The Challenges and Opportunities of Iraq
Transitioning to International Accounting Standards
with Particular Emphasis on Accounting for Oil

By
Mohammed Abud-Allah Ibrahim
B.Sc. (Accounting) University of Baghdad, Iraq
M.Sc. (Accounting) University of Baghdad, Iraq
Diploma (GSBR) University of Newcastle, Australia

A Thesis Submitted in Fulfilment of the Requirements
for the Degree of Doctor of Philosophy
(Accounting and Finance)

Newcastle Business School Faculty of Business and Law
The University of Newcastle, Australia
July 2014
Statement of Originality

This thesis contains no material which has been accepted for the award of any other degree or diploma in any university or other tertiary institution and, to the best of my knowledge and belief, contains no material previously published or written by another person, except where due reference has been made in the text. I give consent to the final version of my thesis being made available worldwide when deposited in the University’s Digital Repository, subject to the provisions of the Copyright Act 1968.

Mohammed A. Ibrahim
July 2014
Acknowledgements

First and foremost, all praises and glories are due to almighty ALLAH, for his blessing, mercy and guidance for making this thesis possible.

I am pleased to extend my great respect and sincere thanks and appreciation to the professional and experienced supervisor Dr. Patricia Stanton for the valuable guidance he provided through all the stages of my study, which has had a positive impact on this thesis. I am grateful to Dr. Stanton for her gentle but firm prodding throughout the long journey of this thesis.

I also deeply indebted to my Co Supervisor Dr. Marcus Rodrigs for his prominent role in accomplished this thesis. He was very generous for giving his time and providing all kinds of support and assistance will not be forgotten. I must say that, I have been very lucky to work with these two supervisors.

My sincere appreciation and gratefulness goes to my Mother for her generous prayers, care and her support throughout my life. Great respect and deeply thanks go to my father (may Allah have mercy on his soul).

Words fail to express my feelings and gratitude in my heart toward my wife, Reem, thank you for your prayer, care, support, love and sacrifice throughout my study.

Thank you for my brother Ghanim, and my sister Intisar and other my brother and sisters for your support. Special thanks for my children Ruya, Abdullah and Ibrahim for giving me hope to finish this thesis.

I am sincerely appreciative of all participants and interviewee for their support, patience and time. I would also like to thank my colleagues, friends, staff of the Faculty of Business and Law for their help and support.

Special thanks to my friend and companion in this journey Dr. Salim al qahtani.

My sincere appreciation for Dr. Salah Al Baghdadi and Dr. Alaa Khadim for give a helping hand and support during collecting data process in Iraq.

Finally, I could never have finished my PhD thesis if my family and friends, both in the Australia and Iraq, had not supported, understood and encouraged me.
Thesis Related Research Outcomes

Journal Articles


Refereed Conference Papers


Other Conferences/Seminars/Workshops

Ibrahim, M., Stanton, P., & Rodrigs, M. 2011 Best Poster Award, 2011 “Accounting for oil in Iraq’s current social political environment” Faculty Research Showcase, Faculty of Business and Law, The University of Newcastle, Australia.
# Table of Contents

Statement of Originality ................................................................................................................. i  
Acknowledgements .......................................................................................................................... ii  
Thesis Related Research Outcomes ............................................................................................. iii  
List of Tables ................................................................................................................................ vi  
List of Figures ............................................................................................................................ viii  
List of Abbreviations and Acronyms ........................................................................................... ix  
Abstract ........................................................................................................................................ xi  

## Chapter 1: Introduction ............................................................................. 1

1.1 Background ................................................................................................. 1  
1.2 Research Aims ............................................................................................. 4  
1.3 Research Questions ..................................................................................... 5  
1.4 Theoretical Framework ........................................................................... 6  
1.5 Research Design ......................................................................................... 7  
1.6 Significance of the Study .......................................................................... 8  
1.7 Adoption, Harmonization and Convergence ........................................... 9  
1.8 Organisation of the Study ....................................................................... 11

## Chapter 2: Background ............................................................................ 12

2.1 Introduction: .............................................................................................. 12  
2.2 Iraqi Oil History ......................................................................................... 13  
2.3 Iraq’s Current Situation .......................................................................... 16  
2.3.1. World Bank and IMF ........................................................................... 16  
2.3.1.1 International Monetary Fund: ............................................................ 17  
2.3.1.2 World Bank ....................................................................................... 18  
2.3.2 New Oil and Gas Law and International Oil Companies ................... 19  
2.3.3 Big 4 Accounting Firms ........................................................................ 24  
2.3.4 Accounting Practices - Unified Accounting System ............................ 25  
2.4 UAS versus IASs/IFRS ........................................................................... 28  
2.5 Discussion ................................................................................................. 30

## Chapter 3: Literature Review .................................................................. 31

3.1 Introduction ............................................................................................... 31  
3.2 Accounting practices for Extractive Industries ...................................... 31  
3.3 International Accounting Standards ....................................................... 37  
3.3.1 The Case for International Accounting Standards: .......................... 38  
3.3.2 The Case against International Accounting Standards ....................... 41
3.3.3 External Pressures to adopt International Accounting Standards ................. 46
3.3.4 Other Issues ........................................................................................................ 50
3.4 Theory ..................................................................................................................... 59
3.4.1 New Institutional Theory ................................................................................... 62
3.5 Discussion ................................................................................................................ 68

Chapter 4: Research Method and Theoretical Framework ....................... 70
4.1 Introduction: .......................................................................................................... 70
4.2 Theoretical Framework of the Institutional Context of Financial Reporting in Iraq .... 72
4.3 Research Design ...................................................................................................... 75
   4.3.1 Interviews ......................................................................................................... 76
   4.3.2 Documents ....................................................................................................... 78
   4.3.3 Instruments ...................................................................................................... 79
4.4 Data Collection ........................................................................................................ 81
4.5 Discussion ................................................................................................................ 85

Chapter 5: Findings: Document Analysis .............................................. 86
5.1 Introduction ............................................................................................................. 86
5.2 Document Analysis .................................................................................................. 87
   5.2.1 World Bank, IMF Documents ............................................................................ 87
   5.2.2 Big 4 Accounting Firms: .................................................................................. 97
5.3 UAS for Extractive Industries in Iraq ................................................................. 101
5.4 IFRS 6 for Extractive Industries .......................................................................... 103
5.5 Annual Reports of Iraqi Oil Companies .............................................................. 107
5.3 Discussion ................................................................................................................ 116

Chapter 6: Findings: Interview Analysis ............................................... 121
6.1 Introduction ............................................................................................................. 121
6.2 Benefits and Opportunities of Adopting IFRSs ..................................................... 123
6.3 UAS is not Suitable for Iraq’s Oil and Gas Industry .......................................... 126
   6.3.1 UAS is an Old System without Regular Updates ......................................... 127
   6.3.2 UAS is designed to serve a Central Economy Concept ............................. 127
   6.3.3 Extractive Industries have Special Accounting Needs ............................... 128
   6.3.4 Other Accounting Issues .......................................................................... 129
6.4 International Oil Companies ............................................................................... 130
6.5 Training of Iraqi Accountants ............................................................................. 131
6.6 Challenges of Adopting IFRSs ........................................................................... 132
   6.6.1 Training ......................................................................................................... 133
List of Tables

Table 2.1: Oil Fields Bidding Rounds in Iraq - 2009/2010 Rounds .........................21
Table 2.2: International Oil Companies in Iraq and their accounting standards..........22
Table 2.3: Gas Fields Bidding Round, 3 October 2010 ...........................................23
Table 2.4: Oil & Gas Fields Bidding Round, 4 May 2012 ........................................24
Table 3.1: Differences between Methods used for Exploration and Evaluation Costs...35
List of Figures

Figure 2.1: Iraq Crude Oil Exports 2012 ................................................................. 24

Figure 3.1: The Black box of the accounting standard sitting ................................. 52

Figure 3.2: International Accounting Harmonization within ................................... 66

Figure 4.1: The Institutional context of Financial Reporting Framework ............... 74

Figure 5.1: The phases in the extractive industry and accounting treatment according to IASs/IFRSs and Iraq’s UAS ................................................................. 114
## List of Abbreviations and Acronyms

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Full Form</th>
</tr>
</thead>
<tbody>
<tr>
<td>BSA</td>
<td>Board of Supreme Audit</td>
</tr>
<tr>
<td>CAO</td>
<td>Chief Administrative Officer</td>
</tr>
<tr>
<td>CBI</td>
<td>Central Bank of Iraq</td>
</tr>
<tr>
<td>CFO</td>
<td>Chief financial Officer</td>
</tr>
<tr>
<td>DFI</td>
<td>Development Fund for Iraq</td>
</tr>
<tr>
<td>DM</td>
<td>Dutch Mark</td>
</tr>
<tr>
<td>DT</td>
<td>Deloitte Touché Tohmatsu</td>
</tr>
<tr>
<td>EIA</td>
<td>Energy information Administration</td>
</tr>
<tr>
<td>EI</td>
<td>Extractive Industries</td>
</tr>
<tr>
<td>EITI</td>
<td>Extractive Industries Transparency Initiative</td>
</tr>
<tr>
<td>EPCA</td>
<td>Emergency Post-Conflict Assistance</td>
</tr>
<tr>
<td>EU</td>
<td>European Union</td>
</tr>
<tr>
<td>EY</td>
<td>Ernst and Young</td>
</tr>
<tr>
<td>FASB</td>
<td>Financial Accounting Standards Board</td>
</tr>
<tr>
<td>FDI</td>
<td>Foreign Direct Investment</td>
</tr>
<tr>
<td>GAAP</td>
<td>General Acceptance Accounting Principles</td>
</tr>
<tr>
<td>IASB</td>
<td>International Accounting Standards Board</td>
</tr>
<tr>
<td>IASC</td>
<td>International Accounting Standards Committee</td>
</tr>
<tr>
<td>IAH</td>
<td>International Accounting Harmonization</td>
</tr>
<tr>
<td>IASs</td>
<td>International Accounting Standards</td>
</tr>
<tr>
<td>ID</td>
<td>Iraqi dinner</td>
</tr>
<tr>
<td>IFAC</td>
<td>International Federation of Accountants</td>
</tr>
<tr>
<td>IFRS</td>
<td>International Financial Reporting Standards</td>
</tr>
<tr>
<td>Acronym</td>
<td>Full Form</td>
</tr>
<tr>
<td>---------</td>
<td>-----------</td>
</tr>
<tr>
<td>IMF</td>
<td>International Monetary Fund</td>
</tr>
<tr>
<td>INOC</td>
<td>Iraqi National Oil company</td>
</tr>
<tr>
<td>IAMIB</td>
<td>International Advisory and Monitoring Board</td>
</tr>
<tr>
<td>IFRSIC</td>
<td>International Financial Reporting Standards Interpretation Committee</td>
</tr>
<tr>
<td>IOCs</td>
<td>International Oil Companies</td>
</tr>
<tr>
<td>IOSCO</td>
<td>International Organization of Securities Commission</td>
</tr>
<tr>
<td>IPC</td>
<td>Iraqi Petroleum Company</td>
</tr>
<tr>
<td>ISA</td>
<td>International Standards on Auditing</td>
</tr>
<tr>
<td>KPMG</td>
<td>Klynveld Peat Marwick Goerdeler</td>
</tr>
<tr>
<td>MEC</td>
<td>Middle East Countries</td>
</tr>
<tr>
<td>MENA</td>
<td>Middle East and North Africa</td>
</tr>
<tr>
<td>NUAP</td>
<td>National Unified Accounting Plan</td>
</tr>
<tr>
<td>MNCs</td>
<td>Multinational Companies</td>
</tr>
<tr>
<td>NIC</td>
<td>New Institutional Sociology</td>
</tr>
<tr>
<td>OEC</td>
<td>Oil Exploration Company</td>
</tr>
<tr>
<td>OECD</td>
<td>Organization of Economic cooperation and development</td>
</tr>
<tr>
<td>OPEC</td>
<td>Organization of Petroleum Exporting Countries</td>
</tr>
<tr>
<td>PwC</td>
<td>PricewaterhouseCoopers</td>
</tr>
<tr>
<td>SBA</td>
<td>Stand By Arrangement</td>
</tr>
<tr>
<td>SDR</td>
<td>Special Drawing Rights</td>
</tr>
<tr>
<td>UAS</td>
<td>Iraqi Unified Accounting System</td>
</tr>
<tr>
<td>UNCTAD</td>
<td>United Nation Conference on Trade And Development</td>
</tr>
<tr>
<td>US SEC</td>
<td>United States Securities and Exchange Commission</td>
</tr>
<tr>
<td>WTO</td>
<td>World Trade Organisation</td>
</tr>
</tbody>
</table>
Abstract

This thesis investigates the challenges and opportunities for Iraq in transitioning from its national Unified Accounting System (UAS) to International Financial Reporting Standards (IFRSs). Given the importance of oil to the Iraqi economy, the project uses the oil industry as its focus. The investigation used two research methods. For archival resources to the accounting system and the pressure to change, content analysis was used. To ascertain the views of persons of significant importance, interviews were conducted with academics, managers, consultants, CFO, CAO, and professional. A qualitative phenomenological research approach based on the New Institutional Theory (Isomorphism) was used to analyse the 30 interview transcripts.

The results revealed that the current situation in Iraq is an example of institutional isomorphism, specifically coercive isomorphism by the World Bank and IMF; mimetic isomorphism by the IOCs and normative isomorphism by the Big 4 accounting firms. They use terms like ‘transparency’ and ‘disclosure’ to force change particularly in oil and gas sector to adopt the IFRSs in Iraq.

International financial reporting standards do not necessarily reflect the “best” accounting methods as exemplified by IFRS 6 which gives great freedom in the choice of accounting treatments that makes financial comparisons and evaluation in this industry more difficult and complex. The choice of accounting treatments in IFRS 6 may not be applicable as best method practices given the political influence of the big petroleum companies.
This study highlights the need for further research into the impact of adopting IFRSs in developing and emerging countries, particularly those in the Middle East. Previous studies highlighted the “Islamic Culture” as the main obstacle for adopting IFRSs. This study highlights other issues, which are relevant not only to Iraq but also other Middle Eastern countries and members of the Arab league such as Iran, Saudi Arabiya, Libya, Egypt, Syria, Kuwait, Algeria and Oman. The factors that have shaped international accounting standards do not reflect the factors found in these countries.

**Keywords:** Accounting System; IASs; IFRSs; Institutional Theory; Isomorphism; Extractive Industries; Iraq
Chapter 1

Introduction

1.1 Background

Some years ago, Gray (1988) in a seminal paper demonstrated how accounting procedures and policies are affected by a country’s political environment. Although little has been written about accounting in Iraq, its accounting practices have been influenced by disparate political systems, starting with the British. As a result, its accounting system has been influenced by the British, the Russian accounting system and the Egyptian accounting system (Al Najjar, 2009). When the Arab Baath Socialist party took control of Iraq in 1968, it looked for the means to enable central control of the economy. To do so, it launched the National Unified Accounting Plan (NUAP) which later developed into the Unified Accounting System (UAS). When control of the Arab Baath Socialist party was taken over by Saddam in 1979 the UAS remained a key instrument of government control over the economy. Since the fall of Saddam and his regime in 2003, its accounting system still reflects the previous centralised regime’s agenda. Although Iraq is changing into a democracy, the move has not come from within, as external forces, particularly those of the United States of America (US), have imposed democratic reforms on Iraq. Accompanying this imposition is pressure from international institutions such as the World Bank, the International Monetary Fund (IMF), international oil companies (IOCs), and the Big 4 accounting firms to push Iraq to adopt many of the trappings of Western style democracy and to conform to International Accounting Standards (IASs)/IFRSs.
IFRSs were designed to enable multinational companies (MNCs) or (IOCs) Cortese and Irvine (2010) to have one set of accounting standards that could be used across all reporting jurisdictions, although their adoption in most countries has meant that national firms also use IFRSs. This is what the IMF and the Big 4 accounting firms want Iraq to do; that is, to replace its UAS with IFRSs. For Iraq, this is an enormous change as the UAS serves the interests of the central government; IFRSs does not. This change would impose great upheaval on the accounting profession and practitioners who have no background in accounting and audit standards other than the UAS. The training and related costs for accounting personnel from such a change have been shown to be an obstacle to convergence with IFRSs in Europe where the choice was voluntary (Larson & Street, 2004).

The change to IFRSs has been widely advocated. Choi, Frost, and Meek (2002) and Irvine (2008), for example, have advocated that IFRSs may help countries such as Iraq to develop their economies by opening them to greater international trade and investment opportunities. However, the assumption that better markets depend on better financial reporting is still poorly understood (Sunder, 2011). The literature on post IFRSs adoption is scant so whether the hypothesised advantages of adopting IFRSs have been achieved is unknown. The scant literature suggests that adoption may not be voluntary. The Bangladesh government’s adoption of IFRSs was influenced by the World Bank (Mir & Rahaman, 2005). Coercive external forces influenced Romania (Nadia, Catalin, Stefan, Daniela Artemisa, & Maria Madalina, 2011) to adopt IFRSs. Since adoption, Romanian accounting
culture has proved resilient to the changes induced by transition, so that a movement rejecting IFRSs has arisen (Ionascu, Ionascu, Olimid, & Calu, 2007).

The choice of an accounting system is important to Iraq because its reserves of oil account for 95% of its GDP. The Iraqi oil industry has changed from central government control of oil and gas production by one local company, Iraq National Oil Company (INOC), and currently to one where foreign companies are allowed to invest and operate in Iraq alongside the national company (Council of Ministers Oil and Energy Committee, 2007). IOCs such as Exxon Mobil, Shell, Bp, Total, CNPC, ENI, Gas Prom, Statoil, LUKOIL, KOGAS, JAPEX and TAPO are now operating in Iraq (Deloitte, 2008; FINANCIAL TIMES, 2011; U.S. Energy Information Administration (EIA), 2010b). A key issue to note is that not all of these IOCs use IFRSs, refuting the earlier idea (Choi et al., 2002; Irvine, 2008) that IFRSs are key to the development of an economy.

The problem for extractive industries, such as oil, is the manner in which unsuccessful efforts are accounted for; not all sites are productive. In Iraq, the solution was to confine the risk associated with unsuccessful efforts into one company. This company sold the rights to develop successful oil fields to production companies. Elsewhere, oil companies are both exploration and production entities. The IFRS 6 standard for the extractive industries such as oil are largely concerned with the problem of unsuccessful efforts with the accounting methods devised to offset losses on unsuccessful fields against successful efforts (Cortese, Irvine, & Kaidonis, 2010).
The purpose of this research is to critically review the opportunities and challenges for Iraq to transition from UAS to IFRSs. The pressure on Iraq to adopt IFRSs can be explained through Institutional Theory, particularly New Institutional Sociology (NIC) and Institutional isomorphism (DiMaggio & Powell, 1983).

1.2 Research Aims

The study is motivated by several factors. The first is that Iraqi accountants have a vested interest in the UAS, the only accounting system with which they are familiar. To suggest that they could easily move to a system which does not reflect the values they hold is naive. Iraqi accountants hold information and values that can be tapped to rectify the lack of information about the accounting system in Iraq in the last several decades (Al Najjar, 2004). In addition, the study attempts to fill the gap about the development of accounting in Iraq, uncovering the major factors that have influenced and shaped accounting practices in Iraq. A study by (Baker & Barbu, 2007, p. 292) which found that there were significant impediments to achieving accounting uniformity on a worldwide basis due to a number of factors, including historical, cultural, economic, legal and political factors. The last factor that motivated this study is the recent controversy in Iraq regarding the differences between UAS and IFRSs particularly in accounting for oil and gas. This controversy arose after IOCs started working in Iraq in 2009.

The key purpose of this research is to critically review the challenges and opportunities for Iraq to transition from the Unified Accounting System (UAS) to International Accounting Standards (IFRSs) for oil and gas extractive industries.
This will be done by

1. Evaluating the influence of different stakeholders on Iraq’s economy and its accounting system;
2. Examining how oil is currently accounted for in Iraq (under the Iraqi Unified Accounting System);
3. Comparing Iraq’s current accounting practices to international accounting practices; and
4. Examining the advantages and disadvantages for Iraq, if and, when it transitions from the UAS to IFRSs.

1.3 Research Questions

The key research aim is to critically review the challenges and opportunities for Iraq to transition from UAS to IFRSs. In doing so, the costs and benefits to Iraq if it decides to change from the Unified Accounting System to International Accounting Standards with a particular focus on its extractive industries should be revealed.

Drawing from this research question, other questions have been identified:

1. What are the key factors pressuring Iraq to change from UAS to the IFRSs?
2. Which stakeholders is influencing Iraq’s accounting system?
3. What are the current Iraqi accounting practices for oil?
4. How do Iraq’s current accounting practices for the extractive industries compare with international accounting practices?
5. What are the advantages and disadvantages for Iraq if it transitions from the UAS to IFRSs?
6. What opportunities and challenges to transitioning to IFRSs are identified in the literature? What are the views of key personnel about these opportunities and challenges?

7. What recommendations should be made to the Board of Supreme Audit in order for them to make a decision about transitioning?

1.4 Theoretical Framework

As mentioned earlier, Baker and Barbu (2007) found that most researchers believe that both the process to harmonisation with IFRSs and the activities of researchers examining this process exist in a highly institutional field. To this end, this study is based on Institutional Theory and its variants, New Institutional Sociology (NIS) and Institutional isomorphism.

Most NIS-informed studies are based on an assumption that intra-organisational structures and procedures including the accounting system are largely shaped by external factors rather than internal objectives. Thus organisations which work in similar settings are assumed to be subject to comparable demands towards what is deemed as appropriate behaviour, including the choice and design of internal structures and procedures (DiMaggio & Powell, 1983; Meyer & Rowan, 1977; Meyer & Scott, 1983).

Further to this, DiMaggio and Powell, (1983) describe the process as isomorphism, which is a constraining process that forces one unit in a population to resemble other units that face the same set of environmental conditions. At the population level, such an approach suggests that organizational characteristics are modified in the direction of increasing comparability 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 environmental diversity (DiMaggio & Powell, 1983, p. 149).
Isomorphism can be competitive or institutional. Three forms of institutional isomorphism were identified by DiMaggio and Powell:

1. Coercive isomorphism – a situation where external factors force organisations to adopt new structures and procedures;
2. Mimetic isomorphism – where organizations emulate structures and procedures from other organizations; and
3. Normative isomorphism - where organizations adopt structures and procedures advocated by professional bodies (Scott, 2004).

This theory will be used to inform the research and to explore and explain the results of the study.

1.5 Research Design

This study adopts a qualitative research design. The multifaceted nature of the adoption of many accounting practices can only be analysed when qualitative methods are used (Mason., 2002). The roles that accounting plays can only be described and understood using a qualitative approach (Moll, Major, & Hoque, 2006). In this context, documents relating to the proposed transition to IFRSs will be critically analysed by using qualitative content analysis to identify challenges and opportunities (Altheide, 1996; Bryman & Bell, 2011). These documents will include, but are not limited to, archival resources such as board minutes, documents relating to the Iraqi accounting standards, annual reports of Iraqi oil companies and international oil companies, Unified Accounting System and relevant IFRSs, agreements and published reports of the World Bank and the IMF, and Big 4 accounting firms’ reports on Iraqi operations.
This study will interview key personnel involved both in the decision to transition and its possible implications (Sale, ohfeld Lynne, & BrazilL, 2002). The transcripts of these interviews will be coded for the main themes relating to opportunities and challenges of transitioning from the UAS to IFRSs using a qualitative phenomenological approach. In addition, NVivo software program will be used to arrange and sort the data and coded themes.

1.6 Significance of the Study
The study will examine evidence of the opportunities and challenges of transitioning the UAS in Iraq to IFRSs, and to evaluate whether any change will be beneficial or not to Iraq. In addition, the findings of this study have important implication for the national standards setter which is represented in Iraq by the Iraqi Local Standards Committee. The study will have policy implications by assisting Iraq’s Board of Supreme Audit to decide whether to adopt IFRSs to account for oil.

While this study will focus on Iraq, it may also reflect the position of some countries that have similar political and social environments. The findings will be applicable to similar countries in the Middle East such as Iran, Libya, Saudi Arabia, Egypt and Syria which face similar decisions whether to transition to IFRSs or to continue with their own accounting system. The study may also be useful for IOCs that are doing business or participating in Iraq’s reconstruction as to whether they should also transition to IFRSs. The study will add to the limited accounting literature on the extractive industry and in particular will add to the limited research concentrating on the oil sector in Iraq. Further, the study will also
add applied value to institutional theory particularly new institutional sociology and institutional isomorphism.

1.7 Adoption, Harmonization and Convergence

Since international accounting standards started to be known globally in a mid-eighties from the previous century, the International Accounting Standards Committee and its Board have used different terms such as adoption, harmonization, and convergence to express the process that have been taken by countries to commit to IFRSs. Adoption of IFRSs means that “investors” and other shareholders will be able to use a set of comparable global accounting standards (KPMG, 2003). There are five ways of fully adopting IFRSs, the situation for many developing and emerging countries. They are (Doupnik, 2012):

a) Replace national GAAP with IFRSs.

b) Require parent companies to use IFRSs in preparing consolidated financial statements.

c) Require stock exchange listed companies to use IFRSs in preparing consolidated financial statements.

d) Require foreign companies listed on a domestic stock exchange to use IFRSs.

e) Require domestic companies listing on a foreign stock exchange to use IFRSs.

Harmonisation refers to the situation where a country modifies its national accounting practices in line with those of the IFRSs in different forms (de jure and de facto). Harmonisation “is a movement away from full variance of practice”
Accounting harmonization is to provide, “a stage from compatibility, through comparability to eventual conformity” (Sutton, 1993). Harmonization means the national accounting standards are subject to process at different levels such as measurement and disclosure and auditing to become closely with IFRSs. Harmonized standards are free of logical conflicts and should make the financial information more comparable with different countries (Choi et al., 2002, p. 291). Harmonization includes harmonizing measurement and disclosures made by publicly traded companies in link with stock exchange listings and securities offerings, and auditing standards.

There are two forms of harmonization, namely, De jure and de facto harmonization.

1. De jure, or formal harmonization, refers to the harmonization of regulations.

2. De facto, or informal harmonization, refers to the actual accounting practices of corporations.

“Accounting harmonization” has sometimes been replaced by the term “accounting convergence”. In accounting terms, convergence is defined as, “The process pursued by the International Accounting Standards Board (IASB) of eliminating the current differences between National Accounting Standards and the avoidance of future differences to achieve international accounting harmonization” (Haverty, 2006, p. 53). In this sense, accounting convergence is a process that occurs at the standard-setting level intended to achieve a state of de jure accounting harmonization.

If two measuring systems are equivalent, they should give the same set of accounting numbers. If two sets of accounting numbers are different under each set
of accounting standards, then the measuring instruments are not equal. If the two sets of accounting standards are becoming harmonized with the passage of time, it is possible that the numbers purporting to measure the same quality (for example, net income) of an organization would be moving closer over time and converging (Haverty, 2006, p. 53).

1.8 Organisation of the Study

This study consists of seven chapters. The first has introduced the study. Chapter 2 discusses the Iraqi environment after 2003 by presenting a brief summary of the history of oil and gas in Iraq, and the key international organisations influencing Iraq to change its accounting system to adopt IFRSs. It also explains the current Unified Accounting System and compares the accounting practices of oil and gas under UAS with the comparable IFRSs standard for extractive industries and other relevant standards.

Chapter 3 reviews the literature with special emphasis on the IFRSs including the reasons for adopting IFRSs, and the views against adopting IFRSs. Chapter 4 describes the research method and the theoretical framework, institutional theory, adopted throughout this study. Chapter 5 presents the analyses of the secondary or archival resources related to Unified Accounting System. Chapter 6 is devoted to the analysis of interviews. The study concludes with Chapter 7 providing a summary and discussion of the findings, the implications of the research outcomes are presented and suggestions for further research.
Chapter 2

Background

2.1 Introduction:

Oil plays an integral role in societies. Oil is used in homes, industry, and transport and as such oil is an uncommonly important commodity in the world. Iraq plays an important role in the world’s oil production. Iraq has at least 115 billion barrels of crude oil in confirmed reserves, which are predicted to increase twice fold according to US Energy Information Administration (EIA), (US Government Info, 2011). EIA estimates that up to 90% of the country’s oil potential remains unexplored due to years of wars. Unexplored regions of Iraq could yield an additional 100 billion barrels of oil. In 2009 Iraq produced 2.40 million oil barrels per/day and exported 1.90 million oil barrels per/day. This was similar to 2010, when 2.36 million barrels per/day were produced and 1.89 million barrels per day were exported (U.S. Department of State, 2010). In 2011 Iraq oil output capacity rose to 2.95 million barrels per/day and exports to 2.2 million barrels (Hafidh, 2011). Further, according to US EAI (2013), Iraq in 2012 produced 3.0 million barrels per/day and exported 2.2 million barrels per/day, and produced average 3.5 (45% increase from 2009) million barrels per/day and exported 2.4 (26.3% increase from 2009) million barrels (U.S. Energy Information Administration (EIA), 2013). Estimates (CIA World Fact book, 2013) indicate this production makes Iraq the third largest supplier of oil to the world market. Iraq reportedly has 110 trillion cubic feet of natural gas (US Government Info, 2011) which has not yet been extracted. Currently, Iraq’s economy is heavily dependent on oil, it is
only natural resource. In turn, how Iraq accounts for its oil is vitally important for the welfare of its people.

Although Iraq was one of the five founding members of the Organization of Petroleum Exporting Countries (OPEC) in 1960, the country has suffered during the past three decades from wars and sanctions. Sanctions imposed by the United Nations started in 1990; these sanctions have stymied Iraq’s technological and economic development, essentially paralysing its oil production capabilities. However, the aftermath of the 2003 a new Iraqi government was elected, a key internal factor trying to shift the economy from a centralized economy to a market economy. The transition is being helped by the World Bank and the International Monetary Fund (IMF).

2.2 Iraqi Oil History

To understand the dilemma facing Iraq in deciding whether to adopt/harmonise with international accounting standards, it is necessary to understand how oil and the history of its extraction has influenced the Iraq economy and its resultant accounting system. While Iraq has been a major oil producing country since 1927, the following review concentrates on the most recent and relevant events to this research.

Domination of Arab Ba’ath Party

The Ba’ath Party dominated political power in Iraq from 1968, a period which was challenged by the continuing oil problem between the Iraqi government and the Iraqi Petroleum Company (IPC). IPC was formed by the British in 1929 with
monopolistic rights to export from Iraq (Tripp, 2000). With no options, the IPC in 1972 had to comply with the Iraqi government’s demands and gave Iraq a small share in the company. Only giving a small share led to the Iraqi government nationalising IPC in June 1972, thereby declaring the end of British domination in Iraq. The nationalisation established the Iraqi National Oil Company (INOC). The negative side to this nationalisation was that it gave more power to the Baathist Party to control Iraq without giving importance to the interests of the people (U.S. Energy Information Administration (EIA), 2010a). Until the 1990s INOC controlled several Iraqi companies reflecting the different activities in the oil industry; namely Oil Exploration Company, Oil-drilling Company, North Oil Production Company and Marketing Oil Company. Obviously, their names reflect the activities undertaken by the local Iraqi companies.

Saddam’s Iran War 1980

In 1979 with the rise of Saddam Hussein came conflict between Iraq and Iran (1980-1988). Iraq is a land-locked country so the export of oil is expensive without sea access. To ensure such access, in September 1980 Saddam attacked Iran in an attempt to get control of the Shatt al–Arab waterway leading to a gruelling and drawn out war. In July 1988, the two countries signed a ceasefire agreement (UN Resolution 588) under the umbrella of the UN. The consequences of this war were severe damage to Iraq’s oil infrastructure that left the country with heavy Russian debts of over US$10 billion for arms purchase (Schmemann, 2002).
Invasion of Kuwait and Oil for Food Program

Iraq’s debts lead to economic issue. Although Iraq invaded Kuwait in August 1990, for several reasons, the common denominator underlying the attack was Iraq’s need for cash to fund its state-building after the end of the Iran-Iraq war in September 1988. Historically, relations between Kuwait and Iraq were estranged, a situation which was not resolved by Arab mediation during the diplomatic build-up prior to Iraq’s invasion. Iraq’s goals in this conflict can be understood in strategic terms, related to its position as a major actor in the region. Again, the conflict related to sea access. Iraq nearest port to Gulf waters was Umm-Quasar, which is located on the Shatt al-Arab waterway south of the Gulf waters. Baghdad was looking for a site that could become an Iraqi port in the Gulf waters (Kostiner, 2009). At the same time, Saddam’s government advocated that all the oil exporting states lower their oil production, with the aim that the reduction of oil production by its gulf neighbours would enable Iraq to increase its own oil production rate. This invasion proved to be a strategic mistake by Saddam as it began a war that involved the US. Iraq not only lost this war, but also suffered the imposition of comprehensive sanctions by the UN. These sanctions covered several sectors, including the military, oil and trade. As a result of these sanctions, the Iraqi oil trade was controlled by OPEC, limiting its profits. In an attempt to resolve the predicament of the Iraqi people, the UN offered to create a program called “Oil for Food”. Although the purpose of the oil of food program was to help the Iraqi people, it is still difficult to determine how much help actually flowed down to the average citizen (Billon, 2005).
Invasion of Iraq

In March 2003, the US and UK and their allies invaded Iraq to topple Saddam’s regime because they suspected the government of Iraq was in possession of banned weapons of war (Frei, 2004). The coalition forces of the US and UK tried to protect Iraqi oil fields and seized two off-shore oil terminals in Basra south of Iraq and one in southern Rumaila. However, the retreating Iraq troops set fire to nine other oil wells. The invasion forced the Arab Ba'ath Party out of power and a new provisional government was established in 2003. The new government needed to reconstruct the immense damage to the oil industry’s infrastructure. The revenue from oil would be the best way to boost the economy as 95% of foreign trading earnings in Iraq come from oil (U.S. Energy Information Administration (EIA), 2010a).

2.3 Iraq’s Current Situation

After the fall of Saddam’s regime in 2003, Iraq has seen dramatic economic changes. As mentioned earlier, with the support of the World Bank and the International Monetary Fund (IMF) Iraq appears to be moving to a market economy. The key players which have vital roles in the changing of the economy and its accounting systems in Iraq are the World Bank and IMF, the International Oil and Gas companies and the Big 4 International Accounting firms. Their roles are discussed in the following section.

2.3.1. World Bank and IMF

Following the conditions of The World Bank (and IMF), the Development Fund for Iraq (DFI) was established in 2003. The DFI’s purpose is to ensure that the
proceeds of Iraq’s oil export sales and other frozen Iraqi funds should be used for the benefit of the Iraqi people (Diehi, 2008). In establishing the Fund, the World Bank and the IMF advised Iraq to consider changing its accounting system (IAMB, 2011). This advice is not unusual as the World Bank has pushed countries to adopt international accounting standards (IFRSs), and at times makes the adoption of IFRSs as a requirement for its loans (Alfredson, Leo, Picker, & Pacter, 2005).

2.3.1.1 International Monetary Fund:

After the fall of Saddam the Iraqi economy inherited a heavy legacy of imbalances and economic problems that reflected the destruction of infrastructure, along with debt of $US127 billion. This debt was equivalent to 500% - 600% of Iraq’s GDP (Iraq Ministry of Finance, 2007). These issues pushed Iraq to work with the IMF, a supervisor of the Iraqi DFI. Iraq had to sign two main agreements with IMF which are discussed below.

**Emergency Post-Conflict Assistance (EPCA)**

In September 2004, Iraq sent a Letter of Intent to the IMF hoping for basic economic reforms for the country. Negotiations were carried out by Iraqi experts with the IMF. As a result, Iraq had to adopt the Convention on Emergency Post-Conflict Assistance (EPCA) between itself and the IMF. In September 2004, the IMF lent Iraq an amount of $US297.1 million by way of Special Drawings Rights (SDRs). SDRs are available for member countries that need assistance in post-conflict emergency and/or to support the rebuilding of a country. Iraq requested financial support to enable the country to resolve its debt issues. The support of the
IMF enabled Iraq to remove almost 80% of its debt and to reschedule the remaining portion for repayment (IMF country report, 2006; Shakir, 2007). The IMF spelt out a series of structural reforms and policies that the Iraqi economy was required to achieve. The one of note for this research is the requirement to develop mechanisms of action of fiscal and monetary policies and rearrange the accounts and audit according to international standards.

**Stand by Arrangement (SBA)**

In 2005, the IMF offered Iraq another US$475.4 million by way of Special Drawing Rights. The program aimed to achieve structural reforms and macroeconomic stability to help reduce Iraq’s external debt (IMF country report no 07\301, 2007, p. 5). This agreement is important towards the gradual transition to a market economy and to overcome the challenges confronting the Iraqi economy. The IMF support, addresses the external debt (IMF Stand- By Arrangement, 2007, p. 21) through several measures, one of which has relevance to this study: restructuring of the financial sector including accounting and auditing.

**2.3.1.2 World Bank**

Since 2003, the World Bank has started over 30 projects (Appendix 1, p.169) includes detail of 20 completed and 10 active World Bank’s projects) in Iraq, including reforms to infrastructure, health, education, and banking and financial sectors. The World Bank together with the IMF manages and controls the DFI (World Bank, 2012). One of the key projects funded by World Bank is for Iraq to implement global standards for companies in extractive industries, the Extractive Industries Transparency Initiative (EITI). Iraq implemented the EITI in 2008-
2012. These global standards for transparency in oil, gas and mining have a robust yet flexible methodology that ensures global standards are maintained throughout the different implementing countries with the benefits flowing to the people (Extractive Industries Transparency Initiative (EITI), 2012). Through this project the World Bank is influencing Iraq to change its accounting system in order to comply with EITI’s disclosure requirements for extractive industries.

The second major World Bank project is the reform of Iraqi banking sector. The aim is to support the Iraqi authorities in the implementation of the “Iraq Banking Reform Strategy” (2008-2012). Another key project that the World Bank has financed in Iraq is the Public Financial Management Project. The aim of this project is to support the Government of Iraq's efforts to develop a more effective, accountable and transparent public financial management system.

2.3.2 New Oil and Gas Law and International Oil Companies

Oil revenue represents 95% of Iraq’s annual budget. With increased exploration and production, these earnings could increase significantly. The revenue generated could be used to benefit the Iraqi people. In 2007 as part of the move to a market economy, the government issued a new law for the oil and gas industries which allows international oil companies (IOCs) to invest in Iraqi fields. An important requirement of the new law is that the Iraqi accounting system (UAS) is to be followed by the IOCs, with the Board of Supreme Audit (BSA) having the authority to audit the income derived from oil operations in Iraq (Council of Ministers Oil and Energy Committee, 2007).
Since 2009, Iraq has invited IOCs to participate in oil bids. The first bidding was in 2009, for 20-year contracts on eight oil fields (see Table 2.1). A second bidding round in 2010 included 11 newly discovered fields. The total reserves covered through these bidding rounds were around 62 billion barrels.

The successful IOCs were Exxon Mobil, Shell, BP, Total, CNPC, ENI, and Gazprom, Statoil, Lukoil, KOGAS, JAPEX, TAPO and Iraqi oil companies (Blanchard, 2009; U.S. Energy Information Administration (EIA), 2010b). In relation to gas fields bids Shell, Mitsubishi and KOGAS (South Korea) were successful (FINANCIAL TIMES, 2011; Iraq Ministry of Oil, 2011). Despite the pressure from the World Bank and IMF, not all of these IOCs use IFRSs in their accounts (Table 2.2), nor do they comply with the requirement to use UAS.

Of the IOCs which dominate the oil and gas investments in Iraq, Royal Dutch Shell, BP, Total, ENI, KOGAS and CNPC, use IFRS; Exxon Mobile and Statoil Hydro use FASB accounting standards. Of the other companies that have a smaller share in these investments, Lukoil and Gazprom use Russian GAAP, JAPEX uses Japanese GAAP and TAPO uses Turkish GAAP (Deloitte, 2008; U.S. Energy Information Administration (EIA), 2010b). The different accounting approaches suggest that these companies are not complying with 2007 Iraqi law that required them to use UAS in their operations in Iraq (see Table 2.2).
Table 2.1: Oil Fields Bidding Rounds in Iraq - 2009/2010 Rounds

<table>
<thead>
<tr>
<th>Oil Fields</th>
<th>Operators</th>
<th>Actual 2009 Prod. 1.000 bbl./d</th>
<th>Target Prod. 1.000 bbl./d</th>
<th>Target Incr. 1.000 bbl./d</th>
<th>Total Reserves in the oil field (Billion barrels)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rumalia</td>
<td>BP, CNPC, SOMO</td>
<td>1,000</td>
<td>2,850</td>
<td>1,850</td>
<td>17.8</td>
</tr>
<tr>
<td>West Qurna, Phase 1</td>
<td>ExxonMobil, Shell, NOC</td>
<td>270</td>
<td>2,325</td>
<td>2,055</td>
<td>8.6</td>
</tr>
<tr>
<td>Zubair</td>
<td>Eni, Occidental, KOGAS, Misan Oil</td>
<td>205</td>
<td>1,200</td>
<td>995</td>
<td>4.0</td>
</tr>
<tr>
<td>Missan Group</td>
<td>CNOOC, TPAO</td>
<td>86</td>
<td>450</td>
<td>364</td>
<td>n/a</td>
</tr>
<tr>
<td><strong>First Round Total (billion barrels)</strong></td>
<td></td>
<td><strong>1,561</strong></td>
<td><strong>6,825</strong></td>
<td><strong>5,264</strong></td>
<td><strong>&lt; 30.4</strong></td>
</tr>
</tbody>
</table>

**Second Bidding Rounds**

| West Qurna Phase II | LUKOIL, Stateoil, Oil exploration CO. | 0 | 1,800 | 1,800 | 12.9 |
| Majnoon             | Shell, Petronas, Missan Oil          | 55 | 1,800 | 1,745 | 12.6 |
| Halfaya             | CNPC, Petronas, Total, South Oil     | 3  | 535   | 532   | 4.1  |
| Gharaff             | Petnas, JAPEX, North Oil             | 0  | 230   | 230   | 0.8  |
| Badra               | Gazprom, KOGAS, Petronas, TPAO, Midlands | 0  | 170   | 170   | 0.1  |
| Qayarah             | Sonangol, Nineveh                   | 2  | 120   | 118   | 0.9  |
| Najmah              | Sonangol, Nineveh                   | 0  | 110   | 110   | 0.9  |
| **Second Round Total (billion barrels)** |                                  | **60** | **4,765** | **4,705** | **32,3** |
| **Totals-Rounds 1&2** |                                  | **1,621** | **11,590** | **9,969** | **< 62.7** |

Source: (U.S. Energy Information Administration (EIA), 2010b)
The third bidding round

The third and fourth bidding brought seven new oil & gas companies including Kuwait Energy, KazMuniGas, Pakistan Petroleum, DragonOil, Inpex, Bashenft and Premier to invest in Iraq’s oil and gas fields. These companies added to the different accounting standards being used in Iraq; they are the national standards of Kuwait, Kazakhstan, Pakistan and Mexico.
The third round of bidding allocated three non-associated natural-gas fields (Akkas, al-Mansuriyah, and Siba) with combined reserves of up to 7.4 Tcf. The allocations were announced in October 2010 (see Table 2.3).

### Table 2.3: Gas Fields Bidding Round, 3 October 2010

<table>
<thead>
<tr>
<th>Gas Fields</th>
<th>Operators</th>
<th>Estimated Reserves (Tcf)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Al- Mansuriyah</td>
<td>Kuwait Energy, KOGAS, TAPO</td>
<td>3.3</td>
</tr>
<tr>
<td>Akkas</td>
<td>KOGAS, KazMuniGas</td>
<td>2.1 - 4.0</td>
</tr>
<tr>
<td>Siba</td>
<td>Kuwait Energy, TAPO</td>
<td>0.1</td>
</tr>
<tr>
<td><strong>Third round total</strong></td>
<td></td>
<td><strong>5.5 -7.4</strong></td>
</tr>
</tbody>
</table>

Source: (U.S. Energy Information Administration (EIA), 2013)

**Fourth bidding rounds**

The Petroleum Contracts and Licensing Directorate of the Ministry of Oil held the Fourth Iraqi Licensing Round in May 2012. Twelve areas were offered in the round, covering a total of 80,700 square kilometres. A total of 47 companies were pre-qualified for the bid round, amongst them were BP, Shell and Total (U.S. Energy Information Administration (EIA), 2013). Table No. 2.4 shows the results of bidding round 4:
Table 2.4: Oil & Gas Fields Bidding Round, 4 May 2012

<table>
<thead>
<tr>
<th>Blocks</th>
<th>Operators</th>
<th>Hydrocarbon</th>
<th>Location</th>
</tr>
</thead>
<tbody>
<tr>
<td>Block 8</td>
<td>Pakistan Petroleum</td>
<td>Oil/Gas</td>
<td>East central Iraq, 110 km east of Baghdad</td>
</tr>
<tr>
<td>Block 9</td>
<td>Kuwait Energy, Dragon Oil,</td>
<td>Oil</td>
<td>Southern Iraq, 20 km north of Basra</td>
</tr>
<tr>
<td></td>
<td>TPAO</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Block 10</td>
<td>Lukoil, Inpex</td>
<td>Oil</td>
<td>Southern Iraq, southwest of Nasiriya</td>
</tr>
<tr>
<td>Block 12</td>
<td>Bashenft, Premier</td>
<td>Oil</td>
<td>Between Najaf and Muthanna</td>
</tr>
</tbody>
</table>

Source: (U.S. Energy Information Administration (EIA), 2013)

Iraq’s Oil Exported:

Iraq’s oil is exported to 6 major industrial countries with Europe topping the list (20%) and the US and India each importing another 19 percent each of the exported oil (see Figure 2.1).

![Figure 2.1: Iraq Crude Oil Exports 2012](image)

Source: (U.S. Energy Information Administration (EIA), 2013)

2.3.3 Big 4 Accounting Firms

Big 4 accounting firms have played a significant role in the globalization of accounting by establishing bases worldwide (Perera, Rahman., & Cahan, 2003).
Iraq is no different. From 2004, the Big 4 accounting firms started to open offices in Iraq. Ernst & Young (E&Y) was the first, opening its office in Baghdad in 2004 because Iraq was considered “safe and ripe for accountancy” (Taub, 2004). The company started with two projects. The first was Iraq’s debt reconciliation; the second was an investigation of the Oil for Food Program. One of their key recommendations following a review of the Development Fund for Iraq project (April 2008) was for Iraq to adopt policies and procedures in accordance with the American Institute of Internal Audit. In 2004, KPMG addressed in the same project (Development Fund for Iraq) the “factual findings in connection with oil disbursements”, and found that they were unable to express any assurance as Iraq did not follow the IFRSs (KPMG, 2005). In 2008, PwC, have started its work in Iraq, and it made a more general recommendation, in its report on the Development Fund for Iraq project, advocating that Iraq should improve its financial reporting and oversight systems over export sales and key government ministries, as well as its oil export accounts (IAMB, 2011). Though Deloitte Touche Tohmatsu has not yet done any specific projects for the government of Iraq, they saw the potential for business and opened a branch in Baghdad in 2011 (Iraq business news, 2010).

2.3.4 Accounting Practices - Unified Accounting System

After the Arab Baath Socialist Party took control of Iraq in 1968, it started to control the economy by following the Soviet and Egyptian social approaches at that time. In doing so, the Iraqi government in 1972 nationalized the private oil companies operating in Iraq which meant it had full control of the oil industry (Al Najjar, 2009, p. 127). In order to control the operations of these companies, they
classified them according to their type of activities for the purpose of placing them under state organized supervision. As a result, the Iraqi National Oil Company (INOC) had control of all Iraqi oil related industries through its different subsidiaries.

Having organized the state company operations at the ministerial level, the next step the government took was to streamline accounting requirements by introducing the Unified Accounting System (UAS) (Al Najjar, 2009, p. 127). UAS was first implemented in the Ministry of Trade during 1969 and was made compulsory for its companies in 1972. The system requires double–entry accounting using a standardized format for preparing financial statements (Al Najjar, 2009, p. 132).

Between 1976 and 1979, one system to cover all Iraqi sectors was developed and in April, 1979 the government set up a Central Committee of Accountants from different government’s agencies with the mandate to develop a national uniform accounting system within three years (Al Najjar, 2009, p. 132). As a result, in 1982 the Unified Accounting System was issued and become compulsory for Iraq’s ministries and private sectors.

The Board of Supreme Audit

In 1968, the Iraqi government establish the Board of Supreme Audit (BSA). The Board’s main role was to use the UAS at the national level so as to provide pertinent accounting data and information to help in government control and planning (Al Najjar, 2009, p. 131). The Chairman of the BSA has direct links with
the President (now the Prime Minister) of Iraq. The BSA ensures all Iraqi public and private organisations adopt and follow the UAS. However, to meet the needs of the international accounting environment the Iraqi legislative authorities established in 1995 a Local Standards Committee for developing local accounting standards (BSA, 2010). The UAS is supported by a Local Standards Committee (with broad membership) which developed 14 accounting standards for Iraq (BSA, 2010).

After the implementation of the UAS and the Local Standards Committee, Iraq also encouraged the formation of the Accounting and Auditing Union. This organisation represents and organizes the Iraqi people who work in the accounting and auditing sector. The union follows the procedures and instructions that are issued from the Board of Supreme Audit (Iraqi Union of Accountants and Auditors, 2010).

**Unified Accounting System**

The UAS is a tool for central economic planning, to achieve economic and social rationality, control and compliance to the economic system principles, and to ensure the optimum use of economic resources UAS (Al Najjar, 2009, p. 131; UAS, 1985, p. 11) The UAS uses a fund-based accrual methodology that focuses on accountability and stewardship (Peng & Smith, 2010, p. 17). While the UAS provides accounting laws, the Local Standards Committee specifies the detailed accounting methods and charts of account to be used in the different industries. According to the government’s Central Committee, the UAS system provides information that can be used for planning, implementation and monitoring at every
level of the economy; provides links between the economic units and the national accounts, which can be used to prepare the National Accounts, including Gross National Product and other statistical statements (UAS, 1985, p. 15).

Before discussing the current accounting requirements in this problematic area (done in next section) the accounting method used in Iraq where oil is the life blood of the economy is explored.

2.4 UAS versus IASs/IFRS

Under the UAS, there are nine main classes of accounts which are based on the accounts code of the Arab League. The first four classes, assets, liabilities, expenses and revenue, show the financial position and performance of the reporting unit (see Appendix 9, p.191). These classes are further divided into five or six sub-classes. Other classes are called control accounts dealing with cost accounting. They are designed to help the reporting units prepare reports including budgets for their activities according to the nature of their businesses (Al Najjar, 2009, p. 135; UAS, 1985, p. 17). The IFRSs use elements, instead of classes and the elements are similar to classes 1 to 4 under UAS. Because the IFRSs relate to financial accounting, the other UAS classes are not covered in IFRS.

Under the UAS the required financial statements are the Balance Sheet and the Income Statement (with an operations account used only for oil companies and other industries companies) with accompanying notes. The UAS also uses a Total Added Value Statement which the Ministry prepares for each sector. The major difference from IFRSs is that a cash flow statement is not required (Al Najjar,
A Chart of Accounts is prepared consisting of the nine main account classes. The accounts classes reflect the classifications of financial and cost accounting transactions with a concentration on the previous period (Al Najjar, 2009, p. 137; UAS, 1985, p. 17).

Unlike IFRSs, the UAS standards value assets based on historical cost accounting. The cost of assets is defined as the “acquisition or manufacturing cost plus transportation, installation expenses and other expenses before using.” The UAS uses methods of valuation and measurement which are not substantially different from those used in Western countries. Other than for methods that reflect the central planning history, UAS requirements differ little from IFRS standards but this difference results in accounting treatments which differ between two systems. IFRSs standards are principles based in contrast to the rules based standards of UAS. There has been much debate on whether a rules based system is preferable to a principles based system.

Iraq’s accounting system is similar to that of the United States in that it is ‘rules based’ rather than the ‘principles based system’ of IFRSs. Rules relate to the objectives of the UAS. Complex rules, however, can lead to unnecessary difficulties in the preparation of financial statements (Shortridge & Myring, 2004, p. 37). A rules-based system incorporates as many contingencies as possible and hence the resulting standards are long, complicated, and often inconsistent. However, a rules based system usually provides guidance. Some accountants believe rules significantly decrease the effect of uncertainty but increase the risk of accountants’ role (Carmona & Trombeta, 2008, p. 456). According to a former
SEC chairman, the rules-based system forces accountants to be rule checkers through applying large numbers of statements and issues, instead of using their skills to produce fair financial statements (Carmona & Trombetta, 2008, p. 459).

A rules based system that incorporates many details eventually makes standards longer and more complicated, resulting in obligatory and inconsistent criteria for accounting treatments. Additionally, the pursuit for bright-line accounting rules has shifted the professional role from consideration of the best accounting treatment to a concern for adhering to the list of rules. In reality, because of the inherent inconsistencies and bright-lines, comparability in financial reporting can be illusory (Shortridge & Myring, 2004, p. 36).

2.5 Discussion

Extractive industries have special features which require consideration when preparing financial statements. These considerations and the purposes for which the financial statements are prepared results in the UAS standards differing from the international accounting standard for the extractive industries. Any transition to IFRSs is not an easy process for Iraq with its history of centralised control. Many factors determine how comfortably a country can align with IFRSs. These factors will be reviewed in the following chapter.
Chapter 3

Literature Review

3.1 Introduction

The key question for this thesis is whether Iraq should adopt international accounting standards. Many countries have done this but there is scant evidence of whether the adoption brought the proposed benefits. Accordingly this chapter examines that scant literature. Oil is of vital importance to the Iraqi economy, and therefore the literature relating both to harmonisation, adoption and convergence with international accounting standards and the literature referring to the standard that applies to the accounting for oil (extractive industries) will be examined. This chapter discusses the literature in four sections: the first discusses the extractive industries, including various accounting practices for oil and gas. The second reviews the literature relating to international accounting standards and why countries should adopt, harmonise or converge with IFRSs. The third section discusses the theory that underlies this thesis, and the last presents the discussion.

3.2 Accounting practices for Extractive Industries

Extractive industries are defined as the petroleum (oil and gas, the focus of this thesis) and other mining industries involved in “finding and removing wasting natural resources located in or near the earth’s crust (International Accounting Standards Committee (IASC), 2000, p. 14). For decades the controversial issue in this industry has been how to account for the unsuccessful exploration costs (pre-production costs). The choice between the different methods of costing proposed
has economic impacts on a company’s financial results (Cortese, Irvine, & Kaidonis, 2009, p. 76).

Before adoption of international accounting standards became newsworthy, Luther (1996) outlined the unusual characteristics which make extractive industries different from most other industries. He identified the following:

- The life of companies in the extractive industry depends on the amount of resources yet to be extracted.
- In the extractive industry, there is a lack of direct relationship between costs and revenue.
- Extractive industries depend on predictive information as well as the need to attract the providers of capital to a high risk industry. For this reason, many of the companies in the industry are no-liability companies.
- Extractive industries face significant public pressure when compared with other industries because resources are generally deemed to belong to the community (such as the Crown or the State) and because of the effect on the environment of the extraction of the resources (Luther, 1996, p. 68).

These characteristics suggest that while information disclosure by these companies is particularly valuable to shareholders and creditors, conventional accounting practices are not well adapted to supply relevant information (Luther, 1996, p. 69). For accounting purposes, the processes of production within the extractive industries have been divided into five phases (Deegan, 2012, p. 707). The first phase, the exploration phase, covers the search for oil and natural gas including geological, topographical, geochemical and geophysical studies and exploratory
drilling. The technical feasibility and commercial viability of a prospect are determined in the second phase, evaluation. If a project is evaluated as feasible, the next step is to assess development. Construction entails the setting up of facilities, such as extractive machinery, field treatment and resources transportation. Once this is done, production commences. Of these phases, the most problematic ones are the initial ones of exploration and evaluation which give rise to preproduction costs. These costs are expenses relating to "exploration of mineral resources prior to extracting the mineral resource" (Deloitte, 2005), a phase which is arguably the most risky of the extractive phases because of the high proportion of dry oil wells relative to successful projects. Adding to the problem is that the period between the initial exploration and production might be lengthy. Traditionally exploration costs form a major portion of the total cost of extractive industries. The impact of these costs on reported profits can be substantial (Cortese et al., 2010, p. 77), which has resulted in different methods to account for the costs incurred in the exploration and evaluation phases. There are five methods that are used globally:

1. Full Cost Method which capitalises all acquiring, search and exploration, and drilling costs, plus those relating to failed exploration activities. These costs are carried forward to be written off against the revenue of successful projects in the future until fully written off (Cortese et al., 2009, p. 28).

2. Successful Efforts Method which defers all acquisition costs, along with the successful area of a project to be matched against future revenue generated from the project (Katz, 1985, p. 117).

3. The Area-of-Interest Method is similar to the successful efforts method (Zhou, Birt, & Rankin, 2011, p. 3).
4. Costs-Written-off Method requires that all exploration expenses are written off as incurred (Deegan, 2012, p. 709).

5. Costs-written-off-and reinstated method is basically the same as the costs written off method, except that exploration and evaluation costs written off may be reinstated and carried forward as an asset where economically recoverable reserves are subsequently confirmed (Deegan, 2012, 709).

These methods have been written into accounting standards (Weygandt et al., 2007, p. 481), including several international accounting standards. Most countries (Cortese et al., 2009, p. 28) follow either the “full cost” or “successful efforts” methods. The exploration and evaluation phases are covered by a particular standard, IFRS 6, Extractive Industries which allows the two popular methods. In contrast, Iraq’s accounting systems does not have designated standards for oil and gas industry but a set of general standards for all industries to follow in Iraq.

The full cost and successful efforts methods yield differing profit results as illustrated by the following example which uses three methods: full costs, successful efforts and Iraq’s Unified Accounting System method. Assume that a petroleum company spends $4 million on exploration in each of five drilling sites during Year 1 and that the company discovers oil on two of the sites. The other three sites are “dry wells”. The two production sites are expected to produce 10 million barrels of oil over the life of the sites. One million barrels are produced and sold for $50 each during Year 1. The contrast between the results, assuming no taxes or other expenses are shown in Table 3.1.
Table 3.1: Differences between Methods used for Exploration and Evaluation Costs

<table>
<thead>
<tr>
<th></th>
<th>IFRS methods</th>
<th>UAS method</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Full Cost</td>
<td>Successful Efforts</td>
</tr>
<tr>
<td>Revenue (in $ USA)</td>
<td>50,000,000</td>
<td>50,000,000</td>
</tr>
<tr>
<td>Expenses</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost of unsuccessful efforts</td>
<td>NA</td>
<td>12,000,000</td>
</tr>
<tr>
<td>(3 sites)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost of goods sold*</td>
<td>2,000,000</td>
<td>800,000</td>
</tr>
<tr>
<td>Total expenses</td>
<td>2,000,000</td>
<td>12,800,000</td>
</tr>
<tr>
<td>Net Profit</td>
<td>48,000,000</td>
<td>37,200,000</td>
</tr>
</tbody>
</table>

Source: Adapted from (Cortese et al., 2009).

*Preproduction costs are typically amortised on a units of production basis regardless of whether the full cost or successful efforts methods is used. Therefore, cost of goods sold is calculated by dividing the total cost by the expected units of production and multiplying this by the number of units produced and sold during the period.

This example provides evidence of the impact that choice in accounting method can have on a petroleum company’s reported income. This leads to a lack of comparability in financial reporting with the successful efforts and the cost written off methods being more conservative than the full cost method (Bryant, 2003, p. 8).

The impact of the choice of method was controversial in the United States in the late 1960s when the Financial Accounting Standards Board (FASB) sought to narrow accounting alternatives by requiring oil and gas companies to report using the successful efforts method (Cortese & Irvine, 2010, p. 4). At that time, the economic consequence of using the full cost method was a 23% increase in reported income over the successful efforts result.

Another example of the economic consequences of using different accounting methods was provided by Cortese et al. (2009). Conquest, a North American petroleum company reported in 1985 a $3.7 million profit using the full cost method. Later it restated its results using the successful efforts method and...
reported a $17.1 million profit. Another example that shows the opposite effect was when Premier Oil, an oil producer based in the UK changed its accounting methods in 2004 from full cost to successful efforts, resulting in a downward restatement of profits from $44 million to $22 million (Cortese et al., 2009, p. 29).

These examples show why companies in the extractive industries would be reluctant to change methods and would be vocal critics of an accounting decision to mandate a particular method. As a result of lobbying by the small oil and gas companies “to defend against the imposition of ‘successful efforts costing” (Zeff, 2007, p. 58), US companies are able to choose between the full cost and successful efforts methods when accounting for exploration and evaluation activities, thanks to the influence of the lobby force (Cortese et al., 2009, p. 36). Similarly, IFRS 6 permits choice between the methods, illustrating the effectiveness of the economic consequences argument in perpetuating past practice.

According to Cortese et al. (2010), the IFRS 6 standard is framed in terms that reflect regulatory capture by powerful extractive industry's participants such as ExxonMobil, PricewaterhouseCoopers, and the American Petroleum Institute. Notably the two largest oil producers, namely Saudi Arabia and Iraq, do not appear to have been partners in this influential lobby group. Cortese and Irvine (2010) comment that this disparity in the standard setting process is a “black box” in which powerful extractive industries and coalitions covertly influence the IASB to secure their own end. Additionally, accounting for restoration costs have not received the same public airing accorded to the exploration and evaluation phases. The IASB’s international accounting standard setting process, while rhetorically
open and transparent, has the potential to be co-opted by powerful interest groups. Hence it is widely acknowledged that the accounting standard setting process is political (Cortese & Irvine, 2010, p. 18).

For Iraq, the question of whether Iraq should adopt, harmonize, or converge with IFRSs or continue with its own accounting system is important. This question has to be analysed by taking into consideration the relationship between the international oil companies and the Iraqi government, the political influence of these companies both on the Iraqi government and the IASB, and the enormous potential profitability of Iraq’s oil fields (Paul, 2003). Whether to adopt, converge, harmonise or continue with its UAS is a major decision for Iraq both from an economic perspective and from a technical aspect. The next section discusses the literature relating to international accounting standards.

3.3 International Accounting Standards

On November 16, 2007, Jennifer Hughes wrote in the Financial Times, “The goal of a single worldwide accounting language has long been a dream. Today, it is fast becoming a reality - and the pace is picking up” (Carmona & Trombetta, 2008). Over the two past decades, the rapid integration of capital markets has underlined the calls for a single set of high quality international accounting standards for firms active in those markets. The growing acceptance of international accounting standards has given power for the International Accounting Standards Board (IASB) to work and develop a single set of international standards. Consequently, this development promised that international standards could provide solutions to the differences in financial statements for the users of those statements in capital
markets. Financial scandals and financial crises suggest that the effective functioning of capital markets depends on the quality of financial reporting (Tweedie & Seidenstein, 2005, p. 589). Proponents of international accounting standards suggest that market uncertainty and sustained investor concern regarding the quality of financial reporting and corporate governance will be impediments to economic growth, job opportunities and personal wealth. Improved and uniform reporting practices raises hope that the risk of future crises and scandals will be reduced (Tweedie & Seidenstein, 2005, p. 589).

Before the 1990s the international accounting standards board had no “meaningful relationship” with national accounting setters from the major industrialized countries (Jacob & Mpadu, 2004) because their task was to produce standards that could be used by countries without the wherewithal to produce their own standards. With the increasing “financialisation” of economies, the drive becomes one of producing standards for world-wide use (Irvine, 2008). The IASB’s standards have been adopted by 129 jurisdictions either by converging with or adopting those standards (www.ifrs.org). Why these jurisdictions adopted may be the result of the promulgated benefits of adopting (IFRS Foundation, 2013).

3.3.1 The Case for International Accounting Standards:

The primary reason for adopting IFRSs is attributed to the growth of international trade, multinational firms, and foreign direct investments; the development and diversification of financial markets; the growth of global organizations like IMF, World Bank, OECD, and EU and similar developments (Ahmet & Rafet, 2007). Another reason was the considerable gaps that existed between the national
accounting standards in different countries so that accounting reports were not comparable; for example, the net income calculated using German domestic accounting standards prior to IFRSs would translate to a considerable net loss for the same company under US GAAP (Carmona & Trombetta, 2008). The third factor was political. The processes of political integration for the European Union showed that the integration of financial markets and multinational companies operating in different jurisdictions was possible creating pressure, especially from the managements of the large companies, for common standards that they could use (Flower, 2004; Hope & Gray, 1982; Nobes, 1992). The fourth factor relating to the adoption of IASs/IFRS is the desirability of global harmonization. The desirability is reinforced for developing and emerging economies as conformity and convergence with IASs/IFRSs will allow them to gain future benefits as promised by the adoption of these standards (Irvine, 2008, p. 134).

On a technical level, the prospect of greater mobility of capital at a decreased cost, more efficient allocation of resources, improved quality of financial reporting, a decline in earnings management (UNCTAD, 2005), and avoidance of the necessity of having to develop their own accounting standards, against a backdrop of the accountability demands of the World Bank and IMF are all compelling incentives for the adoption of IFRSs by developing countries and emerging economies wishing to participate in global capital markets. The United Nations Conference on Trade and Development (UNCTAD) has acknowledged the need to “mobilize investment for financing economic and social development”, and the essential role of a “global set of high-quality financial reporting standards” in that development
(Irvine, 2008, p. 131). However, there appears to be little or no research into whether the benefits from adopting international standards are achieved.

Lastly, the efforts of the Big 4 audit firms are considered to be vital for the concentration on IFRSs. These companies provide international corporations with the expertise needed to integrate accounts produced under several different sets of national standards. IFRSs make it much easier for the international accounting firms to produce and audit companies that use the same standards (Carmona & Trombetta, 2008, p. 458). In addition, these large firms stand to make profits from the education and training within countries adopting international accounting standards.

According to Madawaki (2012), globalization of capital markets is an irreversible process in which there are benefits to be gained from mutually recognized and respected IFRSs. Using one set of financial statements cuts the costs for multinational firms of doing business across borders by reducing the need for supplementary information or reconciling financial statements that are prepared using national standards. Reducing capital costs due to the risk of understanding financial reports under different accounting systems, and decreased financial reporting costs for any entity by obviating the need to produce two or more sets of financial reports in order to comply with different standards were seen as added advantages (Collett, Godfrey, & Hrasky, 2001, p. 176).

Thus information is more comparable, thereby enhancing evaluation and analysis by users across the world (Madawaki, 2012, p. 152). While Smith (2008) also
argues that a common set of practices will provide a “level playing field” for all companies worldwide (p. 26) the proponents do not address that will bear the costs of harmonisation or convergence. The decreased costs for multinationals, creditors and investors will not flow to the taxpayers and others in converging countries to offset the costs of education and retraining.

Although these reasons suggest advantages for adopting or using IFRSs there are also disadvantages.

3.3.2 The Case against International Accounting Standards

The assumed links between better financial reporting, better markets, and better economy and society remain poorly understood but accountants are naturally disposed to believe in the existence of such linkages (Sunder, 2011). Others such as Fearnly and Sunder (2006), Hoogendoorn (2006), Smith (2008), (Rezaee, Smith, & Szendi, 2010) and Sunder (2011) believe that a single set of international accounting standards may stymie the development of systems of financial reporting which might generate greater wealth and maybe distribute it more justly among members of society. Their beliefs reflect the downside of complete adoption of IFRSs such as the elimination of opportunities to compare alternative practices and acquire new knowledge and experiences. Further, it also deters the tailoring of financial reporting to national variations in economic, legal, business, commercial, auditing, regulatory and governance conditions across the globe.

Fearnly and Sunder (2006) believe that development of standards should be bottom-up, driven by users, not top–down, controlled by lexicographers. Different financial reporting regimes generate diverse regimes; for example, the US’s
decision usefulness model means that if a share price drops, investors may bring class actions against companies and auditors. In the UK, investors sue the company for losses. These examples show fundamental differences between two English-speaking countries assumed to have similar legal and commercial systems (Fearnly & Sunder, 2006, p. 26). Fearnley and Sunder’s view echoes the view of Collett et al. (2001) that IFRSs provide guidance in jurisdictions without taking into consideration the differing accounting framework jurisdictions, and that some countries have strong standards setting while others have none. The IASB’s approach traditionally was not designed for nations that have strong standards setters or strong accounting systems. The effect on those strong accounting systems could mean a decline in the quality of domestic financial reporting (Collett et al., 2001, p. 177).

Collett et al. (2001) examined international harmonization from the Australian experience. The authors cautioned that a major concern to harmonize with IFRSs is that IFRSs in the past emerged from a process of much greater compromise than that required for national standards setting (Collett et al., 2001, p. 177). d’Arcy (2001) used a sample of 14 countries, including European countries and the US, Canada, Australia and Japan to ascertain whether harmonization with Anglo-American or continental European models were made. The study concluded that the IASC cannot be an established accounting model for both Anglo-American or continental European (d’Arcy, 2001).

Other factors have been found to have the potential to impede harmonisation of accounting standards. For example, using a sample of 85 “global players” from 13
countries Canibano and Mora (2000) analysed financial statements with regard to four accounting issues, namely deferred taxation, goodwill, leasing and foreign currency translation to test the implications for harmonization. Using a bootstrapping test to provide estimates of the significance of de-facto accounting harmonization for the period from 1991 to 1996, the results showed that regulatory bodies in the country are important for harmonization strategies (Canibano & Mora, 2000, p. 349).

The European Union’s (EU) convergence to IFRSs generated issues (Larson & Street, 2004) in at least two member countries, Latvia and Slovakia, where the costs of convergence were an issue. Rezaee et al. (2010) found that convergence requires extensive and costly changes in the standard setting infrastructure and enforcement processes in countries which made the change. Proper training for management, auditors and investors increases the costs of the change to IFRSs. Secondly, eight of the 10 new EU countries also indicated that their countries relatively underdeveloped capital markets hindered convergence. Without active capital markets, many listed companies have not been required to produce financial statements using internationally recognized accounting standards (Larson & Street, 2004, p. 114) and so could have avoided the costs of convergence/adoptions.

Hoogendoorn (2006) research regarding the adoption of IFRSs in Europe has shown many issues (obstacles and costs) with the first implementation of IFRSs on Europe's listed companies (Hoogendoorn, 2006, p. 23). He found that, while European entities studied IFRSs for a long time, preparing financial statements
according to IFRSs had taken more time than expected. The process of IFRSs required significant involvement of many auditors because the complexities of IFRS; this issue was greater for auditors working in small entities due to lack of sufficient expertise. Another problem was the area of diversity in practice between principle-based systems and rule-based approaches. In addition, Hoogendoorn asserted that while the adoption of IFRSs resulted in an increase in comparability of European companies’ financials, large differences still remain. He concluded that moving towards fair value and impairment approaches leads to more estimations which create significant differences between companies. These source of these differences may not be clear from the financial statements (Hoogendoorn, 2006, pp. 24-25). Finally, Hoogendoorn identified difficulties associated with particular standards such as those relating to financial instruments, pensions, purchase accounting and impairment (Hoogendoorn, 2006, p. 26).

The intention of IFRSs was to have principles based standards. Zeff (2007) found that IFRSs was becoming more rules based rather than principles based. The move was reflected in the increasing length of the standards with much detail including the basis for conclusions, implementation guidance and IASB’s pronouncements (Zeff, 2007, p. 293). His conclusion built on the study of Ernst & Young in 2005 which examined 65 European companies which used IFRSs. That study found that financial statements that were based on IFRSs were 20–30% longer than the financial statements for the same companies before using IFRS. The textual content of IASs and IFRSs in 2006 consumed approximately 2300 pages rather than only 1200 pages before using IFRSs. In addition, the important issue reported by this study is that there are now about 2000 disclosure requirements, which was
around twice the number under UK and Australian GAAP and four times the number under French GAAP (Zeff, 2007, p. 293). While increased disclosure should generate greater transparency, it also creates greater costs in preparing the financials.

Haswell (2006) criticized the influence of the efforts of both FASB and IASB to create one set of global accounting standards. He highlighted the differences between the overly complex “rules-based” approach of the FASB and the “principles based” approach followed by IASB (Haswell, 2006, pp. 49-50). Haswell argued that countries intending to harmonize or even these countries that already adopted or harmonized with IFRSs need to consider that adoption or harmonisation will require or result in many changes in their regulation and law systems. Also, these countries by adopting or harmonising will accept accounting policies and procedures which do not necessarily accord with their national interests. The regulation of accounting in the US, for example, results in a massive bureaucracy, with corporate lobbyists leading to complexity in US GAAP, resulting in a multiplicity of documents, and a ponderous framework of interpretation and common law, all features which are completely different from the ideology of IASB (Haswell, 2006, pp. 56-57).

While harmonization or convergence with IFRSs can be accomplished, it appears to be easier in developed countries. However, most developing and emerging economies found that the process is difficult, if not impossible, because these standards mirror standards developed in western countries such as the US and UK,
making them unsuitable for developing countries in general (Askary, Pounder, & Yazdifar, 2008; Mir & Rahaman, 2005).

The above studies show how adoption of international accounting standards is complicated and generates issues for countries adopting them. A particular issue not mentioned in the above studies is the pressure from certain international organisations on countries to adopt these standards.

3.3.3 External Pressures to adopt International Accounting Standards

The World Bank and the IMF are considered major players in world capital markets, as they are “deeply embedded in the structures of capitalism” (Annisette, 2004, p. 316). These two organizations provide loans to certain countries to stimulate economic development, arguably from beneficial motives (Neu, Ocampo, Ponce de León, & Zepeda, 2002, p. 248). In doing so, the World Bank has pushed many countries to adopt international accounting standards or to redevelop their national standards based on them. In some cases, the bank makes the adoption of IFRSs as a requirement of their loans (Alfredson et al., 2005).

Mir and Rahaman (2005, p. 817) refer to the World Bank, the IMF, the World Trade Organisation (WTO) and the US’s Securities and Exchange Commission (SEC) as “imperialist institutions” which have become active agents responsible for the proliferation of IASs/IFRSs in developing countries. The proliferation of these standards reflects the pro-capitalist bias of those institutions. From inception, the World Bank was a conspicuously capitalist institution which, with the IMF,
was designed to secure capitalist growth and monetary stability in the post-war international capitalist system (Annisette, 2004, p. 310). When a country is experiencing a shortage of foreign exchange and unable to pay its foreign debts, the IMF grants it short term loans for balance of payments support. The Fund however does so with conditions attached: borrower countries must change their policies to fit with its prescribed monetary and economic reforms (called “conditionalities”). The Bank then steps in to provide the country with longer-term funding for specific projects that would supposedly contribute to development (for example, dams, schools and other infrastructure projects). Importantly in the design of this lending regime is the requirement that access to World Bank funds and by extension to those of other development-lending institutions is contingent on membership of the IMF and adherence to its policies. This arrangement was part of a conscious plan by the institutions’ founders to “force countries to agree to standards in the monetary field as a condition to get the benefits of the Bank” (Ansel Luxford quoted in Payer, 1982, p. 22). World Bank funds were therefore intended to be a ‘reward’ to borrowers for obeying the economic and monetary policy dictates of the IMF (Annisette, 2004, p. 311). This practice has continued with the conditionality being the adoption of IASs/IFRSs.

Cooke and Wallace (1990) are of the view that the World Bank and IMF represent the most significant actors in promoting accounting harmonization within developing and emerging countries. Despite some researchers agreeing that implementation of IFRSs may support an increase the quality of accounting information in developing and emerging economies and then attract foreign investments and resources to these countries, the IFRSs are not appropriate to the
political, social and economic environment of these countries (Annisette, 2004; Askary et al., 2008; Chamisa, 2000; Gallhofer, Haslam, & Kamla, 2011; Mir & Rahaman, 2005).

The World Bank and the IMF in many developing and emerging economies have used the Big 4 accounting firms to ensure adoption of IASs/IFRSs in those countries. These international accounting firms have played a significant role in the globalization of accounting by focusing on the establishment of international accounting standards in different areas around the world (Perera et al., 2003, p. 32). These firms have demonstrated that they are a powerful institutionalizing force as “international organizations which invest in systems of global coordination and control” (Cooper, Greenwood, Hinings, & Brown, 1998, p. 531). There are many examples of the role played by the professional accounting firms. For example, the adoption of IFRSs in Bangladesh was a response to the World Bank’s requirement that any project financed by the bank be “certified by internationally reputable firms of accountants” (Mir & Rahaman, 2005). The most conclusive evidence (Gallhofer et al., 2011) is the case of Syria. Using interviews with Syrian professional accountants, Gallhofer et al. studied the impact of globalization on the local accounting profession. They found that the Syrian profession faced competition from the Big 4 accounting firms which threatened local accounting and auditing jobs. In addition, the adoption and enforcement of IFRSs in Syria required extensive and expensive retraining of professionals (Gallhofer et al., 2011, p. 376).
On a societal level, in order to remain beneficial in social terms, accounting must meet the continuously changing needs of society and reflect the cultural, economic, legal, social, and political characteristics of society. The factors shaping accounting applications may change day by day in parallel with the changes in the needs of stakeholders (Ahmet & Rafet, 2007, p. 99). An important example is the countries of the Middle East. The location of these countries between the East and the West make them an important location for international companies which use various accounting systems not similar to those of the Middle East countries. According to the Chairman of the International Reporting Standards Interpretation Committee (IFRIC), “with oil revenues being directed into large investments, the region is increasingly being seen as a potential partner” (Amjid, 2010, p. 2). Taking into consideration the role Middle East countries play over world policy, investments and capital markets shows how difficult the adoption of IFRSs is because of the totally different environmental factors that underlie IFRSs (Amjid, 2010, p. 2). The Middle East is overwhelmingly Muslim. Certain capitalistic practices do not accord with Muslim beliefs. Mirshekary and Saudagaran (2005) examine characteristics of users and their perception of financial statements. The authors found that lack of adequate disclosure and lack of reliability of the information are the main concerns with corporate financial reports in Iran. This finding on Iran is relevant to other developing countries in the Middle East (Mirshekary & Saudagar, 2005, pp. 33-34).

Despite this, many emerging economies and developing nations have adopted IFRSs, hoping to share in the benefits promised by such adoption.
3.3.4 Other Issues

One obstacle to a set of international accounting standards yielding the promises made for them is “political” pressures that may be triggered by the IASB’s initiative to prescribe specific accounting treatments, eliminate alternative treatments, impose additional disclosure requirements, or tighten the allowed interpretations (Zeff, 2002, p. 34). The political pressures consist of “self-interested” considerations or pleadings by preparers and others that may be detrimental to the interests of users, a phenomenon that has been associated with the term 'economic consequences' (Zeff, 2002, p. 43). Several constituencies such as the accounting profession, corporations and institutional investors, governments and civil groups have a stake in accounting regulation. They may lobby (either privately or publicly, directly or indirectly) the Board to secure private, rather than public, interests (Gallhofer & Haslam, 2007, p. 636). An example is the power of banks. In France, the power of the banks was so great that the President of France made a public statement in July 2003 critical of the IASB’s proposed standard, IFRS 39, on financial instruments. In the US congress, members who know virtually nothing about the technical aspects of accounting and financial reporting are aware of which petitioners for relief from proposed accounting standards have contributed money to support their election campaigns (Zeff, 2007, p. 299). The example of relevance to this thesis is the standard for extractive industries (IFRS 6).

Lobbying of the IASB by the big oil companies to shape this accounting standard was substantial and comprehensive (Cortese & Irvine, 2010). The IASB recommended that the successful efforts method be mandated for pre-production
costs, a move which would eliminate the choice available between the full cost and successful efforts methods. In spite of the endorsement of this view by a majority (78%) of the constituents who responded to the issues paper, the final outcome changed nothing, with choice being retained. The big petroleum companies successfully influenced the Board; the IASB was influenced by the very constituents it was supposed to regulate. The politics of the decision was obvious given the fact that the key players included ExxonMobil, PricewaterhouseCoopers (the audit firm of ExxonMobil), and the American Petroleum Institute (Cortese et al., 2010, p. 77). This disparity between the visible inputs and outputs of the standard setting process can be explained by the existence of a “black box”, in which powerful extractive industries entities and coalitions covertly influenced the Board to secure their own ends and so ensure that the status quo was maintained (Cortese & Irvine, 2010, p. 17).
Cortese and Irvine use the metaphor of the black box (see Figure 3.1) to show the influence of the unseen forces that are influential on the outcomes. In the case of Iraq the forces that are influencing the government of Iraq to reconsider its allegiance to the UAS are the international organisations such the World Bank, the IMF, MNCs, IOCs and Big 4 firms. The appropriate transparent process would be for the international organisations to assist Iraq though visible inputs rather than coercive pressure such as strings attached to funding the development of Iraq.

Another issue is broken deadlines have reduced confidence in the IASB (Crump, 2012, p. 1). This suggests dysfunctional working processes and dysfunctional decision-making in the IASB. The board’s inability to deliver its conceptual
framework project was not the first time the IASB’s credibility has been damaged by the duration of some of its projects (Crump, 2012, p. 1).

Other obstacles to worldwide comparable financial statements using IFRSs were identified by Zeff (2007): “comparability through convergence and culture” (Zeff, 2007, p. 29). Theodore (2007) raised the obstacle of “Government”. According to Doupnik and Tsakumis (2004), differences between countries are due to culture which is a powerful environmental factor that affects the accounting system of a country as well as how individuals within that country perceive and use accounting information. Accountants' attitudes or value systems are related to and derived from societal values. Accounting values, in turn, affect accounting systems (Doupnik & Tsakumis, 2004, p. 2). There are specifically three areas in which culture has been found to affect accounting standards: the reporting of financial information; auditors’ perspectives and attitudes; and the system for management control (Doupnik & Tsakumis, 2004, pp. 1-2). Not only does culture affect accounting practices alone, but also affects politics which in turn will affect accounting practices (Theodore, 2007, p. 9). With respect to the business and financial culture, there are differences across countries in the way business is conducted and the support provided to financial markets. For example, the charging of interest is prohibited in Muslim countries, a prohibition may impede the harmonization of international accounting standards although it is difficult to isolate the Islamic religion from other cultural factors in a Middle Eastern context given the all-embracing nature of the former (Askary et al., 2008, p. 152).
In a study of a Muslim country, Pakistan, Ashraf and Ghani (2005) found the adoption of IFRSs has not led to improvement in the quality of financial reporting in Pakistan. However, they did not attribute the lack of improvement to religion but to factors such as company law, investor protection and weak enforcement mechanisms which they thought were more critical to explaining the results than culture factors. However, support for cultural factors was found in an exploratory study by Al-Sharairi (2005) who examined the impact of the adoption IFRSs in Jordan. Using a sample of accountants, auditors, and academics, the author found evidence in support of the view that the adoption of IFRSs has economic, social and political implications. Al-Sharairi recommended that the IASB needs to give more flexibility and consider differences in the various environments when it sets standards in order to reach actual harmonization and standardisation using international accounting standards.

Another example of the impact of culture is Russia. Combs, Samy, and Myachina (2013) studied the impact of culture on the harmonization of Russian accounting standards with IFRSs by using semi-structured interviews with 53 Russian accountants. The analysis of the interviews found that Russian culture aspects such as uniformity, statutory control, secrecy, and conservatism are still preferences of the Russian accountants and these preferences impact on their behavioural and attitude. The preference was for secrecy, not transparency, conflicts with the objectives of IFRSs (Combs et al., 2013, pp. 26-27). McGee and Preobragenskaya (2004) investigated the problems of implementing IFRSs in Russia. They found adoption was not easy because of translation problems the lack of education of auditors in IASs/IFRS. In contrast, Peng and Smith (2010) study of the
convergence process in China between local accounting standards and IFRSs revealed evidence of outstanding and successful efforts in moving a socialist-planned economy with a unified accounting system to a socialist-market economy using international accounting standards.

Another issue relating to auditing has been identified. The auditing culture differs among countries. In some European countries, for example, auditors are not inclined to issue a qualified report even if the company’s financial statements depart from national accounting standards (Zeff, 2007, p. 293). In contrast, there are countries where auditors will give a qualification because the company was not following national standards or IFRSs. In other national settings, no qualification may be given because there may be sensitivity or anxiety over an auditor publicly questioning a major company for its choice of financial reporting methods. These differences in auditing culture are reflected in the regulatory culture. There are different traditions across countries as to whether a regulator, either in the private sector or public sector, should take a proactive stance when dealing with companies’ financial reports for the securities markets and to shareholders (Zeff, 2007, p. 294).

Some opposed to international accounting standards have argued that these differences from country to country makes harmonization impossible. However, major countries that do have accounting standards that are different from international standards have begun to change their standards to conform to the international version (Theodore, 2007, p. 5). Although the Chinese, Indian, and Australian governments have their differences, each is still capable of having
Australian situation, those standards are modified to comply with Australian law,
thus reducing comparability.

The complexities in the harmonization process of IFRSs and national standards
have made the IASB more flexible finding other ways to encourage countries to
adopt IFRSs. The term “convergence” has replaced “harmonization”; the new way
of "convergence" gives more consideration to the national standards setters to
share in the decision of the transition to IFRSs. Interpretations are necessary for
the effective application of standards and therefore for comparability. The IASB
created the International Financial Reporting Interpretations Committee (IFRIC)
for official interpretations subject to approval by the IASB but national regulators
conceivably could issue their own interpretations, making the application and
implementation of IFRSs different in one country than in another (Zeff, 2007). The
above study of Zeff (2007) is highlighted on an important issue which is giving
more consideration to the national standards setters and other national regulatory
institutions when setting IFRSs, which are already one of the principles of IASB.

The IASB has become more strident in its approach to adoption of its standards. In
September 2010, its stated purpose was to assist national standard-setting bodies to
develop their national standards (IFRS Foundation, 2009, p. 6). Currently (2014),
the IASB stated objectives make no mention of this. The objective now is “to
promote and facilitate adoption of IFRSs, being the standards and interpretations
issued by the IASB, through the convergence of national accounting standards and
IFRSs” (www.ifrs.org). There is no mention of an evaluation of the closeness of
national standards to IFRSs or evaluation of accounting bodies in these countries before they call for adoption IFRSs (IFRS Foundation, 2010).

In that respect Wysocki (2011) examined the relationship between adoption of international accounting standards and various institutions by analysing previous studies of these relationships. The study found that there were two points of views about the relationship between adoption and institutions. Firstly, IFRSs as global standards are regarded as superior to disparate, and in many cases competing, standards across markets (Wysocki, 2011, p. 321). Secondly, IFRSs will not be superior or even effective in countries that lack the substantial infrastructures needed to apply and enforce international standards (Wysocki, 2011, pp. 321-322).

In the last 10 years, the IASB has achieved a great deal “whatever one might say about chips in the armour of worldwide comparability” (Zeff, 2012, p. 834). The reasons for these achievements are the various exemptions, exceptions or delays which are granted when an IASB’s recommendation is fully adopted with a full complement of standards (Zeff, 2012, p. 834). Although some countries have converged with IFRSs only up to a point, the comparability of company financial reporting around the world is far superior today then before 2005, when the European Union started adoption across its 25 member states (Zeff, 2012, p. 835). Zeff (2012) suggested that the IASB still had much to do. It needs to review major standards on subjects that have bedevilled even those countries which have experienced standards setters. In addition, the IASB should continue refining and updating its standards. Zeff suggests that because securities markets today are one,
recalcitrant countries become more flexible in accepting the idea of one financial reporting in the world (Zeff, 2012, pp. 834-835).

The above studies of Wysocki (2011) and Zeff (2012) are important because they provide evidence that uniformity of global accounting standards cannot be achieved unless there is convergence between the different institutions of these countries. Zeff (2012) does not make clear in relation to the problems which are arisen whether the problems are technical accounting issues, or other more difficult problems, because technical accounting issues can be solved, but complexity in issues related to national law, legislation, and other governance institutions are problematic.

Zeff, pointed out that language could be a problem when translating IFRSs from English (Zeff, 2007). If a concept embedded in the accounting traditions in one country that has never been known or applied in another, even if it is translated as accurately as practicable into the language of the second country, the concept may not be understood. The words may be understood, but the concept may not be understood. The IFRSs represent new concepts that have rarely occurred in many cultures even though the words are being translated into their national language (Zeff, 2007, p. 296). This problem of language and by extension, terminology, has been raised by Doupnik and Richter (2004) who examined different national interpretations placed on common terminology. For example, the words ‘probability’ and ‘probable’ appear many times in IFRSs but what do they mean? Germans were found to make conservative estimates of probability, while others may adopt a less strict percentage as the equivalent of probability. From country to
country these terms can be defined or interpreted differently and therefore can impair international convergence and comparability (Zeff, 2007, p. 297).

### 3.4 Theory

The literature shows a lack of a theoretical framework for adopting international accounting standards with associated research lacking rigor (Baker & Barbu, 2007, p. 293). Studies since 2007 show the impact of new institutional theory and in particular, institutional isomorphism in the adopting of the international accounting standards by developing and emerging economies (Gallhofer et al., 2011; Irvine, 2008; Mir & Rahaman, 2005; Nadia et al., 2011; Wysocki, 2011).

The change in focus has been incremental. Assumptions such as that “economic growth promises a better world” became a major goal of traditional accounting (Cooper, Neu, & Lehman, 2003) a goal that has been integral to the process of globalization worldwide. The goal leads to the process of economic "homogenization and standardization", including the forcing of western-centric accounting standards and regulations on emerging economies and developing countries. According to Irvine (2008) the process has been accomplished through organizations such as The World Bank, the International Monetary Fund (IMF) and the Organization for Economic Co-operation and Development (OECD) (Neu. & Ocampo, 2007; Neu., Ocampo, Graham, & Heincke, 2006) through related economic strategies, accounting requirements, and through professional bodies and professional accounting firms. The process means that institution-building is proceeding apace at the global level. Since centralized power and authority are still lacking at these supra-national levels, cultural-cognitive and normative modes of
influence, that is, “soft power”, are the weapons of choice. For example, professional groups are likely to promote the development of “standard” normative guidelines carrying moral but not coercive backing (Irvine, 2008). Multinational corporations have also contributed to this phenomenon with western governments relying on accounting for the regulation of enterprises (Arnold & Sikka, 2001).

Developing and emerging economies are promised attraction of foreign direct investments by following similar systems of regulation. Adopting these acceptable western-centric global accounting technologies, including IFRSs, provides developing nations with legitimacy. Similarly, developing countries need to adopt IFRSs or western accounting technologies as a way to obtain credence in global capital markets. Many researchers such as Carpenter and Feroz (1992); (Covaleski & Dirsmith, 1995; Dillard, Rigsby, & Goodman, 2004; Hussain & Hoque, 2002) have acknowledged the role of an institutional approach which has become a useful interpretation of accounting events.

This institutional approach constitutes institutional theory which attends to the deeper and more resilient aspects of social structures. The theory considers the processes by which structures, including schemas, rules, norms, and routines become established as authoritative guidelines for social behaviour. It inquires into how these elements are created, diffused, adopted and adapted over space and time. In that respect, these elements can fall into decay and obsolescence (Scott, 2004, p. 2). Institutional theory focuses on the assumed values and beliefs of social and organizational life. Organizational conformity with these values and beliefs provides much more than technical benefits, bestowing powerful legitimizing
attributes, thereby granting those organizations access to resources (DiMaggio & Powell, 1983) and ensuring their survival in an increasingly organized and interconnected society. The processes result in organizations that adopt similar procedures and practices (Covaleski, Dirsmith, & Michelman, 1993; DiMaggio & Powell, 1983).

A common assumption is that intra-organisational structures and procedures including accounting systems are largely shaped by external factors rather than cost-minimising objectives. Thus, organisations which work in the same environmental setting are assumed to be subject to comparable demands towards what is deemed as being appropriate behaviour, including the choice and design of internal structures and procedures such as the accounting system (Moll, Burns, & Major, 2006, p. 186). In that respect, an organisation is said to confer legitimacy upon itself that comes with introducing and maintaining such structures and procedures.

In institutional theory it is the external rules, procedures, myths or norms that define institutions so that institutions consist of cognitive, normative and regulative structures which, with their associated activities, provide stability and meaning to social behaviour. Institutions are transported through different carriers such as cultures, structures and routines (Scott, 1995, p. 33). In practice, actual organisational structures and procedures need not necessarily comply with external expectations. This distinction between an external expectations and actual structure and procedures has been referred to as “decoupling” (Scott, 1995, p. 14).
Thus, most scholars argue that institutions “rationalize rather than make rational” (Caruthers, 1995, p. 187).

### 3.4.1 New Institutional Theory

According to DiMaggio and Powell (1983) the institutionalized field is defined as an established social order encompassing a set of rules and standardized practices. New institutional theory considers both social groups and organizations in relation to their environments, as well as the effects of external expectations on the group or organization and the development of structures and practices within the group as it seeks to establish its legitimacy. Institutionalization is a process whereby rules and practices in a particular social setting are developed and learnt. The concept of institutional isomorphism thus refers to the process through which a group or an organization adapts to the expectations of its environment by assuming that social activities are motivated by legitimacy seeking behaviours, which in turn, are influenced by socially constituted norms. For organisations to survive, they must interact with their environment in ways that are seen to be legitimate. Institutionalized elements are regularly incorporated into social structures because these elements demonstrate conformity with expectations and re-enforce legitimacy (Moll, Burns, et al., 2006, p. 190).

Isomorphism describes a process whereby one organization (or set of institutional arrangements, such as international accounting standards) becomes similar to another organization (or set of institutional arrangements) by adopting (or moving closer to) the characteristics of the other organization. “Isomorphism” is loosely synonymous with “convergence” (Rodrigues. & Craig, 2007). Isomorphism has
two components. Competitive isomorphism defines how competitive forces drive organisations towards adopting least-cost, efficient structures and practices although competitive forces are de-emphasised as a predominantly cultural and political activity. The second component, institutional isomorphism is broken down into three sub-categories (DiMaggio & Powell, 1983). The first of these is coercive isomorphism where impinging external factors such as government, policy, regulation, and or supplier relationships force an organization to adopt specific internal structures and procedures. Formal coercive institutional pressures are the most obvious, since in an institutionalized environment there are elaborate rules and requirements including “pressures for conformity to public expectations and demands” (Oliver, 1997). Organizations gain and maintain legitimacy by conformity with these rules and regulations even if the changes made in response to those rules and regulations are more ceremonial than actual (DiMaggio & Powell, 1983, p. 150). In a global setting, the theory hypothesises that not only will nation states comply with international rules and regulations, but if they are desirous of competing in global capital markets, they will change isomorphically to adopt the regulatory systems deemed appropriate and desirable by other participants in that market (Irvine, 2008, p. 132).

The second sub-category is mimetic isomorphism whereby organisations emulate the internal structures and procedures adopted by other organisations. In situations of uncertainty, organizations modelled after other organizations in their field are perceived to be more legitimate and successful (DiMaggio & Powell, 1983). Nations (which can be thought of as organizations) do not need to stand out as being different, and therefore, will behave in ways that are socially acceptable. If
many nations exhibit certain forms of behaviour, the more pressure there will be on other nations to copy and follow that behaviour especially in situations of uncertainty. Conversely, there is also the possibility that organizations or nations with a strong sense of identity and culture may resist pressure to copy other nations or organizations if they do not conform to that defined and understood identity.

In summary, the mimetic view stresses conformity with orthodox structures and identity particularly in times of uncertainty. For example, multinational corporations have established sophisticated systems of financial coordination of their subsidiaries (Cooper et al., 1998, p. 532). In that sense, they have modelled to other organizations according to the desirability of global harmonization of certain activities such as financial reporting. The desire to mimic has been strong for developing and emerging economies, and as such, may explain their adoption of international accounting standards.

Normative isomorphism is the third sub-category of institutional isomorphism. It exists when organisations adopt the structures and procedures advocated by certain dominant professions, professional bodies and consultants. This typically “macro” focus has recently been criticised because the theory requires greater integration with “micro” explanations and acknowledgement of the interactive nature of institutional processes. In accounting research institutional theory approaches offer a wide range of applicability for understanding the practice of accounting in organisations (Scott, 2001) and by implication, for understanding the adoption of international accounting standards.
The above has focused on general explanations of the various guises of institutional theory; the following focuses on theoretical contributions using institutional theory. Much institutional thought, particularly New Institutional Sociology is built on the premise that organizations adhere to wider societal values in order to achieve legitimacy, so that such values govern the “appropriateness” of organizational work arrangements and practices. A great deal of research to date has focused on the legitimating attributes of the accounting system (Bealing Jr, 1994; Fogarty, Zucca, Meosske, & Kirch, 1997). Covaleski et al. (1993) study of case mix accounting systems in US hospitals is an example of this legitimating research. This study suggested that the adoption of a case-mix accounting system had much to do with demonstrating compliance with external institutionalized expectations. Institutional theory has also been used to understand accounting practices in under-developed economies where the general assumption is that western rules and procedures are employed to portray traits of “modernization” irrespective of whether local circumstances necessitate them (Meyer & Rowan, 1977; Scott, 2001).

An aspect of “modernization” is the adoption of international accounting standards. Baker and Barbu (2007) found most researchers take the position that both the international accounting harmonisation process and the activities of harmonisation exist in a highly institutional field.

Various organizations, particularly the IASB, have evolved specifically to facilitate the goal of achieving uniformity of accounting practices on a worldwide
basis. The role of IASC and then the IASB in the later part of the last century for adopting one global set of financial statements increased in the world, starting in Europe with the idea of “Harmonization with IFRSs”. This role of IASC/IASB has been reflected in accounting research (see Figure 3.2), making research on harmonization of local standards with international accounting standards a high priority area within Accounting Research and in particular Financial Accounting Research.

On other hand, various organizations such as the World Bank, the IMF, and the IASB are also involved in the international accounting harmonization process with the goal of uniformity of accounting practices worldwide and in particular in emerging and developing economies. Mir and Rahaman (2005) examined the decision of the Bangladesh government to adopt international accounting standards using institutional theory. They analysed archival sources and interviewed key actors in Bangladesh, including preparers and users of annual reports, members of

![Figure 3.2: International Accounting Harmonization within International Accounting Research](Image)
the Securities and Exchange Commission, and members of the professional accounting bodies. They found that institutional legitimisation was a major factor driving the decision to adopt those standards because of the pressure exerted by key international donor/lending bodies such as the World Bank on the Bangladeshi Government and professional accounting bodies. Such pressure resulted from not only the need to provide credibility to foreign investors but also the need for strong accountability arrangements with lending/donor agencies (Mir & Rahaman, 2005).

Irvine (2008) applied institutional theory and, in particular, institutional isomorphism when examining available publicly data of the United Arab Emirates (UAE), an example of the emerging Middle East economies. The researcher found that the three sub-categories of isomorphism pushed the UAE to adopt international accounting standards (Irvine, 2008). The informal coercive pressures of the World Bank and capital markets were found to lead to the opening of the Dubai Stock Exchange. Mimetic isomorphism is represented by UAE's trading partners (both in the oil industry and non-oil industry sectors) providing motivation to further diffuse globally desirable practices. Big 4 accounting firms, which have a presence within the UAE, exerted normative pressure by pitching themselves as able to add value to Arab businesses. In doing so, they require their clients to present their financial reports under IFRSs. In order to compete with the Big 4, other UAE accountancy firms "have been encouraging their clients, with considerable success, to prepare accounts under IFRS." (Irvine, 2008, pp. 133-136).
In another setting, institutional theory was used to investigate the implementation of international accounting standards in Romania (Nadia et al., 2011). Conducting semi-structured interviews with the key actors in financial reporting, they found that coercive external forces such as the World Bank had influenced the implementation of those standards. The study also investigated the inter-play between institutions, politics and routines in the Romanian context which highlighted the complexity of changing the accounting system in an emerging country (Nadia et al., 2011).

3.5 Discussion

Few studies have been conducted on the imposition of international accounting standards on countries which have a social, legal and political structure which differs greatly from those countries backing international accounting standards. International accounting standards reflect a view of the world that is capitalistic with individual ownership and profit motivation. No research has been conducted in relation to Iraq’s accounting system and the perceived need to change influenced by the presence of international institutions in Iraq after the removal of Saddam. This study fills this gap with the view to assist the country in its policy decisions.

International institutions, including the World Bank and the IMF are linking Iraq’s economy in many agreements and loans with special conditions relating to the accounting system in Iraq. These special conditions represent a call for Iraq to change its accounting system to international accounting standards. In addition, the access of international oil companies to Iraq’s resources has added many
challenges for the Iraqi accounting system because these companies employ different accounting systems. The current challenge facing the Board of Supreme Audit is how to deal with different standards as Iraqi local staff that have used the one accounting system (UAS) for more than 30 years with no real worldwide economic and financial communication during these three decades. The Board of Supreme Audit as guardian of the accounting system in Iraq sees Iraq in a transitioning period with many problematic features such as instability in security, politics and the economy. Yet the Board is being pushed to take a strategic decision of changing the accounting system, a system built on Iraq's political, social and economic environment.

The next chapter will explain the methods which will be used to highlight the role of international institutions, international oil companies, and the Big 4 accounting firms on the decision to adopt in Iraq. Institutional theory and in particular, institutional isomorphism will inform the methods.
Chapter 4

Research Method and Theoretical Framework

4.1 Introduction:

The literature review in Chapter 3 highlights the difference between accounting for oil and gas in Iraq which follows the Unified Accounting System (UAS) and IAS/IFRS 6 for extractive industries. The literature review also shows the obstacles and opportunities for countries upon adopting IFRSs. Studies of adoption mainly used a qualitative approach and institutional theory.

According to Hussey and Hussey (1997), the method chosen for a study should reflect the research paradigm, research questions, and aims of the study. A qualitative approach fits these criteria, and so this study uses a qualitative approach, namely phenomenological qualitative approach for interview data, and qualitative content analysis for archival documents through a new institutional theory concept. These approaches were used in studies (Chapter 3) which examined the adopting of IFRSs by developing and emerging economies, which reflect a similar situation for Iraq (Hussey & Hussey, 1997).

The goal of qualitative phenomenological research is to describe a "lived experience" particularly, when there is not enough information or background of the phenomenon under examination, such as the accounting system in Iraq. This deep description for the phenomenon leads to illuminate the specific, and to identify phenomena through how they are perceived by the key actors who have strong relationships with the accounting system in Iraq. This normally translates
into gathering ‘deep’ information and perceptions through inductive, qualitative methods such as interviews, discussions and participant observation, and representing it from the perspective of the research participants. However, the adoption process is accompanied by documents which add to the understanding of the process. According to Altheide (1996) qualitative content analysis is “an approach to documents that emphasizes the role of the investigator in the construction of the meaning of and in texts and on allowing categories to emerge out of data.” This approach will be used to highlight and analyse relevant Iraqi documents such as those relating to the Unified Accounting System in Iraq (UAS) in order to understand the theory or basis on which the UAS was built, together with formal documents of the Board of Supreme Audit to analyse its role and authority on the accounting system in Iraq. Further, this approach will also be used to analyse agreements between Iraq and external bodies such as the World Bank and IMF to find out what effect these institutions are having on the accounting system in Iraq. In addition, qualitative content analysis will be used to analyse other Iraqi focused documents such as reports of international oil companies, IASC and IASB, and Big 4 accounting firms (Bryman & Bell, 2011). In addition, the literature review shows that the interview technique for key actors together with content analysis for archival resources were methods commonly used to explore the decisions to adopt IFRSs in different developing and emerging countries.

This Chapter is divided into two sections. The next section (4.2) develops the theoretical framework of financial reporting and presents the research question.
Section 4.3 displays the research design including interview resources, document resources, instruments, 4.4 data collection and 4.5 discussion.

4.2 Theoretical Framework of the Institutional Context of Financial Reporting in Iraq

Chapter 3 discusses how external forces such as the World Bank and the IMF, international oil companies, and Big 4 accounting firms exert influence on an emerging economy such as Iraq in order to push the country to adopt international accounting standards. On another hand, the literature shows that there are internal factors within these countries which resist this change such as the legal system, regulations, public sector, and political ideology. These factors with other factors such as market conditions, labour markets, international market and company law have influenced an accounting structure in the countries studied in order to achieve government's aims. As a result, prior studies show conflict between external and internal factors in shaping or reshaping the accounting system. This is expected to be the case in Iraq.

Drawing on this framework and the challenges and opportunities for Iraq to change its accounting system to international accounting standards, this study examines seven research questions.

1. What are the current Iraqi accounting practices for oil?
2. How do these practices differ from international accounting practices for oil?
3. What are the key pressures on Iraq to change from UAS to the IFRSs?
4. What are the advantages and disadvantages for Iraq if it transitions from the UAS to IFRSs?
5. What are the views of key personnel about the opportunities and challenges of Iraq transitioning to IFRSs?

6. What opportunities and challenges to transitioning to IFRSs are identified in the literature? What are the views of key personnel about these opportunities and challenges?

7. What recommendations should be made to the Board of Supreme Audit in order for them to make a decision about transitioning?

Institutional theory provides a way of thinking about the question of whether Iraq should adopt international accounting standards (see Figure 4.1). The accounting system depends on several factors (both internal and external) that purport to influence Iraq to move to IFRSs. The main internal factors are the newly installed, so-called democratic government of Iraq, its Board of Supreme Audit, and accounting standards setters. These organisations are instrumental in imposing the Government’s view. Financial reporting outcomes depend not only on the financial reporting standards that are in place, but also the incentives as well as constraints that internal factors play in ensuring preparers of financial reporting comply with those standards. The external factors are the World Bank, the International Monetary Fund, multinational corporations including the Big 4 accounting firms. The standard-setting regime, which depends on firm-level corporate governance arrangements and on the country-level enforcement framework provide incentives for preparers of financial reports to produce high quality financial statements.
The balance between these firm-level and country-level influences is likely to vary between countries. Where the country-level enforcement framework is weak, firm-
level governance mechanisms can be expected to have potentially large effects on preparers’ incentives to comply. In contrast, where the country-level enforcement framework is strong, firm-level governance mechanisms can be expected to be less important and intra-country variation in compliance should be lower (Pope & McLey, 2011).

4.3 Research Design

If researchers adopt a positivistic paradigm, they are likely to use quantitative methods. On the other hand, if researchers apply a phenomenological paradigm, they might prefer not to apply quantifying methods and so are more likely to utilize non-quantifying qualitative methods. Qualitative studies are useful when researchers seek to understand how accounting phenomena are produced, experienced, and interpreted by social actors within a complex social world, there is no information or little has been written about the accounting system, such as the situation in Iraq (Al Najjar, 2004; Mason., 2002). This study aims to discover and collect detailed information about the Unified Accounting System (UAS) in Iraq, for which there is no information about the rules, methods and procedures (Mason., 2002).

Information about the UAS is insufficient to address whether Iraq should transition to international accounting standards. Key players in Iraq will take this decision so the views of key players are vital to the analysis of this thesis. Phenomenology is concerned with the perspective of the individual, so this study tries to cover any issues regarding the decision to change by collecting documents and meeting people who have experience with accounting decision making or can impact this
system of decision making in order to get a complete and clear picture (Lester, 1999, p. 2).

The multifaceted nature of many accounting practices is best captured when qualitative methods are adopted. The roles that an accounting system plays for example in the dissolution, reconstruction and operation of organizational forms, such as networks, the relationships with foreign companies and inter-firm alliances can be described and understood using a qualitative approach (Moll, Major, et al., 2006, p. 378). While interviews will ascertain the views of key personnel about the possible change from UAS to IFRSs, in order to ascertain what has been formally said about the possible change, the investigation will also use content analysis (Altheide, 1996) for examination of the archival data. This involves the researcher categorizing the data for meaningful analysis (Bryman & Bell, 2011). Archival resources to be examined include board minutes, formal documents of the Iraqi local accounting standards, post 2010 annual reports of Iraqi oil companies, The Iraqi UAS (commonly known as the green book in Iraq), agreements and reports of World Bank and IMF, and the Big 4’s reports about the Development Fund of Iraq after 2004. The qualitative content analysis is used to link the analysis of documents of this study with institutional theory (Moll, Major, et al., 2006).

4.3.1 Interviews

A purposive sampling technique will be used (Henry, 1990) to identify and locate key personnel willing to be interviewed for this study. Interviews will be conducted in Baghdad for safety reasons. According to (Mason, 2010) and Adler
and Adler (2012) the appropriate number of participants for a PhD thesis is from 12 to 60 with a mean of 30 and 31. The aim was to achieve at least 30 interviews for this study.

A coding process will be used to analyse the interview data to organize that data into categories and provide themes for each category. Themes will be analysed until data and information yields no new or update results (Mason, 2010; Powell & Renner, 2003). To this end, Lester (1999) provides guidelines for interview transcripts which are adopted in this study. According to Lester, the first stage is to read the interview transcripts and/or notes to get a feeling for what has been said. The second stage is to identify key themes and issues in each text. The third stage is to enable data entered under different headings to be juxtaposed and compared, a comparison which is particularly useful to identify relationships between different themes and factors. Using Lester’s three stage method, data collected will be analysed to prepare a summary of the findings. The findings are then arranged according to themes and topics to draw out the key issues being discussed by the participants. The aim is to be faithful to the participants, and to be aware (insofar as is possible) of biases that may be brought to the inevitable editing which is needed. Secondly, in the discussion section, interpretations and linkages regarding the findings are drawn out to link to related theories, previous research or commentary. Finally a section will be on the issues, implications and recommendations (Lester, 1999, p. 3).

In addition, according to Patton (2002), the interview should take three steps. The first is recording data by electronic means. This step helps the researcher to be free
to make more discussion. The second step is taking notes in order to generate other questions so that taking notes with recording will help the researcher concentrate on the interview. Finally, the third step is to review and manage the interview and plan for next interview (Patton, 2002).

This study aims to interview at least 30 persons from five categories such as management from the Board of Supreme Audit, members from Iraq’s Local Standards Committee, Iraqi accounting professionals and academics, management in Iraqi oil companies and international oil companies operating in Iraq, management of international accounting firms operating in Iraq and representatives of the World Bank and IMF in Iraq.

4.3.2 Documents

For examination of archival documents, a purposive sampling technique will be used where documents to be examined will reflect their impact on the choice of accounting system for Iraq. As such, the documents to be sampled include the book of the Unified Accounting System, formal documents of Iraqi Local Accounting Standards, and annual reports for local oil companies, BSA formal documents; Big 4 accounting firms audit reports, and World Bank and IMF agreements and reports. Content analysis will be used to code and analyse the archival data with the analysis being informed by the perspectives of new institutional theory and institutional isomorphism (Baker & Barbu, 2007; Mir & Rahaman, 2005; Nadia et al., 2011). The theory needs more detailed information to cover aspects such as political ideology, economic and social system, and accounting policy for the country, therefore, archival documents resources provide
important support to the interviews. Analysing the documents before starting to analyse interview data will help in understanding the background of the accounting system, and can inform the researcher about which factors impact that system. Additionally, it provides information which will assist in the analysis of interview responses (Kondracki, Wellman, & Amundson, 2002, p. 225).

4.3.3 Instruments

The aim of in-depth semi-structured interviews is to determine primary topics, so that the researcher can decide what factors need more in-depth exploration (Sekaran, 2003). Semi-structured interviews are usually the sole data source for a qualitative research but in many cases the data is supported by documents. This study uses interviews as primary data supported by archival resources. One of the important features of this type of data collection is that the interview is often scheduled in advance at a designated time and place. In this study, an interview schedule was sent in advance for participants to select the appropriate time for the interview. A summary of the study was also sent to all participants highlighting the importance of the interview and its contribution to this study (Bloom & Crabtree, 2006, p. 315).

A semi-structured interview is generally managed through predetermined open-ended questions; this study uses directed 10 open-ended questions for each interviewee, together with other questions that arise during the interviews. Individual face to face interviews will be used because the respondents occupy high positions in their organizations and are expected to be more comfortable regarding confidentiality in a one-on-one interview. The interviews are expected to
take between 30 minutes to more than one hour (Bloom & Crabtree, 2006, p. 315).

According to Bryman and Bell (2007), semi-structured interviews should use similar questions and wording for all interviewees. This recommendation will be followed (see Appendix 5, p.179) for the interview questions).

The interview questions were informed by the research questions. Ten open-ended questions include two questions that contain branched questions are directed to respondents (interview questions are in both English and Arabic). A pilot test was conducted with the assistance of academic staff from both the accounting and finance discipline of the Newcastle Business School and the accounting department at the University of Baghdad.

Limitations exist in interview techniques. The success of semi-structured interviews depends on the skills and personality of the interviewer. The interviewer is the researcher who has experience in Iraq’s Unified Accounting System of more than 20 years); is an Arabic speaker and has sufficient experience in the field of the interview topic, and has been trained to do this type of interview (Browne, 2005).

For secondary archival documents data, such as the book containing the Unified Accounting System, agreements between Iraq and World Bank and IMF, annual reports for both Iraqi oil and gas companies and international oil companies, Patton (1990) provides a good overview of how content analysis provides a “rich menu of alternative possibilities” (Patton, 1990, p. 65). Qualitative content analysis is one of numerous research methods used to analyse text data. It focuses
on the characteristics of language and communication with attention to the content or contextual meaning of text. This method has been widely used in studies that deal with country-base accounting systems in which lots of formal and informal document sources such as annual reports, surveys, interview transcripts, observation, articles, books, annual report and manuals have been used as data (Kondracki et al., 2002). Because it is focusing on text and words content analysis has many benefits for this study, which uses many documents. These advantages can be described as transparency (as the coding scheme and the sampling procedure can be clearly set out), ease of longitudinal analysis and flexibility. These benefits can be applied to this study, which has much unstructured information (Bryman & Bell, 2007).

4.4 Data Collection

The process of data collection began with an organization letter signed off by supervisors sent to University of Baghdad (see Appendix 3, p.177) to comply with Newcastle University’s Ethics Committee regarding its approval for the project to be conducted and for the University of Baghdad to be responsible for all health or safety risk during data collection in Iraq by the researcher. A consent information statement (see Appendix 2, p.172) described the study, interview questions and a letter from University of Baghdad, the sponsor of this study (see Appendix 4, p.178) was sent to all potential participants. This letter was sent by the University of Baghdad (to comply with Offsite Visit/Interview Safety Guidelines of the University of Newcastle). This letter assured potential participants that their participation would not affect their jobs, positively or negatively, and that they will have the option to leave the project at any time. Participants initially were invited
to participate through the researcher’s contacts at the University of Baghdad in Iraq. Those who volunteered to be interviewed were contacted to organise interviews at a date and time convenient to them.

Ten open-ended questions (see Appendix 5, p.179) were directed to all interviewees in order to allow them to have a free area in order to give detailed information regarding the Iraqi accounting system and how it differs from IFRSs as well as the impact of UAS on Iraq’s economy and in particular, the oil and gas industry in Iraq. In addition, the questions also focus on the challenges and opportunities for Iraq to adopt IFRSs.

Thirty key personnel volunteered from the following five categories:

1. Management at the Board of Supreme Audit (BSA), and Members of the Iraqi Local Accounting Standards Committee.
2. Professional accountants and auditors, and accounting faculty in Iraqi educational institutions.
3. Chief Financial Officers and Chief Administrative Officers of Iraqi oil companies, and those of international oil and gas companies operating in Iraq.
5. Representatives of the Big 4 accounting firms in Iraq.

The process of analysing data is likely to begin at the same time as data collection, by preparing and arranging data collected for both archival documents and interviews in categories in order to prepare data for analysis (Marshall & Rossman, 1990).
For the documents sources, the researcher obtained official letters to facilitate the data collection process from the University of Baghdad (sponsor) and Ministry of Higher Education in Iraq. These official letters were directed to BSA, Ministry of Oil, Big 4 accounting firms in Iraq, IOCs in Iraq, accountants and auditors union and other universities and institutions in Iraq (see Appendix 4, p. 178 and Appendix 6, p. 183). For the second step the researcher obtained letters from the Ministry of Oil which were directed to the accounting and auditing departments in the Ministry of Oil, Oil Exploration Company, Oil-drilling Company, and South and North Oil Companies. The same procedures were followed for the BSA. Some documents, particularly those of the World Bank and IMF and Big 4 accounting firms were acquired using internet sources. Further the World Bank and IMF provided facilities to the researcher to get access to their electronic sources. The following documents are used in this study:

**Ministry of Oil**

a) Investment Budget of Oil Ministry.

b) South Oil Company (Book about the accounting treatment under contracts of petroleum services).


e) Annual report of South Oil Company (2010).

Board of Supreme Audit (BSA)

b) Iraqi Local standards (available in English and Arabic in BSA website).
c) Journal of “the Auditor” in Arabic with some summary in English.
d) Study of evaluation accounting treatment of oil in North Oil Company (in Arabic).

World Bank

Among the 30 World Bank projects, the reports below are directly related to the Iraqi accounting system:

a) The report of Financial Sector Review.
b) Extractive Industries Transparency Initiative (EITI) Project.
c) Banking Sector Reform Project.
d) Financial Sector Review Project.

d) Financial Sector Review Project.

International Monterey Fund (IMF)

a) Emergency Post Conflict Assistance agreement (EPCA).
b) Stand by Arrangement agreement (SBA).
c) IMF country report.
d) Iraq Program Note.
e) Balance of Payments Statistics report.

Big 4 Accounting Firms and other related sources

b) Iraqi Business News website.

c) Internet sources relating to oil and gas in Iraq in which the Big 4 are involved.

4.5 Discussion

The qualitative research approach has many strategies, including semi-structured interview and content analysis, which are adopted in this study, because of their appropriateness to the aim and research questions of this study. Additionally, their adoption is in response to similar studies reviewed in Chapter 3, which recommended using this method in order to provide in-depth understanding of adoption of international accounting standards by developing countries.

In the next Chapters (5) and (6) the findings revealed by the interview data and analysis of documents will be identified.
Chapter 5

Findings: Document Analysis

5.1 Introduction

This Chapter presents the study's findings regarding the critical review of the opportunities and challenges for Iraq to transition from UAS to IFRSs, in order to assess whether Iraq should change its accounting standards from UAS to IFRSs. As detailed in Chapter 4, this study uses a qualitative approach namely phenomenological interview and qualitative content analysis. This chapter reports the findings relating to the documents and reports identified in the previous chapter.

Data analysis for this research was done in two phases. The first phase was an analysis of the secondary documents data which includes archival resources such as UAS rule book, formal and informal BSA documents, annual reports of Iraqi and international oil companies operating in Iraq, agreements between Iraq and the World Bank and the IMF and other related documents. This phase will provide an understanding of the background and the current situation in Iraq after 2003 with a focus on accounting systems both existing and proposed. Archival resources provide important support to qualitative methods techniques such as observations, interviews, focus groups and surveys. In fact, analysing the existing documents before starting to analyse primary data will help in understanding the back ground and appropriate information which will assist in analysis of participants responses (Kondracki et al., 2002, p. 225). Qualitative content analysis informed by the
perspectives of institutional theory and institutional isomorphism is used to code and analyse the data. The second phase in which primary data collected through face to face interviews with key players and representatives from key institutions will be reported in the next Chapter.

5.2 Document Analysis

The analysis of documents relevant to Iraq’s current accounting system, especially those with particular focus on the oil and gas industry, will be presented in two parts. The first is related to documents issued by the International Monetary Fund (IMF) and the World Bank together with reports submitted by the Big 4 accounting firms to the Iraqi government and to the World Bank and IMF about financial and auditing issues in Iraq. The purpose of this analysis is to determine the key factors pressuring Iraq to change from UAS to the IFRSs. The second phase of document analysis includes accounting for oil and gas under UAS, IFRS 6 for extractive industries and the annual reports of Iraqi oil companies in order to determine the current Iraqi accounting practices for oil, and how these practices differ from international accounting practices for oil.

5.2.1 World Bank, IMF Documents

The analysis reveals that the International Monetary Fund (IMF) and the World Bank are working together in the development of Iraq via a fund founded after the US invasion of Iraq in 2003. This is not the first time that the two institutions have been found to be doing so. Neu et al. (2002); Annisette (2004); Alfredson et al. (2005); Mir and Rahaman (2005); Neu. et al. (2006); Irvine (2008) and Gallhofer et al. (2011) described the role of these organizations in similar situations and
attributed their actions as attempts to govern and regulate at distance as these organizations transcend national boundaries.

Prior accounting research that has looked at supranational institutions has shown how they often have substantial influence over the activities of nation states. Through structural adjustment policies of the IMF, the voluntary compilation and publication of performance indicators by the OECD, the provision of loans with specific accounting conditionalities as well as technical assistance and report-writing activities by the World Bank (Neu. et al., 2006, p. 636).

Further, in the same context, there is another effect: These institutions not only influence practices within distant geographic and social spaces, but also come to be constitutive of these spaces (Neu. et al., 2006, p. 636).

After 2003, the Big 4 accounting firms started working in Iraq, completing projects for the UN, World Bank, and IMF. These projects had a broad objective, which was to help Iraq's new government reform the economy and financial policy. The firms have monitored Iraqi oil revenues and expenditure as well as overseeing Iraq’s debt reconciliation, investigation of the oil for food program, and implementation of the Extractive Industries Transparency Initiative (EITI). The Big 4 accounting firms' roles are linked with those of the World Bank and the IMF.

The role of the IMF in pushing Iraq to adopt IFRSs is ascertained through the analysis of two documents, the Emergency Post Conflict Assistance agreement (EPCA) and the Stand By Arrangement (SBA) and three reports of the IMF, namely the IMF country report, Iraq Program Note and the Balance of Payments Statistics. Iraq signed the EPCA convention with the IMF the primary purpose of which was to address Iraq's foreign debt. A binding clause was for the Iraqi
government to reform the economy (IMF, 2004). To enable Iraq to do this the IMF agreed to lend Iraq US$297.1 million in Special Drawings Rights (SDRs) to support the rebuilding of Iraq and the consequent changes in the Iraqi economy. In addition to the SDRS, further financial support came from the IMF in the form of an upper credit tranche Stand-By Arrangement (SBA), (IMF Country Report, 2011, p. 2).

The IMF has issued three annual reports concerning the economic situation of all member countries and in the case of Iraq incorporated a review of performance under the EPCA Convention and the SBA Convention. The second report, “Iraq-program Note” includes explanations relating to the purposes and procedures of the conventions between Iraq and IMF. The third report is the Balance of Payments Statistics which is a yearly book on countries financially supported by the IMF.

Analysis of the documents relating to the EPCA convention reveals that the IMF considered the existing Iraqi accounting system unsuitable for the process of reform of the Iraqi economy. This view was confirmed in the IMF Country Report, where the IMF went further, recommending that Iraq should organize its accounts and audit in accordance with international accounting and auditing standards (IMF Country Report, 2004, p. 43). No reasons were offered as to why the existing standards were unsuitable for the process of reform, nor why international standards would be better. According to Irvine (2008), the IMF makes such recommendations because as Annisette (2004, p. 316) cited in Irvine (2008) said, it is *deeply embedded within the structures of capitalism*. This observation accords
with the view that IFRSs are based on capitalism so that the IMF and World Bank link financial support to countries to adoption of IFRSs, as is evident in the case of Iraq where capitalism has been imposed on a formerly centralised economy.

Accompanying the recommendation for the adoption of international accounting standards, the EPCA Convention as indicated in IMF Country Report (2004) reveals that the IMF is focused on economic development and financial reforms by encouraging the private sector, the backbone of capitalism. Such a move will supposedly increase the level of transparency of the oil sector in Iraq.

*Enhancing the governance and transparency of the oil sector, all of which will be key in promoting the recovery and growth of the private sector in order to transition to a market economy (IMF Country Report, 2004, p. 24).*

This pressure to adopt IFRSs is also evident in the IMF’s document:

*In an effort to regularize the financial relations between the government and the CBI, the ministry of finance and the CBI are in the process of agreeing to restructure all government obligations held by the central bank. This agreement will be implemented in instalments to facilitate the payments by the government, while minimizing any possible negative impact on the capital of the CBI, taking into consideration acceptable international accounting standards (IMF Country Report, 2004, p. 43).*

The IMF also pushes its agenda in the SBA (paragraph 4) where it reiterated its focus on restructuring of the financial sector and reforming the system of accounts and auditing’ (IMF Country report, 2010). Notably the SBA expired in February, 2013 without Iraq adopting international standards.

Adoption of IFRSs by a country which had a completely different accounting and reporting system obviously cannot be implemented easily. The naivety of assuming that this can be easily done is exemplified by Iraq. Its reporting system
complemented central planning. Devolution to a market economy is not simple. Loci of control differ between the two methods of structuring an economy. Some of the difficulties are noted in the following statements:

Data weaknesses remain. While the authorities continue with their efforts to improve data standards, data become available only with long lags, due to capacity constraints and security issues. This complicates effective monitoring and analysis...which results in heavily qualified external audit opinions, structural deficiencies in the control framework and concerns with operational controls, and delays in the completion of external audits and publication of financial statements (IMF Country Report, 2011, pp. 3,13).

Further, in IMF’s Balance of Payments Statistics yearbook, 2011, this difficulty was emphasised: Given the difficulty of obtaining accurate and timely information; estimates for certain components and items might not be comprehensive.

The frustration of the IMF in the slowness of the change to a market economy accompanied by international accounting standards for all sectors of the economy is revealed in the Yearbook:

The sources of information on Iraq’s international investment position (IIP) are similar to those used for the balance of payments. Position data on direct investment in Iraq are currently unavailable so they are estimated using the accumulation of flows approach. Estimates of the external liabilities of the general government (other investment, loans) are based on data provided by the Ministry of Finance supplemented with information from the IMF on debt securities (derived from the coordinated portfolio investment survey), and on the use of Fund credit and loans from the Fund. The International Investment Position does not fully cover the asset and liability positions of other sectors due to the unviability of source data (IMF Balance of Payments Statistics yearbook, 2011, p. 359).

Similarly, the World Bank has been supporting the development and reforms in Iraq in the aftermath of the conflict. Since 2003, the World Bank has funded
around 30 projects (see Appendix 1 p. 169) in order to help Iraq to reform its economy and infrastructure. Among the 30 projects, three are directly related to the Iraqi accounting system. They are the Extractive Industries Transparency Initiative (EITI), the Banking Sector Reform Project and the Financial Sector Review Project. The EITI project was financed by the World Bank (US$84 million) to enhance Iraq’s economic growth through its resources of oil and gas, and to increase transparency in its oil and gas industry. The EITI is a set of global standards for transparency in oil, gas and mining. The World Bank claims its methodology is robust yet flexible ensuring global standards are maintained throughout the implementing countries with the benefits flowing to the people (World Bank Report: Financial Sector Review, 2012).

An initiative of the United Nations, the Development Fund (DFI) of Iraq was established in 2003. Its main role is to ensure Iraq’s revenues were supervised by the Coalition Provisional Authority. To enhance transparency and financial accountability, the DFI created an International Advisory and Monitoring Board (IAMB), the key focus of which is to increase the level of transparency and accountability in Iraqi financial statements. According to an IAMB (2011), *The IAMB’s role includes audit oversight, both over the control and reporting of oil export revenues, and the use of those revenues by the Iraqi spending ministries for the benefit of the Iraqi people.*

In 2008, the World Bank financed a second project of US$10 million for Iraq. The aim of this project was to bring about reforms in the Iraqi banking sector, via the implementation of an “Iraqi Banking Reform Strategy” (2008-2012). The project’s
action plan comprised seven key priorities, one of which (third strategy) referred to the accounting system which reveals the importance given to Iraq’s accounting and auditing system by these external authorities.

The third project is the Public Financial Management Project the aim of which was to develop a comprehensive assessment of Iraq’s financial sector. As part of the project the World Bank issued a report in 2012 reviewing the finance sector. This report is important as it outlines issues related to the Unified Accounting System with emphasis on the compatibility of the UAS with IASs/IFRSs. The report stresses that;

Attempts have been made to implement International Financial Reporting Standards (IFRSs) but legislative changes will be needed to impose it fully. Further ... UAS is very different from the IASs and IFRSs, There are numerous differences between IFRSs and Iraqi accounting standards and it is highly unlikely that Iraqi accounting standard can be considered to be of an internationally acceptable standard.

Accountants in Iraq use the out-dated Unified Accounting System, which includes standards that have not been updated since the mid-nineties and others which are about 70 years old (related to government accounting)” (World Bank Report: Financial Sector Review, 2012, p. 49).

The World Bank regards the UAS as out-dated because some standards have not been updated. Being old does not necessarily mean that they do not have value. The organisation appears to have no interest in reviewing the Iraqi standards to ascertain whether they have merit. In addition, these old standards which the World Bank refers to are only related to governmental accounting and are not included in the UAS for all other sectors. The UAS appears to be problematic to

The Iraqi Unified Accounting System is completely different from IFRSs...
Current and prospective policyholders, investors, intermediaries, creditors and supervisors [cannot] properly evaluate the financial condition. ... ¹


The World Bank’s argument is that UAS are not comparable to IFRSs which are familiar to the outside finance sector, but not to Iraqi accountants and other users of financial statements.

This lack of use of IFRSs in Iraq is not surprising given that, according to the World Bank

Accountants, actuaries and auditors are generally not competent and experienced in complying with the IFRSs standards. Some of the big international auditing firms such as E&Y are established in Baghdad, but in interviews with staff from these firms it was estimated that 99 percent of the local auditors are not skilled in applying the IFRSs (World Bank Report: Financial Sector Review, 2012).

It appears that none of the US$10 million allocated to the project has been used for educating or training Iraqi auditors and accountants. The IMF and World Bank seem to think that Measurement and reporting problems faced by accountants seem to be same throughout the world (Rodrigues, Fonles, & Craig, 2007, p. 745). However, it may be naive to assume that there can be one single regulatory framework for all financial reporting needs of all societies (Rodrigues et al., 2007, p. 753). But the World Bank, IMF and IASB seem to disagree. Despite the underlying differences and philosophy of the Unified Accounting System, Iraq is expected to change its accounting system without valid arguments for doing so.

¹ Most of international organisations currently in Iraq which find difficult to understand the UAS (which it designed to help Iraqi government for planning and controlling Iraqi resources in order to achieve rational use of resources) and usually are prepared to only use IASs/IFRSs which is designed to serve a capitalistic system.
Arguments are replaced by conditions in funding agreements without provision for funding for the training and development of accounting systems and personnel. Overall it appears that the key objective of the three projects funded by the World Bank was to bring about reforms including accounting reforms in Iraq which enable non-Iraqis to evaluate financial conditions in Iraq without the expense of learning about Iraqi ways of doing things. Iraqis are expected to fund their understanding of international accounting standards and their role in a market economy without assistance from those demanding change. As mentioned earlier, Iraq is not alone in facing this situation. Studies such as World Bank MENA (Middle East and North Africa) in 2007 and Irvine (2008) have indicated the controversial role of the World Bank’s development and reforms projects in other economies.

The World Bank financed three other accounting related projects in Iraq as part of its focus on the Middle East and North Africa (MENA) region (Irvine, 2008). This focus

*In the region is on sustaining and deepening reforms "to improve the climate for private investment", with opportunities for more trade and better governance mechanisms and accountability* (Irvine, 2008, p. 129).

The role of World Bank to push countries to adopt IFRSs has been criticised (see for example, Alfredson et al. (2005) and Nadia et al. (2011). The role of the World Bank has not been limited to providing advice, but to exert pressure on developing and emerging economies by linking the offer of technical assistance and financial support within a framework that involves the adoption of IFRSs As Alfredson et al. (2005) concluded:
The World Bank has pushed countries to adopt IFRSs or develop their national standards based on IFRSs, and in some cases the bank makes the adoption of IFRSs as a requirement of their loans (Alfredson et al., 2005).

Nadia et al. (2011) also question this approach:

Why do developing countries adopt IFRSs? For some, it is a desire to promote their development and attract financial resources, for others it is the result of pressures from multinational corporations or of the World Bank.

In same context, Mir and Rahaman (2005) alluded to the power that the World Bank applies in these developing and emerging economies:

The relationship between the World Bank and most developing countries where the former is able to influence the field of policy-making in the latter largely because of its control of the much need economic capital (Mir & Rahaman, 2005, p. 824).

Earlier, Hoarau (1995) argued that

An argument which is often advanced in favour of international harmonization is that it represents the sole alternative to US domination. However, the development of harmonization based exclusively on a set of international standards has succeeded in projecting the Anglo-Saxon conception of the nature of accounting information throughout the world. In the countries of continental Europe, international harmonization is perceived as the introduction of the American accounting model (Hoarau, 1995, p. 229).

In same context Rahamn (1997) argued that

IFRSs are based on Anglo-Saxon accounting models and, in fact, symbolise American hegemony with some manifestations of national sovereignty. However, “imperialist institutions” such as the World Bank and International Monetary Fund have become major active agents responsible for the proliferation of IFRSs in developing countries (Mir & Rahaman, 2005, p. 817).

This argument has not quelled:

In articulating a central issue for especially non-Western countries: perceived fatal consequences of ‘marginalisation, backwardness and exclusion from the global division of trade, investment and labour’. This fear replaced ‘traditional imperialism’ implicating rule over or threat
to local territory and sovereignty. Interviewees feel ‘powerlessness’ against globalisation. For Arnold (2005, p. 299), debates on globalisation and its consequences for citizens, workers and States have seen it as ‘natural and inevitable . . . an impersonal and immutable force . . . beyond human intervention and control’. This obstructs development of tailored socio-economic approaches and may diminish civil society in these countries, reduces potential resistance (Gallhofer et al., 2011, p. 381).

The World Bank and IMF do not appear to have considered their experiences from their previous work in developing and emerging economies, especially the problems created by imposing IFRSs on countries. Problems arise because these global organizations have not taken into consideration that developing and emerging countries have unique needs, with cultures and environments that may not be suitable to adopt IFRSs. The resources they extend to these economies do not include the education and training that adopting IFRSs entails on the adopting country.

In case of Iraq, World Bank and IMF documents and reports show strong resistance from those involved in preparing and using financial statements in Iraq for adopting IFRSs. Iraq’s many unique factors, such as a central government structure, state-owned resources, UAS, and the long-term impact of wars and UN sanctions do not appear to have been taken into consideration by these organizations which are using in Iraq the same approaches they followed in other developing and emerging countries.

5.2.2 Big 4 Accounting Firms:

Apart from the international funding institutions, the Big 4 accounting firms have opened offices in Iraq since 2004. Since the Big 4 accounting firms began their
operations in Iraq they have highlighted accounting issues in Iraq in several reports submitted to the Iraqi government. These firms regard the difference between the Iraqi Unified Accounting System and international accounting standards as the most important issue. In an early report, KPMG addressed factual findings in connection with disbursements and their inability to express an opinion on the financial statements according to Iraq's UAS. KPMG stated “their inability to express any assurance on disbursements as Iraq did not follow the IFRSs or international standards on Auditing (KPMG, 2005).” That one of the largest auditing firms in the world cannot express an opinion because the financial statements used standards of which they disapproved is important. This firm has expert staff that should not be dependent on particular standards to issue an opinion. That the firm could not understand Iraqi financial statements because of its use of a unique accounting system (UAS) beggars belief. However, interview data reveals that the UAS is well known to the partners and managers of these accounting firms which suggest that the above quoted statement is evidence of their intention to force Iraq to adopt international accounting standards.

Similarly, EY recommended the adoption of American auditing standards:

One of the key recommendations of the EY under Development Fund for Iraq Project (April 2008) was to adopt policies and procedures in accordance with the American Institute of Internal Audit standards (Ernst & Young, 2008).

This recommendation by EY shows how these firms are working to serve their interests rather than those of Iraqi accountants and auditors. Some three years later, the accounting firms still appear to be pressing the case for Iraq to adopt Western/American accounting and auditing standards. This is evidenced by a
report by PwC on oil export revenues and the use of those revenues by the Iraqi spending ministries.

*Iraq should continue to take concrete steps to implement and follow up on the previous audit findings and recommendations, including improving financial reporting and control systems over oil export sales and key Iraqi ministries, as well as ensure completeness of Iraq’s oil export accounts* (PwC Report quoted in (IAMB, 2011).

Though the Big 4 firms have been operating in Iraq for over 10 years on large finance and audit projects they have failed to persuade the BSA and Iraqi accountants and auditors to follow standards and procedures in line with international standards for Iraqi firms. This resistance suggests the problems and barriers to adoption, especially those of education and re-training which inhibit a transition to a different set of standards. As Carmona and Trombetta point out

*This is a direct consequence of the complexity of the reconciliation process from a subsidiary’s home standards to the parent’s home standards. This harmonization process will also put to test the true ‘global’ nature of the Big-4 audit firms. The communication between national partners and global teams in Big-4 audit firms will then probably strengthen the organizational links between local practices and international headquarters.* (Carmona & Trombetta, 2008, p. 458).

These practices of communication between organizational local practices and international headquarters seem to disappear when the accounting firms link with international funding bodies such as the IMF and World Bank. Researchers such as Annisette (2004), and Caramanis (2002) are of view that the Big 4 firms are working with international institutions such as the IMF and the World Bank to enforce of IFRSs in developing countries and emerging economies as a way for these economies to enter to the global market and to ensure that they are subject to the domination of developed countries. For example,

*Annisette (2004) elaborates the accounting industry has also benefited enormously from World Bank activities and this in turn can have an
effect on the social organization of accountancy in the Third World. The Big 4’s expansion into a number of these countries can be indirectly or directly attributed to the benevolence of the World Bank (Annisette, 2004, p. 318).

Writing about Syria’s involvement with the international institutions, Caramanis (2002), cited in Gallhofer et al. (2011) states that international firms, supported by their home country governments and the EU, OECD and WTO, overcome local profession resistance especially in smaller States to gain global access (Gallhofer et al., 2011). Further, Gallhofer et al. (2011) show how these firms affected the local accountancy services in Syria:

> Interviewees expressed how international forces significantly impacted on local accountancy. Transnationals were privileged over local firms, employees and communities. There are global concerns, similar to those expressed by Syrian accountants, about how transnationals lack sensitivity to local needs, repressing local initiatives, regulations and customs (Gallhofer et al., 2011, p. 385).

The Big 4 have been involved in most of the reforms that have taken place in Iraq since 2004 by international organisations, particularly the IMF and the World Bank. This mirrors the link between the Big 4 and these international organisations in ensuring countries adopt International Accounting Standards. Currently, there are no studies conducted on the links between the Big 4 accounting firms and the IMF and World Bank’s operations in Iraq. The scant evidence suggests that the Big 4’s operations with the IMF and World Bank are following a path similar to that in emerging and developing economies.

The next section will discuss the accounting for oil and gas under UAS and international accounting standards.
5.3 UAS for Extractive Industries in Iraq

Iraq’s Unified Accounting System uses the costs-written-off method which treats all costs both capital and operations costs as expenses, writing them off against the revenue earned in each year. While this method has been criticised on the grounds that it is overly conservative (Deegan, 2012, p. 709), the criticism is from a western perspective. Iraq is unique in its dealing with the risks associated in the stage of oil exploration prior to production. Its solution to the problem of costs prior to production reflects the central planning that was outlined earlier. The risks of the exploration phase are borne by a single entity, the Oil Exploration Company. This means that, unlike Western countries, the risks of exploration are not shared, so that the companies that actually produce the oil do not carry the risks of exploration. The second phase of evaluation is also carried out by the exploration company. In other countries the first two phases are usually undertaken by a vertically integrated company that will develop and mine the resource, if technically possible, so that risks attached to exploration and evaluation are spread across the phases. The Oil Exploration Company sells the successful wells to production companies. The production companies undertake that phase for cost plus 15% return.

The remaining three phases of development, construction and production are also carried out by separate companies. The development and construction is done by the oil drilling company while the fifth phase, production, is done by the production companies. These three phases of development, construction and production do not have any specific standards or rules. In contrast, under
international accounting standards, these three phases are covered by several different standards.

As outlined earlier in Chapter 2, international aid agencies and the international accounting firms located in Iraq are pressing the country to adopt international accounting standards. The Iraqi accounting system uses the “costs-written-off method” to account for exploration expenses, which differs from the requirement of the IASB’s international accounting standard, IFRS 6, issued in 2004, which permits a choice between two methods, (Cortese et al., 2009, p. 76), and FASB 19 which is followed in some countries. In these countries these costs, including direct and indirect costs for exploration and evaluation phases, are carried forward to be amortised against revenue earned during the production phase. UAS does not have this requirement under its “Costs Written-off” method. UAS uses the “straight line” method to compute depreciation on exploration assets without indicating whether to use either the “cost model” or the “revaluation model” which is used in IFRS 6 and also in FASB 19 (Deegan, 2007, p. 711).

Another challenge in accounting for oil in Iraq using the UAS is that the objective of the UAS is to serve the central government. Financial statements with insufficient disclosure about the search and exploration stage could lead to a lack of understanding of the correct financial position of a project or reporting unit (Cortese et al., 2010). Paragraph 23, IFRS 6 states “An entity shall disclose information that identifies and explains the amounts recognised in its financial statements arising from the exploration for and evaluation of mineral resources.” Further the reporting entity should comply with paragraph 23, which required
reporting on accounting policies for exploration and evaluation expenditures including the recognition of exploration and evaluation assets, and the amounts of assets, liabilities, income, expense; and cash flows arising from the exploration for and evaluation of mineral resources. Information disclosure is valuable to shareholders and creditors of the companies in the extractive industry. The conventional accounting practices fail to provide sufficient information (Luther, 1996, p. 68).

Disclosures should also include the treatment of exploration and evaluation costs per paragraph 25 of IFRS 6 that states: “An entity shall treat exploration and evaluation assets as a separate class of assets and make the disclosures required by either IAS 16 or IAS 38 consistent with how the assets are classified”. Iraq’s UAS does not have any rule relating to the above, because its disclosure requirement is of a general nature and covers all industries in a summarised manner for reporting to the central government. Further, Iraqi accountants have been educated under the centralised government system and its accounting requirements, the UAS so that they do not have experience in accounting for the costs of rights to explore, and the required accounting procedures.

5.4 IFRS 6 for Extractive Industries

If Iraq decides to adopt international accounting standards, then the accounting for the costs of rights to explore will be covered by IFRS 6, the standard for the extractive industries. The standard, not surprisingly given the contentious nature of the accounting it addresses, is not without criticism. Issues relating to definitions,
restoration costs and accounting method required are discussed in the following section.

IFRS 6 is dedicated to the initial two phases in the extractive industries and as such is restricted to guidance for accounting for the exploration and evaluation phases. However, IFRS 6 combines “exploration” and “evaluation” into a single definition:

The search for mineral resources, including mineral, oil, natural gas and similar non-regenerative resources after the entity has obtained legal rights to explore in a specific area, as well as the determination of the technical feasibility and commercial viability of extracting the mineral resources (IFRS Foundation, 2009, p. A239).

Commonly extractive operations are imposed with a condition that areas covered by the exploration and evaluation should be restored after exploratory work. This results in restoration costs for each specific phase of the operation and should be provided for at the time of such activities. In addition, in the exploration and evaluation phases the costs of restoration work during the production phase is normally treated as a cost of production. As paragraph 11 of IFRS 6 states:

In accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets an entity recognises any obligations for removal and restoration that are incurred during a particular period as a consequence of having undertaken the exploration for and evaluation of mineral resources (EC staff consolidated version, 2009).

Iraq’s UAS does not have any rule relating to the treatment of the restoration costs. This is because in Iraq only one company undertakes all the phases and reports to central government. However under the 2007 new law for oil and gas in Iraq the different phases are undertaken by different companies including IOCs. Hence there may be a need to account for restoration costs in Iraq.
One of the important weaknesses of IFRS 6 is that it has many complex relationships with other standards, which makes IFRS 6 a standard created by grouping paragraphs from several standards. For example, in the “Recognition of exploration and evaluation assets” paragraph refers to IAS 8’s paragraph 10

*When developing its accounting policies, an entity recognising exploration and evaluation assets shall apply paragraph 10 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.*

Further, paragraph 9 states that

*An entity shall determine an accounting policy specifying which expenditures are recognised as exploration and evaluation assets and apply the policy consistently. In making this determination, an entity considers the degree to which the expenditure can be associated with finding specific mineral resources. Expenditure such as acquisition of rights, topographical, geological, geochemical, geophysical, exploratory drilling, trenching and sampling might be included in the initial measurement of exploration and evaluation assets.*

In addition, paragraphs 11 and 12 of IAS 8 specify sources of authoritative requirements and guidance that management is required to consider in developing an accounting policy for an item if no IFRS applies specifically to that item. Subject to paragraphs 9 and 10 above, this IFRS exempts an entity from applying those paragraphs to its accounting policies for the recognition and measurement of exploration and evaluation assets.

Another example of IFRS 6 being dependent on other standards is the paragraph relating to *Measurement of exploration and evaluation assets* which states

*Expenditures related to the development of mineral resources shall not be recognised as exploration and evaluation assets. The Framework for the Preparation and Presentation of Financial Statements, and IAS 38 Intangible Assets provide guidance on the recognition of assets arising from development.*
In addition, IFRS 6 in the part on “Measurement after recognition” states:
An entity shall apply either the cost model or the revaluation model to the exploration and evaluation assets. If the revaluation model is applied the entity shall adopt either the model in IAS 16 Property, Plant and Equipment or the model in IAS 38 and it shall be consistent with the classification of the assets.

This quotation shows IFRS 6 does not only allow the choice between two methods of determine of pre-productions costs, but it goes further to allow other choices, all of which will mean that the financial reports of different companies in the petroleum industry will not be comparable, unless they all choose the same method in each case.

In regard to impairment of Exploration and Evaluation Assets the IFRS 6 links the treatment with IAS 36 which states;

*Exploration and evaluation assets shall be assessed for impairment when facts and circumstances suggest that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount in accordance with IAS 36, except as provided by paragraph 21 below.*

And paragraph 21 is;

*For the purposes of exploration and evaluation assets only, paragraph 20 of this IFRS shall be applied rather than paragraphs 8–17 of IAS 36 when identifying an exploration and evaluation asset that may be impaired. Paragraph 20 uses the term ‘assets’ but applies equally to separate exploration and evaluation assets or a cash-generation.*

IFRS 6 appears to be a compilation of references to several IFRSs. The UAS on the other hand is direct and precise in its accounting.

An important issue in extractive industries accounting is the way activities of exploration and evaluation prior to production, are accounted for. As mentioned earlier, there have been two methods employed, the full cost method and the
successful efforts method. Whether the oil companies operating in Iraq have adopted the international accounting standards will be explored in the next section which focuses on the annual reports of Iraqi oil companies.

5.5 Annual Reports of Iraqi Oil Companies

As previously mentioned, oil in Iraq is under the control of the government, represented by the Iraqi National Oil Company (INOC), which is responsible for all activities within the oil industry. INOC controlled until the 1990s several Iraqi companies reflecting the different activities in the oil industry. Because this study focuses on whether Iraq should change to international accounting standards, Iraq's oil companies will be used to compare UAS with IFRSs. The oil and gas sector contributes about 95% of Iraq’s GDP while international oil companies currently represent the major foreign investments in Iraq. Currently there are many different companies working in Iraq; some of these companies use their local standards (see Table 2.2, p.22) such as Russian standards, Turkish standards or Egyptian standards. Interestingly, the World Bank, IMF, and Big 4 accounting firms do not mention this variety in accounting standards, nor do they pressure these companies to adopt IFRSs. Further, Iraq's government depends on oil and gas revenue in funding the country's budget, so it needs to understand all financial statements for all companies local and foreign which are working in this sector in Iraq.

The financial statements of Iraqi oil companies prepared according to the UAS were compared with relevant International Standards such as IAS 8 Accounting policies and the changes in estimates and errors, IAS 16 Property, Plant and Equipment, IAS 38 Intangible Assets, and IFRS 6 for extractive industries. The
latest annual report with financial statements that could be obtained for the Oil Exploration Company (OEC) was that of 2011. An examination of the report revealed that all financial transactions are classified and recorded according to the UAS. As the Oil Exploration Company is responsible for all oil search and exploration operations, it supplies services to other production companies (the North and South Oil Companies) which are charged for those services according to a formula (exploration and evaluation costs plus 15%). Oil Exploration Company covers the exploration and evaluation phases (two of the five phases) of extractive industries. These two phases have raised great controversy within the oil industry world-wide because of the uncertainty, high-risk and high costs involved in exploration and evaluation. That controversy has resulted in several methods to account for the uncertainty and accompanying risk. According to the UAS, the cost-written off method is used to treat the exploration and evaluation expenses incurred by Oil Exploration Company. The UAS does not distinguish expenses that led to successful wells and the expenses which led to unsuccessful wells. In many cases, the exploration and evaluation expenses incurred by Oil Exploration Company may not have positive results in locating oil and hence cannot be matched with revenue nor can it be treated as deferred revenue expenditure. According to the IFRS 6, paragraph 9, entities should use consistent policies for determining exploration and evaluation expenses as capital expenditures, and should be distinguished between successful and unsuccessful operations. IFRS 6 requires that expenses relating to successful wells be capitalised and those relating to unsuccessful wells be expensed. This means that the accounting treatment of expenses relating to exploration and evaluation according to the UAS is different from that outlined in paragraph 9 of IFRS 6.
IFRS 6 specifically recommends the successful efforts method with the full cost method that links future benefits arising with undiscovered reserves expenditures. While controversy over IFRS 6 methods led to several alternative methods to account for the risk and uncertainty, Iraq had its own way of dealing with it by using separate companies for the various phases, and a structure which differs from the vertical integration that non-Iraqi oil companies use. The accounting treatment of IFRS 6 reflects the problems faced by companies integrating all stages of the oil production process. Therefore the requirement does not appear relevant to Iraq unless it consolidates all of its oil production companies, and follows a vertical integration. Additionally, what is in IFRS 6 is a response to vertical integration in the oil industry so it is unfair to compare its advised methods with those adopted in Iraq.

According to Cortese et al. (2010), and Katz (1985) after examining the accounting for exploration and evaluation expenses, these expenses are the cornerstone of the extractive industries. The expenses have given rise to the full cost and successful efforts methods.

*When the company uses the “full cost” method, all acquiring, search and exploration, and drilling costs, plus those relating to failed exploration activities, may be capitalized and carried forward until they can be written off against the revenue of successful projects at another time* (Cortese et al., 2009, p. 28).

*On the other hand, the successful efforts method requires that the pre-production expenditure that links directly to the successful area of a project is matched against revenue that results from the project, in more detail the successful-efforts method defers all acquisition costs, along with those exploration costs related to drilling, until a determination is made that proved reserves exist at a specific site* (Katz, 1985, p. 117). *The results will be different according to the choice of method* (Cortese et al., 2009, p. 28).
The matching principle results in the methods utilised in IFRS 6. The UAS does not use the principle because of the structure of its oil industry. It treats exploration and evaluation expenses as a “deferred revenue expenditure”\(^2\) on an arbitrary and non-objective basis. This is because the deferred revenue expenditure occurs before the start of the operating process and does not lead to an increase in production capacity, both for the economic entity and at the national level.

The evaluation phase is not separated from the exploration phase or presented in the accounting treatments in the UAS. In Iraq exploration and evaluation are mainly done by the Oil Exploration Company and hence the evaluation and exploration phases get blurred in Iraqi accounting system. In contrast, IFRS 6 integrates these phases, but distinguishes between the two activities and any exploration or evaluation studies used in each stage separately. Additionally, IFRS 6 classifies the assets and tools of exploration and evaluation according to their speciality as they are unique to only these two phases and requires an entity “to treat exploration and evaluation assets as a separate class of assets and make the disclosure required by either IAS 16 property, Plant, and Equipment or IAS 38 Intangible Assets consistent with how the assets are classified.”

In addition, shooting rights, the costs incurred by prospective companies to bid for the oil and gas, are estimated and accounted for. These costs are not accounted for under UAS as it does not recognise them because all oil resources are under the control of the Iraqi government and all land is state owned. However, with the

\(^{2}\) This account includes all amounts that are spent on preliminary expenses by the entity in order to get long term services for more than one year. These amounts are amortized through annual instalments using appropriate number of useful years, and the amortized amount will be deducted directly from the asset(UAS, 2011, p. 59).
current situation where local and international companies bid for the oil wells there
is a need to account for shooting rights within the UAS.

While the Oil Exploration Company is concerned with exploration and evaluation,
the development phase is under the control of the Oil Drilling Company, another
public company under Iraqi law. This company only digs the successful wells
designated by Oil Exploration Company. It is also responsible for of the
development and maintenance of the wells it develops as well as the reclamation
of oil wells (Exploration Oil Company Annual Report, 2012). As such, the
company provides two types of drilling and development activities, “developed
drilling” and “reclamation and maintenance drilling”. The services relating to
“developed drilling” are charged to the Ministry of Finance. Its “reclamation and
maintenance drilling” services are provided to the production companies on a cost
plus contract, that is, total reclamation and maintenance drilling costs plus 5%,
(UAS, 2011, p. 51). Expenses relating to both developed drilling and reclamation
and maintenance are transferred from the Drilling Oil Company to the production
oil companies. This situation is not clearly reflected in the financial statements of
the Oil Drilling Company, which does not show the difference between the two
activities, that is, developed drilling, and reclamation and maintenance (Drilling
Oil Company Annual Report, 2010). This is because there is no need to distinguish
the two according to the UAS. This treatment differs from IFRS 6.

The two largest oil production companies in Iraq are the North and South Oil
Production Companies. These two companies are responsible for the last two
phases, namely, construction and production phases. The South Oil Company is
responsible for production of crude oil and natural gas in productive oil fields within the southern provinces of Basra, Al Nasiriya, Al Najaf, Karbala and south part of Wasit. The North Oil Company is responsible for production of crude oil and natural gas in oil fields within the Northern provinces and Central Iraq which include Kirkuk, Nineveh, Salahedine, Irbil, Sulaymaniyah, Dohuk, Baghdad, Diyala and parts of the provinces of Babil and north part of Wasit (North Oil production Company Annual Report, 2011). Similarly to the other companies involved in oil production in Iraq, the Oil Production Companies have to follow the UAS, which requires the production companies to record all exploration and evaluation expenses (transferred from the Oil Exploration Company) as “deferred revenue expenditure” which should be amortized by 20% per annum (UAS, 2011, p. 59). UAS Chapter 2, requires the companies to capitalize the “developed drilling” expenses incurred by the Drilling Oil Company as “assets under construction,” account number 12241 in the UAS chart of accounts (UAS, 2011, p. 60). When the drilling work is completed, and the oil wells become ready to produce oil, the assets under construction will be transferred to “fixed assets” in the UAS chart of accounts. On the other hand, “reclamation drilling” (done on existing wells either to drill deeper or maintain them to ensure further extraction of oil) are treated as operational expenses (UAS, 2011, p. 60).

Some Controversial Issues between UAS and IASs/IFRSs for Accounting of Oil and Gas:

Though Iraq has adopted the EITI, with its requirement that Iraq uses international accounting standards, Iraq continues to use its UAS accounting system which differs from the recommendations in the relevant international accounting
standard, IFRS 6. This means that there are accounting inconsistencies between the UAS and the IFRS in all the five phases of the extractive industry. In the drilling stage the company capitalizes just one type of drilling expenses, which is “developed drilling expenses” and treats the second type “reclamation drilling expenses” as operation expenses. The production companies treat “reclamation drilling expenses” as an operation expense, irrespective of whether these expenses lead to productive oil wells or increases in existing oil production. This is inconsistent with IFRS 6. Further the production companies use the straight-line method to depreciate (10% per annum) its “production wells” (which usually have a life of more than 50 years). This is not in line with international accounting standards. IAS 16 “Property, Plant and Equipment” and IAS 38 “Intangible Assets” recommend the use of a “depletion” system rather than a “depreciation” system for such assets (Refer Figure 5.1).
Figure 5.1: The phases in the extractive industry and accounting treatment according to IASs/IFRSs and Iraq’s UAS
Another key difference between the UAS and International Accounting Standards is the disclosure of information about oil reserves in financial statements. According to the UAS there is no requirement to disclose oil reserves in the financial statements which is contrary to IFRS 6’s disclosure section (paragraph 24 (b)) which requires separate disclosure of the amounts of assets, liabilities, income and expense and operating and investing cash flows arising from the exploration for and evaluation of mineral resources” (IFRS Foundation, 2009, p. A239). Further, difference relates to the impairment of assets, currently regarded as an important aspect in accounting. The production companies in Iraq do not conduct any impairment of assets which is recommended in international accounting standard, IAS 36, “Impairment of Assets”.

With the current structure of the Iraqi oil industry, the resulting accounting practices for oil and gas follow the five global stages, although in a way that reflects its non-integrated company structure. The accounting they employ is not difficult to understand, although the World Bank, IMF, IOCs, and Big 4 accounting firms have used similar comments in their reports about the UAS which suggest that “there are big differences between IFRSs and UAS” and that the differences do not allow the audit companies to express an opinion on accounts based on UAS. Instead, the global institutions declare that “Iraq should adopt IFRSs”. Further, the Big 4 accounting firms currently are doing auditing and consulting work for IOCs in Iraq, and are helping the IOCs to prepare reports according to UAS (per interview data). The analysis of the accounting practices for oil and gas in Iraq and differences between these practices and IAS/IFRS 6 for extractive industries reveals no major difference between them. The main
difference is a result of the different structures for the oil industry in Iraq and elsewhere. The problems that plagued the international vertically integrated oil industry are in the exploration and evaluation stages where accounting for unsuccessful efforts is problematic, a problem that the Iraqi structure settled. With little change the UAS can be in line with either the “successful efforts” method or “full cost" method, which are adopted in IFRS 6.

5.3 Discussion

Despite the lack of major differences between the accounting systems, the global institutions such as the IMF, World Bank and the Big 4 accounting firms pressure Iraq to adopt international accounting standards.

Though Iraq has its own accounting system it is apparent that these external forces now operating in Iraq may use funding as a means to ensure Iraq adopts an accounting system that meets their own requirements. DiMaggio and Powell (1983) have shown that in situations of high uncertainty (as in the case of Iraq), there are pressures from professional groups and associations to mimic what has been modelled in other organizations in their field in order to achieve legitimacy. The coercive pressures are likely to come from organisations that they are dependent upon. Iraq is dependent upon the IMF and World Bank and to a lesser extent to the Big 4. These institutions are pressing Iraq over its method of accounting: institutional isomorphism (Covaleski et al., 1993; DiMaggio & Powell, 1983).
In 1969, the central government in Iraq established the BSA (Al Najjar, 2009) as the organization responsible for accounting authority and accounting system in Iraq. BSA issued UAS as an accounting system for both public and private sectors, which included rules, instructions and procedures, which reflected the perspective and ideology of the Arab Baath Socialist Party of that time (Al Najjar, 2009; UAS, 1985). Since then UAS has been used by central government as a tool to provide data and information for control and planning.

As analysis of documents of the key players which are affecting the Iraqi accounting system shows formal external pressures on the accounting system in Iraq include the World Bank and IMF. Organizations use conformity with rules and regulations to gain and maintain legitimacy and to be acceptably organized from a legal point of view (DiMaggio & Powell, 1983). Conformity can be achieved in two ways: firstly, by ceremonially conforming to externally imposed regulations, and secondly, by actually internalizing the regulatory system. In a global setting the nation states do not only comply with international rules and regulations, but if they are desirous of competing in global capital markets, they will need to change isomorphically to adopt the regulatory systems deemed appropriate and desirable by other participants in that market.

The IMF’s Emergency Post Conflict Assistance (EPCA) and the Stand by Arrangement (SBA) agreements include terms for the accounting system in Iraq, terms which are tantamount to coercion. The terms of the EPCA agreement show that the IMF does not consider the current Iraqi accounting system suitable for the process of reform of the Iraqi economy. In addition, the IMF Country Report
recommends that Iraq should organize its accounts and audit in accordance with international accounting and auditing standards.

Accountants in Iraq use the out-dated Unified Accounting System, which includes standards that have not been updated since the mid-nineties and others which are about 70 years old (related to government accounting (World Bank Report: Financial Sector Review, 2012).

“Develop mechanisms of action of fiscal and monetary policies and the introduction of a lot of reforms in the Iraqi economy and rearrange the accounts and audit according to international standards (IMF Country Report, 2004).”

No analysis of why the UAS is unsuitable appears to have been undertaken. Institutional theory posits that organisations seek homogeneity which in this situation is the adoption of international accounting standards in order for Iraq to gain legitimacy in the accounting world. The World Bank and the IMF, major players in world capital markets, are “deeply embedded in the structures of capitalism” (Annisette, 2004, p. 316). Their advocacy of a market economy for Iraq is in line with the IMF’s view that IFRSs are based on capitalism and that no other accounting system can support a market economy. By linking financial support to Iraq with the adoption of IFRSs, the IMF and the World Bank are coercing Iraq to adopt IFRSs. After four years of the World Bank’s banking sectors reform project, the BSA agreed the Central Bank of Iraq will only prepare financial statements according to IFRSs on an experimentally basis.

In its report on the disbursements in Iraqi ministries, to the Iraqi government and the IMF, KPMG stated its difficulties to understand Iraq’s UAS. Further in its report, KPMG, recommended that Iraq should adopt international standards of accounting and auditing, because KPMG was ... unable to express any assurance
on disbursements as Iraq did not follow the IFRSs; or international standards on Auditing (KPMG, 2005).

Surely a firm as international as KPMG possesses the expertise to understand an accounting system that differs from IFRSs. KPMG is not alone pushing for Iraq to adopt new standards but in their case, the push is for US standards. EY is its project report on the Development Fund for Iraq recommended Iraq “to adopt policies and procedures in accordance with the American Institute of Internal Audit standards (Ernst & Young, 2008).” It appears that the key objective was to bring about similarity with their counterparts in other organizations (DiMaggio & Powell, 1983).

In its report on Development Fund for Iraq, 2011 (three years after EY’s report on the same project) PwC stated that firms in Iraq still used same procedures, same partnerships, and same notes. PwC recommended Iraqi government to follow previous recommendations of EY (2008) and KPMG (2005) that

\[\text{Iraq should continue to take concrete steps to implement and follow up on the previous audit findings and recommendations, including improving financial reporting and control systems over oil export sales and key Iraqi ministries, as well as ensure completeness of Iraq’s oil export accounts (PwC Report quoted in IAMB (2011).}\]

The work and reports of the Big 4 public accounting firms relating to Iraq reflect normative isomorphism (as defined by DiMaggio and Powell (1983) in Iraq.

This Chapter analysed the documents that related to the UAS and IAS/IFRS 6 for extractive industries. Additionally it highlights on the external pressures that affect accounting system in Iraq focusing on accounting for oil and gas by analysing
related documents such as agreements, and reports of World Bank, IMF, IOCs, and Big 4 accounting firms. The next chapter will present the views of the key players who are impacting on the accounting system in Iraq through analysing interviews with those key players.
Chapter 6

Findings: Interview Analysis

6.1 Introduction

This section analyses the primary data collected by in-depth semi-structured interviews. Each interview was based on open-ended questions related to Iraq’s current accounting system with key personnel, particularly personnel who are or would be involved in the decision for Iraq’s transition from its UAS to IFRSs (Sale et al., 2002). The open-ended questions particularly focused on the oil and gas industry. Interview transcripts were coded for themes using a phenomenological approach the data was analysed through content analysis which for this study is informed by the perspectives of institutional theory. Data was sorted and classified using NVivo (See Appendix 10, p.192) (Altheide, 1996; Bryman & Bell, 2011). As the interviews were mainly conducted in Arabic, the interview questions and transcripts have been reviewed by an independent translator (certificate of a translator attached in Appendix 8, p.190). The focus was on interviewing the top management in the organizations responsible for the structures and policies of the accounting system in Iraq. To understand the need for transition and its implications on the accounting industry, interviews were also conducted with personnel from organisations likely to lobby the accounting authorities in relation to accounting standards, particularly standards that impact on the oil and gas industry. Interviewees came from the following categories:

1. Board of Supreme Audit (BSA), and Members of the Iraqi Local Accounting Standards Committee;
2. Professionals accountants and auditors, and accounting faculty in Iraqi Universities;
3. Chief Financial Officers and Chief Administrative Officers of Iraqi oil companies and IOCs operating in Iraq;
4. Representatives of the World Bank and IMF;
5. Big 4 accounting firms.

The key research question was supplemented by further research questions which are used for reporting the interview outcomes in the following sections. While the interviews were focused on the above research questions, to gather in-depth information, ten interview questions were used. Thirty interviews were conducted over a period of six months from February 2013 to November 2013 at Baghdad, Iraq. The interviews were undertaken personally and conducted by the researcher in English language and Arabic where needed. Twenty of the 30 interviews were recorded. Seven of the recorded interviews were in English and 13 were in Arabic. Five interviewees provided written answers, and the researcher took notes for five interviews as they did not give permission for recording. The researcher made notes both during the interview and immediately after each interview.

Each interview lasted from a minimum of 30 minutes to a maximum of 90 minutes, with a mean of approximately 44 minutes. The Respondents in this study were managers, consultants, CFO, CAO, and associate professors and professors (Appendix, 7, p. 188 provides details), who have been involved both in the decision to transition and its possible implications for Iraq’s accounting system to move to IFRSs by adopting, harmonizing or convergence. The transcripts of these
interviews were coded for the main themes relating to opportunities and challenges for Iraq to move to IFRSs by using phenomenological approach.

### 6.2 Benefits and Opportunities of Adopting IFRSs

The first question asked of the interviewees related to the opportunities that a change to IFRSs might bring to Iraq. This is a key aspect of this study. Two respondents (R6 and R7) did not see any benefits for Iraq in adopting IFRSs. For the remaining respondents comments were divided into three aspects relating to development of the economy, development of financial policy and accounting system, and development of peoples’ lives and their personal skills. Because oil contributes to 95% of GDP which in turn impact other economy, six interviewees thought adoption of IFRSs might increase foreign direct investment (FDI) and might also develop Iraqi companies and Baghdad’s stock market.

Related to the postulated growth in the economy, interviewees thought that growth in the economy should increase living standards, working opportunities with international companies, and the development of personnel skills. Further, accountants and auditors in Iraq would be able to develop their career and be able to work in any country by using international accounting and auditing standards. Most respondents from the BSA and Iraqi oil companies think that the adoption of IFRSs will help the BSA to understand IOC’s financial statements and solve issues between them. They though that adopting IFRSs could lead to globalizing Iraq, with better foreign investment and knowledge sharing in accounting. By developing an international accounting system in Iraq, BSA’s staff and other accountants and auditors will be exposed to and gain experiences in understanding
IFRSs. This would lead to providing sufficient disclosure in financial statements for all users which in turn could help to attract foreign investments. Furthermore, it will help the tax office, because under Iraq's tax law, taxpayers are required to attach approved financial statements to their tax statement. Currently the IOCs and other foreign companies need to change their reported financial results according to UAS for tax purposes.

Adopting IFRSs will attract foreign investments according to the majority of respondents and would also help the IOCs currently operating in Iraq. Interviewees believed that the current IOCs and new investors would lead to the further development of Iraq’s economy because the financial statements will have the required disclosure and provide sufficient information for investors in taking investment decisions. In addition, some respondents have strong support for the IOCs’ presence in Iraq as it has led to economic growth of 9%. This growth without IFRSs provides evidence that there is no strong relationship between the accounting system and economic growth. In addition, this example shows how global institutions use terms such as global uniform financial statements to persuade emerging and developing economies to adopt IFRSs so that developed countries can more easily dominate their resources and markets. A minority of respondents were of the view that adopting IFRSs would enable comparisons of financial reports and benchmarking with other countries.

Interviewees were divided in their opinions whether adoption of IFRSs would benefit Iraq’s vital oil and gas industry. Some respondents (R1, R2, R3, R5, R9, R11, R14, R17, R22, R23, R25, R28, and R29) opine that adopting the IFRSs will
develop Iraqi oil and gas industry and make it a part of the global market, which, in turn, will have a positive impact on all economy sectors in Iraq. The alternative view (R10, R12, R16, R4, R13, and R15) is that the procedures and managerial practices adopted by qualified non-Iraqi staff within IOCs, will serve as a motivator for the Iraqi staff to develop themselves. Three respondents from BSA were of the view that adopting IFRSs may improve cost accounting systems, for example, in the calculation of the cost of barrel of oil so that the financial statements will present a better view in terms of being true and fair. This response displays the lack of understanding of the scope and focus of IFRSs. Unlike the UAS, international accounting standards relate only to external financial reporting by reporting entities.

Despite a questionable understanding of what adoption of IFRSs will bring, almost all respondents displayed an earnest desire to adopt any measure that may develop Iraq’s economy in the people's interest. They reasoned that the Iraqi people would get indirect benefits because of the development in an accounting system which would help to attract foreign investments. Increases in foreign investments would in turn develop the economy and improve standard of living for the people. The lack of understanding of what adoption means for a country is reflected in the view of a respondent who stated that Iraqi people by becoming familiar with international accounting and auditing standards will develop their international skills by communicating with foreign companies.

All respondents agreed that organizations such as the World Bank and the IMF need enough data/information to help them not only in their decisions about either
loans and grants already given as well further offerings of loans and advances, but also in understanding the country’s economic and financial situation. Additionally, all agreed that it is important for Iraq to provide sufficient information to these organizations because many foreign investors build their decisions for investments on the reports of these international funding organisations. Adopting IFRSs would enhance their ability to gather information from Iraqi sources.

Optimism about the benefits that adoption might bring extends to the role of IOCs and the Big 4 accounting firms in Iraq. Apart from the current IOCs operating in Iraq, adopting IFRSs could lead to further IOCs investing in Iraq. The UAS does not seem to have deterred IOCs seeing potential in Iraq, potential which has resulted in four joint venture projects such as Shell and Mitsubishi signing a $7bn deal with the Iraqi government to capture flared gas at the southern oil fields. This 25 year project is one of the largest Iraq has signed with a foreign energy firm.

For the Big 4 accounting firms, the overall comments can be summarised as new clients and a big market. Despite their negative comments about the UAS and their inability to understand it, interviewees from the Big 4 accounting firms highlighted that the Big 4 accounting firms are currently assisting IOCs to prepare financial reports according to UAS’s chart of accounts and rules for tax purposes.

### 6.3 UAS is not Suitable for Iraq’s Oil and Gas Industry

Respondents agreed that the UAS is not robust enough as an accounting system to account for oil in Iraq. However, the reasons given differ. The reasons can be summarised into four perspectives. Each is discussed in turn.
6.3.1 UAS is an Old System without Regular Updates

The UAS was developed in 1980s and since 1982 there has been no update to the UAS other than in 2011, when the BSA issued a report about an updated system. As pointed out by R19 (Manager in BSA) and R20 (public inspector in Ministry of Culture and a previous member of Iraqi Local Standards Committee) the updates in 2011 were in the tables of depreciation ratios, which were separately annexed with UAS.

There has been no real update to UAS accounting system which means that important environmental variables and globalization have been ignored. According to R30 (Representative of World Bank),

*the local accounting standards are not in compliance with internationally recognized accounting standards like IFRSs. There a need for a gap analysis between the local accounting standards and IFRS but there would be many gaps between the two standards if analysed.*

While interviewee R28 (CFO, IOCs) pointed out there is a need to update the current accounting standards (UAS) for uniformity between local standards and global standards especially with the change in its economy after the Saddam’s regime, interviewees R6, (Consultant, BSA) and R7, (Manager, BSA) reported that efforts are being undertaken to develop the UAS. This suggests that a move to international accounting standards is not happening soon.

6.3.2 UAS is designed to serve a Central Economy Concept

That the UAS was designed to serve the Iraqi central government that had a socialistic view so that it was not designed for a market economy was supported by eight interviewees. Therefore, these objectives of UAS to focus on only
government requirements means that UAS according to R8 (Dean of Iraqi CPA), does not have enough flexibility to be in line with current environmental changes in Iraq’s government and economy. While 22 interviewees implied that the financial statements prepared according to UAS are not flexible enough for the move to a market economy, this may be a temporary situation as current efforts are being undertaken to develop the UAS (R6, and R7). This confirms that a move to international accounting standards is not happening soon.

6.3.3 Extractive Industries have Special Accounting Needs

Currently, UAS does not cover oil and gas industries because the structure of the industry does not require a separate accounting standard. While respondents from the Ministry of Oil and the Iraqi oil companies (R9, R10, R12, and R16) agreed that a separate standard was not needed, some have mentioned other issues (such as joint and separation costs) which are not covered by UAS. The most controversial issue in extractive industries is how to treat the exploration and evaluation expenses. An interviewee (R9), who is head of cost accounting department in Iraqi Exploration Company, explains how they treat these exploration expenses,

We have four seismic teams and one team for geological survey, (in fact, we do not separate between exploration and evaluation all expenses called exploration expenses) and we collect expenses for each team separately. In the end of the each month, the company's expenses (teams and other company departments) send to oil production companies (south oil co, and north oil co.) with 15% (cost plus) as a profit.

In its chapter on cost accounting, the UAS does not include details of the method for separating joint cost. It also does not explain which cost method should be used in production stage to account of depletion of productive wells. Adoption of IFRSs
will not solve this problem as IFRS 6 and associated standards do not include any methods regarding computation of oil production or for separating joint costs.

Further that adoption of international accounting standards is not imminent was confirmed by R21 (a general director in the BSA and member of the local standards board). He stated that we believe in the role of BSA particularly after 2011 and 2012 when the IOCs started work in Iraq, and that BSA should implement a local standard for the oil and gas industry. This standard suggests that harmonisation is being envisaged as the standard will help to address the differences between the UAS accounting system and international standards. This standard may be used for the other natural resources in Iraq which includes oil, gas, sulphur, phosphate, mercury and uranium.

6.3.4 Other Accounting Issues

Stressing the lack of compliance with international accounting standards, the interviewee from the World Bank saw a need for gap analysis between the local accounting standards and IFRS but there would be many gaps between the two sets of standards that would have to be investigated. Such an analysis needs to reconcile the goals for accounting. The reconciliation of the goals for accounting is another issue hampering the decision of whether to adopt international accounting standards. Currently the UAS focuses on macroeconomic goals so that it directs the basis of the accounting recognition and measurement to achieve those macroeconomic goals, thereby making disclosure less transparent. For example, there is no need to disclose the accounting policies used by companies so that in-depth comparisons of companies in the same industry are problematic. This may
have to change because as one interviewee pointed out, Iraq has become a member of the Extractive Industries Transparency Initiative (EITI).

6.4 International Oil Companies

Currently, there are many IOCs operating in Iraq. As one interviewee (R12) stressed, Iraq needs IOCs, because in the last two years they have increased production of oil (about one million barrels) in the south of Iraq. Most of these companies use different accounting standards (See Table, 2-2, p.22) but all respondents recognised that the BSA cannot force IOCs and other foreign investment companies to use UAS in the preparation of their financial statements. Additionally, the IOCs are not familiar with UAS, because on the whole, the standards they are using are based on a market centred economy in contrast to the UAS’s macroeconomic focus.

Requiring IOCs to report using the UAS is problematic. The representative of the World Bank in Iraq (R30) emphatically stated:

*In general, this would have a negative impact on doing business in Iraq as most of international businesses are international and use international standards, therefore those businesses would have to report to their mother company outside Iraq using internal standards like IFRSs and at the same time reporting inside Iraq using UAS.*

IOCs have branches in different countries, and each company has to report to its home office at the end of a year. Using UAS generates difficulties. According to R9 there is already conflict between Iraqi south oil companies and IOCs about service contract relating to the methods of accounting followed. Therefore, currently these companies are preparing two types of financial statements, the first according to either IFRSs or their national standards. The statements prepared
using their national accounts are reported to their home offices. The second statement is prepared with help from the Big 4 accounting firms for tax purposes in Iraq, a statement that only includes an expense report and bank accounts reconciliation. The presence of IOCs in Iraq and their inability/refusal to use UAS implicitly coerces Iraq towards adopting IFRSs.

6.5 Training of Iraqi Accountants

Any major change in the accounting system will entail huge costs in terms of training and development and it must be done by an institution with authority to conduct the training. The majority of the respondents agreed that training should include the BSA as it has the authority and budget, and is responsible for accounting policies and procedures in Iraq and for academic accountants in universities and professionals in accounting and auditing. Most agreed that the training of the Iraqi staff in IFRSs will be a big project needing funds, time and a strategic plan. This would have to be done by a special committee. The BSA's respondents indicated that any training of accountants and auditors within Iraqi ministries and offices legally would have to be done through the BSA. Other respondents agreed; four respondents from the Big 4 accounting firms and a few academics, because this organization has a big budget and authority from the government. On another hand, other academics are of the view that this project on training should be conducted only with the assistance of Big 4 accounting firms as they have the required experience and qualified staff, who can deal with such a project. That the interviewees from the Big 4 accounting firms thought that the BSA should financially support the training supports comments in the literature that the Big 4 make money from training accounting staff in countries that adopt
international accounting standards. According to two respondents (R30 and R13), the training should be done by Ministry of Finance as it works with World Bank and IMF, and it has continuing projects with World Bank for adopting IFRSs in Iraq’s banking sectors. Most interviewees did not speculate on how long the training would take if Iraq decided to adopt IFRSs. However, one interviewee (R25) thought that such a project would take a long time, perhaps two to four years.

### 6.6 Challenges of Adopting IFRSs

The biggest challenge to adoption of IFRSs is resistance to change. The UAS has operated in Iraq for more than 30 years. Any change from the UAS to IFRSs would be difficult not just for the BSA’s staff, and also for other Iraqi staff in public and private sectors for many reasons, and hence may face resistance from staff. This was confirmed by a partner in one of the Big 4 accounting firms (R1) operating in Iraq. The partner has had close working relationships with Iraq’s accounting and financial sectors in the last few years: *Current users such as BSA, Iraqi local companies, accountants and auditors union, tax authorities, central bank of Iraq resist the change as they are not familiar with IFRSs.* There is a fear of job loss due to lack of knowledge of international accounting standards. This fear is accompanied by the fear generated by the wars and sanctions of the last three decades that such a transition would entail the need for electronic media which are foreign to most of the Iraq’s people who are disadvantaged in this area. Most respondents agreed that there will be resistance to change particularly from existing BSA staff to any change from UAS to IFRSs. They thought this resistance arises from many factors such as unfamiliarity with IFRSs, belief that the UAS is
comprehensive system, and obstacles generated by language and communication skills.

Reflecting the view of the Big 4 partner, staffs of the BSA, the key player in the accounting system of Iraq, are against the change. Some respondents such as R6 and R7 were completely against this change because they believe that the UAS is based on international accounting standards so that there are no big issues that require changing. If there was a need, the system could be updated. However, other BSA respondents (R11, R18, R19, and R21) and professionals (R14, R26, and R27) stated that while they do not agree with changing from UAS to IFRSs, they acknowledge that the UAS needs updating or adopting relevant IFRSs.

6.6.1 Training

Resistance to change turns to concerns about training if Iraq decides to adopt IFRSs. Wars and UN sanctions closed Iraq so there was no change or update in the accounting system and in universities’ curriculum. This lack of change has generated concerns about the training that will have to be undertaken with current accountants and auditors. As noted above, responsibility for the training is not clear. Most academics in the accounting departments including the Deans (University of Baghdad, Al Mustansiriya University, Postgraduate Institution of Accounting and Finance, Babel University and Iraqi CPA) and some accounting and auditing department’s managers in both Iraqi oil companies and ministry of oil agreed that the BSA cannot train staff in IFRSs even if training is one of its functions. Training in IFRSs will need a strategic plan and a special committee for implementation which will involve high costs, long duration and international
expertise. In addition, a general manager in BSA pointed out that many Iraqi accountants and auditors do not have sufficient background and understanding of the IASs and IFRSs. This manager’s comments reflected the view held in Iraq that there is just one way to change the UAS to the IFRSs and that is by adoption of the IFRSs. Iraqis are not familiar with the other means of harmonization or convergence, methods which other countries have done.

6.6.2 Routine, Organizational Structure, Laws and Legislation

Iraq still has sectors under control of the government (R21, R25) and it is not clear whether the government wants to go along the path of a market economy, even though foreign investments and the private sectors are growing slowly. On the other hand, the long-term impact of the previous regime on Iraqi’s economy is felt by respondents from IOCs and Big 4 accounting firms. Other Iraqi respondents believe that the old laws, old routines and old legislation are still working, although current procedures through government offices take a long time, delays that will act as obstacles for both the private sectors and foreign investments: *Sometimes decisions are not promptly taken and legislatures and executive bodies work slowly* (R15).

The organizational structure which separated the INOC into several companies in the extractive industry in Iraq is seen as a challenge (R11, R18, R21, R22, and R27). There are also companies that take care of marketing and distribution. The respondents see the challenges in the laws issued by the Ministry of Oil which have affected accounting treatments, particularly those relating to mark-ups. According to R18, a manager in the BSA, the Iraqi oil companies started spoofing
by increase their expenses in different ways in order to increase total cost and then increase their profits. However, adoption of IFRSs will not prevent this in the same way that they fail to prevent or reveal transfer pricing practices.

6.6.3 Other Challenges

In addition, there is the challenge of using an electronic system in financial accounting and cost accounting, especially for accountants and auditors in this industry currently in Iraq. The World Bank’s representative highlighted many of the problems already noted. These include the training of personnel in Iraq, the availability of qualified people to properly apply IFRSs standards if adopted, and their ability to cope with internationally recognized accounting standards (like IFRS) continuous change and establishing an enabling accounting and auditing environment. The academics who were interviewed suggested that enhancing accounting and auditing curricula at universities’ level in accordance with international best practices was the way to go to prepare qualified professionals in the future.

Respondents (R1, R3, and R9) focused on some challenges to the Iraqi economy, one of which was the transition period. They were of the view that it would take between one to three years or more. This long period together with the ambiguity between central and market economy will be a real challenge in the change process. A challenge related to this is an issue raised by R13 that the public do not have a good understanding of the uses of an accounting system and how to read financial statements because there were no opportunities for people to invest
because all big companies were public companies controlled by the central government with very little participation of the private sector.

6.7 Should Iraq Change from the UAS to IFRSs

Out of the 30 respondents, 22 (73%) agreed that there was a need to change from Iraq’s UAS to the IFRSs. They stated several compelling aspects to support their opinion. The first is the move to a market economy; the UAS was not designed to serve such a market. Another aspect is the absence of accounting for oil and gas in the UAS, although oil and gas accounts for over 95% of Iraq’s GDP. The interviewees appear to be ignorant of the controversy that has followed the formation of a standard for this industry because they believe there is a need to adopt IFRSs to provide “proper” accounting in the extractive industry. The third aspect is that disclosure in UAS does not provide sufficient data and information to help users in their investment decisions.

Only eight respondents are of the opinion that Iraq not changes its UAS to the IFRSs. Not surprisingly that of the eight who are not in favour of the move from UAS to IFRS five are members of the BAS, two are academics and one is an independent professional. Their main argument is that the UAS has been working well for over 30 years without problems and it has been an effective way to control public funds. They also state that the UAS is designed for all Iraqi sectors which creates uniformity across all Iraqi companies in all sectors and so provides comparative information to help the government and other users in their decisions. In addition, the process of change from a well-established 30 year old system to a new accounting system will not be easy. There are many factors to be considered.
Currently, Iraq is in a transition period with urgent need to make changes in its laws and legislation, universities and curriculum, accounting and auditing practices and its entire political system. Further, the cost of training of accounting and audit staff personnel and the cost of changing manual records, computer systems, and software will have to be carefully considered. As an academic commented: *Iraq does not have qualified academics and professionals for adopting all the IFRSs at once, so we would need to start with extractive industries firstly.* Though all respondents are against the change from UAS to IFRSs they acknowledged that UAS needs to be updated especially in relation to the extractive industry.

### 6.8 Discussion

All respondents agreed that the current UAS is not suitable for accounting for oil and gas in Iraq. Many reasons were proffered such as the age of the UAS system, its focus on serving central government, and the lack of a specific standard for the oil and gas industry. The respondents also agreed that the BSA cannot force UAS on IOCs but disagreed about the reasons.

The case of IOCs in Iraq reflects the perspective of mimetic isomorphism. These companies have experienced staff and advanced technology which highlights the poor state of technology in Iraq and the Iraqi’s lack of experience in both technology and international matters and hence implicitly persuades Iraq to modify its economic, legal and financial legislation. This is in line with DiMaggio and Powell (1983) observation that

*When organizational technologies are poorly understood ... when goals are ambiguous, or when the environment creates symbolic uncertainty, organizations may model themselves on other organizations* (DiMaggio & Powell, 1983, p. 151).
Many interviewees think that Iraqi oil companies should model themselves on the IOCs by adopting or adapting the structure and procedures of these companies; *Iraqi economy has been completely destroyed, so Iraq needs all available experiences from international companies and global organizations in different aspects.* This is consistent with DiMaggio and Powell (1983) who defined mimetic isomorphism as the process *whereby organisations emulate the internal structures and procedures adopted by other organisations* (Moll, Burns, et al., 2006, p. 188).

Further Irvine (2008) states:

> The relationship between means and ends, or the most ambiguous the goals of an organization (nation) give more uncertainty, the greater the reliance that the organization will be placed on modelling the example provided by “successful” organization or ‘nations’ in order to hide or reduce that uncertainty (Irvine, 2008, p. 134).

The trauma of the past decade has left Iraq with uncertainty so that the majority of the respondents see modelling their accounting system (seen as old, inappropriate) on what appears to be a successful accounting system (IFRSs).

Differing views over any training created by a change to IFRSs also can be viewed through the lens of institutional theory. While all interviewees thought that the BSA should be responsible for training there was no consensus on who should conduct this training. Some thought the training should be the responsibility of the Big 4 accounting firms, while the Big 4 representatives thought they should not be involved. This is normative isomorphism whereby the Iraqis wish to adopt the structures and procedures (training) advocated by the Big 4 (Moll, Burns, et al., 2006) After a short period in Iraq, these Big 4 firms are in a position to impose their style on the accounting and auditing environment in Iraq. As Scott (1995)
commented; the stabilising impact of the norms of the Big 4 are internalised, creating expectations of values that have gained general acceptance by the interviewees.

The opportunities and benefits of adopting the IFRSs in Iraq from the respondents’ point of view can be analysed from three perspectives: the development of the economy perspective; the financial policy and accounting system perspective; and the development of the life and skills of the Iraqi people.

The respondents’ answers reflect mimetic isomorphism as they are of the view that the Iraqi oil companies will be best developed by imitating the same organizational structure and procedures used in the IOCs.

*Iraqi oil companies can learn from IOCs best practice* (R10, R12, and R16)

It [organisational structures and procedures] will be developed into two aspects, firstly, technical side and managerial and financial sides secondly (R4, R13, R15)

They can work globally, also the management and accounting staff will be developed by contact with developed companies (R8, R16, and R20).

At the government level, in 2007 the Iraqi government issued a draft of a new law for oil and gas industries, to replace the oil and gas law of 1961. The Iraqi legislators issued this law to allow IOCs to invest in Iraqi oil and gas fields and to help this sector to overcome barriers that it had to face in the past. In particular, the government wanted to facilitate in Iraq the IOCs global trading system which was designed to capture investment, for example, the rush of petrodollars from the third international oil boom in recent times so that it could tap into the diffusion of globally acceptable practices generated by the global trading system. This move
reflects Irvine’s (2008) observation that in many cases, countries or organizations adopt procedures and systems from international or multinational companies without coercive pressures, but to be desirable, in order to become part of global market.

In a global setting, not only will nation states comply with international rules and regulations, but if they are desirous of competing in global capital markets, they will change isomorphically to adopt the regulatory systems deemed appropriate and desirable by other participants in that market (Irvine, 2008, p. 132).

The interviewees were uncertain about the acceptance of change that becoming part of a global market was likely to bring. “Resisting change” has been discussed as the important challenge by respondents, and all agreed that the main obstacle will be the staff of the BSA (DiMaggio & Powell, 1983; Scott, 2004). The BSA is the key authorising of accounting and will have challenges in changing mind of the people who work and these will be resistant to change. (R2, R25) Some old staff in BSA has a strong relationship with UAS. (R15, R17).

A strong view on the challenge of moving from routines, organizational structure, and old legislation to new systems is that it is a form of coercive pressure by the World Bank on the Iraqi Central Bank. R2, a senior manager in KPMG, commented that, for example, there is a memo issued from Central Bank to Iraqi local banks in 2011 asking local banks to prepare their financial statements according to IFRSs, but until now, both Central Bank and local bank still use UAS. A response came from R21, a general manager in BSA: The BSA agreed to prepare financial statements just for Central Bank based on IFRS in 2010 and following years. This statement appears to support the observations above that resistance to change will come from the BSA. This resistance may not spread to all involved in accounting as the consensus of the respondents was that the World
Bank and IMF need to understand the financial statements and disclosures they need to help in making decisions in relation to their loan grants and other projects. This suggests that in such circumstances, IFRSs are appropriate and so some changes must be made. This was supported by most of the respondents who thought that the UAS should be changed to reflect the move to a market economy. This is not a difficult issue, given that the UAS and the local standards can be easily modified. A change to IFRSs would be more costly given the state of technology and the changes needed in education and training of existing accountants and Iraqi users of financial statements.

The difficult issue for Iraq is the move to a market economy. The move is generated by pressure from external institutions which have been coercively pressuring the Iraqi government since 2003 via agreements such as those with the UN, IMF and World Bank.
Chapter 7

Summary and Conclusions

7.1 Introduction:
Motivated by both the lack of research on the adoption by countries of international accounting standards and the need to examine the possible impact of adoption on Iraq, the purpose of this study was “to critically review the opportunities and challenges for the Iraq to transition from UAS to IFRSs. This was done through four key areas. The first was to evaluate the different stakeholders’ influence on Iraq’s economy and its accounting system. The second was to examine how oil is currently accounted for in Iraq under IFRS. The third was to compare Iraq’s current accounting practices to international accounting practices. Finally, the fourth was to examine the opportunities and challenges for Iraq, if and when it transitions from the UAS to IFRSs.

While this chapter provides a summary of the preceding chapters, its main purpose is to evaluate the findings as related to the research questions. This chapter also includes the major contributions and implication of the study as well as potential areas of research for future studies.

7.2 The Findings
What has been highlighted throughout the study is the scarcity of information about the costs to a country such as Iraq if it decided to change from its current Unified Accounting System to International Accounting Standards. Iraq differs
from the many countries that have adopted international accounting standards. It is a country rich in oil and gas reserves. These reserves probably triggered the invasion of 2003, after which the centralised government was replaced by a newly elected government. This government under the influence of the United States of America has started changing Iraq from centralised social economy to a market economy. The invasion resulted in the complete destruction of Iraq’s infrastructure, a high debt of $US127 billion (500-600% of Iraq’s GDP) and a heavy legacy of imbalances and economic problems. These problems led Iraq to sign agreements with IMF and World Bank to not only bail out the economy but to reform its economy and finance policies. As a result, the Iraqi economy and its financial policies have become subject to the conditions imposed by these international organizations. As Iraq’s economy depends on oil, in 2007, the new government issued a law which permitted foreign companies to work in Iraq’s oil and gas fields. These events have led to the World Bank and the IMF, the international petroleum companies which entered Iraq after the 2007 law, and the Big 4 International Accounting firms becoming key players in the changing of the economic system in Iraq. Indirectly and directly, these key players have imposed pressures on Iraq’s accounting system, with the pressures taking on different directions according to the roles and the power of these international organizations.

The World Bank and IMF have exerted coercive pressures on the Iraqi economy including its accounting system. These pressures started after the fall of Saddam in 2003 through the focus in the first few post-Saddam years to control Iraq's oil revenues through the establishment of the DFI. The DFI was established with the
support of the UN to ensure that the benefits of the DFI would be in the best interests of the Iraqi people. The IMF played a major role in the reforms to move Iraq to a market economy. Its impact on the accounting system is through its pressure to change Iraq’s accounting system, because the IMF reports that the current UAS system will not provide sufficient information for stakeholders and foreign investors. Since 2008, the World Bank has been instrumental in Iraq’s reform plans, particularly through its projects to restructure Iraq’s banking system, including the Central Bank. Accompanying this reform is the World Bank’s Extractive Industries Transparency Initiative (EITI), the aim of which is to ensure transparency in Iraq’s oil and gas productions and revenues. Like the IMF, the World Bank has expressed the view that Iraq’s UAS does not provide sufficient accounting information, and so Iraq should adopt IFRSs.

Currently, in Iraq, besides the pressures for change from the IMF and World Bank, there are two factors that affect its accounting system. The first is internal, namely, the BSA, which is the structure that keeps the UAS working in Iraq. BSA as is an accounting authority that dominates the accounting system in both the public and private sectors in Iraq. It has many compelling reasons to keep the current system, as voiced by its high profile staff during the interviews conducted for this study. In the BSA’s view, the UAS system has worked for more than 30 years without any major issues or problems. The process of changing to IFRSs would be complicated and requires many factors to be taken into consideration. These factors were identified as a long transition period, changes to manual and electronic systems which in turn need IT infrastructure, changes in University curricula and in training accounting staff and a lack of understanding of the resulting financial
information. These factors makes it difficult and costly, if not impossible, to change from UAS to IFRSs. The question that remains is whether the benefits that Iraq would derive from such costly and complex changes would be greater than the costs involved in the change.

While the international institutions mentioned above are exerting coercive pressure on Iraq to discontinue the use of its UAS and adopt IFRSs, the BSA is doing all it can to resist the change. Coercion by these institutions has produced some concessions: The BSA agreed to prepare financial statements just for Central Bank, based on IFRSs in 2010 and following years (general manager BSA). R2, a senior manager in KPMG, echoes the above view but also goes not to state that this concession has not been followed after 2011: There is a memo issued from Central Bank to Iraqi local banks in 2011. This memo asked local banks to prepare their financial statements according to IFRSs, but until now, both Central Bank and local banks still use UAS.

Another set of major players in Iraq’s reforms are the international oil companies (IOCs) which play an important and active part in Iraq’s economy. The IOCs have benefited from the new law in 2007 (still only a draft since it has not been approved due to conflict between central government in Baghdad and Kurdistan) which allows IOCs to invest in Iraq. IOCs have been established in Iraq since 2009. Despite external pressures, this 2007 law clearly states that Iraqi UAS is to be followed by all institutions operating in Iraq. The law also gives the BSA the authority to audit the income derived from oil operations in Iraq by the IOCs. Audits are to be conducted in line with the UAS requirements. Though the law
requires IOCs to use Iraq’s UAS, the IOCs are exerting pressure and influence by following their own international accounting standards and ignoring Iraq’s UAS. This indicates the IOCs have the power to exploit Iraq’s resources while ignoring Iraq’s laws. According to several interviewees, *The IOCs are preparing two reports for local purpose in Iraq, the first one is the expenses report and the second one is bank account reconciliation. And their financial statements are not prepared according to the UAS.*

The situation is not as complicated as it could get if the IOCs started joint ventures in Iraq. From 2009 to 2013 the IOCs worked separately without any joint venture collaboration in Iraq. But since 2014, the IOCs have started to work with Iraqi oil companies in joint ventures. The important question is what accounting standards will be followed by the new joint venture companies.

While the literature is largely silent on the costs of adoption of international accounting standards, the literature is not so quiet on the role played by Big 4 accounting firms in spreading the adoption of these standards. For example, Caramanis (2002), Carmona and Trombetta (2008), Annisette (2004), Irvine (2008) and Gallhofer et al. (2011) agree that the Big 4 accounting firms have played a significant role in ensuring the spread of IFRSs, particularly in developing and emerging economies. In Iraq, the role of these firms is still not clear, as their work in Iraq is linked with projects funded by international institutions such as the World Bank and IMF. The World Bank and IMF have used these firms to ensure their entrance into Iraq’s business fields. However, the relationships between these imperialistic institutions and Big 4 accounting firms
have not been highlighted in the accounting literature. Further the impact of these firms on the local accounting and auditing profession has not been highlighted in the literature (Gallhofer et al., 2011). An interesting comment by a general manager in the BSA on the role of Big 4 accounting firms in Iraq that these firms are currently working with IOCs to help them prepare two reports for Iraqi Tax purposes. The first report includes expenses and the second report for bank accounts. This shows that the Big 4 are also not following the new law in Iraq that requires IOCs to use Iraq’s UAS.

The UAS has been used in Iraq since the 1980s to provide information to the central government. While accounting for oil and gas is subject to the UAS, there is no specific accounting system or standards for the oil and gas sector unlike other sectors such as banking and insurance. UAS’s classes of accounts and elements are similar to those in IFRS but are more in depth than in the IFRSs. For measurement and evaluation, UAS follows historical cost and does not allow using replacement cost or fair value. Iraq’s UAS is similar to that of the United States in that it is ‘rules based’ rather than the ‘principles based system’ of IFRSs. The rules align to the objectives of a central economy.

The importance of the petroleum industry to Iraq is the key issue to the accounting system for the extractive industries. The most problematic phases for extractive industries are the exploration and evaluation phases (preproduction costs).

The international standard (IFRS 6) adopts two methods for preproduction costs: successful efforts and/or full costs. Unlike the international vertically integrated
corporations of the petroleum industry, the Iraq industry has separate companies
operating in each of the extraction phases. For the exploration and evaluation
stages, the UAS uses the “costs-written-off method”. One of the key issues for this
method is the treatment of impairment and amortisation of costs. In other countries
these costs are carried forward and can be amortised against revenue earned during
the production phase. Because of the lack of vertical integration in the Iraqi
industry, UAS does not have this requirement under its costs-written-off method.
All operating expenses are treated as deferred revenue expenses and separates
expenses related to successful and unsuccessful explorations. The expenses
relating to successful explorations are capitalised and those relating to the
unsuccessful explorations are expensed.

There are several IFRSs that are used to account for the different phases of the oil
and industry. Some of these are IAS 16 Property Plant and Equipment, IAS 38
Intangible Assets, IAS 2 inventory, IAS 36 Impairment of Assets for development
and construction phases, IAS 18 Revenue, and IAS 37 Provisions, Contingent
Liabilities and Contingent Assets for restoration costs. This goes to show that the
IFRSs have several clearly designated standards for oil and gas industry while
Iraq’s UAS does not have designated standards for oil and gas industry but a set of
general accounting standards for all industries in Iraq.

While the literature is largely silent on the costs of adoption of international
accounting standards, the literature is not so quiet on the benefits of adoption of
these standards. In regard to the benefits of adopting IFRSs most researchers opine
that marketing globalization, the expansion of international trade and the access to
foreign capital set the need for a global set of accounting standards. In relation to
developing and emerging economies the benefits come from working with
institutions such as the World Bank and International Monetary Fund as well as
World Trade Organisation and Securities Exchange Commission. The benefits are
in the form of loans, grants, and the attraction of foreign investments, but often
with obligations attached to the loans and foreign investments.

On the other hand, there are no references to the benefits that these international
institutions derive from coercing countries to adopt global standards. Nor is there
much reference to accounting as a form of social communication. In order to
remain beneficial in technical and social terms, accounting must meet the
continuously changing needs of society and in so doing, reflect the cultural,
economic, legal, social, and political characteristics of the country. This aspect is
particularly important to the Middle East Countries including Iraq. Because of
their highly Islamic nature, these countries use accounting systems that are not
similar to the international system.

With change, there will always be obstacles; it is what one does with those
obstacles that make all the difference. The main challenge to adopting IFRSs is
culture. Culture, according to Doupnik and Tsakumis (2004), “is considered to be
a powerful environmental factor that affects the accounting system of a country, as
well as how individuals perceive and use accounting information.” Culture can
influence the way that accounting is interpreted (Gray, 1988). Culture also
determines government structures, the institutional environment, the legal system
as well as the control the government has over its people, while in other countries,
the government allows people to trade freely (Fatma & Jamel, 2013). For countries such as Latvia and Slovakia (Larson & Street, 2004), Bangladesh (Bhattacharjee & Islam, 2009) and Nigeria (Nyor, 2012) the introduction of international accounting standards encountered barriers in implementing those standards, barriers that the interviewees suggested would arise in Iraq if Iraq decided to adopt IFRSs.

7.2.1 Iraqi Opinions

First of all, interviewees agreed that UAS is not suitable to account for oil and gas in Iraq after 2003 for many reasons. The key reason is that the UAS system is old and was primarily designed to serve a central government so that the main purpose of measurements and disclosures focus on providing data and information to the central government. The BSA cannot force the international oil companies operating in Iraq to use Iraq’s UAS but Iraq needs these companies to develop its oil and gas industries and hence has to compromise on its accounting requirements.

Mirroring the literature, most interviewees (73%) focused on the opportunities for Iraq from adoption of IFRSs. These opportunities relate to the development of Iraq’s economy, its financial policy, its accounting system, and the skills and living conditions of the Iraqi people. One academic believes the benefits will accrue to each sector of the Iraqi economy and not just the oil and gas industry. He says that it is these benefits that are key to the World Bank, the IMF, IOCs, and Big 4 accounting firms indirectly coercing Iraq to adopt the IFRSs. Some interviewees saw the situation differently. Interviewees particularly from BSA do not see opportunities for Iraq if it adopts. Though there may be benefits, some
Interviewees highlighted issues, obstacles and challenges that Iraq will have to be prepared for. The main challenge will be the resistance to change from a system that has been in operation for over 30 years; the long transition period for the change to be fully implemented; the need to train staff to use the IFRSs; and the need to break out from an organised structure under the old “iron hand” legislation of Iraq’s government. In addition, they raised the issues of changing manual and electronic systems which in turn will need proper IT infrastructure, and changing University curriculum and training staff. The current situation in Iraq makes this change from UAS to IFRSs difficult, if not impossible.

7.3 Conclusion

The current situation in Iraq is an example of institutional isomorphism, specifically coercive isomorphism by the World Bank and IMF; mimetic isomorphism by the IOCs and normative isomorphism by the Big 4 accounting firms. The accounting system in Iraq is currently facing coercive pressure from these institutions, particularly the World Bank and IMF. Both use terms like ‘transparency’ and ‘disclosure’ to force change particularly in oil and gas sector to adopt the IFRSs. By adopting IFRSs these organisations will become part of “globalization” which will bring opportunities and benefits to their countries. The analysis of “globalization” in the case of Iraq means opening the doors to multinational companies particularly petroleum companies to exploit Iraq’s resources. This resulted from Iraq adopting a new law in 2007, allowing them to invest in Iraq’s oil and gas fields. The international institutions continue to use pressure to get more investment opportunities so that in 2011 and 2012 four joint ventures with the Iraqi government were established. With the changed law the
World Bank changed the Iraqi Central Bank system to allow HSBC and Trade Bank to get shareholdings in the Iraqi banking sector. Managers of Iraqi oil companies interviewed mentioned that the Iraqi oil companies could be mimetic with procedures of the international companies as they employ advanced technology and management structures using experienced staff.

The Big 4 accounting firms play a different role in Iraq; normative pressure to push the country to adopt IFRSs. They apply pressure by helping the international oil companies operating in Iraq to prepare reports according to UAS for tax purposes. Their work in Iraq depends on the World Bank and IMF which use these firms like a tool to achieve their objectives in Iraq. However, the BSA continues to maintain a strong position in Iraq and uses its powers to keep UAS. Its position is that Iraq does not need more chaos and problems which it believes will result from adoption of international accounting standards. International accounting standards did not necessarily reflect the “best” accounting methods as exemplified by IFRS 6 which gives great freedom in the choice of accounting treatments, which makes financial comparisons and evaluation in this industry more difficult and complex. The choice of accounting treatments in IFRS 6 is not the response to best method practice but to the political influence of the big petroleum companies. At least the UAS is unlikely to suffer the same consequences as suggested by the attitudes of the interviewees from the UAS.

This study highlights the need for more research into the impact of adopting IFRSs in developing and emerging countries, particularly those in the Middle East. Previous studies highlighted the “Islamic Culture” as the main obstacle for
adopting IFRSs. This study highlights other issues, which are relevant not only to Iraq but also other Middle Eastern countries and members of the Arab league such as Iran, Saudi Arabiya, Libya, Egypt, Syria, Kuwait, Algeria and Oman. There accounting focuses on central government and state owned resources, the main factors that shape their accounting systems. The factors that have shaped international accounting standards do not reflect the factors found in these countries. As the old saying goes, they are as different as chalk and cheese.

7.4 Contribution and Implications

The findings from this study provide for a better understanding of the opportunities and challenges of developing and emerging economies in adopting IFRSs from both theoretical and practical aspects. The findings from this study could help the BSA decide on whether it should adopt IFRSs or continue with UAS. This will entail an integrated study of the policy implications of adoption of IFRSs and a comparative study of the policies and procedures of the UAS with international accounting standards for the oil and gas industry. Adoption of international accounting standards may reveal that the accounting control structure in Iraq may need to change, that the BSA’s role will be one of translation and interpretation only. In addition, the findings from this study have important implications for the Iraqi Local Standards Committee because their role may not be needed. If retained, the study is of use to them if they decide to adopt IFRS 6 for extractive industries, by providing comparative study between accounting policies and procedures for oil and gas under UAS and according to IAS/IFRS 6 (see Appendix 12, p.217).
The study is applicable to other countries of the Arab League and Middle East. They have similar political and social environments, and will face similar decisions, whether to transition to IFRSs or to continue with their own accounting system. Of particular application is the role of international accounting firms in pushing countries which have not yet adopted IFRSs to do so.

The study also adds value to the institutional theory, particularly new institutional sociology and institutional isomorphism. It provides evidence to the studies of DiMaggio and Powell (1983), Mir and Rahaman (2005), Irvine (2008) and Nadia et al. (2011), about coercive isomorphism by imperialist institutions to push developing and emerging countries to adopt IFRSs by revealing the pressure of international oil companies which pushed the Iraqi legislator to change oil and gas law to allow to these companies to work in Iraq, and then to establish joint ventures with Iraqi oil and gas companies.

7.5 Limitations and the potential Areas for Future Studies

Little has been written about accounting in Iraq. This study only closes the gap a little with more needed to be explored. The data to close that gap a little was collected through interview and content analysis. Content analysis (Deegan & Gordon, 1996) is subject to human error and argument, including the exercising of judgment as to what constitutes information. While this may be limitation, the researcher had the support of authorities in Iraq to assist in the data collection in a formal manner.
Despite the support of Iraqi authorities, the researcher found difficulties when interviewing because of the current situation in Iraq and the locations of some interviewees. For example, most administrative offices of the international oil companies are not located in Iraq but for safety reasons in cities such as Dubai or Bahrain. For the same reason, IMF representatives for Iraq are located in Jordan working only for short periods of time in Baghdad in the US embassy, which is located in the government green zone and so was not accessible to the researcher.

The situation in Iraq made getting access to personnel in the BSA, the Ministry of Oil and other Iraqi companies extremely difficult. Some documentation was not released because it had not been approved by the relevant Iraqi authorities. In relation to Iraq, this study will be a starting point for further studies about this country, which has remained isolated from the world for more than three decades. Future studies on the impact of socio-political environment on the accounting system in a country such as Iraq, and the role of quality in the financial reporting for increasing direct investments from developing countries to emerging economies such as Iraq could be conducted.

As noted by an Iraqi professor of accounting in one of the Iraq’s leading universities, the potential benefits for the international institutions such as the World Bank, IMF, international oil and accounting firms if and when Iraq adopts IFRSs should be examined.
Postscript

This thesis was written before the events of June 2014. The turmoil in Iraq shows how is difficult for this country to go to a capital market. Islamist's militants are becoming a major challenge for foreign investments or any attempts to involve Iraq in globalization. On other hand, the domination of central government philosophy is still working in this country which does not allow to give freedom, at least at the foreseeable future, to private sectors or independent professional organizations to work with government agencies in relation to develop current administrative and financial systems. Board of Supreme Audit is an example of the government institution that could rebuild the accounting system. These factors make adoption of international accounting standards difficult to achieve in the near future in Iraq.
References


Caramanis, C. (2002). The interplay between professional groups, the state and supranational agents: Pax Americana in the age of ‘globalisation’. Accounting, Organizations and Society, 27, 379–408.


http://www.photius.com/rankings/energy/crude_oil_production_2013_0.html


Irma Union of Accountants and Auditors. (2010). Iraqi Union of Accountants and Auditors. iraq_mhasben_nk@yahoo.com


# List of Appendices

## Appendix 1: World Bank’s Projects in Iraq after 2003

<table>
<thead>
<tr>
<th></th>
<th>Project Title</th>
<th>Project ID</th>
<th>Commitment Amount (US $ million)</th>
<th>Status</th>
<th>Approval Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Iraq Emergency Textbook Provision Project</td>
<td>P088945</td>
<td>40.0</td>
<td>Closed</td>
<td>May 14, 2004</td>
</tr>
<tr>
<td>2</td>
<td>Emergency School Construction and Rehabilitation Project</td>
<td>P087907</td>
<td>60.0</td>
<td>Closed</td>
<td>October 8, 2004</td>
</tr>
<tr>
<td>3</td>
<td>Emergency Private Sector Development</td>
<td>P091344</td>
<td>55.0</td>
<td>Closed</td>
<td>November 30, 2004</td>
</tr>
<tr>
<td>4</td>
<td>Emergency Health Project</td>
<td>P091305</td>
<td>25.0</td>
<td>Closed</td>
<td>November 30, 2004</td>
</tr>
<tr>
<td>5</td>
<td>IQ-TF Emerge. Baghdad Water Supply</td>
<td>P087912</td>
<td>65.0</td>
<td>Closed</td>
<td>December 3, 2004</td>
</tr>
<tr>
<td>6</td>
<td>IQ-TF Emerge. Water, Sanitation &amp; Urban</td>
<td>P087910</td>
<td>90.0</td>
<td>Closed</td>
<td>December 3, 2004</td>
</tr>
<tr>
<td>7</td>
<td>Iraq Emergency Community Infrastructure Rehabilitation Project</td>
<td>P087881</td>
<td>20.0</td>
<td>Closed</td>
<td>December 10, 2004</td>
</tr>
<tr>
<td>8</td>
<td>Emergency Disabilities Project</td>
<td>P096774</td>
<td>17.2</td>
<td>Closed</td>
<td>November 23, 2005</td>
</tr>
<tr>
<td>9</td>
<td>Iraq Third Emergency Education Project</td>
<td>P096234</td>
<td>100.0</td>
<td>Active</td>
<td>November 29, 2005</td>
</tr>
<tr>
<td>10</td>
<td>IQ - Emergency Road Rehabilitation</td>
<td>P087735</td>
<td>135.0</td>
<td>Active</td>
<td>June 29, 2005</td>
</tr>
<tr>
<td>11</td>
<td>Iraq: Household Survey and Policies for Poverty Reduction</td>
<td>P098979</td>
<td>6.6</td>
<td>Closed</td>
<td>July 24, 2006</td>
</tr>
<tr>
<td>12</td>
<td>Emergency Social Protection Project</td>
<td>P099295</td>
<td>8.0</td>
<td>Closed</td>
<td>July 25, 2006</td>
</tr>
<tr>
<td>13</td>
<td>ESCRP - Additional Financing</td>
<td>P100726</td>
<td>6.0</td>
<td>Closed</td>
<td>October 31, 2006</td>
</tr>
<tr>
<td>14</td>
<td>Dokan and Derbandikhan Emergency Hydro Power Project</td>
<td>P099059</td>
<td>40.0</td>
<td>Active</td>
<td>December 12, 2006</td>
</tr>
<tr>
<td>15</td>
<td>Iraq-Emergency Environment Management Project</td>
<td>P099809</td>
<td>5.0</td>
<td>Closed</td>
<td>December 18, 2006</td>
</tr>
<tr>
<td>16</td>
<td>IQ - Emergency Electricity</td>
<td>P087734</td>
<td>124.0</td>
<td>Active</td>
<td>March 29, 2007</td>
</tr>
<tr>
<td>17</td>
<td>PCF Grant for</td>
<td>P107438</td>
<td>0.0</td>
<td>Closed</td>
<td>June 1, 2007</td>
</tr>
<tr>
<td>Project Description</td>
<td>Project Code</td>
<td>Amount</td>
<td>Status</td>
<td>Completion Date</td>
<td></td>
</tr>
<tr>
<td>-------------------------------------------------------------------------------------</td>
<td>--------------</td>
<td>--------</td>
<td>-----------</td>
<td>-------------------</td>
<td></td>
</tr>
<tr>
<td>Emergency Assistance Programme for Primary Healthcare in the Southern Iraqi Marshlands</td>
<td>P110600</td>
<td>0.0</td>
<td>Closed</td>
<td>January 8, 2008</td>
<td></td>
</tr>
<tr>
<td>IQ-Consultative Service Delivery Initiative</td>
<td>P109296</td>
<td>26.0</td>
<td>Closed</td>
<td>April 10, 2008</td>
<td></td>
</tr>
<tr>
<td>IQ-Emergency Community Infrastructure Rehab Additional Financing</td>
<td>P094650</td>
<td>109.5</td>
<td>Active</td>
<td>June 10, 2008</td>
<td></td>
</tr>
<tr>
<td>Strengthening Emergency Health Response in Northern Iraq</td>
<td>P107698</td>
<td>8.2</td>
<td>Closed</td>
<td>June 18, 2008</td>
<td></td>
</tr>
<tr>
<td>Emergency Private Sector Development Additional Financing</td>
<td>P112064</td>
<td>10.0</td>
<td>Closed</td>
<td>October 22, 2008</td>
<td></td>
</tr>
<tr>
<td>Iraq: Banking Sector Reform</td>
<td>P113337</td>
<td>10.0</td>
<td>Closed</td>
<td>April 14, 2009</td>
<td></td>
</tr>
<tr>
<td>IRAQ: Public Financial Management Reform</td>
<td>P110862</td>
<td>18.0</td>
<td>Closed</td>
<td>June 26, 2009</td>
<td></td>
</tr>
<tr>
<td>IQ-Iraq Consultative Service Delivery Program</td>
<td>P119740</td>
<td>4.99</td>
<td>Closed</td>
<td>October 8, 2009</td>
<td></td>
</tr>
<tr>
<td>Institutional Strengthening and Capacity Building for the Education Sector</td>
<td>P114523</td>
<td>2.7</td>
<td>Active</td>
<td>December 14, 2009</td>
<td></td>
</tr>
<tr>
<td>Iraq Fiscal Sustainability Development Policy Loan</td>
<td>P119214</td>
<td>250.0</td>
<td>Closed</td>
<td>February 25, 2010</td>
<td></td>
</tr>
<tr>
<td>Iraq Household Survey and Policies for Poverty Reduction Project</td>
<td>P121739</td>
<td>1.0</td>
<td>Closed</td>
<td>June 28, 2010</td>
<td></td>
</tr>
<tr>
<td>Regional Health Emergency Response Project - Additional Financing</td>
<td>P121577</td>
<td>4.5</td>
<td>Closed</td>
<td>June 30, 2010</td>
<td></td>
</tr>
<tr>
<td>Iraq: Extractive Industries Transparency</td>
<td>P117511</td>
<td>84</td>
<td>Active</td>
<td>July 16, 2010</td>
<td></td>
</tr>
<tr>
<td>Initiative Implementation</td>
<td>P121980</td>
<td>1.9</td>
<td>Closed</td>
<td>November 30, 2010</td>
<td></td>
</tr>
<tr>
<td>------------------------------------------------------------------------------------------</td>
<td>---------</td>
<td>-----</td>
<td>----------</td>
<td>--------------------</td>
<td></td>
</tr>
<tr>
<td>32 Integrated National Energy Strategy TA Additional Financing</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>33 IQ-Youth Livelihoods Development in Southern Iraq</td>
<td>P125102</td>
<td>2.73</td>
<td>Active</td>
<td>December 27, 2010</td>
<td></td>
</tr>
<tr>
<td>34 Iraq Public Distribution System</td>
<td>P122031</td>
<td>2.6</td>
<td>Active</td>
<td>February 18, 2011</td>
<td></td>
</tr>
<tr>
<td>35 Second Emergency Assistance Program for Primary Health Care</td>
<td>P123689</td>
<td>1.2</td>
<td>Closed</td>
<td>April 14, 2011</td>
<td></td>
</tr>
<tr>
<td>36 IQ-Iraq Consultative Service Delivery II</td>
<td>P129645</td>
<td>5.0</td>
<td>Active</td>
<td>August 9, 2011</td>
<td></td>
</tr>
</tbody>
</table>

Source: (World Bank, 2011, 2012)
Appendix 2: Consent Forum and Information statement

Consent Forum

Dr. Patricia Stanton
Newcastle Business School
Faculty of Business and Law
The University of Newcastle
University Drive, Callaghan,
NSW, 2308, Australia
Tel: +61 249215043
Email: Patricia.Stanton@newcastle.edu.au

Consent Form for the Research Project:

“The Challenges and Opportunities of Iraq transitioning to International Accounting Standards with particular emphasis on accounting for oil.”

Dr. Patricia Stanton, Dr. Marcus Rodrigs & Mohammed A. Ibrahim

Document Version 1; dated 10th December 2012

I agree to participate in the above research project and give my consent freely.

I understand that the project will be conducted as described in the Information Statement, a copy of which I have retained.

I understand I can withdraw from the project at any time and do not have to give any reason for withdrawing.

I consent to participate in an interview and to having it recorded.

I understand that my personal information will remain confidential to the researchers.

I will have the opportunity to have questions answered to my satisfaction.

Print Name: ____________________________________________________

Phone Number: ___________________________ Email Address: _____________

Signature: ______________________________ Date _____________________
Information Statement

The University of Newcastle

Dr. Patricia Stanton
Newcastle Business School
Faculty of Business and Law
The University of Newcastle
University Drive, Callaghan,
NSW, 2308, Australia
Tel: +61 249215043
Email: Patricia.Stanton@newcastle.edu.au

Information Statement for the Research Project:

“The Challenges and Opportunities of Iraq transitioning to International Accounting Standards with particular emphasis on accounting for oil.”

Dr. Patricia Stanton, Dr. Marcus Rodrigs & Mohammed A. Ibrahim

Document Version 1; dated 10th December 2012

You are invited to participate in the research project identified above which is being conducted by Mr. Mohammed Abud-Allah Ibrahim, a PhD Candidate from the Newcastle Business School, Faculty of Business and Law at the University of Newcastle, Australia. The research is part of Ibrahim’s PhD studies at the University of Newcastle, supervised by Dr. Patricia Stanton and Dr. Marcus Rodrigs from the Newcastle Business School, Faculty of Business and Law at the University of Newcastle, Australia.

Why is the research being done?
This research is designed to critically review the challenges and opportunities for Iraq to transition from its national Unified Accounting System (UAS) to International Accounting Standards (IFRSs) with particular application to the oil and gas industry in Iraq.

Who can participate in the research?
Key decision makers within the Iraqi accounting system are invited to be interviewed. They include:
Management in the BSA, and Members of the Iraqi Local Accounting Standards Committee.
Professional accountants and auditors, and Accounting faculty in Iraqi educational institutions.
Management including CFO, CAO of Iraqi oil companies, and Management of oil and gas MNCS.
Representatives of the World Bank and IMF in Iraq.
Management of Big 4 accounting firms in Iraq.
What choice do you have?
Participation in this research is entirely your choice. Only those who give their informed consent will be included in the project. Whether or not you decide to participate, your decision will not affect your employment. If you do decide to participate, you may withdraw from the project at any time without giving a reason and have the option of withdrawing any data which identifies you.

What would be asked to do?
If you agree to participate, please complete the consent form by printing your name, phone number, email address and signature on this form. The researcher (through the University of Baghdad) will contact to you to arrange a convenient time for the interview.

How much time will it take?
The interview will take about one hour to 1.5 hours.

What the interview will be about?
The interview is designed to explore the question of “Whether Iraq should transition from the Unified Accounting System (UAS) to International Accounting Standards (IFRSs) for oil and gas extractive industries?”

What are the risks and benefits of participating?
While the interviewee will be known to the student researcher, it will be impossible to identify the interviewee from your answers as the transcripts of the interviews will not identify you. Participation in this research is entirely your choice. Only those who give informed consent will be included in the thesis. Whether you decide to participate, your decision will not disadvantage you in any way.

This research will have direct benefit to Iraq’s Board of Supreme Audit (BSA), and Iraqi Ministry of Higher Education through the University of Baghdad (the sponsor of this research). The study will have policy implications to the BSA by assisting it to decide whether to adopt IFRS accounting standards to account for oil. It will provide evidence of the challenges and opportunities of changing the accounting system and to evaluate whether in making the change Iraq would meet the requirements of all its stakeholders. The study may also be useful for MNCs that are doing business or participating in Iraq’s reconstruction.

How will your privacy protected?
The interview is confidential so your identity will not be revealed. The interview will be recorded with participant’s approval, and the participant will get an opportunity to read the interview transcript and provide necessary comments. Additionally, the consent form will be stored separately from the notes or any documents for the interview so that the data could not be re-identified. The raw data from this study will only be accessed by the student researcher and the supervisors. Paper copies will be destroyed after the thesis is accepted. The electronic record will be identified with master record of interview will be locked in the supervisor’s cabinet. The content analysis data (special reports, formal document) will also be password protected and the data will be destroyed as per university protocol after a period of 5 years.
**How will the information collected be used?**
The results of the research will be reported in a thesis to be submitted as the requirement for a PhD in Accounting at the University of Newcastle. A summary of the results will be presented to the participants and other parties interested in thesis.

**What do you need to do to participate?**
Please read this Information Statement and be sure you understand its contents before you consent to participate. If there is anything you do not understand, or if you have questions, please contact the researcher.

If you would like to participate, please complete the consent form and return it to the researcher and will contact to arrange a convenient time for the interview.

**Further information:**
If you would like further information please contact

Mr. Mohammed A. Ibrahim  
Telephone in Iraq: +964 7901502911  
Telephone in Australia: +61  
Email e3104667@uon.edu.au  
Or  
Dr. Patricia Stanton  
Telephone: +61 2 4921 5043  
Email: Patricia.Stanton@newcastle.edu.au  
Or  
Dr. Marcus Rodrigs  
Telephone: +61 2 4921 5993  
Email: Marcus.Rodrigs@newcastle.edu.au

Thank you for considering this invitation.

Yours sincerely

Mohammed Abud-Allah Ibrahim

Dr. Patricia Stanton                        Dr. Marcus Rodrigs  
Principal Supervisor                      Co-Supervisor

**Complaints about this research:**
This project has been approved by the University Human research Ethics Committee, Approval No. H- …………………

Should you have concerns about your rights as a participant in this research or you have a complaint about the manner in which the research is conducted, please direct them to the researcher or supervisor of the project (Dr. Patricia Stanton, tel(61)-2- 49215043, fax(61) 02 49216911 and Dr. Marcus Rodrigs, tel (61) -2- 49215993) or to the Human Research Ethics Officer, Research Office, the Chancellery, The University of Newcastle, University Drive, Callaghan, NSW2308, Australia, tel:(61)-2-49216333, email: Human.Ethics@newcastle.edu.au
Appendix 3: Organization Letter

To: Associate Prof Dr. Abd- Al Jabbar Mohammed Al-Obeidi/ Dean of College of Administration & Economics/ University of Baghdad

RE: RESEARCH PROJECT: Accounting for Oil & Gas in Iraq: An investigation into the potential benefits and challenges of transitioning from Unified Accounting System to International Accounting Standards.”

Dear Sir,

I am writing in regard to my research proposal to undertake research which the University of Baghdad has kindly sponsored. Should the project proceed, it is anticipated that the research will occur between December, 2012 to March, 2013 and will involve interviewing representatives of Board of Supreme Audit, Academicians in Iraqi Universities, executives of the following organizations World Bank, International Monetary Fund (IMF), Iraqi National Oil Company (INOC), Multinational Oil Companies (MNCs), Big 4 Accounting Firms as well as a sample drawn from Professional accountants & Auditors in Iraq.

The proposed research is currently under review by the University of Newcastle, Human Research Ethics Committee and if their approval is granted the project will commence through the University of Baghdad, Iraq.

To assist in the planning of the research, I request in principle confirmation of the University of Baghdad’s involvement. I seek the University’s notification in regard to approval for the project to be conducted and to be responsible for all health or safety risks during data collection in Iraq by me. Could I ask you to please respond in writing on organizational letterhead with the endorsement of a member of the organization with the authority to approve this request.

Please do not hesitate to contact me should you require any further information.

Yours Sincerely,

Dr. Patricia Stanton and Dr. Marcus Rodrigs
Principle Supervisor Co. Supervisor

University Drive, Callaghan, NSW, 2368, Australia
Contact phone: (02) 4921 5043 (Stanton) 4921 5993 (Rodrigs)
Email: Patricia.Stanton@newcastle.edu.au and Marcus.Rodrigs@newcastle.edu.au
Newcastle Business School/ Faculty of Business & Law
The University of Newcastle

CC: Head of School or Pro Vice- Chancellor

177
Respected Dr. Patricia Stanton,

Referring to your e-mail dated in 24/9/2012, we would like to inform you that we are happy and ready for the scientific collaboration with the University of Newcastle and the research student namely (Mohammad A. Ibrahim) in particular in order to complete his research project. We could offer all the data and information which we have and the academic assistance to the student as well as. We make full our willingness to collaboration. However, regarding to potential health and safety risks, these issues are not within our authorities.

Best Regards,

Assist. Prof.
Dr. Abdul-Jabbar Mahmoud Fatah
The Dean
Appendix 5: Interview questions

Interview questions in English

Do you think the current Unified Accounting System is robust enough to account for oil in Iraq? Why? /Why not?
Are you familiar with IFRSs, especially those relating to oil?

In view of the expectations of the international institutions (World Bank and IMF) currently in Iraq do you think Iraq should?
Change to the IFRSs for all industries? Why?
Change to the IFRSs for only its extractive industry? Why?
Change to the IFRSs only for International oil Companies (IOCs) operating in Iraq? Why?

If Iraq should change to the IFRSs, who do you think should be responsible for training accounting personnel in the use of IFRSs?

If Iraq does not change to IFRSs but continues to use its UAS, do you think it is possible to enforce the UAS on the International Oil Companies (IOCs) operating in Iraq? What do you think will be the impact on potential investors in Iraq?

If Iraq changes to the IFRSs what do you think will be the benefits to
Iraq’s Board of Supreme Audit (BSA)
Iraq’s Economy
Iraq’s Oil & Gas Industries
Iraqi people
The World Bank
The IMF
IOCs
The Big 4 firms
What do you think will be the challenges this change will involve?

What do you think will be the opportunities this change will bring?

What do you think will be the challenges to (specifically)
(a) Iraq’s Board of Supreme Audit (BSA)
(b) Iraq’s Economy
(c) Iraq’s Oil & Gas Industries
(d) Iraqi people
(e) The World Bank
(f) The IMF
(g) The IOCs
(h) The Big 4 firms

Is there anything else you would like to add?
Interview questions in Arabic

سيطلب من كل المشاركين الإجابة على هذه الأسئلة:

1. هل تعتقد أن النظام المحاسبوي الموحد الحالي قوي بما فيه الكفاية للمحاسبة عن النفط في العراق؟ لماذا؟ ولماذا لا؟

2. هل أنت على دراية بالمعايير المحاسبية الدولية وخصوصاً تلك المتعلقة بمحاسبة النفط؟

3. بالنظر إلى توقعات المؤسسات الدولية (البنك الدولي وصندوق النقد الدولي) الموجودة حالياً "بالعراق هل تعتقد أنه ينبغي على العراق:

أ - تغيير النظام المحاسبوي الموحد بكل الصناعات؟ لماذا؟

ب - تغيير النظام المحاسبوي الموحد للصناعات الاستخراجية فقط؟ لماذا؟

ج - تغيير النظام المحاسبوي الموحد للشركات متعددة الجنسيات فقط؟ لماذا؟

4. إذا تحوّل العراق إلى المعايير المحاسبية الدولية من تعتقد سيكون المسؤول عن تدريب العاملين في القطاع المالي والرقابي على استخدام هذه المعايير؟

5. إذا استمر العراق على نظامه المحاسبوي الموحد ولم يتغير إلى المعايير المحاسبية الدولية هل تعتقد أنه بالإمكان فرض نظام المحاسبوي الموحد على الشركات متعددة الجنسيات العاملة في العراق وماهو برأيك تأثير ذلك على المستثمرين المحتملين في العراق؟

6. ما هي برأيك الفرص التي ستجلبها عملية التغيير؟

7. إذا غير العراق نظامه المحاسبوي الموحد إلى المعايير المحاسبية الدولية ماهي برأيك المناقع التي سيتحصل عليها كل من:

أ - ديوان الرقابة المالية العراقي.

ب - الاقتصاد العراقي.

ج - صناعة النفط والغاز العراقية.

د - الشعوب العراقي.

ه - البنك الدولي.

و - صندوق النقد الدولي.

ز - الشركات متعددة الجنسيات.

ح - الشركات المحاسبية العالمية الأربع الكبرى.

8. ما هو برأيك التحديات التي سيتضمنها هذا التغيير؟
9. إذا غير العراق نظامه المحاسبي الموحد إلى المعايير المحاسبية الدولية ما هي تأثير التحديات التي سيواجهها كل من:

أ – ديوان الرقابة المالية العراقي.
ب – الاقتصاد العراقي.
ج – صناعة النفط والغاز العراقية.
د – الشعب العراقي.
ه – البنك الدولي.
و – صندوق النقد الدولي.
ز – الشركات متعددة الجنسيات.
ح – الشركات المحاسبية العالمية الأربعة الكبرى.

10. هل لديك أي شيء آخر تود إضافته؟
Appendix 6: Formal Letters in Iraq

1- Formal letter of Ministry of Higher Education Iraq/ Baghdad

هيئة العراق
وزارة التعليم العالي والبحث العلمي
دارة المعايير والمراميات الدائمة

ال_pieces: 2013/14

ديران الرقابة المالية، دائرة التدريب والبحث والاستشارات
دارة التدقيق المالي
وزارة النفط، شركات التنظيم النفطية
 شركة النفط العالمية
دائرة البحوث والاستشارات

تحية طيبة...

خالد عبد الله إبراهيم

رائي شهادة هيئة مهام طالب الدراسة في إستانزيا السيد (محمد عبد الله إبراهيم) للحصول على مصادر ومعلومات بعض بحث (التحديات والفقرات التي تواجه العراق للانتقال من النظام المحاسبي الموجود إلى المعايير الدولية بالتركيز على معايير النفط) لذا، فإن النموذج يروم الحصول على شهادة الدكتوراه في اختصاص المحاسبة المالية.

مع التقدير

مدير المقر العام لدارة العلاقات والحياة الثقافية
2013/3

Website: www.SerdiIraq.com
E-mail: generaldirectort@mohser.gov.iq
- ٣٨٨١٣٠٤٢٢-٣٨٨١٣٠٤٢٣

موقع دائرة العلاقات والحياة الثقافية

المقر العامة
- ٣٨٨١٣٠٤٢٣

183
2- Formal letter of the University of Baghdad

Ministry Of Higher Education & Scientific Research
University Of Baghdad
College Of Administration And Economics

للتحقيق مهماً
نحية طيبة...

لاشك أنك ك MaterialApp للتعليم العالي في جامعات العراق ودائرتي كافة.

توجت التفضيل تمهيداً للتدريس المساند وسماع (محمد عبد الله إبراهيم) الذي يمثل في قسم المحاسبة في كليتنا ويطلب

البلما في استراحة حالياً وثبات بزيارته في المعلمات للإشراف بخبرة الموسيقية والتدريب والقراءة. لاتقل النظام

المحاسبي الموحد في العراق إلى المعايير الدولية مع التأكيد على محاسبة النظم.

شكرًا على تعاونكم محنا خدمة للenerimaة العلمية ... مع التقدير

علي عبد الجبار محمود فتاح
إعداد:
 scientة الأدارة والإدارة

رقم 921

العراق/ بغداد-وزارة الإذاعة

الفرع الإذاعي:

info@coadec.uobaghdad.edu.iq

بالإذاعة السعودية 898

الixe 41189016

بناء:BAGHDAD-

al-wazirya post box 1477

deean@uobaghdad.com

العراق-2014

admin@coadec.uobaghdad.edu.iq

184
3- Formal letter of Ministry of Oil

وزارة النفط
الدائرة الإدارية
قسم المحاسبة

السادة، وكيل الوزارة المختصر

مكتبية

يرجى تفويض سيادتي بالموافقة على تسهيل مهمة المدرس المساعد طالب الدكتور...

المقرر...

السادة، وكيل الوزارة المختصر

تمكّن

المرفقات:
- تسهيل مهمة صادر من وزارة التعليم العالي
- تسهيل مهمة صادر من ديوان الرقابة المالية

بسم الله الرحمن الرحيم

الد. محمد عاشور
首席

نامة منه إلى

قسم المحاسبة
4- Formal letter from Iraqi Board of Supreme Audit/ technical and Training office

بسم الله الرحمن الرحيم

حُرَّمَت الطَّوْن الأَلْبَانِيَةَ وَالْفَرُّوسَةَ
قسم القرواء
الرقم: 48/787/02
التاريخ: 2013/4/8

إلى/ السيد مدير عام دائرة تنفيذ شئون الصناعي
/تسهيل مهمة طالب البكالوريا محمد عبد الله إبراهيم

بعد التحية:

باشرة إلى هامش السيد رئيس الديوان الداخلي في 2013/4/8 على كتاب وزارة التعليم العالي والبحث العلمي الرقم (1446/787) في 3/3/2013 بشأن تسهيل مهمة طالب البكالوريا في كندا محمد عبد الله إبراهيم للحصول على مصادر ومعلومات تخص أنه ((الإيجابيات والفرص التي تواجه العراق للانتقال من النظام المحلي المحدود إلى النظام الدولي المركزي على هواة النطفة)) ومتضمن ووافق وقامت له المساعدة المدنية ببرامج اتخاذ التأمل بشأنه مع القادرين.

آدم كريم سعيد
م/ مدير قسم القرواء
2013/4/1

النسبة لما إلى,
-الاستاد تفتاح/معين عام دائرة تنفيذ شئون الشركات للفروسية/مع القرواء
-الاستاذ محمد سعيد/معين دائرة تنفيذ الزراعة والعموم للفروسية/مع القرواء.
5- Recommendation and Signature of the Head of The Board of Supreme Audit to Board’s offices to help researcher

Website: www.Serdiraq.com
E-mail: generaldirector@mohesr.gov.iq
## Appendix 7: Detail of Interviews

<table>
<thead>
<tr>
<th>Position of Respondents</th>
<th>Abbreviation</th>
<th>Language of Interview</th>
<th>Nature of Interview</th>
<th>Institutional</th>
<th>Duration (minutes)</th>
<th>Date of Interview</th>
</tr>
</thead>
<tbody>
<tr>
<td>Partner</td>
<td>R1</td>
<td>English</td>
<td>Recorded</td>
<td>EY</td>
<td>35</td>
<td>13-4-2013</td>
</tr>
<tr>
<td>Senior Manager</td>
<td>R2</td>
<td>English</td>
<td>Recorded</td>
<td>KPMG</td>
<td>30</td>
<td>11-5-2013</td>
</tr>
<tr>
<td>Senior Manager</td>
<td>R3</td>
<td>English</td>
<td>Recorded</td>
<td>PwC</td>
<td>30</td>
<td>12-4-2013</td>
</tr>
<tr>
<td>Associate Prof</td>
<td>R4</td>
<td>English</td>
<td>Recorded</td>
<td>Post Graduate of Accounting &amp; Finance</td>
<td>50</td>
<td>11-6-2013</td>
</tr>
<tr>
<td>Prof/Dean of Business College</td>
<td>R5</td>
<td>Arabic</td>
<td>Hand written and taken notes</td>
<td>University of Babylon</td>
<td>50</td>
<td>02-3-2013</td>
</tr>
<tr>
<td>Consultant</td>
<td>R6</td>
<td>Arabic</td>
<td>Hand written and taken notes</td>
<td>BSA</td>
<td>90</td>
<td>06-5-2013</td>
</tr>
<tr>
<td>Manager</td>
<td>R7</td>
<td>Arabic</td>
<td>Hand written and taken notes</td>
<td>BSA</td>
<td>40</td>
<td>2-5-2013</td>
</tr>
<tr>
<td>Associate Prof</td>
<td>R8</td>
<td>Arabic</td>
<td>Recorded</td>
<td>Dean of Iraqi CPA &amp; Member in Iraqi Local Standards Committee</td>
<td>30</td>
<td>10-4-2013</td>
</tr>
<tr>
<td>Head of Cost department</td>
<td>R9</td>
<td>Arabic</td>
<td>Taken notes</td>
<td>Oil Exploration Company</td>
<td>50</td>
<td>27-4-2013</td>
</tr>
<tr>
<td>Financial Manager</td>
<td>R10</td>
<td>Arabic</td>
<td>Recorded</td>
<td>Ministry of Oil</td>
<td>55</td>
<td>01-4-2013</td>
</tr>
<tr>
<td>Consultant</td>
<td>R11</td>
<td>Arabic</td>
<td>Taken notes</td>
<td>BSA</td>
<td>50</td>
<td>26-3-2013</td>
</tr>
<tr>
<td>CAO</td>
<td>R12</td>
<td>Arabic</td>
<td>Taken notes</td>
<td>North Oil Company</td>
<td>60</td>
<td>07-6-2013</td>
</tr>
<tr>
<td>Senior Manager</td>
<td>R13</td>
<td>Arabic</td>
<td>Recorded</td>
<td>EY</td>
<td>40</td>
<td>23-3-2013</td>
</tr>
<tr>
<td>Associate Prof</td>
<td>R14</td>
<td>Arabic</td>
<td>Recorded</td>
<td>Dean of Post Graduate of Accounting &amp; Finance</td>
<td>55</td>
<td>25-6-2013</td>
</tr>
<tr>
<td>General Manager</td>
<td>R15</td>
<td>Arabic</td>
<td>Taken notes</td>
<td>Central Bank of Iraq</td>
<td>35</td>
<td>13-7-2013</td>
</tr>
<tr>
<td>Head of Auditing Department</td>
<td>R16</td>
<td>Arabic</td>
<td>Taken notes</td>
<td>Ministry of Oil</td>
<td>45</td>
<td>09-6-2013</td>
</tr>
<tr>
<td>Independent Professional</td>
<td>R17</td>
<td>Arabic</td>
<td>Taken Notes</td>
<td>Private Auditing Company</td>
<td>30</td>
<td>15-5-2013</td>
</tr>
<tr>
<td>Manager</td>
<td>R18</td>
<td>Arabic</td>
<td>Recorded</td>
<td>BSA</td>
<td>45</td>
<td>29-4-2013</td>
</tr>
<tr>
<td>Manager</td>
<td>R19</td>
<td>Arabic</td>
<td>Hand written and taken notes</td>
<td>BSA</td>
<td>50</td>
<td>21-7-2013</td>
</tr>
<tr>
<td>General Inspector</td>
<td>R20</td>
<td>Arabic</td>
<td>Recorded</td>
<td>Ministry of Culture</td>
<td>35</td>
<td>16-4-2013</td>
</tr>
<tr>
<td>General Manager</td>
<td>R21</td>
<td>Arabic</td>
<td>Recorded</td>
<td>BSA/ Member of Iraqi Local Standards committee</td>
<td>50</td>
<td>31-3-2013</td>
</tr>
<tr>
<td>Prof</td>
<td>R22</td>
<td>Arabic</td>
<td>Recorded</td>
<td>University of Baghdad</td>
<td>40</td>
<td>20-3-2013</td>
</tr>
<tr>
<td>Associate Prof</td>
<td>R23</td>
<td>Arabic</td>
<td>Recorded</td>
<td>University of Baghdad</td>
<td>60</td>
<td>02-7-2013</td>
</tr>
<tr>
<td></td>
<td>Position</td>
<td>Ref</td>
<td>Language</td>
<td>Recorded</td>
<td>Details</td>
<td>Age</td>
</tr>
<tr>
<td>---</td>
<td>---------------------</td>
<td>-----</td>
<td>----------</td>
<td>-----------</td>
<td>-------------------------------------------------------------------------</td>
<td>-----</td>
</tr>
<tr>
<td>24-</td>
<td>Associate prof</td>
<td>R24</td>
<td>Arabic</td>
<td>Recorded</td>
<td>Member in Iraqi Local Standards Committee and Academic</td>
<td>35</td>
</tr>
<tr>
<td>25-</td>
<td>Associate prof</td>
<td>R25</td>
<td>Arabic</td>
<td>Recorded</td>
<td>Al-mustansiriya</td>
<td>30</td>
</tr>
<tr>
<td>26-</td>
<td>Associate Prof</td>
<td>R26</td>
<td>Arabic</td>
<td>Recorded</td>
<td>Post Graduate of Accounting &amp; Finance</td>
<td>30</td>
</tr>
<tr>
<td>27-</td>
<td>Independent Professional</td>
<td>R27</td>
<td>Arabic</td>
<td>Recorded</td>
<td>Private Auditing Company</td>
<td>50</td>
</tr>
<tr>
<td>28-</td>
<td>CFO</td>
<td>R28</td>
<td>English</td>
<td>Recorded</td>
<td>IOCs</td>
<td>40</td>
</tr>
<tr>
<td>29-</td>
<td>CFO</td>
<td>R29</td>
<td>English</td>
<td>Recorded</td>
<td>ICOs</td>
<td>30</td>
</tr>
<tr>
<td>30-</td>
<td>Manager</td>
<td>R30</td>
<td>English</td>
<td>Recorded</td>
<td>World Bank</td>
<td>35</td>
</tr>
</tbody>
</table>
Appendix 8: Translator's Certificate

Dr. Abdulrazak is the editor who helped to verify the translations from English language to Arabic language. His profile as following:

Dr. Abdulrazak Mohammad is an Australian with an Iraqi background. He is the Senior Consultant Physician at Hunter Newcastle and Area Health. He is also a fellow of the following colleges:

Royal Australian College of Physician's Science, American College of Physicians, Royal College of Physicians and Surgeons of Glasgow, UK.

He studied medicine in English and has been using English as the language of teaching education and practice. He has practiced medicine in UK, NZ and Australia.

Dr. Abdulrazak Mohammad

4/1/2013
Appendix 9: General Structure of Account’s Guide of The Unified Accounting System

<table>
<thead>
<tr>
<th>Accounts of Financial Position</th>
<th>Accounts of Income(Result)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assets</td>
<td>(2) Equity and Liabilities</td>
</tr>
<tr>
<td>11 Fixed Assets</td>
<td>21 Capital</td>
</tr>
<tr>
<td>12 Projects under Construction</td>
<td>22 Reserves</td>
</tr>
<tr>
<td>13 Inventory</td>
<td>23 Provisions</td>
</tr>
<tr>
<td>14 Granted Loans</td>
<td>24 Loans Received</td>
</tr>
<tr>
<td>15 Financial Investments</td>
<td>25 Creditors Banks</td>
</tr>
<tr>
<td>16 Debtors</td>
<td>26 Creditors</td>
</tr>
<tr>
<td>18 Cash</td>
<td>28 Account of ongoing Processes</td>
</tr>
<tr>
<td>19 Opposite Accounts Receivable</td>
<td>29 Opposite Accounting Payable</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Further than, accounts of financial position and the accounts of result there is another group of accounts includes cost centres.

<table>
<thead>
<tr>
<th>Guide number</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>8</th>
<th>9</th>
</tr>
</thead>
<tbody>
<tr>
<td>Account name</td>
<td>Production centres</td>
<td>Services production centres</td>
<td>Services marketing centres</td>
<td>Services facilities centres</td>
<td>Capital operations centres</td>
</tr>
</tbody>
</table>
Appendix 10: Summary of the Interview Themes according to NVivo Software Program

8/04/2014 10:22 PM

Reports\Coding Summary By Node Report

Page 1 of 11

8/04/2014 10:22 PM

<table>
<thead>
<tr>
<th>Aggregate Classification</th>
<th>Coverage</th>
<th>Number of Coding</th>
<th>Reference Number</th>
<th>Cod ed</th>
<th>Modified On</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nodes\benefits and opportunities of adopting IAS</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Document**

**Internals\Themes**

| No | 0.1427 | 2 | 1 | MO 8/04/2014 2:35 PM |

Benefits of adopting IAS.

1-Benefits for Board Supreme Audit

To understand ICOs financial statements( R1,2,3,4,5,8)

For all users of accounting in Iraq(R3,8)

R6 and R7 no benefits

A uniform new system for new standards of accounting professional( R4,5,8)

It will be developed their staff skills by learning IAS (R14).

It will be moved from local applications into global applications,
and the communications with foreign organizations will lead to raising the skills of their staff (R25).

R28 and 29: For globalising Iraq; Better foreign investments will flow into Iraq; work force in Iraq will benefit and become mobile with knowledge of IAS and international accounting practices.

2- Iraqi economy.

Will be instrumental in attracting foreign investments (R1, 2, 3, 4, 5, 8), but Iraq needs finance, high level staff and increase training cost.
Will reach to true add value (R11).

The world is developing fast but we still too slow (R14).

After, ICOs are starting work in Iraq the economic growth has been rising to 9% in 2012 (R15).

It will support the economy by providing a good accounting information system,

and we can use this system for comparison globally and not just locally(R25).

Better benching marking of Iraq against other countries (R28, R29)

3- Oil & gas industry

Iraq’s oil & gas industry will be part of international corporate world.

Facilities a global market.

Iraqi oil companies can learn from ICOs best practice (R12).

It will be developed into aspects, firstly, technical side and managerial

and financial sides secondly (R15).

They can work globally, also the management and accounting staff will be

developed by contacting with developed companies (R16).

We will reach to a correct cost of barrel (R21).

4. Iraqi people

Will create employment opportunities as flexibility in job market.

People will develop international skills, but the challenge is to be familiar with IAS.

lack of disclosure in UAS and before 2003 (R13).

Government control all resources so people did not invest as a result they do not need
to use financial statements (R13).

5. World Bank

a) For understanding figures and comparing between countries.

b) It will give the true picture of Iraqi economy (R14).

c) World Bank and IMF need understanding financial statements and sufficient
disclosure to help it in making their decisions (R15).
6- IMF

Will be able generate international report on Iraq that other country participants can understand.

World Bank and IMF need to understand financial statements and sufficient disclosure to help it in making their decisions (R15).

It will give the true picture of Iraqi economy (R14).

7- ICOs

Will create a new market for ICOs and new clients.

They can develop their work and entering into a partnership contract with Iraq, after being reassured (R21).

8- Big 4 accounting firms

New clients and a big market.

They can develop their work and entering into a partnership contract with Iraq, after being reassured (R21).
Opportunities that Iraq will get by adoption IAS

Iraqi companies stock could be listed in international markets and can be traded globally.

Iraq can become a part of international financial markets and the world economy.

Further development in Iraq’s extractive industries because of foreign investments and even from other Middle East countries.

Benefits from other international organizations such as World Bank and IMF.

Further development of Baghdad’s stock market.

Development not only people’s life style but also the accounting professional in Iraq.

They do not need to prepare two types of financial statements and accountants and auditors can have additional experiences by understanding IAS. Furthermore, will help tax office, because currently the ICOs and other foreign companies need to change their numbers according to UAS for tax purposes (R11).

I think adopting IAS will be increased the direct investment (FDI) , and will help to increase investments in Baghdad's stock market (R13).

There are many opportunities such as develop economy, develop financial policy, accounting system and develop people skills (R 15).

The financial statements will be more disclosure, more accuracy and closer to the reality (R18).
It can give sufficient disclosure, and that will be helped to attract foreign investors, and also the Iraqi people can learn the actual revenue for this industry (R19). Cost of obtain investment, when open up to global market that will help to attract direct foreign investments. In addition, the globalization of accounting will make accounting as a tool to attract investment through provide sufficient disclosures (R25).

We need to change all standards, and we can start with oil because oil means extractive industries and Iraq has many minerals such as sulfur, phosphate and copper (R27). It will be one of the important factors to open the door for Iraqi economy to go into global economy (R27).
### Challenges of Adoption IASs

<table>
<thead>
<tr>
<th>No</th>
<th>Aggregate</th>
<th>Classification</th>
<th>Coverage</th>
<th>Number</th>
<th>Reference</th>
<th>Cod</th>
<th>Modified On</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>0.1358</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Document**

**Internals\Themes**

Current users such as BSA, Iraqi local companies, accounts & auditors union, Tax, central bank resist the change as they are not familiar with IASs (R1).

Need to train personal in IAS (R4).

The transition period could be challenges as it could take a long time because there is a big gap between UAS and IASs (R3).

The BSA is the key authorising of accounting and will have challenges in changing mined of the people who work and these will be resistant to change (R2, R5).

No challenges for World Bank, IMF, ICOs and Big 4 accounting firms they are familiar with IAS and UAS as well (all Respondents)

The interpreting IAS as needed in Iraq and resisting of BSA (R8).

Language (English) should be considered as a stumbling block (R1, R3, R4).

No good organizational structure, lack of good job description (R9).

It needs long time between 1-3 years to change (R10).

current problems of oil & gas sector, which are, how can deal with fixed assets in development and production service's contracts in South oil company, and find a solution
for two bank accounts (trading account, administrative account) which are used in Marketing oil company with other issues are raising with ICOs (R11).

In the last three decades Iraq suffered from three wars and UN sanctions. These sanctions made the country totally closed, so there was no change or update in accounting system and in university's curriculum (R13).

Difficulties some times to get information because of routine and old law and legislations which are designed to serve central government (R13).

Resistance change, routine and do not use technology and software for old staff (R14).

Iraqi oil & gas industry they do not have good administrative structure, not familiar with IASs (R11).

The routine and sometimes we take the decisions but both of legislatures and executives bodies are working slowly (R15).

I think the big challenge is who will be responsible for the change process (R15).

Accounting authority structure in Iraq is representative in BSA, which is governmental organization and there is not an actual role for academics in universities and accountants and auditors union (R16).

Transition period may be long (2-3 years) and Iraqi managers and staff don't have experiences with long term plan (R16).

Some advance staff in BSA have a strong relationship with UAS (R17).

There a big ratio from accounting staff in Iraq not qualified enough to go through this process.

Further, the cost, we need to change manual records, computer systems, and software (R18).

One of the problems is the organization structures of Iraqi oil companies (R18).

There is lack of right understanding and awareness of the most Iraqis accountants for International standards and the process of change (R21).

Iraq's economy is unclear features, and the private sector is still emerging, for example; the Iraqi market for securities obligated large companies to prepare segment reports.

Then few companies prepared these reports (R21).
**Nodes**

**People do not want change UAS to IAS**

**Document**

**Internals**

<table>
<thead>
<tr>
<th>Aggregate</th>
<th>Classification</th>
<th>Coverage</th>
<th>Number Of Coding</th>
<th>Reference Number</th>
<th>Cod ed</th>
<th>Modified On</th>
</tr>
</thead>
</table>

People do not want change UAS to IAS.

R6 (Consultant /BSA) “We cannot change the UAS but we can develop it.

R7 (Manager/ BSA) “We do not need to change.”

R11 (Consultant /BSA)” I think we need standards for extractive industries, because UAS Cover most industries.”

R18 (Manager / BSA) “UAS cover the other sectors but we need just part of accounting of extractive industries.”

R21 ( General Manager/ BSA) “The BSA agreed to prepare financial statements just, for Central Bank based on IAS in 2010 and following years. So I think we need to do like that for oil and gas. In my opinion, we need to put an accounting system for extractive industries based on IAS.”

R26 (Academic) “Iraq does not have the qualified academics and professionals for adopting all IAS once, so we need to start with extractive industries.”
R 27 (Professional) “We need to update UAS to include all IAS that Iraq needs, and we can start with oil because oil means extractive industries and Iraq has many minerals such as sulphur, phosphate and copper.”
## Nodes: People with change UAS to IAS

<table>
<thead>
<tr>
<th>People with change UAS to IAS</th>
<th>Document</th>
<th>Internals/Themes 6</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>6. People with change UAS to IAS.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Respondent 1 (R1) (Partner/Big 4 accounting firms) “The Iraqi local standards committee and BSA do some researches and summarize IAS, which considers as Iraqi standards. They try to reinvent the wheel, but the wheel already invented, and they have a body. They just need to relay the body.”</td>
</tr>
<tr>
<td></td>
<td></td>
<td>R2 (Senior Manager/Big 4 accounting firms) “I think the best scenario to change for whole standards.”</td>
</tr>
<tr>
<td></td>
<td></td>
<td>R3 (Senior Manager/Big 4 accounting firms) “Iraq has good accounts and resources just need for a decision from the BSA to move to IASs.”</td>
</tr>
<tr>
<td></td>
<td></td>
<td>R4 (Academic) “It is not adequate, especially for oil &amp; gas industry, because it's not including any mentioned about oil industry stages and there are not particular accounts relating to oil and gas industry and even all extractive industries in the UAS's chart of accounts.”</td>
</tr>
<tr>
<td></td>
<td></td>
<td>R5 (Academic) “It does not cover accounting for extractive industries, also this system designed to serve central government that time.”</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Aggregate Classification</th>
<th>Coverage</th>
<th>Number</th>
<th>Reference</th>
<th>Cod</th>
<th>Modified On</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number</td>
<td>0.8245</td>
<td>1</td>
<td></td>
<td></td>
<td>MO 8/04/2014 10:13 PM</td>
</tr>
</tbody>
</table>

202
R8 (Academic and Dean of Iraqi CPA)” It does not cover oil & gas industry and does not have enough flexibility to be on-line with environmental changes in Iraq.”

R9 Manager / Iraqi Exploration Company)”I think currently there are conflicts between Iraqi south oil companies and IOCs about service contract.”

R10 (Finance Manager/ Ministry of Oil) “I think disclosures in the financial statements according to UAS not enough. Many companies not just from IOCs but from Arab countries such as; Kuwait and Saudi Arabiya and Egypt are facing this problem.”

R12 (Manager/ Ministry of Oil)” I think we need to move to IAS and we need to start as soon as possible with IAS, IFRS for extractive industries because currently we facing problem to understand IOCs.”

R13 (Senior Manager, Big 4 accounting firms) “In my opinion, Iraq needs to leave UAS and move to IAS but this big project, so we need to start step by step by in extractive industries.”

R14 (Academic and Professional) “Iraq needs accounting for oil and this accounting is relating to many standards, so we need to update UAS or move to IAS.”

R 15 (Public Manager/ Iraqi Central Bank) “I do not think so because in a banking sector, we have a special accounting system, but we are now working with support of World Bank to move to IAS, so for oil & gas, there is no separate system and UAS does not cover the speciality of this industry.”

R16 (Internal Audit Manager/ Ministry of Oil) “In 2013, Iraq becomes a member of the Extractive Industries Transparency Initiative (EITI). This initiative has implemented by World Bank as a global standard for companies in extractive industries. The World Bank financed a project to enable Iraq to implement the requirements of EITI. One of the requirements is disclosure of financial statements, so if Iraq's oil companies disclose their financial statements according to UAS nobody can understand and cannot reach to a cost of a barrel by using these statements.”

R17 (Independent professional accountant) “If Iraq needs to move to the market economy it should change UAS to IAS.”
R22 (Academic) “UAS is not robust to account for accounting in general in Iraq, and in particular, for oil industry.”

R23 (Academic) “I think UAS has two main problems make the financial statements not suitable for Iraq after 2003: 1-Measurment, there are many methods and treatments not correspond with measurement methods, which are used in other countries such as inventory evaluation, depreciations, tax treatment, compute the profit, cost methods, use unique reserves.

2- Disclosure, there are no notes about accounting policy, no comments to explain the numbers or methods which are used or changed.”

R24 (Academic) “Iraq has become a liberal economy open to the market, either UAS does not correspond with current environment variables.”

R25 (Academic) “We need to change all system, for industry, services and trading because the environment has been changed, and the requirement of disclosure changed as well.”

R28 (Accountant/IOCs) “Currently it is actually happening as the UAS is not similar to the IAS. Need to update the current accounting standards. Need to have uniformity between the local accounting and global standards. There is room for improvements in accounting in Iraq.”

R29 (Accountant/IOCs) “It will take long to make changes to accounting in Iraq, but if Iraq converges with the IAS it will benefit MNCS operating in Iraq.”
UAS cannot be forced on the ICOs (all respondents)

ICOs are needed in Iraq for its economic development R1, R5, R 10.

It tried to impose but UAS on ICOs but failed R2.

UAS falls short when compared to IAS as it has no standards for extractive industries R3 and R8.

UAS is not understood out of Iraq R4.

The ICOs and other foreign investment will be affected because they have not familiar with UAS, and they have own standards (R11).

We need ICOs, in the last two years they increase production of oil (about one million barrels) in south of Iraq (R12).

BSA tried that with ICOs, but it failed because these companies still use their standards for global market, and prepare a short report for Iraq's tax purposes which it does not give any useful information for BSA and Iraqi government (R13).

There are many differences between IAS and UAS, and currently there are some conflicts between ICOs and Iraqi government, so if this system still without change, maybe will affect current ICOs and other investments in the future (R13).
These companies are subject to their country's standards and legislations (R6, R7, and R14). I think they do not accept to follow a local standard for another country (R14). UAS is a local accounting system for Iraq, and foreign investors want to read the financial statements. In case of Iraq, they will transfer statements from UAS to IAS, and this is complicated process with cost. Therefore, many investors will not come to invest in Iraq (R17). For Multinational companies, they did not accept. Maybe, small companies accept, but Iraq needs multinational in the reconstruction process (R16).

It is a local and old system, and these companies have developed systems such as IAS or FASB, and even they are using their local standards, but they not far away about IAS or FASB (R19). The financial statements according to UAS provide unfair competitive information, because some investors can understand, and other cannot understand (R21).

I do not think so we can enforce UAS because it does not correspond with concepts and objectives of financial reports for ICOs are working now in Iraq (R22). The world looking for the best system, and it does not matter if this standard comes from Iraq or US and Iraq, we have good standards for agriculture. In this subject, I think the question, who will carry the cost of transition to standards? (R25). ICOs are working under developed system and standards based on market economy, and we cannot change to local standards based on central system (R26).
Unified Accounting System (UAS) is not suitable for Iraq's current situation

Document

Internals\Themes

<table>
<thead>
<tr>
<th>No</th>
<th>0.3104</th>
<th>1</th>
</tr>
</thead>
</table>

UAS is not suitable for Iraq’s current economy.

UAS does not conform to international accounting standards (R1).

UAS is not used in all government ministries. (R2), (R5)

UAS is designed to serve a central economy. (R3, R8)

UAS does not cover extractive industries which have special account needs (R4, R5), and will to be changed (R6, R2, R8).

UAS is rules based. R8 Views against IAS, Two respondents form BSA R6, R7 agree that UAS does not cover accounting of extractive industries but they do not want to adopt IAS.

Views for IAS,

R1, 2, 3,4,5,8 are of the view that IAS should be adopted and UAS discontinued, However, the change should be progressive starting with extractive industries first.

I think currently there is conflict between Iraqi south oil companies and ICOs about service contract (R9). (What I'm working now is different about what I'm studied in college, (R9)
It does not show in its part of cost any detail about oil production (R10). I think disclosures in the financial statements according to UAS not enough. Many companies Not just from ICOs but from Arab countries such as; Kuwait and Saudi Arabiya and Egypt are facing this problem (R10).

It does not involve detailed accounts for oil (R11).

It does not cover oil industry, secondly it does not mention in its part of cost about the methods for separating joint cost in oil industry. Further, there is nothing about the depletion and it does not give special treatment for Assets, which are used in exploration and evaluation stages (R12).

It does not have an integrated accounting framework (R13).

It designed in 1980, to serve central government by providing it data and information for planning and control, so its output does not design to provide information to all users (R13).

It lacks many of the required disclosures in general and in particular, for oil accounting.

In addition, there is another shortcoming of the unified accounting system to provide any description (no explanatory note in financial statements) or details for figures contained in the financial statements (R13).

The financial statements in accordance with UAS do not include any disclosures or references.
to the financial policies adopted by the Economic Unit (R13).

Another reason to use a single chart of accounts for all companies (excluding banks and insurance companies to have their own chart). This chart gives each account a unique name and number. And because the activities companies are different from one company to another, which in many cases leads to make accountants confused and lack of harmonization in the financial statements. Furthermore, financial statements according to UAS do not include any disclosures about segment reports, and not provide any information about risk's analysis such as operation risk analysis, and market risk analysis (R13).

Accounting for oil has a speciality and multiple stages as well as, also there is what known as depletion and exploration expenses. Therefore, the accounting process used in UAS is controversial compared to the entire world. Iraq currently, has scope trends in oil & gas industry by attracting foreign investment, all these issues not cover by UAS, which designed to serve central /directed economy and not for market economy (R14).

In a banking sector, we have a special accounting system, but we are now working with support of World Bank to move to IAS, so for oil & gas, there is no separate system and UAS does not cover the speciality of this industry (R 15).

Because UAS does not cover oil & gas sector, the accountants use different accounts and different numbers from the chart of accounting, so we cannot sometimes compare two oil production companies even they are using same UAS (R16).

The system applied in the Iraqi oil companies for the purpose income statement, and balance sheet cannot be relied upon in making decisions for the following reasons (R18)

There are many companies each one has a different activity such as exploration, drilling, distribution, marketing and production, so we have eight income statements and eight balance sheet. There are laws issued from oil ministry and sometimes, from council of ministries such as give the company's profit based on cost/plus with a specific ratio (15% for Exploration
Achieve sub-goals, which are control and planning (R19).

The UAS even after update does not include any thing in relation to oil industry stages.

For exploration stage, Iraq used cost written off method, and I think just Iraq uses this method, which is not corresponded with accounting principles (R20).

The main reason is separation the (INOC) to eight companies. The exploration company uses cost written off method and close all costs of exploration in the income statements without distinguish between capital expenses and revenue expenses. The ministry of oil issued law give to exploration company 15% from its total cost as a profit (cost plus), and it will take this ratio, whether it works or does not work. This law covered all other oil companies with different ratios, for example; the drilling company takes 5% and records all cost as revenue expenses. In addition, all these expenses send to Production companies (South and North), and production companies are recorded these expenses as deferred revenue expenses, and the production companies take 20% (cost plus) as a profit. (R21).

As an academy, I’m interested in the accounting theory and formulation of accounting standards. Further I have studied a lot of models of financial reporting in the developed countries.

I do not think so, UAS is robust to account for accounting in general in Iraq, and in particular, for oil industry, however, he takes his strength in the practical application of (R22).

1-UAS was designed to be corresponded with Iraqi economy that time which considered as a state's economy and not market economy. It is characterized by extensive state intervention in the economy, affecting the objectives of financial reporting to be macroeconomic goals. In addition, it directed the basis of the accounting recognition and measurement to achieve macroeconomic goals, as well as it makes disclosure methods less transparent.

2- the Iraqi economy depends on natural resources (oil, mainly) in achieving the GDP and the financing of public spending and also because of the Iraqi society is a service's
Who should responsible for training IAS for Iraqi staff?

Special committee (two respondents R1, R9, R14, R16, R18, R19, R20, R22).

Special committee, Universities and accounts and auditors Union (R8)

Special committee Universities, accounts and auditors union and Board of Supreme Audit (R5)

Training should be conducted by expertise from out of Iraq (R2)

Special Committee includes Big 4 accounting firms (R 10).

BSA and Iraqi accountants and auditors union (R11).

Universities and Big 4 accounting firms (R12).

Central Bank and BSA (R13).

Special committee Central Bank, Universities and BSA (R 15).

Special committee from academic, BSA, accountants and auditors union and Big 4 accounting firms.
firms. The academic prepare the concepts and definitions of IAS, BSA application procedures.

Big 4 will provide their experience and other experiences from other countries include obstacles, training (R25).

R28 and 29: Training should be done by professional institutes and Big 4 in Iraq

R17, R23 and R24 Big 4 accounting firms.

R26, R4 (Postgraduate Institution and university).
Appendix 11: Newcastle University Ethics Committee Approval

**HUMAN RESEARCH ETHICS COMMITTEE**

**Notification of Expedited Approval**

| To Chief Investigator or Project Supervisor: | Doctor Patricia Stanton |
| Cc Co-investigators / Research Students: | Doctor Marcus Rodrigs |
| | Mr Mohammed Ibrahim |
| Re Protocol: | The challenges and opportunities of Iraq transitioning to International Accounting Standards with particular emphasis on accounting for oil |
| Date: | 24-Jan-2013 |
| Reference No: | H-2012-0437 |
| Date of Initial Approval: | 24-Jan-2013 |

Thank you for your **Response to Conditional Approval** submission to the Human Research Ethics Committee (HREC) seeking approval in relation to the above protocol.

Your submission was considered under ** Expedited** review by the Chair/Deputy Chair.

I am pleased to advise that the decision on your submission is **Approved** effective **24-Jan-2013**.

In approving this protocol, the Human Research Ethics Committee (HREC) is of the opinion that the project complies with the provisions contained in the National Statement on Ethical Conduct in Human Research, 2007, and the requirements within this University relating to human research.

Approval will remain valid subject to the submission, and satisfactory assessment, of annual progress reports. **If the approval of an External HREC has been "noted" the approval period is as determined by that HREC.**

The full Committee will be asked to ratify this decision at its next scheduled meeting. A formal **Certificate of Approval** will be available upon request. Your approval number is **H-2012-0437**.

**If the research requires the use of an Information Statement, ensure this number is inserted at the relevant point in the Complaints paragraph prior**
Conditions of Approval

This approval has been granted subject to you complying with the requirements for Monitoring of Progress, Reporting of Adverse Events, and Variations to the Approved Protocol as detailed below.

PLEASE NOTE:
In the case where the HREC has "noted" the approval of an External HREC, progress reports and reports of adverse events are to be submitted to the External HREC only. In the case of Variations to the approved protocol, or a Renewal of approval, you will apply to the External HREC for approval in the first instance and then Register that approval with the University's HREC.

- Monitoring of Progress

Other than above, the University is obliged to monitor the progress of research projects involving human participants to ensure that they are conducted according to the protocol as approved by the HREC. A progress report is required on an annual basis. Continuation of your HREC approval for this project is conditional upon receipt, and satisfactory assessment, of annual progress reports. You will be advised when a report is due.

- Reporting of Adverse Events

1. It is the responsibility of the person first named on this Approval Advice to report adverse events.
2. Adverse events, however minor, must be recorded by the investigator as observed by the investigator or as volunteered by a participant in the research. Full details are to be documented, whether or not the investigator, or his/her deputies, consider the event to be related to the research substance or procedure.
3. Serious or unforeseen adverse events that occur during the research or within six (6) months of completion of the research, must be reported by the person first named on the Approval Advice to the (HREC) by way of the Adverse Event Report form (via RIMS at https://rims.newcastle.edu.au/login.asp) within 72 hours of the occurrence of the event or the investigator receiving advice of the event.
4. Serious adverse events are defined as:
   - Causing death, life threatening or serious disability.
   - Causing or prolonging hospitalisation.
   - Overdoses, cancers, congenital abnormalities, tissue damage, whether or not they are judged to be caused by the investigational agent or procedure.
   - Causing psycho-social and/or financial harm. This covers everything from perceived invasion of privacy, breach of confidentiality, or the diminution of social reputation, to the creation of psychological fears and trauma.
   - Any other event which might affect the continued ethical acceptability of the project.
5. Reports of adverse events must include:
   - Participant's study identification number;
   - date of birth;
   - date of entry into the study;
   - treatment arm (if applicable);
   - date of event;
   - details of event;
   - the investigator's opinion as to whether the event is related to the research procedures; and
   - action taken in response to the event.

6. Adverse events which do not fall within the definition of serious or unexpected, including those reported from other sites involved in the research, are to be reported in detail at the time of the annual progress report to the HREC.

- **Variations to approved protocol**

If you wish to change, or deviate from, the approved protocol, you will need to submit an *Application for Variation to Approved Human Research* (via RIMS at https://rims.newcastle.edu.au/login.asp). Variations may include, but are not limited to, changes or additions to investigators, study design, study population, number of participants, methods of recruitment, or participant information/consent documentation. **Variations must be approved by the (HREC) before they are implemented** except when Registering an approval of a variation from an external HREC which has been designated the lead HREC, in which case you may proceed as soon as you receive an acknowledgement of your Registration.

**Linkage of ethics approval to a new Grant**

HREC approvals cannot be assigned to a new grant or award (ie those that were not identified on the application for ethics approval) without confirmation of the approval from the Human Research Ethics Officer on behalf of the HREC.

Best wishes for a successful project.

Professor Allyson Holbrook

Chair, Human Research Ethics Committee

*For communications and enquiries:*

**Human Research Ethics Administration**

Research Services
Research Integrity Unit
HA148, Hunter Building
The University of Newcastle
Callaghan NSW 2308
Linked University of Newcastle administered funding:

<table>
<thead>
<tr>
<th>Funding body</th>
<th>Funding project title</th>
<th>First named investigator</th>
<th>Grant Ref</th>
</tr>
</thead>
</table>

T +61 2 492 18999  
F +61 2 492 17164  
Human-Ethics@newcastle.edu.au  
## Appendix 12: Implication Study to the Iraqi Board of Supreme Audit

<table>
<thead>
<tr>
<th>Phases</th>
<th>Title of the Phase</th>
<th>Iraqi Company Responsible for the phase</th>
<th>Unified Accounting System (UAS)</th>
<th>IASs &amp; IFRS 6</th>
<th>Finding and Recommendation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Phases 1 &amp; 2</td>
<td>Exploration &amp; Evaluation</td>
<td>Iraq Oil Exploration Company</td>
<td>All expenses are treated as operating expenses and transferred to the production companies after Phase 4 using a 15% mark up (Green Book Chapter 2 Chart of Account 118 deferred revenue and on specific 1183 'Search and Exploration Expenses', Page 59)</td>
<td>Entities which use the ‘full cost’ method capitalise all acquiring, search and exploration, and drilling costs, plus those relating to failed exploration activities, and carry these costs forward to be written off against the revenue of successful projects in the future until fully written off. ‘Successful efforts’ method requires that the pre-production expenditure that links directly to the successful area of a project be matched against revenue generated from the project. The results will differ according to the choice of method.</td>
<td>The Oil Exploration Company uses a cost system that distinguishes between the expenses incurred in these phases into two types; expenses for capital expenditure which are exploration and evaluation expenses that may lead to successful wells, and other expenses, which are considered as general operating expenses. The mistake of the Oil Exploration Company is that all these expenses (two types) are bundled into one package of expenses to be borne by the oil production companies. The production company should treat these expenses according to the classification of the cost system relating to exploration and evaluation expenses and operating expenses which is according to the UAS chart of accounting per account 118. These expenses are treated as deferred revenue expenditure, specifically called 'Search and Exploration Expenses' (118 sub clause 3) (Page 59 of UAS, 2011). All other operating expenses are treated according to their nature and spelt out in UAS chart of accounting such as salary and bonus under account 31, or raw material, fuel under account 32, and services under 33. The other mistake of UAS is to amortize deferred revenue by 20% and not over the entire lifetime of the oil well. In order to rectify this in line with IFRS 6 the company should be capitalized these expenditures on successful wells. Therefore, UAS needs to update this treatment and add these expenditures on the cost of wells, which would accurately reveal the real value of oil and gas wells in their financial statements.</td>
</tr>
<tr>
<td>Phases</td>
<td>Title of the Phase</td>
<td>Iraqi Company Responsible for the phase</td>
<td>Unified Accounting System (UAS)</td>
<td>IASs &amp; IFRS 6</td>
<td>Finding and Recommendation</td>
</tr>
<tr>
<td>--------</td>
<td>-------------------</td>
<td>----------------------------------------</td>
<td>---------------------------------</td>
<td>----------------</td>
<td>-----------------------------</td>
</tr>
<tr>
<td>Phase 3</td>
<td>Drilling &amp; Development</td>
<td>Iraqi Oil Drilling Company</td>
<td>All expenses are categorised into either: (i) developed drilling (all expenses related to drilling) which are treated as operating expenses financed by the Ministry of Finance and transferred to Production companies after Phase 4 (Green Book Chapter 2, Chart of Account 'Wells ' 11241) or (ii) reclamation drilling (all expense related to maintenance which are treated as operating expenses and transferred to the production companies after Phase 4 using a 5% mark-up) (Green Book, Chapter 2, Chart of Account 11241 Oils wells and Mining on Page 51</td>
<td></td>
<td>The accounting treatment of “developing drilling” is in line with IFRS 6 and other IFRSs which are using in the extractive industries. However, the mistake is in ”Drilling phase” because, the oil-drilling company treats all ”Reclamation drillings” as operating expenses, while, in oil and gas industry, it is commonly reclamation and maintenance lead to increasing in production or reserves. Therefore, The company should distinguish between the expenditures which lead to increase the production and oil reserve which should be capitalized, and other operating expenses.</td>
</tr>
<tr>
<td>Phases</td>
<td>Title of the Phase</td>
<td>Iraqi Company Responsible for the phase</td>
<td>Unified Accounting System (UAS)</td>
<td>IASs &amp; IFRS 6</td>
<td>Finding and Recommendation</td>
</tr>
<tr>
<td>--------</td>
<td>--------------------</td>
<td>---------------------------------------</td>
<td>-------------------------------</td>
<td>----------------</td>
<td>---------------------------</td>
</tr>
<tr>
<td>PHASE 4 &amp; 5</td>
<td>Oil Well Construction and oil Production</td>
<td>North Oil Production Company and South Oil Production Company</td>
<td>Operating expenses transferred from the Iraqi Oil Exploration Company are treated as deferred revenue expenditure. The deferred revenue expenditure are amortised at 20% per annum. (Green Book Chapter 2 Chart of Account 378 on 'Amortise Deferred Revenue Expenditure' Page 99 ). Operating expense transferred from developed drilling and reclamation drilling expenses from the Iraqi Oil Drilling Company are shown as operating expenses. These production companies charge a mark-up of 20%</td>
<td></td>
<td>This is shared amongst the Iraqi Oil Drilling Company and the two Production Companies in Iraq. This is a grey area as there are no clear guidelines on this in the UAS.</td>
</tr>
</tbody>
</table>

All operating expense treated as deferred revenue expenses should be distinguished between those expenses that are related to successful and unsuccessful exploration well. The successful UAS should classify exploration and evaluation's assets and other assets of drilling and production phases separately by giving them a new number in the UAS chart of accounts such as 113(1) to account for the machines and related costs in the oil and gas industry, (113 is a main account in the UAS's chart of accounting, which is allocated for machines). Then 1131(1) for all machines in the exploration and evaluation phases, 1131(2) for all machines in drilling phase and 1131(3) for all machines in production.
should be capitalised and the unsuccessful should be expensed off.

<table>
<thead>
<tr>
<th>Phase</th>
<th>Additional Step</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>In addition, this step will require adding new accounts in the chart of account 37 for depreciation. The new account could be named 37(1) depreciation for oil and gas assets, and it could include a further classification 371(1) for depreciation of exploration and evaluation assets, 371(2) depreciation of drilling assets, and 371(3) depreciation of production assets. For wells, UAS uses the depreciation system; they should replace it with &quot;Depletion&quot; to be in line with IAS16 property, plant and equipment and IAS 38 intangible assets and can be given a new account 372 for depletion of oil and gas wells in the UAS's chart of accounting, and use the suggested formula of depletion, which is (depletion = total cost of wells / total oil reserve of produced wells).</td>
</tr>
<tr>
<td>Inventory</td>
<td>For inventory UAS uses &quot;weighted average&quot; method and does not allow to economic units to use other methods. UAS can be in line with IAS 2 inventory by adding &quot;FIFO&quot; and &quot;LIFO&quot; to UAS. Further it should link these methods from the economic units by BSA in economic conditions that require the use of these methods.</td>
</tr>
<tr>
<td>Disclosure</td>
<td>For proper disclosure purposes, the BSA should impose on the local oil companies to disclose their oil reserves to be in line with the requirement IAS 36 which is on 'impairment of assets' that requires disclosure.</td>
</tr>
</tbody>
</table>