Characterized of financial reporting quality of Libyan companies

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Abstract- Beside structural problems, Libyan economy is characterized by growth and disintegration of the national market, insufficiently active investment market, poor investment climate and the problems related to Microeconomics (lower productivity and efficiency of doing business). Taking into account all these problems, this research will be based on the study of the problems of the current system of financial reporting. Practice has shown that when it comes to the level of the national economy and administration, there is a low level of qualifications in the field of application of International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS) for their non-compliance with existing standards of accounting and auditing in Libya.

Index Terms- Libyan, Microeconomis. Investment. Financial. Standars.

I. Introduction

The Libyan economy is unique in North Africa. While Algeria, Egypt, Morocco and Tunisia have a large population, a significant agricultural potential and well established industrial base, Libya possesses only some of these benefits, but primarily an attractive type of crude oil with a low sulfur content, as well as natural gas. Given the small number of inhabitants in the country, in proportion to the surface, as well as the substantial income from oil, the Libyan economy has more in common with the Persian Gulf countries rather than with our neighbors from the north of Africa.

After the discovery of oil, Libya has become a classic example of dual economy, where there are two separate economies (oil and non-oil). The World Bank defines Libya's economy as an economy with upper middle income, along with seven other African countries in the early 1980s, Libya was one of the richest countries in the world, and its GDP per capita was higher than in countries such as Italy, Singapore, South Korea, Spain and New Zealand.

Despite large investments in agriculture and non-oil sector which is related to the industry, the gross domestic product of Libya (GDP) mainly derived from petroleum and is fairly constant since the early 1970s, and varies between 50 and 60% up to in 1982. when oil revenues decline.

Agriculture provides the raw material for many industrial sectors in the country, exports and trade, and employs more than 70% of the workforce. The contribution of agriculture to GDP is around 30%, and most depend on climatic conditions. For the most part, agricultural resources are limited to two relatively narrow strip along the Mediterranean Sea and several desert oasis. Lack of water is a major lack of expansion of arable land and irrigation, soil improvement, irrigation and introduction of modern agricultural techniques.

Due to the lack of coal and hydro power plants, the country has little energy potential. It can be said that Libya has practically no industry. The lack of a sufficient number of skilled labor still represents a problem. The rapid population growth, as well as the agricultural economy as a result they had a surplus of unskilled workers in urban centers. Since 2003, the government began to consider plans to diversify the economy from dependence on oil. Tourism is one of the sectors of the economy that has the perspective of development, so it is encouraged by the establishment of commercial banks to finance tourist projects. That same year, the government started to encourage investment projects, such as projects for the construction of roads, ports and communications, as well as industrial projects in manufacturing. Libya then launched an investment plan worth $ 35 billion for the period up to 2005. The conflict which followed the revolution had a strong impact on the economy. Production of oil and oil products business in 2011 was quickly established.

II. Banking in Libya

After World War II Libya become a member of the British sterling bloc when declared independence in 1951. Shortly after created a national currency Libyan pound nominal value of US $ 2.80. Currency remained tied to the pound sterling until November 1967. In the period after the nationalization of the assets of the Libyan British Petroleum in Libya, the British Government has expelled Libya from the sterling bloc. Then libijsksa currency changed from Libyan pound Libyan dinar (LD), divided into 1,000 dirhams, without changing the nominal value.

In December 1971, Libya has maintained the existing parity of the currency with gold, a consequence was that the value of the Libyan dinar against the dollar increased from US $ 2.80 to US $ 3.04 until 1974. In accordance with the law from 1955 (which was amended in 1958 godione), established by the National Bank of Libya in 1956 that begins to perform some of the functions of the central bank under the auspices of the Ministry of Finance. At that time, the commercial banks were mainly branches of large international banking institutions, and were engaged in providing short-term international and domestic commercial loans. Since 1963, the Central Bank of Libya was replaced by the National Bank of Libya, and she got exclusive right to issue currency and became responsible for maintaining monetary stability and the value of Libyan currency, and to regulate the movement of currency and credit. Commercial banks were obliged to keep liquidity ratios and reserves with the Central Bank.

By 1970, the Central Bank has pursued a commercial operation, but then based National Commercial Bank which took over the commercial responsibility of the Central Bank. The military government that took power in 1969 thought that the banking sector is the primary object of the general program "Libijalizacije". In November 1969, the new government all banks in the country under control. In July 1970, the government had a 100% - nu control over four large banks with foreign ownership. In addition to National Commercial Bank was founded in 1987) Bank of Libya, which had about thirty branches throughout the country. Then they began to work and other commercial banks as Sahara Bank, formerly Banco di Sicilia and Umma Bank, the successor of Banco di Roma. Wahda Bank was formed in 1970 through the merger of five banks. In addition to commercial banks in state ownership, Libya established the National poljoprivredneu Bank and the Industrial Bank and the Bank for Real Estate Libya Lafica and LAFB.

Agricultural Bank is a specialized institution established in 1957. It was supposed to provide interest free loans to farmers. Agricultural Bank was buying products from farmers, guaranteeing them a profit and sold them to citizens at subsidized prices. The Bank has had good results; In the past, 90 percent of all loans have been returned. Industrial Bank of Libya was a development bank which gave industrial loans. In early 1972, the government established LAFB as a branch of the Central Bank's wholly-owned, but she did not follow the law of the Central Bank, and dealt with the financial and banking operations outside the country and has worked as a foreign agent of the Libyan government and commercial banks. The main objective was to encourage the establishment of regional development, especially in countries friendly to Libya. Until 1985, the bank has established LAFB world's largest chain of eighteen branches and achieved total assets of US $ 2.9 billion.

III. Accounting discipline in Libya

Accounting is a discipline, which generalizes the one hand practical accounting industry from all aspects, on the other hand is improving. The science of studying accounting methods and techniques of assessment (evaluation, measurement), billing, accounting for transactions and recognition of balance sheet items and their presentation and disclosures in the financial statements. As a scientific discipline of accounting is to a greater or lesser extent occurs as a subject in almost all university institutions and schools, particularly where educated personnel economics profession.

Financial accounting is directed mainly towards satisfying the interests of external users of accounting, that is, to preparing and presenting general purpose financial statements. These financial statements are strictly formal and with certain legal entities subject to audit in accordance with the laws governing the obligations of the audit of financial statements. These are the regular annual and in some cases extraordinary financial statements submitted to state authorities, financial market institutions, shareholders, investors Financial Accounting monitors external business area with scaled aggregate data on the internal area of business. It includes the accounting of assets and liabilities according to sources of funding and operating results of the overall business process in the unit of accounting, with special emphasis on financial relations with others.

As a result of globalization, many developing countries have adopted the accounting system of the western, developed countries, to take advantage of the ability of these systems to generate the information necessary for the effective national economic planning. The most commonly adopted accounting systems the US and Britain, and the factors identified in this process include the British Empire, the English language, the availability of professional qualifications offered by some of the UK professional accountancy bodies in the overseas countries and educational exchanges and direct aid from the US and Great Britain.

Despite these differences between Libya, as well as emerging economies, and the United Kingdom and the United States, as well as developed countries, Libya has adopted their accounting systems. It is meant to be largely guided by accounting principles, auditing standards, accounting and the accounting profession institutions that Libya and applied without careful consideration of local impacts. This practice is problematic because it is known that in the transitional economies, its implementation in a proper way is not possible or not advisable, without understanding the unique political, economic, social and religious dynamics of these economies.

The accounting profession was first established in Libya in the early 1950s. Accounting has become popular in 1957, when he founded the Faculty of Economics and Commerce at the University of Libya. Professional bodies and universities from the UK and the US were the main source of influence, providing education and training for Libyan students. Many Libyan students have completed their studies at American universities in the 1970s, as the US economic strength and a leader in accounting practice and education, as well as the fact that Libya has probably had good relations with the United States. Compared with Western accounting profession, which has existed for more than a century, the Libyan Association of Accountants and Auditors (Laaa) is quite young, was founded in 1973, only 37 years since the CAN system "Chartered Accountants" introduced by Law no. From 116 in 1973.

Although the LAAA established more than three decades, she has done nothing to build any professional theoretical basic principles and practices of accounting as a profession in Libya nor established a Code of Ethics for members. Instead, she simply followed the government's regulatory requirements pertaining to the accounting practices. This suggests that Laaa failed to recognize their commitment to the public interest. Besides, he did not achieve the goal of improvement activities such as studies, conferences, seminars, education and training program or promotion accounting practices to improve the status of the profession and members of the association. All these factors contribute to the current very poor state of Libyan accounting profession.

LAAA was founded in 1973, and its objectives, rules and regulations are codified in the Law of Accountants from 1973, which created the Public Accountants to monitor the public accounting profession. The Management Board of LAAA is responsible for:

- registration of public accountants

- keeping records of public accountants,
- determine the qualifications of persons for public accountants registration,
- ensuring compliance with ethical codes of conduct and disciplinary issues.

From two possible approaches for regulation of accounting profession, professional self-regulation and statutory controls, Libya adopted legal control, so that the accounting profession regulated Libyan commercial and financial laws. Theoretically, Laaa is responsible for establishing and monitoring of accounting standards and practices (Law on Accountancy Profession no. 116 of 1973) in Libya, but in practice Laaa failed to adopt and implement the Libyan accounting standards. Weakness Accountants in Libya has led to the fact that the state was the only one that regulates powers.

IV. Standards of International Financial Reporting

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International Financial Reporting Standards (IFRS) represent a unique set of high quality global accounting standards that are the basis for the preparation of transparent and uporedivnih accounting information presented in the form of basic financial statements.

Globally recognized basis for financial reporting has the following advantages:

1. raise consumer confidence in quality of financial statements drawn up,
2. application of standards assured by transparent and globally comparable financial reports,
3. raising the quality of financial reporting facilitates access to sources of capital to small and medium-sized entities,
4. from the standpoint of compiler, the application of these standards ensures the existence of a balanced relationship between the costs and benefits of the presented financial statements,
5. acceptance of IFRS for the SME (small and medium entities) as a basis for financial reporting for small and medium-sized entity ceases to be a need for the adoption and maintenance of a permanent national accounting standards.

IFRS Foundation is an independent, non-profit private organization that works in the public interest. Its main objectives are:

- to develop a single set of high quality, comprehensive, globally accepted international financial reporting standards (IFRS) with the help of his body for setting standards, IASB,
- to promote the use and correct application of these standards,
- to take into account the needs of financial reporting in the economies of developing countries and small and medium size (SME)
- to carry out the convergence of national accounting standards to IFRS with high quality solutions.

IFRS are used in many parts of the world, including the European Union, Hong Kong, Australia, Malaysia, Pakistan, the countries of the Arabian Gulf, Russia, South Africa, Singapore and Turkey. From 27 August 2008, more than 100 countries worldwide, including all of Europe, currently require or permit IFRS reporting. About 85 of those countries require IFRS reporting for all domestic, listed companies. In addition, the United States is directed towards IFRS. US slowly, gradually shifting requirements only in GAAP order to accept IFRS, and will likely take a long-term US and MFRS standards. On 6 September 2007, the IASB issued a revised IAS 1, Presentation of Financial Statements.

Components of comprehensive income may not be presented in the statement of changes in equity. The financial position of the company is primarily provided in the Statement of Financial Position, which contains the Statement of financial position, statement of comprehensive income, or two separate reports containing income statement and separate Statement of comprehensive income, which represents the gain or loss in profit or loss and total comprehensive income and then report on capital changes (SOCE), cash flow statement or statement of cash flows, notes, including a summary of significant accounting policies.

The realization of the objectives of financial reporting involves respecting certain requirements, usually indicated as generally accepted accounting principles, or principles. In essence represent the accounting principles of the Convention, the implementation of which should ensure that the generation of reliable, understandable and comparable financial statements, as well as in terms of providing comprehensive information base for decision making. In a variety of principles governing the formal or substantive content of financial statements, in terms of correct and fair presentation of the financial position and yield power companies, the accounting standards particularly stand out:

- the principle of consistency - consistency (consistency concept)- which advocates that a selected valuation rules applied consistently from period to period,
- the principle of prudence (prudence concept)- stems from the principle of the protection of creditors and preventing weight overstatement of net assets of the company,
- the principle of imparity- account must be taken all possible liabilities and potential losses,
- the principle of accrual (accruals concept)- transactions are accounted for at the moment of creation, in which priority is given to the moment the income and expenses associated with the income for which they are incurred,
- principle of individual assessment- the components of assets and liabilities to be assessed separately (separately),
- the principle of identity-opening balance of each financial year must correspond to the closing balance of the previous year.

Elements of financial statements include:

- property; asset is a resource controlled by the enterprise as a result of past events from which future economic benefits are expected in the company,

- responsibility; present obligation of the enterprise that based on past events, one of which is expected to lead to an outflow of resources, ie. funds from companies,
- Capital: to the rest of the assets of an enterprise after deducting all obligations under the historical cost accounting model. The capital is also known as a founding stake.

The elements of the income statement or the elements that measure the financial performance are as follows:

- income; increases in economic benefits during the accounting period in the form of inflows or enhancements of assets or reduction of liabilities that result in increases in equity. However, this does not include contributions from equity participants, ie, owners, partners and shareholders.
- expenses; decline in economic benefits during the accounting period in the form of outflows or reduction in the value of foreign currency assets or liabilities that result in a reduction of capital.

Revenues and expenses are measured in nominal monetary units according to the historical cost accounting model and in units of constant purchasing power (adjusted for inflation), according to the model units of constant purchasing power.

V. Elements of Financial Statements

The item is recognized in the financial statements when:

- It is probable future economic benefit flowing from the entity or in entity
- the resource can be reliably measured.

Measurement is the process of determining the monetary amounts, which are the elements of financial statements recognized in the balance sheet and income statement. This includes the selection of a certain measurement.

The qualitative characteristics of financial statements according to IFRS for the MSE are: understandability, relevance, materiality, reliability, substance over form, prudence, completeness, comparability, timeliness, balance between benefits and cost. All qualitative characteristics are given equal footing and with the same character. Intelligibility is an essential quality of the information in the financial statements that enables users to understand its meaning. Since the financial statements are required to be drawn up so that users can immediately understand the information they contain. Understanding of the information provided by the selection and labeling them expressed the accounting category.

Relevance - ability of information that allows the adoption of appropriate decisions. In other words, under the relevant financial information is considered to be one of information that is appropriate to meet the needs of users in content, scope, time and method of preparation.

Materiality is such a characteristic of accounting information, where to its omission or misstatement expression could influence the economic decisions of users taken on the basis of such financial statements. Materiality depends on the size of the item or error assessed in the particular circumstances of its omission or wrong formulation. Reliable information when it is in it has no material errors or bias when faithfully represents the business transactions or which might reasonably be expected that it represents.

Prudence is the inclusion of a certain degree of caution in the judgment necessary for the assessment required by the conditions of uncertainty, such that assets or income are not overstated and liabilities or expenses are not understated. However, the use of prudence does not allow the deliberate understatement of assets or income, or the deliberate overstatement of liabilities or expenses.
Comparability is a characteristic of such accounting information that enables you to compare the financial statements of an entity in order to identify trends in terms of its financial position and operating performance. At the same time, customers must be able to compare the financial statements of different Entities to evaluate their relative financial position, performance and cash flows.

Planning is the primary step for any international company before investing in another country or region in the world. One of the steps of this planning is the study of the accounting system in the country where the company is interested in investing.

VI. Conclusion

In order to achieve development in Libya is required to satisfy the interests of foreign investors with a set of financial reporting standards that apply in countries where investors are encouraged, and these are mainly countries that use MFRS, because it will reduce confusion and mistakes and fraud, which will lead to increased confidence in the management of Libyan companies. This transparency and confidence can lead to better corporate governance in Libya that can not be underestimated by investors. It has the advantage of Libya to follow IFRS rather than establishing its own set of financial reporting standards, however, although there are concerns in the country.

Accounting and auditing standards adopted by Islamic financial institutions are clearly a reflection of the various laws of financial instruments, contracts, insurance and interest, ethical standards, and the types of business organizations that use them. These standards are slightly different from those established by the IASB. In particular, they differ primarily in the number of questions relating to the lease, limited term contracts, investment accounts (because the investors bear part of the business risk). The representative of the IASB will solve a lot of problems, because he will understand these differences and common sources of finance, accounting regulations and frameworks, the level of industrial development, as well as many other factors that are relevant, according to his experience.

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