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Accounting Development in Africa: A study of the impact of colonisation and the legal systems on accounting standards in Sub-Saharan African Countries

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Authorisation Letter

Dr. Ajay Kumar Singh
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22-Vaushali, Pitampura, Delhi-110088 **Date:15 July 2003**

Dear Dr A.K Singh,

I am writing to authorise you publishing the article ' A study of the impact of colonisation and the legal systems on accounting standards in Sub-Saharan African Countries'. I also understand that the copyright shall remain with the society.

I am herewith sending the article as an attachment for publication. Could you please inform me when and in what issue it will be published. This is very important for reference purpose.

I shall look forward to hearing from you soon.

Regards

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Author's Resume

The author lectures in accounting and auditing for more than a decade at both undergraduate and graduate level. His research interest is in accounting development in African countries. In addition to the academia, the author has also a long-standing experience in the accountancy and audit profession. Before joining Bournemouth University, he was Director of Audit and Training in an accountancy firm.

Pran Krishansing Boolaky, FCCA, ACMA, CPA, MBA, Researcher in 'Accounting Development in Africa'.

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Abstract

According to Briston (1978) colonial inheritance is a major factor influencing the general system of financial reporting in many countries outside Europe. Parker (1989) has brought the argument further by saying that colonial inheritance extends to legal systems, culture and other backgrounds, but not just to direct imports of accounting.
This article studies the impact of colonisation and the legal systems on the accounting standards in Sub-Saharan Africa (SSA). The countries are grouped according to their colonies and legal systems in order to identify under which jurisdictions the adoption of IAS is more common. Consequently the study reveals that majority of the countries which were under the British colonisation and legal system either fully or partly adopt the IAS contrary to the ex-French colonies. However, Kenya and Mauritania use the IAS although they are administered under the Islamic law.

Key words: Colonisation; Legal systems; Accounting standards

Accounting Development in Africa: A study of the impact of colonisation and the legal systems on accounting standards in Sub-Saharan African Countries

Since the year 1991 there has been remarkable economic and political move in Africa. Strong and potential economic blocs have been constructed, such as the Southern African development Community, (SADC), Common Market for Eastern and Southern Africa, (COMESA), Indian Ocean Commission, (IOC) etc to compete in the world trade. The Africa Growth and Opportunity Act 2000 is a turning point in the economy of the African countries in the sense that more textiles products could now be exported to the American market. With the advent of these new developments, the number of foreign customers and suppliers are increasing. Foreign suppliers as well as customers are therefore keen to know the financial standing of the business enterprises that they deal with. It is for this reason that countries in the region have a need to review their accounting practices. By now many of these countries are transiting to the adoption of IAS in full or in part so as to make financial reports more interpretable and understandable. A large number of the African countries have also set up the capital market in order to comply with section 104, paragraph A of the AGOA. The AGOA requires also an environment that will open investment to the US and the protection of intellectual property, (see AGOA 2000, sections, 102, 1o7, 111 & 112). It is difficult to ensure a similar environment if, among other things, the accounting systems and practices remain rigid. This paper is a study of the impact of colonisation and legal systems on the accounting standards in Sub-Saharan Africa (SSA). It is divided into five sections. Section1 investigates into the accounting standards used by the SSA countries. Section 2 is a statistical experiment of the relationship that exists between legal systems and accounting standards. Section 3 deals with colonisation and its impact on accounting standards. Section 4 gives an overview of accounting systems and practices in a few countries of Africa followed by a conclusion in section 5. This paper concludes that that there is no evidence from the statistical experiment to suggest that the legal systems influence the accounting standards. However it reveals that a large number of past British colonies either fully or partly adopt the IAS, unlike the French colonies.

1 Accounting Standards and Practices including IAS in Africa

This section deals with the Sub-Saharan African (SSA) countries and the accounting standards used by them. For this purpose the Sub-Saharan African Countries have been grouped into two categories, namely; (see table 1 below).

- Countries fully and partly adopting IAS
- Countries not adopting IAS

Then the legal systems of these countries have been used in order to identify under which jurisdictions the adoption of IAS is more common. Obviously the legal systems existing in the SSA countries are different. They vary from the Portuguese legal system, English law, French civil law, a combination of English and French law, German law and Dutch Law. These legal systems prevailing in these countries could be explained as a result of colonisation. This paper is not investigating into the relationship between colonisation and the legal systems, but the influence of colonisation and the legal systems on accounting standards in the SSA.

For the purpose of comparison and discussion, the legal systems are grouped into three categories, namely; English legal systems, French legal systems and others. This is shown in table 2 below. The table reveals that seventeen out of forty five countries in the SSA either fully adopts or partly adopt the IAS whereas twenty-eight of the do not adopt the IAS.

Table 1 CLUSTERING COUNTRIES ACCORDING TO IAS STATUS

IAS FULLY ADOPTED	IAS PARTLY ADOPTED	IAS NOT ADOPTED
	Liberia	Angola
Kenya(2001)	Lesotho	Benin
Mauritius(2001)	Mauritania	Burkina Faso
Sierra Leone	Nigeria	Burundi
Seychelles	Tanzania	Gabon
Zambia	Uganda	Chad
	Malawi	Cape Verde
	Botswana	Comoros
	Zimbabwe	Cameroon
	Ghana	Congo
	Swaziland	Rwanda
	South Africa	Senegal
		Cote D'Ivoire
		Ethiopia
		D'jibouti
		Gambia
		Guinea
		Guinea Biseau
		Madagascar
		Mali
		Mozambique
		Namibia
		Niger
		Reunion
		Sudan
		Somalia
		Togo
		CAR
5	**12**	**28**

Source: IASC website 2003

Table 2: Comparing legal system with IAS

Contingency Table: Observed Frequency

	English Legal System	**French Legal System**	**Others**	**Total**
Adopting IAS	8	0	9	17
Not Adopting IAS	0	16	12	28
Total	8	16	21	45

Table 2 describes the status of IAS under the different legal systems prevailing in the 45 countries of the Sub-Saharan countries.

Countries fully adopting IAS: There are seventeen countries in Sub-Saharan Africa which either fully adopt or partly adopt the IAS despite operating under the different legal jurisdictions. The legal systems of eight of these countries are based on the English Common Law. The other nine have a legal system which combines both the French Civil Law and the English Common Law, the Dutch law or others, except Kenya whose legal system is a combination of the English Common Law and the Islamic law.

Countries not adopting IAS: Twenty-eight Sub-Saharan Countries do not adopt IAS at all. When comparing with the legal systems, sixteen are French Law Base, five are based on the German-Belgium Civil law, three on the Portuguese Civil Law and two on the Roman-Dutch law. The reasons for these countries to go without IAS are mainly because they were French colonies, low literacy rate, economically poor and government priority is much more focused on the alleviation of poverty. French colonies, which are now independent, are still using the French Accounting Plan, (FAP 1947), although the FAP in France has been revised. However, Madagascar made a move towards IAS as from 2002. A training project partly funded by the World Bank was run in Tananarive under the supervision of the 'Private Sector Funding Support' of Madagascar. On the other hand seven West African countries have developed a uniform system of accounting known as SYSCOA, (see Trotman, 1999)

2. Simple Statistical testing using the Chi Square

Having classified the countries according to their accounting standards, we shall hereunder determine whether there is statistical relationship between the legal systems and the accounting standards in Africa or vice versa. For this purpose we shall test the null hypothesis that the accounting standards used by a country depend on the legal system.
Ho: The accounting standards depend on the legal system in Africa
Ha: The accounting standards do not depend on the legal system in Africa.

In this hypothesis both variables are qualitative variables, that is, legal systems and accounting standards. Legal system can be British, French or others and accounting standards UK, US, IAS or others. This experiment will focus only on the use IAS. In order to investigate whether a dependence relationship exists between these variables, the Chi-square test is a suitable statistical technique.

Table 3:Contigency Table: Expected Frequency

	English Legal System	French Legal System	Others	Total
Adopting IAS	3	6	8	17
Not Adopting IAS	5	10	13	28
Total	**8**	**16**	**21**	**45**

Table 4:Chi Square Computation

Observed frequencies	**Expected Frequencies**	**$(O-E)^2$**	**$(O-E)^2/E$**
8	3	25	8.333
0	5	25	5.000
0	6	36	6.000
16	10	36	3.600
9	8	1	.125
12	13	1	.076
			$X^2 = 23.134$

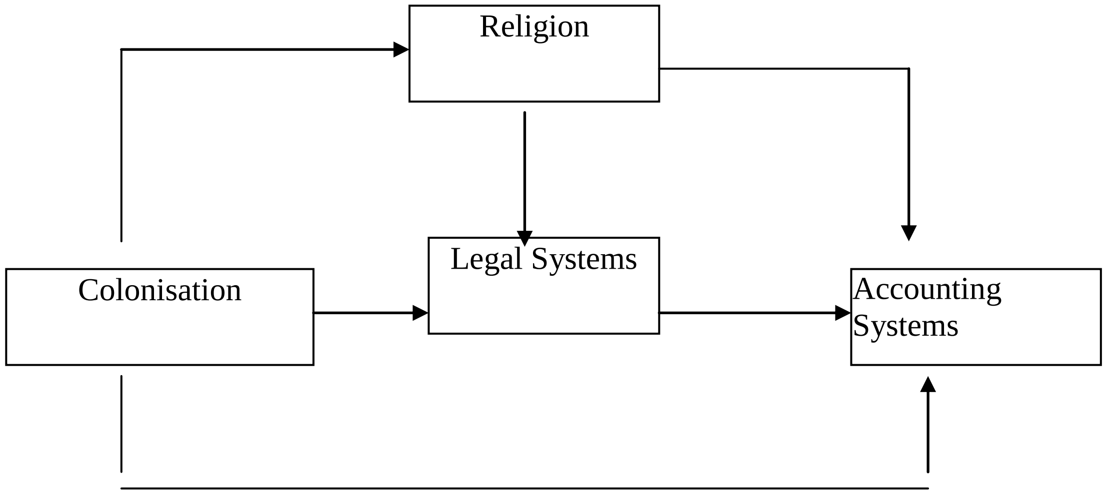
The Chi-square value computed is 23.134for Sub-Saharan Africa. At .01 level of significance with two degrees of freedom the critical value is 9.21034. Since the computed value of the test statistic is greater than the critical value there is not sufficient evidence to accept the null hypothesis that the two variables (legal systems and accounting standards) are dependent. At this stage it cannot, therefore, be argued that the full adoption, part adoption or no adoption of the IAS depend only the legal jurisdiction of a country in Sub-Saharan Africa. There are many other factors that influence the accounting systems and practices of a country (see Nobes, 2002, Choi et al,2002).

3. Colonisation and Accounting Standards and Practices Including IAS in Africa

Colonisation is a factor that has influenced systems and practices around the world. It is a common feeling that colonisation has influenced languages, religions and beliefs, legal systems as well as the accounting systems and practices (see Briston, 1978; Parker in A.G Hopwood, 1989). A large number of the countries in the African continent were ancient colonies of Western world. If we go back to 1900 all the Sub-Saharan African countries were colonies of either the British, French, Portugal, Germany or Belgium. Without going into the details of the history of colonisation we shall now evaluate its influence on accounting systems.

Figure 1 below is used to describe the influence of colonisation. Reading the figure from left to right, it describes that colonisation has an influence on religion. In many African countries majority of the indigenous follow the Christian religions, either

Figure 1.



Roman Catholic and Protestant. More so if we look at the languages that they do speak, it is obvious that they are all using the language of their colonials. French colonies are still using the French language same as the British colonies using the English language. In like manner the legal systems of these countries are also emanated from their colonies. That is English colonies using the English Common Law whereas the French ones using the French Civil Law. However, there are exceptional cases where the legal system is a hybrid system. Mauritania is an example where the legal system is a combination of the French and Islamic Law whereas Nigeria a combination of English and Islamic Law. Among the island colonies, Mauritius is an exception where the legal system is a hybrid of French Civil Law and English Common law.

Table 5 provides a list of the Sub-Saharan African Countries analysed into colonies, legal systems and IAS. It is then followed by a frequency distribution in table 6 showing the number of SSA countries by colonisation which either adopts or do not adopt the IAS.

Table 5: List of SSA countries by Colonies/Legal Systems/Accounting Standards

Members	Colonisation	Legal Systems	Accounting Standards (IAS)
Angola	Portugal	Portuguese Civil law	Not Adopt IAS
Benin	French	French Civil Law	Not Adopt IAS
Botswana	British	Roman-Dutch Law	Partly Adopt IAS
Burkina Faso	French	French Civil Law	Not Adopt IAS
Burundi	French	German-Belgium law	Not Adopt IAS
CAR	French	French Civil Law	Not Adopt IAS
Cameron	French	French Civil Law	Not Adopt IAS
Chad	French	French Civil Law	Not Adopt IAS
Cape Verde	Portugal	Portugal Civil Law	Not Adopt IAS
Comoros	French	French/English Law	Not Adopt IAS
Congo	French	German Belgium Law	Not Adopt IAS
Cote D'Ivoire	French	French Civil Law	Not Adopt IAS
Djibouti	French	French Civil Law	Not Adopt IAS

Ethiopia	Italy	N/A	Not Adopt IAS
Gabon	French	French Civil Law	Not Adopt IAS
Gambia	British	English/Islamic Law	Not Adopt IAS
Ghana	British	English Common Law	Partly Adopt
Guinea	French	French Civil Law	Not Adopt IAS
Guinea Bissau	French	N/A	Not Adopt IAS
Kenya	British	English/Islamic Law	Fully Adopt IAS
Liberia	United States	English Common Law	Partly Adopt
Lesotho	British	Roman Dutch/English Law	Partly Adopt
Madagascar	French	French Civil Law	Not Adopt
Mali	French	French Civil Law	Not Adopt
Malawi	British	English Common Law	Partly Adopt
Mauritius	British	French/English Law	Fully Adopt
Mauritania	French	French/Islamic Law	Partly Adopt
Mozambique	Portugal	Portugal Civil Law	Not Adopt
Namibia	German	Roman Based Law	Partly adopt
Niger	French	French Civil Law	Not adopt
Nigeria	British	English/Islamic law	Partly Adopt
Rwanda	Belgium	German/Belgium Civil Law	Not Adopt IAS
Reunion	French	French Civil Law	Not Adopt IAS
Senegal	French	French Civil Law	Not adopt IAS
Sierra Leone	British	English Common Law	Fully Adopt IAS
Seychelles	British	English/French Law	Fully adopt
Somalia	British	Islamic Law	Not Adopt IAS
Sudan	British	English/Islamic Law	Not Adopt IAS
Swaziland	British	Roman/Dutch/Tradition Law	Partly adopt
South Africa	British	Roman Dutch Law	Partly Adopt IAS
Tanzania	British	English Common Law	Partly Adopt
Togo	British	French Civil Law	Not Adopt
Uganda	British	English Common Law	Partly Adopt
Zambia	British	English Common Law	Partly Adopt
Zimbabwe	German	Roman Dutch Law	Partly Adopt

Source: World Fact book 2003, IASC Web site

Testing the impact of colonisation on accounting systems and practices in SSA

Table 6: Colonisation and the Adoption of IAS

Colonies	**British (%)**		**Others (%)**		**Total (%)**	
Adoption of IAS	15	**83**	4	**15**	19	**42**
Not adopting IAS	3	**17**	23	**85**	26	**58**
Total	18	**100**	27	**100**	45	**100**

The table above indicates that there is an association between colonisation and accounting standards and practices in SSA. 83% of the British colonies use the IAS which is Anglo-Saxon Based Accounting whereas 85% of other colonies do not use the IAS.

4. An overview of African Countries' experience

West African Countries' Experience

In Western Africa there has been a revolution in the accounting standards and practices. In 1998 seven countries (Senegal, Benin, Burkino Faso, Ivory Coast, Mali, Niger and Togo) set up a new business framework called the OHADA[2]. The purpose of the OHADA is to create a free trade area and to also enable the development of new accounting plan. In the same year a new accounting plan was created called the Plan SYSCOA[3] (see Trottman 1999). West African French-speaking countries today follow this new accounting plan. The reason is to meet the needs of the common market and secondly to create a database for business and economic analysis purpose. The Plan SYSCOA has allowed the creation of a central register of accounting for all the private sector enterprises in that region. With this database statistics on the financial position of business enterprises can be obtained and also compared.

Morocco's Experience

In Morocco there are many diverse forces that influence the accounting practices (see Gupta, 1989). But the basis of its financial accounting and reporting practice rest on the French Accounting Plan. Company accounts have to comply with the accounting plan and the commercial code. The commercial code requires that corporations need to appoint an auditor to audit their accounts. There is no provision as regard the qualifications and independence of the auditors.

After the setting up of the Organisation Communune D'afrique, Maurice (OCAM), a new accounting plan was developed and released in 1973. This was known as OCAM Accounting Plan. Morocco did not opt for the plan because it was found too statistical, theoretical and without legal contents. Morocco today has its own accounting plan suitable for its environment. This new accounting plan is made to comply with the EC fourth directive.

Nigerian experience

Nigeria is relatively advanced developing country. It has one of the oldest accounting professions in Africa dated back to 1960 (Wallace, 1988, 1990). This country is a capitalist economy with the belief in share ownership. It has a stock exchange and a securities' and exchange commission. Nigeria has also its accounting Standard Board which is a member of the IASC. The Nigerian accounting standards are issued taking into account the IAS implications.

Tanzanian Experience

Accounting regulation in Tanzania was vested in the National Board of Accountants and Auditors (NBAA) in 1972. The NBAA is empowered to issue accounting standards and by now has issued twenty-four accounting standards. But the parliament has remained responsible for the passing of laws related to accounting practices. Its

[2] OHADA stands for 'organisation pour L'harmonisation en Afrique du Droits des affaires'.
[3] Plan SYSCOA stands for Plan System Comptable Ouest Afrique.

accounting standards are comparable to those of UK and are also based on the IAS. There is no wholesale adoption of IAS in this country.

South and East African Experience

There are two leading blocs in this region of Africa, namely; the SADC and the COMESA. Majority of the members of SADC is also members of COMESA. The objectives of these blocs are to create a free trade area and a common market in the region. Eliminating tariff barriers and other barriers to trade among the member countries is also a priority. It must be noted that SADC has succeeded in its objectives. There are 14 member countries in the SADC. They were past colonies either of the British, French, Portuguese or the Germans. The colonial system has influenced the administrative and legal systems and practices of these countries.

Angola and Mozambique were colonies of Portugal. Their accounting and reporting systems are based on the Portuguese framework. That is a general accounting plan. Presently some business enterprises did not keep proper accounting records whereas others were late in finalising of accounts. (interview with Partner of GT).
Both countries are offering investment incentives to foreign investors, but there is no official move so far to change the accounting system. It was only in 2000 that a few private enterprises are preparing their accounts under the IAS on a voluntary basis. The emergence of the AGOA 2000 will definitely have an impact on the trade of this country. Moreover the value of intra-trade in the SADC region will also affect the type, quality, quantity and frequency of information for users to take decisions.
Republic of Congo is the only French speaking country in the southern region of Africa. Its accounting and reporting system is based on the French Accounting Plan. This country does not adopt the IAS at all. There is still inefficiency of public funds management and overwhelming governance issues etc in the country. It could be argued here that this difficult situation might have not occurred if there was a proper system of reporting and transparency in this country.
Congo as well as Angola and Mozambique have not adopted the IAS due to economic weaknesses and lack of trained personnel (SADC, Annual Report, 2001). However Madagascar has initiated an aggressive programme of transition from the Malgassy Accounting Plan to the IAS.

5. Conclusion

The contribution of this article is manifold. Firstly it has provided a cluster analysis of the SSA countries and the use of IAS which can be used for further research. Secondly, it has revealed that the adoption of IAS in SSA does not depend only on the legal jurisdiction of a country. Third, but not last, this study reveals that countries which are under the French jurisdictions and colonisation do not adopt the IAS whereas countries under the British colonisation and Legal system either fully adopt or partly adopt the IAS. 83% of the British Colonies in SSA adopt the IAS whereas 85

% of the other colonies do not adopt the IAS. 17 out of the 18 French colonies or French speaking countries in SSA do not adopt the IAS. This is a very high percentage tuning around 94%.

Exceptionally, Kenya and Mauritania although they are administered under the Islamic law they use the IAS.

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