

Improving the Quality of Accounting and Financial Information as a Prerequisite for Morocco to Converge towards the International Accounting Framework

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Abstract: *The present theme is part of the project of convergence of national accounting standards to international accounting standards IAS and IFRS. If the accounting and legal prerequisites implemented to date aim at the development of better accounting and financial information for investors, they must be reviewed by the public authorities, especially the part of accounting law, General Code of Accounting Standardization (CGNC), and Law No. 9-88 relating to the accounting obligations of merchants with a view to their standardization and harmonization with international standards (accounting standards). This accounting convergence made necessary by globalization must be carried out at a sustained pace under a technical aspect by the participation of accounting and economic professionals and a political aspect with the unconditional support of the public authorities while drawing inspiration from foreign experiences, including that of France. The present work has as a principal objective, the choice of Morocco to follow the procedure of convergence toward the international accounting benchmark while getting inspired by the experience of other countries notably France.*

Keywords: internal control, IFRS, IFAC, Audit Committee

1. Introduction

By the end of the last century and the beginning of the current one, many financial scandals shook the American companies such as "the Enron affair" and "the Sub-Primes". Following these events, we saw the United States adopted in July 2002, the law "Sarbanes Oxley Act (SOX)", which requires in its article 404 that the general management of the company implements under its responsibility, a structure of accounting and financial internal control which assesses its annual effectiveness¹, which is submitted to the auditors for validation by following a recognized internal control model.

For the implementation of this article, the Securities and Exchange Commission (SEC) and the Public Company Accounting Oversight Board (PCAOB) urged American and foreign companies (including some French groups) listed in New York to adopt COSO as internal control framework.

It is an American document published in 1992, titled "Internal Control-Integrated Framework * 1", known as COSO, from the name of the committee that designed it.

In France, the Financial Security Law (LSF) was promulgated on August 1, 2003, and according to the French authorities, it was "a response, both political and technical, to the crisis of confidence in the market mechanisms and regulatory inadequacies of which the economic and financial world has become aware for two years".

The objective of the article is to propose the approach that the Moroccan legislator must adopt to achieve convergence towards the international accounting benchmark by drawing inspiration from foreign experiences in the matter. This approach must be carried out in close collaboration with the various stakeholders in the preparation, approval, control, and communication of accounting and financial information, namely professional accounting, economic organizations, corporate governance, tax administration., investors...

To carry out this mission, considering the time factor and the difficulties to elude along the way, the following questions need to be answered: What approach to follow to carry out the migration to the international benchmark? What model of convergence for Morocco?

This paperwork will revolve around two parts. The first part will be devoted to foreign experience in the transition to the international benchmark and the role of the various stakeholders in this process and the difficulties encountered in achieving it.

The second part will be dedicated to the case of Morocco regarding the different perspectives of convergence towards the international benchmark.

2. Foreign Experience

2.1 The role of legal audit

Following the provisions of article 117 of LSF, the Chairman of the Board of Directors or Supervisory Board of companies making public offerings "gives an account, in a

¹ Le dispositif de contrôle interne : cadre de référence présentation des travaux du groupe de place-9 mai 2006 institut de l'audit interne
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report of... the internal control procedures implemented by the society". As for those of article 120 of the same law and relating to the aforementioned companies "the statutory auditors present in a report ... their observations on the report of the Chairman for those of the internal control procedures relating to the preparation and processing of accounting and financial information".

If the SOX is limited to internal accounting and financial control, the LSF extends to the internal control of a company in general and the internal control relating to the preparation and processing of accounting and financial information.²

This modernization of statutory auditing and transparency stems from the approach favored by a working group, called "Groupe de Place", to which the Authority of Financial Markets (AMF) has entrusted the choice and/or the adaptation of a benchmark of internal control, to be compared with foreign standards and in particular, the American COSO, to be implemented by French companies making public offerings. After examining the American COSO and British Turnbull Guidance standards, the Place Group has adopted a reconciling approach:

- The "good practices" observed abroad;
- The French regulations;
- The recommendations of the Corporate Governance reports;
- The developments in the 4th, 7th and 8th European directives.

The Group was also inspired by COSO about:

- Control environment: stage of the organization consisting of the definition of the tasks and the delimitation of the responsibilities of the personnel in charge of the control as well as the individual qualities required of the collaborators such as competence, honesty, and ethics.
- Risk assessment: for any function, whether commercial, production or otherwise, the company must establish a system for identifying, analyzing and managing the corresponding risks, a sort of risk mapping.
- Control activity: the development of control procedures and standards, as well as their proper execution, allows management to reduce the risks linked to the achievement of objectives.
- Information and communication: to carry out their mission of monitoring, management and control of the various operations, the staff has the necessary information.
- Monitoring: the control system is not frozen; modifications must be made depending on the context.

2.2 The role of the audit committee:

The Place Group has also ensured that the work of the European Commission complies with the reference framework being developed.

² TAYECH Mohamed Nizar La certification du contrôle interne : Proposition d'un référentiel Vers une approche combinée COSO et la norme d'audit 5 du PCAOB mémoire pour l'obtention du diplôme national d'expertise comptable page5

The European Commission adopted in the 4th and 7th accounting directives, the modernization of company law and the strengthening of corporate governance. It provided that " companies (...) making public offerings each year make a description of the main characteristics of the internal control and risk management systems (...) as part of the process of preparing the consolidated accounts. (...) ". As for the 8th Directive on statutory audit, adopted by the European Parliament, it imposes, under certain conditions, public interest entities to have an Audit Committee, responsible for monitoring the process of drawing up financial information, monitoring of the internal control system, internal audit, if applicable, and company risk management. It also provides for the statutory auditor (auditor) to report to the Audit Committee on the fundamental questions raised by the statutory auditor, in particular the major weaknesses of internal control concerning the process of preparing financial information.

In France, the audit committee must also make recommendations on the integrity of the financial reporting process. Data integrity includes five elements: Authenticity, completeness, relevance, precision (qualitative) and accuracy (quantitative). Can the integrity of financial data be limited to compliance with the accounting standards and compliance with laws or should it be extended to cross the concept of the true and fair view? The risks covered are not limited to directly accounting and financial risks but must extend to any risk likely to have a significant impact on financial information. After 3 years of practice, it emerges that the risks supervised by the audit committee may include fraud and corruption risks, tax risks, legal risks, operational risks inherent in purchases, sales, human resources, information, environmental risks, risks linked to cybercrime, image and reputation risks.³

In Morocco, there is an audit committee charter which must be supplemented by drawing on French experience with audit committee due diligence, such as:

- Ensure regular update of the general/operational risk mapping and review its development methodology and results;
- Examine the implementation of specific risk maps (cyber, etc.) Ensure that the internal control and internal audit systems deal with the risks of the maps;
- Ensure that the internal control systems are subject to a self-assessment process, independent review and remediation of the weaknesses and weaknesses identified;
- Check that the action plans are followed on time.

2.3 The role of internal control

Insofar as the "COSO" and the "CADRE" of reference require the establishment and implementation of an internal control system in the entities concerned, we present below the general principles of this system.

2.3.1 Definition:

Internal control is a company's system-defined and implemented under its responsibility. It includes a set of

³ KPMG : réforme européenne de l'audit, trois ans après ; quels impacts pour les comités d'audit ? Edition janvier 2020 page 7

means, behaviors, procedures, and actions adapted to the specific characteristics of each company which:

- Contribute to the control of its activities, the efficiency of its operations and the efficient use of its resources and must allow it to appropriately consider significant risks, whether operational, financial or compliance.⁴

The internal control aims more particularly to ensure:

- 1) Compliance with laws and regulations to which the company is subject to;
- 2) The application of instructions and guidelines set by the executive management or the Management Board; communicated to employees to achieve the objectives assigned by the company and the risks involved;
- 3) The proper functioning of the company's internal processes, particularly those concerning the safeguarding of its assets, tangible and intangible;
- 4) The reliability of the financial information obtained from the application of the procedures and allowing the entry of all the operations of the company, respecting:
 - The separation of operational, accounting and security tasks;
 - Description of the active functions in this process;
 - General accounting principles accepted.

2.3.2 The frame of reference

The work carried out by the Place Group regarding the development of the internal control reference framework includes:

- General principles and not binding rules of internal control;
- Two general questionnaires, one related to internal accounting and financial control. The other one is related to risk analysis and control, an essential component of any internal control system;
- Guide an application guide relating to the internal control of accounting and financial information published by issuers which can be used as a tool by the relevant functions of the company and for the president's report as well as the reading element for the investors.⁵

Ultimately, the means put in place by the company to guarantee the proper functioning of its internal control system to achieve its objectives, depend on external hazards and the risk of errors in decision-making or high cost compared to the expected profit.

3. Moroccan Experience

3.1 Legal framework

Alike France, Morocco started the modernization of company law, the establishment of an accounting law, the

⁴ Evolution de la réglementation en matière de contrôle interne et Maîtrise des Risques., animé par Guy de La Tour d'Artaise ,14 Décembre 2006 page 11

⁵ Le dispositif de contrôle interne : cadre de référence présentation des travaux du groupe de place-9 mai 2006 institut de l'audit interne
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establishment of an order of chartered accountants through the approval of the following laws:

- Law n ° 9-88 (December 1992) related to the accounting obligations of merchants in which its article n ° 4 obliges people subject to this law and whose annual turnover is higher (currently) to 10 million MAD to establish a manual which aims to describe the accounting organization of their business;
- General Code of Accounting Standardization (CGNC)
- Decrees of November 1989 and July 1990 respectively establishing the National Accounting Council (CNC) and the national diploma of chartered accountant;
- Law No. 15-95 forming the commercial code;
- Law n ° 17-95 (August 1996) on public limited companies (SA), whose title VI/control, deals with the conditions of appointment of auditors; as for article n ° 327, it obliges the board of directors or the executive board to draw up summary statements as determined by law N ° 9-88; Law No. 20-19 of 2019 supplementing and publishing the transparency of information intended for shareholders and the public in public limited companies;
- Law No. 15-89 (January 1993) establishing the order of chartered accountants;
- Law n ° 21-19 (April 2019) modifying and completing law N ° 5-96 (February 1997) on general partnerships, limited partnerships, partnerships limited by shares, limited liability companies, and the joint venture;
- Law No. 69-00 (December 2003) on state financial control over public enterprises and other bodies, Article 14 of which is devoted to the audit committee (see 8th European directive);⁶
- Law No. 38-05 on the consolidated accounts of public establishments and enterprises;
- Law No. 127-12 of August 20, 2015, regulating the profession of chartered accountant and establishing a professional organization of chartered accountants;
- Decree n ° 2-18-454 of 20/12/2019, published in BO n ° 6844 of 02/01/2020 making applicable the Code of professional duties of the Order of Chartered Accountants from this date.

This legal arsenal has led to the introduction of internal control in the Moroccan company, whether public or private (including subsidiaries of multinationals), like what is done in France, in the other countries of the CEE and beyond.

3.2 Accounting and financial internal control

As such, we recall the principle of the reliability of accounting and financial information as defined above in (4 /), which principle requires the company to apply generally accepted accounting principles.

The production and communication of this information require the organization of the accounting and finance function and the implementation of an accounting process allowing the transformation of the economic operations of

⁶ Le commissaire aux comptes face à la première application des normes IFRS mémoire pour l'obtention du diplôme national d'expertise comptable mlle fadoua tahari mai 2007

the company into accounting and financial information through an accounting input mechanism., processing, closing of accounts, preparation, control, conservation, and communication.

Senior management is responsible for the preparation of the accounts as well as the accounting and financial internal control systems. It is also required to inform the board of directors or the supervisory board of all the facts that could put into question the continuity of the operation of the business. Senior management also listens to the statutory auditors regarding any significant anomalies and/or weaknesses in the internal control system or the application of accounting principles having a significant impact on the accounts.

For the information that emerges from the financial statements to be regular, truthful and to give a true picture of the assets, the result, the cash flows and the ETIC (appendix), it is necessary to identify the risks inherent in the accounting mechanism according to criteria to be applied with rigor.

These are the criteria presented below as they were applied in France by the professional standards of the statutory auditors related to the probative nature of the elements collected (decree of 07/19/2006), and in Morocco, as it is implemented by the order of chartered accountants according to the manual of auditing standards (by following per under International Standards on Auditing (ISA), files and work tools of February 2008, and that of SMEs in November 2018:

- Completeness: all transactions and events relating to the entity are real, carried out and recorded during the financial year;
- Measure: the amounts of said transactions and events are correctly recorded;
- Classification (clarity): transactions and events are recorded in the appropriate accounts,
- Separation of fiscal years: transactions and events are recorded in the correct period.
- Existence: of all assets and liabilities when the accounts are closed.

On the other hand, there are quality criteria that make it possible to identify the risks inherent in the preparation of accounting and financial information. Among these criteria we will mention the modules (accounting processes) having for object the treatment of a set of homogeneous operations and this by following per under the accounting rules applied by the company:

- Intangible and tangible fixed assets and (goodwill in France)
- The accounting rules recorded in the procedure's manual define, among other things, the various charges relating to this module, such as the distinction between maintenance, upkeep, and repair charges and fixed assets acquired;

Financial fixed assets

Securities and loans are subject to monitoring about concerning their valuation, conservation and the recognition of the products they generate at year-end;

- Stock / Long-term or construction contracts;
- Purchases / Suppliers and similar;
- Income from ordinary activities / Customers and similar;
- Cash / Financing and financial instruments;
- Staff;
- Taxes, duties and similar;
- Provisions and commitments;
- Consolidation;
- Management information is necessary for the preparation of published accounting and financial information.

Considering the above and taking into account the principles and rules to be applied, it is obvious that the information contained in the summary statements is transparent and reliable. However, this information remains insufficient for many users, including investors who need additional information that meets their needs for decision-making.

Moroccan accounting law has made it compulsory to use the national accounting reference system which sets the principles and methods for assessing and presenting summary statements and the statement of additional information (ETIC). to the accounts) and conventional (contractual audit), the Order of Chartered Accountants of Morocco has updated the auditing standards following the ISA standards, mentioned above in the French version, which version has been endorsed by the International Federation of Accountants (International Federation of Accountants: IFAC). The Order also used the French NEP (NP 2910) "Mission to audit financial statements in a small entity". The auditor's report model complies with standard ISA 5700, which became mandatory from fiscal years beginning on or after January 1, 2020, therefore for audits relating to fiscal years 12 months ended December 31, 2020.

This standard is not the only tool in the hands of professionals involved in the audit of small and medium-sized enterprises since the professional's judgment is given having regard to the environment and the circumstances of each audit.

For the definition of small and medium-sized enterprises, the Order adopted that of IFAC (International Standard Financial Information for Small and Medium-sized Entities) with the setting of thresholds not to be exceeded:

- An annual turnover excluding taxes not exceeding 100 million dirhams;
- A total annual balance sheet not exceeding 200 million dirhams;
- And a permanent workforce of no more than 200 employees.

3.3 Outlook for the national convergence project

To align itself with international standards, Morocco has carried out a well-rounded upgrade of its main legal arsenal to improve the quality of information. However, we note that

the reforms relating to accounting law have not suffered the same fate.

Consequently, it is now necessary to begin the overhaul of the Moroccan accounting reference system having regard to the requirements of the standards of the international accounting reference system, starting with the rewriting of the general code of accounting standardization (CGNC) and the development of the project. amending Law 9-88 relating to the accounting obligations of merchants.

The problem of choosing the approach to follow to achieve this migration arises given the situation of the economic fabric of the country.

Also, there is reason to look at international experiences to operate an acceptable alternative such as:

- The pure and simple adoption
- Convergence by level
- Convergence by component

In France, the Place Group has adopted a conciliatory approach:

- the "good practices" observed abroad;
- French regulations;
- the recommendations of the Corporate Governance reports ...

It was also inspired by the American COSO.

The convergence model to be used in Morocco is based on the following guidelines set during the 2nd edition of the conference organized on May 24, 2013, by the National Council of the Order of Chartered Accountants under the theme IFRS repository: which convergence model for Morocco?

- Retain the general philosophy of IFRS standards (placing the investor at the heart of the target audience of information recipients)
- Adopt all the provisions of the standard which are deemed relevant in the current economic context and which are likely to improve the quality of the financial information produced.
- Ensure that the provisions introduced are realistic, that is to say, non-binding for the company.⁷

4. Conclusion

Certainly, it will take a while for the convergence of Moroccan accounting standards to reach the international accounting standards IAS / IFRS, however, we must not ignore the efforts made by the public authorities, the CNC and professional accounting organizations including the CAB for the preparation of the field, to cite in this respect only the accession of the OEC to IFAC and the implementation in 2020 of the ISA in matters of control (audit and commissioning of accounts) in SMEs.

The number of entities that have started applying IFRS in Morocco remains negligible. It concerns establishments and public enterprises that can consolidate subsidiaries according to the IFRS method: the case of CDG, in addition to credit institutions.

In a Moroccan case, research on the impact of IFRS for SMEs is still non-existent and very few articles attempt to study their applicability (EL Haddad & Amzil, 2015), or a discussion of the advantages and limits that this standard can present (Haichar & Haouari, 2018).

However, due to its qualitative nature, the benefits are not always apparent or Measurable. The studies carried out on Moroccan exporting SMEs mainly focus on their production capacity, reducing costs and improving the quality of Products to meet different international standards (ISO, etc.) (Chaik, et al., 2020).⁸

Finally, it would be a good idea to start implementing a support procedure and training human potential, taking into account the evolving framework of the international accounting framework, while ensuring the CNC national accounting council the human, material, and financial means necessary for the accomplishment of this mission of convergence while being inspired by the French approach reconciling:

- The "good practices" observed abroad
- Moroccan regulations, good corporate governance
- The experience acquired by Moroccan companies in the application of IAS / IFRS.

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