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ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS IN DEVELOPING COUNTRIES-

THE CASE OF GHANA

Business Economics and Tourism

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ABSTRACT

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Most countries in the world have revolutionized their accounting practices especially during the last few decades of the 21st century. Such revolutions encompass the adoption and adaptation of local accounting practices and harmonizing it with that of the International Financial Reporting Standards (IFRS) – formerly International Accounting Standards (IAS). The study seeks to analyze how developing countries and in particular Ghana adopted the International Financial Reporting Standards.

The transformational processes studied covered the early periods of Ghana's independence from the British, 1957 to present era using both qualitative and quantitative methods. Questionnaires used gathered existing data on companies adopting the IFRS standards and how institutional forces in Ghana the Institute of Chartered Accountants Ghana (ICAG) have influenced the adoption process. DiMaggio and Powell's (1983) theory of Institutional isomorphism is reflected in the adaptation process to better help understand the benefits of adopting new accounting standards and in this case, Ghana. External environments that also affect the adoption of International Financial Reporting Standards in developing countries are also examined in this study.

Keywords: International Financial Reporting Standards (IFRS), IAS

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TIIVISTELMÄ

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Useimmat maailman maat ovat mullistaneet kirjanpitokäytäntönsä varsinkin viime vuosikymmeninä 21. vuosisadalla. Tällainen muutokseen sisälyypaikallisen kirjanpidon hyväksyminen ja mukauttaminen ja yhdenmukaistaminen se International Financial Reporting Standards (IFRS) - entinen International Accounting Standards (IAS) kanssa. Tutkimuksen tavoitteena on analysoida, miten kehitysmaat ja erityisesti Ghana toteutti International Financial Reporting Standards.

Muutosjohtamisen prosessit joita on tutkittu, kattaa alussa jaksot jolloin Ghana on riippumaton brittiläinen, 1957 ja nykyajan käyttäen sekä laadullisia että määrällisiä menetelmiä. Kyselylomakkeilla on kerätty olemassa olevaa tietoa yritysten käyttöön huomioiden IFRS-standardit ja miten institutionaaliset voimat Ghanassa Institute of Chartered Accountants Ghana (ICAG) ovat vaikuttaneet käsittelyaikaan. DiMaggion ja Powellin (1983) teoria Institutionaalinen isomorphism näkyy muutosprosessissa paremmin ja auttaa ymmärtämään hyödyt ottaa käyttöön uusia tilinpäätösstandardeja ja tässä tapauksessa, (Ghana)ulkoisen ympäristön, jotka vaikuttavat myös hyväksymiseen International Financial Reporting Standards kehitysmaissa tarkastellaan myös tässä tutkimuksessa.

Asiasanat: International Financial Reporting Standards (IFRS), IAS

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I dedicate My BSc. final dissertation to my dear Mother - Akua Fakaah for the wonderful care, support and encouragement she offered me from childhood as well as to my grandmother Grace Antwi. My uncle Dr. Kwadwo Amankwaah and his friend Mr. Ahortor of University of Ghana should accept my gratitude for their immense support. I would also like to express my sincere gratitude to Prof. Adebayo Agbejule and Mr. Emmanuel Ndzibah both at Vaasa University of Applied Sciences, Finland and the whole big Vaasa Family for their support and encouragement through my degree education. I wish to also express my appreciation towards all the staff at Millicom Ghana Limited finance department for their support during my three month internship program. Can I ever conclude without mentioning Mr. Maxwell Agboveh who has been a source of great advice and motivation in this project? Thank you very much Max.

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1. INTRODUCTION

1.1 Background

Internationalization of economic trade and globalization of businesses is on the ascendency. Consequently, financial statements prepared according to a nation's local accounting system may hardly meet the needs of investors, business partners, financiers and decision-makers who are conversant with international standards. Meanwhile, developing and emerging markets are the target of the world's leading industries that are operating in the saturated western countries. To better undertake their activities in developing countries; they must adopt international accounting standards that suit needs (Zeghal and Mhedhbi, 2006)**.** Additionally, hence foreign investment is major boost to the economies of developing countries an investor may demand vivid and comprehensible financial information - underscoring the reason why developing countries must adopt International Accounting Standards (Zeghal and Mhedhbi, 2006)**.**

To bridge the gap between accounting standards among countries, the International Accounting Standards Committee (IASC) was founded in 1973 by a group of professional accounting practitioners with an attempt to formulate a uniform and global accounting standards that would aim at reducing the discrepancies in international accounting principles and reporting practices. In this light, the International Accounting Standard (IAS) was proposed which has actively been championing the uniformity and standardization of accounting principles over two decades now (Carlson, P, 1997). Meanwhile, in April 2001, the International Accounting Standards Board (IASB) took over the setting of International Accounting Standards from the International Accounting Standard (IASC). Henceforth, the IASB updated the already existing International Accounting Standard (IAS) and referred to them as the International Financial Reporting Standards (IFRS). This study focuses on how Ghana as a typical case of a developing economy adopted the International Financial Reporting Standards.

In January, 2007, the Minister of Finance and Economic Planning - Ghana formally launched the adoption of IFRS. By December 2007, listed companies, government business enterprises, banks, insurance companies, securities brokers, pension and investment banks and public utilities are expected to prepare their financial statements in accordance with the IFRS. In an address to the participants at the launching, the minister referred to a report on Observance of Standards and Codes (ROSC) on Ghana that the world bank issued in March 2006, and noted that "the adoption of IFRS would address certain weaknesses the ROSC of Ghana has identified" (UN, 2007).

1.2 Research Gap and Objective of the Study

In recent years, the development of international accounting standards and adoption by such industrialized countries as: Britain, Germany, United States of America, Canada and the Members of the European Union have been a major of concern among accounting professionals. In spite of the numerous studies about the Adoption of International Accounting Standards by developed and industrialized countries around the world, less attention has been given to developing countries. Virtually, no articles and books about the adoption of accounting standards by developing countries and in particular Ghana exist (Zeghal and Mhedhbi, 2006). Moreover, the few that are in existence primarily focuses on whether it is necessary for developing countries to adopt international accounting standards (Tyrrall *et al* 2007).

Secondly, these articles and books discuss the impact of international accounting standards on the economic development of the various developing countries. Meanwhile, most previous studies on adoption of international accounting by developing countries are country specific. For instance an analysis of the International Accounting Standards implementation process in developing countries which took Armenia as the analytical framework" (McGee 1999).

In this light therefore, this study will examine how the accounting profession has evolved in developing countries over the years - specifically Ghana Additionally, the processes and factors affecting the adoption of International Financial Reporting

Standards by Ghana would be analyzed as well as the merits and the demerits of the adoption of IFRS in Ghana.

1.3 Research Questions

This study would examine critically the following areas with respect to the adoption of Ghana's International Accounting Standards.

- What are the factors affecting the adoption of IFRS in developing countries and in this case Ghana?
- What are the practical benefits of adopting IFRS by developing countries - Ghana?
- What are the demerits in the adoption of IFRS in developing countries and specifically Ghana?

1.4 Scope and Limitations

Owing to the broad and the complex nature of International Financial Reporting Standards, this study would focus on the factors that moved Ghana to adopt the IFRS, the adoption process, the economic benefits of the adoption of IFRS and the demerits as well. According to Nobes and Parker (2004), such factors as external environment and culture, legal system, providers of finance, taxation, profession, inflation, accidents and external influences have greater bearing on the decision to adopt IFRS in a country. On the other hand, educational levels, economic growth, cultural membership, availability of capital market and degree of external economic openness have impact on the adoption of IFRS by developing countries (Zeghal and Mhedhbi, 2006). However, in this study, the following four points would be used to analyze the factors that affect the decision to adopt IFRS in developing countries and Ghana in particular; economic growth, external environment and cultural membership, capital market or providers of finance and legal system. These main issues would be analyzed in the theoretical or literature review and the empirical studies of this dissertation respectively.

The study exempts the consideration of detailed and specific accounting principles and application of the International Financial Reporting Standards. It is noteworthy that IFRS contains special treatment of financial statements for different entities such as government businesses, Small and Medium Enterprises and Multinational companies among others. In this study however, these would not be discussed due to the technicality of their accounting information.

1.5 Structure of the Study

In a chronological order, the study first introduces the subject by giving the background information, the research gap and objective, the research questions or problem, scope and limitations of the study. Secondly, the literature review or the theoretical framework ensues with the information on the subject as gathered from secondary sources. More so, the theoretical framework explains the theory of Isomorphism which describes how Ghana adopted IFRS and also the factors that led to Ghana's adoption of the IFRS. The factors affecting the adoption of IFRS in Ghana is also reviewed from the perspectives of other researchers. The empirical study discusses the research methods used in collection of the data for the study Finally, suggestions for future research and conclusions are made on the study.

2. LITERATURE REVIEW

2.1 Ghana at a Glance

Ghana is located in the Western part of Africa, bordering the Gulf of Guinea, between Cote d'Ivoire, Togo and with Burkina Faso - the northern boundary. Ghana was formed from the merger of the British colony of the Gold Coast and the Togoland trust territory. Ghana was colonized by the British. Ghana became the first sub-Saharan country in colonial Africa to gain its independence in the year in 1957. After successive political instabilities, Ghana approved a new constitution and restored multi-party political system or democracy in the year 1992.

Ghana has almost twice the per capita output of some of the poorest countries in West Africa. This is due to the fact that Ghana is endowed with abundance of natural resources. Despite, the mineral riches, Ghana depend greatly on international financial and technical assistance. Natural resources such as Gold, bauxite, manganese and cocoa production, and individual remittances from family members abroad serves as the main sources of foreign exchange (Addison Y. 2004). However, the domestic Ghanaian economy depends heavily on peasant agriculture, which contributes almost 35% of the Gross Domestic Product and employs about 55% of the total work force of the country. In a bid to modernize the agriculture sector, Ghana signed a Millennium Challenge Corporation (MCC) Compact in 2006. Ghana also joined the Heavily Indebted Poor Country (HIPC) program in 2002, which was aimed at cancelling some of the debts of the country. An initiative of the Ghanaian government termed Growth and Poverty Reduction Strategy seeks to provide the framework for achieving macroeconomic stability; private sector competitiveness; human resource development; and good governance and civic responsibility. It is believed that an improved macro-economic management together with high prices for gold and cocoa helped sustain Gross Domestic Product growth in the year 2008.

The table below summarizes the major economic indicators of Ghana and how the economy is faring.

Economic Indicator	Amount	Rate
Gross Domestic Product	$34.52 billion	
Per Capita Income	$1500	
GDP Growth		7.30%
GDP Contribution		
Agriculture		37.30%
Industry		25.30%
Services		37.50%
Labor Force	10.12 million	
Labor force by Occupation		
Agriculture		56%
Industry		15%
Services		39%
Unemployment		11%
Investment		32.10%
Budget		
Revenue	$5.256 billion	
Expenditure	$7. 492 billion	
Inflation Rate		16.50%
Market Value of Publicly Traded Shares	$3.394 billion	
Export	$5.275 billion	
Import	$10.26 billion	
Current Account Balance	-$3.471 billion	
Foreign Exchange Reserves and Gold	$2.028 billion	
External Debt	$5.055 billion	

Table 1. Ghana's Economy. Source: The World Factbook, (2008)

2.1.1 Gross Domestic Product

The Ghanaian economy shows positive outlook with improving growth according to a report by the Organization for Economic Co-operation and Development (O.E.C.D.). This is mainly attributable to the private sector's positive responds to the improved business environment as well as the increasing bank lending and capital inflows which imply that investor confidence has improved significantly in the domestic market.

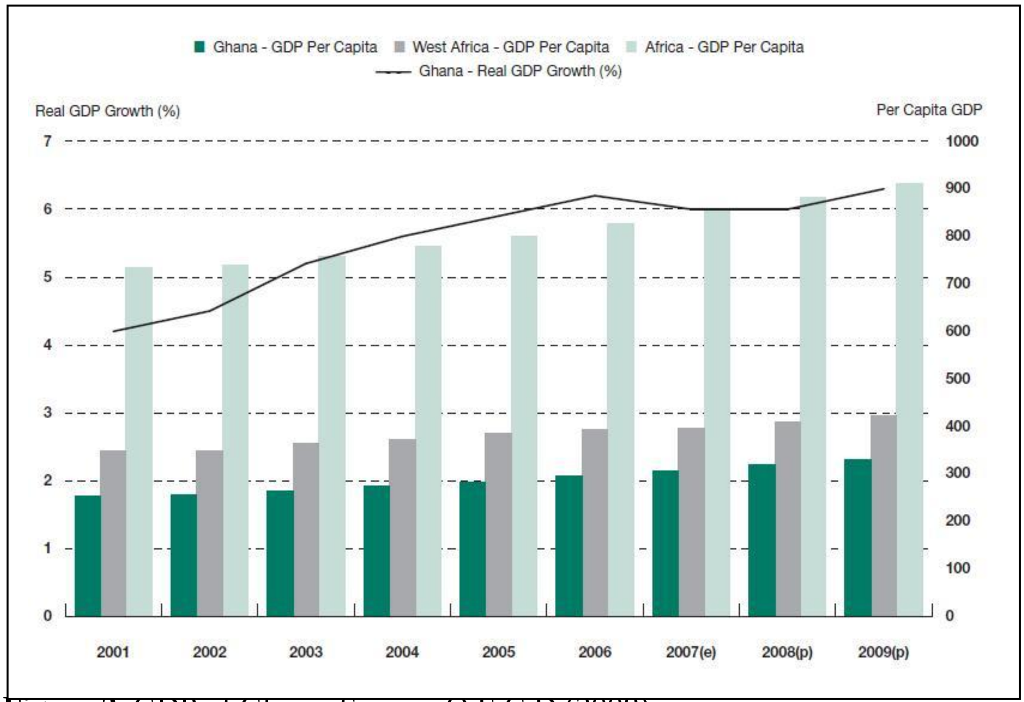


Figure 2. GDP of Ghana. Source: O.E.C.D (2008)

2.2 Overview of Accounting System in Developing Countries (Ghana)

Almost all developing countries that were colonized by the British to some extent adopted the British educational system. Mention can be made of such colonies as Gambia, Ghana, Nigeria, Southern Cameroon, Sierra Leone, Kenya, Uganda, Tanzania, South Africa, Northern Rhodesia (Zambia), Southern Rhodesia (Zimbabwe), Nyasaland (Malawi), Lesotho, Botswana, and Swaziland. These countries followed a similar pattern during and after colonization. Henceforth, to discuss the overview of the accounting system in these developing countries, it can be assumed that similar trends were used and for that matter one country's circumstance reflects that of the other country. In this respect therefore, Ghana is used as a sample to examine the overview of the accounting system in these countries.

Ghana, a former British colony for over a century, was introduced to British educational system. According to Wijewardena and Yapa (1998), *"during the early years of the colonial period, most of the sizable businesses in these countries* (Ghana as example) *were set up by British investors. The managerial personnel, including accountants, for these enterprises were generally brought from the UK. At that time a person could obtain the status of professional accountant only by admission to one of the British professional accounting bodies. Only the small number of local people who could bear the cost of education and training abroad proceeded to England to obtain professional qualifications".* In effect, this argument implies that the Ghanaian Accounting System began to take shape after the introduced British Accounting System. More so, the import of professional personnel into the country to a larger extent meant that, all major businesses in the country had to be managed in accordance to the British system being it: bookkeeping, management, investment, preparation of financial statements among others. Additionally, the monopolistic nature of the accounting profession in the country, impressed on all who wish to pursue accounting to study in one of the British professional accounting bodies, thereby spreading the British accounting standards across the length and breadth of Ghana.

Furthermore, development of Accounting in a country largely depends on the existence of professional accounting bodies especially in a country where the common law system of accounting is employed. "*Some British accounting bodies set up examination centers in a few major cities in developing countries allowing local people to obtain British professional accounting qualifications while working in their own countries"* (Johnson & Caygill, 1971 cited in Wijewardena & Yapa, 1998). It is obvious from this conclusion, that a considerable number of Ghanaian accounting students excelled in both the accounting examination and practical training requirements of these professional bodies and therefore eventually became British qualified accountants. These locally trained accountants occupied prominent positions in Ghana even after the independence in 1957. They acted as consultants and advisors to the subsequent governments that took the reins of Ghana in matters of accounting and setting accounting standards and regulations.

After independence, a few British qualified accountants instituted a monopolistic and elite professional body that is similar to the Institute of Chartered Accountants of England and Wales. In most instances, the professional accounting body adopts the name of the professional body in the United Kingdom and in this case, Institute of Chartered Accountants of Ghana. The Institute of Chartered Accountants, Ghana possesses identical traces as the parent company in England and Wales and this include among other things similar examination and training structures and a similar emphasis upon auditing as it is done in British (Briston, 1978 cited in Wijewardena and Yapa, 1998).

However, it is highly imperative to know why developing countries continue to apply accounting standards of their colonial masters' even decades after independence amidst better educational infrastructure and well-established local professional accounting bodies. Partly due to the lucrative rewards the British qualified accountants receive and partly because they are reluctant to admit that the system of accounting may be of lesser or no benefits, these accountants try as much as they can to continue the accounting education they pursued.

In other instances also, some local professional body exercises excessive control over the supply of accountants by deliberately limiting the membership only to those who complete its examinations to ensure that a certain form of class is maintained among its members.

2.2.1 Institute of Chartered Accountants Ghana (ICAG)

The Institute of Chartered Accountants (Ghana) as the sole accounting body in Ghana was established by an Act of parliament, Act 170, in 1963. The institute was established during the Socialist Regime of the first president of Ghana, Dr Kwame Nkrumah. The primary objective of the institute was to train local accountants in order to reduce the country's reliance on foreign accountants especially from the United Kingdom. However, ICAG failed in its responsibility to train local accountants to serve the Ghanaian Economy. This led to the creation of a huge market for other foreign accounting bodies such as Association of Chartered Certified Accountants.

ICAG is governed by a council of eleven chartered accountants. Its members are the only persons recognized under the Companies Code for the purpose of audit of company accounts. Membership is limited to those who have passed the qualification examinations conducted by the institute and completed the requisite practical training approved by the council of the institute. Also, members of other accounting bodies recognized and approved by the council of ICAG as having equal status to the institute can be apply to be members of ICAG.

The Generally Accepted Accounting Principles (GAAP) previously used in Ghana was called the Ghana National Accounting Standards. Ghana National Accounting Standards was partly based on the pre-IFRS, International Accounting Standards. Additionally, the United Kingdom audit standards were incorporated and applied by extension in the Ghana National Accounting Standards. The audit profession is regulated and licensed by the Institute of Chartered Accountants, Ghana.

2.2.2 Functions of Institute of Chartered Accountants, Ghana ICAG

The task of regulating the accountancy profession in Ghana is the sole responsibility of the Institute of Chartered Accountants, Ghana. Among its objectives, ICAG promotes accountancy profession and the provision of local training and education for accountants in Ghana.

This body also investigates complaints, and can reprimand, publish the offense, or de-license - but in practice does not have sufficient enforcement and monitoring capacity. Reservations have been voiced by market participants on the quality of auditors. The Securities and Exchange Commission has plans to register accountants / auditors that would be eligible to work with listed firms. Other functions of the Institute of Chartered Accountants (ICAG) include:

1. To conduct qualifying examinations for membership of the institute and approval of courses of study for such examinations.

2. To maintain and publish a register of chartered accountants as well as practicing accountants.

3. To secure the maintenance of professional standards among persons who are members of the institute and to ensure that members are abreast with the professional code of ethics of the accountancy profession in Ghana.

4. To maintain a library of books and periodicals relating to accountancy and to encourage the publications of such books.

2.2.3 Difficulties Faced by ICAG

The Institute of Chartered Accountants, Ghana, faced many challenges in its quest to fulfill its obligations of ensuring the production of local accountants and regulating the accounting profession in Ghana which include:

a. Inadequate supply of teaching personnel

b. Inadequate funds for the educational institutions providing tuition for ICAG

c. Non availability of teaching materials and other teaching aids.

d. Inappropriate structure for the training and education of accountants

2.3 The theory of Isomorphism

The theory of isomorphism defines the "constraining process that forces one unit in a population to resemble other units that face the same set of environmental conditions" (Hawley, 1968 cited in DiMaggio and Powell 1983). DiMaggio and Powell assert that "*organizational characteristics are modified in the direction of increasing compatibility with environmental characteristics; the number of organizations in a population is a function of environmental carrying capacity; and the diversity of organizational forms is isomorphic to the environment diversity".* This theory in practice implies that, the features of an organization can be tuned to some extent for the sake of compatibility and uniformity to suit the surrounding environment of the organization in question. Also in most instances, even the numerical value of organizations in an environment, according to the theory is as a result of the capacity or the ability of the environment to contain such organizations. The identity, complexity or even the simplicity of the structure of an organization is a function of the diversity of the environment in which it operates. The theory of Isomorphism can be classified into two namely Institutional and competitive Isomorphism.

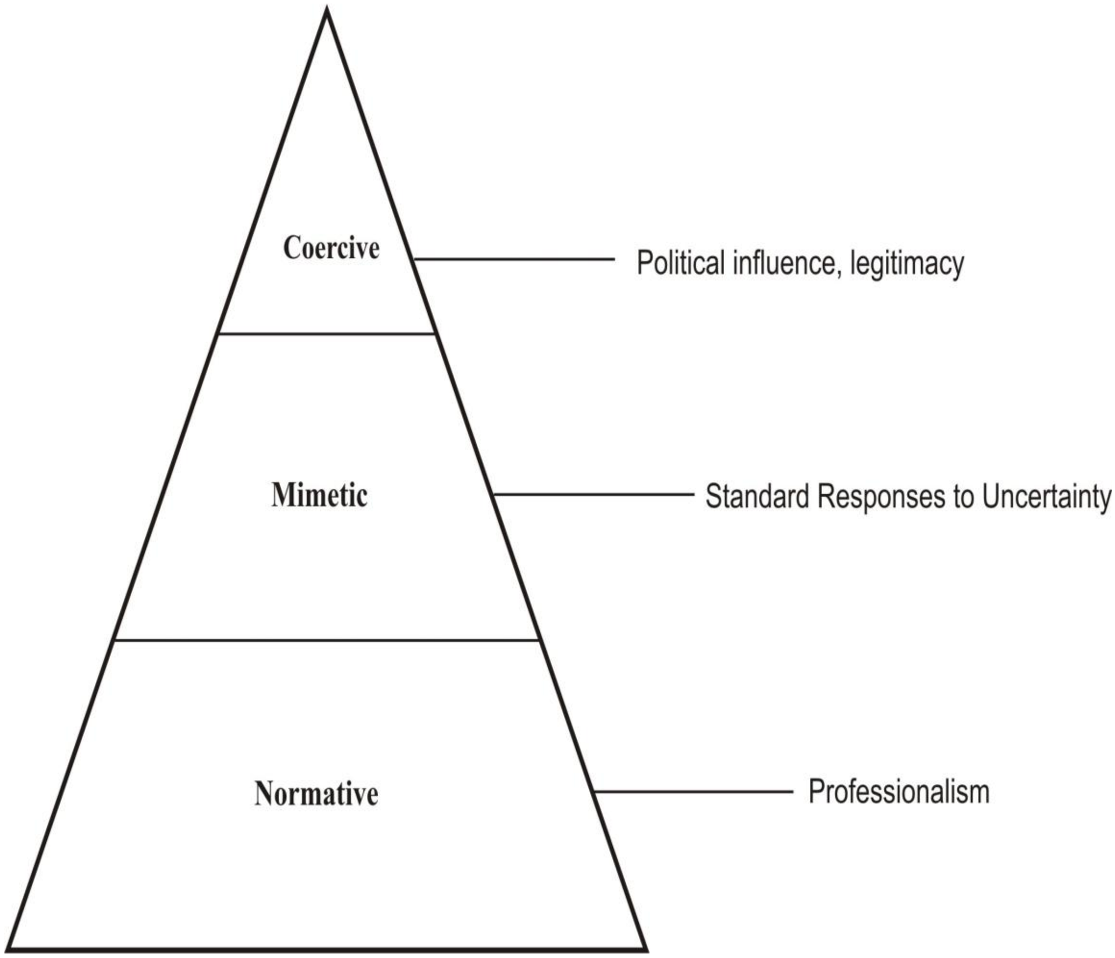


Figure 3. Institutional Isomorphism (DiMaggio and Powell, 1983)

2.3.1 Coercive Isomorphism

This form of isomorphism stems from political influence and the problem of legitimacy. Coercive isomorphism might originate from all spheres of an organizational or political environment. Additionally, coercive isomorphism takes the shape of a formal or an informal pressure exerted on an organization by other superior organizations upon which they depend as well as the cultural environment within which an organization operates. In most instances, such pressures might be perceived by the organizations as force, persuasion or an invitation to adopt a particular policy.

The main institutions that might have internally influenced the adoption of International Financial Reporting Standards in Ghana are: Chartered Institute of Accounting, Ghana, Securities and Exchange Commission (SEC), and the Ghana Stock Exchange. The Securities and Exchange Commission supervises the activities of “all listed companies, and so as investment advisors, broker or dealers, unit trusts, mutual funds, share transfer agents, trustees of collective investment schemes, custodial services providers, the Central Securities Depository, registrars to a public issue of securities, and underwriters” (World Bank, 2005). Institute of Chartered Accountants, Ghana on the other hand formulates all the accounting regulations in Ghana and also controls the accounting profession. These institutions influence the choice of reporting standards that are used in Ghana.

Another case worth noting is the use of coercive isomorphism in the development of Accounting in Egypt. During the developing stages of the Egyptian international accounting, “the government passed several administrative laws to set financial disclosures under statuary control. Accounting and auditing became a major tool for planning and monitoring the state economic activities. The government laws adjusted all major systems, including accounting, to correspond to the state central planning philosophy” (Hassan, 2008).

However, the explanations given above are internal and hence within the country. Coercive Isomorphism can also be examined from an external perspective.

a. External Environment

The adoption of IFRS by developing countries to a larger extent is influenced by external factors such as foreign investors, international accounting firms, and international financial organizations among others. These influential institutions masterminded the formulation of IFRS and hence it is highly imperative that they exert an amount of influence on countries to adopt them. However, unless a country opens its doors to these institutions, there is little they can do to politicize the adoption process. The implication is that - the more a country is opened to the international environment, the higher the possibility that the country would be coaxed into adopting International Financial Reporting Standards.

In the year, 2004, the report on the Observance of Standards and Codes, published in June as a result of the assessment of Ghanaian Accounting system by World Bank, contained policy recommendations to improve its financial reporting framework. As part of its recommendations for improvement of the accounting and auditing statutory framework, the World Bank recommended the adoption of IFRSs without any modifications in its Report on Observance of Standards and Codes (ROSC) in the year 2004 conducted together with the International Accounting Standards Board. In this sense, it can be justified that the World Bank and the IASB influenced or coerced Ghana to act to rectify the deficiencies spotted in its National Accounting Standards system of financial reporting.

a. Legal System

Most developing countries adopt the legal system of their colonial masters. There are two main types of legal systems namely code law and common law system. Code law system defines the instance whereby the government formulates all related regulations with regard to financial, accounting issues. On the other hand, the common law system describes the situation whereby independent professional bodies formulate and regulate the accounting practices in a country. Ghana has a common law legal system. In this light, these independent accounting bodies possess certain degree of legal backings to take decisions that the government do not interrupt. In a sense, these accounting bodies legally become autonomous and could if deemed necessary adopt accounting standards that would benefit the country and the accounting profession as a whole. The Companies Code 1963 is based on United Kingdom legislation. The Securities Industry Law 1993 created the Securities and Exchange Commission (SEC). The Institute for Chartered Accountants, Ghana is the institution that regulates the accounting and auditing services in Ghana. The Institute of Chartered Accountants, Ghana "investigates complaints, and can reprimand, publish the offense, or de-license, but in practice does not have sufficient enforcement and monitoring capacity" (World Bank ROCE, 2005). In can be deduced therefore that the common law system grants these professional bodies some form of authority and for that matter fittingly describes the coercive isomorphism.

2.3.2 Mimetic Isomorphism

Mimetic isomorphism unlike coercive isomorphism stems from standard responses to uncertainty. The degree of uncertainty is a powerful force that encourages imitation. Reasonably, it can be argued that organizations would mimic or copy the activities, standards, and principles of successful organizations when they are uncertain about the effects that their current principles might have on the organization in the future. When organizations comprehend poorly or partially the technologies employed, have unclear goals, and when the environment in which they operate presents certain degree of uncertainty, they model themselves after other organizations. Organizations emulate other similar organizations in their field who are more legitimate and successful.

The World Bank noted that "the Institute of Chartered Accountants of Ghana (ICAG) has not updated any national standards since they were originally adapted from international standards" (estandardsforum, 2009). It was established that there were twenty eight (28) Ghana National Accounting Standards. However, it is worth pointing out that, the international equivalents of certain Ghana National Accounting Standards have been withdrawn while ten (10) active international standards have not been reflected in Ghana National Accounting Standards at the time of the World Bank's report in the year 2004. More importantly, International Accounting Standards forty one (41) which is significant to Agriculture was noted to have been exempted from the Ghana National Accounting Standards. Meanwhile, agriculture is known to be one of the major contributors to the Gross Domestic Product of Ghana. It is clear therefore that the accounting profession in Ghana was indeed lacking in-depth coherence. The standards used were outdated and did not meet the national need let alone international standards. Businesses in effect had partial knowledge of the standards employed. The aforementioned loopholes coupled with others of grave importance to the economy of Ghana created certain form of uncertainty in the accounting profession. To remedy this situation, a solution in the form of adopting the International Financial Reporting Standards (IFRS) became necessary.

b. Economic Growth

Economic growth defines increase in the wealth of a country as a result of increase in production of goods and services. Economic growth can be measured using the Gross Domestic Product (GDP) of the country or in some cases; national per capita income. The availability of natural resources, human resources, capital resources, and technological development in the economy as well as institutional structures and stability influences the economic growth of a country. It is assumed that the better the economy of a country, the higher the possibility that it might adopt IFRS. Why?

It has been observed that in countries with higher economic growth, accounting becomes an effective instrument for measuring and communicating essential information especially financial information. Over a period of time, as the business and economic activities improves significantly, the financial information processing becomes larger, more complex and demanding which requires a corresponding sophisticated, high-quality accounting system and standards. Thereby, to satisfy the growing demand for more accurate, reliable, complex financial information, the accounting standards must undergo several transformations. This phenomenon in most instances lead to many countries adopting the IFRS.

This factor has a link to the conceptual framework in that certain forms of uncertainties begin to sprout as the economy of a country grows. Professional accounting bodies become a little skeptical as to whether this growth would be sustained, and if it is sustained, can the existing accounting infrastructure support the information needs of investors? Would the sustainability of growth of the economy persuade more foreign investors to come into the country? Would the local accounting standards be enough to provide trustworthy financial information to convince these investors to invest their money in the economy? These uncertainties to a larger extent influence the adoption of IFRS especially in developing countries.

2.3.3 Normative Isomorphism

Normative isomorphism is attributable to professionalization. According to Larson and Collins, professionalization is defined to be the collective struggle of members and an occupation to define the conditions and methods of their work, to control the "production of producers" and to establish a cognitive base and legitimization for their occupational autonomy (Larson 1977:49-50 cited in DiMaggio and Powell 1983). This emphasizes that professional bodies are a group of individuals with common interest and aspirations. They therefore strive together to circulate these common objectives they possess, design criteria for application of membership, and set limits as to the quantity of members at each point in time.

Professional bodies, like other business organizations, are in the same vein, subjected to the similar mimetic and coercive pressures. Professional bodies exhibit similar traits to their professional counterparts in that they mimic each other. These professional bodies to a larger degree influence greatly their counterparts. Conscious of this, either of these institutions may mimic the other in instances where a certain standard has worked for them. In Ghana, such accounting professional bodies as Institute of Chartered Accountants, Ghana and Association of Certified Chartered Accountants (ACCA) positively influence each other very much.

a. Capital Market or Providers of Finance

Small scale and medium enterprises are major form of businesses in most developing countries. Sourcing funds to finance the activities of these enterprises are mainly through borrowing from banks, family and friends. It requires considerable collateral to obtain such funds. Securing finance from such a source requires less or no accountability on the part of the borrower but only the assurance that the loaned amount can be paid back at the time agreed. Even in most cases, just a guarantee from a prominent person in the society would be enough to acquire such loans.

On a grander scale, government and commercial banks serve as source of finance to larger enterprises. It is worth noting that the government and commercial banks are more focused on the ability to pay back loans and for that matter look at the assets of the company in question rather that the results of activities of the borrowing companies. However, in some developing countries, the capital market is quite developed to serve the needs of companies and investors alike. Capital market plays the role of optimally allocating resources efficiently among the different economic sectors and among firms within each sector. On the capital market, individual investors invest their money in the stocks of a company and therefore have keen interest in the activities and the results of the company. Investors are much interested in the profit and the liquidity of the company which emphasizes the preparation of high quality financial statements that cannot be compromised. As a matter of fact, to ensure the continuity and functionality of capital market, quality accounting information is a major ingredient in the development and sustenance of a capital market.

According to McSwenney *et al* (1984), “the pressures exerted by investors are important; investors require quality financial information in order to be able to make optimal choices when they analyze investment opportunities. In some cases, investors influence a country’s accounting standards setting body to reform the accounting system and eventually adopt IAS” (McSwenney *et al*, 1984 cited in Zeghal and Mhedhbi, 2006).

Linkage between Conceptual Framework and Factors Affecting Adoption

Isomorphism Type	**Linkage**
Coercive	External Environment Legal System
Mimetic	Economic growth
Normative	Capital Market

Table 3: Linkage between Conceptual Framework and Factors Affecting IFRS

“Accounting is an applied discipline and as such it is strongly influenced, in all manner of ways; by the environment in which it is embedded and by the ends it is expected to serve” (Peasnell, 1993 cited in Chamisa 2000). National environments and the accounting needs of developing countries according to Chamisa differ from country to country (Chamisa, 2000). Accounting can be termed as a language that is developed with the intention of transmitting information to a perceived receiver. Accounting has the ability to reflect the environment or society in which it is developed and subjected to the legal norms of the country in which it is developed (Walton *et al*, 2003). Hence, to a larger extent, each and every country possesses unique and identical traits that motivate them to adopt a particular accounting standard as discussed above.

However, as a result of internationalization of economic trade, foreign investment and globalization of business ventures, many countries deem it necessary to adapt or adopt International Financial Reporting Standards so as to improve the quality and credibility of accounting information to aid in boosting the inflow of capital and investment which ultimately will result in economic development. Some writers argue “that international accounting harmonization is beneficial for developing countries because it provides them with better-prepared standards as well as the best quality accounting framework and principles”. Whiles others argue that, “the accounting information produced according to developed countries' accounting systems is not relevant to the decision models of less-developed countries” (Perera 1989 cited in Zeghal and Mhedhbi, 2006). The ultimate decision to adopt IFRS or not, however largely depends on certain motivating or discouraging factors which exist in a particular country or group of countries and the most pressing of these are discussed.

In this study however, these factors that affect the adoption of IFRS in developing countries (Ghana) are linked to the conceptual framework for the study. DiMaggio and Powell (1983) developed the theory of Isomorphism which describes how institutions mimic certain practices and standards from other institutions of similar functions. Above is the linkage between the theory adopted for the study and the various factors to be discussed.

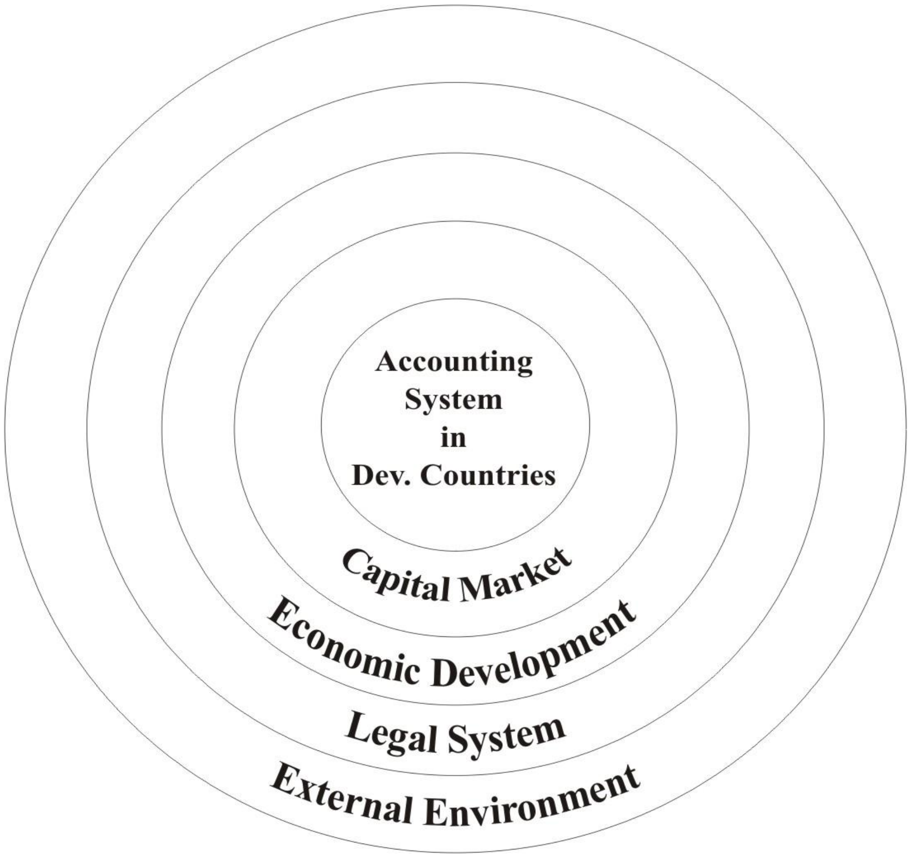


Figure 1: Factors Affecting Adoption of IFRS in Developing Countries

2.4 International Accounting Standards

Obviously, there are major differences in financial reporting of companies in different countries. These differences result in complications for preparing, consolidating, auditing and interpreting published financial statements. There has been a greater need to bridge the gap between the differences in financial reporting standards among countries. To make this a reality, several organizations have been involved in trying to harmonize the financial reporting standards worldwide. The terms 'harmonization' and 'standardization' are used in most instances to describe the solution to solving the differences that pertain in national financial reporting standards. Harmonization is the "process of increasing the compatibility of accounting practices by setting bounds to their degree of variation". In an effort to harmonize accounting measurements and reporting standards, almost sixteen (16) different governmental and non-governmental organizations have attempted various options. However, the IASC emerged as the most active and potent accounting standards setting body. According to Nobes and Parker, (2004), standardization refers to the “imposition of a more rigid and narrow set of rules".

Reasons for Harmonizing International Accounting Standards

In recent years, countries are much interested and concerned with financial information from other countries due to the increasing rate of internationalization. International harmonization of accounting standards is of much concern to the regulators, preparers, and users of financial information. There are a whole host of professionals that need financial information from different countries for the sake of comparison and effective financial decision making. These include the following:

Firstly, financial analysts and investors need comparable and comprehensible financial information of foreign companies to be better help in their decision whether to buy a particular share or invest in other ventures. The key issues that investors and financial analyst look for are reliability and comparability of the financial information. Better still, even if there are differences in the accounting standards between countries, investors and financial analysts need to be clear about the nature and magnitude of the differences. More so, foreign companies that list their shares on the domestic stock exchange of another country would be required to provide sound and reliable financial information by the regulators of the stock exchange in the domestic country which meets the local standards. International grantors such as the World Bank would likewise, need harmonized accounting standards to facilitate the comparison of the performance of their borrower countries.

Secondly, multinational companies are required to prepare a consolidated financial statement so as to reflect the overall activities of the parent company and all the subsidiaries under its wings. It would be a great relief to accountants if accounting standards were harmonized since the same standards would be used in preparing financial statements by the subsidiaries in other countries. Moreover, it would be much easier to prepare financial information needed for appraisal in subsidiaries in other countries. Harmonizing accounting standards would also facilitate easy mobility of accountants from one subsidiary to another in different country.

Finally, international accountancy firms are also much interested in harmonizing accounting standards in that it helps them in regulating their large client base. Tax authorities also would benefit from harmonization of international accounting standards because it would be beneficial in "dealing with foreign incomes by differences in the measurement of profit in different countries" (Nobes and Parker, 2004).

2.4.1 International Accounting Standards Committee (IASC)

Australia, Canada, France, Japan, Mexico, the Netherlands and the United Kingdom with Ireland, the United States and West Germany are the main brains behind the founding of the IASC (Benson, 1979). IASC is an independent accounting body which has close relationship with International Federation of Accountants (IFAC) dating back in 1983 (Norbes and Parker, 2004). The main objective of the IASC is to 'formulate, and publish in public interest accounting standards to be observed in the presentation of financial statements and to produce and to promote their worldwide acceptance and observance' (IASC, 1992).

Commencing from 1983 to 2001, the activities of the IASC was monitored by a board which constitutes seventeen member countries among which nine or ten are developed countries whiles three or four developing countries and four other organizations mainly IASC's consultative group such as the World Bank, the International Confederation of Trades Unions and the International Federation of Stock Exchanges. The budget of the IASC is mainly borne by the board members whiles the other remaining members pay subscriptions which are used to fund the remaining budget. Revenue is also generated from publication and donation as well to fund the activities of the IASC.

2.4.1 How successful was the IASC?

The IASC is an internationally recognized organization credited with promoting the harmonization of accounting among countries. The level of success achieved can be measured with respect to the objectives of the organization. The following are some of the merits of the establishment of IASC:

In line with the main objective of the IASC, standards setting were a success story. As at the year 2001, the IASC had set forty one (41) different standards to deal with reporting issues. In addition to these, other financial reporting publications and conceptual frameworks were issued by the IASC.

Moreover, promotion and observance of standards and of general harmonization was not a complete success due to the fact that IASC had no power to impose its standards on countries and companies within them. For instance, it would have been very difficult imposing financial standards on countries such as Russia and China.

As times passed, it seemed improbable to conceive the idea of harmonizing accounting standards on a worldwide scale until recently. The IASC laid the foundation stone towards such a feat. The concept of standardization was of great benefit to countries with companies that publish their financial statement and have foreign investors, auditors and subsidiaries. These companies were able to harmonize their financial statements among subsidiaries hence facilitating standard reporting. More so it enables companies to sort funds easily since their financial statements became comprehensible by international investors. The IASC was very successful in this area (Norbes, Parker, 2004).

IASC apart from publishing and promoting standards, had in place measures to ensure easier and explicit compatibility of published financial statements from different countries or at least to establish the nature and root cause of differences between financial statements among countries if any is detected (Norbes and Parker, 2004). The IASC was successful in this domain which to an extent cements the relevance and successes that the IASC had achieved in their quest to harmonize accounting standards.

Attributed to the success story of the IASC is the fact that major regional and global organizations that formerly issued accounting directives and bulletins now recognize the IASC as the only organization qualified enough to develop international accounting standards. These institutions include: the United Nations (UN), International Monetary Fund (IMF), International Federation of Accountants (IFAC), European Commission (EC), Organization for Economic Cooperation and Development (OECD) and the International Organization of Securities Commission (IOSCO) among others. With the approval of these giant institutions, the IASC has been very effective in harmonizing accounting standards among countries.

IASC Standards

Standard	Number	Purpose
IAS	1	Presentation
IAS	2	Inventory
IAS	7	Cash flow statements
IAS	8	Accounting policies, changes in accounting estimates and errors
IAS	10	Events after the balance sheet date
IAS	11	Construction contracts
IAS	12	Accounting for taxes on income
IAS	14	Segment reporting
IAS	16	Property, plant and equipment
IAS	17	Accounting for leases
IAS	18	Revenue
IAS	19	Employee benefits
IAS	20	Accounting for government grants and disclosure of government assistance
IAS	21	The effects of changes in foreign exchange rates
IAS	22	Business combinations
IAS	23	Borrowing costs
IAS	24	Related party disclosures
IAS	26	Accounting and reporting by retirement benefit plans
IAS	27	Consolidated financial statements and accounting for investments in subsidiaries
IAS	28	Accounting for investments in associates

Standard	Number	Purpose
IAS	29	Financial reporting in hyperinflationary economies
IAS	30	Disclosure in the financial statements of banks
IAS	31	Financial reporting of interests in joint ventures
IAS	32	Financial instruments: disclosure and presentation
IAS	33	Earnings per share
IAS	34	Interim reporting
IAS	35	Discontinuing operations
IAS	36	Impairment of assets
IAS	37	Provisions, contingent liabilities and the contingent assets
IAS	38	Intangible assets
IAS	39	Financial instruments: recognition and measurement
IAS	40	Investment property
IAS	41	Agriculture

Table 2: International Accounting Standards Committee (IASC) Standards (Norbes and Parker, 2004)

2.4.2 International Accounting Standards Board

The IASB succeeded the IASC on 1st April, 2001 following a decision to make certain amendments in the reforms of the institutions. The reasons below account mainly for the change in administration of the organization:

a. Reducing the work load on the part-time Board representatives, who had been working frantically for the institution as their core program was completed.

b. Provision of room for wider group of countries and organizations to be members of the Board.

c. Drive to increase the degree of partnership with national-standard-setters so as to accelerate worldwide convergence of standards.

By so doing, the IASB basically shoulder the responsibility to develop and implement new improvements programs, continue with ongoing projects and making of major reforms to facilitate the activities of the organization.

IASB Standards

Standard	Number	Purpose
IFRS	1	First time Adoption of IFRS
IFRS	2	Share-based Payment
IFRS	3	Business combinations
IFRS	4	Insurance Contracts
IFRS	5	Non- current Assets Held for sale and Discontinued Operations
IFRS	6	Exploration for and Evaluation of Mineral Assets
IFRS	7	Financial Instruments: Disclosures
IFRS	8	Operating Segments
IFRS	9	Financial Instruments

Table 3: International Accounting Standards Board (IASB) Standards (Norbes and Parker, 2004)

2.5 The adoption of IFRS in Ghana

In 2004, the World Bank conducted a review of accounting and auditing practices in Ghana which was presented in its Report on Observance of Standards and Codes. This was to "evaluate the weaknesses and strengths of the accounting and auditing requirements, and to review the reporting requirements against actual practices" (ROSC, 2004). The World Bank used the International Financial Reporting Standards (IFRSs) and International Standards on Auditing as the benchmarks for assessing national standards. The Report on the Observance of Standards and Codes published by the World Bank in June, 2004 was the results of the assessment of the Ghanaian accounting and auditing standards and contained policy recommendations to improve the financial reporting framework in Ghana.

2.5.1 Report on Observance of Standards and Codes (ROSC)

"*The review entails an evaluation exercise that (a) assesses the strengths and weaknesses of existing institutional frameworks that underpin financial accounting and auditing practices; (b) determines the comparability of national accounting and auditing standards with internationally recognized standards (International Accounting Standards (IAS) and International Standards on Auditing (ISA)); (c) examines the degree of compliance with national accounting and auditing standards and (d) evaluates the effectiveness of enforcement mechanisms for ensuring compliance with existing national standards, rules, and regulations. A lack of effective and efficient mechanisms to ensure compliance with established accounting and auditing standards contributes to a weak financial reporting environment*". With this clearly defined objectives of the ROSC, the World Bank aimed at scrutinizing the accounting and auditing institution of Ghana in its entirety; from the setting of standards, bodies responsible for setting these standards, compliance with the set standards, measures to put in place to ensure that these standards are complied with by companies and even the education, training and qualification of professional accountants in Ghana. It also aimed at measuring the extent to which the Ghana National Accounting Standards match up to internationally accepted accounting standards.

2.5.2 Gaps Observed in the Ghana Accounting System

Through the careful evaluation of the Ghana National Accounting Standards, the proceeding points explain the gaps that were identified in the accounting and reporting standards in Ghana as observed through the Reports on Observance of Standards and Codes conducted by the World Bank in the year 2004:

1. **The ICAG issues Ghana National Accounting Standards (GAS)**. The World Bank identified that there were no clear legal mandate for ICAG to set national accounting standards, however, ICAG issued the Ghana National Accounting Standards. However, these national standards were based on International Accounting Standards which became effective in mid 1990 (ROSC, 2004).

2. **Ghana National Accounting Standards are outdated and differ significantly with International Accounting Standards.** All other things been equal, it was expected that compliance with national accounting standards would mean compliance with International Accounting Standards. However, there it was observed that there are several gaps between the Ghana national Accounting Standards and the international standards. The Institute of Chartered Accountants, Ghana has not made any attempt to review and update the national standards since originally adapting its local standards to international standards. The ICAG, according to the World Bank, lacks technical skills for the task of reviewing and updating the standards. The absence of a national standards based on IAS 41, *Agriculture*, is significant in agriculture-dominant Ghana. Furthermore, over the past years, extensive revisions have been made to the International Accounting Standards that are not reflected in the Ghana Accounting Standards. Moreover, the accounting standard setters in Ghana have not issued any equivalent Standard Interpretations Committee (SIC) interpretations issued by the IASB (ROSC, 2004).

3. **The capacity of ICAG needs strengthening to adequately function as an effective professional accountancy body.** Inadequate financial resources to some extent hinder the operations of ICAG which includes inability to developing a reliable electronic database. Moreover, ICAG has inadequate capacity to ensure that its members comply with existing standards or be kept abreast with international developments in the profession (ROSC, 2004).

4. **The Ghanaian professional accountants' Code of Professional Conduct needs updating.** All ICAG members are expected to follow the ICAG's Code of Professional Conduct though no obvious legal requirement or guidance exists for its mandatory application in Ghana. The professional codes of conduct of ICAG are based on the International Federation of Accountants (IFAC) professional codes. However, to align these codes to the IFAC codes, the ICAG Code needs updating in certain aspects such as auditor's independence and application of principles to specific situations, professional competence and responsibilities regarding the use of non-accountants (ROSC, 2004).

5. **Professional Accounting education and training is not adequate.** **“**ICAG’s main entry requirement to the profession is in line with IFAC requirements however; in practice, ICAG accepts lower entry requirements. The prescribed curriculum for educating and training of professional accountants of ICAG was found to be over a decade old. A proposed revised curriculum was scheduled to become effective May 2005, however, it would not still meet fully the IFAC International Education Standards. More so, it was identified that pre-qualification accounting courses do not include practical application of national or international accounting standards. Furthermore, accounting educators lack the experience and adequate knowledge to teach either the theoretical or practical aspects of International Accounting Standards. The International Accounting Standard's learning materials were noted to be very expensive and not easily available. The outdated curriculum and lack of appropriate learning materials leave students without a background in applicable modern accounting and auditing standards. The capacity and resource constraints at higher educational institutions (including lack of skilled instruction and availability of materials) contributed to very low passing rates within the current educational arrangements. The ICAG is proposing to establish a chartered accountancy college to improve the weak state of accountancy education in Ghana. Experience in other countries shows that improving accountancy education in colleges and universities would be more beneficial than creation of a separate chartered accountancy college” (ROSC, 2004).

6. **Monitoring and control of the practical experience requirement is inadequate in Ghana.** It is recommended that practical experience leading to qualification as a professional accountant should be conducted under an approved practical training provider. The ICAG should ensure the acceptability of practical experience undertaken by candidates. In practice, the ICAG does not have the resources to monitor the quality of practical training provided by practical training providers (ROSC, 2004).

7. **No effective mechanism exists to enforce requirements for accounting and financial reporting provided in the Companies Code.** The Registrar-General has legal authority to enforce provisions of the Companies Code. The Registrar-

General also has legal authority to provide exemptions from compliance with the Companies Code. But it was identified that the Registrar-General has no technical and logistical capacity to review financial statements with which to identify accounting and auditing violations. There is no rigorous enforcement of timely filing of returns and annual financial statements, and the financial statements of non-listed public and private companies were not readily available (ROSC, 2004).

8. **The legal requirements on accounting and reporting by companies, banks, and insurance companies are not consistent with International Accounting Standards.** The ROSC identified that the accounting requirements set by the Companies Code, banking and insurance regulators, and the securities market regulator are not fully in conformity with the IAS requirements. However Securities and Exchange Commission (SEC) allows companies to prepare financial statements in accordance with International Accounting Standards in practice. Banks are required to comply with the Manual of Accounting for Banks and also were instructed to comply with International Accounting Standards in addition to compliance with the Manual of Accounting in the year 2003. Accounting and disclosure requirements set by Insurance Law contradict in many respects with IAS requirements (ROSC, 2004).

9. **There is no published implementation guidance.** As at the time of the World Bank Report, there was no organization in Ghana, including ICAG that issues implementation guidelines on either Ghana National Accounting Standards or the International Accounting Standards. This implies that companies applied the accounting standards as and when they prefer. The lack of detailed knowledge about international standards and the absence of implementation guidelines often lead to misunderstandings in implementing national standards (ROSC, 2004).

10. **There are significant compliance gaps.** The differences between applicable accounting standard and actual practice gives rise to what is termed as compliance gap. The published financial statements of some companies reviewed by the World Bank Research team revealed bigger or serious compliance gaps in the Ghanaian accounting system. It was noticed that the financial statements of some sampled companies do not specifically mention which accounting standards are

employed. “In general, actual accounting and disclosure practices in Ghana do not meet many of the applicable requirements” (ROSC, 2004).

Some Compliance gap with respect to Ghana National Accounting Standards

1. ***Outdated terminology and practices***. “The financial statements of nearly all listed companies use outdated terminology. Many companies did not appropriately separate items between current and non-current in balance sheet presentation. In four cases the format of cash flow statements did not comply with format prescribed by Ghana National Accounting Standards” (ROSC, 2004).

2. ***Accounting policies***. “Accounting policy disclosures were missing or exceedingly inadequate. These include effects of changes in foreign exchange rates and translation of financial statements of foreign subsidiaries, related parties, and consolidation” (ROSC, 2004).

3. ***Consolidated financial statements. “***In three sample companies, subsidiaries were not consolidated for reasons not permitted under national accounting standards. In most cases, some required disclosures in consolidated financial statements were not provided” (ROSC, 2004).

4. ***Related party disclosures. “***Although required, many companies do not disclose information on related party relationships, and some companies that reported related party transactions failed to provide required detailed information (pricing policies, volume of transactions, nature of relationship, and outstanding items)” (ROSC, 2004).

5. ***Taxation. “***Seven sampled companies did not include deferred tax at all in their financial statements, and only a few companies provided information relating to deferred tax assets” (ROSC, 2004).

6. ***Segment reporting. “***Only two companies complied with the segment reporting requirements of Ghana accounting standards, but even then no reconciliation to main statements were provided” (ROSC, 2004).

7. ***Cash flow statement.* “**It was not possible to determine the reasonableness for inclusion of some short-term investments in cash equivalents. Two sampled banks did not disclose cash flows arising from taxes paid separately” (ROSC, 2004).

8. ***Property, plant and equipment.* “**Although there were indications that a large number of sampled companies had mid-term and long-term borrowings from banks, nearly all the companies did not provide information on restricted assets that were pledged as security for borrowing” (ROSC, 2004).

9. ***Set off.* “**Some companies showed net interest on the face of the income statement, instead of separately disclosing interest paid and earned as required by Ghana accounting standards. Another company only showed net foreign exchange losses” (ROSC, 2004).

10. ***Prior year adjustments.* “**In three instances, material prior year adjustments were disclosed without providing any further detail” (ROSC, 2004).

11. ***Unusual items.* “**The Ghana accounting standard allows unusual items to be separately disclosed on the face of the income statement**.** Many companies included the mandatory National Reconstruction levy in this category, while others showed it as tax” (ROSC, 2004).

2.5.3 Differences between Ghana National Accounting Standards and International Accounting Standards

1. ***Framework for the preparation of financial statements.*** Several sections of the International Accounting Standards Board framework are omitted in Ghana’s national accounting framework (ROSC, 2004).

2. ***Statement of changes in equity.*** This is not required under the Ghana standard; rather the Companies Code requires disclosure of the capital and income surplus accounts, which would contain some items to be included in the statement of changes in equity (ROSC, 2004).

3. ***Changes in accounting policies.*** Ghana National Accounting Standards require that the effect of certain changes in accounting policies should be included in the

extraordinary items in the current period. The IAS requires these adjustments in opening balance of retained earnings - benchmark treatment (ROSC, 2004).

4. ***Minority interest.*** The Ghana standard omits the IAS disclosure of minority interest on face of income statement (ROSC, 2004).

5. ***Deferred income tax.*** The international standard requires recognition of deferred tax assets and liabilities for all temporary differences. In contrast, the Ghana standard requires deferred tax assets and liabilities to be created only for timing differences relating to depreciation (ROSC, 2004).

6. ***Segment reporting.*** There is no requirement in Ghana National Accounting Standards, as in IAS, to identify reportable segments (business segments and geographical segments) or to disclose detailed information about the reportable segment revenue, expense, results, assets, liabilities, etc (ROSC, 2004).

7. ***Borrowing costs*.** Disclosures are omitted from the Ghana standard regarding the accounting policy adopted for borrowing costs and the capitalization rate (ROSC, 2004).

2.5.4 World Bank Policy Recommendation on Ghana Accounting System

The World Bank, after its evaluation of the Ghana National Accounting and Auditing Standards made several recommendations which if adhered to would bring the Ghana accounting system in line with international standards. These recommendations served as the main guidelines to Ghana's adoption and compliance with International Financial Reporting Standards.

Recommendation 1

Raise awareness of investors, directors, managers and auditors to improve the degree of compliance with financial reporting requirements by publicly traded companies. Regulators of the financial system create the awareness among investors, directors, managers, and auditors on the merits of financial statements and the compliance with accounting requirements.

Recommendation 2

Improve the statutory framework of accounting and auditing in the country and this requires that the following actions be taken:

a. *Fully adopt International Accounting Standards/International Financial Reporting Standards (IFRS) without modifications and ensure mandatory observance of these standards.* It was prescribed that Ghana should put in place measures to fully adopt IAS/IFRS and its related interpretations issued by the IASB as legally enforceable standards applicable to the preparation of the legal entity and consolidated financial statements of companies including government owned enterprises.

b. *Agree to a simplified financial reporting framework for small and medium enterprises*. Another recommendation was that Ghana should develop a simplified financial reporting framework for Small and Medium Entities. The Ghana national accounting standard-setters should design specific standards for small-and medium-size enterprises. However, this provision was to be temporal since at that time, the international standard for small and Medium Scale Entities were not ready. However, it was mentioned that when these standards come into force, Ghana must make sure that these standards for small entities comply with them.

Recommendation 3

Establish an independent oversight body to monitor and enforce accounting and auditing standards and codes. Ghana was recommended to set up a Financial Reporting Act which would have a new independent oversight body, called the Financial Reporting Council. The Financial Reporting Council should be made up of mostly practicing auditors. However, other members of the council can be chosen from Securities and Exchange Commission, Ghana, Ghana Stock Exchange, Bank of Ghana, Institute of Chartered Accountants Ghana, the legal profession, and the academia.

The main task of the council would be to set accounting and auditing standards. The Council will also be responsible for the adoption of IAS/IFRS without modification as well as IFAC’s Code of Ethics Professional Accountants and ensure the compliance with the set standards. The council would also develop the implementation guidelines for IAS/IFRS in Ghana so as to facilitate easy and thorough compliance to these standards.

In addition to the above, the major task of monitoring compliance with accounting standards rests on the shoulders of the Financial Reporting Council. The council should set up a monitoring unit that is charged with the duty of "identifying and forwarding findings on non-compliance to the enforcement unit along with recommendations on the sanctions for infractions" (ROSC, 2004). The World Bank stated that an adequate legal backing would be necessary for effective monitoring activities.

Recommendation 4

Enhance professional education and training.

Changes in the global accounting trends must be reflected in the education and training arrangements by ICAG on a timely basis. "Tertiary institutions should be supported to improve accountancy education and appropriate accreditation of external education and training providers should be introduced. The ICAG needs more rigorous arrangements to regularly monitor the quality of practical training provided by authorized training providers" (ROSC, 2004).

Other Recommendations

Other recommendations given by the World Bank includes the following:

a. Continued professional education in Ghana should be regularly monitored so as to ensure that they correspond to IFAC's curriculum.

b. Ghana should make arrangements for improving ICAG's capacity to assist practice development and quality enhancement of its members.

c. Strengthen capacity of the regulatory bodies.

d. Strengthen ICAG's capacity by establishing affiliations with the developed professional accountancy bodies.

2.6 The Relevance of the IFRS to Ghana

It is noteworthy that various researchers have studied the relevance of International Accounting Standards (IAS) to developing countries. Findings on the relevance of IAS to developing countries vary among authors. Chamisa, using Zimbabwe as a case concluded that IAS is relevant to developing countries especially those practicing capitalism (Chamisa, 2000). Perera on the other hand, found that IAS is not relevant to developing countries since the standards were set by the developed or industrializes countries (Perera, 1985). In this light, to what extent is the adoption of IFRS beneficial to developing countries? What bearing do IFRS have on the economy of developing countries? Why would developing countries not develop accounting standards for their own use? Finally, do developing countries have the necessary structures in place to fully implement the IFRS?

To examine the relevance of International Accounting Standards to developing countries (Ghana), the parameters employed by Chamisa (2000) would be borrowed for this study. These key determinants of the relevance of IAS in developing countries are (a) the accounting needs of the country, (b) the size of the private or public sector, (c) the existence of capital market, (d) the similar environment argument.

2.6.1 The Accounting Needs Factor

Financial accounting and reporting standards are required so as to provide investors and the general public the financial information they need. However, we should not lose sight of the fact that most developing countries lack the appropriate structure to develop their own accounting standards and policies. Worse, accounting profession and institutions in most developing countries are still in their conceptual state and hence lack the technical expertise to develop local national accounting standards. For this reason, it is a step in the right direction to transfer accounting technology which is appropriate for the needs of developed countries to developing countries (Scots, 1968 cited in Chamisa, 2000).

Logically, developing countries review International Accounting Standards before they are formally adopted. In such an instance, the developing countries adopt the standards they deem relevant whiles those that are irrelevant are ignored. Zimbabwe is a typical example in this case where they adopted those standards that are suitable for their accounting needs. Other countries also modify some of the standards to suit their national needs. This allows developing countries that cannot develop their local accounting standards to mimic and tune accounting standards developed by the IASB easily.

In another sense, IFRS is relevant to developing countries because they contribute immensely to the development of the standards by:

a. Suggesting new topics for standardization

b. Commenting on the IASC's exposure draft

c. Take part in the IASC's Steering Committees

The ability of developing countries to contribute to the developing of standards to a larger extent explains the reason why these countries have moved away from adopting the United States and United Kingdom's Generally Accepted Accounting Principles. According to Chamisa (2000), "When developing countries adopt the IASC standards as national standards, the primary objective is not to achieve international accounting harmonization, but to meet their need for appropriate accounting and reporting standards". This better explains why some IFRS standards are not adopted, while others are modified to suit the country in question. The international accounting harmonization objective is pursued by developing countries only when the standards do not conflict with domestic accounting needs, laws, and regulations (Chamisa 2000).

Furthermore, the adoption of IFRS is relevant to developing countries since these countries depend heavily on capital inflows from foreign governments, foreign donors, and international institutions to mention among others. Institutions such as the World Bank, International Monetary Fund, United Nations, and foreign private investors form the core source of generating revenue in most developing countries. Interestingly, all these institutions and organizations have given an unwavering support to the adoption and compliance to IFRS and even insist on adoption by countries seeking funds from them which further necessitates the need for developing countries to adopt the standards.

2.6.2 The Private Sector

"In developing countries, Samuels and Oliga cited in Chamisa, (2000) argued that the public sector is very large and dominates the economy". In their view, communistic governance is traceable to most developing countries. According to them, this factor brings to the fore the irrelevance of the IFRS to developing countries. Nationalization of foreign assets is stated to be a noticeable attribute of communistic economies which does not provide the necessary conditions for the thriving of IFRS. However, most critics of the relevance of IFRS to developing countries based their study on developing countries which at some point in time were communist such as Tanzania, Indonesia, Sri Lanka and Egypt. These countries changed their economic strategy from capitalistic to communistic economies hence rendering the adoption and observance of IAS at some point in time irrelevant.

On the other hand, capitalistic economies are oriented towards information needs of private investors. Precisely, the IAS aims purposely at providing financial information to satisfy the information needs of private investors which emphasizes its relevance to developing countries practicing capitalism. In a capitalistic economy, the private sector is paramount and for that matter private companies raise funds from investors. Investors invest in companies with the view to reap profit which compels them to scrutinize carefully the financial statements and reports of potential companies they wish to invest in. To really satisfy the information need of investors, it should be mentioned that a well recognized standards should be used. More so, we should not lose sight of the fact that, private investors in most instances are foreign individual and institutions whose main goals are to reap the maximum profit possible from their investment. In this light therefore, IAS serves as the only remedy for companies seeking funds to boost their performance since it harmonizes or standardizes accounting standards among countries that ensures comparability of results. Capitalistic countries such as Ghana, Zimbabwe, Nigeria, India, Malawi, Kenya, and Singapore among others have adopted the IAS as their national standards and also use them as the basis for setting their national standards. It is worth pointing out that the government in these capitalistic countries has little need of published annual reports in that it demands information tailored to suit specific needs of the economy of the country.

2.6.3 The Capital Market Effect

Among the factors noted to be influencing the adoption of IAS in developing countries, availability of capital market is singled out as very cogent (Zeghal et al 2006). To buttress the relevance of a well-established capital market towards the adoption of IAS, there have been other studies to this effect (Bristle, 1978; Choi et al 2007). In the United States and United Kingdom, the origin of IFRS, the development of these accounting standards are closely linked to the existence of capital market and hence could be said that they are interdependence (Perara, 1989). Funds were accumulated from variety of sources and dispersed to companies which to an extent required some level of structured accountability to the lenders and shareholders. It is therefore not surprising to emphasize that the development of capital markets are of no relevance to communistic countries since the public dominates the economy resulting in the diminishing of the very essence of developing a well-structured accounting standards that seeks to serve the interest of private investors, shareholders and lenders.

Most authors argue that capital markets in developing countries are small and inefficient and hence the adoption of IFRS is irrelevant to these countries. However, other studies have shown that useful accounting reports and appropriate accounting and auditing standards are essential for the development of capital markets (Mahon 1965; Scott, 1968 as cited in Chamisa 2000). Mahon pointed that *"improved standards of financial reporting and auditing are needed in many countries to develop internal capital markets".* This assertion proves the relevance of IFRS to the development and sustenance of the Ghanaian capital-market and other developing capitalistic countries as well.

2.6.4 The Similar Environment Argument

"*Where economic, sociopolitical, cultural, and contextual differences between countries, nations, or societies exist, the problem of appropriate accounting standards* *will assume a different conceptual meaning as well as contextual significance…in the case of developing countries where such differences tend not to be only highly pronounced, but also in a highly dynamic and fluid state, the relevance of international accounting standards becomes even more questionable."* (Samuels et al cited in Chamisa 2000).

With Egypt as case study, Samuels and Oliga cited in Chamisa (200) made the argument above. They claim that in situations where differences exist in the social, cultural and economic practices among countries, the meaning and significance of accounting standards would assume different dimension. They further argued that the great disparity between developed countries and developing countries in terms of society, economy and culture renders IFRS irrelevant to the developing countries. Rightly, it can be assumed that these IFRS standards were developed with the economy of the developed countries in mind and for that matter would be very inappropriate when adopted by developing countries such as Ghana, Nigeria, Zimbabwe to mention but a few.

To what extent is this statement true considering the country used in the study conducted by Samuels and Oliga? Egypt at the time of the study had transformed their economic system from capitalistic economy to communistic economy which is the sharp contrast of capitalistic governance as practice in the United Kingdom and the United States where these standards were developed. Mention should be made that when this country changed the economic system, they changed the national environmental factors which put them in a position to benefit from the observance of IFRS. Different environments lead to different accounting objectives and standards therefore; Egypt had to change their accounting standards to suit the new national economic environment which focuses mainly on the public, thus making the observance of IFRS immaterial. Justifiably, Egypt is not sufficient to support the assertion of Samuels and Oliga.

Developing countries with their economic environment similar the economies of the developed countries specifically US and the UK, tend to benefit greatly from the adoption and observance of IFRS. The economic system, political system, educational system, legal system, accounting system, professional associations, languages, religion, customs, and cultures of most colonial masters were imposed on their colonies of which Ghana as a former colony of Britain is no exception. Fittingly, the economic environment of Ghana and other numerous countries colonized by the British resemble if not the same as that of their former colonial masters. It is therefore in the right direction that most British former colonies have adopted the IFRS or have used them as the basis for setting their accounting standards given the fact that these standards originated from the United Kingdom and the United States. More so, only former French colonies have adopted the French uniform accounting system (Perera, 1989). This instance stresses the important role that similarity between the economic environments of developed and developing country plays in the adoption of IFRS in developing countries. IFRS can thereby be said to be very beneficial to developing countries such as Ghana which has similar economic environment to the United Kingdom.

These standards impact positively on the economy of developing countries in such areas as; Inflation issues – the IAS 29 which deals with Financial Reporting in Hyperinflationary Economies. Agriculture – IAS 41 deals with Agriculture which is the major backbone of the economy of most developing countries. Disclosure – IAS 24 also discusses Related Party Disclosure

These specific standards primarily apply in developing countries in which inflation rate are very high for instance Zimbabwe, Ghana, and Nigeria. Financial reporting on agriculture is also a step in the right direction for the improvement in the reporting standards on agricultural produce considering that about sixty percent of GDPs in developing countries are derived from the agricultural sector.

2.7 Merits of Adopting IFRS

"*Advantages to developing nations of harmonizing on IFRS include: the elimination or reduction of set-up costs in developing national accounting standards; the potential for rapid national improvement in the perceived quality and status of financial reports; increases in market efficiency in (inter)national financial markets through the provision of more understandable, comparable, and reliable financial* *statements; and a reduction in the cost to firms of preparing financial statements"* (Nobes & Parker, 2006, 76). The costs that developing countries would have incurred in developing their own accounting standards are averted when they adopt IFRS. However, these costs are shifted from setting up to training local staffs in handling the IFRS which by far would be profitable to these developing countries. Invariably the quality of financial reporting in these developing countries would increase considerably taking into account the source of these standards. It would also boost the international activities of firms in that they can present reliable and comparable financial information. More so, companies in these developing countries can raise capital from international financial markets since their financial reports can be compared to other international companies.

2.8 Demerits of IFRS in Developing Countries

The international accounting harmonization objective is that, "*Globalization of capital markets appear to be the driving force behind the proposed changes and while for this reason they may well suit the purposes of the first world nations, their effect on third world countries could be catastrophic*" (IASC, 1990 as cited in Chamisa, 2000).

In this light therefore, developing countries adopt the IFRS with the sole aim of satisfying their accounting and financial reporting requirements but not purposely aiding in harmonizing accounting standards. These developing countries therefore select the standards that would help their course and modify those that would not be extremely beneficial to them. Developing countries pursue international harmonization of these accounting standards as far it does not hamper on the local accounting needs, laws and regulations. If the main objective for proposing the IFRS is to achieve a globalized capital market whiles most developing countries possess weaker or no capital, then surely adopting these standards can be disastrous to some degree.

In addition to the above, the "International Financial Reporting Standards are "carbon copies" of standards originating from the UK and the USA with strong orientations towards maximizing shareholders' wealth rather than the social functions of accounting" (Rahaman *et al*, 2004). Most developing countries have weak structures in place to develop good accounting system and for that matter the first point of call when it comes to accounting issues is shaping and developing meaningful accounting system rather than adopting already structured standards from the developed countries. More so, the fact that these standards were developed with the economy of these developed countries as a yardstick makes the importance of the adoption of IFRS questionable.

"Other authors also argue that accounting should not be treated as the object of providing useful information to investors only, but a craft that serves the purpose of divergent interested groups. Since most developing countries would be pursuing different socio-economic development policies, the usefulness of standards developed with significant influence from the advanced industrialized nations remains contestable" (Mir and Rahaman, 2004). The bearing of IFRS on the economic growth of developing countries which have adopted them is conflicting considering the precious studies conducted. For instance, Woolley (1998) studied the bearing that the adoption of IAS has on the economic growth of some Asian countries and came to the conclusion that the average economic growth rate of developing countries when grouped by their approach to adoption or non-adoption of IASs was not significantly different which underscores the point that the adopters were not better off nor worse off as compared to the non-adopters. However, a similar study conducted in Africa observed a higher level of economic growth for countries that adopted with some form of modification of some of the standards to suit the local environmental factors (Larson, 1993).

It is worth mentioning that, harmonizing of IFRS by developing nations would mean the adoption of a set of accounting standards unsuited or irreconcilable to national needs. At firm and national levels, this may result in standards overload as firms strive to comply with IFRS that exceed their business requirements in complexity and the ability of local accounting staff to implement or comply with them (Perera, 1989). Increasing harmonization and complexity in accounting standards tends to facilitate expansion of large international accounting firms at the expense of local firms in both developing and developed countries.

3. RESEARCH METHODOLOGY

To successfully run a business organization, an extensive research is required so as to aid in formulating strategic decisions. Research entails the collection of data and analyzing the collected data into useful management information which dictates the decision making of management. This underscores the immense role that research plays in academic research as well as in the business environment which cannot be underrated. The research method section of the study introduces major activities – the research strategy and the research design. The different elements within the research strategies and approaches will be discussed. Additionally, this section will touch on the empirical data collection and analysis. The empirical data collected is analyzed and subsequently discussed.

3.1 Quantitative Research

Quantitative research is defined as a structured questionnaire designed with the aim of deriving information from respondents. In this instance, the interviewer prepares the questionnaire with the expected results or answers in mind. The interviewer should therefore have enough idea about the said subject. This method can also be explained as a research tool concerned with the measurement of a market and can include the calculation of the size of a market segment, brand shares, purchase frequencies, awareness level of brands etc. Such data is required to be accurate to some extent as well as the methods used in achieving the aim. In most cases, the information gathered is a sample which reflects the situation in the general population or market. This method unlike qualitative method provides us with solid and concrete information with facts and figures to buttress the research. (Hague *et al*, 2004).

This research strategy is mainly employed in this study to gather data from various respondents working in companies complying with IFRS. However, qualitative research is also partly employed to give insight to the adoption of IFRS in developing countries.

3.2 Qualitative Research

Qualitative research is defined as a tool of research that is basically concerned with understanding rather accurate measurement. The method in question is unstructured using smaller samples to provide insight. The respondent gives their view, ideas, feeling as to how best they know. Unlike the quantitative method, the interviewer in this instance can effectively design the questionnaire even if he or she has less or no previous knowledge about the issue being investigated since it is only the respondents' thought that they are accumulated. In case of attitudes to brands, for example, qualitative research may determine that there is a specific view held by consumers about the brand whiles quantitative will tell us what proportion of consumers holds that view. Another issue can be for instance, advert A is more appealing to consumers than advert B (Quantitative Information). But how does A work as an advert and why is it more effective than B? Qualitative method in this instance addresses the second part of the case at hand. That is describing how the advertisement appeals to the individual consumers (Hague et al, 2004).

3.3 Data collection

Research data exists in two forms – primary and secondary. Primary data is non-existent and gathered for first time use. Primary data requires that the researcher investigates and keeps records of the findings on the topic of the study. Primary data is very preferable in studies where new models and theories are developed and proven empirically. In sharp contrast however, secondary data is usually an existing data that has been collected or gathered by other researchers or authors and accepted as valid and has a direct or an indirect link with the study conducted. Secondary data may not have been collected for the same purpose or study been conducted. It may have been collected for other purposes. Sources of secondary data include: annual reports, publications like books, journals, electronic sources like the internet to mention etc

3.4 Research Design

Research design involves the gathering and analysis of data. This is determined by the nature of the research. It also involves establishing the validity and reliability of the study. The purpose of the research design is to establish the connection that exists between the research questions, the data gathered and the conclusion to be established (Yin, 1994).

In the research design, methods used in the study are specified as well as the processes used in gathering and analysis of the data. In this study, the interview was conducted using structured questionnaires and personal interviews. The questions used in the questionnaire gathered the diverse opinions of the various respondents from which the conclusion of the study was made. The literature review served as a standard by which the questionnaire was designed.

3.4.1 Exploratory Research

Exploratory research design is used to derive “insight into the general nature of the problem, the possible decision alternatives, and the relevant variables that need to be considered” (Kumar, 2000). In other words, exploratory research is most appropriate for the identification of problems, definition of problems and testing the possibility of new alternative courses of action. Exploratory research is more flexible and versatile to use in areas as formulating hypothesis regarding potential problems and opportunities. In this type of research, the researcher has little knowledge about the issue at hand and had to be able to adapt to any new developments that might emerge during the study so as to get the most out of it. This type of research is not as reliable as descriptive and causal. It is less rigorous since the researcher in this case aims at finding quick answers to potential problems that might be facing the company or institution in question. However, it is more economical in terms of time and money (Kumar, 2000). Exploratory research seeks to answer questions such as what, when, where, why, who, how or any combination of the above. Field research, case studies, focus group, structured interviews, document analysis are used to conduct exploratory research (Shields, 1998).

3.4.2 Descriptive Research

Descriptive research defines the research type that takes into account the need for an accurate snapshot of some aspects of an issue at hand. In other words, this type of research aims at the describing an already existing phenomenon whether in the market, company, institution among others. Descriptive research can also be used to determine the rate at which certain specific events occur. In a typical international business setting, descriptive research can be used to look for similarities and differences between markets and consumer groups (Kumar, 2000). Since the accuracy of the results of descriptive research is imperative it is therefore recommended that the data should be in large quantities so that it can effectively represent the actual population. Hypotheses are designed before the research is conducted and then tested with the collected data later on in the studies. The main objective of this type of research is to increase reliability, accuracy and minimize errors (Kumar, 2000).

3.4.3 Causal Research

Causal research is a more precise research type that aims at the identification of cause and effect relationship in the market. It involves the introduction of certain factors and the measurement of the effects of these factors identified. Hence, it establishes the interrelationships between different variables or factors and how these variables affect the decision making in an organization. This allows the researcher to identify the variables that are the causes and which are the results as well as the ability to find "evidences of strong associations between the actions taken and the observed outcome and the actions that preceded the outcome" (Kumar, 2000).

Other forms of research designs include explanatory, understanding and predictive research (Shields, 1998).

In this study, I would employ a hybrid research method that entails both qualitative and quantitative methods. Under the qualitative research method, a case study would be used and precisely exploratory case study. Under the quantitative method, a survey would be used and more specifically, structured questionnaire.

3.5 Data analysis

Data analysis gives compelling reasons to reduce bias and to assist the study to make fair analytical conclusions that rules out misinterpretations Yin (1994:103). This process helps to transform the collected data into meaningful descriptive interpretations. Data analysis helps the researcher to synchronize the data collected against the meaning or implication of the study being conducted. Data analysis involves reducing the data, presentation of the data, verifying and drawing conclusions.

Data reduction aims at screening the data gathered for the materials that are relevant to the study. Data presentation however deals with how the reduced data is presented either by the use of graphs or table. The conclusion aspect deals with the final analytical conclusion by the researcher.

This study followed similar pattern as described above. Respondents were asked questions based on the topic been studied. Also, prepared questionnaires were sent to various respondents to solicit their views and opinions on the study. After the collection of these data, reduction was made so as to weave out those materials that are not relevant to the study. After that SPSS was used to analyze the results of the questionnaire whiles the qualitative research data was also analyzed separately. The gathered information explicitly contained the expressed opinions of the respondents involved in the study.

3.6 Validity and Reliability of the study

The term validity defines the degree of stability and consistency that is attributable to the conclusion drawn from the study which is likely to be to be confirmed by a different researcher (Yin, 1994:36). Often the work must be ascertained by the researcher that when another researcher carries out the same work, the conclusion will be the same or not differ very much and that similar conclusion can be drawn on a repeated research. A reliable study can be verified if the following questions can clearly be answered: If the researcher is able to answer yes to the following questions, then it can be said that the results of the research is valid. These questions are; will the same results be achieved when the study is repeated at other times? Secondary, will similar observations be made by different researchers? Thirdly, are the conclusions made in the study transparent? (Saunders *et al*, 2006).

In ensuring that a study is reliable, a researcher is attempting to evade bias and to confirm that similar conclusion is possible when the study is replicated. Saunders *et al*, (2006) identified the impediments to a reliable study as: participant error, participant bias, observer error and bias. The first two emanates from the interviewee's reactions and the results produced from them. The last two however, may be caused by the interviewer in how he/she approaches the questions used during the study and his/her interpretation of the result.

To ensure that the study is reliable, the study relied on diverse and renowned authors of accounting in the literature review. Comparisons of various conclusions made by various studies were carefully examined. Questionnaires designed for collecting data was critically designed in line with the literature review. In order to enhance the degree of validity various sources of evidence are necessary. In this study, I employed diverse sources from which I obtained the needed information. I sent questionnaires to selected companies and institutions as well as personally exploring the accounting practices of some of the companies for three months. A few surveys were conducted to derive some measureable and concrete information to buttress the qualitative questionnaire. Results from existing studies were also compared to the results obtained from this study.

4. EMPIRICAL STUDY AND FINDINGS

This part of the study brings to the fore the results of the research and the conclusions drawn from the results. This study employed a hybrid research method comprising both qualitative and quantitative methods. However, the qualitative method is the main method whiles quantitative method was used to back the findings in the qualitative method. Under the qualitative method, explorative design was used to gather the necessary data for the study.

4.1 Qualitative (Exploratory) Research Analysis

4.1.1 Millicom International Cellular S. A

Millicom International Cellular S.A. is a global telecommunications group with mobile telephony operations in 14 countries in Latin America, Africa and Asia. It also operates cable and broadband businesses in five countries in Central America. The Group's mobile operations have a combined population under license of approximately 267 million people. Millicom International Cellular S.A. (MIC) is noted to be a leading international developer and operator of cellular telephone services worldwide primarily in emerging markets.

4.1.2 Millicom Ghana Limited

Millicom Ghana Limited (Tigo) is a subsidiary of Millicom International Cellular S.A. (MIC). Tigo is the second leading company in the telecommunications industry in Ghana after Multi-National Telecommunications Network (MTN). The company prides itself with the following attributes Affordability, Accessibility and Availability. This guarantees that Tigo customers experience the best services at the most affordable rates throughout the country.

4.1.3 Facts and Figures

Millicom Ghana Ltd is 100% owned by Millicom International Cellular S. A. Out of the 24 million population of Ghana, Tigo can boost of 3,094,176 customers as at the year ending 2009. The customer base of the company grew by 134, 194 from the previous year 2008. This customer number represents an increase of 7% from year 2008. Millicom Ghana Limited generated 76 million Ghanaian Cedis in revenue in

2009 which represents a 12% increase in revenue from 2008's revenue of 68 million. When converted to dollars the company made revenue of approximately 53 million USD.

4.1.4 Competitors

Other competitors in the Ghanaian telecommunication industry are arranged below in order of market share in percentage.

Operator	Market Share (%)
Multi-National Telecommunication Networks (MTN)	54.11
Millicom Ghana Limited (Tigo)	24.89
Vodafone	12.32
Zain	6.87
Kasapa	1.9
Globacom	Yet to start operations

Table 4: Market Share of Ghanaian Telecommunication Companies (2009)

Multi-National Telecommunication Networks (MTN) is the market leader with Tigo in the second position, Vodafone in the third, Zain in the fourth and finally Kasapa in the fifth place. Globacom is a Nigerian telecommunication giant which is yet to begin operations in the country. Competition in the telecommunication industry in Ghana has become very fierce with each operator pushing massively for customers.

4.2 Result of Exploratory Research

A. Mr. Philip Amoateng a former Chief Financial Officer for Millicom Sierra Leone Limited a subsidiary of a Millicom International Cellular S.A, has been in the accounting profession for a decade now. According to Mr. Amoateng, "*Accounting in Ghana started from our colonial masters, Britain and has evolved greatly over the years"*. According to him *"accounting in Ghana developed after the Anglo-Saxon culture from Britain"*. He emphasized that because Ghana was colonized by the British and for that matter, language, education, and organizational structure followed the British system. With this background, the development of accounting in Ghana was shaped after the colonial rule. Moreover, he emphatically stated that during the embryonic stages of the Ghanaian accounting, *"Ghanaian students were sent to the United Kingdom to study professional accounting courses so that they can practice them in the country"*. It therefore came as no surprise that Ghana jumped at the opportunity to adopt and implement International Accounting Standards. He also asserts that since the barriers to practicing International Accounting in Ghana was somehow limited as a result of the cultural similarities with that of the United Kingdom, Ghana had no excuse but to adopt these standards.

Before the adoption of IFRS in Ghana, "the Ghana National Accounting Standards (GAS) was used". The GAS, according to Mr. Amoateng didn't meet the international accounting requirements hence the need to adopt IAS. However, he mentioned that the fact that the GAS did not meet international standards did not render it ineffective as suggested in the question posed to him.

Mention was made of such factors as capital market and globalization as the main factors that influence the adoption of IAS in Ghana. He stated *that "the acquisition of capital was difficult considering the fact that lenders could not ascertain the financial position of a company as a result of difference in the accounting system employed"*. More so, *"the drive to go international by local companies and the increasing rate at which multinational companies flood the country is also a major determining factor that affects the adoption of IAS in Ghana"*.

Asked about the strengths and weaknesses he sees in the Ghanaian accounting system, he emphasized that the willingness of countries to follow the IAS serves as a major boost to the accounting development in Ghana. However, the need to train staff to use these accounting standards effectively was seen as the major setback. He mentioned that accountants and auditors alike carry these standards with them and refer to them time and again to familiarize themselves with the accounting standards.

B. Mr. Harold Bedu Mensah is the head of accounting in Millicom Ghana Limited. He was asked about the year and what prompted the company to adopt IFRS. He argued that *"the company is a global company and for that matter was using IAS since it came into operation in the year 1992".* He further stated that because the company was already complying with International Accounting Standards, it seamlessly adopted IFRS when it came into practice. He reiterated *"that the company as a global one was required to employ IAS/IFRS so as the parent company in Luxemburg can consolidate the books at the end of the year".* Furthermore, he added that Millicom International Cellular S.A. is listed on the NASDAQ stock market and the Stockholm stock market and for that matter as a subsidiary they had to use IAS/IFRS so that investors and shareholders can understand their annual financial reports. *"It is a pre-requisite that companies wanting to be listed on the NASDAQ stock exchange market employed IAS/IFRS"*, Mr. Bedu stated, so as to make investors and shareholders informed about the status of their investment and hence guides them in making decisions that affects their investment.

However, He offered to express his opinion about the factors that might have prompted Ghana to adopt IFRS. He rated the influence of external environment (World Bank, IMF, United Nations etc) as the most pressing forces that coerced Ghana to adopt and comply with IFRS. Secondly, he stressed the existence of capital market in Ghana that affected the adoption of IFRS significantly. Shareholders felt more comfortable with the IFRS since according to them, it is more transparent and it ensures that companies disclosed certain vital information in their books at the end of the year. In this sense therefore, investors were guaranteed of proper accountability and annual financial reports and statements that meets international requirements.

The next factor which he rated was economic growth which according to him has the same influence as the existence of capital market. As the economy of a country grows rapidly, need for improved methods of accountability increases proportionately. During the periods of 2001 upwards, the economy of Ghana was growing at an average rate of 4-5% annually which stresses the fact that the local accounting standards were no longer able to measure up to the sophistication of the financial reporting needs in the country. The only option was to adopt and practice IFRS so as to meet the increasing demand for complex financial information in the country.

Further, he rated the influence of the legal system and ineffective previous standards as very minimal to the adoption of IFRS in Ghana. Admittedly, he mentioned that the common legal system used in Ghana influenced the adoption process but it is not potent enough to attribute much to it. He also accepted the fact that there were some loopholes in the previous accounting standards but locally it was sufficient for their information needs. The major crack he noticed in the previous accounting standards was that it did not meet international standards.

Asked what other factors he thinks affected the adoption of IFRS in Ghana which were not mentioned in the questionnaire, he stated such factors as internationalization, globalization and culture whiles other company-specific reason was the need to meet the requirements to be listed on the NASDAQ stock exchange market.

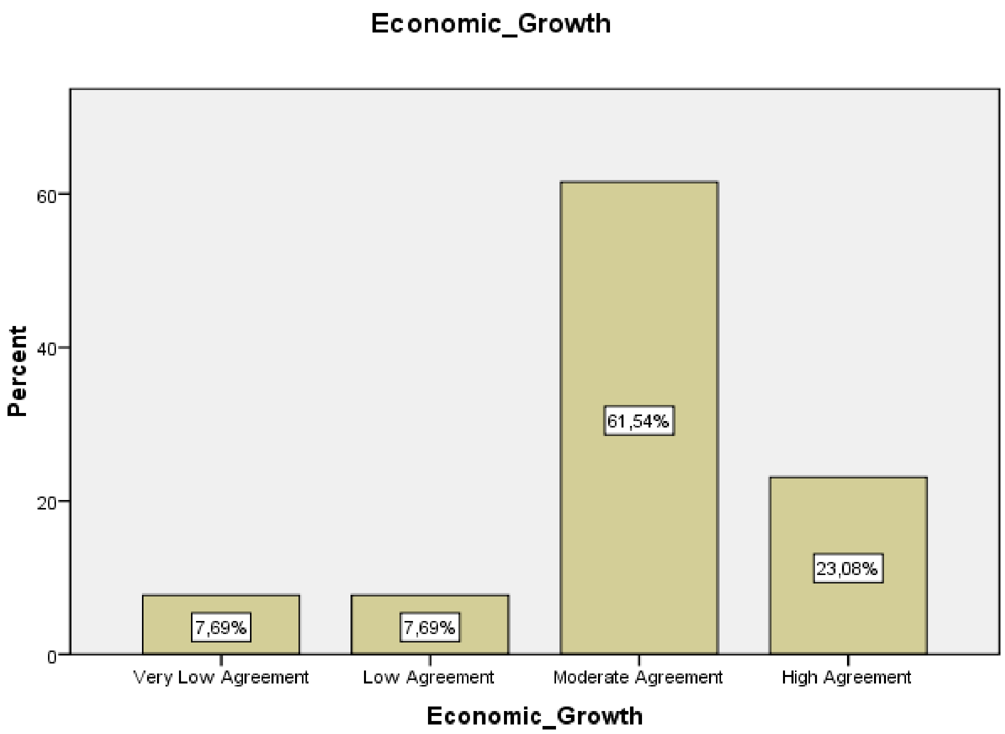
4.3 Quantitative Research Analysis

An overall of twenty questionnaires were distributed to different companies mainly in the financial, telecommunication, auditing, and retail sector of the Ghana's economy. Out of these twenty questionnaires, fifteen responded. Out of the fifteen responds, two institutions stated that they have no idea about what IFRS is and that they cannot specifically state which accounting standards they are using in preparing financial statements and reporting. The companies include: Millicom Ghana Limited (Tigo), Ecobank Ghana Limited, IPMC, Standard Chartered Bank Ghana, Price Waterhouse Coppers Ghana (PWC), Unique Trust Bank, Multinational Telecommunications Networks (MTN) and Vodafone among others. Statistical Software for Social Sciences (SPSS) was used to analyze the data obtained.

4.3 What factors affect the adoption of IFRS in Ghana?

4.3.1 Economic Growth

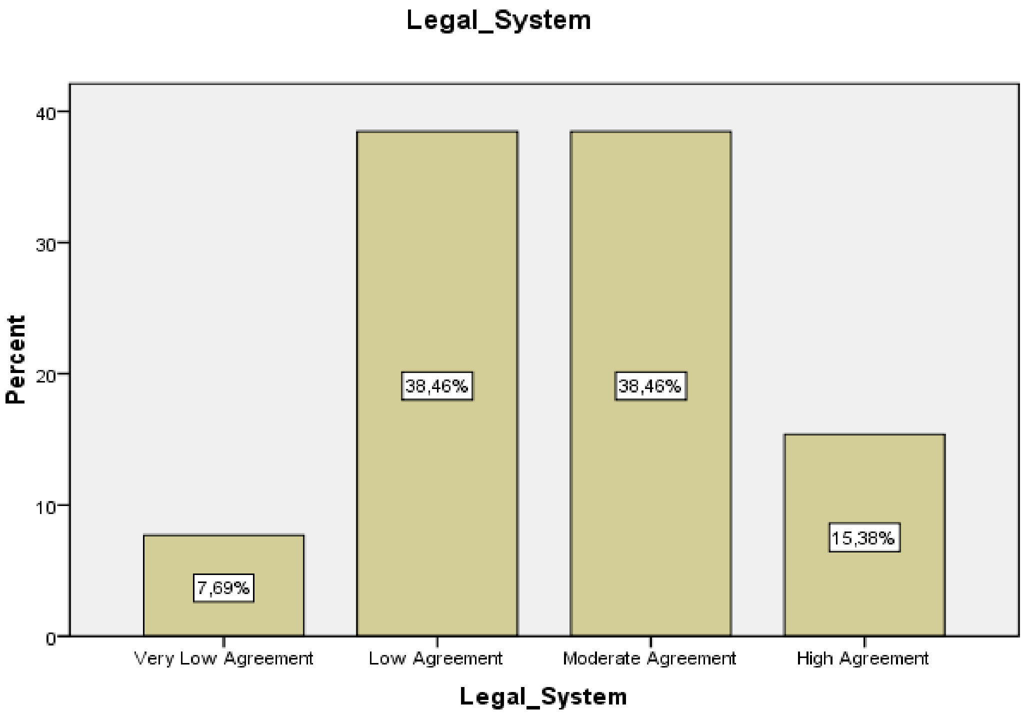
Economic conditions are a major determinant in the development of a country's accounting system. It has accordingly been identified that the level of country's economic growth has a positive impact on the development of accounting systems and practices. Studies confirm that as the economy of a country grows, the need for an improved and sophisticated accounting system becomes more and more pressing hence moving these countries to adopt IFRS. The graph below depicts the views of the respondents on the extent to which they agree that economic growth affects the accounting system.



The graph depicts that about 61.5% of the respondents agrees to this assertion whiles 23% highly agrees to this assertion that the economic growth of a Ghana affects the adoption of IFRS in the country. With this figures, it can be justifiably be concluded that economic growth affected the adoption of IFRS in Ghana.

4.3.2 Legal System

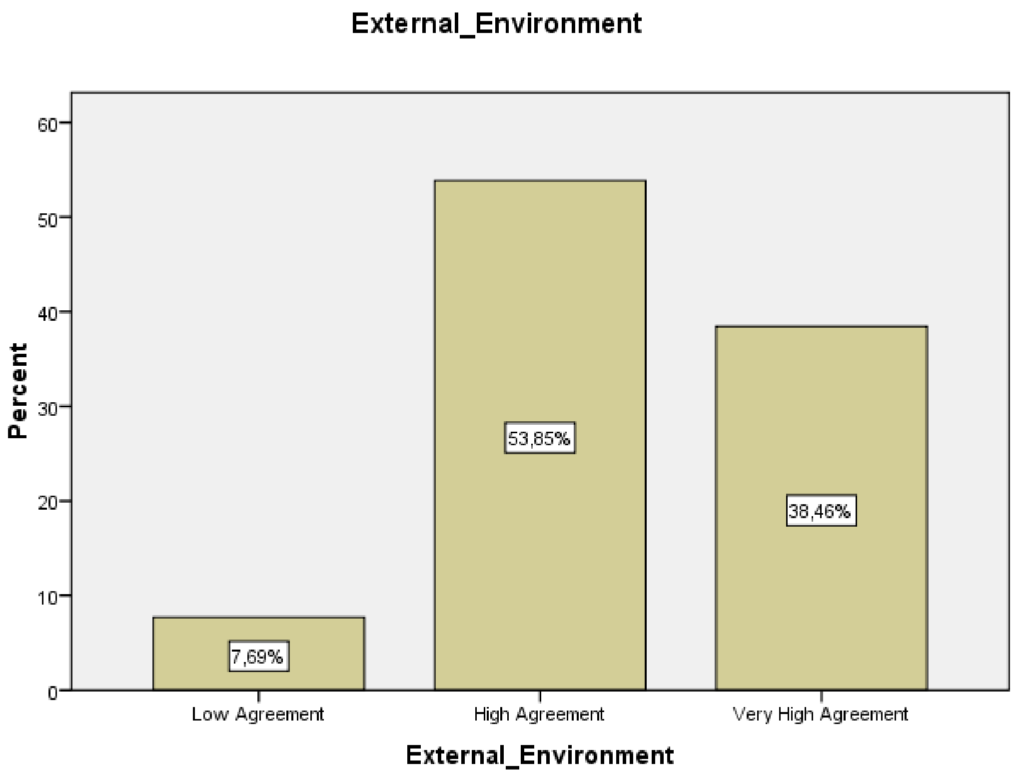
Ghana adopted the legal system of their colonial masters, the common law system. Under the common law system independent professional bodies formulate and regulate the accounting practices in Ghana. The Companies Code of Ghana formulated in 1963 is based on United Kingdom legislation. This system allows these independent bodies to take certain decisions without government interference so far as it's within their legal mandate. The Institute for Chartered Accountants Ghana (ICAG) and Securities and Exchange Commission (SEC) shoulder the main responsibilities of putting the Ghanaian accounting in order. Even though without a clear legal mandate, the ICAG, formulates and ensure the implementation of accounting standards in Ghana whiles SEC sees to the compliance of listed companies with proper reporting standards. The chart below specifies the opinions of the respondents as to the level to which they agree that the legal system affects the adoption of IFRS in Ghana.



The results in the chart show that a little over fifty percent (53%) of the respondents agrees that the legal system affects the adoption of IFRS in Ghana. It is therefore, conclusive that the legal system has a weaker link with the adoption of IFRS.

4.3.3 External Environment (UN, World Bank, IMF)

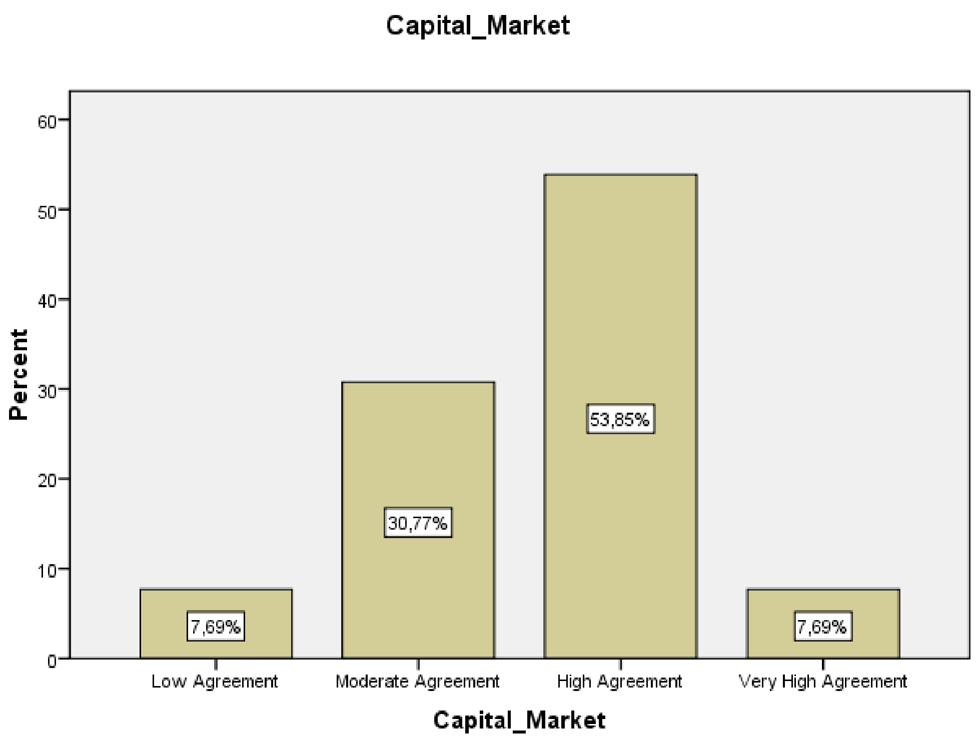
External pressures from the world's financial institutions, foreign investors, multinational corporations, international accounting firms, may in one way or the other affect the adoption of IFRS in a country. The more open an economy of a country, the higher the probability that, the country will be exposed to different international pressures. In the case of Ghana for instance, the World Bank, after studying the Ghanaian accounting system and preparing the Report on Observance of Standards and Codes, recommended that Ghana adopts IFRS without modification and that a council should be setup to oversee the formulation and regulation of accounting in Ghana.



Ninety Two percent (92%) of the respondents highly or very highly agreed that external environment dictated the adoption of IFRS in Ghana hence leading to the conviction that the third factor; external environment directly influenced the adoption of IFRS in Ghana.

4.3.4 Capital Market

The existence of a capital market is noted to a major element that contributes to the development of a country. Capital markets aid in the optimal allocation of resources among different economic sectors and among firms. Funds are accumulated from individual investors and dispersed to companies that need them to boost their activities. Investors put a lot of pressure on these companies to ensure transparency and accountability in their dealings and this requires sophisticated accounting system to meet the demands of investors. Also, to make optimal choices when analyzing investment portfolios, quality financial information is what investors require. To satisfy this requirement, companies tend to adopt IFRS which is internationally recognized as a reliable accounting system.



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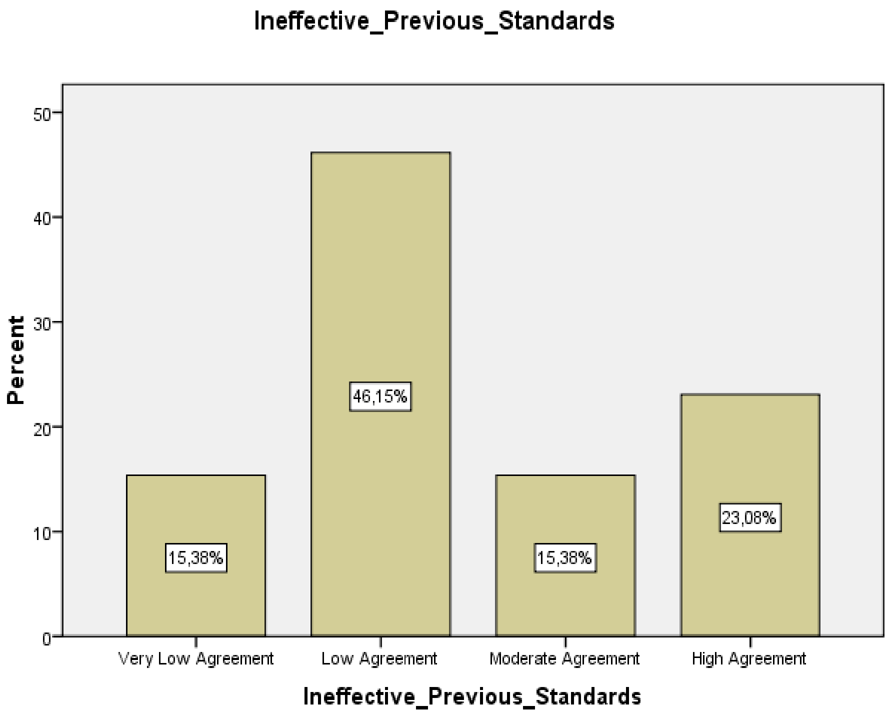
The statistics depicts that over ninety percent (91%) of the respondents moderately, highly or very highly agree with the assertion that the existence of capital markets affected the adoption of IFRS in Ghana. The existence of capital market therefore influenced greatly the adoption of IFRS in Ghana.

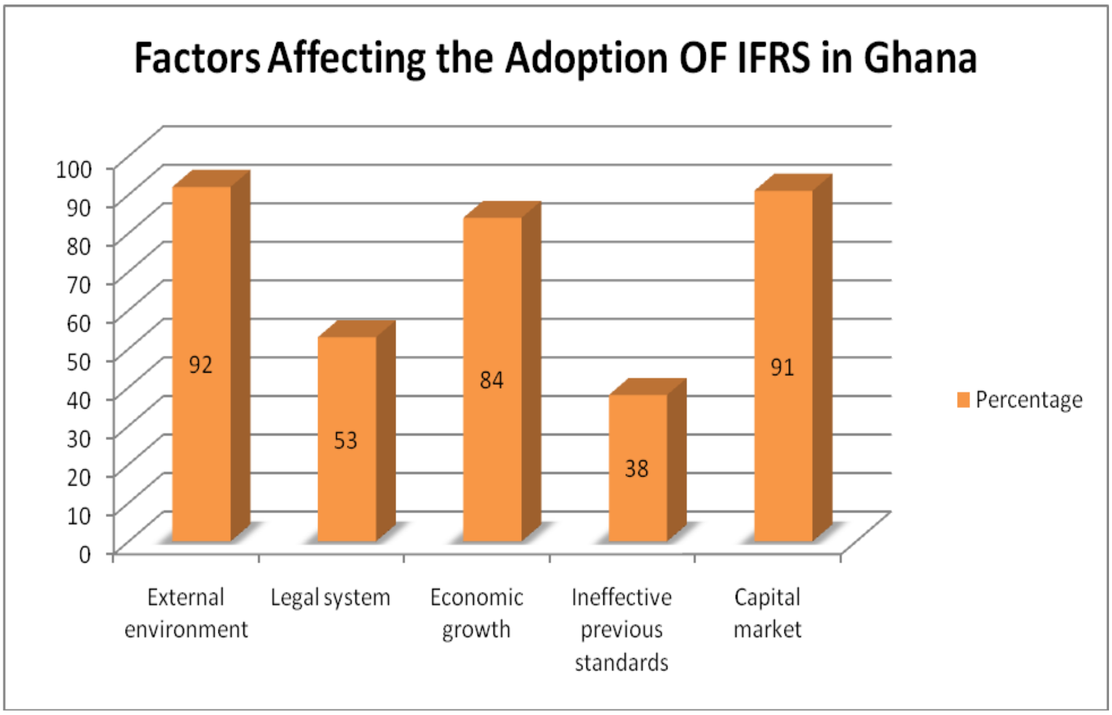
4.3.5 Ineffective Previous Accounting Standards

In the year 2004, the World Bank conducted a study of the Ghanaian Accounting and Audit system and developed the Report on Observance of Standards and Codes (ROSC) on Ghana. In this study, many loopholes were identified in the Ghanaian Accounting and Audit standards. These loopholes include outdated standards, non-conformance of some standards with international standards, no implementation guide on the Ghana National Accounting Standards, and also there were no measures to enforce compliance with the existing Ghana National Accounting Standards. It was also noted that accounting for agriculture was missing from the Ghana National Accounting Standards which to some extent renders the Ghana National Accounting Standards ineffective in Ghana where agriculture is one of the major contributor to the GDP of the country.



Ineffective previous accounting standards do not have any influence on the adoption of IFRS in Ghana. As depicted on the graph above, about 38% of the respondents agreed that ineffective previous standards affect the adoption of IFRS in Ghana.

4.3.6 Linkage between Conceptual Framework and Empirical Findings



Coercive Isomorphism issues from authority and encompasses external environment and legal system as discussed in the literature review. The findings depict that external environment strongly influenced the adoption of IFRS in Ghana whiles legal system averagely influenced the adoption of IFRS in Ghana. Hence, coercive isomorphism has a positive correlation to the adoption of IFRS in Ghana.

Mimetic Isomorphism defines the response to uncertainties and comprises of economic growth and ineffective precious accounting standards. 82% of the respondents agreed that economic growth affected the adoption of IFRS in Ghana whiles 38% agreed that ineffective previous standards affected the adoption of IFRS in Ghana. It can therefore be concluded that mimetic isomorphism can partially be attributed to the adoption of IFRS in Ghana.

Finally Normative Isomorphism deals with professionalism which entails the existence of capital market. 91% of the respondents agreed that this factor affected the adoption of IFRS in Ghana and for that matter, it is justified that normative isomorphism had a very strong correlation to the adoption of IFRS in Ghana.

What are the measurable Merits of Adopting IFRS in Ghana?

However, opinions of authors differ greatly from that of the actual users of IFRS. With this is mind, I gathered from the questionnaire sent to various companies and institutions the tangible benefits that companies and countries (Ghana) obtain through the adoption and practice of IFRS and these are listed below as stated by the various respondents:

First, transparency in reporting financial statements among subsidiaries in different countries was mentioned to be a measureable benefit in the adoption of IFRS by companies especially international or multinational companies.

Second, to ensure uniformity so as to make it easy to compare results among companies in the same industry and subsidiaries, according to the respondents is a major benefit they derive from the adoption of IFRS.

Third, the company has to adopt IFRS to remain listed on NASDAQ. This is a company specific benefit or requirement. As a subsidiary of listed company on NASDAQ, it is a requisite to adopt IFRS so as to ensure that the parent company continues to remain on the stock exchange market in the United States.

Fourth, consistency in accounting treatment within a particular company group is also another great benefit that companies enjoy through the adoption of IFRS.

Fifth, IFRS was mention to be a major asset that aid in consolidation of group accounts which emphasize that with IFRS the whole accounts of subsidiaries can be consolidated with much ease and less time.

Sixth, a respondent stated emphatically that, Ghana complying with International Financial Reporting Standards would go a long way in helping to attract foreign investments into the country.

Seventh, the drive to go international or even global by local Ghanaian companies, according to one respondent has been immense enhanced by the adoption to IFRS which is an invaluable benefit that has been achieved.

Eighth, easy access to capital and loans from international organizations, companies and institutions was also mentioned to be a topmost benefit that the adoption of IFRS has bestowed on Ghana as a country and individual companies as well.

Ninth, meeting international requirements of financial reporting is another benefit of the adoption of IFRS in Ghana according to a respondent.

Tenth, in order to avoid the hustle of preparing of two separate financial statements by subsidiaries so as to meet the local and international requirements, the adoption on IFRS is mentioned by a respondent to be an ideal solution to meeting both local and international financial reporting needs.

Other merits stated by respondents are comparable financial structure across groups and easy access to International facilities.

Demerits of the Adoption of IFRS in Ghana

In the questionnaire, I asked respondents about the disadvantages that related to the adoption and compliance with the IFRS. The following are the various points the respondents specified to be the main obstacles:

1. Since these standards are new and unfamiliar to the local staff, several training must be done to ensure that these accountants are adept with handling these new standards. This invariably leads to increase in the cost of training. Also, the services of consultants must be purchased so as to complete compliance with the new standards adopted which also increases the consultancy cost immensely.

2. It was also mentioned by a respondent that the cost of implementing these news standards are exorbitant. Since these standards are new to the Ghanaian companies, they need to put in place measures to ensure successful implementation and compliance with these standards. It would also require the building of an internal control team that would see to it that internally the company complies with

these standards before external auditors come to audit the company's books. More so, the services of renowned audit firms has to be purchased in that most local audit firms are also new to these standards and hence cannot be relied upon.

3. Also, it was emphasized that some standards do not meet the accounting and financial requirements of the developing countries. As started earlier, the International Financial Reporting Standards are developed with the developed economies as a yardstick and for that matter it would not fit perfectly the economies of developing countries. In any case there would be some gap between these standards and the real accounting and financial reporting needs of these developing countries. International Accounting Standard (IAS 29); Financial Reporting in Hyper- Inflationary Economies for instance were not adopted in Zimbabwe in that it was considered to be inapplicable at the time of adoption. The same can be said of IAS 15 (Information Reflecting the Effects of Changing Prices).

4. Implementation difficulties are also another problem that developing countries face in their adoption of IFRS. For the fact that these standards are developed outside the economy of these developing countries, the possibility of facing some insurmountable challenges becomes very obvious and predictable.

5. A respondent cited the variances in local regulations as one major challenge to the compliance to IFRS in developing countries and in this case Ghana. To elaborate on that, there are different local regulations with respect to accounting and financial reporting in Ghana which impede on a uniform accounting standards. Even though Ghana as a country has adopted IFRS, some local regulations demands certain reports which is not in accordance to the IFRS and hence poses some form of problems to these companies complying to these standards.

6. Non applicability of some standards, according to a respondent is a major problem in the compliance to IFRS. Some of the standards do not correspond to the financial information needs of the country. However, to adopt these standards, they are modified to suit the local needs. Modifying specific standards to suit local

needs in itself brings to bear the flops in the International Financial Reporting Standards.

7. Complexity of the IFRS also as mentioned by a respondent causes some problems to the compliance to these standards. Certainly, there is a measure of difference between the previous standards; Ghana National Accounting Standards and IFRS. These differences in the treatment of financial information and reporting standards poses some headaches to local accountants who have to also adopt and practice and become adept with these standards.

5. CONCLUSIONS AND SUGGESTIONS

The advent of companies going international or even global has given rise to the need to develop accounting standards that ensure uniformity and standardization of reporting financial information among parent companies and subsidiaries. The IASC in its capacity developed accounting standards which seeks to satisfy the need for a universal accounting financial reporting system. However, in the year 2001, the IASB which succeeded the IASC developed the IFRS which complement the IAS.

Many Authors have written and studied the adoption of IAS/IFRS in most of the developed countries. However, a few have written or studied the adoption and compliance of developing countries with these standards. Mention can be made of Zimbabwe, Egypt, Kazakhstan and a host of other few developing countries has had their accounting standards studied. Realizing this fact gave me the extra motivation to study the adoption of IFRS in developing countries and more specifically Ghana.

The study aims at understanding the development of accounting in Ghana and how accounting has evolved over the years. However, the main objectives of the study are: to assess the factors the influenced the adoption of IAS/IFRS in Ghana, the benefits of the adoption of these standards and the demerits as well. More importantly the question as to whether accounting standards are relevant to developing countries was subtly considered in this study.

Suggestions for Future Studies

The IAS/IFRS is a broader scope of accounting which cannot be dealt with in its entirety in this study alone. This study focused on the adoption of these standards in Ghana. However, it would be highly appropriate for further studies to be conducted on the compliance with IAS/IFRS in Ghana. This would comprise the details application of the adopted standards and how well companies in Ghana apply these standards. If these standards are adopted and not applied, they become white elephants - big but valueless. Finally, another area of study recommendable for further investigation would be - how small and medium scale enterprises adopt and comply IFRS tailored for them.

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Interviews

Mr Amoateng, Former CFO of Millicom Sierra Leone

Mr. Harold Bedu-Mensah, Head of Accounting, Millicom Ghana Limited

APPENDIX

Appendix 1- Quantitative Research Questions

Appendix 2- Qualitative Research Questions

Appendix 3- Abbreviations

Quantitative Research Questions

Adoption and practices of International Financial Reporting Standards (IFRS) in Your Company

1. When did your company start using IFRS?
   Please state the year....................................
2. Before the adoption of IFRS, what reporting standards did your company use?
   Please mention the previous standard..
3. If you compare the previous accounting standards to IFRS, which one is easier to apply?
   Please underline your answer (a) Previous Standards (b) IFRS
4. If you compare the previous standards to the IFRS, which one is more time-consuming?
   Please underline your answer (a) Previous Standards (b) IFRS
5. If you compare the previous standards to the IFRS, which one is more preferable?
   Please underline your answer (a) Previous Standards (b) IFRS
6. What are the two main reasons for your preferences:
   Please state your reasons;
   (I)...

   (II)...

Factors that influenced your company to adopt International Financial Reporting Standards (IFRS)

In the Questions 7 to 10 given in the table below, please, indicate the extent to which you agree with each statement about the factors that influenced the adoption of IFRS by your company.

Please, use a scale of 1 – 5, with 1 representing Very Low Agreement, 2 Low Agreement, 3 Moderate Agreement, 4 High Agreement, 5 Very High Agreement

(Please, circle your choice in the table for each question below)

Question	very low agreement	low agreement	moderate agreement	high agreement	very high agreement
(7). Economic growth in Ghana greatly influenced the adoption of IFRS.	1	2	3	4	5
(8). The legal system greatly influenced the adoption of IFRS.	1	2	3	4	5
(9). The external environment (e.g. World Bank, IMF etc) greatly influenced the adoption of IFRS.	1	2	3	4	5
(10). The existence of capital market greatly influenced the adoption of IFRS.	1	2	3	4	5
(11). The previous accounting standards were ineffective	1	2	3	4	5

Figure 4: Quantitative Questionnaire

11. What other factors from your viewpoint influenced the adoption of IFRS by your company other than those mentioned above?

(I) ....

(II) ....

(III) ....

Advantages (or Opportunities) and Disadvantages (or constraints) that your company has experienced in adoption of International Financial Reporting Standards (IFRS)

12. What would you say are the measurable merits of adopting IFRS to Ghana and your company in particular?
    i. ………………………….
    ii. ………………………….
    iii. ………………………….

13. What are the demerits of adopting IFRS to Ghana and your company in particular?
    i. …………………………
    ii. …………………………
    iii. …………………………

Qualitative Research Questions

- *How was the accounting system in Ghana developed?*
- *What accounting standards were employed before the adoption if IFRS?*
- *What would you say are the main factors that influenced the adoption of IFRS?*
- *Do you agree with the statement that IFRS is developed by the developed countries hence not practical for developing countries?*
- *From your point of view, how beneficial is IFRS to Ghana and the companies practicing them.*

ACCRONYMS

IFRS- International Financial Reporting Standards

IAS- International Accounting Standards

ICAG- Institute of Chartered Accountants, Ghana

IFAC- International Federation of Accountants

IASC- International Accounting Standards Committee

IASB- International Accounting Standards Board

ROCE- Reports on Observance of Standards and Codes

SEC- Securities and Exchange Commission

CFO- Chief Financial Officer

NASDAQ- National Association of Securities Dealers Automated Quotations

ISA- International Standards on Auditing

MCC- Millennium Challenge Corporation

GDP- Gross Domestic Product

O.E.C.D. – Organization for Economic Co-operation and Development

HIPC- Heavily Indebted Poor Countries