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The Development of Accounting Regulation in Iraq and the IFRS Adoption Decision: An Institutional Perspective

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Abstract

This paper reviews the historical development of accounting regulation in Iraq and analyzes, from an institutional perspective, both the decision to adopt International Financial Reporting Standards (IFRS), and the factors likely to impact the expansion of IFRS application beyond listed companies. We find that all three forms of institutional isomorphism (coercive, mimetic, and normative) explain the initial decision to adopt IFRS. The most significant force in the decision to adopt IFRS is coercive pressure, from western forces following the fall of the Ba'ath regime, and from international aid organizations. Further, we find that the accounting system in Iraq is likely to be further advanced due to mimetic and normative pressures from Iraq's trade partners, multinational corporations, and the accounting profession. The paper concludes with a discussion of lessons that can assist other developing nations, and in particular countries in the Middle East in their decision to adopt IFRS. It is important that IFRS adoption is accompanied by reform to governance and investor protection regimes, together with investment in education and training to support ongoing implementation. Otherwise, IFRS adoption may be perceived as merely symbolic.

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1. Introduction

The decision to adopt International Financial Reporting Standards (IFRS) at the national level is predominantly an economic decision, with IFRS adoption leading to enhanced transparency, quality, and comparability – characteristics desirable to support international business and extend globalization. However, there is little empirical evidence to support this view, as extant research presents conflicting results (Chua & Talor, 2008; Judge, Li, & Pinsker, 2010). Exploration of IFRS adoption has, for the most part, lacked any theoretical foundation (e.g. Al-Akra, Ali, & Marashdeh, 2009; Hope, 2003) and has most often been conducted at the corporate level, with little being carried out at the national level (Judge et al., 2010).

We address these limitations by analyzing the factors that have impacted, and continue to affect, the accounting system in Iraq, from an institutional perspective. In doing so, we seek to answer two research questions:

- What influenced the Iraqi government's decision to initially require IFRS application by firms listed on the Iraq Stock Exchange?
- What factors are likely to impact the accounting system, and the continued or expanded use of IFRS, in the future?

Our study is motivated by the increasing interest in Iraq as a channel for foreign investment; the limited information about Iraq's accounting system currently available; and a desire to contribute to the Iraqi government's policy development with respect to improving the reporting environment in order to attract foreign investment.

In recent years Iraq has undergone significant changes in its economic, political, and financial environment. The Iraqi economy moved from a centrally planned to a free market economy in 2003 and became, arguably, the most open economy in the region (Looney, 2004). The primary reason for this change was to provide Iraq's economy with financial resources essential to its recovery from war and decades of recession, particularly after the weakening of oil industry infrastructure during the Ba'ath regime (Jones, 2004).

Two main factors have led to an increasing focus on Iraq by governments and business globally. First, Iraq's oil reserves are believed to be second only to Saudi Arabia (Shubber, 2009). Consequently, Iraq has a very important role to play in the global economy, particularly with the ever-increasing demand for oil and energy. Iraq currently accounts for almost 3% of global oil production, and the capacity to help alleviate world energy shortfalls. Second, investors have started to show strong interest in Iraq, particularly in the natural resources sector and its supporting infrastructure. In 2004, legislation was amended to allow both private and foreign ownership of natural resource companies for the first time, and to open investment in Iraqi listed companies to foreign investors.

This paper makes four main contributions. First, we contribute to a general understanding of Iraq's political, economic, and regulatory environment, and specifically its accounting and financial reporting environment. Understanding the accounting and financial reporting environment is crucial to any successful investment decision. While limited prior research (e.g., Yousif, 2007) documents the nature of the political and economic development in the nation, no research has investigated the development of the accounting system in Iraq and the antecedents to IFRS adoption. This paper serves this purpose.

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