

Adoption of accounting and financial system (SCF) in Algeria: A critical appraisal

تبنى النظام المحاسبي و المالي في الجزائر: قراءة نقدية لحصيلة الإصلاحات

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Abstract:

This Article aims to examine the passage to Financial and Accounting System (SCF) initiated since 1998 by Algerian authorities and put it in a critical perspective. Based on opinions collected from meetings with accounting professionals in the framework of conferences and Saturday trainings organized by Accounting National Council (CNC), Findings of study mentioned that professionals considered financial market weakness and training policy as the main factors impeding professionals to comply with Financial and Accounting System.

Keywords: Accounting and financial system, accounting reform, IAS/IFRS, National Council of Accounting, Accounting profession.

ملخص:

يهدف المقال الى فحص اصلاحات التحول الى النظام المحاسبي و المالي الذي باشرته السلطات العمومية منذ 1998 و وضع قراءة نقدية لهذا الانتقال. انطلاقا من وجهات النظر المأخوذة من تجمعات المهنيين و هذا من خلال الملتقيات و الايام التكوينية المنظمة من طرف المجلس الوطني للمحاسبة أشارت النتائج الى أن المهنيين يعتبرون أن ضعف السوق و التكوين هما أكبر عاملين يعيقان التحول الى النظام المحاسبي و المالي.

الكلمات المفتاحية : النظام المحاسبي و المالي؛الإصلاح المحاسبي؛IAS/IFRS؛ المجلس الوطني للمحاسبة؛ مهنة المحاسبة

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1. Introduction :

In recent years, the passage to international financial standards has gained both academic and professional spheres, public authorities and supranational institutions. That movement reflects, in hand, legitimacy of IASB as international accounting regulator and high level quality standards proposed by that institution in other hand (Larson, 2002).

However, countries that applied international accounting standards differs in terms of their economic models, foreign dependency, accounting profession and influence of that on accounting standard sitting process (Colasse, 2005). It appears that ex socialist countries who characterized by state hegemony in political and economic life where private sector plays a little role in market are unable to comply easily with globalization requirements. Adoption of accounting standards in these countries was submitted to many cultural obstacles (Nurunnabi, 2015), this is explained by the fact that Anglo-Saxon standards flourishes in economies where financial markets are developed, private sector and accounting profession are extremely dominant. In this context, it seems that shift to full IFRS doesn't exercise any positive effect on economy evolution and reporting quality unless if these countries undertakes deep changes in their economic policies, corporate governance mechanisms and financial markets functioning (Ding et al., 2007).

Ex-socialist countries- like Algeria- must overcome their economic and cultural constraints by adopting a reform capsule that maximizes globalization benefits without hunting national interests (Rosser, 1999).

The passage, in 2010, to Accounting and Financial System (AFS) in Algeria witnessed an important legitimization of international accounting standards. However, it seems that transition strategy hasn't emanated from a deep diagnosis of financial and economic state of the country or a response to

informational needs of economic actors. Moreover, economic state shows that the majority of local entities are SMEs that are considerably hesitant to comply with financial and accounting system. Thus, nearly a decade from accounting and financial system's enforcement, public authorities through Finance Ministry, has opened large debates about its examination by carrying out a study group charged to assessment and valuation of the main critical areas of SCF implementation.

This paper aims to put accounting and financial system in critical perspective by stressing shortcomings and obstacles that impedes transition success, checking the raisons of failure and in case of need proposing the possible solutions.

1. Accounting and financial system in Algeria: A mitigated appraisal

The adoption of new accounting model in Algeria means the openness of local accounting practices to international ones. However, transposition of Anglo-Saxon model in an ex-socialist context where economy and market are both less competitive and diversified raised many cultural problems that are not restricted to a simple mastery of new practices but also a new attitude in which managers should be aware.

1.1 Accounting and Financial System (SCF) and IASB's model: some remarks

The methodological note via the statement n°2 issued by national council of accounting (CNC) has asserted in its introduction that “passage to SCF represents a major entity project that overcomes accounting considerations. Excepting generally principles, net inspiration of IFRS has been largely felt within large definitions and fundamental criteria of recognition.

However, SCF formula that was presumed to be applied from 2009 takes its source basically on 2003 version of IFRS in parallel with SCF accomplishment in 2004. This explains the fact that SCF under international dressing seems to be incomplete because that a great revision taken in 2004 haven't been introduced. Moreover, a persistent gap exists between SCF and recurrent amendments exerted by IASB. New CNC installed since many years seems to be enable to enhance SCF punctually with international standards. Convergence will be undoubtedly strengthened trough the introduction of detailed acts that enforces transition to international standards.

Even though the standards issued by IASB are exhaustively detailed, SCF features are less precisely underlined to international standards, situation that makes SCF just a simplified version of IFRS. For example, in the framework of generally principles, it is specified that assets, liabilities, charges, profits are recognized even when they are expected and estimated in a reliable manner. So, SCF don't precise what we must do when the control likelihood isn't stopped or a reliable estimation becomes impossible. Within this context, IFRS specifies that there are the so-called potential assets and liabilities that should be prescribed in Notes.

Even though the SCF prescribes some obligatory documents (business record, ledger, inventory statement and their conservation period) without any change with old rules, IFRS don't recommend the previous documents in spite of their importance. Moreover, the absence of obligatory document's

keeping or presentation of unintelligible statements can provoke problems with tax administration by eventually rejecting of accounting. Also, SCF precise - in the case of business combinations - the obligation of reporting yearly consolidated financial statements with derogation for sub groups like for example restrictions on control or further resale, this case don't exist within IFRS.

Nevertheless, if IFRS standards flourish in financial markets and require in fact fair value methods, the SCF that is a simplified version of IFRS don't require preparers of financial statements to apply fair value among other evaluation methods. It seems that the lack of financial market in Algeria hasn't any effect on financial statement's quality in such extent that SCF don't require claim to fair value.

1.2 Accounting and financial System in Algeria: An uncompleted process

Nearly a decade from enforcement of SCF in Algeria, many debates on social media and critics have sketched accounting scene, a precipitate introduction of an international model in ex-socialist country that didn't yet finish its economic transition has faced accounting professionals to many cultural and technical concerns. A sequence of shortcomings has been advanced by many professionals who cumulated rich experience in accounting fields; some of them occupied posts within the National Council of Accounting (CNC) when others operated in different fields related to accounting practice. All they agree that SCF was implemented without any preparation firstly of human resources, secondly of organizational contexts

in which entities functioned and finally an inadequate economic environment with the main objectives of international accounting standards.

Since 2010, year of SCF's ratification, economic entities were out of touch with innovative notions introduced by international standards. Spirit of international accounting standards which puts investor in wide range of financial statement's receivers was opposed with our preparers' spirit who stayed granting a capital place to tax administration. Some of the raisons of SCF failure are:

- The advent of SCF has a political dimension rather than a technical matter and he's arrived further to NEPAD official settlement in 2002;
- The SCF was prepared according to IAS/IFRS version of 2003, it becomes obsolete because that IASB referential has been amended several times where some standards were abrogated and replaced by others;
- The SCF was prepared and finished by French CNC, he's introduced by Algerian homologue. Some analysts perceived that SCF was sub-contracted by French standard setting bodies without any effective implication of our accounting elites;
- Absence of a critical appraisal of SCF project since its implementation in spite of ability of national bodies members to identify, debate and report punctually gaps resulted from SCF adoption trough recurrent official meetings;
- The decision of CNC to promulgate SCF in 2009, period in which IASB have published, at the same time, a set for SMEs,

was a premature decision. CNC was able to anticipate opportunity by rectifying decision of 2002. The reason is that the majority of economic entities are SMEs, inadequate with IFRS framework that is stock exchanged societies.

Moreover, some professionals underlined that passage to SCF was a simple translation of accounts. Number of rules emanated from accounting regulation remained insufficiently applied and unknown by several economic entities. (Boubir, 2014) has cited the following raisons:

- The uselessness of Notes that many entities ignore them in spite of their importance in decision making;
- The lack of recognition of lease contracts by lessee because that taxation don't recognize them in tax profit determination;
- Components approach of fixed assets that implies logistic and technical preparation by economic entities;
- Impairments loss, related to fixed and intangible assets within enterprises that evolved in declining sectors, aren't taken in account;
- Deferred taxes where the majority of financial statement's preparers don't applied in case of differences between accounting and tax bases;
- Inability of financial statement's preparers to develop a proforma accounting that follows changes in accounting estimates and errors and the necessity to correct them in opening balance 01/01;
- Ignorance of updating and capitalization methods used in some evaluation items;

- Actuarial differences induced by retirement benefits provision when this later is correctly valued and recognized;
- Some provisions those related for example with sale guarantees, renewal of concessional assets ... largely ignored by financial statement's preparers

The earlier raisons seem affect considerably the quality of financial statements that stayed lacking relevant information for decision making. Need to theses treatment possibilities didn't yet valued by preparers because that institutional environment (stock exchange, rating agencies, updating information data, consulting groups, training's higher institutes) don't incite interested parties to demand and exchange financial information.

2. *Some raisons of shortcomings surrounding SCF implementation:*

Several raisons has been evoked towards SCF adoption since its promulgation in 2007, inability of managers to perceive nature and objectives of IAS/IFRS in hand and SCF features in other hand constitutes the main raison of encountered problems by interested parties. Moreover, state of economic environment (financial market, business climate, weak share ownership...etc) is presented among factors that altered accounting usefulness. Indeed, some of the problems are:

- Insufficient preparation of financial statements preparers and auditors,
- Lack of statement's preparers neutrality because of the implication of managers to recognize or dissimulate some

operations by searching intentional accounting profit or level of taxes for settling;

- Weak status provided to accountant as a simple cashier and not a informational value creator in enterprise;
- Significant attachment of financial statements preparers in their accounting choices to tax administration requirements in spite that SCF offers a wide range of accounting choices for shareholders and future investors;
- Lack of interest in accounting content by stackholders explained especially by the lack of business environment inciting investors to grant more importance against information issued by accounting;
- Prevalence of informal market and its effect on audit quality and on accounting usefulness as a core element in market transparency;
- Absence of institutions that assists enterprises in their transition to SCF like technical assistance centers, awareness meetings,
- Weak implication of State in terms of training and assistance measures with new accounting practices;
- Weak implication of state in updating accounting education programs in accordance with international standards especially within universities and training institutes;
- Low production of accounting knowledge before and just after transition to SCF in 2010 and its adaptation with local environment.

3. *Reaction of public authorities:*

Reviewing the earlier facts, it appeared necessary that public authorities should intervene and put an end to confusions and quarrels revived by interested parties since SCF's advent. One of the main conclusions is the fact that Algerian economic fabric was not appropriate with development of international accounting standards and the selection of another option will be unavoidable in order to remedy committed mistakes at the time of passage. Thus, Finance Ministry has proceeded to an historical event by appealing CNC members to revising and valuing SCF throughout an ad-hoc commission.

The working group proposed a revision process contained 3 successive steps as follows:

3.1 Step of diagnosis: this step contains the following actions:

- Drawing up a current state and a diagnosis of SCF implementation in economic entities liable to new regulation;
- Reviewing encountered difficulties, per sector and per activity, at the time of the passage from PCN to SCF;
- Checking the set of accounting standards that didn't taken by SCF and requires interpretations;
- Taking into account all notices issued by accounting standard setting commission;
- Launching notices for contribution to bodies corporate and natural persons in order to strength participation rate of professionals, users and institutions via official meetings, this action aims to build a robust base for revision draft,

3.2 Step of IAS's Adaptation: the second step required the following actions:

- Identifying current, modified or abrogated accounting standards in relation with those inspired by SCF in order to update SCF's provisions with current international standards;
- Reviewing new standards issued after SCF establishment since 2004 until now by adapting them with Algerian context with fully respect of cost/benefit ratio;
- Including these standards in the new SCF project.

3.3 Step of completion: this step included the following points:

- Updating regulatory framework (acts and application decrees);
- Submission of revision project to commission of accounting standard setting and professional diligences for assessment and recommendations;
- Elaboration of final revised form of SCF project.

CONCLUSION

The passage to Accounting and financial system (SCF) was a logic response to globalization's requirements. The vast majority of countries applied already international accounting standards with objective to enhance financial reporting policies of their enterprises and implement transparency and efficiency in market. Each country should operate necessary arrangements and undergo the possible reconciliations between objective of international standards and accounting local regulation.

The decision to adopt SCF in 2009 through a simplified version of international standards was, for many professionals, precipitated. Indeed, decision makers were able to rely on IFRS for SMEs version issued by IASB in 2009 especially when SME represents the major part of our economic landscape. Opinions of professionals come asserting the fact that passage to SCF was ceremonial and didn't translate informational needs of preparers. This was proved firstly by the fact that tax administration remains the major receiver of financial statements, secondly, spirit of IFRS don't yet reached in the sense that all benefits provided by SCF since its promulgation in terms of proposed treatments (component approach, impairments index, impairments loss determination, deferred taxes...) didn't taken into account for financial statements preparation which will affect their decisional quality.

This work attempts to review the main motives that have led to SCF failure, a system from which economic entities must comply with international practices. Recent disagreements, between National Accounting Council (CNC) and accounting professionals about the application of different treatments, justify this failure.

Public authorities, after a long silence, opened debates and work-groups by calling CNCs members to draw a comprehensive appraisal about the main raisons of failure, possible improvements and adaptations related to SCF implementation.

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Appendices

	<p>République Algérienne Démocratique et populaire Chambre Nationale des Commissaires aux Comptes Conseil National</p>	
Ref / 113 /2017		Alger le 29/05/2017
<h3>Attestation</h3>		
<p>Je soussigné Mr BOUBIR Djelloul, commissaire aux comptes, enseignant en comptabilité financière auprès du CNAM-INTEC (France), certifié enseignant en normes IFAC, responsable de la formation au niveau de la Chambre Nationale des Commissaires aux Comptes, atteste que le doctorant REMMACHE Kamel a eu, dans le cadre de la préparation de sa thèse doctorale, de nombreux entretiens portant sur le SCF, la profession comptable et les Normes d'Audit Algériennes, état des lieux, enjeux et perspectives, avec moi-même et des membres de la Chambre durant l'année 2015/2016 dans le cadre des assises annuelles du commissariat aux comptes et des journées de formation dénommées « samedi de la formation » organisées par la Chambre.</p>		
<p>Fait pour servir et valoir ce que de droit.</p>		
<p>Alger, le 28 mai 2017</p>		
<p>Djelloul BOUBIR,</p>		
<p>Trésorier du Conseil national, Chargé de la formation</p>		
<p><i>[Signature]</i> Trésorier du Conseil BOUBIR Djelloul</p>		
<hr/> <p>Cité des 498 Logements Bt 08 N° 01 Hai el Djorf Bab Ezzouar Tél/Fax 021 24 16 72 – 21 24 76 65 – 021 24 89 99 Site web .www.cn-cncc.dz /Email : contact@cn-cncc.dz</p>		

REPUBLIQUE ALGERIENNE DEMOCRATIQUE ET POPULAIRE

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MINISTRE DES FINANCES

CONSEIL NATIONAL
DE LA COMPTABILITE

وزارة المالية

المجلس الوطني للمحاسبة

Alger, le 20 NOV. 2019

Monsieur REMMACHE KAMAL

UNIVERSITE DE SKIKDA

INVITATION

Dans le cadre des travaux d'évaluation et de révision du Système Comptable Financier, le Conseil National de la Comptabilité organise le deuxième séminaire régional, à l'Est, sous le thème « **Recensement des difficultés d'application du Système Comptable Financier** », au profit des utilisateurs du référentiel comptable : professionnels de la comptabilité, opérateurs économiques publics et privés, et universitaires.

L'objectif de ce séminaire est de recueillir, auprès des participants, les difficultés qu'ils ont rencontrées dans l'application du SCF depuis sa mise en œuvre. Il s'inscrit en droite ligne avec l'appel à contribution lancé par le groupe de travail chargé de l'évaluation et de la révision du SCF, diffusé dans le cadre de l'enquête nationale qu'il a entreprise.

Il est vivement souhaité des participants de faire part de leurs expériences respectives et de partager toute initiative, éventuellement, prise pour résoudre une problématique liée à l'application du SCF.

A cet effet, j'ai l'honneur de vous demander de bien vouloir assister à ce séminaire qui aura lieu Samedi, le 30 Novembre 2019 à Hôtel El Khayem, sis à UVP Nouvelle ville Ali Mendjeli, El Khroub, Constantine.

L'accueil des participants et leur inscription sont prévus à 8h00, l'ouverture des travaux à 9h00.

Veillez agréer, Monsieur, l'expression de ma parfaite considération.

