is naive to believe that IASs/IFRs are to be implemented by listed companies and other corporations if Damascus Stock Exchange (DSE) has imposed a transition of the previous GAAP based Financial Statements to that of IASs/IFRS based financial statements, and in particular if the DSE and other regulatory bodies ignore the environmental factors that influence such implantation negatively.

Research Methodology and Methods :

This paper adopts a radical structuralism methodology approach. Based on Hopper and Powell (1985) and Ryan et, al (2002), this methodology could be used when the critical accounting research views society as shaped by social structure (political, economic, and culture environments, etc..) by which the researcher is interested in ordered change or facilitating discussion about the direction of change. As this paper is concerned with changing the way IASs/IFRs have been implemented by all recent Syrian regulations, the researcher is facilitating discussion about ordered change of such implementation to reflect the Syrian local environment.

Burrell and Morgan (1979) suggest that when studying organizations, statistical analysis and surveys are appropriate methods, whereas descriptive methods such as case studies are the most appropriate for explaining subjective view of reality. Yin (1994) also suggests that the case study method is the most appropriate research strategy when the research question is a one of (how-why) type, the researcher has no control over the behavioral events, and the focus is on contemporary phenomenon. Applying these three factors suggests that a case study is the preferred research method.

Discussion and Results :

Regulating International Accounting Practices:

The internationalization of business has led to cooperation among national organizations within the accounting profession. These efforts created, in 1973 and 1977, the most comprehensive international organizations: the International Accounting Standards Committee (IASC) and the International Federation of Accountants (IFAC). IFAC’s and IASC's basic activities aim to enhance the worldwide accounting profession on a harmonized basis. Among these activities is the regulation of international accounting practice. Most of the national professional accounting bodies participate in this organization. As a member of a national body, the individual accountant is committed to abide by the body’s regulations in its technical, as well as its ethical, aspects. As a professional, the accountant should have enough freedom to behave in accordance with these rules (Soeting, 1982). Therefore, members of a national association, who are also members of IASB, are expected to comply with the international standards.

Nevertheless, other international bodies have shown an interest in participating in the increased level of accounting harmonization either by supporting the work of international bodies or through issuing another set of standards applicable to a set of countries such as the EU. The international standards of IFAC and International Accounting Standards

Board (IASB) (formerly known as International Accounting Standards Committee IASC), the directives of the EU and the regulation of national bodies have led to an international harmonization of accounting principles and rules. However, since this study focuses on the IASs & IFRs, a brief discussion of the standard setting work of IASB is presented below.

In July 1989, IASC produced a document, *framework for the preparation and presentation of financial statements ('Framework').* The *'Framework',* in effect, is the conceptual framework upon which all IASs are based and hence it is the one that determines how financial statements are prepared and the information they contain. The framework consists of several chapters, presented after a preface and an introduction. These chapters are as follows:

1. The objective of financial statements
2. Underlying assumptions
3. Qualitative characteristics of financial statements
4. The elements of financial statements
5. Recognition of the elements of financial statements
6. Measurements of the elements of the financial statements
7. Concepts of capital maintenance

In March 2001, the IASC Foundation was formed in the USA. The IASC Foundation is the parent entity of International Accounting Standards Board (IASB). The objectives of the IASC Foundation are (ACCA, 2006):

1. 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 reporting, to help participate in the world's capital market and to enable other users to make economic decisions.
2. To promote the use and rigorous application of those standards.
3. To take into account, as appropriate, the needs of small, or medium-sized emerging economic entities.
4. To bring about convergence of national accounting standards and IASs and IFRs to a high quality solution.

The International Accounting Standards Board (IASB) is an independent and privately- funded accounting standards setter. It has sole responsibility for setting accounting standards. Contributors include major accounting firms, private financial institution, industrial companies throughout the world, central and development banks, and other international and processional organization. Since 2001, the IASB has assumed its responsibilities from its predecessor body: IASC. It has adopted 41 International Accounting Standards (IASs) which have been issued by IASC. It has also issued its own International Financial R eporting Standards (IFRs). So far several new IFRs have been issued.

The International Organization of Securities Commissions (IOSCO) is the representative of the world's securities markets regulators. High quality information is vital for the operation of an efficient capital market, and differences in the quality of accounting policies and their enforcement between countries lead to inefficiencies between markets. IOSCO has been active in encouraging and promoting the quality and improvement of IASs/IFRs over the past years. This commitment has been issued by the agreement between IASC and IOSCO to work on a program of "core standards" which could be used by publicly-listed entities when offering securities in foreign countries. IOSCO released a report in May 2000 which recommended to all its members that they allow multinational issuers to use IASs/IFRs, as supplemented by reconciliation, disclosure and interpretation, where necessary, to address outstanding substantive issues at national or regional level (ACCA, 2006). Furthermore, within European Union, all listed companies in member states must use IASs/IFRs in their consolidated financial statements from 2005 and on. To this end, the IASB has undertaken an improvement project dealing with revisions to IASs like presentation, leases, related parties and earnings per share. This has been matched in, for example, the UK, by a convergence project, bringing UK GAAP into line with IASs.

Current IASs/IFRs :

Requirements of IASs/IFRs do not override national standards. However, there is a growing harmonization between national and international practices. For example in Europe, the consolidated financial statements of many top multinationals are now prepared in conformity with national requirements, EC directives and IASs/IFRs. Excluding USA, all European Countries, Arab States, and many other Countries such as: China, Singapore, Japan, Russia, India are enforced to adopt IASs / IFRs.

International Accounting Standards		Date of Issue
IAS 1 (revised)	Presentation of financial statements	Dec 2003
IAS 2 (revised)	Inventories	Dec 2003
IAS 7 (revised)	Cash Flow Statements	Dec 2003
IAS 8 (revised)	Accounting policies, changes in accounting estimates and errors	Dec 2003
IAS 10 (revised)	Events after the balance sheet date	Dec 2003
IAS 11 (revised)	Construction contracts	Dec 1993
IAS 12 (revised)	Income taxes	Nov 2000
IAS 14 (revised)	Segment reporting	Aug 1997
IAS 16 (revised)	Property, plant and equipment	Dec 2003
IAS 17 (revised)	Leases	Dec 2003
IAS 18 (revised)	Revenue	Dec 1993
IAS 19 (revised)	Employee benefits	Dec 2004
IAS 20	Accounting for government grants and disclosure of government assistance	Jan 1995
IAS 21 (revised)	The effects of change of foreign exchange rate	Dec 2003
IAS 23 (revised)	Borrowing costs	Dec 1993
IAS 24 (revised)	Related parties disclosure	Dec 2003
IAS 26	Accounting and reporting by retirement benefits plans	Jan 1995
IAS 27 (Revised)	Consolidated and separate financial statements	Dec 2003
IAS 28 (revised)	Investments in associates	Dec 2003
IAS 29(revised)	Financial reporting in hyperinflationary economics	Jan 1995
IAS 31(revised)	Interest in joint venture	Dec 2003
IAS 32 (revised)	Financial instruments: presentation	Dec 2003
IAS 33(revised)	Earnings per share	Dec 2003
IAS 34	Interim reporting	Feb 1998
IAS 36 (revised)	Impairment of Assets	Mar 2004
IAS 37	Provisions, contingent liabilities and contingent assets	Sep 1998
IAS 38(revised)	Intangible assets	Mar 2004
IAS 39(revised)	Financial instruments: recognition and measurements	Dec 2004
IAS 40	Investment property	Dec 2003
IAS 41	Agriculture	Feb 2001
IFRS 1	First time adoption of International Financial Reporting Standards	June 2003
IFRS 2	Share-based payment	Feb 2004
IFRS 3	Business combinations	Mar 2004
IFRS 4	Insurance contracts	Mar 2004
IFRS 5	Non-current Assets held for sale and discontinued operation	Mar 2004
IFRS 6	Exploration for and evolution of mineral resources	Dec 2004
IFRS 7	Financial instruments: disclosures	Aug 2005

Generally Accepted Accounting Practice (GAAP):

In individual countries, GAAP is seen primarily as combination of: National company law, National accounting standards, and Local stock exchange requirements. Although these sources are the basis for the GAAP of individual countries, the concept also includes the effects of non-mandatory sources such as (ACCA, 2006):

- International accounting standards (but not after 2005 for listed companies in Europe).
- Statutory requirements in other countries.

In many countries, like the UK, GAAP does not have any regulatory authority or definition, unlike other countries, such as in the USA. The term is mentioned rarely in legislation, and only then in fairly limited terms. There are different views of GAAP in different countries. In the UK it is seen as a dynamic concept. 'Generally Accepted' does not mean 'generally adopted or used'. Any accounting practice which is legitimate in some circumstances should be regarded as GAAP, based on factors including whether the practice is consistent with the fundamental concept of 'fair and true'. This view is not held in all countries, however. In the USA, the equivalent of a 'true and fair view' is ' a fair presentation in accordance with GAAP'. GAAP is defined as those principles which have 'substantial authoritative support'. Therefore accounts prepared in accordance with accounting principles for which there is no ' substantial authoritative support' are presumed to be misleading or inaccurate (ACCA, 2006). The effect here is that 'new' or 'different' accounting principles are not acceptable unless they have been adopted by the mainstream accounting profession, usually the standards-setting bodies or professional accountancy bodies. This is much more rigid than the UK view expressed above.

International Accounting Differences :

The viability of the harmonisation process of accounting practices is still under much dispute. The debate has focused on some fundamental challenges that impede any significant advancement to this process. Although it is still a matter of some controversy to determine the most influential factors here, environmental and cultural differences (effects of variation in the economic, political and legal systems, the accounting profession and countries’ cultures) have been suggested by a number of research scholars as underlying causes for the existence of different international accounting systems (e.g., Mueller, 1967, Zeff, 1972; Radebaugh, 1975; Nair and Frank, 1980; Choi and Mueller, 1984; Nobes, 1983; Arpan and Radebaugh, 1985; Nobes and Parker, 1998; Gray, 1988; Lawrence, 1998). This body of research has contributed to a growing realization that fundamentally different international accounting patterns exist. In this regard, the existence of these major differences will lead to greater complications for those preparing, consolidating, auditing and interpreting published financial statements.

The International Standards and Accounting Systems of LEDCs

Whilst the issue of applicability of international standards to developing countries has been a subject of debate, consensus is lacking about adopting one set of global standards. In fact, two different schools of thought have contributed to the debate about this issue. The first one argues that the most suitable accounting systems are environmentally bound and, therefore, those systems should be developed locally in a way that enhances the local economic development. This view has prevailed in the accounting literature since the IASC’s inception in 1973 until the beginning of the 1990s when the adoption of IASs, as a result of economic globalization, became more acceptable internationally and, in particular, for the developing and newly industrialized world. The second school, which represents the positive side of this debate and supports the applicability of international standards to developing countries, has dealt with how much economic benefit the developing countries would yield if their accounting systems are internationalized. This view has been enhanced after the successful adaptation of the IASs in some of the Far East countries and, in particular, since the beginning of the 1990s, when most communist bloc and planned economies moved to market based economies. Economic globalization has accelerated the widespread acceptance of implementing international standards.

Characteristics of LEDCs' Accounting Systems :

A number of studies have been carried out to evaluate the nature of accounting systems in LEDCs (e.g., Hove, 1986; Briston, 1990; Agacer & Doupnik, 1991; Enthoven, 1991; Farag, 1991; Harry, et al., 1994; Baydoun & Willett, 1995). The majority of these studies have emphasized two points: first, that the LEDCs' accounting systems have been directly imported and influenced by accounting norms established in the developed countries (i.e. Hove, 1986; Nobes and Parker, 1998); and second, that accounting systems in LEDCs are faced with an inherent series of technical, educational and operational problems (Enthoven, 1991; Farag, 1991).

Most LEDCs' accounting systems have been influenced by external factors (i.e., historical, colonization, economic and political) and internal factors (i.e., cultural, technical, operational and educational problems) that have impacted on the development of the accounting professions in those countries. Moreover, creating accounting practices in almost all developing countries may not be relevant given that they were imposed by developed countries through a variety of channels, rather than in response to the local needs of those countries. It has been argued that the accounting profession did make significant advances because of these reasons (Farag, 1991). However, it has also been argued that, enhancing accounting practices in LEDCs could be achieved through standardization and enforcement of accounting standards. These standards can either be locally developed or from standards developed elsewhere (Al-Bastaki, 2000).

Argument against the Adoption of International Standards :

Opponents to worldwide adoption of international standards have generally argued that accounting systems in developing countries need to respond to the specific economic, cultural and political conditions in addition to other environmental factors which are unique to those countries (Hagigi and William, 1995). The transfer of accounting knowledge from developed to developing countries is seen as being environmentally bound. This school argues that IASs may not be universally applicable or acceptable.

This claim has been supported by the view that IASs/IFRs are based on the needs of users in developed countries, and that therefore they are not particularly relevant to the needs of LEDCs where totally different social and economic environments exist (Samuels, 1990; Enthoven, 1991; Briston and Liang, 1990; Briston and Wallace, 1990; Parry and Groves, 1990; Baydoun and Willett, 1995). The financial reporting of developing countries must provide the information appropriate for economic decision-making in such a society. This is because the large public sector dominates the economy of many LEDCs, and accountants, therefore, cannot ignore the requirements of economic decision-making within that sector (Samuels and Oliga, 1982).

Moreover, cultural differences are cited as the most serious barrier obstructing the harmonization process. The standards-setting process of the IASB has been demonstrated to be strongly influenced by the Anglo-American accounting model. As a result, IASs/IFRs tend to reflect the circumstances and the pattern of thinking in a particular group of countries. Perera (1989b) has discussed that the transfer of accounting skills from Anglo-American countries may not work because they are culturally irrelevant or dysfunctional in the receiving countries' contexts. The conclusion suggests that cultural differences are certain to create gaps, and, therefore, IASs/IFRs are likely to encounter additional problems of relevance in countries where different cultural environments from those found in Anglo-American countries exist.

A final support, that has been claimed to impede the harmonisation process, is the strong influence of nationalism. This factor may limit economic integration in general, and accounting in particular. A country that conveys a national pride advantage will limit effective communication and reject the standards of other countries, preferring to create its own ones (Cooper et al., 1998). At present, there seems to be an imbalance of power between LEDCs and the dominance of the domestic accounting of developed countries - the so-called internationalization of domestic standards of dominant members of the standards-setter bodies. Thus, this process has become a means of legitimating worldwide principles and practices that may or may not be appropriate to other countries or societies (Hove, 1990), and this reinforces the feeling of national pride.

Arguably, these points can be contrasted since it seems that they are not currently applicable to all LEDCs. Many of the LEDCs have successfully implemented privatization processes by which the leading role of the public sector has been dramatically reduced. The new business environment of those privatized developing countries will create a basis for more developed and transparent accounting systems. Even in some centrally planned economies where the public sector is still dominant, such as China, it is been suggested that the adoption of international standards has been successful (Hagigi et al., 2000). Therefore, since the accounting harmonisation process is not easily transferred to developing countries, it can be concluded that the opponents' views have not entirely considered that the required changes have also been bound by timing and degree of response to international pressures.

Argument in Support of the Adoption of International Standards :

Expressing belief in the suitability of IASs/IFRs in LEDCs, other scholars have discussed that the LEDCs need to implement international standards because of the benefits profile they may generate when applied successfully (Wallace, 1990; Belkaoui, 1994; Joshi and Ramadhan, 2002). The IASC says that IASs/IFRs are generally applicable in developing and newly industrialized countries as they are in LEDCs (Joshi and Ramadhan, 2002). It is argued that research shows that more than 56 out of 67 countries surveyed by the IASC (1996) either used IASs/IFRs as their national standards or based their national standards on IASs/IFRs (Joshi and Ramadhan (2002).

The adoption of IASs/IFRs has been suggested as appropriate in LEDCs to facilitate world trade, economic growth and foreign investment (Arpan and Radebaugh, 1985; Taylor et al., 1986; Wolk et al., 1989; Livingstone, 1990; and Mueller et al., 1991). Another concern is the benefits LEDCs companies would have on the global capital market (Collins, 1989; Moulin and Solomon, 1989; and Arpan and Radebaugh, 1985), and also reducing the costs of setting up accounting standards, enabling the profession to apply established professional standards of behavior, and conducting and legitimising its status as a member of the international community (Belkaoui, 1988; Wolk et al., 1989; Belkaoui, 1994). Reasons for the wider acceptance of IASs/IFRs have been suggested as being used for setting the national accounting requirements as an international benchmark. This is because the financial statements that are prepared in accordance with IASs/IFRs are accepted by regulators and stock exchanges. Choi and Mueller (1992) have pointed out that these benefits have led several LEDCs to adopt IASs/IFRs. However, it is evidenced that the LEDCs have found IASs/IFRs a valuable resource for improving the national accounting standards (Gangolly, et al., 2002).

Empirical studies on the applicability of international standards have showed an increased acceptance and enforcement. Joshi and Ramadhan (2002) have concluded that the present trend in Bahrain is to adopt IASs/IFRs. A study of relevance of IASs/IFRs in Turkey suggests that principles set out in IAS17 "Accounting for Leases" are considered applicable and acceptable as a basis for national standards (Çürük and Cooke, 2000). In the Indonesian environment, it is perceived that adoption of internationally acceptable accounting standards will enhance the level of confidence of foreign portfolio investors in the capital market (Diga and Saudagaran, 2000). A major development has been in China, as an example of a centrally planned economy. It has been reported that Chinese accounting practices have become internationalized. Hagigi et al., (2000) have reported the mechanisms through which Chinese accounting practices were developed internationally in the early 1990s. These changes are a consequence of the Chinese economic reforms from a centrally planned economy to a market one (Lin and Feng, 2000). New accounting regulations and accounting systems were introduced into the economies which have remarkably reduced the differences between Chinese accounting practices and international ones (Ge and Lin, 1993).

Characteristics the Syrian Accounting Systems:

Preview :

Accounting in Syria has undergone some changes in the last five decades, reflecting Syrian political and economic history during this time. Currently, the public sector (state owned) dominates the Syrian economy although the contribution of the private sector has recently been increased. Accounting practices and principles in the public sector have reflected those of the countries classified internationally as using uniform accounting approaches (Nobes, 1998). With a centrally planned economy since 1963, the government has issued a uniform accounting system for all the state's enterprises in which the focus is on production and cost accounting over external reporting. However, the new 2007 uniform accounting systems has officially required that all government owned companies to prepare their financial statements according to the requirements of IASs/IFRs. Accounting practices and principles in the private sector have prolonged free of regulation. Up to year 2007, the commercial Law of 1949 that regulated this sector did not include any accounting principles or requirements; it was rather oriented towards protecting the shareholders and debtors. Yet, after 2000, a series of new liberalization measures have been introduced to offer modern legislative and transparent business environment such as the 2009 Companies Law that has mandated the implementation of IASs/IFRs.

Background of the Syrian Accounting Profession :

There has been little previous research into the development of the Syrian accounting profession. This lack of interest may be due, in part, to the perception that the role of a professional body as a self-regulatory one is negligible, and the accounting market and resources are extremely limited since they have been dominated by the public sector. Shawki (1991) has argued that government intervention has resulted in the so-called nationalization of the accounting profession and that the accountant has become a government servant rather than an independent professional. Alkadi (1992) explained that historically the French auditors used to provide the accounting service during the Mandate period. The establishment of several stock corporations accompanied independence in 1946, and a few national accounting offices began to offer accounting services. This period of profession development continued until the emergence of the United Arab Republic (UAR) in 1958. The Certified Public Accounting System was issued to organise auditing practice and the Syrian Association of Chartered Accountants (SACA) was also established.

Shortly after setting up the UAR, a standstill period of the accounting profession began. Alkadi, (1992) argues that the reasons could be attributed to a reduction in the establishment of new corporations when the UAR nationalized some stock companies in 1961, which had a negative effect on the accounting profession. This was followed by a period of political and economic disorder during the disunion period in 1961. More comprehensive nationalization resolutions were issued in 1965. Auditing the financial statements of the nationalized companies was assigned to independent private auditors until 1967, but the establishment of the Central Institution of Financial Control (CIFC) in 1967, caused the profession’s standstill to turn into a regression. CIFC has become responsible for providing auditing services to all the public organizations that are related to the state budget. This period continued up to the end of the 1980s and was accompanied by a limited demand for accounting and auditing services. In the 1990s, a new Income Tax Law No 20 of 1990 and Investment Promotion Law No 10 of 1991 were issued. These regulations have increased after year 2000, and consequently enhanced the demand for accounting services in the private sector.

Currently, Decrees No. 22 of year 2003 and No. 55 issued in year 2005 launched Syrian Financial Markets. There is a newly established stock exchange in Syria that commenced operations in year 2009, which might provide a role for financial reporting. The new 2009 Accounting Profession Regime (Decree No 33) and the 2008 Company Law regulate Accounting and auditing practices. SACA has partially been given the legal authority to organize the accounting and auditing practice. Although the role of SACA in organizing the auditing profession has been also disabled because of the dominance of the public sector, SACA has recognized and evaluated accounting practice internationally, influenced by IASC, and as a member of IFAC, issued the first draft of accounting standards in 1995 (amended in 2000) in accordance with the IASs. Until 2009, SACA had no legal or professional power to enforce implementation and it is not known if the Ministry will do so. Therefore, the scope of international influence was limited. As a result, this recent Syrian legal enforcement of IASs/IFRs is a response to increasing international influences. The following sections discuss briefly the public and private influences on the regulation of accounting practice and the current situation of the Syrian accounting profession.

Public Sector Accounting :

The Syrian Uniform Accounting System (UAS) was approved in 1974 and revised in 1978. It is applicable to all state-owned enterprises (the public sector) and the collaborative sector (i.e. housing, agriculture). In general, this system provides a national uniform chart of accounts, definitions and explanations of terminology, explanations of the form of journal entries, principles of accounting measurements (valuation), cost accounting methods and uniform cost control accounts, standard forms for financial statements and the enterprise value added statement. This set of information is intended to link the entity's financial reporting and the national economic accounts. Neither income nor cash flow statements are required. Until 2007, The Uniform Accounting System made use of the accounting measurements and valuation methods normally listed in GAAP. For example, tangible assets are valued at their historical cost, and depreciation is allocated on a straight-line and according to previously decided rates. Other concepts may include accruals, prudence and consistency. When valuing the inventory, it must be valued at the lower cost, or market value using LIFO, FIFO or weighted average.

The most important change of the 2007 UAS is a legal requirement that all government- owned companies have to prepare their financial statements according to the requirements of IASs/IFRs. Implementing the Uniform Accounting System is compulsory for all state owned companies and establishments. Moreover, all enterprises are required to establish a so-called accounting manual, which should be appropriate to the nature of their own business. It must include detailed flow charts and explanations of the entire accounting system, descriptions of all data processing procedures and controls, and a comprehensive statement of both the accounting principles underlying the annual financial statement and the procedures used in the mandatory annual inventory. However, an interesting fact can be observed. In such an environment of professional practice, the accountant has also been nationalized and is no longer working as an independent professional, and disclosure policies have been neglected since the accountants have tended to apply the regulations more than those policies.

Private Sector Accounting :

Up to 2007, and as the role of a professional body has been dismissed for a long time by the government, the Commercial Law of 1949 and income tax legislation have influenced and regulated private sector accounting. This Commercial Law was only applied to private sector companies. When it was issued, the Syrian economy operated through private organizations, and it was applied to the whole economy. After the fundamental change of the Syrian political and economic systems in 1963, which was followed by economic nationalization measures, the role of this Law significantly decreased. It may be argued that this is a reason to justify keeping this Law for more than fifty years without major amendments. The 1949 Commercial Law stated that private companies must prepare and publish annual audited financial statements. This includes a balance sheet, trading and/or operating accounts, and profit and loss accounts. Neither income nor cash flow statements are required for this type of company. In practice, the preparation of financial information is a legal requirement that only serves two groups: the shareholders and the tax authorities. It can be argued that it is not needed for fair presentation and this is due to, for example, the lack of a stock exchange in Syria. The influence of tax law is extremely significant. Business expenses are deductible for tax purposes only if listed on the schedules issued by the Ministry of Treasury. For example, the authorities identify the annual rate of depreciation irrespective of the assets' useful life, and legal reserves must be created.

Arguably, it could be concluded that financial reporting in Syria was not oriented toward a "fair" presentation of the financial position and results, it was rather directed towards compliance with legal requirements and tax law, and accordingly it can be described as a form over substance accounting systems. Up to year 2007, Syria did not apply any special accounting principles, but it depended on some rules and regulations issued concerning different accounting principles such as inventory valuation and depreciation of fixed assets. On the first hand, while there is no comprehensive statement of accounting principles implemented in the private sector, different accounting practices prevail in practice (Deloitte and Touche, 1990). On the other hand, the public sector applies the uniform Accounting System. Currently, complying with the requirements of IASs/IFRs is legally forced by the recently issued legislations such Damascus Stock exchange listing requirements, the 2009 Accounting Profession Regime, some consequent income tax reforms.

A Suggested Approach to Facilitate Implementing the IASs/IRRs in Syria :

Although this paper supports the necessity of enhancing the Syrian accounting systems by implementing the international standards, it also acknowledges that successful implementation is conditioned by considering the characteristics of the Syrian accounting systems. The Syrian accounting systems can facilitate this process by legal and professional reforms focusing on the impeding environmental factors. As such the suggested approach is a customization technique. Specific environmental factors require an adaptation or customization of international standards to meet the local needs of cultural, political, economic and other environmental factors in Syria. It can be argued that some standards will not be applicable to Syria. For example, IAS/IFR on financial instruments is not relevant because these instruments (i.e., options) are not in use in the local stock markets. Also, the disclosure about related parties in the annual published financial statements is not common since that Syrian businessmen have culture-based practice about the secrecy value for religious and tax evasion reasons. Empirically, the customization approach found support in the study of Larson, (1993). It was concluded that the rate of economic growth is statistically higher for those countries that adopt and modify IASC's standards, as compared with those countries that do not adopt IASC's standards, or that adopt them without modification.

Some authors have also claimed this customization approach (i.e., Belkaoui, 1988; Diga and Saudagaran, 2000). This requires that domestic accounting standards setters need to consider possible incompatibilities between the ISAs/IFRs' prescription and domestic conditions and alter the ISAs/IFRs appropriately. Some Asian countries have followed this route, particularly Malaysia and Singapore (Diga and Saudagaran, 2000). Samuels (1993) notes that LEDCs, and Syria included, may be selective in their adoption of IASs/IFRs. For example, there were a few standards that were considered to have no relevance to the economy of Bahrain (Joshi and Ramadhan 2002). Others have even claimed that extra standards are needed for the LEDCs. Wallace (1993) has demonstrated that the adaptation of existing standards was necessary, and also the production of additional standards concerned with the problems of these countries is also important. For example, IASs/IFRs have not addressed issues of particular interest to developing countries such as accounting for agriculture and natural resources extraction activities (Diga and Saudagaran, 2000). Therefore, the enforcement of international standards might be feasible if the developing countries are given the chance, effectively, to contribute and disseminate their own needs in the international standards setting process.

Conclusions and Recommendations :

The discussion in this paper is concerned with the role of the International Accounting Standards Board (IASB) in facilitating the harmonization of the accounting process. This paper has also defined the notion of international accounting. The international professional bodies alongside other international influences such as economic globalization, multinational companies, the large international firms and international monetary aid agencies are all attempting to standardize international private sector financial reporting. Besides, the process of international accounting harmonization process takes place in an environment where cultural, political, legal and economic factors cause international differences and influence the countries accounting practices. It can be discussed that the combination of these factors have shaped national accounting frameworks, and, therefore, different combinations of factors will lead to different national financial reporting environments.

The weaknesses in the LEDCs' accountancy systems can be largely traced to external and internal factors such as historical, cultural, operational, educational, and other environmental factors. The tendency for harmonization of accounting standards and practices in LEDCs with those in the rest of the world seems to present conceptual and practical problems of far wider dimensions. This could be expected simply because, as argued by Wallace (1990), LEDCs are not a homogenous group. Each has a different culture, degree of literacy, population, different terms of GNP, and different economic and political systems. It is highly probable that the goals and information needs of a given economy will differ from one country to another. As a result, in the context of the LEDCs, it is questionable that those standards will yield satisfactory information systems for the process of national economic development. These differences will ensure, for some time, that two countries will not have an identical accounting and auditing framework. While the globalization of capital markets and the internationalization of trade will push international practices closer together, the idea of a single set of international standards for the world continues to be unrealistic.

The development of accounting in Syria has indicated that there is no professional body, public or private, to work as a standards setter. The legal requirements are dominant in the country, and the accounting practice tends to be less developed and more state–regulated. The profession has fluctuated between progression and regression since Independence. This fluctuation is attributed to political and economic factors. At the beginning of the 1990s, and particularly after year 2000 legislations were issued to liberalize the immobility of private capital. The accounting profession is again relocating itself, influenced by national and international pressures to make some accounting change. Its professional power, however, was still limited. Consequently, in such accounting environment the successful implementation of IASs/IRRs without amendments is questionable and may not achieve its intended objective to present useful appropriate financial reports for decision making.

In conclusion, it is possible to hypothesize that, since Syrian economic, legal, and political systems are different from other countries, the problem of appropriate accounting standards will imply a different norm of compliance and practices. As a result, a significant divergence in the implementation and interpretation of IASs/ IFRs in general is expected. This paper recommends for Syrian Accounting Policy makers to use the so – called adaptation or customization approach of international standards to meet the local needs of cultural, political, economic and other environmental factors in the context of Syria.

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