



**UNIVERSITY OF
STIRLING**

**The Relevance of International Financial Reporting
Standards to Saudi Arabia: Stakeholder perspectives**

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This work is dedicated to:

**my parents and my wife Albandary,
who supported me and
who were my source of
inspiration and motivation**

Thank you for your love and encouragement.

Author's declaration

This thesis has been constructed completely through my own work except for quotations and citations that have been acknowledged. This thesis has not been accepted or submitted for any other degree. Work and analysis in this thesis has been conducted separately except when approved otherwise.

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Abstract

This thesis investigates the suitability of International Financial Reporting Standards (IFRSs) for Saudi Arabia by examining the perceptions of accounting users and preparers. It explores the information needs of the main users of accounting, the factors that represent barriers to the adoption of IFRSs, and the costs and benefits of the adoption of IFRSs.

The study compares Saudi Accounting Standards (SASs) and IFRSs. In addition, a questionnaire survey was conducted and semi-structured interviews were carried out to examine the issues in greater depth in order to answer the research questions. The political nature of accounting standards is investigated, as well as theories of accountability and decision usefulness in order to interpret the results and explore to what extent and in what manner these frameworks function in the Saudi environment.

The Islamic accountability framework would suggest that companies represented by owners and managers are accountable to their stakeholders' interests, and owners and managers must protect those interests and disclose everything that may help them to discharge their accountability. However, the findings presented in this thesis suggest that practice of the Islamic accountability framework is limited. The influence of religious factors on the accounting system is limited in some cases as there is inadequate disclosure and transparency, such as a lack of information required for Sharia compliance; this affects users' ability to make decisions. The results also reveal some evidence that accounting standard setting is dominated by

political (rather than ‘user-needs’) considerations. Furthermore, economic factors override social and cultural factors, including religion, in terms of their influence on the accounting system. The results suggest *inter alia* that religious factors will not represent a barrier to the use of other standards such as IFRSs.

The findings suggest that the adoption of IFRSs would contribute to enhancing the quality of financial reporting. The results also reveal that financial reporting prepared on the basis of IFRSs provides more of the information required for decision-making. The results also suggest that there is, to some extent, agreement among participants as to the suitability of IFRSs to Saudi Arabia, and that their benefits would eventually overcome the difficulties and problems that may arise from their adoption, although it is still necessary to consider certain specific requirements, such as those related to Sharia law.

Abbreviations

AAA	American Accounting Association
AAOIFI	Accounting and Auditing Organization for Islamic Financial Institutions
CFO	Chief Financial Officer
CMA	Capital Market Authority
DZIT	Department of Zakat and Income Tax
EU	European Union
FASB	Financial Accounting Standards Board
FDI	Foreign Direct Investment
GAAP	Generally Accepted Accounting Principles
GCC	Gulf Cooperation Council
GCCAAO	Gulf Cooperation Council Accounting and Auditing
IAS	International Accounting Standards
IASC	International Accounting Standards Committee
IFRS	Intentional Financial Reporting Standards
IOSCO	International Organization of Securities Commissions Organization
SAGIA	Saudi Arabian General Investment Authority
SBB	Saudi British Bank
SOCPA	Saudi Organization for Chartered Public Accountants
Tadawul	Saudi Stock Exchange
WTO	World Trade Organisation

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1 Introduction

1.1 Introduction and Motivations for this study

Over the past few years, many developing countries have begun to use International Financial Reporting Standards (IFRSs), as laid out by the International Accounting Standards Board (IASB), due to the steady rise in multinational companies seeking overseas investment. Some researchers have stated that it would be beneficial for developing countries to adopt these standards (Belkaoui, 1994; Halbouni, 2005 and Tyrrell et al., 2007). Nevertheless, there is some debate amongst academics and practitioners concerning the extent to which IFRSs can be adopted by these nations, as environments vary from country to country and the fact that adoption of these standards may be detrimental, as they have been developed for capital markets in developed countries (Hove, 1989; Perera, 1989; Briston, 1990 and Larson, 1993). Saudi Arabia is one of the countries for which these standards could be either beneficial or detrimental.

Saudi Arabia has the world's largest oil reserves and is therefore a nation which can play a vital part in the world economy. Efforts have been made to take advantage of the oil reserves in order to develop the country and make it prosperous. Saudi Arabia recently joined the World Trade Organisation (WTO), and its stock market activity has increased, as has foreign investment in the country. Moreover, Saudi Arabia's economy is supported at certain times of the year by the influx of around four million Muslims who come to Saudi Arabia to do the Omirh and Hajj (Shoult, 2006). These pilgrimages take place mainly during the month of Ramadan and the

first ten days of the Al-hajah (the last month of the Hegira calendar). According to the World Bank (2007), Saudi Arabia ranks first of all Middle Eastern countries, and twentieth in the world, as a favourable environment for foreign direct investment (FDI).

Saudi Arabia differs from other developing countries in general, and from other Arab countries more specifically, in several ways. For example, Saudi Arabia is a relatively rich country and its laws are heavily influenced by Islam. In addition, unlike most developing nations, it has never been colonised by any developed country (see 4.3 for further information). Moreover, Saudi Arabia differs even from other Arab countries in its accounting practices (see 5.4.3.3). It may therefore be inappropriate to apply conclusions from studies of other countries to Saudi Arabia.

Some researchers have pointed out that attention regarding IFRS adoption has focused mainly on developed countries, and that it would be useful for the IASB to study developing countries in greater depth in order to better understand their accounting needs. There has been a dearth of investigations into the process of the adoption of IFRSs in developing countries. This has been highlighted by the studies of Watty and Carlson (1998), and Dawahy et al. (2002). Specifically, no prior studies have investigated their relevance to Saudi Arabia and some researchers have called for an empirical investigation into their suitability to Saudi Arabia (see Al-Mogbel, 2003). The present study will attempt to fill this research gap. It will also attempt to address the reasons as to why there has been no complete adoption of IASs/IFRSs by Saudi Arabia, although other countries' accounting standards are used as a starting point for Saudi Accounting Standards (SASs).

1.2 Research Objectives and Questions

The overall aim of this study is to explore the suitability of IFRSs for Saudi Arabia.

This objective will be divided into sub-objectives, as follows:

- To examine and discover the accounting needs of Saudi Arabia.

What are the needs of users of accounting information in Saudi Arabia?

- To examine Saudi Accounting Standards (SASs) as compared to IASs/IFRSs in order to identify the differences and determine which system can better satisfy user needs from the perspective of respondents.

What are the main differences between SASs and IFRSs and which system can better satisfy users' needs?

- To provide an understanding of the factors (cultural issues) that must be taken into account when considering the adoption of IFRSs in Saudi Arabia.

What are the underlying factors (cultural issues) that may influence the adoption of IFRSs in Saudi Arabia, and which issues might act as barriers to their adoption?

- To examine the difficulties and problems occurring during the transition to IFRSs in Saudi Arabia

What problems and difficulties would Saudi Arabia face when applying IFRSs?

- Understanding the factors or reasons that might lead Saudi Arabia to adopt IFRSs, and the benefits of this adoption

What factors can influence and benefit from the full adoption of IFRSs in Saudi Arabia?

What are the benefits of applying IFRSs in the Saudi environment?

1.3 Summary of the Research Methods

In order to achieve the research objectives and answer the research questions, the present study uses different sources of data, as follows:

- Saudi accounting standards (SASs) and IASs/IFRSs were compared in order to identify the main differences between them and use these differences to explore which system is most suitable for satisfying users' needs, through questionnaires and interviews.
- A questionnaire survey was conducted among preparers¹ and users of external reports, members of the professional accounting body, the Saudi Organization for Certified Public Accountants (SOCPA) and auditors.
- A series of interviews were conducted with preparers and users of external reports, members of the professional accounting body, the Saudi Organization for Certified Public Accountants (SOCPA) and auditors.

¹ This thesis mainly focuses on companies which are listed on Saudi stock market.

Using a mixed-method approach permits a more thorough and comprehensive investigation of the subject than the use of one method alone. The mixed-method approach also helps to achieve cross-validation of data (Hussey and Hussey, 1997; Silverman, 2000). The combination of two approaches permits the shortcomings of each to be overcome (see Chapter Five).

1.4 Contributions of this study

This study contributes to knowledge of the topic in many ways, and may be found useful by others in the future.

- As can be noted from the literature (see Dawahy et al., 2002 and Al-Mogbel, 2003), there have been several calls for a separate examination of each developing country. Therefore, this study will attempt to fill the general gap in the literature on the relevance of IFRSs to developing countries, and a more specific one, by studying Saudi Arabia. In addition to responding to the call for more country-specific studies in the area of IFRSs relevance to developing countries, as mentioned previously, Saudi Arabia has many unique features which are not found in other developing countries; therefore, any general conclusion on developing countries may not be applicable to a country-specific study.
- Banks in Saudi Arabia have begun adopting IFRSs. In addition, SOCPA has decided to use these standards in cases where there are no SASs. This study

explores the impact of IFRSs on the quality of banks' financial reporting and their potential impact on companies' financial reporting after adoption.

- This study provides a clearer understanding of the factors which may influence the adoption of IFRSs in developing countries in general and in Islamic countries in particular by using Saudi Arabia as a case study. This study also determines whether these factors can be barriers to IFRS adoption in Saudi Arabia.
- This study contributes to an understanding of the Islamic accountability framework with regards to accounting practice in Saudi Arabia. It also explains the process of setting accounting standards and discusses the main influences on this process, particularly by examining the political nature of setting accounting standards of an Islamic country like Saudi Arabia.
- Although Saudi Arabia may differ from some Islamic countries, this study may be useful for other Islamic developing countries in gaining a clearer picture of the differences between Islamic countries by comparing some of the findings of this study and other studies, and perhaps in applying the results of this study to their countries.
- This study offer insights to the IASB when examining the suitability of IFRSs in a developing country (Saudi Arabia), and exploring the obstacles associated with transition to IFRSs. Moreover, as the main aim of the IASB is to provide financial reporting that is useful for accounting user to make

decision, this study contributes to the exploration of the usefulness of their standards for the decision-making framework in a Saudi context.

- The Saudi Organisation for Certified Public Accountants (SOCPA) will benefit from this study by acquiring a clearer view of the suitability or non-suitability of IFRSs to Saudi Arabia, and the benefits and problems involved in the integral adoption of IFRSs. In other words, this study contributes to an understanding of potential difficulties associated with adoption of IFRSs in Saudi Arabia. On the other hand, how Saudi Arabia can benefit from these standards is also examined. Moreover, universities in Saudi Arabia may find this study useful if expanding their courses in international accounting. Furthermore, this study provides the Capital Market Authority (CMA) with user perspectives about the current level of disclosure as the enforcement body of listed companies on the Saudi stock market.
- This study provides useful material for researchers/academics with an interest in international accounting research in general, and also in Saudi Arabia, as there is a dearth of studies and research regarding accounting standards and IFRSs in particular.
- This study may be useful to other interested parties, such as local and foreign investors.

1.5 Structure of the Thesis

Chapter 1

This chapter contains an introduction to the thesis, including the research objectives and questions. The motivations for this study are included, a summary of the research methods is given and the contributions to the knowledge are presented. Finally, an outline of the thesis is given.

Chapter 2

This chapter discusses accounting standards setting and the reasons for differences in international accounting, and accounting harmonisation.

Chapter 3

Literature on accounting in developing countries is reviewed. This chapter also contains a discussion of IFRSs, including their adoption and their relevance or otherwise to developing countries. Moreover, the theoretical framework used in this study is discussed.

Chapter 4

This chapter discusses Saudi Arabia's accounting background and the factors which may influence it. Accounting regulations, SOCPA, and existing accounting standards are also discussed.

Chapter 5

This chapter presents the research design, the research methodology, samples and data collection.

Chapter 6

In this chapter the results of questionnaire surveys and interviews are presented.

Chapter 7

In this chapter the final results are discussed in relation to prior literature and theoretical frameworks in order to answer the research questions and fulfil the research objectives.

Chapter 8

The limitations of the study, the conclusion, recommendations and suggestions for future study are presented in this chapter.

2 Background to International Accounting Harmonisation

2.1 Introduction

The purpose of this chapter is to review literature related to accounting standards and international accounting harmonisation. Section 2.2 discusses the setting of accounting standards in general. Section 2.3 reviews prior studies in international accounting in terms of international accounting differences. Section 2.4 deals with the history of international accounting harmonisation and explores the benefits of and barriers to the harmonisation of accounting.

2.2 Accounting Standards

Walton and Aerts (2009, p.71) state: *“The foundation of financial accounting consists of a set of assumptions, conventions and rules referred to as Generally Accepted Accounting Principles (or GAAP).”* There is no general GAAP standard and the essentials vary from one country to another based on the objective of accounting in each country. This influences the setting of accounting standards in each country.

2.2.1 Accounting Standards Setting

Before discussing the political nature of accounting standards setting it is useful to look first at the differences between regulations and objectives in the accounting systems of different countries, which lead to differences in the orientations of accounting standards setting among countries. Ball et al. (2003) argue that the setting of accounting standards differ between common law countries with market orientation and code law countries

with planning orientations. In common law countries such as the US, the UK and Canada, there is a high demand for high quality financial reporting with more disclosure because these reports serve the public and large individual shareholders. Therefore, enforcement for the setting of accounting standards comes primarily from the private sector. In these countries the setting of accounting standards is also derived from the independent accounting profession and to some extent subject to the intervention of government regulatory bodies (Wyatt, 1991). Governments are involved in the setting of accounting standards in countries that have less significant capital markets (Brown and Tarca, 2001).

In code law countries, such as France and Japan, accounting information is used by a variety of stakeholders, including suppliers, creditors and the government. The setting of accounting standards in these countries is done primarily in the public sector (Ball et al., 2003). Governments may be involved in accounting standards setting in these countries (Alexander et al., 2005). *“Information asymmetry more likely is resolved by ‘insider’ communication with stakeholder representatives, so there is a lower demand for high quality public financial reporting and disclosure”* (Ball et al., 2003, p.242). Government involvement in the setting of accounting standards is more likely in developing countries in particular; however, the level of involvement varies from one country to another. For example, in a country like Thailand the government is directly involved in the setting of accounting standards (Saudagaran and Diga, 2000). Furthermore, in Malaysia and Singapore governments are more likely to intervene in accounting standards setting (Ball et al., 2003).

The theoretical framework section (Chapter Three) discusses the influence of lobbyists on the setting of accounting standards and their motivations.

2.3 International Accounting

International accounting can be defined as: “accounting for international transactions, comparisons of accounting principles in different countries, harmonisation of diverse accounting standards worldwide, and accounting information for the management and control of global operations” (Iqbal, 2002, p.4).

According to Nobes and Parker (2000), there are several reasons to study international accounting. One is historical, as certain countries have contributed to the development of accounting. The rise of multinational companies (MNCs) is another reason, as MNCs are constantly growing and their need for international accounting is therefore growing too. A third reason is that of harmonisation; several studies have attempted to investigate the compatibility of accounting practices in different countries. However, there are certain problems facing international accounting, which include existing accounting diversity. Therefore, in order to gain a better understanding of the causes of this accounting diversity, some of these causes will be investigated in this section. This section will also contain a discussion of accounting harmonisation. Finally, accounting classifications will be discussed.

2.3.1 Causes of Differences in International Accounting

Roberts et al. (2005, p.156) state: “The accounting system is the outcome of complex processes and it is influenced by, and also influences, a number of clear factors”. Many studies have maintained that the differences between accounting systems in countries are caused by economic and institutional differences (Mueller, 1967; Nobes, 1998). Moreover, some other studies cite the cultural differences between countries. These studies were based on Hofstede’s model (Gray, 1988; Salter and Niswander, 1995;

Chanchani and Willett, 2004). It can also be argued that the variations in accounting systems from one country to another are caused by the different accounting needs in different countries (Briston, 1978; Hove, 1986; Radebaugh et al., 2006). It seems that differences in environmental factors mentioned above are the reason for different accounting targets and, as a result, for different standards (Samuels and Oliga, 1982). Therefore, there are differences not only between developed and developing countries but also between countries in the same region or sharing a similar culture. Some factors influencing accounting systems have been presented by Radebaugh and Gray (2002), as illustrated in Figure 2.1. The following sections discuss prior studies exploring these factors and their influences on accounting systems.


Culture	International Factors	Enterprise Ownership	Enterprise Activities
Economic Growth & Development			Accounting Profession
Accounting Regulation			Finance & Capital Market
Taxation			Legal System
Social Climate	Inflation	Accounting Education & Research	Enterprise Activities

Figure 2-1: Environmental Influences on Accounting Development.
 (Source: Radebaugh and Gray, 2002, p. 21)

2.3.1.1 Legal System

The legal system is one of the main factors influencing accounting systems. Western Legal system can be divided into code law and common law (Roberts, et al., 2005; Alexander et al., 2005; Jaggi and Low, 2000). Moreover, in some countries the legal

system is more affected by religions such as Islam, which should influence accounting in Islamic countries (this will be discussed later and in Chapter Four). According to Jaggi and Low (2000), code law, or Romano-Germanic law, began with Roman law. This group has been classified into French-origin, German-origin and Scandinavian-origin (Jaggi and Low, 2000). The French code has had an influence on some other European countries, as well as Asian and African countries that were colonised by France, while the German code has influenced the legal systems of Switzerland, Japan, Korea, and certain other countries (Jaggi and Low, 2000).

According to La Porta et al., (1998), Scandinavian law is very close to common law. Common law began with English law. It depends on behaviour and has been formed mainly through case law, evolving from judicial decisions in particular cases. Among the countries that use this legal system are the UK, the US, Canada, Australia and India (Jaggi and Low, 2000). Accounting regulations differ from country to country depending on the type of legal system used. In countries that use common law, accounting rules are independent of the law and accounting regulations are organised and formed by professional organisations; in addition, company law is not highly specific (Alexander et al., 2005). On the other hand, company law in code law countries is much more detailed and explanatory, and the government usually sets and formulates accounting regulations (Alexander et al., 2005). According to Meek and Saudagaran (1990), in common law countries limits are established by law and within these limits professional judgement is required. In contrast, accounting rules in code law countries are generally very prescriptive and procedural, with the laws specifying minimum requirements.

Other studies, such as those by La Porta et al., (1998) have found that the legal systems of both common and code law countries have a great impact on the development of corporate ownership, corporate capital structure, and capital markets. According to Jaggi and Low (2000), legal systems can have a direct or indirect bearing on financial disclosures. For instance, the development of Companies Acts or accounting regulations that set out broad requirements for measuring and disclosing financial information are directly influenced by legal systems. Tax laws, particularly in code law countries, can also influence measurement and disclosure policies.

2.3.1.2 Sources of Finance

Sources of finance create another factor that exerts a strong influence on accounting development. There are various kinds of finance providers; these providers may be individuals or organisations that can supply debt or equity finance (Roberts et al., 2005). The most common finance providers are banks, shareholders and governments (Meek and Saudagaran, 1990; Alexander et al., 2005). In the case of developing countries, the World Bank plays a major role by providing loans, as does the International Monetary Fund. As a result these organisations attempt to affect the accounting regulations in these countries, for example, by exerting pressure on them to adopt IFRSs (Karim, 2001; Annisette, 2004; Alfredson et al., 2005). Tyrall et al. (2007) report that the World Bank made the adoption of IFRSs a condition in order for Kazakhstan to obtain financial aid.

Sources of finance influence accounting systems in different ways. This influence varies depending on whether equity finance or debt finance is more significant. Where equity is more important, accounting regulations are prepared in order to be useful in

assisting investors in decision-making; however, where debt is more important the accounting measurement rules are formed with an interest to aiding creditors (Roberts et al., 2005). When capital for investment is provided by banks, most enterprises are comparatively small and family-owned; this is the case in Italy and Germany, for example (Zysman, 1983). In such countries there may be little requirement for disclosure, as banks have a significant influence on corporate policies and practices. However, in the UK, the US, Australia and certain other countries, the principal source of finance for most companies is shareholder equity, which results in the need for greater disclosure and external auditors (Meek and Saudagaran, 1990; Nobes, 1998), as shareholders (finance providers) are often unable to have private access to internal accounting information or involvement in a company's management (Meek and Saudagaran, 1990; Nobes, 1998).

The above information shows that finance source plays an important role in influencing the accounting systems in different countries, resulting in variations between the systems in these countries. As mentioned previously, the World Bank is one of the main organisations influencing accounting systems in developing countries, because it provides these countries with various kinds of finances. This will be later discussed in greater depth.

2.3.1.3 Culture

Many studies indicate that cultural factors have a significant influence on accounting development (Gray, 1988; Douppnik and Salter, 1995). The most widely-known theories supporting this claim are those of Hofstede (1980) and Gray (1988).

Hofstede (1980) identified certain dimensions of national culture. These dimensions are: high and low power distance; high and low uncertainty avoidance; individualism and collectivism; and masculinity and femininity. Power distance refers to how cultures deal with inequalities in status. High power distance countries have strongly hierarchical organizations (e.g. Latin American, Latin Europe, and Asian countries). Uncertainty avoidance refers to the extent to which equivocal situations are accepted and the extent to which conformity is demanded by institutions (Baydoun and Willett, 1995). A high uncertainty avoidance culture seeks to structure social systems in a highly ordered and predictable way. Nordic and Anglo-Saxon countries are low in uncertainty avoidance, while those in southern Europe and Central and South America are high. Individualism refers to the interaction of members of society with one another and the extent to which the interests of the individual are prioritised over those of the wider community (Baydoun and Willett, 1995). The masculinity/femininity dimension refers to highly differentiated gender roles in which masculinity is seen as representing power, ambition and competitiveness, while femininity places greater emphasis on sensitivity, 'caring' and emotions.

Hofstede's theory proposes that societies are affected by various technological and environmental factors, and consequently develop the different societal values above. These values affect institutional processes, including information needs (Baydoun and Willett, 1995). However, Hofstede's theory belongs to the literature of cross-cultural psychology and does not pertain specifically to accounting. Therefore, Gray (1988) tries to extend Hofstede's theory in order to understand some of the mechanisms through which culture might influence the design of accounting technology and accounting

practices. Gray (1988, p.8) identifies a country's cultural norms as influencing the following contrasting values in accounting:

Accounting can be more professional or statutory. *"A preference for the exercise of individual professional judgment and the maintenance of professional self-regulation as opposed to compliance with prescriptive legal requirements and statutory control."*

The second contrast is uniformity as opposed to flexibility. *"A preference for the enforcement of uniform accounting practices between companies and for the consistent use of such practices over time as opposed to flexibility in accordance with the perceived circumstances of individual companies."*

The third contrasting variable is conservatism or optimism. *"A preference for a cautious approach to measurement so as to cope with the uncertainty of future events as opposed to a more optimistic, laissez-faire, risk-taking approach."*

The fourth is secrecy as opposed to transparency. *"A preference for confidentiality and the restriction of disclosure of information about the business only to those who are closely involved with its management and financing as opposed to a more transparent, open and publicly accountable approach."*

Gray (1988) modelled the relationship between Hofstede's cultural values and his (Gray's) accounting values, as illustrated in Table 2.1. The particular areas of practice which, it is suggested, are affected by these variables. The areas were initially described by Gray as those of authority, measurement and disclosure. Gray anticipates that a high level of individualism in a society would be linked to the use of individual judgment and would thus have an effect on professional accounting bodies (Baydoun and Willett, 1995). However, high individualism also suggests misgivings concerning guarded

disclosure practices, possibly implying that a conservative calculation rule, such as the lowering of cost and market value, will be less popular as distrust arises from conservatism (Baydoun and Willett, 1995).

Gray's model proposes that all accounting policy decisions at a national level are made in response to cultural values that are explicable in the terms of Hofstede's study (Salter and Niswaner, 1995). Gray's model mirrors Hofstede's concept of cultural dimensions, with accounting terminology replacing cultural terminology (Askary, 2006).

Table 2-1 Relationships between Gray's accounting dimensions and Hofstede's cultural dimensions

Cultural Values (Hofstede)	Accounting values (Gray)			
	Professionalism	Uniformity	Conservatism	Secrecy
Power Distance	-	+	?	+
Uncertainty Avoidance	-	+	+	+
Individualism	+	-	-	-
Masculinity	?	?	-	-

Note :(+) indicates a direct relationship between the relevant variables; (-) indicates an inverse relationship. Question marks indicate that the nature of the relationship is indeterminate.

(Source: Baydoun and Willett, 1995, p.71)

Many previous studies (Perera, 1989; Fechner and Kilgore, 1994; Baydoun and Willett, 1995; Chow et al., 1995; Doupnik and Salter, 1995; Salter and Niswander, 1995; Sudarwan and Fogarty, 1996; Askary, 2006) use Gray's model to investigate the influence of culture on accounting. All agree that culture influences accounting systems. For example, Baydoun and Willett, (1995) find that cultural factors influence and shape accounting and disclosure practice. This result was also reached by Jaggi (1975). Some studies, such as Perera (1989) and Baydoun and Willett (1995) agree that the accounting systems of developed countries may not suit the needs of developing countries.

Moreover, Askary (2006) mentions that Gray's hypothesis of accounting authority is confirmed completely for some developing countries, such as Iran, and moderately for a country such as Bangladesh or Jordan. However, Askary (2006) finds that Gray's hypothesis of accounting authority is totally rejected for some countries, such as Pakistan. This indicates that the results for one country cannot be generalized to relate to all countries. More studies of culture will be discussed in 4.3.3.

2.3.1.4 Economic Development and Growth

According to Haitani (1986, p.4), the term "*economic system*" refers to a "*complex of organizational patterns among individuals and groups engaged in activities of fulfilling human material needs*".

Arpan and Radebaugh (1985) argue that the extent of government involvement in the economic sector is a key point in the economic system. They classify countries into three groups, the first being communist countries in which the government has complete control of production resources and all economic operations, and makes almost all decisions concerning economics. In such countries the government is practically the sole user of economic information and accounting systems are therefore employed mainly to promote government systems. Accounting systems in those countries are therefore designed to serve the government's objectives (Almalaje, 1998). The second category is that of market-capitalist countries in which most economic activities are owned and controlled by the private sector, with a broad scope for individual participation in such activities. The third category is that of market-socialist countries, which include countries where the private sector is dominant but where a certain amount of central government regulation applies, as well as countries where

ownership is to a great extent in the hands of the government (Arpan and Radebaugh, 1985).

Furthermore, according to Roberts et al. (2005), a country's economic system is the most important factor in determining its accounting regulations. More specifically, some studies have been conducted on the relationship between economic growth and accounting systems, and have found a strong and positive relationship between a country's accounting system and its economic growth (Cooke and Wallace, 1990; Adhikari and Tondkar, 1992; Sedaghat et al, 1994). Countries where a capital market exists will try to establish an accounting system that provides more disclosure in order to help find high quality accounting information that is helpful in making economic decisions (Adhikari and Tondkar, 1992). Moreover, Alford et al. (1993) find that different capital markets, accounting standards and entrepreneurship among states all affect financial reporting requirements and the need for financial reports.

Furthermore, business types influence accounting regulations. For example, countries that depend on foreign trade or countries where many companies have become MNCs will attempt to focus on accounting regulations that serve and solve the problems of currency transactions and translation (Roberts et al., 2005). According to Chamisa (2000), the increase in the growth of MNCs will increase the differences in accounting systems. According to Roberts et al. (2005), accounting based around gas and oil are significant for some countries such as the US, whereas accounting related to fields such as agriculture are more important for developing countries than for developed countries. As a result, each country may have different concerns regarding their accounting system and the sectors used for accounting.

2.3.1.5 Profession

Another important factor responsible for differences in accounting systems is the accounting profession. The accounting profession can vary from country to country for many reasons. For example, there are differences in the regulation of professional bodies, depending on the legal system in use in each country (Roberts et al., 2005). The quality of financial reporting is influenced by the robustness and capabilities of the accounting profession. For example, in countries with a strong accounting profession auditing reports will be more reliable; this is not the case in countries with a weak accounting profession (Nobes and Parker, 2006). Furthermore, there might also be a connection to ownership: in a country with few publicly-owned companies (e.g. France) the influence of the accounting profession is restricted (Nobes and Parker, 2006).

2.4 Standardisation and Harmonisation

Standardisation is the movement toward the use of one single accounting standard and the use of the same accounting rules, and harmonisation is the effort to decrease the differences between accounting systems and encourage the use of similar methods (Tay and Parker, 1990; Haller and Walton, 2003). The use of the similar methods by companies in different countries helps improve the comparability of financial reporting (Archer et al., 1996).

Many factors contribute to the increasing need for harmonising accounting standards. According to Gray (1988) and Radebaugh et al. (2006), the increase of FDI, the development of MNCs, the growth of financial markets and the influence of such organisations as the World Bank, the IASB and the IFM all assist in supporting harmonisation and the concept of having a single accounting system. In this section,

the benefits of and obstacles to accounting standards harmonisation will be presented, as well as efforts which have been made to obtain this harmonisation.

2.4.1 International Accounting Standards Board

Introduction

In history, associations of the accounting profession started in major towns and cities and then were brought together into national accounting associations by the governments in the countries they were in (Forrester, 1996). In the 20th century, these national bodies formed international links and co-ordinating professional bodies (ibid). Forrester (1996) stated that accountants began to get together from time to time within their own countries and internationally then to participate in congresses and conferences. The first one was in the United States in 1904 and since then there have been many more, especially in Europe (Forrester, 1996).

According to Forrester (1996), accounting harmonisation was a goal of accountants in many different countries, although this was not the case with auditing. The desire for harmonization increased with the increase of multinational companies as this would facilitate their operations (ibid).

Background of IASC

1973 the establishment of the International Accounting Standards Committee (IASC), with headquarters in London. This was set up thanks to the efforts of Sir Henry Benson, a prominent English accountant, who saw that there had to be greater consistency in the greatly varied worldwide accounting practices in order to meet the requirements for

comparing financial statements from different countries as trade and commerce became more and more globalised (Camfferman and Zeff, 2007).

According to Zeff (2003), the IASC's members initially consisted of members of the accounting profession, financial managers and scholars from nine countries: the US, the UK and Ireland (taken together), Holland, Germany, France, Australia, Canada, Japan and Mexico. It was an ambitious undertaking and the IASC soon started to set accounting standards that were generally fairly flexible, and to which more attention was paid by emerging economies than by developed countries. However, with the rapid globalisation in the 1980s and 1990s, the IASC began to be taken more seriously by developed economies as it raised its standards to a higher level. This was undertaken largely in response to demand from regulators of securities markets (Nobes and Parker, 2006).

According to Camfferman and Zeff (2007), in order to function efficiently capital markets must be able to rely on high quality accounting and financial reporting; these are also prerequisites for effective corporate governance. However, due to conflict arising in business interests, it is no easy matter to arrive at an agreement on what constitutes appropriate accounting standards. Although the IASC's function is often viewed primarily as a technical one, it also has a political aspect that has a strong influence on its technical processes.

According to Zeff (2003), until 1987 none of the member bodies of the IASC, apart from the CICA in Canada, had the authority to regulate financial reporting in their respective countries. Therefore, not many firms in these countries adhered to the

IASC's standards in their financial reporting. Compliance with the 26 standards it had issued until 1987 was a major issue for the IASC. These standards were nonetheless fairly flexible and applicable to matters prevalent in most businesses, which allowed for interpretation appropriate to the requirements of individual nations. According to Camfferman and Zeff (2007), the IASC's membership in 1987 included board members from Nigeria and South Africa, who had been admitted in 1978, as well as associate members from many other accountancy bodies, including the Institute of Chartered Accountants in England and Wales (ICAEW) and the American Institute of Certified Public Accountants (AICPA).

After its formation in 1977, the IFAC sought a merger with the IASC but this was rejected by the latter. The United Nations (UN) and the Organisation for Economic Cooperation and Development (OECD), by engaging themselves in international financial reporting, also began to appear as rivals to the IASC's authority. The IASC soon realised that in order to maintain and develop this authority and encourage adherence to its standards they would have to extend their membership outwith the accountancy profession to join to IASC and adopt their standards (Camfferman and Zeff, 2007). With this aim in mind, a course of considerable expansion occurred, including the 1981 establishment of a Consultative Group, which encompassed a broad range of organisations including the International Chamber of Commerce and the World Bank, and the admission of Italy to the board in 1983 and Taiwan in 1984.

1987 saw major changes being introduced by the IASC, following a meeting in Australia in March of that year. A major restructuring programme was undertaken and a concentrated effort was launched to reduce the flexibility of their standards, making

them more rigid and less open to interpretation, through the 'Comparability project'. The main objective of this was to win the backing of the regulators of securities markets, particularly in nations with sophisticated capital markets. The internationalisation of capital markets increased steadily, and with it a growing need for consistency in international accounting standards (Camfferman and Zeff, 2007). Haller (2002) stated that in this year the International Organisation of Securities Commissions (IOSCO) came into being and began to exert a strong influence on the IASC. An agreement was reached between the IASC and IOSCO that the members of the latter would attempt to introduce a requirement that the financial reporting of overseas firms wishing to list themselves on the stock exchanges of IOSCO member countries should comply with IASC standards (Street, 2002).

The results of this agreement did not materialise as intended, for several reasons. The greatest demand for stock exchange listings came from firms seeking listing on the US stock exchange, which therefore had to comply with US Generally Accepted Accounting Principles (GAAP). This was a requirement stipulated by the US Securities and Exchange Commission (SEC), which exerted a very strong influence within the IOSCO. Another reason was that the IASC's standards were still incomplete, particularly those regarding financial instruments. However, in 1995 another agreement was reached with IOSCO, wherein IOSCO assented to endorse IASC standards, provided the IASC board could finalize a group of 'core' standards by 1999 (Street, 2002). This, with great effort, the IOSCO was able to do by the end of 1998, although many of the standards thus developed varied, often considerably, from those in general operation in the majority of developed economies.

In addition, by the mid-1990s IASC standards had gained greater acceptance in Europe, including winning the support of the European Commission, who had previously been unfavourable towards the IASC. At that time some of these standards met with general approval, while others were less satisfactory, notably IAS 39, dealing with financial instruments (Camfferman and Zeff, 2007). However, these standards were not universally adopted, especially in countries with well-established national accounting systems. They were particularly resisted by the UK, the US, Australia and Canada, who in 1993 set up a group which came to be known as G4 to discuss accounting issues and possible solutions to them. The US Financial Accounting Standards Board (FASB) were particularly outspoken in their criticism of the IASC, and the SEC, while less vociferous, was also critical.

IASB

In 2001, the International Accounting Standards Committee changed its name to the International Accounting Standards Board (IASB) and underwent major restructuring (Zeff, 2003). This was largely at the behest of the SEC, without whose support the members of the board realised that the IASC could not continue to function. Nonetheless, due to a very half-hearted endorsement of the IASC's core standards in May 2000 on the part of IOSCO, it looked increasingly as if US GAAP standards would prevail over those of the IASC. This did not come about, only because the European Commission has obliged all listed companies in the European Union to use IASs from 2005 for group accounts. This move represented a tremendous advance for the IASC (soon to be the IASB).

The EC's motivation for this action was primarily to prevent the virtual hegemony of the US GAAP and the consequent diminishing of European influence in international trade and commerce. There are fifteen members on the IASB Board, most from developed countries (IASB, 2010). They are selected by the IASC Foundation Trustees on the basis of their relevant technical knowledge and experience rather than from which part of the world they are (IASB, 2010). Currently, the IASB and the FASB are dominant in the domain of financial reporting, with the IASB issuing IFRSs that are used in the private sector in many countries worldwide.

Sir David Tweedie (IASB's Chair) mentioned that more uniform standards enable investors worldwide and increase their confidence in companies' financial reporting (Dunne et al., 2008). However, it is argued that IASs/IFRSs bear the stamp of some developed countries, such as the UK and the US, and others have identified a strong Anglo-American influence (Wallace, 1990; Craig and Diga, 1996b; Flower, 1997; Kikuya, 2001; and Fry and Chandler, 2007). Alexander and Archer (2000) investigate the previous structure of the Board of the IASC and reported that the majority of its members came from developed countries. Their findings supported Rivera's (1989). Criticism has also been levelled at the new structure of the IASB, a structure that the USA approved but which continental European countries were initially against (Oliverio, 2000). According to Buchanan (2003), the US brought pressure to bear on the IFRSs. This raises the question of how suitable IASC standards are for developing countries.

2.4.2 Developed Economies and IFRSs

According to Whittington (2005), the adoption of IFRSs by developed economies was encouraged by the International Accounting Standards Committee (IASC) since its

establishment in 1973, and particularly after 1995. In 2000, the set of standards formulated by the IASC was approved by the International Organisation of Securities Regulators for use by their members. IFRSs are now accepted for foreign entrants by most international stock exchanges; in the USA, however, they are acceptable, but accounts must also be compatible with the Generally Accepted Accounting Principles (GAAP) used in the US. Whittington (2005) also pointed out that many countries formulate their accounting standards taking the international standards as a basis. Around a hundred countries intend to require or allow IFRSs for listed companies in the near future, if they do not already. For instance, Canada has intend to adopt IFRSs by 2011(IAS Plus, 2010).

2.4.2.1 European Union and IFRSs

In 1995 the Commission at last admitted that the directives on financial statements were inadequate and began attempts to bring about greater international harmonisation, both within and outwith the EU. Since then the European Commission has tended to announce that EU firms should use IASB standards (Walton and Aerts, 2009). In 1999 the Commission realised the practicalities and benefits that could be gained from greater international harmonisation, and took the view that IFRSs appeared to be the most suitable standards for international financial reporting needs (Yu, 2006). In June 2000 the Commission declared that accounting should be harmonised still further and that all listed European Commission firms ought to issue consolidated financial statements conforming to IFRS (Whittington, 2005; Walton and Aerts, 2009).

In order to smooth and encourage cooperation, and decrease the differences between EU Directives and IFRSs, EU 2001 and 2003 amended its fourth and seventh directives to make them conform more closely to IAS 39 (Walton and Aerts, 2009). Since January

2005, all listed companies in the EU must prepare their financial statements according to IFRSs (Irvine and Lucas, 2006).

2.4.3 Benefits of and Obstacles to Harmonisation

Global application of a single system of accounting facilitates the understanding of financial statements from different countries, so that they can be more effectively compared (Choi and Levich, 1991; Nobes, 1990). Hence, in this era of commercial globalisation, potential investors are able to compare various firms' reports in order to decide which they prefer to invest in (Larson, 1993; Purvis et al., 1991). Adopting a unified accounting system will facilitate the movement of capital and other resources across borders, and decrease the expense involved in the preparation of accounting statements (Tyrrall et al., 2007). Moreover, in terms of developing nations, the adoption of IFRSs will help to reduce the expense and time involved in issuing new standards, increases the efficiency of the stock market and makes financial statements more understandable (Asharf and Ghani, 2005).

However, accounting harmonisation involves considerable expense, although there are many benefits to be gained from a unified accounting system. In addition, several elements must be considered, such as culture, market economy and political systems, which differ considerably from one country to another and therefore represent possible barriers to establishing an accounting system that can work well in all countries (Nobes and Parker, 2006). Developing countries may have specific needs and, as a result, the IASB may not consider their needs (Perera, 1989). In addition, professional accounting bodies may be weak in some countries; this is one of obstacles to harmonising accounting standards. This is particularly true in developing countries, as these

standards require a strong effort in order to be implemented effectively. Moreover, one of the orientations of the IASB is to use the fair value method in many cases for assets and liabilities such as IASs 39/40 and 41, deal with fair value. It has been argued that the objective of this is to provide accounting users with the opportunity to make decisions based on the evaluation of a company's assets and liabilities (Kosonboov, 2004). However, in some cases, and in most developing countries, fair value is difficult to obtain, as there is an absence of an active market for most assets. This represents one of the major disadvantages of the fair value method (Kosonboov, 2004). Therefore, this may reduce reliability compared with historical cost (Barth, 1994).

2.5 Summary and Conclusion

In this chapter, the literature related to accounting standards setting has been reviewed. Then the literature regarding international accounting was discussed. Finally, the effort toward accounting harmonisation, and the benefits and difficulties have been presented. The previous literature indicates that the above factors have an important influence on accounting development and have led to accounting diversity. These factors have therefore been discussed in order to show their influence on an accounting system. In addition, as the topic of this study is the suitability of IFRSs to Saudi Arabia, these factors will be discussed in the next chapter with specific reference to the influence these factors have on accounting systems in developing countries and on the accounting system in Saudi Arabia, particularly in Chapter Four.

As seen above, the IASC/IASB have made an effort to develop one accounting system, and some organisations, such as IOSCO and the World Bank, support this orientation. This has led to an increase in the number of countries adopting IFRSs. The next chapter

reviews existing literature about the adoption of these standards and its relevance to developing countries.

3 Adoption of IFRSs and Theoretical Framework: Review of the literature

3.1 Introduction

Chapter Two introduced and discussed issues related to accounting standards setting, reasons for international accounting differences, and accounting harmonisation. Although some of the factors that influence an accounting system have already been discussed in Chapter Two, this chapter reconsiders some of these factors in the context of developing countries, as the case study is Saudi Arabia. It will be necessary to explore some of these factors in even more depth when discussing Saudi Arabia separately in Chapter Four. In addition, the theoretical framework will be discussed. This chapter is organised as follows: section 3.2 discusses previous studies on the impact of accounting education, the accounting profession, cultural, economic development and economic growth, as well as other factors that can influence accounting in developing countries. At the end a summary will be given. Section 3.3 discusses the adoption of IFRSs by developed and developing countries, and the relevance of these standards to developing countries. Section 3.4 discusses the theoretical framework that will be used in this study.

3.2 Accounting in Developing Countries

Developing countries² have been defined by many organizations and studies, such as those of the World Bank (2002) and Wallace (1990). Both of these studies concluded that developing countries are in the middle of economic growth. In addition, the World Bank defined them as countries of low and middle incomes.

3.2.1 Variations among Developing Countries

Although some of the factors that can influence accounting systems have been discussed in the previous chapter (see 2.2), others will be explored in this section in order to discover their influence on developing countries.

Prior studies maintain that the differences between accounting systems in various countries are caused by economic and institutional differences (Nobes, 1998). Other studies cite cultural differences, with some of these studies being based on Hofstede's Model (Gray, 1988; Salter and Niswander, 1995; Chanchani and Willett, 2004). The variations in accounting systems from one country to another are caused by the differences in the accounting needs of those countries (Briston, 1978; Hove, 1986).

² According to Scott (1970); Perera (1989a); Farag (1991); Bannock et al. (1992); Selvaraj (1993); and Lawrence (1996), among others, a developing country may possess some or all of the following characteristics, to varying degrees:

- Agriculture and mineral resources form the basis of the production sector.
- Production is employed for both internal and exporting purposes, the aim of the latter being to acquire funds to purchase goods and services from overseas.
- Their economies are in the process of transformation, without productive industrial production sectors
- There is a high illiteracy rate.
- There is an oligarchic political system.
- Wealth is concentrated in the hands of a small minority.
- The government is heavily involved in the economy.

Chamisa (2000)³ states that the differences between developing countries are highlighted by the fact that they have a much broader assortment of economic and social indicators than do developed countries.

Caution is advised; it could be harmful to attempt to generalize conclusions from a study of one country's accounting system as being suitable conclusions for other developing countries, as environmental and accounting needs vary from country to country (Peasnell, 1993). Any important changes of these factors in any country may influence the policies and regulations of accounting. For example, a country that is trying to develop its stock market and attract FDI may need to improve its accounting system; this may be a motivation for the adoption of IFRSs (Zeghal and Mhedhbi, 2006).

3.2.1.1 Accounting Education

Education is a significant factor that influences accounting systems in any country (Zeghal and Mhedhbi, 2006). According to Briston (1978), certain developing countries have based their accounting education system on that of developed countries, such as the US. Some developing countries were influenced by foreign accounting education

³ He mentions that variations between developing countries are due to certain factors, which he uses to classify these countries into groups. The first of these factors is geographical region (e.g. Africa, Asia, Europe and the Middle East); the second, historical and economic background, such as countries that were colonised by others (e.g. Mozambique) and countries which were colonisers (e.g. Portugal). Nobes (1998) mentions that the latter factor may be significant when exploring accounting systems in developing countries; for example, it may explain differences between the accounting system in Gambia, which was colonised by Britain, and that of Gambia's neighbour, Senegal, which was colonised by France. Chamisa (2000) also mentions countries that became communist and then changed back to capitalism (e.g. Egypt), the group of developing countries with rapid economic development (e.g. Malaysia and Hong Kong), and, finally, countries with abundant natural resources, such as some of the countries of the Middle East, including Saudi Arabia.

while they were colonized. Countries such as Singapore, Malaysia and Indonesia, which were invaded by developed countries and influenced by their lifestyles and systems, still use the same system of accounting education, which might be incapable of producing accountants able to meet the needs of their countries' economic development (Yapa, 2003). Accounting information produced according to developed countries' accounting systems is not useful in making decisions regarding developing countries (Perera, 1989a).

Education problems in developing countries come from unsuitable textbooks and an insufficient number of qualified staff and teachers who might contribute to producing qualified secondary school graduates (Halbouni, 2005). Moreover, Agami and Alkafaji (1978, p. 195) maintain that:

“An educational system which is effective in one country might poorly serve the educational needs of another country if the nations have drastically different economic systems or social and cultural settings.”

Briston (1978) also found that the professional accounting philosophy in Indonesia was based on that of the US and many of the texts used to teach accounting in Indonesia were American. Gulf nations have also been influenced by the accounting systems of developed countries in that they rely mainly on the US and the UK for their accounting textbooks. In Saudi Arabia, for example, many American textbooks are translated into Arabic and used to teach university students. Moreover, Saudi Arabia also uses Egyptian textbooks, which have been influenced by French and British accounting systems (Ernst and Young, 1993).

Among developing countries, education may contribute to shaping accounting systems and may particularly influence the adoption of accounting standards within the country. For example, the level of adoption of IFRSs by developing countries may differ from one country to another depending on the education level of the accountancy staff, who need considerable training in professional judgment (Street, 2002). Zeghal and Mhedhbi (2006) find a positive relationship between level of education and the adoption of IFRSs in developing countries, as developing countries with a high education level and well-trained accounting staffs are more capable of adopting IFRSs.

In summary, it can be said that the development of education in developing countries may be influenced by developed countries and may not suit their accounting information needs (Kosonboov, 2004). Moreover, inadequate education may also represent a barrier to the development of accounting systems in developing countries. Unqualified accountants and low levels of education and training may be two obstacles to some countries' adoption of IFRSs (Zeghal and Mhedhbi, 2006).

3.2.1.2 Accounting Profession

Many developing countries suffer from a lack of accounting professionals, as accounting education is inadequate. Moreover, in some developing countries accounting is not even recognized as a profession, as it is in developed countries such the US and the UK (Radebaugh, 1975).

The accounting professions in five Asian countries (Malaysia, Singapore, Indonesia, Philippines and Thailand) were compared and contrasted by Ninsuvannakul in his 1988 study. The findings of this study indicate that although these countries chose to develop

their accounting professions in a comparable manner, they did not achieve the same results due to the variations in the degree to which their trading economies had developed. Auditing characteristics in Asian countries were investigated by Favere-Marchesi (2000), who recommended that auditing standards in Vietnam, Brunei and Thailand be raised through the introduction of strict rules for ongoing professional education.

According to Chamisa (2000), three factors that contribute to the difficulties in developing accounting in developing countries are: a dearth of funds, a scarcity of skilled personnel, and insufficient experience in the formulation of local accounting standards. Xiang (1998), in his study of Chinese accounting standards, draws attention to the problems that arise from a shortage of professional or independent auditors, and points out that professional discernment on the part of both management and auditors would be necessary in order to bring IFRSs originating in Anglo-American countries into effect.

3.2.1.3 Culture Studies

Culture and its influence on accounting systems has been discussed earlier (see 2.2.3). In this section literature dealing specifically with developing countries will be explored. Hofstede's Model was used by Chow et al. (1995) in a comparative study of culture in China and Anglo-American countries. They found many drastic differences in the accounting system, indicating that it is often difficult to adopt the accounting standards of one country to another country.

Based on Hofstede's four cultural values, Perera's (1989b) generalised perception of developing countries was that they were collectivist, therefore having a low level of accounting professionalism (Gray, 1988), and that they had a strong degree of uncertainty avoidance and significant levels of power distance. A high level of secrecy in developing countries may influence accounting practice by leading to a low level of information that should be disclosed (Arpan and Radebaugh, 1985; Jaggi, 1975). As a result, external auditors may have difficulties in obtaining the information they require (Arpan and Radebaugh, 1985). In addition, any negative information involving any individuals related to accounting practice may be kept secret. For example, companies may keep secret any information that may harm them or influence investors' confidence in these companies.

According to Kantor et al. (1995), Arab countries are similar in their religion, culture and legal systems. Hofstede (1980) classifies Arab countries into a homogenous group including Saudi Arabia, Egypt, Lebanon, Libya, Iraq and Kuwait. These countries are presented as having large power distance, low individualism, high masculinity and high uncertainty avoidance (Kantor et al., 1995). However, some differences in accounting systems exist between them. For example, Saudi Arabia has regulations and policies that may be different from other Gulf countries (see Section 5 for these differences).

Different cultures within developing countries may lead to differences in accounting systems. Nobes (1998) notes that one country's adoption of an accounting system may be attractive to other countries sharing a similar culture. For example, the adoption of IASB standards may be easier and more attractive for developing countries that are influenced by Anglo-American culture (Zeghal and Mhedhbi, 2006). The English

language may be a factor marking a difference between developing countries with regards to the adoption of IFRSs, as English facilitates the adoption of IFRSs by developing countries where English is spoken more than in countries which do not speak English (Abd-Elsalam and Weetman, 2003).

3.2.1.4 Economic Development and Growth

Many studies have focussed on the relationship between economic growth and accounting systems in developing countries. A strong relationship exists between accounting and various environmental factors, such as economic growth (Cooke and Wallace, 1990). Moreover, there is also a positive relationship between economic growth, the securities market and accounting information in developing countries (Sedaghat et al., 1994).

In most developing countries the government is heavily involved in economic activities. This could be partially due to the political structure predominant in such countries, their dependence on natural resources as a source of finance, and a small, or even non-existent, private sector. The high degree of government involvement in economic activities affects the process of accounting standards setting in various ways. For instance, the government will be the main user of accounting information and may set standards which suit its own ends (e.g. Perera, 1989b). In addition, accounting standards could be incorporated into legislation (e.g. AlHashim and Arpan, 1988), and government involvement in setting accounting standards may be necessary if the accounting profession is underdeveloped or non-existent and therefore incapable of setting standards, or of setting them within a reasonable time scale (e.g. AAA, 1978).

The reliability of financial disclosure may also be improved if legal disclosure standards are in existence (Jaggi, 1975).

Many Arab countries have been classified by the World Bank as low income, such as Egypt, or high income, such as the Gulf countries, including Saudi Arabia. However, the majority of these countries, including Saudi Arabia, have economically inefficient stock markets (Kantor et al., 1995). This may suggest that accounting systems were designed more to serve governments. However, some Arab countries are currently starting to rethink their accounting system in order to assist in increasing the efficiency of the stock market and increasing investors' confidence, as most of the countries have adopted IFRSs.

In developing countries, economic factors play a major role in shaping the accounting system. It has been argued that in countries where the level of economic development is high, the accounting system has become more important due to its association with economic development (Zeghal and Mhedhbi, 2006). Furthermore, developing countries which are more open to external economics, particularly those of developed countries, consider the adoption of an international accounting system more frequently than those countries which are not (Zeghal and Mhedhbi, 2006). This may be because these countries need to satisfy or influence developed countries, where greater importance is placed on the private sector and their aim is therefore the maximisation of shareholders' wealth.

Furthermore, developing countries where capital markets exist try to adopt accounting systems that may provide more disclosure that is helpful for investors' decision-making

(Adhikari and Tondkar, 1992), because accounting information has come to be more important for the public (Nobes, 1998). In most developing countries, financial reporting is the main source of accounting information for investors (Chamisa, 2000). In addition, it has been argued that the existence of capital markets in developing countries is one of the motivations for these countries to adopt IFRSs (Adhikari and Tondkar, 1992). This suggests that capital markets may play a role in a country's choice of accounting standards.

3.2.1.5 Colonialism

Many developing countries have been colonised by developed countries, such as the UK and France, and they have been influenced by the accounting practices of these colonial powers (Choi and Mueller, 1978; Meek and Saudagran, 1990; Baydoun and Willett, 1995).

British influence in several countries is very long-established. The British Companies Act, together with customary reporting and auditing requirements, was imposed on virtually all of the countries where industry had been developed to any great extent under British colonial rule (Briston, 1978, pp.107-108). In the view of Briston (1978) and Hove (1986), among others, such an influence results in a situation where developing countries' accounting practices may not reflect these countries' requirements, because of cultural differences between developed and developing countries. For example, the specific rules of disclosure that Western countries follow may not be relevant to developing countries' user needs (Baydoun and Willett, 1995). In Egypt, accounting regulations provide more detailed rules concerning how accounting transactions must be recorded and financial reporting prepared. These may

not be culturally suitable for Egyptian accountants when applying IFRSs, which in some cases use professional judgment (Dahawy et al., 2002).

Some Arab countries have been influenced by colonisation by developed countries; as a result their accounting system has been affected by these countries. For instance, Egypt has adopted elements of both the French and British accounting systems (Kantor et al., 1995). Egypt's accounting system may be different from the accounting systems in other Arabian countries that were not colonised by developed countries, such as Saudi Arabia.

3.2.1.6 Legal System

It was noted that legal systems influence accounting systems, leading to differences in accounting systems between countries (see 3.1.1). The legal systems of developing countries may cause differences in accounting systems, as some of these countries have been influenced by the legal systems of developed countries and may therefore be different from countries which have not been thus influenced. For example, in Africa French law has been an influence in many countries through colonialism (Jaggi and Low, 2000). In other developing countries, such as some Arab countries, including Saudi Arabia, the legal system may be influenced by religion. The accounting system will then be different from those of other developing countries in which religion does not have such an influence. In Chapter four this influence will be discussed with specific reference to Saudi Arabia.

Some former Soviet countries are influenced by their history, and their accounting systems have their origins in the Soviet plan/chart-based system (Bailey, 1995). For

example, in Kazakhstan, accounting system control is exercised over enterprises' assets and operations with the aim of measuring the extent of the alignment of enterprises' performance with the goals of the national economic plan (Tyrrall et al., 2007). Another example is found in Thailand, where a macro-user-oriented approach is used in accounting. In addition, Thai accounting regulations have traditionally favoured a more conservative, credit-oriented, and tax-driven accounting system, similar to that in Japan (Saudagaran and Diga, 1997).

3.2.1.7 Other Influences

Influences on accounting in developing countries may come from some finance providers, including organisations such as the World Bank and the International Monetary Fund (IMF), or from other organisations, such as international accounting firms (IAFs) and multinational companies (MNCs). This influence may drive some of the accounting systems of developed countries.

3.2.1.7.1 Sources of Finance

From the previous discussion it can be seen that the sources of finance play an important role in influencing the accounting systems of different countries, resulting in variations between countries' accounting systems and their different methods for sourcing finance (see 2.2.2).

Nobes (1998) notes that finance providers within a country may lead to accounting differences between countries, stating that finance providers may be internal, such as banks, the government and family, or external, such as shareholders. Most developing countries are, according to Nobes's classification, based on internal finance providers. As a result, timely and frequent accounting information are required (Nobes, 1998) (see section 2.3.1.2 for more detail). This is the case in some developing countries, such as

Saudi Arabia, as well as in some other Arab countries. However, with the current development of the stock market in Saudi Arabia, providers may become external finance providers, which are beginning to increase. As a result, there will be an increasing need for greater disclosure to the public.

In the case of other developing countries, the World Bank plays a major role by providing loans, as does the International Monetary Fund. These organizations attempt to have an effect on accounting regulations in these countries, for example by exerting pressure on them to adopt IFRSs (Karim, 2001). These organisations use IFRS adoption as a condition for receiving their funds (Chamisa, 2000). This was the case for the World Bank, which insisted that Kazakhstan adopt IFRSs as a condition of its continued economic aid (Tyrrall et al., 2007). It may therefore be inferred that some other poor, developing countries, such as some African countries, may be influenced by the demands of the World Bank.

Many developing countries have been prompted by the World Bank and the IMF to adopt privatization policies. These organizations wield a great deal of power in the management of the present-day global capitalist system (Annisette, 2004). However, the degree of influence these organisations have may be different among developing countries, as these organisations may not influence the accounting systems of some developing countries, such as Saudi Arabia. Saudi Arabia is rich and thus the influence of these organisations may not be present.

3.2.1.7.2 International Accounting Firms (IAFs)

Some authors have indicated that IAFs are significant channels for developed countries to transfer their accounting technology and influence accounting practices (Perera,

1989a; Briston, 1990; Rahman et al., 2002). According to Hove (1986), these firms provide training programmes and offer scholarships to local people. As a result, they can have an impact on accounting practice and can also influence the choice of accounting standards. According to Al-Rumaihi (1997), IAFs are influential due to their size, reputation, expertise and global presence, and the major roles they play in both national and international accounting bodies (e.g. Briston, 1990). In Kuwait lenders and investors have more confidence in the reliability of financial statements audited by local accounting firms which are joined to one of the IAFs than in those audited by local accounting firms which do not have such an affiliation (Al-Mudhaf, 1990).

3.2.1.7.3 Foreign Companies

Foreign companies are one of the principal ways in which accounting ideas and procedures are transferred from one country to another. There is nothing new in this. For instance, double-entry bookkeeping and other accounting procedures were introduced into England and other European countries in the 16th century through trading with companies in Italy (Lee, 1975).

According to Al-Rumihi (1997), the structure of accounting standards adopted in developing nations is influenced by multinational corporations (MNCs) because of the economic power wielded by these companies, a power which stems from their size as well as from the diverse and international nature of their activities. Rahman (1987) indicates how MNCs affect the structure and formulation of accounting standards in developing countries:

- MNCs, due to their economic power, may collaborate to stop governments from setting accounting standards that may be counter to the MNCs' interests, and

may also exert their influence on international organizations such as the International Monetary Fund and the World Bank to make them put pressure on developing countries not to set such standards.

- In addition, due to their financial capacity, MNCs are able to employ pressure groups to oppose governments that wish to establish inflexible accounting regulations.
- Developing countries have recently been trying to attract international investment (see also Cooke and Wallace, 1990) and are therefore unlikely to set the type of accounting standards which, although they may be suitable for the country's requirements, could deter foreign investors.

3.2.2 Summary

Previous studies show that accounting systems in developing countries may be influenced by some factors, including the accounting profession, accounting education, culture, economic development and economic growth. Moreover, accounting systems in developing countries may differ based on the degree to which these factors influence each accounting system, as mentioned previously. This indicates that all or most developing countries should consider their individual requirements and not think that accounting systems among developing countries are the same.

Islamic developing countries need an accounting system that serves their religious needs⁴ and takes into consideration the economic elements of Sharia law, such as the

⁴ Khan (1994) notes the following accounting information required by an Islamic society:

preparation of true figures for Zakat purposes, the prohibition of riba (interest) and the use of accounting as a way to achieve Islamic accountability (Taheri, 2000).

One of the main problems that developing countries suffer from is education level, which may directly influence the choice of accounting systems in these countries. In addition, some developing countries suffer from a weak accounting profession. Although some developing countries have chosen to adopt IFRSs as a quick way of establishing accounting standards (Al-Rumahi, 1997), these standards require qualified accounting personnel to implement them appropriately. The next section discusses the adoption of IFRSs by developing countries.

3.3 The Adoption of IFRSs by Developing Countries

This section discusses the motivations for developing countries to adopt IFRSs, as well as the pressure they face to do so. It also discusses the acceptance of IFRSs by developing countries and emerging economies, and the relevance of IFRSs to developing countries and emerging economies.

-
- The real figure of Zakat due and the accounts of Zakat supervisory agencies; the collections, distribution and effect of Zakat.
 - The fairness with which an enterprise deals with its employees.
 - The extent to which an enterprise fulfils its promises and honours its contracts.
 - The effect of the enterprise on its environment.
 - The adherence to Islamic precepts of business ethics of an enterprise in its transactions with customers, competitors, the government and other agencies; and
 - The enterprise's contribution toward the social and economic development of society.

Furthermore, Abuhmaira (2006) asserts that accounting information should offer information on Sharia compliance, report prohibited transactions and the use of income gained from such transactions, and proceeds according to the ex-auditing contracts established by the Sharia'h committee.

3.3.1 The Motivation, Pressure and Support for Adopting IFRSs

According to Whittington (2005), a possible motivator for the adoption of IFRSs is the requirement for a global language of accountancy, a requirement which came about because of the growing internationalisation of capital markets. International accounting standards facilitate comparisons between firms operating in the same markets while having headquarters in different countries. Consolidation of the accounts of such firms would also be greatly facilitated by the existence of a common set of accounting standards. Moreover, in countries where no national accounting standards exist, adopting international standards would mean that they could rapidly inspire confidence when entering global capital markets (Whittington, 2005).

In addition to the above, Fry and Chandler (2007) state that adoption or modification of IFRSs by developing countries saves the time and effort which would be required to set their own national standards. It is also held by some that adopting IFRSs leads to a better quality of accounting in developing countries (Turner, 1983), and thus to increased competitiveness in the international capital market (Saudagaran and Diga, 2003). IFRSs can also be seen as a good opportunity for developing countries. According to Saudagaran and Diga (1997), in addition to the cost-saving aspect of their adoption, IASs/IFRSs are theoretically not a reflection of the accounting policies of a single country, and adopting them can therefore be rationalized more easily from a political point of view.

However, in some cases adoption may not be optional; some developing countries may adopt IFRSs because of pressure or influence from external or international organisations such as these uses IFRS adoption as a condition of providing assistance.

These include the World Bank, the International Monetary Fund (IMF), and international accounting firms (IAFs) (Rahman, 2000; Hooper and Morris, 2004; Sucher and Alexander, 2004). International accounting firms (IAFs) can also play a role in influencing developing countries and emerging economies to adopt IFRSs (Cooper et al., 1998; Chand, 2005). According to Street and Gray (2002), countries may be motivated to comply with IFRSs if they wish their businesses to be listed overseas, or if they may wish auditing to be carried out by an IAF (for further details of IAF influence, see 3.2.1.7.2).

On the other hand, some Arab countries, such as Saudi Arabia, have Sharia law as a guide in all aspects of life, and find that it is not always easily compatible with IFRSs; certain issues must be considered. For example, Islamic law forbids interest, but no provision is made for this in IFRSs (Hussain et al., 2002). The factor of religion is therefore one of the environmental factors which will be investigated in this research in order to discover to what extent it will affect the relevance of IFRSs to Saudi Arabia.

In the present day, free trade puts pressure on GCC countries to adopt IFRSs. The UAE, for example, has established Free Trade Zones which represent the largest trading zone in the Middle East. This has led the UAE to adopt IFRSs in order to internationalise forms of financial reporting (Haswell and McKinnon, 2003). Some GCC countries enjoy a good relationship with the European Union (EU), and the exchange of trading is increasing. This has also led GCC countries to adopt IFRSs, as since January 2005, all companies listed in the EU must prepare their financial statements according to IFRSs (Irvine and Lucas, 2006).

3.3.2 The Acceptance of IFRSs by Developing Countries and Emerging Economies

Saudagaran and Diga (2000) argue that the majority of developing nations adopting IFRSs do so as a way of gaining acceptability in the international business world but with no genuine intention of making the fundamental changes to their economic, political and cultural environments that would be necessary for the high-quality reports demanded by IFRSs.

By the 1990s most emerging economies that were members of the IASC had adopted IASs (Cairns, 1990; Gernon et al., 1990) without greatly adapting them, or in some cases without adapting them at all (IASC, 2000). According to Street et al. (1999) many firms, both national and international, are willingly adopting IFRSs, which means that IFRSs are achieving acceptability by firms in a practical way.

Some Arab countries in the Middle East have adopted IFRSs. Egypt, for example, adopted IASs gradually between 1987 and 1992. There are twenty Egyptian accounting standards (EASs) which are almost identical to IASs. Egypt then adopted IASs in 1993 through its capital market law, and in 1996 the new accounting board was established and began to issue Egyptian accounting standards conforming to IASs (Abd-Elsalam, 1999).

In Jordan, the Society of Public Accounting was established in 1987 to serve accounting needs. However, until 1988 this association was not able to develop accounting objectives in Jordan; the information given by financial reporting was insufficient to serve users' needs and the companies did not know which standards they should follow. The accounting profession in Jordan therefore recommended a move towards the

adoption of the IASs (Al-Rai and Dahmash, 1998). After considering environmental factors, they concluded that the adoption of IASs as the principal accounting standards in Jordan would be useful.

According to Al- Shammari (2005), in June 2003 the Golf Co-Operation Council Accounting and Auditing Organisation (GCCAAO) finalized the first draft of its accounting and auditing conceptual framework (GCCAAO, 2003b). This framework proposes that accounting standards appropriate to the business environment of the Golf Co-Operation Council (GCC) countries should be based on IFRSs issued by the IASB. This is logical in that IFRSs have been accepted by all GCC member states apart from Saudi Arabia, which adopts them in cases where there is no Saudi standard (GCCAAO, 2003a). Irvine and Lucas (2006) state that the UAE (United Arab Emirates) requires its banks and companies listed on the stock exchange to prepare their financial statements according to IFRSs.

Following this discussion of the acceptance of IFRSs by many developing countries, the questions which arise are how relevant IFRSs are to these countries, and to what extent are they able to satisfy the countries' needs (Perera, 1989; Mir and Rahman, 2005).

3.3.3 The Relevance of IFRSs

Considerable debate has arisen as to the relevance of IFRSs to developing countries. One school of thought holds that IFRSs are as applicable to developing countries as they are to developed countries (Cairns, 1990). Some go still further and claim that the adoption of international accounting standards would lead to economic growth in developing nations (Larson, 1993). However, this is not a widespread view and it has

met with considerable criticism from other quarters, for example from Samuels (1993) in his criticism of Larson (1993).

How suitable IFRSs are for emerging economies differs from country to country, depending on many varying elements. These elements include the economic, political, cultural and legal environments, as well as the country's historical background. This topic has aroused considerable controversy amongst researchers, with some, such as Briston (1978), Samuels and Oliga (1982), Perera (1989), and Hove (1986) expressing doubts as to the relevance of IASs to developing countries. Some of these papers have generalised their findings although they examine specific countries. Their unsurprising and rather obvious conclusion is that the needs of developing countries differ from those of Western countries. However, this conclusion is only to be expected, due to the limitations inherent in examining developing countries as a homogenous unit while ignoring the fundamental differences between such countries, not only in socioeconomic terms but also in their relative stages of development, and in comparing them to the very different environment of Western countries.

Others papers examine a single case study or two case studies from developing countries, include those of Prather-Kinsey (2006) who uses Mexico and South Africa, Lin and Chen (2000) who use China, Chamisa who uses both Botswana and Zimbabwe (1994), and only Zimbabwe (2000), and Perera (1985) who uses Sri Lanka. The conclusions of the papers in this group differ depending on the type of economy, the history of development and the sociopolitical situation in the country. However, some of these studies conclude that IFRSs are relevant and would be beneficial to countries such as Zimbabwe, Mexico, and South Africa, attributing this to the advantages of

accounting harmonization (see 2.4.2). In contrast, some find that the harmonization of IFRSs would be pointless or even detrimental to countries such as Sri Lanka, Egypt and many others; they attribute this to the disadvantages of accounting harmonization (see 2.4.2).

As IASs are by nature complex and elaborate, doubt might be cast on their relevance to developing nations where both the economy and reporting standards are underdeveloped. Carlson (1997) argues that, although certain rules of accountancy are applicable to all countries no matter what their stage of economic development, elaborate and refined reporting requirements may be superfluous in emerging economies. Hove (1986) suggests that IASs may not be suitable for developing countries as their accounting aims differ from those of developed economies.

It has been suggested that the IASB is concerned primarily with developed countries where there are strong private sectors and capital markets, and has therefore formulated IASs bearing in mind the requirements of such countries, rather than those of less developed ones (Samuels and Oliga, 1982; Rivera, 1989). Chamisa (2000), based on the findings of his case study of Zimbabwe, concludes that IASs are appropriate to developing countries, provided that they are capitalist economies with a strong private sector and a capital market. This result is consistent with Chamisa (2000), who finds that IASs have become relevant to developing nations due to ever-increasing economic and commercial globalisation.

In other studies, the adoption of IFRSs is considered beneficial for developing countries. According to Roussey (1992), IASs enable developing countries to provide accounting information relatively cheaply and easily, while at the same time encouraging investors.

In addition, El-Gazzar et al. (1999) assert that the use of IASs in the preparation of financial statement assists comparability between companies in different countries and may also encourage confidence in a country's financial reporting.

The relevance of IFRS to Kazakhstan has been examined by Tyrrall et al. (2007), and they conclude that IFRSs are required for the benefit of international investors. However, to fulfil this requirement it would be necessary to implement IFRSs only gradually and in certain appropriate matters, rather than adopting them in their entirety at present. Nonetheless, this situation may change in the future, as the private sector and private capital markets are developing, which could mean that IFRSs will become increasingly relevant (Tyrrall et al., 2007).

Halbouni (2005) also conducted a survey in Jordan, investigating the suitability of IASs to Jordan. Her study used questionnaire methods to collect primary data. The findings indicate that the respondents' backgrounds affected their answers regarding the suitability of IASs to Jordan. Moreover, the findings also showed that the IASB is able to produce accounting standards that can be used in developing countries. Moreover, the Jordanian regulators' motivation for adopting IASs was to increase the reliability of Jordanian financial information.

In their 2002 study Joshi and Ramadhan investigated opinions on IASs from members of the accountancy profession employed by small, largely family-run firms in Bahrain. Their study also investigates the appropriateness of IASs to the type of company involved in the study with regard to the relationship between cost and benefit, an often controversial matter. Twenty-two of the thirty-six companies (85.2%) claimed not to

have any problems with the interpretation of IASs. However, while the majority of the companies (twenty-five) maintained that their accountants were capable of preparing financial statements that complied with IASs, only fourteen had offered their staff any training in such preparation (Joshi and Ramadhan, 2002). Twenty-two of the companies stated that the implementation of IASs did not result in any major expense for them, while the overwhelming majority (twenty-six, representing 92.8%) stated that IASs were very useful in helping reach the aims of their financial reporting and enhancing its efficiency. Joshi and Ramadhan (2002) also pointed out that several international bodies, such as the World Bank and the IASB, believe in the relevance of IASs to developing nations.

Aljifri and Khasharmeh (2006) examine the stability of IASs in the United Arab Emirates. The findings show that company size is a significant factor affecting IAS adoption. The findings also show that the quality of financial reporting improved after the adoption of IASs. Moreover, the adoption of IASs produced more advantages, which may encourage other companies to adopt them.

3.3.3.1 Summary

This section has reviewed previous studies investigating the suitability of IFRSs to developing countries, including a number of Arab countries. Most of these studies reached the similar conclusion that the adoptions of IASs by developing countries brings advantages such as increased comparability of financial reporting between countries, and an increase in investor confidence. These advantages may lead most developing countries to adopt these standards without considering of the environmental context of the country. These studies also mention that some developing countries may

face certain difficulties in adopting these standards and in some cases adoption may be disadvantageous for these countries (see e.g. Perera, 1985). However, other studies found that IAS adoption did not give rise to problems (see e.g. Joshi and Ramadhan, 2002).

All of these studies, particularly those focusing on Arab countries, have ignored the factor of religion, or did not consider this factor to be an important influence on accounting regulations. For example, Abd-Elsalam (1999)⁵ stated that listed companies in Egypt are not influenced by Islam. Religion will not be overlooked in this study, as Islam is one of the most important factors in judging the relevance of IFRSs to Saudi Arabia. Furthermore, all the studies examined specific countries; however, it is important to point out that developing countries are nonetheless heterogeneous and what may apply to one may not apply to others. It is therefore inappropriate to make generalisations as to the relevance of IASs to developing countries, even if they have similar cultures (such as GCC countries) because these countries may differ from each other based on their own regulations. Some differences are listed:

- Saudi Arabia attempts to apply Islamic law to all economic transactions. As a result, Zakat must be taken into consideration. All companies must pay this to the government and this must be indicated in their financial statements.

⁵ Abd-Elsalam (1999) examines the introduction and application of IASs to accounting disclosure regulations of capital markets in developing countries, using Egypt as a case study. Her study demonstrates that accounting disclosure by listed companies in Egypt increased considerably in the four years between 1991 and 1995. The greatest CML disclosure was found to be on the part of the biggest companies in the public sector trading on the Egyptian Stock Exchange, while the greatest IASs disclosure came from firms that were audited by one of the six major international accountancy companies (Abd-Elsalam, 1999). There is no single, clear explanation for these findings, although theories regarding the link between the features of particular firms and their different disclosure practices are examined in this study, as are theories concerning agency and capital requirements. The study also discusses the significance for policy-making arising from the findings.

Moreover, SOCPA has issued standards for Zakat and tax (see Chapter four). On the other hand, other Gulf Countries do not have standards dealing with this matter, and Zakat is not compulsory. Hussain et al. (2002) examine accounting standards and financial statements and find that whereas Saudi Arabia collected Zakat from Saudi and GCC shareholders, this was not the case in the rest of the Gulf countries. Furthermore, in Saudi Arabia tax is collected from foreign shareholders by deducting a certain amount from any dividends distributed to them. On the other hand, tax in Oman is paid by companies without differentiation between nationals of Gulf countries and foreign countries, and in amounts based on the size of their staff (Hussain et al., 2002).

- All banks in Saudi Arabia are required to appoint two external auditors, who should have at least five years' experience and be registered by the Saudi Ministry of Commerce. However, in some of the other GCC countries only one external auditor is required. (Hussain et al., 2002). This may reflect the strength of the regulatory body. As will be discussed later, an enforcement body is important to implement accounting standards effectively (see Ashraf and Ghani, 2005). It seems that SAMA is a stronger regulatory body within the banking sector than the bodies of other GCCs. This will be reflected in the accounting standards implemented and will contribute to providing information for investors.
- In addition to the above, in Saudi Arabia the Ministry of Commerce accords SOCPA the authority to issue accounting standards, and SOCPA has the right to grant licences to public accountants. This is not the case in other GCC countries,

where only the governments have not delegated regulation and control of the accounting and auditing professions (Al-Shammari, 2005).

Based on the previous literature, and to the best of this researcher's knowledge, there is no study in existence prior to the present thesis that examines the relevance of IFRSs specifically to Saudi Arabia. This represents a research gap in the area of IFRS suitability for developing countries (Saudi Arabia), which until now has been neglected in existing literature. This study will thus focus on Saudi Arabia, which may be interesting for several reasons, particularly as it will consider the influence of religion and cultural factors on the adoption of IFRSs. Moreover, this study comes after the recent development of the Saudi stock market and the rapid increase of listed companies in the Saudi stock market, in addition to the country's efforts to attract FDI. Moreover, this study was conducted after SAMA's decision that all Saudi Arabian financial institutions must prepare their financial reporting according to IFRSs and the application of SOCPA, that other listed companies should use IFRSs in the absence of a suitable SAS. This study will collect stakeholders' perspectives on these decisions, in addition to exploring their perspectives on whether those decisions are in accordance with the development of economics in Saudi Arabia and the world. Moreover, stakeholders' perceptions about the current accounting system after those two decisions, and its ability to serve Saudi users' needs, will be gathered. As a result, this study investigates the suitability of IFRSs to Saudi Arabia and examines their impact on the quality of financial reporting.

3.4 Theoretical Framework

This section outlines the political nature of accounting standards setting and discusses the Islamic accountability framework and the decision-usefulness approach.

3.4.1 The Political Nature of Accounting Standards Setting

Prior literature argues that accounting standard setting is a political activity and not only technical in nature (Zeff, 1972; Solomons, 1978; Taylor and Turley, 1986; Matthews and Perera, 1996; Fogarty, 1992; Fogarty et al., 1994; McLeay et al., 2000; Stoddart, 2000; and Brown and Tarca, 2001; Georgiou et al., 2004; Kwok and Sharp, 2005).

Kwok and Sharp (2005) argue that the importance of the final stage of setting accounting standards is not only to reach the “correct answer” but to make choices between differing views of interested groups that may essentially conflict. Therefore, the possibility that accounting standards may not be satisfactory to all interested parties is a potential concern (Yu, 2006). Thus, a group (e.g. managers, investors, auditors, etc.) that is affected by accounting standards will attempt to influence accounting standard setting rules according to their own needs or preferences (Matthew and Perera, 1996, p.117). This action is collectively referred to “lobbying” (Sutton, 1984). The next section discusses the interested parties and their motivations for lobbying for accounting standards.

3.4.1.1 Lobbyists and their Motivations

Prior studies have identified some groups that can affect accounting standards setting (e.g. auditors, preparers/managers, users, etc.)(Taylor and Turley, 1986; Nobes, 1992; Tandy and Wilburn, 1996; Larson, 1997; McLeay et al., 2000; Hill et al., 2002). These groups attempt to lobby for their preferred accounting standards in order to protect their own interests (Brown and Tarca, 2001; Deegan and Unerman, 2006). Each group has

different interests and incentives, and attempts to influence the government or other regulatory body to put into place legislation that brings them economic benefits (Kwok, 2005; Deegan and Unerman, 2006).

Internationally and in IASC/IASB standards, researchers have found that the proposal of accounting standards is still under the influence of interested parties. Guenther and Hussein (1995) use the case of FIFO accounting methods as an example and find that the IASC provided more alternative methods to elicit final acceptance from those who voted on this proposal. Furthermore, it was noted that the influence on the IASC was a combination of interest from the US and the UK (Kenny and Larson, 1993; Hove, 1990). However, the US contributed less to IASB projects than any EU country such as the UK (Larson, 2007). Hansen (2010) provides evidence that success in lobbying the IASB is associated with the ability of the country to impact on the viability of the IASB, measured by financial contributions and the size of the capital market in that country. More discussion about lobbyist groups and their incentives for lobbying will be presented next.

Users

According to Alexander et al. (2007), users of financial statements differ according to their needs, and include investors, employers, suppliers, customers, etc. For example, investors need information that can help them make decisions (e.g. whether to buy or sell). Customers need information that can help them know whether the enterprise will continue or not, particularly if they are long-term dealers. Lenders need information that can help them determine whether they will be paid when due, etc. Users of financial statements need full disclosure of the information that they require when dealing with

accounting standards (Saemann, 1999), and increasing the level of disclosure is also necessary (Kelly and Newton, 1980; Miller and Redding, 1986). This may be because users of external accounting information may not find additional information easily provided when they need it (Kosonboov, 2004).

According to Gavens et al. (1989), a financial information user's decision to make submissions concerning the proposed standards depends on the extent to which they think the standard setters will be influenced by them. Weetman et al.'s (1996) findings reveal that the reason users frequently do not respond to written submissions was that they (users) felt it was pointless. Whereas Sutton (1984) found that rich investors are more likely to lobby than consumers of financial statements, Weetman et al. (1996) suggested that they saw greater disclosure as a way of permitting them to ask more specific questions. On the other hand, Tandy and Wilburn (1992) and McLeay et al. (2000) are of the opinion that preparers are more inclined to lobby than users. This view is consistent with Kwok's (2005) findings, which indicate that although benefits for users groups are the primary target of IASs/IFRSs, the changes that been made on segment reporting and intangible assets projects indicate that preparers had a significant influence.

Academics

Several researchers recognize academics as a group of accounting standards lobbyists. Academics may lobby by supplying theories as inputs to the final choices of accounting standards (Taylor and Turley, 1986). However, the ability of academics to influence accounting standards setting may differ among countries. For example, Tandy and Wilburn (1996) found that American academics have a limited influence on American

accounting standard setters. Tandy and Wilburn suggested that the limited power of academics to influence accounting standards setting to their feeling that they (academics) have low probability to lobby accounting standards. On the other hand, academic communities in some countries may have more of an influence on the setting of accounting standards; this may be true in both developing and developed countries. For example, McLeay et al. (2000) found that German academics exerted influence over accounting standard setters' decisions.

Auditors

Auditors are another group that may try to lobby accounting standards setters. For example, auditors favour standardisation because it decreases auditing risk (Deegan and Unerman, 2006). Moreover, international accounting firms may influence the choice of accounting standards; their support of the adoption of IASB standards is an example. Because they are looking to create advantages for themselves when countries adopt IFRSs, such as the enhance of their advantages over national accounting firms by increasing the need for their services and reducing the costs of training their staff (Choi et al., 1999) (see section 3.2.1.7.2 for more detail)

The influence of auditors on accounting standard setting may be clearer in some cases, as they may share the same interests as preparers (Puro, 1984). This influence may be more or less dependent on the relationship between auditors and managers of the enterprise (Taylor and Turley, 1986; McLeay et al., 2000). According to Taylor and Turley (1986), auditors' advice may affect managers' opinions; in turn, managers can influence accounting standards. On the other hand, auditors may influence and favour those standards that management requires, as they might have a tendency to assist in

fulfilling their clients' needs (Watts and Zimmerman, 1986; Deegan et al., 1990). However, the interests of auditors and preparers may conflict in some cases. For example, preparers may be against the proposal of standards that result in more disclosure, in contrast with auditors, who support this proposal (Yu, 2006). This is because more disclosure may lead to some competitive disadvantages for companies (Kosonboov, 2004).

Management/Preparers

It is the management of a business that is primarily responsible for preparing and presenting its financial statements. Prior studies (e.g. Ang et al., 2000; Hill et al., 2002) found that the company managers exert a strong influence on accounting standards setting through their influence on the standards setters. Georgiou et al. (2005), found that large companies with a high debt covenant of costs in the US stock market frequently lobby accounting standards. He also found that these companies usually try to lobby the proposal of accounting standards associated with their income measurement, in contrast with standards that may be related to disclosure.

Some researchers argue that corporations try to lobby for accounting methods that enable them to manipulate their income (Kenny and Larson, 1993; Georgiou, 2002), particularly methods that reduce profits. This may be because they want to avoid some employee demands, such as the demands for wage increases (Deegan and Unerman, 2006). A recent international example of the industry to lobby accounting standards is the effort made by some EU banks against the revision of provision (the classification and measurement requirements for financial instruments) of IAS39. "Banks in several EU countries argued that some of the provision of IAS 39 would result in their accounts

showing significant volatility which did not reflect the underlying economic reality, and this could be damaging to a bank's standing" (Deegan and Unerman, 2006, p. 72). In 2008 the IASB began putting these amendments into their agenda, and in 2010 these amendments will replace all requirements of IAS 39; this standard will eventually be replaced by IFRS 9 (Financial Instruments) (IASB, 2010).

Some empirical research provides specific evidence that the IASB is largely influenced and lobbied by MNCs. For example, the biggest MNCs in the world contribute to lobbying the IASB; the majority of corporate letters come from these companies (Larson, 1997). Sikka (2001) adds that powerful groups, such as MNCs and the Big Four, are served by the IASB setting process. MNCs try to lobby IFRSs because the use of them by several countries' stock markets reduces the cost of listing these stocks and because these companies may appear to comply with IASB standards and then try to influence the substance of these standards (Larson, 1997). Although there are mixed powers in the setting process of IASB, preparers have a more important influence than users; this is indicated from the final changes of segment reporting and intangible assets projects associated with the preference of preparers (Kwok, 2005).

Some researchers argue that company managers' motivation may in some cases be slightly different from companies' incentives. Managers may choose to lobby for accounting methods that maximise their interest regardless of the companies or shareholders (Saemann, 1999). Managers in some companies may play major roles in lobbying setters because their rewards are directly dependent on the report of income (Yu, 2006).

Governments

Governments are interested in the activities of businesses as a result of their interest in the allocation of resources. They require information from financial statements in order to regulate business activities and set taxation policies, as well as to compile statistics on national income, among other things (Alexander et al., 2007).

As mentioned previously, in many countries the government does not exercise great control over accounting bodies, as these bodies are independent; therefore, government influence may well vary from country to country. For instance, governments in countries without a strong private sector try to participate in the process of setting accounting standards in order to protect the capital market from inefficiencies of capital resource allocation and also from market failure (Miller and Redding, 1986; Brown and Tarca, 2001). On the other hand, in countries with a strong private sector, government influence may be negligible or even non-existent (Wyatt, 1991).

Some studies indicate that governments in developing countries exercise a strong influence on the progress of accounting standards setting, as one of the functions of the government in such countries is that of serving as accounting regulator (Perera, 1989). For example, The Capital Market Authority in Saudi Arabia was established on 16th June, 2003, and brought into being by the Capital Market Law. The CMA's main objective is to supervise and develop the capital market in Saudi Arabia. Moreover, it can issue regulations for investors in Saudi Arabia. However, this organisation still belongs to the Saudi government and, as it is dependent on the government, the government supervises its work. This is the case in all the GCC countries.

3.4.2 Islamic Accountability Framework

3.4.2.1 Introduction to Accountability

The term 'accountability' was defined by Kaler (2002) as part of responsibility and belonging to the causal responsibilities, and hence as meaning providing answers, as reporting or 'giving an account' of the state of responsibility and how it is going. Gray and Jenkins define accountability as "an obligation to present an account of and answer for the execution of responsibilities to those who entrusted those responsible" (1993, p.55). Moreover, according to Knell (2006), accountability applies to those who have the authority and responsibility to provide the individuals on whose behalf they make decisions and act with reasons justifying their actions.

Accountability may be divided into political, public, managerial, professional, and personal accountability (Sinclair, 1995; Mulgan, 2000). Each type of accountability is defined according to the motivations of the individual and the interest and concern of the related parties (Mulgan, 2000). For example, auditors view accountability as a financial or numerical matter, political scientists see it as a political imperative, legal scholars as a constitutional arrangement, and philosophers as a branch of ethics. Public sector accountability means that "those who are charged with drafting and/or carrying out policy should be obliged to give an explanation of their actions to their electors" (Glynn, 1985, p. 143).

Day and Klien (1987) argue that managerial accountability is multi-dimensional, encompassing fiscal, process and programme accountability as well as accountability for regularity efficiency and effectiveness.

“Fiscal/regularity accountability is about making sure that money has been spent as agreed, according to the appropriate rules; legal accountability can be seen as a counterpart to this, in so far as it is concerned to make sure that the procedures and rules of decision making have been observed. Process/efficiency accountability is about making sure that a given course of action has been carried out, and that the value for money has been achieved on the use of resources. Programme/effectiveness accountability is about making sure that a given course of action or investment of resources has achieved its intended result” (Day and Klien, 1987, p.27).

Gray et al. (1996) state that accountability is “the duty to provide an account (by no means necessarily a financial account) or reckoning of those actions for which one is held responsible” (p.38). From this definition, the accountability framework represents the link between two parties. Accountability is an obligation on the parts of those who are accountable to those who represent the accountees (i.e. principals). This is done through giving an account (i.e. providing information) necessary for the accountee to make decisions (Perks, 1993).

In a business context, the accountability relationship is constructed between two parties, the first being the accountant (organisation or company), which represents the responsible party, and the second being the accountee, represented by shareholders and stakeholders, including the public (Benston, 1982). Therefore, from the above definitions it is clear that financial reports users have the right to know what actions are taken by a company’s management. However, some writers mention that some management information may be damaging to accountors and may create some disadvantages (Ijiri, 1983).

In certain cases, it is possible to play both roles at the same time. For instance, Bovens (1998) contends that in a large enterprise individuals are accountable in that their

actions contribute to the enterprise's conduct; the enterprise is accountable as if it were an independent agent; the top management of the enterprise are accountable for how the enterprise is run; and all concerned with the enterprise have equal accountability for its performance.

Organisations may discharge their duties according to the accountability framework by providing the information for parties through different financial reporting and auditor reports (Mashat, 2005). As a result, a company's financial reporting represents one of the main ways and best examples of how a company's management may discharge their responsibility to accountees. However, accountees may vary in terms of what they look for or require in financial reporting information. For instance, investors hope to collect signals in the financial reporting regarding share price. The ability of the company to pay to discharge their debts is a concern for creditors, and local communities look for different services provided by a company, as well as indicators of the extent to which a firm is concerned with the social elements of its activities (Falgi, 2008). Regarding the variations in the needs of accounting users, some researchers have mentioned that the information finally provided to some users may be inefficient (Gendron et al., 2001).

Bonds in the accountability framework constitute the power relationship. The power given to accountors may limit their ability to discharge the accountability held toward those who are accountees. Stewart (1984) argues that:

“To define a bond of accountability it is not sufficient to define the person or institution which accounts and the person or institution which holds to account; the activities covered by the bond of accountability, which we will call the “field of accountability”, must also be defined. A person who accounts may be subject to different bonds for different activities.”

Mraovic (2003, p. 167) argues that “it is not questionable that the major power in the organisation lies in the hands of managers”. However, accountability (including accountability to society) is an obligation for a company (Monks and Minow, 2004). Monks and Minow believe that awareness of accountability within companies should increase, and that companies must ensure there is an effective system for accountability in place, helping the company discharge its responsibility and duties. Gray et al. (1993) assert that the accountability approach is associated to a great extent with the argument for the moral duty of organisations to disclose information to individuals, groups, and segments of society entitled to such information. Hence, this approach does not take into account any systematic analysis of authority or divergence.

All the above groups and other stakeholders are looking to achieve the objectives of accountability: to ensure that managers pay attention to and give reasons for their activities to the owners (Rutherford, 2000) and to ensure that there is no misuse of company resources (Stewart, 1984). Moreover, some researchers mention that responding to the demand for accountability may be advantageous for companies by increasing their investors’ confidence (Colley, 2003); increasing the level of accountability leads to more transparency (Gray et al., 1996). Others have argued that an increase of transparency within the organisation leads to conjunction and, as a result, reduces conflicts of interest (Mashat, 2005).

Furthermore, some researchers mention that an increase in the level of accountability by company management leads to more advantages for the company’s home country by increasing foreign capital (Monks and Minow, 2004). According to Perks (1993), it is the agency relationship that affects the motivation for improving the degree of

transparency. This is because principals hope to enhance transparency to a point where the agent's accountability is increased, whereas agents do not wish their accountability to increase, as this would also increase their responsibility and curtail their freedom.

3.4.2.2 Islamic Accountability

Islamic law pays much attention to organising all relationships between the individual and God, and between the individual and others. According to Lewis (2001), Sharia's duties are divided into two main parts. The first is the duty of the individual to his/her creator (God), which is called *Ibadat* (worship)⁶. The second is the duty of the individual to others, which is called *Muamalat* (transactions)⁷. All these relationships are organised by Sharia and all Muslims must follow the requirements and regulations of both Sharia duties (Falgi, 2008). All the regulations and requirements of both Sharia duties are mentioned in the Holy Quran or in the second source of Sharia, which is Sunna (what the prophet Mohammed said or did). As a result, everything has been covered and organised by Sharia and any person who represents himself as Muslim must follow Sharia. Allah has mentioned in the Holy Quran that everything is perfect for Muslims:

“...This day I have perfected for you your religion and completed My favor upon you and have approved for you Islam as religion...” (Quran: 5/3)⁸.

As it is the last verse of the holy Quran, this verse (Ayah) possibly suggests that an accountability framework has been mentioned in the holy Quran almost 1,400 years ago,

⁶ Worship represents the basis of all Muslims' actions, including the acceptance of Shahada (witness); Salat (prayer); Zakat (paying charity); Saum (fasting) and Hajj (Pilgrimage) (Lewis, 2001).

⁷ *Muamalat* (transactions) represent the relationship between others in all aspects of life, such as the relationships within families, in business and economics and so on.

⁸ Translations of all verses in this thesis are cited from this website: <http://quran.com/>

meaning that this framework was already mentioned before any researcher studied any accountability framework.

Hesab (account) is the root of accounting (Kamla, 2005). A central Muslim belief is that Allah will account for everything on Judgment Day and every individual will be held accountable for what he or she did and whether their actions were in keeping with Sharia or not. Allah has mentioned that everybody will be asked about her/his actions and the word *Hesab* (account) is mentioned more than eight times in the holy Quran (Askary and Clarke, 1997). As Allah has mentioned in the Holy Quran, every person will be asked to account for their actions on the day of judgment:

“And stop them; indeed, they are to be questioned.”(Quran, 37:24)
“So by your Lord, We will surely question them all, About what they used to do.” (Quran, 15:92-93).

Allah created humans on the earth with the Islamic tenet of *Istekhlaf* (vice-regency),⁹ and the form of trust, individuals will then be trustees for everything that have from Allah, such as goods and property. As a result, every individual will be held accountable for their actions by Allah (Lewis, 2001). Accountability, then, is the main basis for the Islamic system and all relationships within any Islamic society must consider this concept (Aljirari, 1996).

⁹ Falgi (2008) points out that the traditional Islamic perspective of *Istekhlaf* (trust) views humans as vice-regents to whom Allah has entrusted. He mentioned that, for instance, in the holy Quran, Allah says: “I will make upon the earth a successive authority” (Quran, 2:30). The concept of *Istekhlaf* comprises three parts, the first of which is that Allah, who is the owner of everything, is the entruster: “To Allah belongs whatever is in the heavens and whatever is in the earth” (Quran, 2:284). The second part is that Allah then entrusts the earth to the trustees, i.e. the human race; and the third part is that which is entrusted, i.e. the world and everything in it. Hence, the concept of *Istekhlaf* implies that the relationship between God and human beings is based on delegation, as God (the owner) delegates the management of the world to humankind, thus making them responsible for populating and constructing the world according to God’s requirements (Al-Jirari, 1996).

Kamla (2005, p.119) indicates that “the basic similarities between *hesab* in Islam and ‘accounting’ lie in the fact that, just as every Muslim has a responsibility to carry out the duties described in the Quran, so too are the management and providers of capital in a business enterprise accountable for their actions both inside and outside the enterprise”. In this context, accountability refers to the accountability to God that necessitates compliance with Sharia, the main aim of which is to achieve social justice within the Islamic community (Umma). Therefore, one of the principal aims of accounting in an Islamic society is to provide information that satisfies the accountability of those in the Umma (Lewis, 2001).

According to the accountability framework in Islam, the relationship consists of two parties: the accountant and the accountee. In business, for example, the accountant may be the management of a company who are accountable for their actions and should discharge their accountability to the accountee, who may be the community (Umma) or society (Lewis, 2001). In addition, investors, shareholders and other stakeholders represent accountees for the companies under the accountability concept (Falgi, 2008). Some researchers argue that financial reporting is the one way for managers of a company to discharge their accountability to society.

Based on the above and on the accountability framework, it is argued that full disclosure by companies is a way of discharging their responsibility to the Umma (society) - investors and other stakeholders. On the other hand, limited disclosure and private accountability are insufficient to reflect the concept of accountability from the perspective of Sharia law (Baydoun and Willett, 2000 and Lewis, 2001). In the Holy

Quran, full disclosure is mentioned in several places by referring to “relevance”, one meaning of which is the disclosure of all fact. According to Lewis (2001) and Maali et al. (2006), relevant information from the perspective of Islam means that financial reporting should disclose true, fair and accurate information. Regarding truth, it is mentioned in some places, such as:

“And do not mix the truth with falsehood or conceal the truth while you know [it].”(Quran, 2:42)

And in terms of the aspect of justice:

“O you, who have believed, be persistently standing firm in justice, witnesses for Allah, even if it be against yourselves or parents and relatives. Whether one is rich or poor, Allah is more worthy of both. So follow not [personal] inclination, lest you not be just. And if you distort [your testimony] or refuse [to give it], then indeed Allah is ever, with what you do, Acquainted.”(Quran, 4:135)

Furthermore, disclosure should include all information on legal and illegal activities, employee policy, the use of resources and the safety of the environment, and information regarding these activities and the reasons for them (Haniffa, 2004). Haniffa (2004) also mentions that all of this information is necessary from the perspective of Islam and is associated with principles such as viceregency and justice. It is necessary to disclose this information based on the accountability concept, even if this information conflicts with the company’s interest (Napier, 2007).

Man is not the owner of what is around him but is only a “vice-regent” entrusted by God with the responsibility for these things, such as family, property, resources, business and so forth. Therefore humans must be honest and should use property and resources based on Sharia law and according to Allah’s will. He or she can discharge his or her accountability to Allah and then to those who represent accountees. According to Napier (2007), the principle objective of accounting in Islam is to discharge and achieve

accountability to Allah. This differs from the business accountability perspective in Western countries, where accountability is to stakeholders and owners have priority.

Thus, a business or the manager of a company must practice Sharia law in all the company's transactions. This includes avoiding dealing with interest when borrowing or lending; moreover, they must report any activities that are not associated with Sharia law (Gambling and Karim, 1991). The Holy Quran mentions the prohibition of Riba several times and emphasises that this is not allowed according to Islamic law.

“And whatever you give for interest to increase within the wealth of people will not increase with Allah.”(Quran, 30:39)

“Those who consume interest cannot stand [on the Day of Resurrection] except as one stands who is being beaten by Satan into insanity. That is because they say, "Trade is [just] like interest." But Allah has permitted trade and has forbidden interest. So whoever has received an admonition from his Lord and desists may have what is past, and his affair rests with Allah. But whoever returns to [dealing in interest or usury] - those are the companions of the Fire; they will abide eternally therein.”(Quran, 2:275)

According to Sharia law, banks cannot charge customers interest and must employ a method whereby both the risks and returns are shared between the borrower and the lender. Islamic banks cannot invest in any company that does not conform to Islamic law, or lend to any company that produces or sells anything which is against Islamic law (e.g. alcohol) (Roberts et al., 2005). Moreover, managers of Islamic banks are accountable to Islamic society and should work according to Sharia law within the Islamic environment (Al-Baluchi, 2006).

Furthermore, a company's manager is accountable for disclosing information that enables Muslims to calculate the appropriate amount of Zakat, which represents one of

the orientations of accounting as fulfilling the accountability of humans to Allah (Adnan and Gaffikin, 1997). Some researchers argue that the implication of this for businesses is the need to provide useful information to all Muslims based on their obligations as Muslims (Maali et al., 2006). The information disclosed in the financial reports must be reliable, true and complete in order to enable users to specify the amount of Zakat and fulfil their religious responsibility (Lewis, 2001). Because the disclosure of truth is significant in an Islamic context, it applies to both individuals and businesses (Napier, 2007). Thus, the manager of a business must be honest in the work that he or she does and thus fulfil his/her religious responsibility.

To sum up, the accountability framework is the main basis of the Sharia system and all Muslims must apply this concept to every aspect of their lives in order to discharge their accountability to Allah. Moreover, in business all persons (such as managers) who are responsible within the company must apply this framework and work within it in order to discharge their accountability both to Allah then to their accountees, such as society, investors and other stakeholders. This study tries to determine the degree to which the accountability concept is practiced within Saudi companies in the Saudi stock market, and examines the role of Sharia as applied to companies' transactions, as this study explores the suitability of the commercial accounting system IFRSs within the Islamic country of Saudi Arabia.

3.4.3 Decision-Usefulness Approach

It is a long-established idea in accounting research that accounting systems should provide information that is useful for decision-makers. The decision-usefulness approach "stresses decision models and focuses on decision makers" (Belkaoui, 2004,

p.3). More than half a century ago, Chambers indicated “the use of accounting statements as the basis for making decisions of practical consequence” (Chambers, 1955, p. 17). He stated that “the information yielded should be relevant to the kinds of decision the making of which it is expected to facilitate” (pp. 21-22).

The decision-usefulness approach contends that the satisfaction of users’ requirements should be the primary consideration in the generation of accounting information. Sterling (1972) supported this approach, stating “I view accounting as a measurement communication activity with the objective of providing useful information.” Gray et al. (1987, p.68) summarise the basic arguments of decision-usefulness as follows:

- as accountants, we prepare information
- information is of no importance unless it is read
- information is used for decision-making
- therefore accounting must provide information that is useful for decisions.

A number of professional bodies in several countries (e.g. the US, the UK and Australia), as well as the IASC, have espoused the concept of decision-usefulness as an aim of financial statements. The FASB’s Statement of Financial Accounting Concepts No. 1 issued in the US in 1978 (para. 37) states:

“Financial reporting should provide information to help present and potential investors and creditors and other users in assessing the amounts, timing and uncertainty of prospective cash receipts from dividends or interest and the proceeds from the sale, redemption, or maturity of securities or loans” (FASB, 1989, p.17).

However, certain researchers (see Staubus, 1999) have argued that the theory of decision-usefulness is “not being accorded the respect that it merits. It has not won

complete acceptance by the FASB” (p. 588). This is because account preparers have managed to restrict its influence and scholars have paid it scant attention (Staubus, 1999). IASC also stated that objective of financial reporting is

“To provide information about the financial position, performance and changes in financial position of an enterprise that is useful to a wide range of users in making economic decisions.” (IASB, 1989, paras. 22 and 23).

Furthermore, the UK’s Accounting Standards Board (1991) took this approach, stating that the objective of financial statements is to:

“Provide information about the financial position, performance and financial adaptability of an enterprise to a wide range of users in making economic decisions” (ASB, 1991, para. 12).

As decision-usefulness focuses on external users of accounting information, the question arises as to who these users are. There is no consensus on this among scholars and practitioners. For instance, Belkaoui (2004) distinguishes between four sets of users, who are both concerned with the activities of organisations geared towards profit-making. He mentions that the company provides accounting information to *“the capital suppliers, [to whom] it provides (a) financial statements, (b) press releases, (c) analysts’ meetings and (d) fact books. To the customers and suppliers, it provides information about product/services quality. To the community in general, it provides information about (a) environmental effects, (b) employment effects and (c) tax returns. To talent, it provides information about (a) benefits, (b) employment policies, (c) compensation and (d) job-related information.”* (Belkaoui, 2004, pp. 38-39). Each group is interested in different kinds of information and has its own goals.

Researchers of the decision-usefulness approach have usually investigated various groups of financial statement users in order to discover what information they use or consider useful. In order to do this, the researchers have used various methods, such as questionnaires (Lee and Tweedie, 1979). The majority of these researchers highlight the group of investor analysts, as this group is considered to be expert users (Mallin, 1999). Some researchers employ the decision-usefulness approach to analyze and interpret their results, such as Beattie and Pratt (2003). Moreover; Dunne et al. (2008) used it to assess the benefit of IFRSs for users' decision-making, compared to national GAAP. The present study also uses this approach to assess the extent to which IFRSs are useful for providing more useful information for users' decision-making.

In many Islamic countries financial reporting is considered a main source of accounting information (Ahmed, 1988; Ba-Owaidan, 1994; Al-Razeen and Karbhari, 2004). Financial reporting should therefore provide information of a quality enabling accounting users, such as investors, to make decisions. For instance, Al-Razeen and Karbhari's (2004) study finds that the balance sheet and income statement represent the most important section of an annual report for the majority of users. On the other hand, some researchers have found that financial reporting does not represent the main source of accounting information (see e.g. Rahman, 2001). Rahman's study finds that users base their decisions on advice from advisory services.

Although some of these studies use Saudi Arabian users as an example (e.g. Ba-Owaidan, 1994; Al-Razeen and Karbhari, 2004), the present study differs by using a decision-usefulness approach. Most other studies focus on determining, from users' perspectives, which parts of financial reports are most significant for each user group

without trying to discover whether the content of these parts is useful for their decision-making or not. Moreover, none of these studies use this approach to discover the decision-usefulness of financial reporting based on IFRSs. Therefore, to the best of this researcher's knowledge the present study will be the first attempt to assess the decision-usefulness of financial reporting based on IFRSs in Saudi Arabia.

The decision-usefulness approach is not without its critics. Difficulties are involved in dealing with conflicts between different users' requirements (Cyert and Ijiri, 1974), in persuading users to express their opinions on what information is required (Carsberg and Day, 1984), and in the trade-off between information usefulness and the cost of disclosure (Edwards and Smith, 1996).

The present study contributes to existing literature by examining the usefulness of financial reporting to Saudi Arabian users in accordance with the full adoption. Saudi Arabian accounting users may be different from those in Western countries need. In Islamic countries prior studies argue that there is a need for an accounting system that serves religious needs and takes into consideration the economic elements of Sharia law, such as the accurate preparation of figures for Zakat purposes and the use of accounting as a way of achieving Islamic accountability (Taheri, 2000). Furthermore, accounting information should offer information on Sharia compliance and report prohibited transactions and the use of income gained from such transactions (Abuhmaira, 2006) (see section 3.2.2 and Chapter Four for more detail). On the other hand, the provision of information useful to decision-makers has been the IASB's primary consideration in disseminating its programme of harmonisation. It is interesting to test whether the

decision-usefulness approach is addressed by the objectives of IASB standards in Saudi Arabia.

3.4.4 Summary

Accountability and decision-usefulness represent the main objectives of financial reporting (Basheikh, 2002). It may be suggested that good practice of Islamic accountability will increase levels of disclosure, which may provide accounting users with more information to facilitate decision-making (Parker, 1991). However, given the political nature of accounting standards setting the two objectives above may be difficult to achieve.

As seen from the discussion of the Islamic accountability framework, users in an Islamic society such as Saudi Arabia need more specific disclosure, and their decisions are influenced according to the level of information provided by companies. This study explores perspectives on the current level of satisfaction accounting users feel about current disclosure in Saudi Arabia; the extent to which Saudi companies discharge their accountability to financial report users will also be explored. Moreover, it is interesting to explore whether IFRS adoption in Saudi Arabia will contribute to increasing the quality of financial reporting, thus increasing decision-usefulness for accounting users and in turn essentially helping accounting preparers discharge their accountability to stakeholders as well as increasing the level of transparency.

3.5 Conclusion

This chapter discussed the differences of accounting systems in developing countries and the factors leading to these differences. The adoption of IFRSs was also discussed, as well as the theoretical framework that will be used in this study.

Although there are some differences among developing countries resulting from the influence of factors such as culture, the economy, education and so forth, some countries have chosen to adopt IFRSs as national accounting standards. From the literature it can be seen that the reasons for adopting IFRSs are economic, particularly for developing and emerging economies, such as the attempt to attract FDI, or to save the time and expense of issuing national GAAP. Moreover, these standards may be adopted due to pressure from such organisations as the World Bank and the IMF, who use their aid as a lever to exert this pressure.

The relevance of IFRSs to developing countries and emerging economies depends on the environment of each country. This study will focus on Saudi Arabia as a case study to investigate the relevance of IFRSs. Many factors differentiate this country from other developing countries; for example, it would be classified as a comparatively rich country, and Saudi commercial law is more heavily influenced by Islamic Sharia rules than that of any other Islamic state. According to Samuels and Oliga (1982), accounting needs for each country should be considered separately. They also argue that accounting standards based on one country's environmental needs may not be suitable for another country.

4 The Background of Accounting in Saudi Arabia

4.1 Introduction

The aim of this study is to explore the suitability of IFRSs in the Saudi Arabian context, and this chapter will first present an overview of the Saudi Arabian environment as a background for the study. It will then investigate some of the factors which have had the greatest influence on the development of accounting in Saudi Arabia. These include the influence of politics, religion, culture and economics, as well as other factors, such as foreign influences. Furthermore, accounting regulations and the establishment of accounting bodies and accounting standards in Saudi Arabia will be explained. Finally, a conclusion will be drawn.

4.2 Background of Saudi Arabia

The capital of Saudi Arabia¹⁰ is Riyadh, and Mecca (the direction of all Muslim prayer in the world) and Medina (city of Prophet Mohammed) are the two holiest places in the country and indeed, for Muslims, in the world. Every year many Muslims come to these

¹⁰ The First Saudi State was established in 1744 when Sheikh Mohammed bin Abd al Wahhab established himself in Diriyah and gained the support of Prince Mohammed bin Saud. Together with its allies, the house of Saud became dominant in Arabia, controlling most of the Najad, although not the coasts (MEAP, 2007). They agreed to adopt Islamic legislation and call the country the Kingdom of Saudi Arabia (KSA) according to the house name (Al-Rumaihi, 1997; Al-Turaaiqi, 2008). According to Hamden (2005), this Saudi state lasted for about seventy-five years until, disturbed by the increasing power of the Saudis, the Ottoman Sultan instructed Mohammed Ali Pasha to reconquer the area. It was Ali's son, Ibrahim Pasha, who accomplished the task, defeating the Saudi (Wahhabi) forces in 1817. However, a few years later, the Saudis returned to power and established the Second Saudi State in 1824. This lasted until 1891, when it was conquered by the Al Rashid dynasty of Ha'il. In 1902, bin Saud reconquered Riyadh and, after further victories, the modern nation state of Saudi Arabia was created in 1932 by King Abdulaziz. Saudi Arabia occupies around 80% of the Arabian Peninsula. The population of Saudi Arabia is 19 million, of which approximately 4.6 million are expatriates (Hamden, 2005). There are thirteen provinces, each with its own provincial capital, situated in different regions of the country. Saudi Arabia has borders with Iraq, Jordan and Kuwait to the north, Yemen and Oman to the south, and Qatar, Bahrain and the U.A.E to the east. Also to the east is the Arabian Gulf, and the Red Sea lies to the west (Shoult, 2006).

cities from all over the world to make pilgrimages (either Omrih or Hajj). Arabic is the official language, and the Arabic calendar (Hegira) is used (Shoult, 2006). The official religion of Saudi Arabia is Islam, and its influence pervades all aspects of life in the country, including accounting practices and the accounting profession. There are two public holidays, Eid-al-Fitr, which marks the end of Ramadan, and Eid-al-Adha.

4.3 Political System

4.3.1 Background Information

The political system is one of the most significant influences on the accounting profession in any country. Saudi Arabia is an absolute monarchy with no experience of democracy. Laws are based on the Quran and the Sunnah, and are issued by Royal Decree. The main legislative bodies are the *Majlis al-Shura* (Council of Consultation) and the Council of Ministers, which has the King as its head and the Crown Prince and Prime Minister as members. The purpose of the Council of Ministers is to help the King carry out his duties. The sixty members of the *Majlis al-Shura*, based in Riyadh, are chosen by the King. These two bodies have the power to take initiatives or approve public policy (Basheikh, 2002). Saudi Arabia has never been colonised by any Western country, but some of these countries have exerted an influence on accounting in Saudi Arabia through accounting education or the development of the capital market.

4.3.2 Government laws and Accounting Regulations

The Saudi Arabian government has introduced several laws and regulations to respond to the changing requirements of Saudi society. Among these laws, those which concern accounting include the Income Tax and Zakat Law, the Companies Law, the Law of Certified Accountants, and the Foreign Investment Law. The Saudi government formed

the Saudi Organization for Certified Public Accountants (SOCPA) in 1992 to serve and organize accounting needs.

According to Al-Rehaily (1992), these laws provide basic guidelines for auditors, as well as some regulations to improve the reliability of accounting information. For instance, the Companies Act (Article 130) requires that at annual general meetings, shareholders appoint auditors from among those who are licensed to practice accounting in Saudi Arabia. Articles 136-142 specify the responsibilities and rights of the auditor in examining a company's books and records. Moreover, the Income Tax and Zakat Law requires all companies to submit their final financial statements, after attestation by a statutory accountant, to the Zakat and Income Tax Department. However, although these laws have doubtless had a positive effect on accounting practices in Saudi Arabia, they are nonetheless very general in nature and do not have a great deal of specificity (Al-Rehaily, 1992).

4.4 Legal System

Islam¹¹ is the official religion of Saudi Arabia, and all aspects of life are based on Islamic teachings.

¹¹ Islam means 'submission', and its followers are Muslims, i.e. those who submit (to Allah's will). According to Lewis (2001), the five Pillars of Islam, which are the foundation of the legal system in Saudi Arabia, are the following:

- Testifying that there is no God but Allah, and Mohammed is His messenger
- Praying five times each day.
- Giving alms to the poor and the disadvantaged (Zakat).
- Fasting between sunrise and sunset in the month of Ramadan.
- Making the pilgrimage (Hajj) to Mecca if health and financial circumstances permit.

The main source of the legal system in Saudi Arabia is the Quran, which contains guidelines not only for the behaviour of individuals, but also tenets governing all facets of social and community life. The Sunnah, containing Mohammed's (PBUH) directives as to how the ideals of the Quran can be applied in practical terms, is the second source. Ijma and Qiyas are other sources (Basheikh, 2002). The former is the interpretation of certain Islamic traditions as decided by theologians in the first few hundred years of Islam, while the latter serves to resolve new problems emerging from scientific and cultural developments through the application of principles from the Quran and Sunnah (Basheikh, 2002).

Accounting and accounting policies in a country like Saudi Arabia are therefore influenced by Islamic Sharia law. According to Lewis (2001), Islam has a major role, based on the Sharia, in how business should be conducted, how accounting ought to be undertaken and how banking and finance should be organized.

“In addition to providing a set of business ethics, Islamic economic and financial principles have a direct impact upon accounting practices and policies. These principles include, most importantly, the institution of Zakat (the religious levy) and the prohibition of riba (usury), and the institution of an interest-free economic system.”
(Lewis, 2001, p.104)

Islamic Sharia law forms the basis of the Saudi Arabian legal system, and also governs all facets of commercial and financial transactions, which means that the financial regulations laid down by Western economies may not be suitable for adoption in countries which are influenced by Islam, due to the divergences between Western and Islamic culture (see Table 4-1). Islam endorses collectivism rather than individualism,

and emphasises the Unity of God (Allah)¹². In terms of accounting, this means that full disclosure of accounting information requires the disclosure of this information to society as a whole, whereas in Western societies the concept of disclosure is much less broad and considerably more personal in scope (Baydoun and Willett, 2000). In Western societies, the morality of trade and commerce is essentially a man-made one, while in Islamic countries it stems from Islamic Sharia law. It is the duty of all Muslims to obey this law, and this obedience extends to financial dealings and accounting practices (White, 2004).

According to Gambling and Karim (1986) and Lewis (2001), there are three main differences between Sharia-based Islamic financial practices and those of the Western world. The first is an absolute prohibition of involvement with businesses concerned in any way with things which are *haram* (forbidden) to Muslims, such as alcohol, gambling and pork or pork derivatives. The second is the interdiction of *riba*. Although this is more accurately translated as ‘usury’, it is most generally used to mean ‘interest’. The third is the attempt to refrain from *gharar*, which can be translated as ‘speculation’. The ban on *riba* comes from the Quran, which states: “Those who consume interest cannot stand [on the Day of Resurrection] except as one stands who is being beaten by Satan into insanity” (Quran 2:276). In Islam, it is not acceptable for a lender of money to have a pre-determined and assured return, while the borrower assumes all risks; this also applies to preferred stock. This represents an obstacle to the adoption of Western

¹² “The Unity of God is defined by the *tawhid*, which requires a total commitment to the will of God and involves both submission and a mission to follow the *Shari’a* in all aspects of life” (Baydoun and Willett, 2000, p.80).

accounting standards, as interest is an essential part of many, such as the restructuring and amortization of debt (White, 2004).

According to Sulaiman (2003), not only is Sharia law at variance with certain aspects of Western accountancy, but it also gives rise to a need for information for which Western accounting does not offer any provision., notably with regard to the payment of Zakat. The correct calculation of Zakat to be paid is complicated. For example, it is payable at a rate of 2.5% on any money which has not been used for one year, and also on salaries. This is also the rate at which Zakat for trading enterprises is payable, being calculated on net profit and net worth. Investment income, however, is subject to 10% Zakat. Ibrahim (2000) argues that providing a fair basis for the calculation of Zakat is one of the principal aims of Islamic accounting. Thus, there is a need for an accounting system capable of correctly computing and disclosing the amount of Zakat payable (Taheri, 2000; Ibrahim, 2000)¹³. It may be suggested that conventional Western treatment of assets on a balance sheet is clearly not appropriate for these calculations, and cannot provide the necessary information for the correct computation of the amount of Zakat payable (White, 2004)¹⁴.

¹³ According to Ibrahim (2000), Zakat is different from the conventional tax system, although similar in certain respects. In a conventional tax system, governments may use taxed income for numerous purposes. They will generally have several priorities for expenditure, among which will be the economy and particular industries; therefore, there will be various fiscal policies such as capital gains tax, inheritance tax, and tax-exempt expenses. This is not the case with zakat, as it has only one purpose and its rate is fixed and cannot be altered by the government (Ibrahim, 2000). The Quran (9:60) provides criteria for eligibility to receive zakat payments from the zakat fund.

¹⁴ Uthman (1997, p.35) mentions some of the criteria required for the collection of zakat. These include outright ownership, having more than is required for basic needs, not being in debt, and stock that is taxed no earlier than one lunar year after its acquisition. In general, in Western business, accounting policies are chosen with the intention of reducing the amount of tax payable as much as possible. However, the selection of accounting policy for zakat has quite a different aim, which is to enhance the well-being of the beneficiaries and thus to promote socio-economic justice (Haniffa et al., 2004).

Table 4-1 Main variations between Islamic and Western accounting systems

Characteristics	Western Financial Accounting Systems	Islamic Corporate Report
Philosophical viewpoint	Economic rationalism	Unity of God
Principles	Secular	Religious
	Individualistic	Communal
	Profit maximization	Reasonable profit
	Survival of fittest	Equity
	Process	Environment
Criteria	Based on modern commercial law; permissive	Based on ethical law from Quran
	Limited disclosure	Full disclosure
	Personal accountability	Public accountability

(Source: Baydoun and Willett, 2000, p.82).

Sharia offers alternative financing arrangements, such as *mudharabah*, *murabahah* and *musharakah*. According to Sulaiman (2003), *musharaka* signifies, broadly speaking, any term to describe an agreement of association made by two or more parties. *Mudaraba* is a type of limited liability business alliance where capital is entrusted by one or more investors (*sahib al-mal*) to an agent-manager (*mudarib*). This agent, acting in the capacity of the trustee(s), receives no fixed fee or fixed percentage of profits. It is up to him to trade with the capital, and if a profit is made, he then returns the capital together with a previously agreed-upon share of the profits to the investor(s), retaining the remainder of the profit for himself. Should there be a loss, this is borne entirely by the investor(s), the agent being held to have suffered a loss in terms of the time and effort he has expended.

It can be seen from the above that there is a need for accounting standards to deal with the procedures and mechanisms involved in Sharia-compliant financial transactions in Saudi Arabia, and to meet the needs of Saudi Arabian users.

4.5 Economic System

4.5.1 Background Information

In the past, Western Asia was ruled by different Arab tribes and had very few sources of income. Basic agriculture was the main economic activity and some revenue was earned from those making pilgrimages to the Holy Places, such as Mecca.

There was little need for accountancy in such an environment (Elkharouf, 1985), but this changed with the discovery of oil in the late 1930s. Oil became the principal source of income for the government of KSA, particularly when oil prices rose to their highest ever in the late 1950s. The oil industry began with the export of crude oil, and progressed to oil refining and the export of petroleum-based products. A rise in oil prices then boosted the economy and allowed for industrial diversification. A global recession then resulted in a drop in oil prices, leading to relative economic instability. However, the Saudi government realized the advisability of a move away from an economy based on a single commodity, and created and expanded other sources of revenue for the country (Al-Rehaily, 1992).

Basheikh (2002) reports that the Saudi government has begun a number of development programmes, notably seven five-year development plans. The reason for these was to allocate in a well-organised way the abundant resources the country gains from oil revenues. The first development plan was carried out between 1970 and 1975, and the last complete one was from 2000-2005. The eighth development plan¹⁵ is being carried out at present. The basic concepts behind these plans are as follows:

¹⁵ According to Presley and Saudi British Bank (SBB) (2006), the overall aims of all the development plans are:

- To promote internal security and stability in Saudi Arabia, and to protect the Islamic religion.
- To maintain and spread Islamic Sharia law and uphold Islamic values.

- To restate the government's commitment to the dissemination of Islam and its social and cultural values.
- To support free enterprise provided it benefits the entire community.
- To create a wide range of facilities and institutions that will enhance the social and personal lives of all Saudis.
- To decrease dependence on petroleum as the single source of the country's revenues.
- To complete the solid infrastructure necessary to achieve the other aims.

4.5.2 Business in Saudi Arabia

The majority of businesses in Saudi Arabia are owned by a single person or family (Chang and Kumawala, 1994). According to Anastos (1980), most companies in Saudi Arabia are small and family-owned, and only the industrial companies are medium-sized or large. There are currently around 7,000 small, medium-sized, large, and foreign companies in Saudi Arabia (Ministry of Commerce and Industry, 2006). In 2000, foreign investment was permitted in Saudi Arabia. The Saudi government at that time encouraged foreign companies by offering incentives such as tax discounts and allowing foreign ownership to take loans from Saudi banks belonging to the

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- To raise standards in education and health care in order to enhance the lives of Saudi citizens and develop the country's human resources.
 - To decrease dependence on petroleum as the single source of the country's revenues.
 - To complete the solid infrastructure necessary to achieve the other aims.

According to Soufi and Mayer (1991), by the 1980s most of Saudi Arabia's basic infrastructure was established, which allowed the government to diversify the economy from being almost entirely petroleum-based: any economy dependent on one commodity is constrained and open to risk. Therefore, since the second development plan, the Saudi government has focussed on the development of the country's agricultural and industrial sectors. Despite certain obstacles and challenges the economy has flourished, in particular over the past twenty-five years, and much has been achieved (Basheikh, 2002).

government. By 2005 there were a total of 642 foreign enterprises, of which 174 were industrial enterprises (SAMA, 2006).

According to Al-Rehaily (1992), the rapid growth of the Saudi Arabian economy has greatly affected the accounting profession. There has been a rise in per capita income from oil revenues, which has led to increased consumption. Imports and exports have both increased. All sectors have been involved in development plans in which huge sums of money have been invested. Great changes have taken place over the past thirty years in the forms of business enterprises active in KSA, with the trend moving away from traditional individual or family-owned businesses and towards partnerships and corporations (CMA, 2009). Since the early 1970s the considerable rise in the number of corporations has led to a demand for a broad range of accounting services, and therefore to an increase in the number of firms offering such services (Al-Rehaily, 1992).

4.5.3 Saudi stock Market

4.5.3.1 Background Information

The first joint stock company, the Arab Automobile Company, was established in Saudi Arabia in 1943. By 1975 there were 17 public companies, but at this time there were no regulations (Basheikh, 2002). This number increased rapidly during the economic boom of the 1970s, when many large corporations and joint venture banks were set up, but the market remained informal until the early 1980s, when the government began a rapid development programme. In 1983 the Saudi Arabian Monetary Agency (SAMA) was given the responsibility of regulating the market (Basheikh, 2002).

According to Al-Rumaihi (1997), share-trading intermediation was restricted to commercial banks in order to improve the regulatory framework. In 1989 automated clearing and settlement were introduced, and the following year saw the introduction of the Electronic Securities Information System (ESIS), developed and operated by SAMA. In October 2001, the Tadawul system for securities trading, clearing and settlements was initiated.

4.5.3.2 The New Development of the Saudi Stock Market

The Capital Market Authority (CMA) in Saudi Arabia was established on 16th June, 2003, in the wake of the Capital Market Law. The CMA's primary aim is to oversee and develop the capital market in Saudi Arabia. It is also able to issue regulations for investors in Saudi Arabia. Four Saudi academics were selected to work in the CMA. Their recent decisions include the division of each share into ten parts, with a limit of a 5% increase or decrease of the value of each share every day. Most investors in Saudi Arabia have accepted this (CMA, 2006).

Foreigners, even if they are not resident in the Saudi Arabia, are now permitted to invest in the Saudi stock market. The Saudi stock market is now the largest in the Arab world as far as capitalization is concerned, and Saudi Capital Market growth between 1996 and 2005 was high, with a huge increase in the number of transactions, volume and value-trading. Market capitalization increased by 1,490% and the all-share index increased by 1,122.04%. According to SACMA (2007), there are around 105 listed companies in the Saudi stock market. The Saudi stock market comprises eight sectors:

Banking, Services, Industrial, Cement, Electrical, Telecommunication, Insurance and Agriculture (see Table 4.2)¹⁶.

Table 4-2 Number of listed companies in the Saudi stock market

Sector	Number of listed companies
Banking	10
Services	26
Industrial	36
Cement	8
Electrical	1
Telecommunication	2
Insurance	13
Agriculture	9
Total	105

(CMA, 2007)

However, although the Saudi stock market is very large compared to the markets of other developing countries, recent studies have found that, like those of most developing countries, it is not efficient (Dahel, 1999; Onour, 2004).

At the beginning of 2006 the stock market crashed. This was a ‘wake-up’ call to the Saudi stock market authority who, in July 2006, formulated regulations and requirements for greater disclosure and compliance with corporate governance, which were submitted to SOCPA for approval. In addition, the CMA began to make an effort to attract foreign direct investment (FDI) by promoting and developing the financial reporting of companies in order that it might be clearer and more informative for investors (CMA, 2007).

¹⁶By the end of December 2009 the number of these companies had increased to 139 (Tadawul, 2010).

4.5.4 Privatization

The Supreme Economic Council (SEC) was established with the aim of assisting in the development of the private sector in Saudi Arabia. Since the beginning of 2001 the SEC has been in charge of overseeing economic policies that encourage investment in the private sector, as well as acting as an intermediary between the various governmental bodies concerned with putting these policies into practice. The Saudi government decided to encourage expansion of the private sector and diversify the economy in an attempt to promote economic activity that was not based on oil and petroleum products, which had traditionally been the backbone of the country's economy and the principal source of its wealth (SAGIA, 2006).

According to a United Nations report, between 1975 and 1995 the share of GDP from the private sector rose by 24% to reach almost half of the total GDP, and three-quarters of the GDP did not come from oil. In this respect, the private sector has been much more successful than that of several other developing nations, particularly those in Latin America. In fact, in only 20% of emerging economies does the private sector contribute more than half of the GDP, while in the majority this contribution does not even account for 30% (Hassan, 1998).

The government of Saudi Arabia has been following a strategy of privatization of government-owned enterprises. The principal aim is to decrease the country's reliance on petroleum, as mentioned previously, and to encourage private investments (SAGIA, 2006). Many economic activities previously belonging to the public sector, such as telecommunications and power services, have been privatized and opened to private investment. According to SAGIA, in 2006 there were more than twice as many

newcomers to privatized industries as in the previous year. In recently privatized enterprises, the government nonetheless retains a share of 25%.

The government of KSA remains committed to the development of the private sector and the diversification of the economy, as can be seen from its Eighth Development Plan, which covers the period 2005 to 2009 and which focuses squarely on privatization and the encouragement of private investment (SAGIA, 2006). According to Al-dehailan (2004), the Saudi government is in the process of changing its role in the economy: where previously it was the dominant active force in the economy, it is moving gradually towards a more passive and supervisory role.

4.6 Saudi Arabian Culture

The best-known study to date on Arab culture is Hofstede's (1980) empirical study, in which he placed all Arab countries together in a homogeneous group, speaking one language (Arabic). Saudi Arabia was included in this group. However, the study did not mention that there are differences, often important ones, between Arab countries. As culture has been defined and its influence discussed previously (see section 2.2.3), the following discussion will specifically concern Saudi Arabia. This discussion will be based on Hofstede's dimensions.

(1) Power Distance: According to Hofstede's study, Arab countries belong to the high power distance group of countries. Saudi society is divided into many tribes, and generally the regulation of these tribes depends on the personality of the individual in the tribe with the authority to make regulations; it is almost always the head of the tribe who is in this position (Sabri, 1995). In Saudi Arabia there is an uneven distribution of

wealth. As a result, the majority of the population, who have limited means, depends on the minority, who are wealthy and thus have power (Sabri, 1995). Furthermore, there are other characteristics which indicate that Saudi Arabia is a high power distance society; for instance, children usually treat their parents with great respect and parents in turn instil obedience in their children. In Saudi Arabia, managers make decisions autocratically and paternalistically (Bhuian, 1998).

(2) Uncertainty Avoidance: Saudi Arabia belongs in the category of high uncertainty avoidance societies, as Saudi society tends to be nationalistic and seek protection, and religion is the main source of authority, which assists in avoiding insecurity (Al-Rumaihi, 1997; Basheikh, 2002). Hofstede (1980) classified Arab countries, including Saudi Arabia, as being higher in uncertainty avoidance than the USA and the UK, but lower than Japan and France. In Saudi Arabia, religion plays a major role in forming the culture, and Saudi people usually use it as protection from unknown situations, with adherence to the principles of Islam limiting uncertainty among them.

(3) Individualism vs. Collectivism: According to Hofstede (1980), Arab countries favour collectivism. One of the features of Saudi society is that it relies heavily on relationships with family and friends. As Islam is the principal influence on Saudi culture, children are expected to stay close to their parents and look after them during their lifetimes by serving and obeying them, particularly when they grow old. Consequently, collectivism will be high in this society. To give another example, Islam also exhorts people to stay together in the groups they belong to, and to contribute to these groups through ideas and discussion. However, should there be any conflict or

argument within the group, it is up to the leader of the group to settle it. In this sense, Saudi society is very cohesive and collectivist.

(4) Masculinity vs. Femininity: Saudi Arabia is an Islamic country and Islam does not to any great extent distinguish between men and women (Al-Rumaihi, 1997; Basheikh, 2002). However, Hofstede classified Arab countries as high masculinity societies, and this does appear to apply to present-day Saudi society. Although men and women have a right to work and engage in business activities, the majority of the workforce is formed by males; the opportunities open to women are restricted, and women are not represented in high-ranking positions. For example, there is gender segregation in education, and women can only teach in the female sections. Women's dress code and conduct are strictly regulated.

However, the masculinity-femininity dimension in Hofstede's findings does not appear to have a strong impact on accounting, and a link between this dimension and particular features of Saudi accounting culture is not apparent (apart from the fact that women are not represented in accounting standard setting or regulatory bodies)

Therefore, based on Hofstede's categories of cultural dimensions, Saudi Arabia has high power distance, high uncertainty avoidance is strongly collectivist and is, to some extent, a high masculinity society. Gray (1988) used Hofstede's model to link social values to accounting values (see Chapter Two). He argued that accounting values would impact accounting systems. Based on Gray's classification, Saudi Arabia's accounting system should have the following features: statutory control, high secrecy, some degree of conservatism and uniformity. Among the principal implications of such

characteristics are the dominant role of friendship and family relationships, a nationalistic bias and an inherent lack of transparency in Saudi society (Al-Rumaihi, 1997). These factors pervade the domain of accounting in such ways as to allow nepotism and kinship ties to override economic rationale, and cause secrecy surrounding any negative reports of improper accounting practices (Al-Rumaihi, 1997). These particular features of Saudi culture may influence the accounting system and then lead us to suggest that, to some extent, a link between Gray's accounting values (based on Hofstede's dimensions) and particular features of Saudi accounting culture is apparent. In such an environment it is to be expected that a conventional accounting system would be ineffective (Al-Rumaihi, 1997).

However, the evidence suggests that Gray's model (based on Hofstede's dimensions) needs to be moderated, because the accounting system in Saudi Arabia should provide full disclosure and more transparency, based on the discussion of the Islamic accountability framework (see Chapter Three), and because of the CMA's efforts to enforce Saudi companies' disclosure according to stock market requirements.

New culture

Modern-day Saudi culture is influenced by Western culture; this effect can be seen especially in the younger generation¹⁷. The influence of the cultures of developed countries on Saudi culture appears to extend to accounting in that many of the

¹⁷ This influence may alter the culture at this level of Saudi society, as it leads to changes in dress, speech and attitudes. These changes can have many causes, such as studying abroad. Many parents send their children (male and female) to study abroad, and they may stay outside Saudi Arabia for up to seven years, with the result that, when they return, they bring with them their experience of a different culture. Another cause is the media, as currently very few people receive only local television channels; the majority have many TV channels, including foreign ones, and this means that their children can see and listen to what they wish. These factors may apply to the introduction of new cultures into any society (Klausner, 2002).

individuals who set accounting standards completed their higher education at universities in the USA, the UK or other Western countries.

4.7 Accounting Regulations

4.7.1 The Companies Law

4.7.1.1 Company law

According to Basheikh (2002), the Aramco Company was the first company to produce oil in Saudi Arabia in the 1930s. It was a foreign company. However, as the number of companies increased, there were no laws or regulations for local companies, and companies used the rules and regulations of other countries. The Companies Law, first issued by the Saudi Ministry of Commerce in 1965, is generally held to be the main authoritative reference for the accounting profession. It was amended in 1982, and again in 1992 (Al-Rumaihi, 1997; Al-Mogbel, 2003). Eight types of business organizations are recognized by the Companies Law: General Partnerships; Limited Partnerships; Partnerships Limited by Shares; Limited Liability Companies; Joint Ventures; Joint Stock Companies; Variable Capital Companies; and Cooperative Companies. The Companies Law thus contains a legal basis for the accounting profession (Ministry of Commerce, Companies Law).

4.7.1.2 Financial Statement Requirements

There are 234 articles in the Companies Law. These concern formation, registration processes, partners and directors, etc., but there are in fact few guidelines on accounting and auditing regulations (Ministry of Commerce, 2007). For instance, Article 120 states that a company's board of directors must issue a statement at the end of every financial year. This statement should comprise a balance sheet, a profit and loss account, a review of the assets and liabilities of the company, and a report on the company's

activities and financial situation over the course of the previous financial year (Al-Mogbel, 2003). The firm's books and documents may be scrutinized at any time by an auditor who must have a license to practice in Saudi Arabia and be approved at an ordinary general meeting. The firm must submit its books and documents to the auditor at least 55 days before the ordinary meeting takes place.

Al-Mogbel (2003) stated that despite the fact that the Companies Law makes up part of the Saudi Arabian accounting regulations, none of its articles deals with accountancy or accounting standards. Shinawi and Crum (1971, p.112) state:

“The Companies Act did not discuss such matters as accounting principles, professional ethics, auditing standards, or the creation of a professional body of accountants in Saudi Arabia.”

4.7.2 The Accountants Law

In 1974, the Accountants Law, comprising thirty-five articles, was introduced by Royal Decree No. 43 (SOCPA, 2007). These articles contained the specifications and requirements for external auditors to be registered as licensed public accountants. Article 14 contained a declaration of the establishment of a committee to be called the 'High Committee of Accounting', which would work with the Ministry of Commerce in a consultative role. The main functions of the Committee were laid out in Article 16, these being to offer advice and suggestions for methods of developing accountancy in Saudi Arabia (Al-Mogbel, 2003).

4.7.3 The Income Tax and Al-Zakat Law

As the national infrastructure is supported directly from oil revenues, Saudi nationals do not pay income tax, although foreign nationals must. However, each Muslim, male or female, who has approximately £800 or more in money or assets, is obliged to pay

Zakat (Al-Mogbel, 2003). Zakat is sometimes translated as “alms-giving” and is a religious tax levied at the end of every year at a minimum rate of two and a half per cent of total money or assets. The money goes towards charity and the relief of the poor. It is a requirement of Islamic Sharia law that Zakat be paid by every Saudi citizen (unless they possess less than £800), and it must also be paid on the Saudi share of profits from enterprises owned jointly with foreign investors.

According to Al-Mogbel (2003), The Income Tax and Zakat Law has been amended several time since its introduction in 1950 by Royal Decree No. 17/2/28/3321. This law essentially concerns accounting practice. For instance, in Article No. 6 it is stated that all individuals and business enterprises engaged in commercial or investment activities must keep organized accounts detailing the business’ capital proceeds and expenses over the course of the year.

4.8 The Establishment of Accounting Organizations

There have been some endeavours to set up a professional accounting body in Saudi Arabia for the development of accounting in the country and to establish precise standards. The following section offers a short review of such endeavours.

4.8.1 The Saudi Accounting Association (SAA)

The attempt to improve the accounting profession in Saudi Arabia dates back to 1979, during a meeting between the head of the Ministry of Commerce and Abdulazaz Al Rashed, the head of the Al Rashed accounting firm¹⁸. The Al Rashed accounting firm

¹⁸ One of the oldest local accounting firms in Saudi Arabia.

was given permission by the Ministry of Commerce to perform a study of how the accounting profession could be promoted (SOCPA, 2007).

In 1981 King Saud University also organized some workshops to begin studying how accounting functions could be promoted, how accounting standards could be set, and how they could meet the needs of the developing Saudi economy. Therefore, the Saudi Accounting Association (SAA) in the Department of Accounting at King Saud University was created (SOCPA, 2007). According to Al-Mogbel (2003), as the SAA was set up within an academic establishment, its objectives were understandably founded on an academic approach to accountancy. These objectives included the development of the concepts of accounting in Saudi Arabia and the encouragement of contributions from members of the accounting profession to the development of these concepts. The SAA also tried to encourage the sharing of ideas between the SAA and others with accounting responsibilities, both in Saudi Arabia and overseas, and also to provide advice and promote research with the aim of improving the development of accounting in Saudi Arabia.

The results of the above effort clarified the objectives of financial accounting, and the first accounting standards in Saudi Arabia were issued in 1986, namely, the 'General Presentation and Disclosure Standards' (SOCPA, Annual Report, 2007). Five years later, to continue to promote accounting function, the Saudi Organization for Public Certified Accountants (SOCPA) was set up, and the Ministry of Commerce withdrew authorization from the SAA.

4.8.2 The Saudi Organization for Certified Public Accountants (SOCPA)

The Saudi Organization for Certified Public Accountants (SOCPA) was established by Royal Decree in 1992 (SOCPA, 2007). It is run by a Board of Directors comprising thirteen members, with the Minister of Commerce as Chairman. The Board also includes six certified accountants, two representatives of university accounting departments, and the Deputy President of the General Audit Bureau (SOCPA, 2007). The other members are the Deputy Minister of Commerce, the Deputy Minister of Finance and National Economy, and a representative from the Chamber of Commerce. SOCPA is financed by subscriptions, income from sales of its publications, and state subsidies. It establishes technical committees to prepare general rules for the administration of the profession. Committee members are in the accountancy field and include academics, accountants and company representatives (SOCPA, 2006).

At present, among SOCPA's activities are the following:

- The development and issue of accounting standards, and deciding appropriate methods for measuring, presenting and disclosing aspects of financial statements.
- The development and issue of auditing standards for Certified Public Accountants licensed to practice in Saudi Arabia, and the assessment of auditors' proficiency.
- The development of a review programme to oversee the performance of CPAs and ensure that they adhere to standards and regulations.
- The development of the principles and rules of the Code of Professional Conduct.
- The preparation and management of the SOCPA fellowship exam.
- The propagation and carrying out of training programmes for professional development.
- The establishment of a specialist information centre making use of the most recent technology.

- The issue of a specialised professional newsletter for accountants and auditors.
- The organisation of conferences and seminars in accounting and auditing.

(Source: SOCPA, 2006).

4.9 Saudi Arabian accounting standards

4.9.1 Influences on Accounting

Although Saudi Arabia did not adopt any foreign accounting standards, there are three ways in which foreign influence on Saudi accounting practices operates: through foreign accounting firms, foreign companies and foreign accounting education.

4.9.1.1 International Accounting Firms

A foreign accounting firm was the first accounting firm to be licensed to practice public accounting in Saudi Arabia. By the end of 1968 there were twenty accounting firms from six countries, including Saudi Arabia, operating in the country. Foreign accounting firms have been considered to have had a negative effect on the local accounting system. Enthoven (1991, p. 272) stated:

“In many [developing] countries, foreign accounting forms operate. They tend to follow foreign accounting/auditing pronouncements, which may not help develop useful local standards. In general, accounting firms are not involved adequately in social and economic programmes; not do they assist sufficiently in fulfilling the accounting needs of smaller firms either directly or through development institutions.”

Foreign firms still make up a considerable proportion of all the accounting firms operating in KSA. At the end of 1985, 39% of all the accountants and auditing offices licensed to practise accounting in Saudi Arabia were foreign (SAMA, 1986). However, at the present time this figure is lower and most of these offices are local (SAMA, 2006). The “Big 4” firms are also represented in Saudi Arabia, either with branches of

their British or US offices, or by having established an association with another firm operating in Saudi Arabia.

There are currently four international accounting firms in Saudi Arabia, i.e., Deloitte Touche Tohmatsu, KPMG, PricewaterhouseCoopers (or PwC) and Ernst & Young. These firms indirectly influence the use of IASs and try to use them (Al-Rumaihi, 1997), since they benefit when a country in which they have offices adopts IASs/IFRSs (see Chapter Three for more detail). Some of the employees who work in big accounting firms in Saudi Arabia are non-Saudi, and as a result they may tend to use their own preferred accounting standards. Moreover, they may advise Saudi employees to go to the USA or other developed countries for their training (MEER, 1992).

4.9.1.2 Foreign Companies

Foreign companies are one of the principal ways in which accounting ideas and procedures are transferred from one country to another. There is nothing new in this. For instance, double-entry bookkeeping and other accounting procedures were introduced into England and other European countries in the 16th century through trade with companies in Italy (Lee, 1975). According to Al-Rumaihi (1997), the Saudi Arabian economy has developed rapidly over the past thirty years, and many foreign companies, particularly from Britain and the USA, have had an important role in building the country's infrastructure, such as roads, bridges and schools. For instance, in 2004, 63% of the total value of development contracts was awarded to foreign contractors (SAMA, 2005).

Foreign companies may have had a negative effect on the local accounting system, but they have had a positive effect as well. Saudi staff in these firms have been introduced

to modern accounting practices and the use of modern technology in accounting operations. Some of these firms offer their Saudi graduate staff the opportunity to travel overseas for further study and training in various areas of accounting (Al-Rehaily, 1992). However, one negative effect is that foreign companies use accounting principles which are employed in their own countries and which are not always relevant to local needs because of cultural and environmental differences.

4.9.1.3 Accounting Education

Like the governments of most developing countries, the Saudi government has sent many students abroad, especially to the UK and the USA, to study in various domains, including those of business and accounting. In 2004 there were around 30,000 Saudi students studying overseas on scholarships. However, this number increased dramatically after encouragement from the Saudi government, e.g., the King Abdullah bin Abdulaziz Programme for Studying Abroad (see footnote 5).

According to Al-Rumahi (1997), the influence of foreign education on accounting in Saudi Arabia stems from the fact that as faculty members come from various accounting backgrounds, a variety of courses are taught in accounting principles and auditing. All the courses take into consideration the accounting environment in the country where the faculty member's degree was taken. In addition to the above, many students obtain their degrees (Masters or PhD) from the USA or the UK, and on their return to Saudi Arabia some of them tend to employ different policies and ask for other accounting standards to be adopted, depending on their own ideas and experience.

Furthermore, most accounting departments in Saudi Arabia's universities include many Egyptian academics who can influence the teaching of accounting courses and thus

influence accounting practices in Saudi Arabia. For example, at King Khaled University, 80% of the academic staff are from Egypt, and as a result they can communicate their ideas and advice to students and also exert an influence through their contributions to department policies during their residence (KKU, 2008). Moreover, they may transfer the influence of British accounting to Saudi accounting, as Egypt was colonised by Great Britain (see section 4.3.5).

In the GCC countries (Gulf Council Corporation Countries), most members of the accounting profession have been trained at universities in the USA or the UK, although some of them receive their training locally. According to Kantor et al. (1995), in Saudi Arabia members of the accounting profession have been trained at King Saud University, King Abdulaziz University, and the University of Petroleum and Minerals. However, they were taught with textbooks from Egypt or the USA, and most of the teachers at these universities received their education in Egypt or the USA. Kantor et al. (1995) also point out that some members of the accounting profession received training in the USA or the UK. As a result, some of those members may tend to prefer to adopt some of the accounting systems or standards of developed countries, and the effects of this depends on their position in the accounting body.

It would appear from the above that accounting in Saudi Arabia has been influenced by Western accounting in various ways. As a result of this, the setting of accounting standards in Saudi Arabia will combine different accounting standards from different countries, as will be discussed in the following section.

4.9.2 The Setting of Accounting Standards

Before SOCPA was established in 1992, the SAA was responsible for preparing accounting standards in Saudi Arabia. Since 1992 this responsibility has fallen to SOCPA (Article No. 19). According to SOCPA (2002), the setting of accounting standards passes through ten stages before approval (see SOCPA, 2007; Al-Mogbel, 2003). However, the setting process may be influenced by some parties' interests according to the political nature of standards setting (see Chapter Three), particularly because of SOCPA's inability to control this process or provide accounting standards that are appropriate for all stakeholders in Saudi Arabia (see section 3.9.4). However, according to this researcher's knowledge no research presently exists that assesses the process of setting SASs or explores whether this process is driven by political influences which are reflected in the final standard. This study will contribute to providing evidence of that process.

4.9.3 Existing Saudi Arabian Accounting Standards

Before 1992 only one set of accounting standards had been issued by SAA: the "General Presentation and Disclosure", in 1986. This standard was based on the standards of three countries, the USA, Germany and Tunisia (SOCPA, 2002), and was updated in 1997 (Beshiekh, 2002). According to Al-Mogbel (2003), these countries were chosen and classified according to the following factors: a) the extent to which the accounting profession was developed in the country; b) how far the economic environment of the country resembled that of Saudi Arabia; and c) the possible advantages Saudi Arabia could obtain from existing bodies in the country. Moreover, according to Al-Amari (1989) these countries were chosen according to certain salient points. Hence, the USA was chosen because of its highly-developed accounting

profession; Germany was chosen because of its laws and regulations, and Tunisia was selected as it was a developing country.

As in may 2008, there are 17 Saudi accounting standards (SASs), 16 of which were issued by SOCPA and all of which, with the exception of the Zakat and income tax standard, were based on IASs and USA GAAP and UK standards (see Table 4.3).

Table4-3 SASs up to the present

N	Standards	Year of issue
1	General presentation and disclosure	1986
2	Foreign currency	1997
3	Inventory	1997
4	Related party disclosure	1997
5	Revenue	1998
6	Administration and marketing expenses	1998
7	Research and development cost	1998
8	Consolidation of financial statements	1998
9	Investment in securities	1998
10	Preliminary financial reports	1999
11	Zakat and income tax	1999
12	Fixed assets	2001
13	Accounting for leases	2001
14	Segmental reports	2002
15	Accounting for investment according to property rights	2002
16	Intangible assets	2002
17	Accounting for government grants and subsidies	2003

Source: (SOCPA, 2007)

The Saudi Arabian Monetary Agency (SAMA) requires all banks and financial institutions in Saudi Arabia to prepare their financial statements in accordance with IFRSs. Other listed companies are required to prepare their financial reporting based on SASs. However, in December 2002 SOCPA stated that “in the case of there being an accounting issue for which no accounting standard or professional opinion has been issued by SOCPA, the accounting standard issued by the International Accounting Standard Committee for that issue shall be considered the generally accepted standard in this respect” (SOCPA, 2007).

4.9.4 SOCPA and Future Challenges

Nowadays, there are certain challenges facing SOCPA¹⁹. First of all, the number of people who can assist in studying and preparing Saudi accounting standards is insufficient. Moreover, many qualified accountants tend to work for large companies and accounting firms in Saudi Arabia, as SOCPA cannot pay them such high salaries and bonuses. Finally, the contribution of society in giving feedback on the new standards issued by SOCPA is inadequate, as the standard is usually introduced before the final stage (see section 3.9.2). In this researcher's opinion, SOCPA will face greater challenges in light of the increase in accounting information requirements and the delays in issuing and improving accounting standards. It is one of the intentions of this study to contribute to assisting SOCPA by investigating one of the solutions which SOCPA may use in the near future through an examination of the relevance of IFRSs to Saudi Arabia.

4.10 Comparison Between SASs and IFRSs

This section compares Saudi Accounting Standards (SASs) and International Financial Reporting Standards (IFRSs) or International Accounting Standards (IASs). Two standards have been excluded from the comparison, as there are no comparable IASs for them. They are the Zakat and Income Tax standard, and the Administrative and Marketing Expenses standard. This comparison is made based on the main variations in the perspectives of both IASs and SASs, such as definitions of term, scope and

¹⁹ Based on August 2006 meeting between the researcher and the chief of SOCPA in his office at SOCPA.

accounting treatment; and presentation and disclosure requirements. The results of the comparison are presented in detail in Appendix 2; the key differences are as follows:

- The main differences between SASs and IASs/IFRSs lie in their alternative accounting measurements. For example, IASs offer greater flexibility for assigning the cost of inventories by using the LIFO, whereas the SAS permits only the use of weighted average cost formulas for assigning the cost of inventories. Moreover, under SASs historical cost is used more than fair value, as the Ministry of Commerce permits the use of fair value in market share only. However, fair value is widely used within IFRSs (e.g. IAS 40 and 41).
- Although in some cases SASs require more disclosure than IASs/IFRSs (for instance, in SASs 8 and 14), IASs/IFRSs generally require more disclosure and detail than SASs.
- The presentation of IASs/IFRSs are more easily understandable than SAS because IASs/IFRSs show all necessary details within the standards, but in most cases SAS leads the reader to the interpretation section.
- Another difference is the framework and objectives that the standard may cover. For example, in SAS 10 and IAS 34, the scope of SAS 10 is expanded to include the excluded activities and unusual sections, gains and losses which are probably held.

4.11 Summary and Conclusion

As mentioned previously, the aim of this chapter is to investigate some of the factors which have had the greatest influence on the development of accounting in Saudi Arabia. These include the influences of religion, politics, culture and economics, as well as others, such as foreign influences. This chapter provides an overview of the history of Saudi Arabia. Furthermore, accounting regulations, the establishment of accounting bodies and accounting standards have been explained.

The influence of culture is a common obstacle which may confront accounting harmonization in any country, and Saudi Arabia is likely to be faced with this obstacle as Saudi culture is formed by Islam, which may conflict with IFRSs on several issues. As a result, there is a need for accounting and auditing standards to deal with the procedures and mechanisms involved in Sharia-compliant financial transactions in KSA. SOCPA has issued special standards to meet the needs of DZIT for the calculation of Zakat. On the other hand, SOCPA will face pressure from many interested parties to adopt and implement IFRSs, one of the reasons for this pressure being the encouragement of FDI. The Saudi Stock Market Authority (SMA) began to make an effort to attract FDI by promoting and developing the financial reporting of companies in order that it might be clearer and more informative for investors; one of their suggestions to SOCPA was to adopt IFRSs.

It would appear from the above that accounting in Saudi Arabia has been influenced by Western accounting in various ways, and as a result of this the setting of accounting standards in Saudi Arabia will combine different accounting standards from different countries. SOCPA was established relatively recently, in 1992, and therefore there has

been some delay in preparing accounting standards. SOCPA has issued 17 accounting standards so far, the most recent one being in 2003.

5 Research design

5.1 Introduction

This chapter presents and discusses the research methods employed in this study to reach the objectives detailed below. This study uses questionnaire surveys and interviews, in addition to a comparison between SASs and IFRSs. This chapter is organised as follows: firstly, there will be a discussion of the research objectives and questions; the research methodology is then presented, followed by a discussion of the research methods, including the justifications for choosing them, their design and administration, and the selection of the sample.

5.2 Research Objectives and Questions

The overall objective of this study is to find out whether IFRSs are relevant and useful for Saudi Arabia. To reach this overall objective, it is necessary to divide it into several specific objectives, as follows:

(2.1) To examine and discover the accounting needs of Saudi Arabia and then find out whether they differ from those of Western countries

The literature demonstrates that differences exist between the cultural environments of developed and developing countries, leading to differences in the information needs of each country's users (Ngangan et al., 2005). Ngangan et al. (ibid) state that the differences in users' information needs are noticeable across different countries, and even between various user groups in the same country.

Chamisa (2000) states that the differences between developing countries are highlighted by the fact that they have a much broader assortment of economic and social indicators than do developed countries (see Chapter 2). In addition, many studies maintain that the differences between accounting systems in various countries are caused by economic and institutional differences (Mueller, 1967; Nobes, 1998, 2004). Other studies cite cultural differences, with some of these studies being based on Hofstede's Model (Gray, 1988; Salter and Niswander, 1995; Chanchani and Willett, 2004; Ding et al, 2005). The variations in accounting systems from one country to another are caused by the differences in the accounting needs of those countries (Briston, 1978; Hove, 1986; Radebaugh, Gray and Black, 2006), as well as the environmental factors that influence and cause the differences between accounting systems in developing countries (see Chapter Three).

As Saudi Arabia is a Muslim country, Islam is the principal influence on daily life and all activities in Saudi Arabia. Business and commerce, including accounting, are also influenced by Islam. Some factors influence user needs in any Islamic country, such as the duty of all Muslims to pay Zakat (religious tax) (Lewis, 2001; Napier, 2007) (see also Chapter Four). Full disclosure and transparency are Sharia requirements, and through applying the Islamic accountability framework (see Chapter Three), accounting preparers can provide more appropriate accounting information to users, thus discharging their accountability. Based on the above literature and the discussion of Saudi Arabia's accounting background (see Chapter 4), the following question will be addressed: *what are the needs of users of accounting information in Saudi Arabia?* This question will be sub-divided into three questions: (1) *Who are the users of accounting*

information in Saudi Arabia? (2) What do these users need? (3) Are they different from those of Western countries?

(2.2) To examine Saudi accounting standards as compared to international accounting standards in order to identify the differences and determine which system can better satisfy user needs.

This objective will be divided to two sub-objectives:

(2.2.1) Identify the differences between SASs and IASs/IFRSs.

(2.2.2) Explore stakeholders' perceptions of which system may better serve their needs and which they would prefer to be applied in Saudi Arabia.

According to Boolaky (2004), some countries have adopted IASs/IFRSs in their entirety, without any modification (full adoption); on the other hand, some countries adopted these standards as part adoption, making some modifications based on local needs. IASs/IFRSs have been used for different purposes in some developing countries. IASs/IFRSs have been used for different purposes in some developing countries. Some countries, such as United Arab Emirates have adopted IFRSs as their national accounting standards, while others, such as Malaysia, have used them as a basis for their national standards but have modified them to suit local needs (IAS plus, 2010). In some cases, such as Saudi Arabia, IFRSs are used when the national standards do not offer a provision for a particular case.

Saudi Arabia is the only GCC country with a professional body of accountancy (SOCPA); this body uses IFRSs only as a starting point in preparing local standards (Mirghani, 1998). Moreover, SOCPA permits the use of IFRSs where there are no SASs. The banking sector however has already adopted IFRS. From the discussion of

the theoretical framework, it seems that an appropriate accounting system in Saudi Arabia (see Chapter Three) would help to increase the level of accountability. Therefore, this study attempts to examine and evaluate the progress of IFRSs, their relevance to Saudi Arabia and their ability to meet the accounting needs of an Islamic country.

A comparison between SASs and IASs/IFRSs (see Chapter Four) is made to help determine the main differences between them. This comparison is made by analyzing the content and requirements of each set of standards in terms of the information that must be disclosed, the presentation of information about each set of standards, and the different accounting treatments, if any, between them. Moreover, some of the results of the comparison will be included in the questionnaires to gather respondents' opinions on to what extent the existing Saudi Accounting Standards (SASs) and IFRSs/IASs can meet the needs of accounting systems users in Saudi Arabia. The question is: *What are the main differences between SASs and IFRSs and which system can satisfy user needs?*

(2.3) Understanding the factors that must be taken into account when considering the adoption of IFRSs in Saudi Arabia (or understanding the factors (cultural issues) that may prevent the complete adoption of IFRSs in Saudi Arabia).

Prior literature shows that several factors should be taken into account, e.g. culture, market economy, and political system, which vary greatly from country to country, thus presenting obstacles to the establishment of an accounting system that can function well in all countries (Nobes and Parkar, 2006). Some studies find that the language of IFRSs and the development of accounting education may also be obstacles to the adoption and implementation of IFRSs in developing countries (Abedelsalam and Weetman, 2003; McGee et al., 2003; Asraf and Ghani, 2005; Tyrrall et al., 2007).

According to Tyrrell et al. (2007), IFRSs may fail to cover all the accounting needs that might be present in some developing countries. This could be an issue in Saudi Arabia; some Arab countries, such as Saudi Arabia, use Sharia as a guide in all aspects of life and find that this is not always easily compatible with IFRSs, as there are certain issues which must be considered. For example, Islamic law forbids interest, but no provision is made for this in IFRSs (Hussain et al., 2002). Religion is therefore one of the environmental factors that should be taken into account when considering adopting IFRSs. The question here is: *What are the underlying factors (cultural issues) that may influence the adoption of IFRSs in Saudi Arabia, and which issues might act as barriers to their adoption?* The answer to this question will be sought through Saudi accounting preparers' and users' opinions about factors that might prevent the complete adoption of IFRSs by Saudi Arabia (e.g., Islam).

(2.4)Examining the difficulties and problems occurring during the transition to the IFRSs in Saudi Arabia

Prior literature suggests that, although there are many advantages to having a single accounting system, harmonization would be costly or difficult due to cultural differences (see Chapters Two and Three for more detail), and the question of which standards may be applied globally would be present (Tyrrell et al. 2007).

Some studies have found that IFRS adoption initially results in some expense and difficulties, such as difficulty in interpreting these standards, training accounting staff, the need for consulting services, translation problems, and standards being too broad (Joshi and Ramadhan, 2002; Srijunpetch, 2004 and Tyrrell et al., 2007). The question here is: *What problems and difficulties would Saudi Arabia face when applying IFRSs?*

This question will be answered through the collection of Saudi stakeholders' perspectives. These viewpoints will be acquired firstly by asking preparers of financial statements in the banking sector about the actual problems and difficulties experienced during the transition to IFRSs; secondly from the perspectives of the preparers of the financial statements of other listed companies²⁰ about the problems and difficulties which may be expected to occur during the transition to IFRSs; and finally by asking users and external auditors about their perspectives of the problems and difficulties when using newly-adopted IFRSs during the transition.

Therefore, the above question will be divided to two sub-questions.

(1) What were the main problems and difficulties that the banking sector faced during the process of adopting IFRSs?

(2) What are the main problems that other listed companies may face when transferring to IFRSs?

(2.5) Understanding the factors or reasons that might lead Saudi Arabia to adopt IFRSs and the benefits of the adoption

This objective will be divided into two sub-objectives:

(2.5.1) To determine the different influences that can play a major role in the development of SASs and whether they can influence Saudi Arabia to adopt IFRSs

Previous literature (see Chapter Three) has suggested that certain organisations exert great pressure on developing countries and emerging economies to adopt IFRSs. These organisations include the World Bank, the International Monetary Fund (IMF), and international accounting firms (IAFs) (Ouattara, 1998; Rahman, 2000; Hooper and

²⁰ Other listed companies mean all listed companies apart of banks.

Morris, 2004; Sucher and Alexander, 2004). According to Street and Gray (2002), countries may be motivated to comply with IFRSs because they want their businesses to be listed overseas and because they may want an IAF to perform their audits.

The World Bank in particular uses its position as a lender of aid money to developing countries to put pressure on them to adopt IFRSs (Annisette, 2004; Alfredson et al., 2005). According to Rahman (2000), some developing countries need to follow the requests of certain organisations, such as the World Bank, in order to receive the help they require. This means that the World Bank can request that developing countries adopt IFRSs, or make this a condition of awarding loans and other financial aid. For example, Tyrall et al. (2007) reported that the World Bank made the adoption of IFRSs a condition for Kazakhstan to obtain financial aid. The question here is: *What factors can benefit from the full adoption of IFRSs in Saudi Arabia?*

The answer to this question will be sought through Saudi accounting preparers' and users' opinions on the influence behind the adoption of IFRSs, if any. These viewpoints will be acquired firstly by asking preparers of financial statements in the banking sector about their motivations behind the adoption of IFRSs; secondly from the perspectives of the preparers of the financial statements of other listed companies about the expected influence on the adoption of IFRSs; and finally by asking users and external auditors about their perspectives of the internal or external influences that might occur in the adoption of IFRSs. Therefore, the above question will be divided to three sub-questions:

(1) What were the banking sector's motivations for adopting IFRSs?

(2) What are the expected motives for the full adoption of IFRSs in Saudi Arabia?

(3) Which stakeholders of Saudi Arabia will benefit most from the adoption of IFRSs?

(2.5.2) An examination of the advantages and benefits of Saudi Arabia adopting IFRSs

Prior studies suggest that there are many benefits to be gained from adopting IFRSs. For example, Fry and Chandler (2007) state that adopting or modifying IFRSs in developing countries saves the time and effort that would be required to establish their own national standards. IFRSs lead to a better quality of accounting in developing countries (Turner, 1983) and thus to greater competitiveness in the international capital market (Saudagaran and Diga, 2003). IFRSs can also be seen as a good opportunity for developing countries. According to Saudagaran and Diga (1997), as well as the cost-saving aspect of their adoption, IFRSs are theoretically not a reflection of the accounting policies of one single country; adopting them therefore can be rationalized more easily from a political point of view.

The adoption of a single accounting system will help capital and other sources move more easily across borders, and reduce the cost of accounting statement preparation (Tyrrall et al., 2007). Moreover, in terms of developing nations, the harmonisation of IFRSs will help reduce the expense and time involved in issuing new standards, increase the efficiency of the stock market and make financial statements more understandable (Belkaoui, 2004; Asharf and Ghani, 2005; Nobes and Parker, 2006). Decision usefulness is an objective of the IASB, as discussed in Chapter Three. It was argued that decision usefulness is one of the factors affecting adoption of IASs/IFRSs. The question here is: *What are the benefits of applying IFRSs in the Saudi environment?*

The answer to this question will be sought through Saudi accounting preparers' and users' opinions. These viewpoints will be acquired firstly by asking preparers of financial statements in the banking sector about their experiences of the actual benefits they had gained after the adoption of IFRSs; secondly from the perspectives of the preparers of the financial statements of other listed companies about the benefits and the advantages which may be gained from the adoption compared with the current situation with SASs; and finally by asking users and external auditors about their perspectives on the benefits and advantages of IFRSs to Saudi Arabia. Therefore, the above question will be divided to two sub-questions.

(1) What benefits and advantages did the banking sector gain after adopting IFRSs?

(2) What are the expected benefits and advantages of adopting IFRSs for other Saudi Arabian listed companies, compared to the current situation?

5.3 Research Methodology and Approaches

The choice of research methodology and how a researcher conducts research depends on their own ontological and epistemological beliefs; that is to say, their beliefs about the social world and what is known in it, and the nature of knowledge and how it can be acquired (Snape and Spencer, 2004). The culture and environment of both researcher and participant also play a large part in determining the research approach taken (ibid).

Epistemology has been defined as 'the researcher's view regarding what constitutes acceptable knowledge' (Saunders et al., 2009, p.119). According to Hopper and Powell (1985), epistemology is the branch of philosophy concerned with the nature of knowledge and the basis of proof which forms knowledge, as well as how to acquire and transmit knowledge. The present study will acquire knowledge through interaction

with individuals and actors involved in the study. The knowledge is therefore of a more personal nature (Hopper and Powell, 1985). The present study aims to investigate the relevance, usefulness and challenges involved in implementing IASs/IFRSs in Saudi Arabia, through exploring the perspectives of individuals included in the study sample.

Pragmatism is “a position that argues that the most important determinant of the research philosophy adopted is the research question, arguing that it is possible to work within both positivist (quantitative) and interpretivist (qualitative) positions. It applies a practical approach, integrating different perspectives to help to collect and interpret data”(Saunders et al., 2009, p.598).

Quantitative research is highly structured, objective, and generally uses quantitative measurement, whereas qualitative research (interpretivism) focuses on the details of a situation and the reality behind these details; it is therefore more subjective (Collis and Hussey, 2003). Pragmatism is particularly suitable for mixed method research, and this researcher considered a pragmatic approach to be most suitable for this research, which combines both quantitative²¹ and qualitative²² methods.

The two methods can complement each other (Fielding and Fielding, 1986); use of both can therefore be advantageous (Patton, 1990). This study will use both quantitative (through closed questions) and qualitative (through open-ended questions) methods in questionnaire surveys and semi-structured interviews. This strategy was chosen as it

²¹ According to Robson (2002), quantitative research seeks to determine the existence of a constant relationship between events, or between two variables.

²² Qualitative research, on the other hand, emphasizes words rather than quantification in data collection and analysis (Bryman, 2004). Qualitative research, though, assists in comprehending a phenomenon, assessing the essential motifs that appear in the research, and ultimately assisting in the construction of a theory (Easterby-Smith et al., 2002). Qualitative research is based on data in the form of words rather than numbers, and conclusions are based on data that is not quantified, such as attitudes and values (Rudestam and Newton, 1992).

was considered to be the most appropriate for answering the research questions. As the aim of the research questions is to investigate and describe the motives for, and benefits, problems and difficulties of, IFRS adoption, use of both methods is considered to be in keeping with this aim.

According to Marshall and Rossman (1989), researchers should use the approach which will best assist in answering the research questions. The mixed-method approach permits a more thorough and comprehensive investigation of the subject than would the use of one method alone. The mixed-method approach also helps to achieve cross-validation of data and avoid any information bias which could stem from the use of a single method of gathering data (Hussey and Hussey, 1997; Silverman, 2000). The combination of two approaches permits the shortcomings of each to be overcome. For instance, a large sample can be covered through the questionnaires, whereas it would not be possible to interview them all due to time limitations.

However, it is possible that questionnaires may not gather detailed information; this issue may be overcome through use of a more in depth qualitative method in interviews. Finally, the quantitative approach used in the questionnaires helps compare answers between sample groups and find the significant differences between them regarding to their position. This is one of the advantages of the quantitative method (Saunders et al., 2009).

5.4 Data Collection

To achieve the present study objective and answer the research questions this study employs two data collection methods. These methods will be presented in this section.

5.4.1 Questionnaire Survey

The survey is the method most commonly used by researchers in collecting primary data (Aaker et al., 2001). Denscombe (2003a, p.6) states that: “*the word survey means to view comprehensively and in detail. In another sense it refers specifically to the act of obtaining data for mapping*”. Questionnaires are a group of questions designed and sent to a sample of people. Their main purpose is to obtain information about the sample’s attitudes and opinions concerning the subject of the research.

Hussey and Hussey (1997), Babbie (2001) and Denscombe (2003b) outline some of the advantages of questionnaires: questionnaires are economical; they permit wide coverage; they are comparatively easy to arrange and analyse; and they avoid personal interaction with the researcher. On the other hand, Denscombe (2003b) mentions the following disadvantages of questionnaire surveys: the response rate is variable and may be low; questionnaires may feature incomplete or poorly-completed responses; they limit and shape the nature of the response; and the researcher is unable to probe responses.

However, Al-Hajji (2003) and Burgess (2001) offer some suggestions for mitigating these disadvantages. Namely, the researcher should employ administration skills to maximise the response rate, align the procedure with the research objectives, and minimise bias. The questionnaire should be carefully planned and designed in a manner which will maximise effectiveness, keep costs low, and simplify the analysis of the results. It can be to the researcher’s great advantage to have personal contacts with the firms or other bodies with which the research will be carried out. Finally, researchers should try to cover the whole population.

Questionnaires can be administered through the post, by interview (face-to-face), by telephone or by e-mail (Oppenheim, 1992). Postal questionnaires involve the researcher posting the questionnaire and covering letter to the sample, enclosing a stamped addressed envelope for the return of the completed questionnaire. If the survey is being carried out within a firm, use of internal mail may be an option. According to Oppenheim (2000), although this method of administering questionnaires is simple and inexpensive, it seldom generates a high response rate; the response rate is frequently 10% or under. This presupposes that only those who are especially concerned with the issue have answered; therefore, a sample bias problem arises, as these respondents will not accurately represent the population. There are various ways in which the response rate may be improved. For instance, questions should be clear, unambiguous, and non-controversial (Dillman, 1983). It can also be worthwhile to send a follow-up questionnaire to individuals who have not responded at the first one; this will certainly generate a few more responses, which can then serve to check any bias. Another way in which the response rate can be increased is to offer an incentive by making it clear that a small gift will be sent to all those who return the completed questionnaire.

Questionnaires administered over the phone can be convenient and much less expensive than face-to-face interviews, while at the same time permitting a degree of personal communication (Bell, 1999). It is possible to employ a fairly long questionnaire using this method and it also makes eliciting responses to delicate or complicated questions easier. While the response rate may be high, there nonetheless remains a bias as the respondents will be all people who have a phone and are prepared

to answer questions asked of them by someone they have never met before. In terms of face-to-face interviews, Bryman (2004) states that it is possible to administer questionnaires on the street, in the interviewee's home or office, or any other suitable place. Electronic (email) questionnaires are an excellent method of distribution; this method is very rapid and inexpensive, and there is generally a fairly high response rate.

This study uses postal questionnaires, as this method is more inexpensive than other methods (except email) and anyone can contribute, encouraging respondents to complete the questionnaires. Moreover, the respondents were able to complete the questionnaires at the time and place of their preference. This particular advantage is not found in another administrated method such as electronic mail (email)²³, as in Saudi Arabia internet networks are not readily available.

5.4.1.1 Sample Selection

Finn et al. (2000) state that both the resources at the researcher's disposal and the anticipated rate of useable questionnaires returned determine the size of the sample. Therefore, if a poor response rate is anticipated the researcher should distribute more questionnaires than the sample size required. One of the advantages of the questionnaire is that it can cover a wider sample than interviews (Denscombe, 2003). Therefore, this questionnaire was sent to stakeholders who expect to derive relevant and useful information.

Four different questionnaires were distributed to the study sample. The first was designed for preparers of financial statements (i.e. accountants) in the banking sector, as

²³ The researcher attempted to send some questionnaires via email, but there was no response. Therefore, the researcher decided to use the postal system. The researcher suggests that this method was preferred by respondents because they could fill out the questionnaires anywhere they wanted.

they are required to issue their financial statements based on IFRSs. The second questionnaire was designed for preparers of financial statements (i.e. accountants) in other sectors (insurance, industrial, service industry), as they must issue their financial statements based on SASs. The third questionnaire was designed for users of financial statements (i.e. financial analysts/fund managers/brokers). The user groups of financial statements include those who make at least moderate use of corporate annual reports. The fourth questionnaire was designed for external authors working in accounting firms (local and 'Big Four'), and Certified Public Accountants (CPAs). These groups have been considered by some previous studies which examined related issues of IFRSs in different developing countries, such as Joshi and Ramadhan (2002), Kosonboov (2004) and Tyrrell et al. (2007). More information and justifications of the choice of each group will be discussed next.

5.4.1.1.1 Financial Analysts (FA)/Fund Managers (FM) (users)

According to Harding and Mckinnon (1997), financial analysts are one of the groups that can provide useful information, as they deal with accounting information. Members of this group are regular users of financial statements in Saudi Arabia. They can therefore be assumed to have sufficient knowledge and experience to answer the survey questions relating to financial statements. Although there are 87 FAs and FMs in Saudi Arabia (CMA, 2008), only 30 were active according to their listings in the Saudi Capital Market Authority (SCMA). The rest (57 FAs and FMs) are still not fully operational and some of them have started working only very recently and therefore may not be in a position to give useful information. Hence, those who are included in the sample have at least one year's work experience. Their names, addresses and other information were obtained from the CMA in April 2008.

5.4.1.1.2 External Auditors

A questionnaire was distributed to the external auditors working in the 'Big Four' and local accounting firms. This group can provide useful information as they perform their auditing work under accounting standards. There were 170 external auditors and CPAs in Saudi Arabia as of April 2008; their names and addresses were obtained from SOCPA. All members in this group were surveyed, as its population is relatively small.

5.4.1.1.3 Financial Managers of Listed Companies (Preparers)

Companies listed on the Saudi Arabian stock market have been chosen as one group who may be affected by any accounting standards in the country, as they prepare their financial statements according to these standards. Therefore, they may provide useful information about the standards they currently use and also about the usefulness or the difficulties and problems of IFRS adoption. These companies will be divided into two categories. The first will be the banking sector, as this sector is only permitted to issue their financial statements based on IFRSs; this group will provide useful information about the adoption of IFRSs and the transition from SASs to IFRSs, as well as their experience in preparing financial reporting under IFRSs as well as SASs, as they dealt with SASs previously. There are 10 banks listed and all members in this group will be surveyed, as its population is relatively small.

The second category is that of companies (apart of banks) in other sectors on the Saudi stock market (industry, cement, services, electricity, telecommunications, insurance and agriculture), who must issue their financial statements based on SASs. Although these companies prepare their financial statements based on SASs, they can provide general information from another perspective about IFRS adoption, as they use IFRSs in cases

where there are no SASs. Moreover, they can provide information related to current accounting practices. According to the Saudi Stock Exchange (Tadawul), in April 2008 there were 105 listed companies; only 80 were included – the most active ones, who had been on Saudi stock market for over a year.

Information on all listed companies (names, addresses, etc.) is available on the Tadawul website. The questionnaire was distributed to all financial managers in all companies listed on the Saudi stock exchange, as they are primarily responsible for preparing the financial reports for companies in Saudi Arabia. They are also responsible for the compatibility of financial reporting with accounting standards. Furthermore, their experience is usually extensive compared to other staff working in companies in the financial sector. However, some staff in their department may have relevant experience with IFRSs, particularly in the banking sector. As a result, five more questionnaires were sent to each CFO, asking him to distribute them to staff.

5.4.1.2 Questionnaire Design

Previous literature was considered when developing the questionnaires; moreover, the result of the comparison between SASs and IFRSs was taken into account. The questionnaires are divided into five parts. The first section covers respondents' background and current job title, level of education, professional qualifications and experience in their current occupation. The second section covers questions about the respondent's perceptions of the users, the users' needs, and financial reporting under IFRSs. In this section, some questions differed, depending on the position of each respondent. For example, preparers of accounting information (banks and other listed companies) were asked different questions than users and external auditors. Preparers

were asked about the main users of their financial reporting and about some elements contained in their financial reporting. On the other hand, users and external auditors were asked about their level of satisfaction regarding the information disclosed based on both banks' and companies' financial reporting.

The third section addresses perceptions concerning the difficulties and problems of the transition to IFRSs in Saudi Arabia and the factors that must be taken into account when considering their adoption (or to understand the factors, e.g., cultural issues, that may prevent the complete adoption of IFRSs). In this section preparers (banks and other listed companies) were asked more questions regarding the main costs that banks incurred/companies may incur when implementing IFRSs. The fourth section addresses perceptions of different influences that could play a major role in the development of SASs, and the advantages and benefits of adopting IFRSs in Saudi Arabia. The fifth section compares SASs and IASs. The bank sample was excluded from this section, as this section is more focused on issues of fair value

The questionnaires used both closed and open-ended questions. Closed questions provide a fixed number of alternative answers (Saunders et al., 2009) while open-ended questions give respondents freedom to write their own answers in their own words (Fink, 2003). Closed questions are quick and easy for respondents to answer (Saunders et al., 2009). However, the loss of spontaneity and the answers based on the available choice represent one of the disadvantages of closed questions. Therefore, although open-ended questions may be time-consuming and may require more effort from the respondent, they provide greater freedom and spontaneity of answers, as well as more probing and detailed answers (Oppenheim, 1992). The open-ended questions in the

questionnaires can provide detailed data; however, some issues can be explored in even greater depth in interviews.

There are varying types of closed questions, such as lists, categories, ranking, rating, quantity and matrix (Saunders et al., 2009, p.375). In this study the form of the closed questions on the questionnaires was based on a rating type using a Likert scale. This form is most frequently used by researchers. Respondents are asked to choose their level of favourable attitude toward statements related to the questionnaire subject (Saunders et al., 2009). One of the advantages of the Likert scale is that it is simple for both respondents to answer and for researchers to code and analyze. Respondents were requested to choose their views on a five-point Likert scale. The first rank of this scale was set as unfavourable and last rank as favourable. For instance, “1 = strongly disagree” to “5 = strongly agree”, or “1= not preferable” to “5= preferable”.

5.4.1.3 Pilot Testing and the Administration of the Questionnaires

A pilot study provides a good way to refine the research instruments and help make any changes to the research plans before the study is started (Creswell, 1998). As Arabic is the official language of Saudi Arabia and the majority of the survey population have difficulty in dealing with English, the questionnaires were translated into Arabic and then given to two academics to check the translation. Both translators are fluent English and Arabic speakers, with majors in accounting. The questionnaires were also sent to an English language specialist whose main language is Arabic. The questionnaires were then amended, according to the comments received. After the feedback was received from the above test, the questionnaires were pre-tested to check their reliability and suitability in achieving the research objectives by sending them to fourteen members of

the sample as a pilot study (see e.g., Babbie, 2001). Eleven questionnaires were collected. The comments on the questionnaires were about some questions needing to be clearer, some needing to be joined together into one question and some less important questions being deleted in order to keep the questionnaires a reasonable length. Finally, the modification of the questionnaires based on the pre-test, if any was required, was done.

While pre-testing the questionnaires, the researcher visited SOCPA to ask for help. They responded by sending e-mails and letters to all external auditors to ask them to spend some of their time filling in the questionnaires and sending them to the researcher. At this time, the researcher also attempted to contact the rest of the samples via email and phone to introduce the research and ask for their assistance by answering the survey questions. On October 6, 2009, the questionnaires were mailed to the samples and delivered to those who had agreed to help with their distribution. This distribution date was chosen because it is the first day of the working year in Saudi Arabia, and the researcher assumed that all staff would be back to work after a good summer holiday. Therefore, the targeted number of respondents would be available and it would be helpful for them to approach the questionnaires with their minds refreshed after the holiday.

After two weeks, follow-up email and telephone calls were made to those who had not responded. Furthermore, although, questionnaires were sent to all selected population in Saudi Arabia, the researcher spent two weeks in each city where the majority of the

survey population are located (Riyadh, Jeddah and Dammam)²⁴ in order to be available to visit those who had not responded to the questionnaires. In addition, he posted the questionnaires to them again, locally. Thus, the researcher spent a great deal of time and expense attempting to elicit a good response rate. From the end of November until mid-December there was a public holiday in Saudi Arabia; some of the respondents promised to return the questionnaires after work resumed following the holiday. December 16, one week after the holiday, was the last opportunity to finalise the collections. The researcher then made a quick scan of all the questionnaires to check them before the analysis, and removed those with most of the answers missing.

5.4.1.4 Questionnaire Respondents

Table (5-1) shows an overall response rate of 40.6%. This rate represent 93.3% of the Chief Financial Officers approached in the banking sector, 30% of Chief Financial officers in listed companies of other sectors, 40% of the financial analysts and 41.1% of the external auditors.

Table 5-1 Respondent groups and Response rate

Group	Population	Sample	Distributed	Received	Response Rate (%)
Chief Financial Officers (banking sector)	10	10	15*	14	93.3%
Chief Financial Officers (listed Companies in other sectors)	80	80	80	24	30%
Financial analysts and Fund mangers	30	30	30	12	40%
External auditors	170	170	170	70	41.1%
Total	290	290	295	120	40.67%

* Five more questionnaires were sent to two banks for other staff that have a good knowledge of IFRSs.

²⁴ Almost 99% of the population are located in these cities. It is easy for the researcher to contact the remainder by telephone.

This response rate seems satisfactory, particularly compared with the normal response rate for postal questionnaires, which is expected to be almost 10% (Oppenheim, 1992), and compared with other similar studies (Joshi and Ramadhan, 2002, Halbouni, 2005).

5.4.1.5 Data Analysis

Quantitative data collected from the questionnaires were analysed using computer programs; the data were coded and then analysed using SPSS for Windows. Descriptive analysis of the results was conducted to obtain the mean score for all closed questions and the frequency of respondents' answers. Concerning open-ended questions, the questionnaires were read and shorter answers were collected under one code in order to enter them into SPSS to determine the frequency of the problems, difficulties, advantages and disadvantages. Moreover, units of data are analyzed the same way the interview data was (see section 5.4.2.4). All data were entered in Arabic in order to maintain the reliability and validity of the results, from which the interview questions will emerge. At the end the questionnaire results were translated into English.

Because the respondents were from different categories (financial managers, auditors and users), and to explore the differences in answers, Mann-Whitney and Kruskal-Wallis testing was used to find out whether the differences between groups was significant, at a 5% level of significance. These two tests were used because the variables in questionnaires were ordinal and nominal scales; moreover, the sample of this study is considered small (Pallant, 2001). Because many Mann-Whitney tests were

used to follow up the Kruskal-Wallis test to find the specific groups with significant differences in answers, the Bonferroni correction²⁵ method was used.

5.4.2 The Interviews

The posted questionnaires alone are not enough to achieve all the research objectives, particularly as some of the questions require finding out in more detail and going into greater depth about banks' experiences of the adoption of IFRSs. For this reason and for other purposes, such as the general benefits of mixing different methods and the benefit of the interviews in particular, to discuss and seek any clarifications on the questionnaire questions, to address more specific questions than those included in the questionnaires and to collect any other material, semi-structured interviews were undertaken with a number of the preparers and users of accounting information in Saudi Arabia. According to Easterby-Smith et al., (1991) interviews have many similarities to questionnaires but the principal difference is that the interviewer is able to seek clarification to the respondent's answers and offer any clarification concerning the questions, should this be required. In addition, the interviewer is able to observe and make deductions from the respondent's body language.

The advantages of interviews have been stated by Gill and Johnson (1991) and are as follows:

- They permit the researcher to elucidate the rationale behind and objectives of the study, discuss the interview before it starts and respond to any questions the respondent may have.

²⁵ Instead of using 5% as a level of significance for each test, this method uses the critical value of 5% divided by the number of tests conducted (Field, 2005).

- The rate of participation in interviews is normally greater, and therefore more useful than, for instance, distributing questionnaires or surveys to participants.
- An experienced interviewer can assess the interviewee's outlook and manner and use this to discuss the questions in greater depth, thus gaining more than a shallow answer.
- An experienced interviewer can also assess an interviewee's non-verbal responses, notably body language. This can frequently be very useful in inferring meanings that are not expressed verbally by the participant and can therefore add considerably to the information gained from the interview.

Interviews may be structured, semi-structured and unstructured. Semi-structured interviews permit flexibility in questioning and the interviewer is often able to draw the respondent out and elicit further information (Fontana and Frey, 1998). According to Patton (1990), an unstructured interview does not use pre-determined questions but functions on the supposition that subjects and questions will spring from the context. Structured interviews use only pre-prepared questions and lack the flexibility of semi-structured interviews. They therefore allow no scope for obtaining more information than would be obtained through a questionnaire survey. Neither of these methods was considered suitable for the purposes of this research, with the semi-structured interview method being deemed the most appropriate. In the semi-structured interview, the questions concentrate on a number of particular points but, as mentioned previously, offer certain flexibility and scope for the interviewer to elicit further information from the interviewee (Bryman, 2004). Furthermore, semi-structured interviews allow the interview questions to vary according to the position of interviewee and their

experiences; additionally, this method provides opportunities to discover issues not considered previously and then help answer the research questions (Kosonboov, 2004).

5.4.2.1 Sample Selection

David and Sutton (2004) suggested that it is possible for the sample size to be estimated according to the experience of the researcher and the resources available in terms of expenditure and time.

A series of semi-structured interviews was conducted with individuals with significant experience and knowledge of SASs and IFRSs. The first series of interviews were conducted with the preparers of financial statements; this study covered all the major industries in Saudi Arabia (banking, insurance, industrial, services). The second series of interviews were conducted with users of financial statements i.e., investors, academics, tax and Zakat officials. Furthermore, auditors from (local and 'Big Four') were interviewed.

Interview respondents were selected based on their position and experience (e.g. CFO). They were chosen based on their ability to make an important contribution to the study, and their involvement in setting SASs or using financial information. Some revealed experience and interest through their contribution to the questionnaire surveys, making them useful to interview for more in-depth information. Furthermore, some interviewees recommended other key persons that should be interviewed to gain more insightful information. Through interviewees' recommendations, the researcher was able to gain access to other interviewees who were willing to be interviewed more easily than expected.

5.4.2.1.1 Accounting Standard Setters in Saudi Arabia

There were 13 members of the Accounting Standards Board as of April 2008; their names and addresses were obtained from SOCPA. This group was included as they are responsible for setting the accounting standards in Saudi Arabia and they can provide useful information from their perspectives on SASs and the adoption of IFRSs. Two of them were interviewed.

5.4.2.1.2 Auditors

An explanation of this group has been given above; five auditors were interviewed.

5.4.2.1.3 Regulators

It is important to take into consideration certain regulators, such as the head of Company Management in the Saudi Ministry of Commerce and the head of the Saudi Stock Market Authority, as they represent the government and they both have relationships with listed companies; therefore, one from each of these groups was targeted to be interviewed. However, they declined to be interviewed as they did not have available time during the interview period.

5.4.2.1.4 Academics

This group includes the academic members of the accounting departments at Saudi universities who are interested in international accounting or accounting standards in general. The researcher looked at the staff lists in the accounting departments of leading universities and found that there were several academics in financial or international accounting who could provide useful information and answer the interview questions. Their details were collected and two were interviewed.

5.4.2.1.5 Investors

This group is important, as they contribute to the development of the country's economy and because they are looking for information that may help them make correct

decisions. It is therefore important to obtain their perspectives on the companies using SASs and IFRSs in Saudi Arabia. Individual investors may not have enough experience concerning the differences between listed companies that use SASs and IFRSs to issue financial statements; therefore, they will not be included in this sample. The focus will instead be on the institutional investors represented by financial analysts in Saudi Arabia. Two of them were interviewed. Their details were obtained from Tadawul in April 2008.

5.4.2.1.6 Zakat and Tax Officers

This group is also an important group in Saudi Arabia as they use financial statements to compute Zakat. This group is unique to Saudi Arabia. Therefore, they may have different perspectives about the standards that should be used to help them compute Zakat in Saudi Arabia. Each city in Saudi Arabia has a Zakat and Tax Office, but there is only one system for the computation of Zakat. Two members of this group were interviewed.

5.4.2.2 Interviews with Respondents

All the above groups were targeted to be interviewed. The interviews began after the analyses of the questionnaires. Twenty interviews were conducted (see Table 5-2). Two of the targeted sample refused to participate in an interview as they were very busy and did not have time; however, one of these individuals had been covered by the questionnaire survey.

Table 5-2 Number of interviewees

Group	Number of respondents
Standard setters	2
External auditors	5
CFOs of listed companies	3
CFOs in the banking sector	4
Zakat and Tax officers	2
Financial analysts	2
Academics	2
Regulators	—
Total	20

5.4.2.3 The Design of the Interview Guide and its Administration

Before the interviews the researcher summarised the topics that should be covered during the interviews. The agenda or topics of the interviews were sent to the interviewees before the interviews were conducted. Supplying this information to the interviewees enables them to prepare themselves to provide relevant information. This serves to increase the validity of the information provided (Saunders et al., 2009). The interview questions or themes were derived from the literature, the comparison of SASs and IFRSs and the information and results from the questionnaire analysis.

Interview appointments were arranged by telephone. All interview sessions were conducted face to face in the interviewees' offices, with the exception of one, where the interviewee was met outside his office. At the beginning of each interview session the researcher explained the purpose of the study and the contributions that interviewees could make to the study. Each interview lasted between one and two hours. During the interviews attempts were made to answer all the interview questions; issues that were expected to be sensitive were left until the end of the interviews, as the longer the interviewees are in discussion with the researcher the more likely it is that their trust and confidence will increase (Healey and Rawlinson, 1993).

Although the researcher tried to adhere to the sequence of the interview themes, the contents of interviews were largely governed by the flow of the interviewees' thoughts. Occasionally the researcher would probe for more explanation, or interrupt to ensure the interview session remained on track. Throughout all the interviews, the researcher made notes and tape recordings, with the permission of the interviewees, with the exception of one, who refused to be recorded. The use of the recording will help increase the accuracy of the data and help the researcher focus during the interviews rather than having to concentrate on writing notes.

5.4.2.4 Analysis of the Interview Data

The analysis of the data collected from the interviews may be carried out via content analysis software or traditional content analysis. Various kinds of software, such as *NVivo* software²⁶, may be used for software analysis. The researcher has tried to examine this software and how it deals with data in the Arabic language, and finds that there are problems, as the software has difficulty in reading Arabic. It is difficult to find software that can support Arabic languages efficiently; in view of this, and not wishing to lose the effectiveness of some of the data when using this software, the researcher considered it preferable to use traditional content analysis by carrying out the coding and data retrieval manually. This also offers the advantage of keeping the analysis in the same language as the researcher's own, which is more conducive to discerning implications and nuances in the interviews.

²⁶ This software supports various languages, such as English and Spanish; on the other hand, as is indicated on the *NVivo* website, it may not work as expected when the data is entered in a language which reads from right to left, such as Arabic. The text is moved to the left when importing the file; in addition, when the coded text is viewed, the software accepts some parts of the text and cuts others. Moreover, it brings the words up reading left to right, causing the words to overlap, and reads words which are not coded.

This method has been used by some researchers (e.g., Kosonboov, 2004; Srijunpetch, 2004) and it can be summarised as follows:

1- The codes are extracted from the text by specifying key words or sentences which may help to later answer the research questions.

For example, one of the research questions concerns the identification of the problems and difficulties that listed companies may face when first adopting IFRSs. As fair value problems were mentioned in this interview and in others, “fair value problems” will represent a code. All respondents who mentioned that fair value represented a problem will be placed under this code, whose frequency will be noted.

2- This code and other codes regarding problems and difficulties collected under one *node* or title named “problems and difficulties that companies may face in Saudi Arabia” (see Appendix 3).

3- The frequency of these problems and difficulties entered into a table to find out which problems or difficulties have the highest frequencies.

4- This table compared the problems and difficulties noted from the open questions in the questionnaires and they were grouped under the above *node* (see Appendix 4).

5- Next, the supporting arguments noted during the interview session or transcribed from the tape supported this table, leading to deeper interpretation and discussion of these problems (see Appendix 4).

5.5 Conclusion

This chapter has presented the research objectives and the research questions that were informed by the prior literature. Then there was an exploration of the most appropriate approaches that may be used to answer the research questions. It was decided to choose a mixed method by employing both qualitative and quantitative approaches, using two

different research methods in this study to reach the objectives. There were several reasons for this choice and these reasons were discussed in this chapter. This study uses questionnaire surveys and interviews, in addition to drawing a comparison between SASs and IFRSs. The sample for each method, as well as their administration and data analyses have been presented and discussed.

6 Description of results

6.1 Introduction

This chapter investigates the different perceptions of accounting information preparers and users in Saudi Arabia concerning the suitability of IFRSs to Saudi Arabia. The chapter will therefore present their opinions on this issue as well as other issues relating to the suitability of IFRSs to Saudi Arabia. The aim of this chapter is to give a general picture of the findings of both the questionnaire surveys and interviews, while the next chapter will explore the combined results of the questionnaires and interviews, including discussions underpinned by the theoretical framework and prior literature.

This chapter is based on the analysis of the questionnaires returned by Chief Financial Officers (CFOs) in the banking sector, CFOs of other listed companies, external auditors and financial analysts/fund managers. After analysis of the questionnaires, semi-structured interviews were conducted with the aim of gaining deeper insight into important issues relating to the suitability of IFRSs to Saudi Arabia. Interviews were conducted with CFOs in the banking sector, CFOs of other listed companies, external auditors, financial analysts, academics, standard setters and members of the Department of Zakat and Income Tax.

This chapter will be organised as follows: section 2 explains and discuss information about the respondents of both the questionnaires and the interviews. Section 3 reports the respondents' perceptions concerning the main users of accounting information in Saudi Arabia and their needs. In section 4, perceptions of the difficulties and problems

during the transition to and implementation of IFRSs in Saudi Arabia, and cultural barriers will be discussed. Section 5 explores the perceptions of factors affecting the adoption of IFRSs and what advantages there may be to this adoption. In the final section respondents' perceptions concerning the comparison between Saudi accounting standards (SASs) and international financial reporting standards (IFRSs) will be explored.

6.2 Respondents' Backgrounds

6.2.1 Background of Respondents to Questionnaire Survey

Table 6.1 shows that 50% of respondents have Bachelor's degrees and 43% have post-graduate qualifications (37% have Master's degrees and 6% have a PhD). The table also indicates that the majority of respondents (90%) have more than five years' experience in their position, while 38% have more than 16 years' experience. In addition, the table shows that 66% have a professional certificate, and of these 43% have either CPA or another professional certificate from another country, and 23% have SOCPA certification.

6.2.2 Background of Interviewees

Table 6.2 shows a list of the interviewees with their general background. All except one have at least a Bachelor's degree. More than half received their education outside Saudi Arabia and some have work experience outside Saudi Arabia.

Table 6-1 Information about respondents to the questionnaire surveys

	FM (Banking sector)		FM (Other listed companies)		External auditors		Financial analysts		Total	
	F*	%	F	%	F	%	F	%	F	%
No response**	0	0	0	0	3	4.3	0	0	3	2
Less than 5 years	3	21.4	1	4.2	6	8.6	0	0	10	8
5-10 years	3	21.4	4	16.7	20	28.6	2	16.7	29	24
11-15 years	2	14.3	11	45.8	14	20	6	50	33	28
16 years or more	6	42.9	8	33.3	27	38.6	4	33.3	45	38
Total	14	100	24	100	70	100	12	100	120	100

Level of education	FM (Banking sector)		FM (Other listed companies)		External auditors		Financial analysts		Total	
	F	%	F	%	F	%	F	%	F	%
No response	1	7.1	0	0	6	8.6	0	0	7	6
Below Bachelor	0	0	2	8.3	0	0	0	0	2	1
Bachelor	8	57.1	9	37.5	40	57.1	3	25	60	50
Master	4	28.6	13	54.2	18	24.3	9	75	44	37
PhD	1	7.1	0	0	6	8.6	0	0	7	6
Total	14	100	24	100	70	100	12	100	120	100

Professional qualifications	FM (Banking sector)		FM (Other listed companies)		External auditors		Financial analysts		Total	
	F	%	F	%	F	%	F	%	F	%
No response	1	7	8	34	8	11	1	8	18	15
None	2	14	9	38	9	13	3	25	23	19
SOCPA	1	7	4	16	21	30	2	17	28	23
CPA other country	7	50	0	0	32	46	2	17	41	35
Other	3	22	3	12	0	0	4	33	10	8
Total	14	100	24	100	70	100	12	100	120	100

*F: Frequency

** No response: information not provided.

Table 6-2 Information about interviewees

N	Interviewees	Background information
1	Standard Setter 1	Local audit firm
2	Standard Setter 2	Associate Professor and head of department in a Saudi public university
3	External Auditor 1	Partner in an international audit firm
4	External Auditor 2	Partner in an international audit firm and Master's degree from the USA
5	External Auditor 3	Manager of an international audit firm
6	External Auditor 4	Partner in a local audit firm and work experience in setting SASs.
7	External Auditor 5	Partner in a local audit firm with a PhD degree
8	CFO of banking sector 1	CFO in the banking sector with 36 years' experience
9	CFO of banking sector 2	CFO in the banking sector with work experience in the USA
10	CFO of banking sector 3	CFO in the banking sector with experience in another Gulf country
11	CFO of banking sector 4	CFO in the banking sector with a PhD
12	CFO of other listed company 1	CFO of other listed company with work experience in Jordan
13	CFO of other listed company 2	CFO of other listed company with a Master's degree
14	CFO of other listed company 3	CFO of other listed company with a Master's degree
15	Academic User 1	Professor in a Saudi public university
16	Academic User 2	Assistant Professor in a Saudi public university
17	Financial analyst 1	Work experience with a brokerage firm
18	Financial analyst 2	Work experience with a brokerage firm
19	Zakat and Tax officer 1	Head of financial management with a Master's degree
20	Zakat and Tax officer 2	Specialist in Zakat and Tax

6.3 Perceptions Concerning the Needs of Main User Groups of Financial Reporting in Saudi Arabia

The purpose of this section is to contribute to answering the research question '*What are the needs of users of accounting information in Saudi Arabia?*' by providing the perspectives of both preparers and users of accounting information on the questions from both the questionnaire surveys and interviews. As the questions on the questionnaires differ in this section between sample groups according to participants' positions, the analysis each sample's questions will be separate, and the next chapter will present the overall discussion and conclusion.

Results of the closed questions in the questionnaires were based on the views respondents expressed using a Likert scale of (1 = strongly disagree to 5 = strongly agree). Results of these questions report and show the mean response, standard deviation and level of disagreement (answer recording 1 or 2) and the level of agreement (answer recording 4 or 5).

6.3.1 Banking Sector

6.3.1.1 Analysis of Questionnaires (from the Banking Sector)

Table 6.3 indicates the perceptions of banking preparers about significant users of their financial statements. The respondents agreed overall that the first six user groups listed in this table represent the main users of their financial statements, as they gave a level of agreement of more than 50% (group recording 4 or 5). Furthermore, the first three groups, namely, “institutional investors”, “Department of Zakat and Income Tax” and “government”, had a high level of agreement (more than 85%; group recording 4 or 5) from the respondents as being the most significant users of their financial statements.

Table 6-3 Significant users of financial statements of the banking sector

<i>Question 1: How significant a user of your financial statements is each of the following groups?</i>					
<i>N</i>	<i>Groups of users</i>	<i>Mean</i>	<i>S.D</i>	<i>Level of disagreement (1 or 2) %</i>	<i>Level of agreement (4 or 5) %</i>
1	Institutional investors	4.50	.760	0	89
2	Department of Zakat and Income Tax	4.43	.756	0	87
3	Government	4.43	.756	0	86
4	Financial analysts	4.21	.802	0	78
5	Individual investors	4.00	.679	0	78
6	Creditors	3.86	.949	7.1	64
7	Academics in accounting fields	3.29	.726	7.1	29
8	Customers	3.07	.997	21.4	29
9	Employees	3.07	1.072	28.5	36
10	Suppliers	2.79	1.051	35.7	29

1=strongly disagree, 2=disagree, 3=indifferent, 4=agree and 5=strongly agree.

After their views regarding the main users of their financial reporting had been gathered, the questionnaire respondents from the banking sector were asked to what extent, in their opinion, their financial reports (prepared based on IFRSs) meet users' needs.

Table 6.4 indicates that the respondents agreed that their financial statements prepared under IFRSs met the needs of the main users of these statements in general. Specifically, the respondents believed that two of the most significant user groups ("institutional investors" and "government") were served well by financial statements prepared under IFRSs, as they scored them with a mean of more than 4 and showed a level of agreement of more than 50% (group recording 4 or 5).

Table 6-4 Perceptions about groups that may be served by IFRSs

<i>Question 2: To what extent do you agree that financial reports prepared under IFRSs meet the needs of each of the following users?</i>					
<i>N</i>	<i>Group of users</i>	<i>Mean</i>	<i>SD</i>	<i>Level of disagreement (1 or 2) %</i>	<i>Level of agreement (4 or 5) %</i>
1	Institutional investors	4.36	.633	0	93
2	Individual investors	4.21	.699	0	86
3	Academics in accounting fields	4.14	.663	0	86
4	Government	4.14	.770	0	79
5	Financial analysts	4.00	.679	0	79
6	Creditors	4.00	.679	0	79
7	Department of Zakat and Income Tax	3.79	.893	0	49
8	Employees	3.64	.842	7.1	57
9	Suppliers	3.50	.855	7.1	43
10	Customers	3.50	.855	14.3	57

1=strongly disagree, 2=disagree, 3=indifferent, 4=agree and 5=strongly agree.

However, although prepares believed that the Department of Zakat and Income Tax was the second most significant user of their financial statements, Table 6.4 shows that the needs of this user may not be completely served by financial statements prepared under IFRSs (level of agreement of less than 50%). This group is an important one, as their objective is to calculate the amount of Zakat based on companies' financial statements,

as payment of Zakat is the duty of all Muslims. Indeed, some researchers have argued that the primary objective of accounting in Islam is to enable Muslims to determine the amount of Zakat (see Chapter Six). This will be discussed in greater depth in the next chapter.

Respondents were also asked about issues that are important for disclosure in financial reporting from an Islamic perspective. Table 6.5 shows some elements that should be disclosed in financial reporting from an Islamic perspective in order to enable users in Saudi Arabia to make decisions in accordance with the tenets of Islam. Respondents were asked to express their views as to whether these elements were included in their financial statements or not. The respondents tended to disagree that banking sector financial statements prepared under IFRSs included such information. This is indicated by the fact that all the statements in this table show a level of disagreement (element recording 1 or 2) above the level of agreement (element recording 4 or 5) in the responses, except for the third statement, “information that enables Muslims to determine the amount of Zakat”, for which 50% (item recording 3) of the respondents indicated that they were “indifferent”.

Table 6-5 Views of respondents to the questionnaire survey regarding elements that should be included in balance sheets from an Islamic perspective

<i>Question 3: From an Islamic perspective, financial reports should include the elements listed below. To what extent do you think that your financial reports include the following elements?</i>				
<i>Statements</i>	<i>Mean</i>	<i>SD</i>	<i>Level of disagreement (1 or 2) %</i>	<i>Level of agreement (4 or 5) %</i>
Full disclosure of any and all relevant information which facilitates the users' economic and religious decision-making	2.57	1.284	43	21
Financial instruments not related to interest	2.93	1.492	43	36
Information that enables Muslims to determine the amount of Zakat	3.07	1.207	21	29
The disclosure of interest paid (if any), the reasons for this payment and the steps which should be taken to avoid such interest in the future	2.71	1.383	36	21
1=strongly disagree, 2=disagree, 3=indifferent, 4=agree and 5=strongly agree.				

Furthermore, questionnaire respondents in the banking sector were asked an open-ended question (Question 4) about the method of disclosure of information which might be needed by the Department of Zakat and Income Tax as one of the main users in Saudi Arabia. Their answers are presented in Table 6.6.

Table 6-6 Ways of providing information for Zakat, according to respondents

<i>Questions 4: How do you deal with those users who need particular information that may not be served by the adoption of IFRSs, such as those who want to use financial statements to compute Zakat?</i>	
<i>Way of Providing Information</i>	<i>Number of Responses</i>
Give additional disclosure or information when requested.	8
Same as income tax disclosure	4
No reason or comment	2
Total	14

Table 6.7 also shows that 64% (who answered with a score of 3) of respondents are “indifferent” as to the suitability of IFRS balance sheets for Zakat calculation, while another 14% of respondents disagreed and 21% agreed on their suitability or unsuitability.

Table 6-7 Perceptions about the suitability of IFRS balance sheets for the calculation of Zakat

<i>Question 5: To what extent do you agree with the following statement? IFRS balance sheets, which include certain items such as goodwill and capitalised expenses, are suitable for the calculation of Zakat.</i>	<i>Mean</i>	<i>SD</i>	<i>Level of disagreement (1 or 2) %</i>	<i>Level of agreement (4 or 5) %</i>
	3.07	.616	14	21
1=strongly disagree, 2=disagree, 3=indifferent, 4=agree and 5=strongly agree.				

Respondents who believed that IFRS balance sheets which include certain items such as goodwill and capitalised expenses were suitable for the calculation of Zakat commented that they provided all relevant information for such a calculation. On the other hand, those who thought that such a balance sheet was not suitable commented that IFRSs balance sheets do not have all the details necessary to calculate the amount of Zakat, and that Zakat is based on wealth creation and on rules not easily derived from traditional financial statements. One respondent expressed the opinion that banks

should publish two forms of financial statements, one for Zakat purposes and one for stakeholders' purposes, as in the USA, where companies issue two forms of statements, one for SEC filing and one for the IRS (Internal Revenue Services Department), as these have different accounting methods.

6.3.1.2 Analysis of Interviews (Banking Sector)

All the interviewees who are CFOs in the banking sector believed that their financial statements provide a great deal of disclosure to stakeholders. In addition, they believed that their financial statements provide the relevant disclosure for those users concerned with Sharia, such as the Department of Zakat and Income Tax. They stated that they provided any information requested by the Department of Zakat and Income Tax in separate sections and indicated any conflict between these and the requirements of the Department of Zakat and Income Tax, if any.

All of the interviewees agreed that they made disclosures about interest, such as the interest rate charged, in a separate section (title), but used a different name for it: "special commission". They mentioned that the name was changed because of the prohibition on charging interest in Saudi Arabia. However, one interviewee indicated that this section (title) may not necessarily be specific to interest. Only one interviewee from a bank representing itself as an Islamic bank²⁷ indicated that any interest was given to charity, which could help users²⁸. He added that interest appeared in their financial statements because of customers' late loan repayments and not because the

²⁷ This bank is the only one known in Saudi Arabia as a fully Islamic bank. This is the only Islamic bank that included in this study because the other banks that called Islamic banks still not operating while the data collection of this study.

²⁸ This interviewee thought that the need of user is to put interest towards charity rather than use it as income the way traditional banks do. However, as an Islamic bank and according to Sharia, it should not deal with interest at all (see Chapter Four).

bank conducted their transactions in the same manner as other banks. It was noticed that this interviewee tried to avoid providing direct answers on the topic of interest; his bank represents itself as an Islamic one.

Moreover, all the interviewees, when asked whether they had fully Islamic products, stated that they had two channels, one providing a product that is in accordance with Sharia law, and another for traditional products, similar to other banks. They mentioned that they have the same accounting treatment and differ only in procedure.

To sum up, although banks in Saudi Arabia attempt to follow Sharia law, it seems that their financial reporting may to some extent disclose information that is insufficient from an Islamic perspective. Moreover, it is difficult to find banks in Saudi Arabia that do not deal at all with interest, as interest exists but Saudi banks do not disclose it clearly, and instead misleadingly give it another name. In addition, they not provide sufficient and appropriate disclosure for the DZIT. This will be discussed in greater depth in the next chapter.

6.3.2 Other Listed Company

6.3.2.1 Analysis of Questionnaire Responses from Other Listed Companies

Table 6.8 indicates the perceptions of respondents of other listed companies in Saudi Arabia about the significant users of their financial statements. There was general agreement that the first ten groups represent the main users of their financial statements, as they gave a level of agreement of more than 50% (answer recording 4 or 5). Furthermore, respondents believed that the first four groups represent the most significant users of their financial statements, as they showed a level of agreement of

more than 80% (answer recording 4 or 5) on these groups. These groups are “institutional investors”, “financial analysts”, “creditors” and “Department of Zakat and Income Tax”.

Table 6-8 Significant users of financial statements of other listed companies

<i>Question 1: How significant a user of your financial statements is each of the following groups?</i>					
<i>N</i>	<i>Groups of users</i>	<i>Mean</i>	<i>SD</i>	<i>Level of disagreement (1 or 2) %</i>	<i>Level of agreement (4 or 5) %</i>
1	Institutional investors	4.79	.415	0	100
2	Financial analysts	4.58	.504	0	100
3	Creditors	4.54	.779	0	83.3
4	Department of Zakat and Income Tax	4.42	.881	8.3	91.6
5	Individual investors	4.12	.741	0	79.1
6	Academics in accounting fields	3.67	1.167	12.5	62.5
7	Government	3.58	1.501	25	62.5
8	Customers	3.38	1.096	33.3	58.3
9	Suppliers	3.33	1.274	33.3	58.4
10	Employees	3.29	1.083	29.2	41.7

1=strongly disagree, 2=disagree, 3=indifferent, 4=agree and 5=strongly agree.

However, as shown in Table 6.9, respondents believed that of these most significant groups, only the Department of Zakat and Income Tax would be satisfied with the information disclosed through their financial statements. They scored the Department of Zakat and Income Tax with a high mean score and provided a high level of agreement of more than 80% (answer recording 4 or 5) for them, while the other most significant user groups were scored with a lower mean score.

Questionnaire respondents from other listed companies were asked about their views on whether financial reporting based on IFRSs may serve the users of their financial reports or not. As Table 6.10 shows, the results suggest that the most significant users of listed companies’ financial statements, apart from the Department of Zakat and Income Tax, could be well satisfied with financial statements prepared under IFRSs.

Table 6-9 Perceptions about groups that may be served by SASs

<i>Question 2: To what extent do you agree that the information disclosed in your financial statements under SASs serves each of the following users?</i>					
<i>N</i>	<i>Groups of users</i>	<i>Mean</i>	<i>SD</i>	<i>Level of disagreement (1 or 2) %</i>	<i>Level of agreement (4 or 5) %</i>
1	Suppliers	4.29	.999	8.3	79
2	Employees	4.21	1.021	8.3	75
3	Department of Zakat and Income Tax	4.21	.721	0	83
4	Customers	4.14	1.037	8.3	67
5	Government	4.04	1.160	16.7	71
6	Creditors	3.96	.908	8.3	75
7	Academics in accounting fields	3.88	1.262	12.5	67
8	Individual investors	3.87	1.154	16.7	62
9	Institutional investors	3.75	1.113	16.7	58
10	Financial analysts	3.58	1.316	25	62

1=strongly disagree, 2=disagree, 3=indifferent, 4=agree and 5=strongly agree.

Table 6-10 Perceptions about groups that may be served by IFRSs

<i>Question 3: To what extent do you think that each of the following users will be satisfied with financial reports prepared in accordance with IFRSs?</i>					
<i>N</i>	<i>Groups of users</i>	<i>Mean</i>	<i>SD</i>	<i>Level of disagreement (1 or 2) %</i>	<i>Level of agreement (4 or 5) %</i>
1	Institutional investors	4.54	.721	0	87.5
2	Suppliers	4.50	.780	0	83
3	Creditors	4.46	.932	8.3	87.5
4	Financial analysts	4.45	.858	4.2	79
5	Employees	4.38	.924	4.2	79
6	Customers	4.33	.816	0	79
7	Academics in accounting fields	4.33	.917	4.2	79
8	Individual investors	4.25	1.032	12.5	83
9	Department of Zakat and Income Tax	3.92	1.018	18	50
10	Government	3.83	1.049	8.3	52

1=strongly disagree, 2=disagree, 3=indifferent, 4=agree and 5=strongly agree.

6.3.3 Users

6.3.3.1 Analysis of Users' Questionnaire

Questionnaire respondents were asked two questions; the first was about their perceptions concerning the usefulness of financial statements (of the banking sector) prepared under IFRSs. Their answers are presented in Table 6.11. The second question was about their perceptions concerning the usefulness of financial statements (from other listed companies) prepared under SASs. Their answers are presented in Table 6.12.

Table 6.11 shows that just over 58% of respondents agreed that financial statements prepared under IFRSs met accounting users' needs.

Table 6-11 Perceptions of financial analysts concerning financial statements prepared under IFRSs

<i>Question 1: (For users of financial statements of banks on the Saudi stock market). To what extent do you agree that information disclosed in their financial statements meets your needs?</i>	<i>Mean</i>	<i>SD</i>	<i>Level of disagreement (1 or 2) %</i>	<i>Level of agreement (4 or 5) %</i>
	3.58	.515	0	58.3
1=strongly disagree, 2=disagree, 3=indifferent, 4=agree and 5=strongly agree.				

On the other hand, as Table 6.12 shows, although most respondents were “indifferent” (58%), some of them tended to disagree that financial statements prepared under SASs disclose information that can meet their needs (none chose 4 or 5). They supported their view with comments such as that most listed companies in Saudi Arabia do not make disclosures as they should when issuing financial statements and that transparency is not exist. They mentioned as an example that Board of Directors' ownership and rewards are not clearly disclosed. One respondent said that also applied to financial statements in the banking sector.

Table 6-12 Perceptions of financial analysts concerning financial statements prepared under SASs.

<i>Question 2: (For users of financial statements of any other listed companies (not banks) on the Saudi stock market). To what extent do you agree that information disclosed in their financial statements meets your needs?</i>	<i>Mean</i>	<i>SD</i>	<i>Level of disagreement (1 or 2) %</i>	<i>Level of agreement (4 or 5) %</i>
	2.50	.674	41.6	0
1=strongly disagree, 2=disagree, 3=indifferent, 4=agree and 5=strongly agree.				

6.3.3.2 Analysis of Interviews with Accounting Users

Interviews with users provided results very similar to those above, with additional clarification and interpretation. Academics and financial analysts stated that listed companies in Saudi Arabia fail to provide certain information that can help users make decisions. Financial analysts tended to agree that listed companies and banks did not provide sufficient information to help them advise investors. The deficiencies in required information are presented in Table 6.13.

One financial analysts mentioned that the only listed companies that provide better information, were those attempting to implement corporate governance guidelines. He added that although there is insufficient disclosure, disclosure had nonetheless improved in the previous two years.

Table 6-13 Deficiencies in required information

<i>N</i>	<i>Examples of deficiencies according to accounting users</i>
1.	Insufficient disclosure, particularly in the recent financial crisis, causing an inability to provide accurate information to investors
2.	Out-of-date information
3.	Place of investment not disclosed
4.	Listed Companies do not assist financial analysts by providing more information when visiting companies, instead referring them to financial statements; however, their financial statements do not provide certain information ²⁹
5.	Lack of information regarding companies' performances such as information that could predict the company's future

The interviewees from DZIT stated that they do not have specific requirements because they use financial reporting as a starting point and had their schedules to work on items disclosed in financial reports: they begin with a company's income and add any item from the financial statement they think should be included in the Zakat statement and delete items which are already added by the company and that they think should not be included. They also discuss what they want with companies or banks until the amount of Zakat is finalised. Interviewees from the DZIT indicated that some companies sometimes prepared a separate balance sheet for the Department of Zakat and Income Tax. Interviewees suggested that listed companies in Saudi Arabia should provide separate financial reporting for Zakat purposes, as paying Zakat is a duty for all

²⁹ Some may suggest this demand is unreasonable because the risk of insider trading might increase if companies were to provide more information in meetings. However, when a company exists and works in an Islamic society it is required to provide full information for accounting users even if releasing this information may be disadvantageous (Gambling and Karim, 1991).

Muslims and therefore, because we are in an Islamic country, companies should use accounting as appropriate way to provide the relevant disclosure to assist the department in calculating the correct amount of Zakat. Interviewees from the DZIT also mentioned that some listed companies take up to two years to pay their Zakat.

It seems that accounting users in Saudi Arabia may suffer from insufficient disclosure and transparency in financial reporting. However, comparing between the levels of disclosure of listed companies and the banking sector, there was a slight preference shown for financial reporting in the banking sector, because disclosure there is perceived to be better. In addition, existing financial reporting in Saudi Arabia may not assist in calculating the exact amount of Zakat. This issue will be discussed in greater depth in the next chapter.

6.3.4 External Auditors

6.3.4.1 Analysis of Questionnaires of External Auditors

External auditors were asked their views on financial statements in terms of their jobs as auditors, i.e. whether they find it easier to audit financial reporting prepared under SASs or under IFRSs (Question 1). Table 6.14 shows that 26 respondents chose financial statements prepared under IFRSs, while 22 chose those prepared under SASs. 13 stated that there was no difference between them and 9 did not answer the question. Some of the respondents explained the reasons for their choice. These reasons are presented in Table 6.15.

Table 6-14 Perceptions concerning the comparison of financial statements prepared under SASs and IFRSs, in terms of facilitating auditing work

<i>Question 1: As an auditor, which of the following financial statements do you consider easier to audit?</i>	<i>Frequency</i>	<i>%</i>
No answer	9	12.9
Financial statements prepared under SASs	22	31.4
Financial statements prepared under IFRSs	26	37.1
No difference	13	18.6
Total	70	100.0

Table 6-15 Reasons for respondents' answers about their choice of SASs or IFRSs

<i>Reasons for choice</i>	<i>N</i>
<i>Financial statements prepared under SASs</i>	
are easy to implement.	6
are easy as we have more experience in using them	4
meet the experience of listed companies' accounting staff	2
<i>Financial statements prepared under IFRSs</i>	
are sufficiently comprehensive to cover all listed companies' needs and subjects	10
are easily comparable with those of international companies.	4
are regularly updated and improved	2
are a good source	1
are suitable as far as presentation and disclosure are concerned	1

Regarding the problems that external auditors are concerned with, related to either IFRSs or SASs (Question 2), they pointed out that the greatest difficulty related to IFRSs is “the implementation of such standards as IAS 32 and IAS 39”, followed by “translation of IFRSs”. Table 6.16 shows these difficulties.

Table 6-16 Issues related to IFRSs or SASs

<i>Question 2: Which particular accounting standards issues (related to either IFRSs or SASs) most concern you in your capacity as an auditor of listed company financial statements? Please explain why.</i>	
<i>Problem</i>	<i>N</i>
<i>Problems related to SASs</i>	
• Some cases not covered by SASs	5
• Insufficient interpretations in some sections of SASs and no practical examples	4
• No expert body to issue, improve and update SASs	3
<i>Problems related to IFRSs</i>	
• IASs 32, 39, 40 and 41 are difficult to implement	6
• Translation of IFRSs	4
• Fair value	3
• Difficulties for listed companies in implementing finance leases	3
• Investments and related standards for evaluation	3
• Lack of knowledge of IFRSs on the part of some companies	2
• Alternative accounting treatments for some standards	2

6.3.4.2 Analysis of Interviews of External Auditors

All interviewees also believed that the difficulties of certain more complicated IFRSs, such as IAS 32 and IAS 39, are the most important ones in terms of auditing. When asked what made these standards difficult, they replied that they are very technical and require considerable expertise to apply. Moreover, these standards have undergone several changes and updates in recent years. The auditors also mentioned that there is a lack of knowledge and understanding of these standards on the part of listed companies, as there is a dearth of suitably qualified individuals to deal with the standards and changes to them.

For difficulties related to SASs, Table 6.16 shows that “there is no expert body to issue, improve and update SASs”. This is followed by “SASs do not cover all cases or areas”. Furthermore, none of the interviewees agreed that SASs are sufficiently detailed or informative. One interviewee mentioned that one problem with SASs lies in the application of certain methods which may be confusing to preparers, such as the application of weighted average on inventory, as many listed companies are not able to measure this. He also mentioned that it is better to give the company a choice, but the company should choose correctly. Interviewees mentioned that SOCPA has not attempted to update standards and depends solely on questions from user to explore standards issues; otherwise they do not care about updating the standards. Interviewees also believed that they suffered from delays in replies to their questions to SOCPA, and their questions or requests were not dealt with directly.

Interviewees indicated that the reason for this is that the SAS Committee has not given full attention to their work, as all of them are employed elsewhere or have their own business and therefore do not have time to update and improve SASs. However, one of

the interviewees believed that this problem also stems from a fault of the auditors themselves, as they should read the standards more thoroughly and discuss any issues arising from them with the setters.

Interviewees suggested some solutions to overcome these problems. For example, SOCPA should bring in full-time staff to work on SAS setting, pay more attention to the standards, follow changes in the Saudi economy, fill in the gaps in the SASs and continue to improve them. The interviewees also suggested that SOCPA should create a 'helpdesk' to assist and support users' understanding of SASs, and reduce the time required to answer users' questions. Another alternative is that they should apply IFRSs as comprehensive standards as there are many deficiencies in SASs.

6.4 Perceptions of the Difficulties and Problems arising from the Transition to IFRSs in Saudi Arabia, and Cultural issues

6.4.1 Difficulties and Problems during the Transition to IFRSs

The purpose of this section is to contribute to answer the research question '*What would the problems and difficulties of applying IFRSs in the Saudi environment be?*' This question was addressed from the perspectives of both preparers and users of accounting information in both questionnaire surveys and interviews.

6.4.1.1 Questionnaire Results about the Problems and Costs associated with the Transition to IFRSs

Almost all respondents agreed on certain problems that would occur as a result of the transition to IFRSs (see Table 6.17). Moreover, each group separately mentioned certain other problems that, from their perspectives, could influence their relationship with financial reporting. Accounting information preparers, for example, mentioned problems which may create additional costs and take up more of their time, such as a lack of qualified personnel and knowledge of IFRSs, training of accounting staff and changes to computer software systems. Accounting users mentioned the lack of knowledge and awareness of these standards, and the difficulties in understanding financial reporting based on IFRSs, while external auditors mentioned that financial reporting may take more time to audit (see Table 6.18).

Table 6-17 Perceptions of questionnaire respondents regarding overall problems and costs of the transition to IFRSs

<i>Problems and costs</i>	<i>Frequency</i>	<i>Rank</i>
Lack of qualified personnel and knowledge of IFRSs	34	1
Lack of knowledge and understanding of complicated standards	19	2
Comparability with old financial reporting	13	3
Training of accounting staff	8	4
Changes to computer software systems	7	5
Language issues	6	6
Fair value issues	6	7
Lack of professional specialists	6	8
Readiness of management and the management community for disclosure	4	9
Other problems and costs	42	10
Total	145	

Table 6-18 Perceptions of questionnaire respondents regarding problems and costs of transition to IFRSs

Banks	F	Other listed Companies	F	Auditors	F	Financial analysts	F
Knowledge of IFRSs	6	Lack of qualified personnel	6	Difficulties in understanding and using IFRSs, particularly the complex standards (e.g. IAS 39)	17	Knowledge, experience and awareness	6
Staff training	5	Problems of fair value	4	No problems	15	Training and learning	3
Changes to computer systems and data programmes	5	Readiness of management and the management community for disclosure	4	Lack of qualified personnel in companies	14	Language issues	2
None	3	Adjustment of old financial statements	4	Adjustment of old financial statements	8		
Difficulties in implementing the complex standards (e.g. IAS 39)	1	None	3	Lack of professional specialists	6		
Adjustment of old financial statements	1	Improvement of information systems associated with disclosure	2	Translation problems	4		
Conflict between users	1	Adjustment of policies and procedures to adhere to IFRS requirements	2	More time needed to make changes	3		
Limitation of resources	1	Some standards have more than one accounting treatment	2	More time-consuming audits	3		
Branches of banks outside of Saudi Arabia using different methods	1	Training and learning	2	Limitation of dominate	3		
		The ability to understand IFRSs	2	Fair value issues	2		
		The ability of local auditing offices to implementing IFRSs	1	Adjustment of systems	2		
Total	24	Total	33	Total	77		

In addition, the questionnaire for banks and other listed companies contained an extra closed question on their perception about some of the costs that other listed companies may face, or which faced banks during their transition to IFRSs, with these costs being based on prior literature.

Table 6-19 Perceptions of questionnaire respondents regarding costs that banks incurred during IFRS implementation

<i>What are the main costs your bank incurred while implementing IFRSs? (Please tick as many as you consider relevant.)</i>	
<i>Cost</i>	<i>Yes (%)</i>
Training of accounting staff in IFRSs	78.6
Consulting service	50
Purchase of technical literature	35.7
Changes to software systems	64.3

Table 6-20 Perceptions of questionnaire respondents regarding costs that other listed companies may incur when implementing IFRSs

<i>What are the main costs your company may incur from the implementation of IFRS in Saudi Arabia? (Please tick as many as you consider relevant.)</i>	
<i>Cost</i>	<i>Yes (%)</i>
Training of accounting staff in IFRSs	88
Consulting service	79
Purchase of technical literature	42
Changes to software systems	42

In the banking sector, 78.6% of respondents considered the training of accounting staff to be a significant cost, while 14.3% did not (see Table 6.19). On the other hand, 88% of respondents from other listed companies considered it to be a cost that companies may incur. The significance of the cost of changes to software systems was also confirmed by the survey respondents in the banking sector in response to a closed question, as 64.3% answered “yes” to this question, while this answer was given by only 40% of those from other listed companies (see Table 6.20). Table 6.19 shows that 50% of respondents from the banking sector mentioned they paid for consulting services when they transferred to IFRSs. However, 42.9% stated that they had not paid for such services. On the other hand, 80% of respondents of other listed companies think that

they will need consulting services (see Table 6.20). Tables 6.19 and 6.20 indicate that the survey respondents from the banking sector (57.1%) and other listed companies (60.0%) do not think that the purchase of technical literature will represent a cost to their companies.

6.4.1.2 Interview Results Regarding Problems and Difficulties with IFRSs

There was general agreement from the interviewees in all groups on problems and difficulties, which were similar to those mentioned by the questionnaire respondents. However, some mentioned that these difficulties may depend on the knowledge of each person and the awareness of accounting staff of IFRSs. For example, external auditors mentioned that the adoption of IFRSs in Saudi Arabia may present difficulties for auditors in local accounting firms but not for those auditors working in Big Four firms. Moreover, some interviewees mentioned that big listed companies may not face great difficulties as they usually have high quality accounting staff and the ability to train their employees and send them abroad, which may not be the case with small listed companies. This issue will be discussed in greater depth in the next chapter.

6.4.1.3 The Suggestions of Interviewees for Solving these Problems

Interviewees provided some suggestions to overcome these problems. These suggestions are listed in Table 6.21; further discussion of these suggestions will be presented in the next chapter.

Table 6-21 Suggestions by interviewees for overcoming problems that may result from transition to IFRSs

<i>N</i>	<i>Suggestions</i>
1	Education and training for both accounting staff and management should be carried out
2	SOCPA should increase training courses and improve their content
3	SOCPA should work closely with Saudi universities to try and improve the content of accounting educational background. External auditor 5 mentioned that Saudi universities do not include accounting standards in their curricula and that they should do so, even if only by asking students to do some research on IFRSs as homework; for example, asking them to compare the advantages and disadvantages of IFRSs and SASs.
4	SOCPA should also work closely with SAMA
5	Workshops are needed and experts should be brought in from outside Saudi Arabia to give lectures on IFRSs to teach those who prepare and are interested in them
6	Research on IFRSs should be increased, and problems should be discussed with companies before the standards are put into use
7	IFRS resources should be increased (financial, technical and HR)
8	Systems should be modified and amended
9	SOCPA can organise alternative methods of IFRSs suitable for Saudi Arabia
10	Textbooks relating to IFRSs should be updated, translated and provided

6.4.2 Cultural Issues

6.4.2.1 Questionnaire Results Concerning Cultural issues

The purpose of this section is to contribute to answer the research question ‘*What are the cultural factors that may influence the adoption of IFRSs in Saudi Arabia and what issues may act as barriers to their adoption?*’ This question was answered by collecting the views of preparers and users of accounting information from both questionnaire surveys and interviews, as follows: all sample groups were asked an open-ended question: *Which factors (cultural issues) do you think may be obstacles to the full adoption of IFRSs by Saudi Arabia? Why?* The question was asked about culture in the widest sense, encompassing, inter alia, religion and language issues.

Respondents to the questionnaire were asked about cultural issues that may conflict with IFRSs. They mentioned certain cultural issues that may act as barriers to the full adoption of IFRSs. Table 6.22 shows that the main cultural issue is “conflict between

IFRSs and Sharia law”, as Sharia law informs all activities in Saudi Arabia and business is no exception (see Chapter Three). The second most important issue was “language issues”, followed by an element known as “Saudi pride”, or nationalism. In addition, some respondents mentioned that certain IFRSs may conflict with the Saudi environment and system of government. Some also mentioned that lack of accounting knowledge among the majority of statement users may be a cultural issue.

However, individual cultural issues seem to differ from each group’s perspective. The majority of banking sector respondents stated that there would be no culture issues or that they did not know of any, and only one mentioned that the main cultural issue is the conflict of IFRSs with Sharia requirements. The reason for their answers may be because they have already adopted IFRSs without any consideration for these cultural issues. The results (see section 5.3.1.1) indicate that interest exists, although it is forbidden by Islam. Sharia requirements were mentioned by all the other groups, and three other groups also mentioned Zakat issues, which were not mentioned by those in the banking sector. Another example is the language issue, which was not mentioned by respondents from the banking sector or other listed companies, while it was mentioned by external auditors and particularly by respondents from local accounting firms, implying that local accounting firms will face more difficulties related to languages issues than those in the Big Four. Other issues were also touched upon (see Table 6.23).

Table 6-22 Overall views of questionnaire respondents on cultural issues that may act as barriers to full adoption of IFRSs

<i>Cultural issues</i>	<i>F</i>	<i>Rank</i>
Sharia requirements	25	1
• Zakat requirements		
• Interest issues		
• Finance leases ³⁰		
None	14	2
Language issues	14	3
Saudi pride	13	4
Unsuitability of some IFRS procedures to the Saudi environment	7	5
Lack of accounting knowledge on the part of the majority of financial statement users	5	6
Other cultural issues	12	7
Total	90	-

6.4.2.2 Results of Interviews on Cultural issues

All the interviewees agreed that the omission of Zakat standards in IFRSs did not present a problem and that having a Zakat standard in SASs is not particularly advantageous as this standard almost represents only the income tax. The interviewees also agreed that interest is a key issue. However, they confirmed that interest exists in Saudi Arabia and that it is dealt with by banks (see section 2). The interviewees also mentioned that charging amortisation at a fixed rate for long-term financial assets is not acceptable from a Sharia perspective, as under Sharia law a fixed rate should be set for investments; and only sell them and take your profit.

Furthermore, language issues were not mentioned as being problematic for most interviewees, as high level bank staff members are well-educated and almost all speak good English. Interviewees from among the external auditors in the Big Four also mentioned that language was not an issue as they have resources and most of them speak English. However, they mentioned that language issues would represent problems

³⁰ Finance leases are mentioned here because they have different accounting treatments under Sharia and IFRSs. This will be discussed in the next chapter.

for accounting staff in other listed companies and local accounting firms. These interviewees also mentioned that although Arabic versions of IFRSs may be available from the IASB, some translations of updated standards may be translated late into Arabic and may represent an issue or problem.

During the interviews Saudi national pride in SASs was also discussed in order to discover their opinions on this issue. They were divided, with two interviewees believing that this was an issue that could delay IFRS adoption, as they thought Saudi Arabia would lose sovereignty by not having its own standards and using standards based on those of other countries. Other group did not think this represent an issue.

Some of the interviewees expressed the opinion that there is a lack of knowledge on the part of majority of accounting users in Saudi Arabia regarding accounting standards in general, whether IFRSs or others. Interviewees stated that lack of accounting knowledge on the part of accounting users reduces the pressure on the preparers of accounting standards regarding demands for more disclosure and also leaves decision-makers to choose standards.

Some of the interviewees also indicated that some of the orientations of IFRSs may conflict with the system of government; for instance, the Ministry of Commerce is not allowed to revalue fixed assets, while IFRSs allow the use of fair value in fixed assets. The interviewees believed that the main conflict is only between Sharia requirements and certain IFRSs, and that this conflict cannot be resolved, as each has their own orientations.

Table 6-23 Views of questionnaires respondents on cultural issues that may act as barriers to full adoption of IFRSs

Banks	N	Other listed Companies	N	Auditors	N	Financial analysts	N
None	2	No Zakat standard	4	None	12	Conflict with Sharia law	2
Do not know	2	None	4	Saudi nationalistic pride (SASs are the best)	12	Language issues	2
Conflict with Sharia law	1	Sharia requirements	2	Language issues	12	Zakat issues	1
		Saudi pride	1	Zakat requirements	8		
				Unsuitability of some IFRS procedures to the Saudi environment and the adjustment of certain procedures	7		
				Sharia requirements / Interest problems	5		
				Lack of accounting knowledge on the part of the majority of financial statement users	5		
				Debate about adoption in Saudi Arabia	2		
				The beliefs I that IFRSs are not suitable to Saudi Arabia	2		
				careless businessmen by accounting profession	2		
				Finance leases	2		
				Disclosure	2		
Total	5	Total	11	Total	69	Total	5

6.5 Perceptions of Factors affecting IFRS Adoption and Advantages of this Adoption

6.5.1.1 Questionnaire Results on the Factors Affecting IFRS Adoption and its Benefit

The purpose of this section is to contribute to answering the research questions ‘*What factors can play a major role in the development of SASs and to what extent can they influence and push Saudi Arabia to adopt IFRSs?*’ and ‘*What is the benefit of applying IFRSs in the Saudi environment?*’ by providing the perspectives of accounting information preparers and users on the questions of both the questionnaire surveys and interviews. Firstly, the questionnaire sample groups were asked two closed questions, shown below:

Table 6-24 Opinions of questionnaire respondents about SOCPA's decision

<i>Question 1: In December 2002 SOCPA stated that “in the case of there being an accounting issue for which no accounting standard or professional opinion has been issued by SOCPA, the accounting standard issued by the International Accounting Standard Committee for that issue shall be considered the generally accepted standard in this respect”.</i>					
<i>To what extent do you agree with SOCPA's decision?</i>	<i>Mean</i>	<i>SD</i>	<i>Level of disagreement (1 or 2)</i> %	<i>Level of agreement (4 or 5)</i> %	<i>Sig*</i>
	4.31	.785	0	80.2	.23
<i>Mean Values-Scoring: 1= Strongly disagree; 3= Indifferent; 5 = Strongly agree. (* indicates the statistically significant differences of responses between respondent groups at the 5% level.</i>					

Table 6-25 Opinions of questionnaire respondents about SAMA's decision

<i>Question 2: For the past few years SAMA has required all banks in Saudi Arabia to prepare their financial statements in accordance with IFRSs.</i>					
<i>To what extent do you agree with SAMA's decision?</i>	<i>Mean</i>	<i>SD</i>	<i>Level of disagreement (1 or 2)</i> %	<i>Level of agreement (4 or 5)</i> %	<i>Sig*</i>
	4.65	.767	0	82.3	.08
<i>Mean Values-Scoring: 1= Strongly disagree; 3= Indifferent; 5 = Strongly agree. (* indicates the statistically significant differences of responses between respondent groups at the 5% level.</i>					

Table 6.24 shows that respondents showed a high level of agreement (80.2%) with SOCPA’s decision to use IFRSs as a second choice in cases where no applicable SAS

exists. In addition, Table 6.25 shows that there is a general consensus (82.3% agreement) amongst the respondents of the questionnaire survey regarding the adoption of IFRSs by the banking sector in Saudi Arabia.

Statistical Analysis of Tables 6.24 and 6.25

As all sample groups were asked the same questions, this analysis will assist in discovering the differences in answers between groups. According to the Kruskal-Wallis test, there is general agreement among the groups (level of sig = 087 and more than 0.05) regarding their opinions on SAMA's decision, and there is no statistically significant difference in responses among groups (level of sig = 238) regarding SOCPA's decision. It appears that all sample groups gave the same answers and agreed with both decisions.

In Table 6.26, respondents were also asked to answer open-ended questions regarding SOCPA's and SAMA's motivations for orienting towards IFRSs. The respondents believed that IFRSs being more comprehensive than SASs was the strongest motivation (22% of all motivations), followed by the comparability of the financial reporting of Saudi companies with that of foreign companies (18%). They also held that another motivation was to provide information about financial position, performance and cash flow of an entity, useful to a wide range of users both outside and inside of Saudi Arabia when making economic decisions (6%). Some respondents also thought that Saudi Arabia joining the World Trade Organisation (WTO) was another motivation for these decisions. Finally, SAMA's wish to give international credibility to banks' financial statements was also cited as a motivation (4%).

Table 6-26 Perceptions of questionnaire respondents of SOCPA's and SAMA's motivations for IFRS adoption

Banks	N	Other Listed Companies	N	Auditors	N	Others	N
Help investors and customers to understand financial reporting	3	IFRSs are more comprehensive	7	IFRSs are more comprehensive than SASs	21	Comparability with international banks	3
Communicate with global economics	3	Regular updating of IFRSs	4	Comparability and the relationship between local and foreign banks	15	Accompanying with improvement	3
More transparency	2	Accurate comparability with international financial reporting	4	Saudi Arabia joining the WTO	8	SASs not sufficient to meet all needs	2
Global acceptance	2	Increase FDI	2	International credibility of banks' financial statements	6	I do not have enough information	1
Comparability	2	After the Enron problem SOCPA has changed to IFRSs rather than US GUUP		Wider use of IFRSs	5		
Harmonisation of financial reporting	2	Accord with others	2	Transparency	4		
Monitor the management for using resources	1	To break down the dependency on US GAAP	2	To benefit from the experience of the countries which already have adopted them	3		
		Prepared by a reliable professional body	2	Problems of international stock markets	2		
		To break down the dependency on US GAAP	2	Understandable by all	2		
		Inability of SOCPA to follow global changes	1	Some international companies have subsidiary companies in Saudi Arabia	2		
				Foreign investors and financial analysts may rely on them for decision-making	2		
				The realization that IFRSs suitable for economics adverbial	2		
				The absence of bank standards	2		
				To monitor all items and details in banks not covered by SASs	2		
				Adherence only	1		
				Combination of international concepts	1		
Total	16	Total	32	Total	77	Total	77

6.5.2 Factors that may Influence the Adoption of IFRSs in Saudi Arabia

This section presents respondents' views on those parties (groups) who influence SASs, as well as their opinion on who may influence the adoption of IFRSs in Saudi Arabia. In the questionnaire, the respondents were asked three closed questions to discover their opinions on who influences the setting of SASs, which factors may play a role in promoting IFRSs, and which groups will benefit from IFRS adoption.

6.5.2.1 Questionnaire Results

The results, illustrated in Table 6.27, suggest that all respondents believed that the greatest influences on SASs were those of international auditing firms, academics in accounting fields, and the Saudi stock market. Slightly fewer than half of the respondents believed that the government, multinational companies, foreign investors, the global capital market and local users' needs exerted an influence on SASs. The results also suggest that Islamic principles have little influence on SASs. On the other hand, all respondents believed that international lending organisations had no influence on SASs either.

Statistical analysis from Table (6-27)

All sample groups were asked the same question; therefore, this analysis will assist in discovering the differences in answers between groups. According to the Kruskal-Wallis test, the results suggest that there are differences in responses among the samples ($p = .00$) regarding the influence of multinational companies on SASs. According to the Mann-Whitney test (see Appendix 1), significant differences appear between financial analysts on one side and CFOs of other listed companies and auditors on the other side. Financial analysts tended to disagree that multinationals influenced SASs, as only one

of them agreed while eight disagreed and three were 'indifferent'. However, the other groups tended to support the statement that multinational companies influenced SASs; they reported a high level of agreement on this matter. Although the Kruskal-Wallis test shows that there are significant differences between groups regarding international lending organisations (i.e. the World Bank), the Mann-Whitney test (see Appendix 1) shows that these differences are not significant.

Table 6-27 Perceptions of questionnaire respondents on influences on SAS development

<i>Question 3: To what extent do you think that each of the following groups influences the development of Saudi accounting standards?</i>					
<i>Factors</i>	<i>Mean</i>	<i>SD</i>	<i>Level of disagreement (1 or 2) %</i>	<i>Level of agreement (4 or 5) %</i>	<i>Sig*</i>
International auditing firms	3.63	.647	10	73	.33
Academics in accounting fields	3.47	.673	10	58	.29
Saudi Stock Exchange	3.46	.697	12	57	.89
The government (e.g. the Ministry of Commerce)	3.38	.754	17.5	48	.65
Multinational companies	3.31	.795	21	51	.00*
Foreign investment	3.30	.758	17	55	.13
Global capital market	3.29	.814	22.5	52	.26
Local users' needs	3.22	.835	26	48	.13
Islamic principles	3.15	.866	31	46	.66
International lending organisations (i.e. the World Bank)	2.97	.809	34	31	.03*

*Mean Values-Scoring: 1= Strongly disagree; 3= Indifferent; 5 = Strongly agree.
 (*) indicates the statistically significant differences of responses between respondent groups at the 5% level.*

The results shown in Table 6.28 suggest that international auditing firms, foreign investors, multinational companies, global capital markets and the Saudi Stock Exchange influence IFRS adoption. However, only half of the questionnaire respondents believed that accounting academics, international lending organisations, local users' needs and the government influence IFRS adoption.

Table 6-28 Perceptions of questionnaire respondents on influences on IFRS adoption in Saudi Arabia

<i>Question 4: In your view, to what extent will each of the following groups influence the adoption of IFRSs in Saudi Arabia?</i>					
<i>Factors</i>	<i>Mean</i>	<i>SD</i>	<i>Level of disagreement (1 or 2) %</i>	<i>Level of agreement (4 or 5) %</i>	<i>Sig*</i>
International auditing firms	3.78	.522	5	83	.14
Foreign investment	3.72	.549	5	78	.30
Multinational companies	3.62	.663	10	72	.00*
Global capital market	3.50	.698	12	62	.07
Saudi Stock Exchange	3.44	.754	16	60	.88
Academics in accounting fields	3.39	.774	17.5	56	.76
International lending organisations (i.e. the World Bank)	3.32	.830	23	55	.00*
Local users' needs	3.29	.752	17.5	49	.04*
The government (e.g. the Ministry of Commerce)	3.22	.855	26	50	.71
Islamic principles	2.78	.852	50	28	.83

*Mean Values-Scoring: 1 = Strongly disagree; 3 = Indifferent; 5 = Strongly agree.
 (*) indicates the statistically significant differences of responses between respondent groups at the 5% level.*

Statistical analysis from Table 6.28

According to the Kruskal-Wallis test, the results suggest that there are differences in responses among samples regarding international lending organisations ($p = .00$). According to the Mann-Whitney test (see Appendix 1), the group of financial analysts did not hold a strong belief that international lending organisations influenced the adoption of IFRSs, as only two of them agreed, while seven disagreed and one was 'indifferent'. However, other sample groups believed that these organisations did influence the adoption of IFRSs, as members of these groups showed greater agreement than did the financial analysts.

According to Kruskal-Wallis test, the results suggest that there are differences in responses regarding the influence of multinational companies ($p = .00$). According to the Mann-Whitney test (see Appendix 1), the financial analysts' group again showed a lower level of agreement on this point than the other three groups. Only three financial

analysts agreed that multinational companies influenced the adoption of IFRSs, while there was a high level of agreement on this matter in the other three groups. Moreover, Table 6.28 illustrates that there are significant differences among user groups regarding the influence of local users' needs on the adoption of IFRSs in Saudi Arabia ($p = .03$). According to the Mann-Whitney test (see Appendix 1), respondents from the banking sector did not think that local users' needs had any influence on the adoption of IFRSs, as none of them agreed, in contrast to CFOs of other listed companies group, who agreed that local users' needs may influence IFRS adoption. However, only half of the financial analysts agreed that local users' needs influenced the adoption of IFRSs in Saudi Arabia.

Table 6-29 Perceptions of questionnaire respondents about groups that will benefit from IFRS adoption

<i>Question 5: In your view, to what extent will each of the following groups benefit from the adoption of IFRSs in Saudi Arabia?</i>					
<i>Factors</i>	<i>Mean</i>	<i>SD</i>	<i>Level of disagreement (1 or 2) %</i>	<i>Level of agreement (4 or 5) %</i>	<i>Sig *</i>
Multinational companies	3.87	.357	1	88	.15
Foreign investment	3.84	.430	2	87	.24
International auditing firms	3.78	.510	4	82	.60
Global capital market	3.69	.632	9	78	.11
Saudi Stock Exchange	3.62	.609	7	69	.22
International lending organisations (i.e. the World Bank)	3.53	.745	15	65	.10
Academics in accounting fields	3.50	.709	12.5	66	.36
Local users' needs	3.48	.673	10	57	.00*
The government (e.g. the Ministry of Commerce)	3.33	.792	20	53	.11
Islamic principles	2.83	.823	44	27	.01*

Mean Values-Scoring: 1= Strongly disagree; 3= Indifferent; 5 = Strongly agree.
 (*) indicates the statistically significant differences of responses between respondent groups at the 5% level.

As can be seen in Table 6.29, the results suggest that all the questionnaire respondents believed that multinational companies, foreign investors, international auditing firms, global capital markets, the Saudi Stock Exchange, international lending organisations

and accounting academics would benefit from the adoption of IFRSs in Saudi Arabia, and that the greatest benefit would be to the first three groups.

Statistical analysis from Table 6.29

According to Kruskal-Wallis test, the results suggest that there are differences in the responses among samples regarding the potential benefit gained for Islamic principles from the adoption of IFRSs in Saudi Arabia ($p = .01$). However, according to the Mann-Whitney test (see Appendix 1), these differences are not significant. Furthermore, Table 6.29 indicates significant differences among the user groups regarding the benefit of the adoption of IFRSs to local users' needs ($p = .00$). According the Mann-Whitney test (see Appendix 1), significant differences appears between CFOs of banking on one side and CFOs of other listed companies and auditors on the other side. Respondents from the banking sector showed a low level of agreement and most of them were 'indifferent', in contrast to other groups, who provided a high level of agreement on the benefit to local users' needs from the adoption of IFRSs.

6.5.2.2 Results of Interviews about Factors Affecting IFRS Adoption

The interviewees believed that the greatest influences on the development of SASs were international accounting firms, the government, academics and the Saudi Stock Exchange. They also believed that Islamic principles may not have a great influence on SASs and that they were not influenced at all by international lending organisations.

In terms of factors influencing the adoption of IFRSs in Saudi Arabia, all the interviewees believed that the greatest influence came from international auditing firms and foreign investors.

Some of the interviewees also mentioned that accounting academics may not have a great deal of influence on the adoption of IFRSs, as there is lack of attention paid to these standards in universities. Moreover, there is also a dearth of material (including books) related to IFRSs in Saudi Arabia (see section 3).

The interviews supported the results from the questionnaire survey that indicated that foreign investors, international accounting firms, and multinational companies would benefit from the adoption of IFRSs in Saudi Arabia. The interview results also suggested that the government may benefit less from the adoption, as it may conflict with certain systems in Saudi Arabia. The results also appear to suggest that the adoption of IFRSs would benefit investment opportunities and then the private sector, rather than being used by the government to plan and assist in local public needs. Most of interviewees believed that all parties, apart from Islamic principles and international lending organisations, would benefit from the adoption of IFRSs, particularly those parties with international characteristics, as they have a strong relationship with foreign parties. However, some interviewees think that the adoption of IFRSs will increase the level of disclosure and the use of fair value. This will lead to more transparency, which is one of the main Islamic principles.

6.5.3 Perceptions of the Benefits of IFRSs

6.5.3.1 The Quality of Financial Reporting

In this section, questionnaire respondents were asked closed questions about the quality of financial reporting based on IFRSs (Question 6).

The results of the questionnaire survey seem to suggest that the implementation of IFRSs in Saudi Arabia will increase the quality of financial reporting. Table 6.31 shows that 80% of respondents believed that the adoption of IFRSs would help increase the comparability of financial reporting among countries, while 77% also believed that the reliability of financial reporting would increase and almost 73% were of the opinion that the understandability and relevance of financial reporting would be enhanced by the adoption of IFRSs. The questionnaire respondents from the banking sector provided a higher level of agreement than the other groups.

Table 6-30 Perceptions of questionnaire respondents about the quality of financial reporting based on IFRSs

<i>Question 6: To what extent do you agree that the implementation of IFRSs in Saudi Arabia will improve the quality of financial reporting?</i>						
<i>N</i>		<i>Mean</i>	<i>SD</i>	<i>Level of disagreement (1 or 2) %</i>	<i>Level of agreement (4 or 5) %</i>	<i>Sig*</i>
1	Relevance	3.80	.975	15	71	.09
2	Reliability	4.08	.724	2	77	.59
3	Comparability	4.17	.748	1	79	.45
4	Understandability	3.93	.837	5.8	73	.14

*Mean Values-Scoring: 1= Strongly disagree; 3= Indifferent; 5 = Strongly agree.
 (*) indicates the statistically significant differences of responses between respondent groups at the 5% level.*

The results from the interviews suggest that overall the interviewees indicated that the adoption of IFRSs would improve the quality of financial reporting in Saudi Arabia, and this will be reflected in investment opportunities, as it would help increase investors' confidence in Saudi financial reporting. The interviewees believed that this would be the greatest benefit from the adoption of IFRSs. In addition, some interviewees added that transparency and accuracy would be enhanced with the adoption of IFRSs. Interviewees from the banking sector were more supportive of this than the other interview groups, as most of them confirmed that IFRS adoption would

improve the quality of financial reporting. On the other hand, some interviewees mentioned that the quality may not improve, as these standards need a strong body to enforce their implementation, and such a body in Saudi Arabia has limited ability to do so.

6.5.3.2 Other Benefits

Questionnaire respondents were asked open-ended questions about their opinions on other advantages of IFRS adoption in Saudi Arabia, after providing their perceptions of the quality of financial reporting after the adoption of IFRSs (Question 7). This open-ended question gave respondents the opportunity to express their opinions in greater depth. Overall advantages of IFRS adoption are presented in Table 6.32 and the advantages mentioned separately by each group are presented in Table 6.33.

Table 6.32 shows that the questionnaire respondents supported their answers to the first question regarding the quality of financial reporting under IFRSs, as they suggested that the greatest benefits of adopting IFRSs would be the improvement of the comparability of companies' financial reporting. Moreover, as can be seen from Table 6.32, respondents also suggested that the quality of financial reporting would increase as there would be more transparency in financial reporting. This would lead to an increase in foreign and local investors' confidence in the Saudi Arabian financial reporting system, which in turn will increase foreign direct investment (FDI). Respondents found this to be the third greatest benefit of the adoption of IFRSs in Saudi Arabia. The questionnaire respondents also suggested that one of the greatest benefits would be to adopt and use well-established standards in all topics, and to have updated standards that take into account economic changes. The respondents also suggested that these standards have good resources.

Table 6-31 Perceptions of questionnaire respondents about benefits of IFRSs in Saudi Arabia

<i>Question 7: What are the advantages of the adoption of IFRSs by Saudi Arabia compared to the current situation?</i>		
<i>Advantages</i>	<i>Frequency</i>	<i>%</i>
1 Enhance the comparability of financial reporting	38	26
2 Have comprehensive, improved, regularly updated standards that consider economic variables	28	19
3 Facilitate the growth of foreign direct investments in Saudi Arabia	17	12
4 Increase the transparency of financial reporting	14	10
5 Transfer knowledge	10	7
6 Enter international markets	8	6
7 Save the time and effort needed to issue Saudi standards	8	6
8 Used by foreign users	5	4
9 The harmonisation of accounting languages inside and outside Saudi Arabia	5	4
10 Other	16	6
Total	150	100

The questionnaire respondents also believed that Saudi Arabian listed companies can enter international markets and then have an opportunity to grow their capital through the quotation of their shares on foreign stock markets. In addition, the respondents believed that IFRS adoption would facilitate the transfer of accounting ideas and experiences both to and from Saudi Arabia (knowledge transfer). Moreover, the respondents also suggested that Saudi Arabia would save the time and effort needed to issue Saudi standards, and reduce the cost of setting and producing Saudi accounting standards.

The results of the interviews show that the majority of interviewees indicated that the greatest advantages of IFRS adoption would be to improve the quality of financial reporting, create greater comparability and transparency, and make financial reporting more consistent. The interviewees believed that these advantages would help users and local and foreign investors have more confidence in financial reporting. As a result,

foreign investment would increase, which would be a major advantage, as the interviewees also mentioned.

Table 6-32 Perceptions of questionnaire respondents of advantages resulting from the adoption of IFRSs in Saudi Arabia

Banks	N	Other Listed Companies	N	Auditors	N	Others	N
Comparability	8	Comparability with companies in different countries	12	Harmonisation of all financial statements inside and outside Saudi Arabia	14	Comparability	4
Easy for users outside of Saudi Arabia to use and analyse	3	Attract FDI	6	Increase FDI in Saudi Arabia	11	More transparency	2
Global consistency	3	Easy to understand as it is familiar to the majority of users outside Saudi Arabia	2	To have a complete package of standards which consider economic variables	25	I do not have enough information	1
More transparency	2	Suitable for users, particularly in disclosure	2	To link local and international accounting ideas	8	Suitable disclosure	1
Improved and updated standards	3	Enter international markets	2	More truthfulness and transparency	8		
To respond to regulators	1	Decrease the cost of accounting and auditing	2	To facilitate Saudi Arabia's entrance into international markets	6		
To reflect the fair value of assets		Common understanding for financial reporting and analysis procedure	2	To save the cost involved in issuing new SASs	8		
Improve performances	1	Do not know	1	The harmonisation of accounting languages in Saudi Arabia	4		
Increase capital	1			To exchange experiences	2		
Easy global communication	1			To improve the Saudi stock market	2		
Global acceptance	1						
Total	25	Total	29	Total	88	Total	8

6.6 The Comparison between SASs and IFRSs, and the Adoption of IFRSs

The purpose of this section is to contribute to answering the research questions ‘*What are the perceptions of respondents about the main differences between SASs and IFRSs?*’ and ‘*To what extent can the existing Saudi Accounting Standards (SASs) or IFRSs/IASs meet the needs of accounting users in Saudi Arabia?*’ by providing the perspectives of preparers and users of accounting information from questionnaire surveys and interviews. Some of the questions in this section are based on the results of the comparison between SASs and IFRSs (Chapter Three).

6.6.1.1 Analysis of Questionnaire Results

Questionnaire respondents were asked four questions about their perceptions related to a neutral stance of IFRSs to Saudi Arabia. The respondents were also asked about the timing of IFRS adoption.

The results in Table 6.33 suggest that questionnaire respondents’ overall perceptions were more supportive of IFRS adoption than the use of SASs by listed companies on the Saudi stock market. In addition, there were no statistically significant differences between the mean answers of the sample groups, namely, other listed companies, external auditors and financial analysts. All respondents held the similar view that IFRSs usually improve on SASs, and supported their application in Saudi Arabia. They also believed that although IFRSs were created to meet the needs of developed countries, they were still able to serve users in developing countries. Moreover, they believed that even with the existence of SASs, there was a need to adopt IFRSs. The level of agreement for Question 2 was higher than the level of disagreement. The level

of agreement was relatively low at 43%, with 28% disagreeing and 29% declaring themselves “indifferent”.

Table 6-33 Perceptions of questionnaire respondents on the neutrality of IFRSs and some key differences between SASs and IFRSs

<i>N</i>	<i>Statements</i>	<i>Mean</i>	<i>SD</i>	<i>Level of disagreement (1 or 2) %</i>	<i>Level of agreement (4 or 5) %</i>	<i>Sig*</i>
1	IFRSs are usually an improvement on SASs and it would be preferable to apply them in Saudi Arabia	3.87	.693	11	64	.57
2	All IFRSs are suitable for the Saudi Arabian environment	3.17	.822	26	43	.48
3	IFRSs were established to meet user needs in developed countries and are not capable of meeting and satisfying user needs in Saudi Arabia	2.39	.795	56	20	.71
4	There is no need to adopt IFRSs in Saudi Arabia because SASs are superior	2.27	.789	59	19	.41
Mean Values-Scoring: 1= Strongly disagree; 3= Indifferent; 5= Strongly agree. (* indicates the statistically significant differences of responses between respondent groups at the 5% level.						

Table 6.34 shows the perceptions of the use of fair value and historical cost in Saudi Arabia as being the one of the main differences between SASs and IFRSs (See chapter four). The results suggest that the respondents believed that investment in property should be measured by fair value. They also believed that fair value provides useful and accurate information for economic decision-making, and that the use of fair value is more accurate and preferable to the historical cost method in terms of computing Zakat. Some respondents gave reasons for their choice of the use of fair value method or the historical cost method in investment property. Table 6.35 shows these reasons.

Table 6-34 Perceptions of the respondents regarding use of fair value and historical cost in Saudi Arabia

<i>N</i>	<i>Statements</i>	<i>Mean</i>	<i>SD</i>	<i>Level of disagreement (1 or 2) %</i>	<i>Level of agreement (4 or 5) %</i>	<i>Sig*</i>
5	Investment property should be measured by the fair value method	3.87	.814	21	61	.15
6	Investment property should be measured by the historical cost method	2.19	.804	62	20	.07
7	Use of the fair value measurement in investment property provides useful and accurate information for economic decision-making	4.07	.674	7	63	.53
Mean Values-Scoring: 1= Strongly disagree; 3= Indifferent; 5= Strongly agree. (*) indicates the statistically significant differences of responses between respondent groups at the 5% level.						
8	In general, to what extent do you think that either fair value or historical cost is more suitable as a basis for the purposes of computing Zakat?	3.86	1.091	7	63	.55
Mean Values-Scoring: 1= Historical cost greatly preferable; 3= Indifferent; 5= Fair value greatly preferable. (*) indicates the statistically significant differences of responses between respondent groups at the 5% level.						

Table 6-35 Reasons for respondents' answers concerning an appropriate method in investment property in Saudi Arabia

<i>Reasons</i>
Fair value should be used because:
<ul style="list-style-type: none"> The price of real estate increases and it is not appropriate to evaluate it by historical cost that does not reflect its value on a specific date Some companies manipulate the system by selling real estate and buying it back again at its fair value
Historical cost should be used because:
<ul style="list-style-type: none"> There is a lack of qualified people or firms to value real estate Some companies may manipulate the price of real estate by inflating it

The respondents were also asked closed questions (answering 'yes' or 'no') about the timing of IFRS adoption, and Table 6.36 shows results suggesting that questionnaire respondents were in favour of the immediate adoption of IFRSs (45.8%), or thought that they should have already been adopted (34.2%). However, 8.3% thought that it was

too soon to implement IFRSs in Saudi Arabia and 10.8% did not give an answer. Some of the reasons for their answers are presented in Table 6.37.

Table 6-36 Perceptions of questionnaires respondents regarding the timing of IFRS adoption

Which of the following statements is the closest to your personal opinion? (Tick one)										
	Overall response		CFO (banks)		CFO (other listed companies)		External auditors		Financial analysts	
	F	%	F	%	F	%	F	%	F	%
No response	13	10.8	0	0	2	8.3	10	14.3	1	8.3
IFRSs should have been adopted earlier in Saudi Arabia	41	34.2	6	42.9	10	41.7	22	31.4	3	25.0
It is too early to implement IFRSs in Saudi Arabia.	10	8.3	1	7.1	2	8.3	7	10.0	0	0
This is a suitable time to adopt IFRSs	55	45.8	7	50.0	9	37.5	31	44.3	8	66.7
It is difficult to adopt IFRSs in Saudi Arabia	1	.8	0	0	1	4.2	0	0	0	0
Total	120	100	14	100	24	100	70	100	12	100

Table 6-37 Respondents' reasons for their answers concerning the timing of IFRS adoption

<i>Reasons</i>
<p>This is a suitable time to adopt IFRSs because:</p> <ul style="list-style-type: none"> • The current world market is open and Saudi Arabia has joined the WTO • Starting now is better than waiting, in order to give the implementation a head start • There is worldwide agreement on the implementation of IFRSs • SOCPA have created a professional environment that is able to deal with IFRSs • Foreign investments are currently increasing in Saudi Arabia • SASs were able to some extent to cover the requirements of the preparation of financial reporting, but currently, in view of rapid global changes, there is a real need for IFRSs • The Saudi economy is now related to other economies in the world; Saudi listed companies have subsidiaries outside of Saudi Arabia and foreign companies have begun to open subsidiaries in Saudi Arabia
<p>IFRSs should have been adopted earlier in Saudi Arabia because:</p> <ul style="list-style-type: none"> • If IFRSs had been adopted earlier, they would already be fully implemented • Most countries have adopted IFRSs, so in order for Saudi Arabia's financial reporting to be comparable, understandable and relevant to that of these countries, Saudi Arabia should also have already adopted them. • IFRSs were issued several years before SASs and Saudi Arabia should have adopted them earlier, at the same time as banks in Saudi Arabia did
<p>It is too early to implement IFRSs in Saudi Arabia because:</p> <ul style="list-style-type: none"> • IFRSs require the existence of a strong local accounting standards committee to work on the standards, understand what the appropriate standards are, make any adjustments required, and control the implementation of the standards in order to benefit from their implementation

6.6.1.2 Analysis of the Interview Results

Although there was debate amongst the interviewees as to the suitability of all IFRSs to Saudi Arabia, most of them believed that not all IFRSs were suitable for Saudi Arabia and that some SASs are still needed. All the interviewees from the banking sector believed that all IFRSs were suitable for Saudi Arabia. One CFO of a listed company was of the opinion that there was no religious problem with the adoption of IFRSs, at least from his point of view, as some conflict already exists in Saudi Arabia between Sharia law and SASs. One standard setter also mentioned that even the Zakat Standard in SASs has little influence by Sharia requirements, and IFRSs had more advantages than SASs as accounting standards in Saudi Arabia. One external auditor thought that it was better to follow the global trend and specify the main points of conflict with the Saudi environment in financial reporting and disclose their effects.

The interviewees also believed that SASs were essentially based on IFRSs and other standards. However, some believed that the Saudi environment had its own special characteristics, as all activities are informed by Sharia law, and that therefore some IFRSs were not suitable for Saudi Arabia, such as those standards which deal with interest and employ benefit standard. Moreover, according to the Ministry of Commerce, the use of the fair value system is limited in Saudi Arabia, and most IFRSs tend to use fair value.

Most of the interviewees believed that IFRSs should be adopted in Saudi Arabia. However, some of the interviewees thought that some IFRSs would have to be modified to meet the demands of the Saudi environment. The majority of the interviewees were

of the opinion that the adoption of IFRSs would move Saudi Arabia towards the global concept of accounting harmonisation, and as a result foreign investors would have no difficulty understanding Saudi financial reporting. The majority of interviewees were of the opinion that the advantages of IFRSs outweighed their difficulties and that Saudi pride did not mean that the effort put into SASs should be ignored, but that the public good should be paramount.

On the other hand, this study suggests that the interviewees were not all of the same opinion, as some were against the adoption of IFRSs in Saudi Arabia (two interviewees in particular). They were negative toward the adoption of IFRSs, expressing the opinion that SASs best serve the current situation in Saudi Arabia and that IFRSs would still be used in cases where there was no appropriate SAS. They thought it was too soon to implement IFRSs in Saudi Arabia because IFRSs require the existence of a strong local accounting standards committee with all the necessary resources to work on these standards, to understand what the appropriate standards are, to adjust them if needed, to provide assistance, and to enforce their implementation in order to benefit from them. External auditor 2 believed that SOCPA, with its current abilities, could not adopt IFRSs, and that this was one of the reasons for SOCPA to use IFRSs only in the absence of SASs.

Regarding the use of fair value, overall the interview results suggest that although most of the interviewees acknowledge the advantages of fair value over historical cost, there are great concerns by some of them about fair value measurement in Saudi Arabia and the present application of fair value. Some interviewees mentioned that due to the lack of measuring methods, such as the absence of an active market for the majority of assets,

the lack of qualified valuers and a controlling body, historical cost is still preferable. In terms of investment property, they did not believe that an active market existed, and to avoid individuals' assumptions, historical cost is needed. In Zakat, according to Sharia law, fair value should be used, but in view of the difficulties involved in measuring fair value, historical cost may also be applied. All the interviewees suggested that before Saudi Arabia begins to use fair value, the aforementioned issues should be addressed and resolved. Suitable guidelines should be provided to measure fair value and the information systems should be improved to assist in the provision of reliable information about assets to facilitate correct decisions being taken. Otherwise, historical cost should still be applied by making some modifications to IFRSs to suit the Saudi environment.

6.7 Conclusion

The purpose of this chapter is to report the results of the questionnaires and interviews. It began by describing the responses of accounting users regarding accounting needs in Saudi Arabia. Moreover, the views of external auditors regarding issues of accounting were reported. After this, problems, difficulties and cultural issues that may be a barrier to the adoption of IFRSs were described. Finally the benefits of adoption and factors that will influence or benefit from adoption were reported. This chapter presents the results from both questionnaires and interviews separately. In the next chapter the results will be combined and discussed in greater depth in order to answer the research questions.

7 Discussion of Results

7.1 Introduction

This chapter discusses the combined results of the two different research methods, i.e. questionnaires and interviews, which were used to explore the suitability of IFRSs to Saudi Arabia. The results from these methods were described in the previous chapter (Chapter Six). This chapter is organised as follows: section 7.2 examines and discusses the main accounting users in Saudi Arabia and their accounting needs, as well as respondents' views about the suitability and adoption of IFRSs in Saudi Arabia. Section 7.3 discusses the cultural issues that may act as barriers to the full adoption of IFRSs in Saudi Arabia. Section 7.4 explores the difficulties and costs that other listed companies in Saudi Arabia may face during the transition to IFRSs. Section 7.5 discusses the benefits that may result from the adoption of IFRSs.

7.2 Accounting Information and Standards Needs in Saudi Arabia

This section presents the findings of the study regarding the main users of accounting in Saudi Arabia and their accounting needs. The section first identifies the main users of companies' financial reports and then discusses these users' needs. The suitability of IFRSs to Saudi Arabia is then examined, followed by a discussion of parties who may influence, and benefit from, IFRS adoption in Saudi Arabia.

7.2.1 Accounting Needs in Saudi Arabia

7.2.1.1 Users of Companies' Financial Reporting in Saudi Arabia

The literature review shows that financial reporting should provide useful information for users to help them make their decisions (FASB, 1978). This objective remains a target of the IASB (IASB, 2009)³¹. Some researchers believe that investors and creditors are the most important users of financial reporting (Tan, 2005). However, according to Islamic accountability framework this is not the case in an Islamic society as all users, including society, should be considered, and it is therefore important that accounting information be disclosed to society as a whole (Ummah) (Lewis, 2001; Napier, 2007). Furthermore, all true and factual information, even information in the firms' disfavour (Napier, 2007), should be disclosed (as discussed in detail in 3.4.2). This implies that Saudi society represents an important stakeholder (Falgi, 2008).

The findings of this study indicate that the main user groups in Saudi Arabia are institutional investors, financial analysts, the Department of Zakat and Income Tax (a user group unique to Saudi Arabia)³², creditors, individual investors, the government, and academics in the accounting field (see Chapter Six).

However, the findings suggest, somewhat surprisingly, that accounting preparers in Saudi Arabia do not consider Saudi society to be among the main user groups of financial reporting, only two of questionnaire respondent (one from banks and one from

³¹ This was confirmed by a statement of IASB Chairman Sir David Tweedie to the Economic and Monetary Affairs Committee.

³² The DZIT represents a different type of user from Anglo-American accounting users, because Saudi Arabia is an Islamic country and it is a duty of all Muslims to pay zakat. As mentioned previously, the main objective of accounting from an Islamic perspective in Islamic societies such as Saudi Arabia is to enable every Muslim to determine the correct amount of zakat due (Gambling and Karim, 1991; Adnan and Gaffikin, 1997) (see section 2 for more details).

other listed companies) stated that Saudi society represents one of these main users.

Academic interviewee 2 commented:

“Unfortunately, Saudi companies usually fail to consider the interests of society, which is very important. There are only a few companies, such as the Abdulatefi Jammel Company, which try to discharge their responsibility of accountability to society (ummah).”

Some interviewees referred Saudi companies' ignorance of society's role to the lack of Saudi companies considering Sharia a priority, and the companies' inability or unwillingness to protect society's interests. Moreover, some interviewees mentioned that there is an absence of regulations helping to protect society's interest, particularly in view of the fact that society does not have the power to protect its own interests in Saudi Arabian companies. It may be suggested, then, that although Saudi companies attempt to follow sharia requirements, they may still conflict with it in ignoring the society's interest and then the practice the accountability framework is limited (see section 7.3.1.1.2.2 for more detail). Moreover, the finding may suggest that Saudi companies added the DZIT as one of their main users because they recognise them as a main group, not for social reasons but because the DZIT has more power and authority than the other groups.

7.2.1.2 Users' Needs from Financial Reporting in Saudi Arabia

7.2.1.2.1 The Need for More Disclosure and Transparency

As noted in section 7.2.1.1 all Saudi companies should disclose all information that serves accounting user needs (see Chapter Three for more detail). However, this study suggests that even though they are recognised as primary users by preparers, most primary users in Saudi Arabia, such as those who represent the private sector (e.g.

financial analysts and fund managers), suffer from a lack of disclosure and transparency on the part of companies on the Saudi stock market. Financial analyst 2 commented:

“In Saudi Arabia, as private institutional investors, we have difficulties in finding appropriate disclosure, which is not the case with other investors who have power and can protect their rights, such as the DZIT and all government institutional investors.”

Financial analyst 1 and Academic 1 mentioned that the only companies that provide better information, and particularly disclosure, were those which implement corporate governance guidelines. Only the banking sector has good implementation of a corporate governance system, in contrast with companies in other sectors such as the services and industry sectors (Hussainey and Alnodel, 2008). These companies represent fewer than 7% of companies on the Saudi market (Tadawul, 2010). Therefore, it may suggest that the rest of the companies do not provide sufficient disclosure for users.

The two interviewees added that although there is insufficient disclosure, disclosure had nonetheless improved in the previous two years, perhaps because the Capital Market Authority (CMA) had been established. In this regard, financial analysts may obtain extra information from the CMA as well as from companies' financial reports. The CMA assists financial analysts in obtaining information relevant to making investment decisions, perhaps because they believe that this will help improve and develop the Saudi stock market. Financial analyst 1 mentioned that when the CMA was established in 2003 they started encouraging companies listed on the Saudi stock market and monitoring their disclosure; as a result, information for investors began to increase³³.

³³ Since their establishment the CMA have been trying to ensure companies on the Saudi stock market continue to enhance disclosure and implement regulations. They also penalize companies that do not disclose and update relevant news. In addition, they attempt to organise workshops and conferences, and try to protect investors from any unfair manipulation in the Saudi stock market (CMA, 2009)

However, the interviewees also wished that regulating bodies in Saudi Arabia would work more closely together and attempt to improve disclosure for investors. Academic 2 stated:

“The CMA should also work more and closely with the Ministry of Commerce to update accounting regulations and oblige companies in Saudi stock market to implement the regulations that help investors in the Saudi stock market to make their decision.”

In summary, with improvements in terms of disclosure since the establishment of the CMA, most of the participants (users) of this study were still dissatisfied with the current levels of disclosure and transparency in practice (see Chapter Six for user requirements). This finding therefore leads us to think that some of Gray’s (1988) dimensions may explain present accounting practice in Saudi Arabia. However, this model essentially conflicts with Islamic theory and Sharia requirements (see Chapter Four). The above finding therefore suggests that full disclosure, which is important from the Sharia perspective (see Chapter Three), may be limited. This finding is not strongly consistent with the decision usefulness framework adopted by some bodies, including SAMA, SOCPA and CAM, which are responsible for controlling and enforcing accounting regulations³⁴. Thus, this may suggest that users’ ability to make suitable decisions will be impacted. It may also suggest that current levels of disclosure and transparency are associated with accounting preparers, but not with users’ preferences. Therefore, it can be suggested that preparers disclose information based on their interest, even to those users that have power (DZIT), as greater disclosure leads to competitive disadvantages (see section 7.4.4). Therefore, it can be said that accounting

³⁴ According to article 45 of the Law of the Capital Market (2004), issued by the Capital Market Authority, all information that may affect the future development of companies and businesses must be disclosed, as must any information necessary for investors and their advisers to assist them in making decisions.

preparers have more ability than accounting users, in order to protect their interests and have a greater ability to lobby accounting regulations at present in Saudi Arabia (see Chapter Two for a discussion about their influence and interests).

However, comparing banks' financial reports prepared under IFRSs (under the auspices of SAMA) and those of other listed companies prepared under SASs (for which SOCPA is responsible), accounting users agreed that financial reports prepared under IFRSs provide more information than those prepared under SASs. Thus, most users prefer financial reports prepared under IFRSs; this seems to imply that SAMA is a stronger and more capable regulatory body than SOCPA (this will be discussed in greater detail in section 7.4.4) or IFRSs are better. However, the question that arises is whether these standards are appropriate for Saudi Arabia, as it is a developing country in which accounting needs may differ from those in developed countries, as accounting needs are related to various factors, such as culture, society and so forth. Section 7.2.2 discusses the suitability of IFRSs to Saudi environments.

7.2.1.2.2 Financial Reporting for Zakat Purposes (Religious Duty)

According to prior literature and as an Islamic duty, accurate and truthful Zakat figures are important in Islamic society, and this is not strictly for economic purposes, like taxes (Taheri, 2000; Ibrahim, 2000) (see Chapter Four for more detail). Most participants suggested that financial reporting serving religious purposes is important in Saudi Arabia as an Islamic country, as opposed to current financial reporting, which prioritizes economic purposes over religious ones.

Respondents from the DZIT mentioned that although the DZIT has the power to acquire what information they want as they are part of the government and are a government agency, the DZIT still faced difficulties from listed companies during the process of calculation. This result suggests that Sharia law is not considered a priority, in particular regarding Zakat payments in listed companies' financial reporting, and economic purposes being favoured over Sharia, thus giving rise to conflicts with Zakat purposes. Appendix 5 shows an example of one company who, based on its calculation, paid only 743,927 SR. However, According to the DZIT the correct amount of Zakat should have been 2,547,620 SR. One DZIT interviewee mentioned that as an example, listed companies deal with amortisation in ways that may differ from the Department of Zakat and Income Tax's stance on the matter, which decreases the amount of Zakat they should pay. Therefore, some respondents suggested that listed companies in Saudi Arabia should have separate financial reporting for Zakat purposes, based on the correct Zakat standard.

External auditor 4 stated:

“Accounting standards that exist in Saudi Arabia have no relationship to Sharia law. For example, in the setting process of SASs, Sharia law is not considered at all and the Zakat standard is only to help clarify and simplify things for the reader. As a result, listed companies and banks in Saudi Arabia, when they prepare financial reporting, do not consider the specificities and requirements of the Department of Zakat and Income Tax and so the Department of Zakat and Income Tax does its own calculation.”

One respondent expressed the opinion that banks should publish two forms of financial statements, one for Zakat purposes and one for stakeholders' purposes, as in the USA, where companies issue two forms of statements, one for SEC filing and one for the IRS (Internal Revenue Services Department), as these have different accounting methods.

This accounting need will be discussed in section 7.3, with a view to discovering whether the current accounting system in Saudi Arabia serves this need and to what extent this need may act as a barrier to the adoption of IFRSs.

7.2.2 The Opinion of Respondents Regarding the Suitability of IFRS Adoption for Saudi Arabia

The majority of respondents to both questionnaires and interviews support the adoption of IFRSs in Saudi Arabia, as these standards would better satisfy the country's accounting needs. Moreover, respondents agreed that IFRSs have desirable advantages over SASs. However, some respondents still think that not all IFRSs are suitable for the Saudi Arabian environment because some of these standards may be difficult to apply (see the discussion of problematic standards in section 7.4.4) or, at least in theory, may not be compatible with Saudi culture or Sharia (the next section will explore this issue) or may conflict with commercial law.

The present study appears to suggest that the level of agreement regarding respondents' support for IFRS adoption does not in fact reflect a perception that all IFRSs are suitable for the Saudi environment, but rather exists because respondents felt that local users' needs (48% level of agreement) and Islamic principles (46% level of agreement) do not have a great influence on SASs at present. Some interviewees mentioned that some features or specifications for Saudi Arabia as an Islamic country would not present problems. For instance, the CFO of Listed company 3 was of the opinion that there was no religious problem, at least from his point of view, that would conflict between Sharia law and IFRSs (see section 7.3 for more detail). Moreover, one standard setter also believed that even the Zakat Standard in SASs has limited influence by

Sharia requirements, and IFRSs had more advantages than SASs (for those benefits see section 7.5).

7.2.3 Parties that will Benefit from the Adoption of IFRSs in Saudi Arabia

It has been argued that IFRS adoption by developing countries may happen because of the relevance of these standards to financial accounting, or because of financial reporting requirements to provide investors with necessary accounting information, but that the accounting profession in developing countries may face great constraints in their adoption (Peasnell, 1993; Chamisa, 2000).

The finding suggests that there is overall agreement on the adoption of IFRSs in Saudi Arabia may contribute to making more information and more detailed disclosure available in general. However, external parties (e.g. FDI, MNCs and big accounting firms) will benefit more from IFRS adoption than internal parties (e.g. local needs and Islamic principles). In this regards the questionnaire results indicate that there were significant differences among respondents from banks and other listed companies regarding the benefit of the adoption of IFRSs to local users' needs ($p = .002$). Other listed companies reported a high level of agreement, in contrast to respondents from the banking sector, who showed a low level of agreement; most of them were 'indifferent'. One interviewee stated that this may be because respondents from listed companies thought that IFRSs may provide more disclosure than the SASs currently used by all listed companies. Moreover, some interviewees from the banking sector believed that the benefit of IFRSs depends on users' education level and their familiarity with and understanding of IFRSs. The CFO of Listed company 3 also believed that most financial reporting users would not notice the changes in financial reporting if accounting standards changed. (More detail in 7.4.4)

The majority of respondents mentioned that the increase in FDI was one of the greatest benefits of the adoption of IFRSs in Saudi Arabia and at the same time the greatest influence on their potential adoption in the country. Financial Auditor 1 stated:

“I’m not saying that Saudi Arabia must adopt IFRSs, but as I told you before, it will help when foreign investors come in as obviously their understanding is of international standards. As more people go into bonds (SAKOK) issues increasingly you will need to use accounting frameworks which are understood widely around the world than use Saudi Arabia standards. Because if a company SABC³⁵ goes and issues a bond (SAKOK) in the international market, they need to prepare financials that are understood more widely in the world than those based on Saudi accounting standards.”

Some prior studies argue that many developing countries have recently attempted to attract international investment and are therefore unlikely to set accounting standards which, although they may be suitable for the country’s requirements, could deter foreign investors. In Cooke and Wallace’s view (1990, p.102), it is likely that developing countries will react to the requirements of foreign companies wishing to invest in them, which may imply that developing countries are dependent on multinational companies from developed nations. This is the case at present in Saudi Arabia³⁶, as it currently has the best environment for FDI of all Middle Eastern Arab countries; it attracted FDI of approximately US\$38 billion from MNCOs in 2008, compared to 2003, when FDI was US\$14 billion (see figure 7.1). This may explain SOCPA’s 2001 decision to use IFRSs in companies listed on the Saudi stock market in cases where there are no appropriate SASs. Following SAMA’s decision to fully adopt

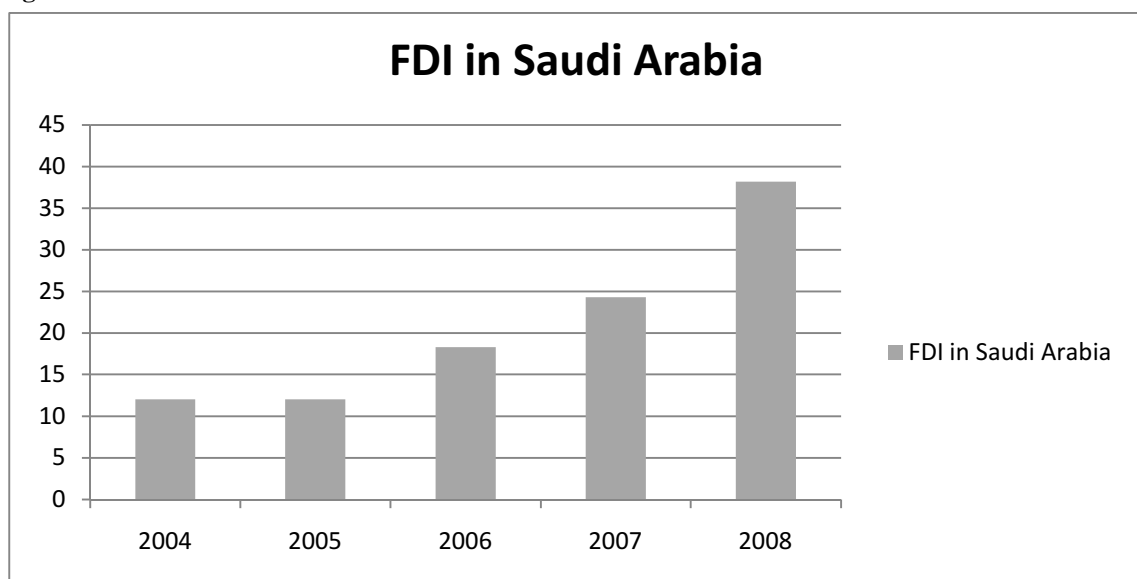
³⁵ This company is one of the biggest companies on the Saudi stock market.

³⁶ However, Saudi Arabia is rich country and some may suggest that it needs FDI as it tries to move from an oil-based economy to a more diverse economy, and it needs increased FDI in other sectors, because the population is increasing. Moreover, the government is also trying to privatise wholly or partly its owned entities, opening new windows for FDI (SAGIA, 2006).

IFRSs in all financial institutions in Saudi Arabia, these two decisions met with strong agreement from the respondents of this study (more than 80% level of agreement on both decisions), which suggests that the majority of respondents prefer the adoption of IFRSs. This was confirmed by the interviewees from the banking sector who mentioned that the adoption of IFRSs by SAMA happened for international reasons, such as attract of FDI.

The findings then suggest that economic consequences will cause Saudi Arabia to adopt IFRSs because the Saudi Arabian government is paying greater attention to attracting FDI. Moreover, it would provide the financial reporting required by FDI, regardless of local users' needs, as these needs are not taken into great consideration by accounting regulators. It appears from the findings presented in the next section (see section 7.3) that religious factors and local needs have limited influence on SASs; this will also facilitate the adoption of IFRSs in that economic factors are more influential than religious factors that culture shape factors when choosing accounting standards in Saudi Arabia.

Figure 7-1 Growth of FDI in Saudi Arabia from 2004 to 2008



(Source: United Nations World Investment Report, 2009)

In addition to the benefit of IFRSs adoption to FDI, most respondents suggest that international accounting firms and multinational companies will benefit from the full adoption of IFRSs and at the same time have great influence on their adoption. According to Hove (1986), these firms provide training programmes and offer scholarships to local people in the firms' home countries. Most of the interviewees indicated that the influence of IFRSs comes from the fact that they are international and are used in more than one country.

Moreover, some interviewees mentioned that these firms prefer to deal with the same standards in different countries so that the training of their staff may be the same and employees can move across various countries without encountering any issues arising from a variation in accounting standards. Prior studies have indicated that international auditing firms are significant channels for developed countries to transfer their accounting technology to, and influence the accounting practices of, developing countries (Perera, 1989a; Briston, 1990; Rahman et al., 2002) (see Chapter Two for more detailed discussion). As a result, they can have an impact on accounting practices and also influence the choice of accounting standards in Saudi Arabia. In Saudi Arabia, the Big Four in particular will benefit from the adoption of IFRSs as there is a lack of knowledge about these standards among most Saudi accountants (see 7.4). Hence, the Big Four will be in a position to increase their income by offering training services, consultancy and so forth. This could be interpreted as one of their primary motivations for supporting IFRSs, (see Chapter Two for their motivations for lobbying accounting standards).

It can also be seen that there is a relationship between FDI, MNCs and big accounting firms, as they may work together toward the adoption of IFRSs. Some have argued that investors desire and have more confidence in the reliability of financial statements audited by international accounting firms affiliated with one of the big IAFs than in those audited by local accounting firms without such an affiliation (Al-Mudhaf, 1990; Joshi and Ramadhan, 2002). This may explain SAMA's requirement that at least one of the external auditors appointed by the Saudi banking sector for financial reporting be from one of the Big Four firms.

To sum up, it seems that the accounting system in Saudi Arabia may be driven by foreign investment needs rather than accounting needs. This result confirms other results in this study that indicate that influence of local users' needs and Islamic principles on the development of SASs is limited. At the same time, local users' needs and Islamic principles seem to have limited influence on or benefit from the adoption of IFRSs, as discussed above and as will be discussed next, but one of advantages of IFRSs is to increase the level of disclosure in general, this may serve local user needs (see section 7.5). The above findings therefore little consistence with accounting objectives in Saudi Arabia as an Islamic country (see Chapter Four), and with Islamic theory (see Chapter Three), whereby accounting should provide full disclosure and serve local needs, particularly religious requirements such as Zakat (Lewis, 2001).

7.2.4 Summary

This section answered the first question (*What are the needs of users of accounting information in Saudi Arabia?*) and second research question (*Which standards (IFRSs or SASs) can meet the needs of accounting users in Saudi Arabia from the perspective*

of the respondents?). Moreover, this section contributes to answering research question 5.1: *What parties can gain greater benefit from the full adoption of IFRSs in Saudi Arabia?*

This study suggests that the main accounting need in Saudi Arabia is financial reporting that contributes to increasing the level of disclosure and transparency in the financial reporting of companies on the Saudi stock market, compared with the current situation. Furthermore, the findings of this study support the adoption of IFRSs in Saudi Arabia as a possible contribution to solving this problem. At the same time, IFRSs may be the main accounting need for FDI, which has increased in Saudi Arabia. Moreover, the results suggest that accounting users need financial reporting that provides useful information for Sharia requirements, such as the preparation of figures for Zakat purposes; the current accounting system does not reflect this need.

However, although the findings suggest that at present the influence of the Islamic factor on SASs is limited, some respondents think that not all IFRSs are suitable for Saudi Arabia, and that some of these standards need to be modified, as they may be difficult to apply at present (see section 7.4.1) or may conflict with the Ministry of Commercial Law (see section 7.4.2). Moreover, some participants believed that Saudi Arabia is an Islamic society and its interests must be considered. Some participants mentioned that some standards, such as Zakat standards, should base on other standards such as AAOIFI, which are set only for Islamic transactions (Abuhmaira, 2006), particularly as SASs may fail to serve these needs (see section 7.3).

This result contributes to understanding the factors that influence the national accounting system in a developing country such as Saudi Arabia, and to what extent this system is able to serve local user needs. This result also contributes to a better understanding of factors influencing the adoption of IFRSs in Saudi Arabia and provides an opportunity to assess their appropriateness to the needs of Saudi Arabia as a developing country, and to what extent these standards provide enough user information, compared with national accounting standards.

7.3 Cultural Issues

This section discusses cultural issues as a potential barrier to the full adoption of IFRSs in Saudi Arabia. The discussion will begin by examining the role of Sharia law in the accounting standards and in practice in Saudi Arabia and whether it may represent a barrier at the present time or not. After this, the language problem and other cultural issues, such as Saudi pride and accounting illiteracy, will be discussed. This section will also discuss the Islamic accountability framework in Saudi Arabia according to the findings of this study.

7.3.1 The Extent of the Role of Sharia in Business Transactions and its Influence on Accounting Standards in Saudi Arabia

It is clear from the literature (see Chapter Four) that Islam may be a factor influencing accounting regulations in Islamic countries such as Saudi Arabia. It may also produce accounting systems in these countries that are quite different from accounting systems in developed countries where this factor does not exist. The main objective of accounting from an Islamic perspective in Islamic societies is to enable every Muslim to determine the amount of Zakat they owe, and to put into practice the Islamic

accountability framework, as described previously (Gambiling and Karim, 1991; Adnan and Gaffikin, 1997). The Department of Zakat and Income Tax was identified as one of the most significant users of financial reporting, and one which wields considerable influence due to its governmental authority (see section 6.2.1.1). Accounting needs in developing countries may be different from those in developed countries, because of cultural differences and other factors (see Chapter Three). As a result, accounting standards influenced by developed countries' needs, such as IFRSs, may not be suitable for Saudi Arabia.

However, the findings suggest that the Islamic factor will not represent a barrier to the adoption of accounting systems from developed countries, such as IFRSs, for several reasons. First, this study suggests that the influence of Sharia law on business or accounting practices is limited. One example of the limitation of the role of Sharia in Saudi Arabia's accounting system is that interest (or *riba*, which may also be translated as usury) exists in some of Saudi Arabian listed companies' transactions. Moreover, SASs have a limited consideration of Sharia law and the existing accounting system has a limited ability to provide accurate information for Zakat. In addition, the influence of developed countries has become apparent in the regulation of business and accounting systems in Saudi Arabia, which may facilitate the adoption of IFRSs. All of the above points will be discussed in the next section.

7.3.1.1 The Limitation of the Influence of Sharia Law on Accounting Regulations

7.3.1.1.1 Interest Issues (Riba)

This study has shown that transactions involving interest do occur. First of all, interest exists in some Saudi bank transactions. Questionnaire respondents from the banking

sector agreed that some of their transactions involved interest (see Table 6.5). All the interviewees also confirmed that some of banking transactions are influenced by interest.

Moreover, although Saudi banks attempt to follow Sharia requirements, some of the banks, including those that represent themselves as being completely Sharia-compliant deal with interest but differ from other banks by giving the interest to charity³⁷. An interview with the CFO of one such bank confirmed that this bank also dealt with interest; firstly through transactions between this bank and other banks outside and inside of Saudi Arabia, and secondly through some transactions taking place between this bank and some of its customers who made late payments. The CFO of this bank mentioned that his bank does not apply interest to customers at the beginning of a contract, but a penalty (as he called it) is applied to customers who do not repay on time at the agreed-upon time. He commented that:

“...if it is the case of interest, if you are a Sharia-compliant bank you don’t earn interest. Any interest that you get is immediately purified. It is not even taken into the bank’s P and L; it straight away goes into a charity account. Even if because of a mistake of the other party being late for months in making a payment to us and because of that he’s paying us interest, even that interest we don’t take. That interest is also immediately taken into purification, for charity.”

When the researcher asked whether applying interest to late payments, even if they were a mistake on the part of the customer, may lead the bank to be the same as traditional banks, the CFO mentioned that his bank does not give loans with interest whereas other banks do, and that interest charged in cases of customer error is given to charity. It was noticed that this interviewee tried to avoid providing direct answers on

³⁷ However, compared with other Saudi banks it seems that this bank pays more attention to applying Sharia law in their transactions.

the topic of interest. This may indicate that the topic is sensitive for him as he may want to avoid giving any answers that harm the bank. It could be suggested that if this bank represents itself as an Islamic bank, it should work completely according to Sharia and use the complete Islamic form for its trade, avoiding the application of any additional payment that is forbidden by Sharia law.

In addition to the above, another issue raised in this study was that, perhaps surprisingly, even though interest is involved in transactions of Saudi listed companies, many users do not know the extent of that involvement, or may indeed be entirely unaware of its existence, as all the interviewees from the banking sector mentioned that they made disclosures about interest rate under a different name, that of “special commission”. Interviewees indicated that the change in terminology from ‘interest’ to ‘special commission’ is because in an Islamic country (Saudi Arabia) the word ‘interest’ may attract people’s attention. This suggests that these banks try to hide the fact that they deal with interest from most people; their actions show that the substance and the form of their work differs. The CFO of Bank 2 stated:

“In Saudi Arabia, you are not allowed to use the word interest, at all, even if there is some. We show “special commissions”. That’s what we say. The word interest is not mentioned in any financial statement. You will never see that in any bank in Saudi Arabia. Special commission or special rate commission is what we say”

The findings suggest that there is indirect³⁸ legal prohibition against using the word ‘interest’ that might suggest that the regulators (SAMA) are complicit in the deception that influences accounting users’ ability to know whether interest exists or not. This

³⁸ There is no directly related article in SAMA’s system, on their website, or any directly related document sent to the banks (as interviewees mentioned) regarding changing the term ‘interest’. This may suggest that this guidance was given indirectly through meetings or via email, etc.

reflects the weakness of accounting regulators in discharging their responsibility according to the accountability framework (See Chapter Three). It may be argued that enforcement is not considered overly important in Islamic law, because of the ultimate accountability to Allah (see David and Brierley, 1985). However, in a country like Saudi Arabia, whose legal system is based on Sharia and which uses the holy book (Quran) and the Sunnah (the habits of prophet Mohammed) as guidance, enforcement is important, as emphasised in some verses of the Quran such as: “*And let there be [arising] from you a nation inviting to [all that is] good, enjoining what is right and forbidding what is wrong, and those will be the successful.*”(Quran 1:104).

Furthermore, in reality the regulation of business and accounting in Saudi Arabia is not highly influenced by Sharia law. The implication of the comments made by the questionnaire respondents and the interviewees is that SASs have limitations in reflecting Sharia requirements. The results of the questionnaires indicated that 54% of respondents from all samples agreed that Islamic principles limited influence on the development of SASs. Some of the interviewees mentioned that listed companies in the Saudi stock market whose transactions may involve interest were considered by standard setters as providing accounting treatments for interest income from loans. This result is consistent with the studies of some Muslim scholars, such as Al-osami (2009), who compared loan policies when new companies began to be listed on the Saudi stock market and their shares became available to the public. He found that some listed companies still had loans with interest; therefore, he considered that the investment in these companies is *haram*³⁹. CFO 3 of the other listed companies stated:

³⁹ Moreover, in 2009 (1430H in the Islamic calendar) Al-osami updated the list of companies that conformed to Sharia, investment in which was therefore permitted by Sharia (*halal*), and found that only 31 out of 133 companies (23%) on the Saudi stock market made their transactions according to

“Companies in Saudi Arabia involve interest in some of their transactions, and as a result some SASs deal with the cost of loans.”

However, present study suggests that as it is prohibited to charge or receive interest according to Sharia law, the banks and other listed companies are at fault for using interest. It may suggest that the political nature of accounting preparers and regulators is clear as they attempt to lobby and influence accounting regulations from economic motivations, regardless of users’ interests and the demands of society and culture. However, this should not be the case because Saudi Arabia uses Sharia law as a guide and all companies should fear sanctions for breaking Sharia law as they will be accountable to Allah (See 3.4.1 in Chapter Three).

Thus, this study suggests that the role of Sharia in the practice of accounting regulation in Saudi Arabia is solely a matter of effort on the part of individuals; this also depends on the individuals’ knowledge of Sharia law⁴⁰. For instance, SASs appear to be influenced by the extent of the individual’s religious beliefs. As a result, the degree of consideration given to Sharia requirements during the process of setting SASs may differ from one member to another, depending on who is in attendance at each meeting. Standard setter 2 confirmed that there is a conflict between SASs and Sharia law as SASs impose a calculation of interest for capital leases. When asked to elaborate, he

Sharia law. However, he also mentioned that it should not be understood that none of the transactions of these 31 companies involve interest, as all of these companies deal with banks in Saudi Arabia and have transactions with banks whose transactions are still a matter of debate among scholars in Saudi Arabia (<http://www.halal2.com/main.asp?id=73>).

⁴⁰ When issuing accounting regulations within the body or regulator, all participants may differ as some attempt to apply all Islamic principles while others may think that it is not important to apply all of them as each individual has different views regarding how Sharia deals with this issue. Moreover, some people may be influenced by other cultures and think that Sharia principles should not apply to accounting regulations or even to business (some may believe that Sharia should apply at the mosque but nowhere else).

replied that SASs should serve the Saudi environment and be associated with Sharia law but added:

“As you know, we are human and each person has a different concern for Sharia. SASs are issued and influenced by the people who are at a certain meeting because at each meeting there may be different people in attendance.”

He also added that anything concerned with interest is in conflict with Sharia law.

In summary, regarding interest issues, this study suggests that interest exists in the transactions of some companies on the Saudi stock market and that the role of Sharia in business practice in dealing with interest is not consistent with the religious beliefs of Saudi society. Therefore, any conventional accounting systems influenced by developed countries' accounting needs, such as IFRSs, may be no less suitable accounting practice for companies' transactions in the Saudi stock market than SAS, at least for the present. Also, IFRSs dealing with interest will not be barriers to the adoption of IFRSs in Saudi Arabia. However, the accounting systems of developed countries, such as IFRSs, may not in theory suit developing countries, particularly Saudi Arabia, where the culture is shaped by Islam (see Chapter Three).

It has been suggested that the reason some regulations allowing interest exist is because some accounting regulations in Saudi Arabia were essentially based on those in some developed countries, such as France, the UK and the USA. Interviewee 2 from the DZIT mentioned that *“regulations of Zakat and income tax were based on Scottish, German and French laws and the system is old and has not been updated yet.”* Al-Mehmadi (2004) found that banking laws in Saudi Arabia were closer to laws in some developed countries, such as France, which allow dealing with interest. In addition, banks in Saudi Arabia deal with interest and also represent the main creditors for other

Saudi listed companies on the Saudi stock market which apply interest from loans. Hence, IFRSs used in developed countries may also be used in Saudi Arabia without this system being considered irrelevant at this time because of the similarities between Saudi Arabia and developed countries in accounting practice in terms of interest. Some researchers mention that the similarity of the social environment in developed and developing countries is one of the factors supporting the adoption of IFRSs in developing countries (Briston, 1978; Chamisa, 2000). This is the case at present in Saudi Arabia.

7.3.1.1.2 The Limitation of the Accounting System in Meeting Society's Accounting Needs

7.3.1.1.2.1 Zakat or Islamic Duty

This section discusses Zakat issues, and the limitations of Islamic accountability which is necessary in Saudi society.

Although a traditional balance sheet is not suitable for Zakat purposes (Napier, 2007), this study finds, somewhat surprisingly, that the specifications for Zakat currently in practice in Saudi Arabia do not represent barriers to the full adoption of IFRSs, for several reasons.

Firstly, it seems that the existing Saudi standards for Zakat do not provide sufficient information for DZIT requirements. In addition, with the absence of a real standard or special financial statement for Zakat purposes, the DZIT only uses financial reports from Saudi companies as a starting point. Most of the questionnaire and interview respondents were of the opinion that the SAS only stipulates where the amount of Zakat must be disclosed. The CFO of listed company 1 mentioned that the SAS, for Zakat

purposes, involves only how to present and disclose accounting information but does not concern itself with Zakat or interest. Moreover, one standard setter stated that:

“Unfortunately there is no real standard for Zakat, as Zakat is paid on income and this is wrong. Zakat should be from wealth and tax from income.”

Secondly, the results indicate that the adoption of IFRSs in Saudi Arabia might contribute to achieving some of the purposes of Zakat. For example, IFRSs are oriented to use fair value over historical cost, which means essentially that all items for Zakat purposes should be recorded according to fair value (Maali et al., 2006). The interviewees from the DZIT believed that with the use of fair value the DZIT’s income may increase, and the use of fair value is more accurate and preferable over historical cost from the point of view of Sharia. The CFO of listed company 2 mentioned:

“Zakat standards in SASs use historical cost, whereas for Zakat purposes and according to Sharia, fair value should be used”

Finally, the limitation of the influence of Sharia rules on SASs implies that the use of SASs or IFRSs in Saudi Arabia is the same as far as Sharia purposes are concerned. However, at least the adoption of IFRSs may lead other listed companies in Saudi Arabia to enhance their disclosure. The CFO of Bank 3 added:

“IFRS have been developed for conventional banks but indirectly they may help conventional banks to enhance their Sharia compliance because they will help to give a good disclosure. The Sharia Committee will see more details and they will see exactly what you are doing.”

External auditor 2 stated:

“Islamic accounting standards do not exist theoretically and practically in Saudi Arabia as in other Gulf Countries such as Bahrain, as they must be used for any Islamic banks. IFRSs and SASs are the same when it comes to dealing with Sharia requirements, and neither of them considers Sharia law when setting standards.”

On the other hand, one of the interviewees mentioned that the use of IFRSs in Saudi Arabia may lead to issues between the DZIT and companies that use finance leases. External auditor 2 indicated that at present, in practice, financial leases lead to the main conflict between Sharia and IFRSs. The items classed as receivables in IFRSs are required to be disclosed as assets according to Sharia. Moreover, IFRSs involve establishing amortisation at a fixed rate for long-term financial assets; this is not acceptable under Sharia law, which only permits selling them and making a profit. In addition, all evaluation of financial instruments is based on a discounted rate, so that future cash flow must be discounted at a fixed rate. However, under Islamic principles this is not permitted and it must be registered at present value without applying a discounted rate. Therefore, the registration of the financial lease as receivable under an IFRS is also subject to Zakat, according to the Department of Zakat and Income Tax. This affects all companies using this kind of contract, as they must pay corporate Zakat. This may be interpreted as a cost and benefit consequence, as adopting IFRSs would increase costs for these companies.

To sum up, it seems that the current accounting system and regulations in Saudi Arabia may not assist in providing accurate amounts of Zakat. Furthermore, SASs have limitations in serving one of the main users of financial reporting in Saudi Arabia (see 7.2.1.1) in calculating Zakat. These findings may suggest that the religious factor, which was discussed in prior chapters as an influence on accounting in developing countries, particularly Islamic countries, and a main difference between accounting systems in developed and developing countries, has only a limited influence on accounting systems in Saudi Arabia. Some suggest that accounting systems should essentially exist to serve Zakat purposes (see Gambiling and Karim, 1991) but this is

not the case in Saudi Arabia .As a result, IFRS adoption in Saudi Arabia does not represent a problem in terms of Zakat objectives as a religious duty. Moreover, adoption may help make Zakat calculations more precise by using fair value.

7.3.1.1.2.2 The Evaluation of Accountability Framework from an Islamic Perspective

It was argued that according to an Islamic accountability framework, companies which are represented by owners and managers are accountable to their stakeholders' interests, and they must protect those interests and disclose everything that may help them to discharge their accountability to society (Ummah) (Al-Jirari, 1996; Lewis, 2001).

However, it appears that listed companies in Saudi Arabia contradict the Islamic perspective of accountability. From the questionnaire results and interviews with individuals in the banking sector it seems that, firstly, some of their transactions involve interest, which conflicts with Islamic principles. Moreover, they do not provide appropriate disclosure by not giving interest its correct name or providing the amounts which would help users to make Sharia-compliant and appropriate decisions. This means that these banks do not to some extent disclose truthful information, which is significant in an Islamic context (Napier, 2007) (see 3.4.1. in Chapter three). As a result, they do not discharge their duty of accountability to accounting users.

In addition, although banks are trying to satisfy their customers by providing products associated with Sharia and having a Sharia committee that helps by giving approval for these products, the effort of banks to limit the use of interest seems weak. The CFO of Bank 2 adds: *“We have a Sharia board. They approve our products. Whatever we want to do on the Islamic side, we need their approval first and only then can we launch it.”*

However, some interviewees expressed their concern about these committees, as they may be influenced by the bank management, particularly in banks that are mainly family-owned, because the management appoints these committees. This implies that the type of ownership of Saudi Arabian banks may be reflected in the bank's transactions and the extent to which it follows Sharia requirements; it is possible that bank owners may put their interests ahead of these requirements. Moreover, some interviewees mentioned that the influence members of the Sharia board have on the approval of banks' transactions using Islamic products may differ depending on their understanding of Sharia law, regulations and requirements.

In relation to Zakat, this framework does not appear highly effective in practice either, as it should be in Saudi Arabian listed companies, according to Muslim beliefs⁴¹. From the findings, it appears that although the DZIT has the power to obtain the final amount of Zakat, they still have difficulties with some companies in Saudi Arabia, as sometimes companies do not accept the final amounts. This leads to long disputes and therefore it takes a long time for the amount of Zakat to be paid. The final amount might also not be paid correctly, which means that those companies (or managers) fail indirectly to protect the interests of, and discharge their duty of accountability to, society. Moreover, the findings suggest that accounting regulators pay less attention to providing an appropriate accounting system that helps determine the amount of Zakat (see section 7.3.1.1.2). This suggests that accounting systems in Saudi Arabia are limited in serving local needs fully.

⁴¹ Zakat is paid to poor people who are part of Saudi society (Ummah), and the DZIT is the only agency that can collect Zakat and control the process of Zakat calculation. Furthermore, Zakat information is needed more in Islamic society than in Western society. In addition, Islam is not recognized by limited liabilities and a company's liability is an extension of its owner's liability (Khan, 1994). Therefore, managers must supply the information that needed for society as whole and for Zakat purposes particularly.

It has been mentioned that members of Islamic society have a right to know all necessary information, even information that may negatively affect companies (full disclosure) (Napier, 2007). However, some researchers argue that not all information needs to be disclosed, but information that helps users discharge their accountability to Allah must be (Baydoun and Willett, 1997). This study suggests that listed companies in Saudi Arabia do not fully understand the borders of accountability as they do not at least acknowledge that Saudi society is one of main users and that they should protect its interests. In relation to the amount of information that should be disclosed according to Baydoun and Willett, the findings suggest that there is lack of information that is necessary from an Islamic perspective and which should be disclosed by Saudi listed companies. This may explain their views that the companies' financial reporting is geared toward those who have power like the government, or power within the government. This result provides strong evidence that the economic factor overrides the Islamic factor in terms of influence on Saudi accounting.

To sum up, although some listed companies in Saudi Arabia try to apply Sharia law and try to discharge their duty of accountability to Saudi accounting users and hence to Allah, the findings suggest that most companies in Saudi Arabia do not conform to Sharia law in some of their transactions and as a result they do not fully comply with the Islamic accountability framework. On the other hand, it can be seen that the political nature of accounting standards and economic consequences are most powerful in explaining the setting of SASs. Moreover, it can be seen that economic factors are more prominent than cultural factors in Saudi Arabia, which leads to an inappropriate accounting system.

7.3.1.2 The Changes in Saudi culture as National Cultures Converge

As mentioned previously, the culture of Saudi Arabia, which is shaped by Islam, differs from the culture of Anglo-Saxon countries where IFRSs were developed (see Chapter Three). However, in recent years the influence of other cultures has increased in Saudi Arabia and the convergence of cultures may facilitate the adoption of IFRSs. It appears that this influence has created a new culture (modern Saudi culture) in Saudi Arabia, which may supersede Sharia requirements. Modern Saudi culture is influenced by Western culture and this effect can be seen particularly in the younger generation. This influence may alter the culture at this level of Saudi society, as it leads to changes in dress, speech and attitudes. These changes can be caused by several reasons, such as studying abroad. Many parents send their children to study abroad, and they may stay outside Saudi Arabia for up to seven years, with the result that when they return they bring with them their experience of a different culture.

This appears to suggest that people who set accounting regulations are influenced by the cultures of developed countries, as many of these individuals were educated in such countries. Analysis of the backgrounds of the questionnaire respondents and interviewees (Tables 6.2.1 and 6.2.2 in Chapter Six) shows that some of these individuals have high qualifications from the USA or the UK. Another cause is the media, as currently there are very few people who receive only local television channels; the majority have many TV channels, including foreign ones, meaning that their children can see and listen to what they wish. These factors may apply to the introduction of new cultures into any society (Klausner, 2002). Moreover, the love of money and the desire to increase capital may even overcome Islamic principles in some

cases. Finally, there is a growing presence in Saudi Arabia of certain people known as “liberals”, who believe that the practice of Sharia should be applied only in the mosque and not outside it.

However, it seems that Saudi accountants adhere to legal forms of regulation, even if they were educated in Anglo-American countries with accounting systems that stress substance over form and adherence to principles rather than rules. As seen previously, most of the interviewees mentioned that banks in Saudi Arabia are not allowed to use the word “interest” and instead use the term “special commission”; however, interest exists in reality (see section 6.3.1.1.1). Interviewees from the banking sector indicated that they are regulated by SAMA and simply follow their regulator. Some of the interviewees stated that SAMA represents a father whose sons are the banks in Saudi Arabia, so banks should follow and pay heed only to SAMA. This may explain why questionnaire respondents from the banking sector were almost indifferent (the mean is 2.71) to the question of whether or not the balance sheet shows “disclosure of interest paid (if any), the reasons for this payment and the steps which should be taken to avoid such interest in future”. It was suggested that in theory SAMA members observe Sharia requirements in order to avoid society’s censure by changing the term for interest but in practice they do not care about those requirements at all.

This raises interesting questions as to why they have not adopted the ‘substance over form’ concept of both religious principles and what was learned in their Anglo-American education. This study suggests that economic considerations may override both cultural and religious needs, and education. As discussed previously, the role of education may contribute to the transfer of some of the features of certain developed

countries where capital plays the principal role and may affect regulation. Currently, Saudi Arabia, represented by the capital market authority CMA, is trying to attract foreign investors. Moreover, SAMA adopted IFRSs without any consideration for Saudi culture, which is essentially influenced by Islam, as this study finds that SAMA is looking for economic and capital advantages and is only trying to satisfy Saudi society by providing additional channels to provide Islamic products in Saudi banks.

Interviewees from the banks were asked why this was. They commented that they have branches outside of Saudi Arabia; moreover, they wished to enter international markets. On the other hand, they believed that they satisfied the requirements of Saudi users. This was consistent with the questionnaire results, which found that the main motivations for banks to adopt IFRSs were in order to enter international markets and because of insufficient national standards. The CFO of Bank 2 added:

“... in fact Sharia bankers issued Sharia-compliant bonds. So we can issue a bond which is for a conventional bank and we can issue a bond which is Sharia-compliant, so they can both sit together. The principles of conventional banking and Sharia-compliant banking are different. That is very clear, but they don't have to clash with each other, they can sit side-by-side.”

To sum up, it may suggest that the above discussion shows strong evidence of the ability of the SAMA group to protect their interest more than other interested parties (such as users) in Saudi Arabia, and their ability to lobby accounting regulations and standards.

7.3.2 Language Issues

Some researchers have found a positive relationship between countries where English is the main language and the adoption of IFRSs (Abedelsalam and Weetman, 2003). Chamisa (2000) and Hove (1986) argued that countries where Anglo-American culture

exists find the adoption of IFRSs easy. This is because the main language of the IASB is English. This ease may also be attributed to the Anglo-American influence on the development of IFRSs (Zeghal and Mhedhbi, 2006). In Saudi Arabia the official language is Arabic; however, since 2008 an official Arabic translation of IFRSs has been available.

From the findings it was noted that the majority of interviewees did not mention languages issues as a problem, and only a few questionnaire participants agreed that language is an issue. Participants who mentioned languages as a problem were from local accounting firms or the CFOs of small listed companies, in contrast to those from banks and the Big Four. One interpretation of this may be that individuals in the Big Four and the banking sector are well-educated and almost all of them speak good English. This is in contrast to local accounting offices, which do not have such resources and may therefore find IFRSs to be a problem. Moreover, it may also be suggested that languages are not a problem because of the issuing of an Arabic version of the IFRS by the IASB. This result suggests that the language issues involved in the adoption of IFRSs in Saudi Arabia will have more of an impact on local accounting firms, and local and small listed companies.

However, it does not mean that language issues will not be problem in Saudi Arabia, even with official versions prepared by the IASB, because there may be a time lag between the issuance of a new standard, updated standards or an interpretation and its availability in the national languages (Larson and Street, 2004). The most recent Arabic version of the IFRS released in early 2008 (IASB, 2010), which may indicate that all standards issued or updated to date have not been translated into Arabic. Hence, some

interviewees mentioned that an updated Arabic language translation was required from the IASB; otherwise, issues of translations would remain. External auditor 1 was of the opinion that IFRSs were very dynamic and regularly updated, so the Arabic translation must be updated to keep pace with changes, or there would be a gap between the English and Arabic versions.

“Although, English is widely used, it is not the official language of the Kingdom. Translating the standards will be an issue as well, since IFRSs are very dynamic and will change rapidly. Accordingly, the translation has to be updated at the same speed. Otherwise, there will be gap between the English and Arabic.”

Another problem with translations issued by the IASB is that they may be difficult to understand and may be of poor quality (Larson and Street, 2004). One external auditor commented that:

“.....Moreover, the translation of IFRSs is not understandable.”

He suggested that in Saudi Arabia people who do not speak English may find financial reporting difficult to understand, particularly as the English terms for some items are changed; for example, he mentioned that some users may be confused as the term ‘balance sheet’ was replaced by ‘financial position’. This view is consistent with studies reporting that despite the IASB’s effort to provide official translations of IFRSs for those outside Anglo-American culture, these countries were still less familiar with IFRSs (see Larson and Street, 2004; Zeghal et al., 2006).

It is also apparent from the findings of this study that local offices and small listed companies still suffer from language issues, particularly as they do not have adequate resources. In addition, prior literature suggests that the translation of accounting terminology, including the IFRS, is problematic (Evans, 2004; Douppnik and Richter, 2003; 2004, etc.; Dahlgren and Nilsson, 2009; see also Zeff, 2007). This is especially

likely to be case with Arabic translations, because Arabic is less closely related to English than, for example, other European languages. In addition, there are different varieties of Arabic spoken in different regions, with the same words often carrying different meanings. It is therefore possible that a single Arabic translation may not be understood or applied equivalently, at least not until definitions of technical terms are standardised. Further, Arabic translations are not updated frequently enough.

In addition, the language problem may appear in Saudi Arabia to a greater extent than in other countries because of the weakness of the regulatory body in dealing with the demands of the local offices or users who may be not sufficiently familiar with IFRSs, and who as a result need help with language issues (see section 6.4.4). For example, it was argued that in developing countries support mechanisms are needed to ensure that future changes to IFRSs and any related interpretations are updated in translation (Abedelsalam and Weetman, 2003). This means that those parties in Saudi Arabia presently face real problems with limited resources (weak enforcement body, financial and educated staff, etc.). Consequently, it may suggest that the effective implementation of IFRSs in Saudi Arabia by some listed companies may be questionable. This may lead to suggestions that some of the advantages of IFRSs mentioned by participants, such as increased disclosure, may be limited.

7.3.3 Other Cultural Issues

- **Saudi Pride**

Saudi national pride in SASs was also frequently mentioned, among other cultural issues in Saudi Arabia, particularly by respondents in the external auditors group. This may be because all respondents who mentioned it are from local accounting firms, and

some are non-Saudi. This issue was not mentioned by any of the respondents working for the Big Four accounting firms. Hence, it can be seen that the type of workplace may play a role and influence respondents' views as to the orientation of the adoption of IFRSs. Prior studies argued that culture factor influences the practices of company's financial reporting (see Perera, 1989b; Adams, 2002). Therefore, Because Big Four employees come from different cultures; each one may have a preference for certain accounting standards or may prefer accounting standards that are in use in their culture or home country. Another interpretation suggests that the Big Four will benefit from the adoption of IFRSs and their incomes will increase by providing such services to their clients in Saudi Arabia (See Chapter Three). This study finds that those who have the greatest influence on and will have the greatest benefits from the adoption of IFRSs in Saudi Arabia are the Big Four accounting firms (see section 7.2).

During the interviews this issue was also discussed with the interviewees, two of whom believed that this was one of the issues that could delay IFRS adoption, as they thought that Saudi Arabia would lose sovereignty by not having its own standards and using standards based on those of other countries. Both of these respondents were working as standard setters, so this opinion may reflect their pride in standards to which they contributed. They also believed that even if other standards are used as a basis, in the end the output was in Saudi Arabia's name. They also mentioned that the experience and culture of standard setting in Saudi Arabia would be lost. On the other hand, other interviewees thought that Saudi pride should not be an issue, but because some Saudi people are very nationalistic and unwilling to accept any change, particularly if it comes from outside Saudi Arabia, they thought that improvement and change would decrease such nationalism. Among the principal implications of such characteristics are the

dominant part played by friendship and family relationships, nationalistic bias, and an inherent lack of transparency in Saudi society (Al-Rumaihi, 1997).

Therefore, it can be suggested that continuing use of SASs in Saudi Arabia simply because of nationalism and the independence of having national accounting standards and accounting protectionism may lead to accounting differences and an inefficient capital market that cannot compare to the advantages of international accounting standards (Chandler, 1992; Hughes, 1999). Most of the interviewees suggested that decision-makers should look at this subject from the point of view of the advantages that IFRSs may bring to Saudi Arabia, which outweigh such issues as nationalism. It may be seen from the above that each group of participants (e.g. the Big Four) wishes to protect their interests and each group may look at the adoption of IFRSs in Saudi Arabia in terms of how they can benefit from the adoption.

- **Accounting Illiteracy**

The questionnaire respondents also mentioned that accounting illiteracy among the majority of financial statement users may be a barrier. This issue was mentioned five times by the external auditors group. However, other sample groups did not mention this issue. This may suggest that other groups do not want to show their lack of knowledge of IFRSs. Moreover, some of the interviewees think that there is a lack of knowledge on the part of accounting users in Saudi Arabia regarding accounting standards in general, whether IFRSs are in use or not, which reduces the pressure on the preparers of accounting standards regarding demands for more disclosure, and also leaves decision-makers to choose the standards in Saudi Arabia. Therefore, lack of

knowledge of accounting information between users may delay any changeover to IFRSs, or even the improvement of SASs.

One interviewee from a listed company also believed that some financial reporting users do not care much about financial reporting and will not notice the changes when accounting standards change. This may suggest that lack of user knowledge of accounting regulations leads regulators to specify accounting standards within the country according to their interests.

The findings suggest that accounting illiteracy in Saudi Arabia may refer to the deficiencies in in-depth accounting education. The CFO of Bank 4 mentioned that the understanding of financial reporting depends on the user's level of education. Some interviewees mentioned that most people in Saudi Arabia do not understand what accounting as a profession is and most of them think that accountants are merely "cashiers". As a result of this, it can be said that a lack of education and knowledge among users of accounting regulations in Saudi Arabia has led to an increase in accounting illiteracy, which may represent a cultural barrier for the adoption of IFRSs at present. Problems of education will be discussed later.

7.3.4 Summary

This section answered the third research question (*What are the underlying factors (cultural issues) that may influence the adoption of IFRSs in Saudi Arabia, and what issues might act as barriers to their adoption?*)

The results suggest that cultural issues acting as barriers to the adoption of IFRSs in Saudi Arabia include language problems, Saudi pride and accounting illiteracy. Prior literature suggests that conflict with Sharia requirements should have been identified as a main barrier; however, this study suggests that current accounting practices do not greatly comply with these requirements and that the influence of Islam on accounting regulations in practice is limited; as a result, any accounting system influenced by developed countries, such as IFRSs, may be applied at present in Saudi Arabia. Moreover, more Sharia-compliant accounting is needed in Saudi Arabia, as mentioned before (see section 7.2).

From the findings it seems that the implementation of an Islamic accountability framework is weak in practice, is not applied effectively and is not practised through the financial reporting of companies in the Saudi stock market. Political nature and self interest appear to have a strong impact on accounting practice, in addition to the dominance of economic factors over cultural factors in Saudi accounting regulations. From the findings it seems that there is a call for increased attention towards practicing the Islamic accountability framework through an increase in the level of disclosure and transparency. This result may conflict with some culture frameworks, such as the Hofstede-Gray framework, which suggests that Saudi Arabia (included within Arabic countries in this model) should have a secretive accounting culture; however, frameworks drawing on Islam (such as the Islamic accountability framework) suggest that there should be transparency. It can be suggested that these models (for example, Hofstede-Gray) may not be applicable to Saudi Arabia as Islamic accountability with transparency is required to override these models. However, at present accounting practice in Saudi Arabia is associated with some dimensions of these models.

Regarding the language issue, an official Arabic version of the IFRS is available. However, the findings suggest that language may still represent a difficulty in implementing IFRSs effectively in Saudi Arabia, particularly for those with limited resources, such as small listed companies and local accounting firms. This problem may be greater in Saudi Arabia because of the weak professional body providing assistance with related translation issues.

This result contributes to an understanding of the factors that influence accounting systems in a developing Islamic country that represents a major market in the Middle East (Saudi Arabia), and to what extent these factors support or form barriers to its adoption of IFRSs. This study also contributes to providing an understanding of the Islamic accountability framework with regards to current accounting practices in Saudi environments, and to what extent this framework dominates an Islamic country. Another contribution of this study is drawing attention to the misunderstandings in English-to-Arabic translations of IFRSs, which may influence the effective implementation of IFRSs by Saudi listed companies.

7.4 Problems and Costs that May Result from Applying IFRSs in the Saudi Arabian Environment

7.4.1 The Requirement of Professional Judgment in Applying IFRSs, and Problematic Standards

From the literature, it can be seen that the application of IFRSs in developing countries may require considerable effort, familiarity, and training in professional judgment

(Doupnik and Salter, 1995; Kosonboov, 2004). In addition, it has been pointed out by certain researchers that countries where accountants focus primarily on following rules may face difficulty in implementing IFRSs, and some time may be required before those accountants become familiar with IFRSs (Kosmala-Maclullich, 2003). This study finds that one of the main problems that other listed companies in Saudi Arabia may face is that Saudi accountants are unused to exercising professional judgment. This problem was a concern for some questionnaire and interview respondents. This suggests that this issue may appear more in Saudi Arabia than in some other developing countries, for educational and cultural reasons.

This study suggests that the education system may influence individuals' ability and judgement. Some of the interviewees attributed Saudi accountants' unfamiliarity with professional judgment to accounting education in Saudi Arabia, which is based mainly on US education programmes and materials, and focuses primarily on rule-based accounting and provides guidelines and detailed instructions. Moreover, US textbooks have been widely used in Saudi universities for a considerable period of time, with many of them having been translated into Arabic, as Academic 1 pointed out. Furthermore, IFRSs are not dealt with in Saudi universities (see Chapter Four for more details).

Culturally, ways of thinking influence professional judgment (Tyrrall et al., 2007). The findings of the present study suggest that part of Saudi culture plays a large part in this issue and contributes to the tendency not to make decisions based on judgement, as most people in Saudi Arabia are obedient to their leaders. As seen in the literature discussed in Chapter Four, Saudi society is divided into many tribes, and generally the

regulation of these tribes depends on the personality of the tribe's authority figure (Sabri, 1995). The members of the tribes should listen to him and take advice from him. This is in keeping with Hofstede's (1980) classification of Arab countries, including Saudi Arabia, as high power distance societies. Moreover, some interviewees mentioned that principle-based accounting may be related to personal ethics; however, as can be seen from the discussion of the role of Sharia law, accounting preparers tend to prioritise economic purposes over religious ones. This may suggest that judgment may be influenced by personal priorities.

Some interviewees mentioned that professional judgement will be more widely used with IFRSs, particularly with more complex standards such as IASs 39, 40 and 41. These standards have already been mentioned in this study as being particularly complex and problematic standards for Saudi accountants to deal with. This may help interpret why most participants mentioned these standards as more difficult than other standards. The next section provides a discussion of these standards.

- **Problematic Standards**

Another issue arising from the application of IFRSs in the Saudi Arabian environment is also linked to education: the issue of certain IFRSs which require a high degree of awareness and understanding. Two of these standards, IAS 32 and IAS 39, were mentioned most frequently by questionnaire respondents (19 times; see Chapter Six) and interviewees. Respondents stated that these two standards are very technical and that their correct application requires experience in the financial sector. Some of the interviewees also mentioned that there have been many changes to these standards over the last few years, leading to further complexity, as accountants' knowledge of the

standards has to be updated concomitantly. An interviewee in the banking sector mentioned that they contain many types of derivatives that are difficult to master. CFO of Bank 2 stated:

“IAS 39 is very complex. The other standards are not that complex. IAS 39 talks about all financial instruments. In banks we use credit sensibly. IAS 39 talks about hedge accounting, derivatives, options, loans, impairment and such things. The rules are very complex. In some cases the rules can be interpreted slightly differently. You and I may be reading the same standard and I may think this is what the standard means, but you may say, no, that’s not what it means, it means something else.”

CFO of Bank 3 added:

“Basically, the main problem was the application of IAS 39, which is where you have to mark all your assets and liabilities and you have to take operations on the basis of future cash flows. That was the big difficulty for all the banks at that time.”

Other IFRSs were also identified as being complex; for example, IFRSs 2 and 7.

External auditor 1 stated:

“Yes, IFRS 2 is a complex standard. This deals with payments in shares – compensation plans and share-based payment plans, so you may have share-based payment plans, so you may have share-based payments for employees or others. That’s a very complex standard and requires quite a lot of understanding. Now in Saudi Arabia there are companies which are introducing schemes based on IFRS 2. Because there are no Saudi accounting standards for this, they are applying the IFRS, so this standard has become quite widely known now in Saudi Arabia.”

Standard setter 1 asserted that these standards are complicated not only for Saudis, but also for those in developed countries, such as France, where implementation of IAS 39 was rejected due to its complexity. This implies that Saudi Arabia will inevitably face difficulties. This result is consistent with international literature, such as Srijunpetch (2004); Tyrrell et al. (2007); and Dunne et al. (2008), which finds that these standards can pose difficulties in some developed and developing countries. However, these standards may present particular difficulties in Saudi Arabia for several reasons.

Firstly, there is the question of quality of education, as in Saudi Arabia the education system is different from that of developed countries like the UK, which is represent high contributors to IASB (Larson, 2007), and may have a strong influence on IFRSs (see Chapter Two). Therefore it may be suggested that the education level in Saudi Arabia is not as high as it needs to be in order to implement these standards. In Saudi Arabia, students are provided with materials and other teaching assistance and the system is centred to a great extent around teachers or lecturers, as the Saudi education system has been influenced by that of the US (see Chapter Four). However, in the UK students are also provided with materials and assistance from teachers and lecturers, but in contrast to Saudi students, who rely more on teachers or lecturers, UK students must rely on their own independent learning to a far greater extent, which leads to them gaining skills that will assist in dealing with accounting standards that require a degree of professional judgement⁴².

Furthermore, the weakness of the professional body in Saudi Arabia may contribute to increasing the difficulties involved in implementing these standards. The interviewees believed that SOCPA had difficulty providing assistance regarding SASs, as they do not have sufficient time or personnel to assist individuals making enquiries about them. It is therefore logical to assume that they may find it difficult to answer questions on IFRSs (see section 7.4.4). Moreover, some features of Saudi culture (see Chapter Four)

⁴² This difference was noticed by this researcher. Lecturers in Saudi universities lead students directly to necessary information by collecting the material covered in exams in one file and putting it in the library, and advising student to focus on this in preparation for the exam. However, in UK universities, lecturers put several references (books and articles) at the end of lecture, and students will make more of an effort to cover all these references in preparation for the exam. Therefore, students in this case rely on themselves to prepare for exams. This helps them develop their thinking and use their professional judgment, as opposed to Saudi students, who in most cases repeat what the lecturer wants.

discussed in the section above may contribute to create the difficulties in implementing these standards.

SAMA (the regulator of the banking sector) obliged banks to encourage their staff to become familiar with these standards and overcome their difficulties regarding them. SAMA played a major role in educating and training those in the banking sector in order to produce efficient staff at all levels able to deal with these standards, in particular the more complex ones. Indeed, three of the questionnaire respondents indicated that they had diplomas or certificates in IFRSs, while others had high level qualifications, with some of them having graduated from institutions in the UK.

The CFO of Bank 1 stated:

“Those in the banking sector are almost experts in the use of IFRSs by now and they can deal with any problem arising from them, as a great deal of time and money were spent in educating staff about IFRSs. In addition, SAMA asked banks to concentrate on such education at all levels of accounting staff in the banking sector.”

He also indicated that because of this education he can now lecture about IFRS issues, mentioning that he gave a talk on IAS 39 in New York; he also stated that Saudi Arabia should be proud, as in 2001 it was the first country to implement IAS 39. Moreover, SAMA had prepared guidance for the application of IFRSs. The CFO of Bank 3 mentioned that SAMA checks regularly with banks regarding the awareness of their staff about how to work with IFRSs. He added that every three months SAMA checked how many people were aware of compliance and added that they had a compliance department working on this matter.

As a result, most participants mentioned that details, examples, interpretations and guidelines for IFRSs are needed prior to their full adoption in Saudi Arabia. Moreover, they suggested that work should be done to improve SOCPA; experts should be brought

in and advice taken from SAMA. In addition, workshops are needed and experts should be invited from outside Saudi Arabia to give lectures on IFRSs that teach and prepare individuals interested in them. The interviewees also suggested that SOCPA should create a 'helpdesk' to assist and support users in understanding the standards, and reduce the time currently required to answer users' questions.

To sum up, it appears that SAMA is by no means unaware of the problems that might arise from the implementation of IFRSs in Saudi Arabia, and recognises that education and training are key to minimising such potential problems, which SOCPA and Saudi listed companies should take into consideration. This suggests that training costs will be among the main expenses associated with the adoption of IFRSs in Saudi Arabia.

7.4.2 The Use of Fair Value

In most developing countries, fair value is difficult to obtain, due to the absence of an active market for most assets. This may represent one of the major disadvantages of the fair value method (Kosonboov, 2004). Therefore, this may reduce reliability compared with historical cost (Barth, 1994).

The results suggest that most respondents agreed on the advantages of fair value over historical cost, although some were still concerned about the fair value measurement of assets in Saudi Arabia when adopting IFRSs. They agreed that historical cost would be better in the current Saudi environment for several reasons. Firstly, the level of economic growth may affect the determining of fair value in Saudi Arabia, as there is no reference for the price or market for assets apart from the Saudi stock market. The CFO of other listed company 1 stated:

“At the present time in Saudi Arabia it is difficult to rely on fair value to take your decision. The fair value measurement does not exist in Saudi Arabia as there is no active market, no qualified people to carry out the valuation and no body to control the measurement methods...”

External auditor 3 stated:

“I greatly prefer to use fair value, as it provides reliable information to the users; however, as most assets do not have an active market and it is difficult to obtain fair value, then historical cost should be used in Saudi Arabia.”

However, it can be suggested that even with the existence of the Saudi stock market, fair value figures may be to some extent unreliable and inaccurate for decision-making purposes. This is because although the Saudi stock market is very large compared to those of some other developing countries, including other Arab countries, recent studies have found that, like those of most developing countries, it is not efficient (Dahel, 1999; Onour, 2004). Therefore, the Saudi stock market is still developing and most of the interviewees believed that the price of shares in most listed companies may not represent the true fair value of the companies' shares. This may be because some elements of Saudi culture influence most individual investors in the Saudi stock market, as they tend to follow others (when buying or selling shares) and act according to hearsay, which may increase or decrease some companies' shares without reflecting their fair price⁴³. Saudi culture emphasizes joining groups and asking others about any matter, as Hofstede (1980) classified Arab countries as strongly collectivist (for more details see Chapter Four); however, sometimes those groups do not have any knowledge or experience of the Saudi stock market. The CFO of other listed company 1 stated:

“People in Saudi Arabia tend to follow others. Take our stock market...if people believe that one company is the best then it is

⁴³ In Saudi Arabia most individual investors simply buy and sell shares on the Saudi stock market based on others' opinions, and they take advice from groups through the Internet or other gatherings

difficult to change their minds; therefore our culture in share trading is still developing.”

Secondly, in addition to the absence of references for the prices of all assets acting as a barrier to the use of fair value in Saudi Arabia, some interviewees mentioned that no regulating body to enforce and control the evaluation method exists, which may also represent a problem. External auditor 2 commented that Saudi Arabia was different from developed countries in that those countries can have better indications of price based on fair value. He stated:

“In most developed countries there are strong stock markets, bodies to which those who make wrong valuations are accountable, but in Saudi Arabia unfortunately we do not have any system to control valuations based on fair value, which may lead to volatile prices and then wrong decisions.”

Finally, interviewees were of the opinion that qualified valuers were scarce in Saudi Arabia, and some of the interviewees also mentioned that the opinion of valuers may be influenced by company management. The CFO of other listed company 3 said:

“Independent valuers will be appointed by a management committee that may influence their decisions as to the value.”

The discussion of cultural issues (see section 7.4) indicates that the impartiality of valuers may be called into question.

The above results may explain why the Ministry of Commerce does not use fair value for assets that do not have a market in Saudi Arabia, as seen in the comparison of SASs and IFRSs (see Chapter Four). SASs do not allow the revaluation of fixed assets, while IFRSs allow for the use of fair value in fixed assets. The Saudi government may therefore face challenges with regard to this issue if IFRSs are adopted, until such time

as the accounting environment is developed to a point where the use of fair value in Saudi Arabia becomes feasible.

Overall, the results suggest that there is agreement on the advantages of using of fair value in Saudi Arabia. However, some respondents were concerned about fair value measurement due to the lack of measuring methods, including the absence of an active market for the majority of assets and the lack of qualified valuers and any robust regulatory body. Therefore, most of the interviewees suggested that before Saudi Arabia begins to use fair value, the aforementioned issues should be addressed and resolved. Suitable guidelines should be provided to measure fair value, and information systems should be improved in order to assist in the provision of reliable information about assets to facilitate correct decisions being taken. Otherwise, historical cost should still be applied by making some modifications to IFRSs to suit the Saudi environment.

7.4.3 The Limited Knowledge of IFRSs

Prior studies mention that one of the main problems that may face most developing countries during the adoption of IFRSs is accountants' limited knowledge of these standards (Kosonboov, 2004; Halbouni, 2005).

The findings suggest that there is a lack of qualified accounting personnel in Saudi Arabia generally and in listed companies in particular, and that this could lead to constraints in the implementation of appropriate accounting standards. Although the level of education is increasing, and some individuals are being educated abroad (see Chapter Four), most interviewees attributed the limitation of Saudi accountants' knowledge of IFRSs to the lack of training and education about IFRSs, and that no

attention is paid to these standards by Saudi universities or SOCPA. This means that the education system in Saudi Arabia represents one of main problems in applying an accounting system like IFRSs; to date, some interviewees then mentioned that there is no appropriate system to help overcome potential difficulties should Saudi Arabia adopt IFRSs. Some facilities that may help improve quality of education, such as group discussion and computer use, are still comparatively limited.

However, after SOCPA's decision to use IFRSs in the absence of SASs, the findings suggest that SOCPA still has insufficient and inappropriate courses regarding to IFRSs in Saudi Arabia. This finding may raise questions about SOCPA's ability to supervise the full implementation of IFRSs. One external auditor believed that there was insufficient information on IFRSs in some of the courses organised by SOCPA. He mentioned that some training courses mislead people who wish to attend in that the information given in the course does not correspond to the title of the course. He added:

“I attended this course that was supposed to be about comparing SASs and IFRSs, but unfortunately the content of the course bore no relationship to the title of the course. Instead, the course was an effort to support SASs.”

Another interesting finding is that courses related to IFRSs in Saudi Arabia may be used by regulators to address their interest in and preference for accounting standards in Saudi Arabia. Some interviewees mentioned that SOCPA organizes few sessions on IFRSs; moreover, the content of these sessions is questionable. External auditor asserted that when SOCPA organised workshops or courses about IFRSs, he noticed that some of those provided were led by people who did not accept that any standard other than SASs should exist in Saudi Arabia or individuals with little experience of

IFRSs⁴⁴. This result may reflect the nationalism of some Saudi people, which is part of Saudi culture (see Chapter Four) and may in some cases overrule economic motivations. Furthermore, it could be suggested that SOCPA groups try to promote their interests even in the content of the courses or programmes they provide, by attempting to persuade their audience of the superiority of SASs. This finding supports the political nature of accounting standards (see chapter Three) and may explain the lobbying of regulators on the setting and the choice of accounting standards in Saudi Arabia.

Furthermore, some of interviewees also indicated that this problem (limitation of knowledge of IFRSs) was caused by the lack of supporting materials on IFRSs, such as textbooks. They believed these should be provided by SOCPA or another related body. It has been noticed from the literature (see Chapter Four) that US textbooks have been widely used in Saudi universities for a considerable period of time, with many of them having been translated into Arabic. Academic 1 commented that in Saudi Arabia, many American textbooks are translated into Arabic and used to teach university students. Furthermore, in Saudi universities there is little concern for accounting standards in general; in particular, there is a lack of instruction on IFRSs in Saudi Arabian curricula. Some universities only have two hours of instruction about international accounting during preparation for Bachelors degrees. Some researchers argue that comprehensive courses in universities make a significant contribution to decreasing the difficulties of the initial implementation of IFRSs (McGee and Preobragenskaya, 2003). Therefore,

⁴⁴ He went on to say that those providers have been running courses across Saudi Arabia for a long time, and usually during these courses they try to emphasize that SASs are superior to IFRSs. Their views influence the content and material of these courses, as some 80% of the sessions are about SASs, despite the session being organized to discuss IFRS issues.

the results suggest that the dearth of courses in the Saudi curricula will be one of the factors leading to an increase in the difficulty implementing IFRSs in Saudi Arabia.

To sum up, the results suggest that there is a lack of qualified staff and that not only listed companies but also local accounting firms will suffer from this; they receive no support in terms of education or training. Moreover, they do not have updated copies of IFRSs and are unable to deal with these standards because of their limited knowledge and resources. This may lead some of them to leave their firms and go to one of the Big Four firms. All questionnaire and interview respondents confirmed the need to increase the number and quality of training courses on IFRSs for Saudi accountants. They indicated that this would be one of the main costs that Saudi companies would incur when adopting IFRSs. These costs will be discussed in the next section.

- **Training of Accounting Staff**

The findings suggest that training of accounting staff represents the main expense banks faced and other listed companies will face. Some interviewees suggest that training must extend to all levels of staff, including managers. The CFO of Bank 2 stated that the main problem his bank encountered was the great deal of education required.

Some interviewees suggest that expenses will be incurred not only for training accounting staff in Saudi Arabian companies but also for training auditors in local accounting firms, as they may know less about IFRSs than staff working in the Big Four. External auditor 2 said:

“As IFRSs in Saudi Arabia are being used by banks and insurance companies and these are being audited mainly by the Big Four and by big local firms, difficulties concerning training needs will be encountered by those working in smaller local offices.”

However, some interviewees mentioned that the cost of training accounting staff may differ depending on company size. The CFO of Bank 4 stated:

“In contrast to large companies, small companies in the Saudi stock market may find difficulties in the adoption of IFRSs at the present time due to the limitation of their companies’ resources. Therefore, IFRSs should initially be adopted by large companies.”

The implication here is that some small listed companies will suffer more and may in some cases be unable to overcome problems resulting from the implementation of IFRSs, particularly as they may not receive assistance from the accounting body due to the limitation of the abilities of this body (see section 7.4.4). This raises the question of whether all other listed companies on the Saudi stock market should adopt IFRSs at the present moment. It may suggest that if small companies may not able to implement IFRSs effectively, the benefits of adoption would decrease.

In summary, this cost (training of accounting staff) will be faced by other listed companies. At the same time, training is the most important method for overcoming the problems of implementation (see section 8.5). However, this result is inconsistent with Joshi and Ramadhan (2002), who found that increased costs did not arise in Bahrain when companies adopted IFRSs. However, their study was conducted amongst small companies, where training costs may be unavoidable. Moreover, most developing countries suffer from a lack of education and teaching resources; these problems include a lack of qualified teachers’ at most educational levels, including secondary school, leading to unqualified students, unsuitable textbooks and inadequate training (Bailey, 1995; Solodchenko and Sucher, 2005). Joshi and Ramadhan did not provide comments or interpretations for their results, but it may be inferred from the findings that there was a higher level of education and knowledge prior to the adoption of IASs

in Bahrain, or that there are greater education problems in Saudi Arabia and fewer training sessions.

Some interviewees in this study were clearly concerned about the lack of teaching resources (mentioned above) and thought that these problems exist in Saudi Arabia. They suggested that training in IFRSs is required and that SOCPA should consider the expansion of their IFRS training sessions, as they do not currently run many training courses and the courses that they do run offer insufficient information which at times is irrelevant. Interviewees were of the opinion that they should bring in experts to conduct all training related to IFRSs.

7.4.4 Other Problems of IFRS Implementation

The findings suggest that the transfer to IFRSs in Saudi Arabia may result in other problems.

- **Comparative Figures for the Previous Financial year on the Basis of IFRSs**

The results suggest that this issue is one of problems that banks faced and other listed companies may face. The CFO of Bank 2 said:

“The first time we adopted it the main problem we had to deal with was a great deal of education. There were system changes we had to deal with and a lot of system limitations. Then there was restating the prior figures, because when you adopt IFRS, it is not just for that year. The comparisons have to be restructured and that was a major difficulty.”

The CFO of Listed company 3 also mentioned that the difficulties in adjusting previous financial statements is one of the major problems he thought his company would face, as the previous statements were based on SASs and the new ones would be based on

different standards. This issue was mentioned by external auditors and by those in the banking sector and in other companies, although not by financial analysts. This may be because this issue does not affect them. However, the adjustment of the previous financial year's figures on the basis of IFRSs is very important to investors as they need to be able to make comparisons between a company's financial years. If the statements being compared are not prepared according to the same standards, decisions may be inaccurate. This means that the adjustment of other listed companies' figures is important in order to facilitate comparison of statements, in addition to the time this requires, companies may also incur greater expenses, as staff must be paid overtime and all previous accounting treatments will need to be reviewed.

- **Alternative Methods in IFRSs**

Although the IASB produced IFRSs to serve accounting users by providing comparable information that may be useful for their decision-making, the assistance offered by IFRSs may be limited in terms of comparability, as there remain some alternatives to choose from in the standards (Srijunpetch, 2004).

Results in this study suggest that there was disagreement among respondents regarding alternative methods. Some thought that alternative accounting treatments in IFRSs constitute a problem while others thought it may be an advantage for Saudi Arabia. External auditor 5 mentioned that more alternative accounting treatments in IFRSs led to difficulties of comparability among companies when one company chooses one treatment and another company chooses a different one within the same accounting standard. Moreover, Academic 1 and Standard setter 2 agreed that IFRS adoption may cause comparability problems in some cases. The two interviewees mentioned as an

example that one company may choose to apply historical cost while another may choose fair value; they also mentioned alternative methods of inventory cost. This result confirms the results of comparison between SAS and IFRSs (see Chapter Four). They refer to the alternative methods within IFRSs to the pursuer of different countries over IASB. The CFO of Listed company 3 added:

“Some IFRSs offer more than one choice, such as in inventory you can use one of three methods to register the cost. This may lead to disparities between the financial statements of two companies in the same sector.”

On the other hand, some interviewees thought that alternative methods in IFRSs may be advantageous, particularly in Saudi Arabia. SOCPA may adopt IFRSs while at the same time choosing the most suitable accounting treatment for the Saudi environment. External auditor 4 said:

“Alternatives in accounting treatments would be acceptable as they would allow SOCPA to choose the appropriate alternative accounting treatment for the Saudi environment.”

Most of the participants who thought this is an issue work in the setting of SASs and are more opposed to adoption of IFRSs than other respondents. This may suggest that their experience may have influenced their answer, as they may have answered according to their interests by adhering to SASs in Saudi Arabia. This result provides more evidence of this group’s attempts to influence the choice of accounting standards, such as their effort to influence the content of current IFRS courses (see section 7.4.3).

The overall result suggests that, although it may cause problems, it could at the same time be advantageous for SOCPA to organise alternative methods that would better suit the Saudi environment.

- **Management and new Disclosure**

Some of the questionnaire respondents (from CFOs of other listed companies) identified the readiness of management and the management community for disclosure as a problem. However, some interviewees thought that those companies may not want to change current accounting practices because this change will lead to an increase in their expenses. The CFO of Listed company 1 added:

“This difficulty lies in their not accepting the changes and not liking the changes because they do not understand these standards, as they come from overseas and they may not have sufficient accounting knowledge to help them to make the changes. They want to maintain the status quo.”

This may suggest that those companies weighing up the costs and benefits of the changes to another accounting practice which may influence their answer. They may be concerned about additional disclosure, which may lead to a competitive disadvantage compared to other companies (Kosonboov, 2004). This result is also associated with some current features of accounting practice in Saudi Arabia, such as the high level of secrecy (see Chapter Four), even though Sharia principles require full disclosure from these companies (see Chapter Three). In addition, these companies are small (as can be seen from an analysis of their backgrounds); this may confirm that small companies could suffer more than large companies from IFRS adoption in Saudi Arabia; for example, in terms of the limitations of their systems in dealing with new disclosure requirements. This finding suggests that accounting preparers are considering the financial consequences of changes from current accounting practice, and they may compare the costs and benefits of such a change.

- **Weakness of the Enforcement Mechanism**

The findings suggest that one of the problems Saudi Arabia may face is the weakness of the enforcement mechanism, as a strong regulator is required to enforce appropriate implementation of these standards. From the experience of the banking sector it seems that their regulator, SAMA, played a major role in the transition to IFRSs; therefore, IFRSs in the banking sector were implemented effectively. This was achieved through the banks' efforts to educate their staff, provide the banking sector with experts and enforce improved disclosure and appropriate implementation of IFRSs. The CFO of Bank 3 stated:

“...You must disclose current rates, market rates, all this. It's difficult to do the additional disclosure if you are not willing, because SAMA may come and check for this disclosure under IFRS, I will give you one example, now in the new disclosure of IFRS you can tell your shareholders more detail. Sectors we invest in, like manufacturing, we need to give information for all sectors.”

Banker 2 added:

“...SAMA brought a lot of people in who were very conversant with IFRSs, even at the senior level. For example, Fahad Mukherji knows the standards very well. Abou Al-Sheikh, his assistant, he is well-known. All these people in SAMA, they know the standards, so it's not difficult. It's just that people need to study a little bit.”

However, the findings suggest that SOCPA's ability is limited. Most respondents think that SOCPA suffers from a lack of full-time members, qualified people and financial resources, which may make them unable to control and improve the accounting profession. Some of The interviewees also believed that they suffered from delays in replies to their questions to SOCPA, and that their questions or requests took a circuitous route. External auditor 2 stated:

“...Unfortunately, though, it takes a long time for SOCPA to respond to questions; three weeks may go by before they give an answer.”

External auditor 1 stated:

“I have met with many members of the SOCPA board, and none of them is full-time. They all work in various places. Maybe they meet once every three months or something like that, so they do not have enough time to deal with the standards. And that’s why the gaps are coming. They should probably have a meeting every month.”

Therefore, there is some concern that IFRSs in other sectors might not be effectively enforced. One interviewee believed that what is most important is not so much what accounting standards are used, but how they are enforced. There was agreement among the interviewees that SOCPA did not enforce the implementation of accounting standards as it should.

It can be suggested that SOCPA, with its current abilities, may find it difficult to implement IFRSs as effectively as SAMA. Therefore, the findings suggest that some interviewees had the impression that even with IFRS implementation in Saudi Arabia there would be a lack of disclosure that may affect investors’ ability to make the right decisions. Weak enforcement allows some characteristics and behaviours (see Chapter Four) to dominate accounting in such a way as to allow nepotism and kinship ties to override economic rationale; secrecy surrounds any negative reports of improper accounting practices (Al-Rumaihi, 1997). Therefore, it can be suggested that, given the current situation with SOCPA, the effective implementation of IFRSs is questionable.

7.4.5 Other Costs of IFRS Implementation

Some previous studies mention that specific costs are necessary in most cases, such as those involved in changes to software systems (Jermakowicz and Tomaszewski, 2006). However, the findings suggest that, comparing between respondents from banks and those from listed companies, 64.3% of individuals in the banking sector had made

changes to their software while only 40% of those from listed companies had (see Chapter Six). This suggests that the experience of individuals in the banking sector influenced their answers, while companies may be to a great extent unaware of the problems that result from the transition to IFRSs from current accounting practice.

Some writers have mentioned that inappropriately designed procedures and systems are among the problems that accounting systems in developing countries suffer from (Chandler and Holzer, 1984). Banker 2 stated that their system had many limitations when it came to the disclosure requirements of IFRSs, and they found themselves obliged to change the software. Changes in IT systems may be necessary as IFRSs generally require an increased level of disclosure on, for example, consolidation and financial instruments (Deloitte, 2005). The CFO of Bank 3 mentioned that before implementing IFRSs they had to modify their systems and software, as their systems were not only required to collect information and record transactions but also to provide more analysis and data in order to satisfy the requirement for greater and more detailed disclosure of information. He added that their system was now compatible with IFRSs.

The CFO of Bank 4 stated:

“Because IFRSs require greater disclosure, you should have a good system, particularly in investment in ... and in issues that are based on judgement, such as cash expected from customers as well as in provision loss.”

The CFO of Listed company 2 asserted that improving information systems is a necessity associated with the disclosure requirements of IFRSs. He added:

“...IFRSs need more disclosure and then we need experts to work on information systems and make improvements to them. These people should be auditors, as they have appropriate experience and deal daily with financial reporting.”

This finding is associated with the opinion that in terms of disclosure, accounting users tend to prefer financial reporting from the banking sector rather than from other listed companies. At the same time this finding confirms other results that suggest that other listed companies are concerned about increased disclosure after the adoption of IFRSs and indicates why they consider this to be a problem that management may face (see section 7.4.4).

Although some studies, such as that of Tyrrall et al. (2007), found that the transition to IFRSs creates a need for consultants, 42.9% stated that they had not paid for such services. This may suggest that SAMA played a beneficial role in assisting banks to overcome problems involved in changing to IFRSs (see section 7.4.4. for SAMA's efforts). Moreover, it may also suggest that the banking sector found help from the Big Four accounting firms, as Saudi law requires all banks to appoint two external auditors, at least one of which must be from the Big Four. Previous findings of this study showed that the Big Four will be among those groups that benefit most from the adoption of IFRSs.

On the other hand, 80% of respondents from other listed companies thought that they would require consulting services. This may reflect Saudi Arabian companies' limited knowledge of IFRSs. One of the interviewees from the banking sector mentioned that Saudi companies may benefit from consulting provided by the banking sector, as they have sound knowledge of an efficient system for IFRSs. He also mentioned that SOCPA should encourage companies to prepare themselves well before full implementation.

7.4.6 Summary

This section answered the fourth question (*What would the problems and difficulties of applying IFRSs in the Saudi environment be and how can these problems be overcome?*)

In conclusion, it can be seen that the implementation of IFRSs in Saudi Arabia will create some problems and costs. These include a lack of relevant knowledge that may help Saudi accountants to apply professional judgment, fair value issues, alternative methods in some standards, comparability with previous financial statements, training costs, the need to adapt IT systems, and consulting services. All these problems will result from the adoption of IFRSs in Saudi Arabia. However, some studies conducted in developing countries or even in some Gulf countries found that IFRS adoption is not necessarily costly (see e.g. Joshi and Ramadhan, 2002). The present study therefore suggests that compared to other Gulf countries there are weaknesses in IFRS education and training, as well as in Saudi Arabia's accounting profession and enforcement mechanism. Thus, most respondents in this study provided some suggestions to overcome these problems (see section 8.5).

These results contribute to understanding the problems that occur when developing countries make the transition to IFRSs, the reasons behind these problems and how they can be overcome (see section 8.5). Moreover, the findings show that one potential reason behind the accounting problems is the absence of sufficient study material on IFRSs. This study thus contributes to international literature by providing necessary material through its examination of IFRS adoption in developing countries such as Saudi Arabia. Furthermore, this study contributes by providing evidence of how accounting preparers tried to lobby the choice of accounting standards through the use

of cost and benefit comparison to protect their interest when they participated in this study.

7.5 Benefits of IFRS Implementation in Saudi Arabia

In this section the benefits resulting from the transition to IFRSs in Saudi Arabia will be explored. First, there will be a discussion of the improvement of the quality of financial reporting, followed by a discussion of some of the other benefits, such as saving the time and cost required for issuing SASs, the adoption of high-quality standards, and an increase in the level of disclosure.

7.5.1 The Quality of Financial Reporting

The literature indicates that the quality of financial reporting in developing countries will improve with the adoption of IFRSs, as these will help increase competitiveness between countries' capital markets (Saudagaran and Diga, 2003). Furthermore, the implementation of IFRSs will increase the efficiency of the stock market when companies publish financial statements that can be more easily compared, understood and relied upon (see Chapter Two for more details).

Although there appears to be overall agreement among respondents that the quality of financial reporting (reliability, relevancy, comparability and understandability) will increase after the adoption of IFRSs in Saudi Arabia, there was some disagreement among the interviewees regarding this matter. The questionnaire respondents believed that the implementation of IFRSs in Saudi Arabia will increase the quality of financial reporting. On the other hand, some of the interviewees mentioned that the quality of financial reporting in Saudi Arabia might not be influenced or improved by the transition to IFRSs.

Regarding comparability, some interviewees mentioned that the adoption of IFRSs in Saudi Arabia would create greater comparability and transparency, and make financial reporting more consistent. The CFO of Bank 1 stated:

“One of the biggest advantages is that we talk to rating agencies and research analysts. We can compare our accounts to any accounts we can see anywhere in the world. That is standardisation and we can understand their language. That is a very big advantage. It would not be like that if we had our own standards. For instance, if you go to China and try and understand a Chinese bank’s balance sheet you could go crazy. A Japanese bank is even worse.”

The CFO of Bank 2 stated that having one standard would facilitate comparison between companies’ income and performance. He added:

“Yes, for example, if this company is using IFRSs and has a profit of 100 million, and another company is using another standard and has a profit of 80 million, you don’t know which one is better because they have not used the same standards. Now, the IFRSs are not adopted everywhere but slowly there is a convergence. In the US, the US GAAP is one standard and the IFRS is another. Elsewhere, in Europe, they follow IFRSs. So slowly what is happening is they are trying to converge and trying to mix into one standard worldwide.”

As a result, foreign investment would increase, which would be a major advantage, as almost 87% of questionnaire respondents suggest that FDI represents the element that will benefit most from the adoption of IFRSs in Saudi Arabia. The CFO of Bank 2 stated:

“There are many advantages because Saudi Arabia is a very attractive country for investment. A lot of foreigners can come and invest if their financial statements are represented in a format which is understandable to the outside world.”

In addition to the benefit of comparable financial reports between listed companies in Saudi Arabia and those outside the country, some interviewees mentioned that comparison among companies within Saudi Arabia will increase, particularly with insurance companies belonging to SAMA, which requires these companies to prepare

their financial reporting based on IFRSs, and between other listed companies which use SASs. External auditor 5 was of the opinion that:

“The use of IFRSs rather than SASs will significantly reduce the costs and solve problems of the preparation of more than financial reporting in Saudi Arabia.”

This suggests that the adoption of IFRSs in Saudi Arabia may benefit these companies more than other companies in other sectors. These companies are increasing on the Saudi stock market (CMA, 2010)⁴⁵ and, in the current situation, preparing more than one financial report costs them more than other companies who prepare only one.

On the other hand, some interviewees were still concerned about comparison. Standard setter 1 mentioned that some IFRSs provide more than one accounting treatment, which may decrease comparability between companies. Some authors have argued that the adoption of IFRSs may not provide consistency across countries, attributing this to cultural differences and to the alternative methods that some IFRSs provide. Each country may choose appropriate methods based on certain factors, such as their prior national standard. For example, KPMG (2006) found that there was a degree of inconsistency in some of the financial reporting of EU countries, and that the accounting treatment methods chosen in some standards were affected by the previous national standards. For example, with IAS 19, companies in Italy prefer to use the corridor approach, while companies in the UK prefer to use the equity method. Therefore, those respondents (who argued that comparison may not increase) think that comparison benefits will be limited.

⁴⁵ These companies increased dramatically on the Saudi stock market, from 2 companies in 2008 to 27 companies in 2010 (CMA, 2010).

Following the comparison made between SASs and IFRSs (see Chapter Four) the IAS allows an alternative method for assigning the cost of inventories by using the LIFO, whereas the SAS permits only the use of weighted average cost formulas. This implies that Saudi Arabia may continue to choose weighted average cost formulas after the adoption of IFRSs, which in certain cases may lead to problems when comparing with companies outside Saudi Arabia that have choose another method. This is because some methods are more popular with companies than others (see section 7.4.4) or, as this study suggested previously, that companies compare costs and benefits and try to address their interests using alternative methods. For example, regarding fair value and historical cost (see Chapter Four), one interviewee (a CFO) mentioned that because Saudi Arabia uses only historical cost at present, his company records the cost of the property that they have according to historical cost; however, its value according to fair value is high. This is beneficial for the company, and they will pay a low amount of Zakat. Therefore, companies may adopt the method which best serves their interests. This suggests that comparison among companies in Saudi Arabia may be problematic unless the choice of method is organised by the regulatory body. However, this body not as strong as it should be, which suggests that decision usefulness and the ability of accounting users to make decisions may be affected (see section 7.4.4).

Secondly, most of the interviewees believed that understandability would also increase. Moreover, some of them even suggested that after the adoption of IFRSs, financial reporting would be easier to understand. External auditor 1 stated:

“...I'd say they'd be easier. Because when you look who are users of financial statements, when you are studying, or your friends, after your gradation in professional qualifications, what do you do? You do a CPA, or you do a U.K. Chartered Accountancy, or you do and ACCA. These are all international qualifications. Do you study international standards? Yes. And if those are the standards you are

studying, then it is easier for you to understand IASs rather than national standards.”

Banker 1 stated that the difficulties in understanding may only be temporary, adding:

“Financial statements under IFRS could be difficult for users to understand. It is usually the case, but having said that, IFRS disclosures are so well thought-through it is almost an art and not a science. They have brought the disclosures so close to the reader, so even a non-financial person will be able to intelligently understand some financials. Maybe the first time, but I think the more difficult part is when a company adopts IFRSs for the first time. That is when most of the difficulties will happen.”

Furthermore, some interviewees (particularly preparers and external auditors), when asked about the possibility of user difficulty in understanding financial reporting after the adoption of IFRSs, mentioned that the essential matter was that understandability for experts would increase, and that it was not important for laypeople, and experts should understand IFRSs or SASs. This may give an indication of the view of those respondents to the inference that accounting in Saudi Arabia is not primarily geared towards serving accounting users. If this is the case, it would be in conflict with the objectives of Islamic principles according to Islamic accountability (Lewis, 2001) (see Chapter Three), and even with the objectives of regulatory bodies, including the IASB and SOCPA (see Chapter Three). This result also confirms the study’s finding, which is that Islamic principles and local users’ needs do not influence accounting standards in Saudi Arabia in an appropriate manner (see sections 7.2 and 7.3).

On the other hand, two of the other interviewees believed that in some cases financial reporting may be difficult to understand, particularly for ordinary users. They attributed this belief to the user’s level of education. These interviewees mentioned that some parts of financial reporting may be difficult to understand. Banker 4 gave the phrase “emptive monetary” as an example: it is difficult for any ordinary user to understand.

External auditor 5 also mentioned as an example that some students refer to a “statement of financial position” instead of a “balance sheet”. However, he was of the opinion that this was not a significant matter and that the management in some listed companies pretended not to understand in order to avoid applying some standards which may not serve their interests. This view is consistent with the previous finding that some companies did not want to change to IFRSs as this change might lead to increased expenses (see section 7.4.4).

Some interviewees also disagreed with the idea that IFRS adoption in Saudi Arabia would contribute to improving the quality of companies’ financial reporting. An external auditor and an accounting setter suggested that there was no relationship between the adoption of IFRSs and an improvement in the quality of financial reporting.

External auditor 5 stated:

“Accounting standards did not prevent the last crises from happening and the important thing is not so much what accounting standards are used, but how they are enforced.”

Both of the aforementioned interviewees linked improved quality to a strong enforcement mechanism. In some countries, such as Pakistan, the adoption of IFRSs did not improve the quality of financial reporting, and other factors influenced the state of financial reporting, such as the lack of a body to provide investor protection (Ashraf and Ghani, 2005). Therefore, it may suggest that the adoption of IFRSs alone in Saudi Arabia will not contribute to improving the quality of financial reporting; it would also be necessary to have a capable regulator that can provide enforcement mechanisms and protect user interests, particularly with the low level of consideration given by accounting preparers to Sharia.

To sum up, it seems that there is overall agreement on the increase of the quality of financial reporting after the adoption of IFRSs in Saudi Arabia, but this advantage will only be gained on the condition that all regulatory bodies in Saudi Arabia, such as SOCPA and SAMA, are efficient. Moreover, the level of education of accounting users needs to increase in order to increase the level of their understanding of financial reporting based on IFRSs.

7.5.2 Other Benefits

The results of the questionnaires and interviews showed that the adoption of IFRSs in Saudi Arabia would provide some other advantages, such as SOCPA's ability to save the time and money involved in issuing SASs, an increased level of disclosure compared with current standards.

- **The Reduction in Costs and Time Involved in Issuing SASs**

The majority of respondents suggested that Saudi Arabia could save the time, effort and money involved in issuing SASs, which essentially may not satisfy and meet local accounting users' needs. External auditor 4 believed that foreign investors would be more confident when they found that the financial reports of listed companies were prepared according to IFRSs rather than SASs, which they are not familiar with.

External auditor 1 stated:

“...When there is a body which is developing international accounting standards which are more widely used – and now even the U.S. is going to be using IFRSs – does a country need to have its own standards or can it use international standards that can be used by other countries as well? Do you really need to invest time and effort in having your own body, developing standards which may not be kept up-to-date because people cannot spend so much time on them? If the standards are developed and revised you can use them.”

However, one interviewee mentioned that the time and effort spent on SASs would be lost when IFRSs were adopted, and that this would be a considerable waste. Because this respondent was working in SAS setting, it may suggest that his answer may have been influenced by his personal experience.

- **Adopting High-quality Standards, Increasing Capital and Entering International Markets**

Most of the interviewees also confirmed the most questionnaire results when they stated that Saudi Arabia could have well-established standards that are regularly updated and improved. One of the advantages of international accounting harmonisation for developing countries is the adoption of well-prepared standards (Wolk et al., 1989). Some respondents mentioned that this advantage is more important for Saudi Arabia because IFRSs are regularly updated, in contrast with the present situation in Saudi Arabia, where regulators (SOCPA) are busy with the issuance of new standards and ignore the updating and improvement of SASs.

Moreover, some of questionnaire respondents also believed that Saudi Arabian companies could enter international markets and then have the opportunity to grow their capital in foreign stock markets. External auditor 1 added:

“...Moreover, for the advantages, I can also say that there will be the use of well-established standards in all areas of interest, increasing the comparability with international markets.”

In addition, some of respondents believed that the adoption of IFRSs in Saudi Arabia would facilitate the transfer of accounting ideas and experiences both to and from Saudi Arabia (knowledge transfer). This is associated with prior studies that argue that adoption of a single accounting system would help capital and other sources to move

more easily across borders, and reduce the cost of accounting statement preparation (Tyrrall et al., 2007).

- **Increasing the Level of Disclosure**

Most of the respondents in this study suggested that IFRS adoption would improve the level of disclosure, implying that IFRSs may respond to user demand (see section 7.2).

CFO of Bank 2 stated that:

“There’ll be a marked improvement. Not just in quality of production, but the disclosure is also very important. If you are a listed company in Saudi Arabia, the IFRSs tell you that you have to publish your results by such and such a date, and you can’t keep quiet if you’ve had a bad year. You need to publish your numbers by a specific day and when you publish you are exactly saying whether you’ve changed any of the policies, whether there is any standards that you have not adhered to, etc. So the auditor clearly states if your accounts are in accordance with IFRSs or not.”

The CFO of Bank 4 also believed that since 2008, financial reporting under IFRSs had become more transparent and featured more disclosure than in 2007. This was associated with changes and improvements to IFRSs. External auditor 1 added:

“Yes, to a certain degree. The Big Four are all pretty much trying to do good quality stuff there. I’m not familiar with other firms’ financials. I’m familiar with the financials of the Big Four I’m commenting on. Good practice in disclosure is already there. I’ll give you an example. IFRS 7 came in, the disclosures about the financial instruments. There’s nothing in SOCPA about that, but the Big Four have gone in and adopted the IFRS 7 in Saudi financials to a limited degree, but still so. The quality has already improved, so people are adopting some of the international practices where they add value. Yes, there will be a certain degree of change, but it won’t be huge.”

Increased disclosure was also mentioned as a benefit of the adoption of IFRSs in Saudi Arabia, particularly for shareholders and for investors. The CFO of Bank 1 commented:

“The most difficult one for us to implement was IFRS 7. It was to do with risk disclosure. This was implemented into IFRS 7, but that was, I believe, a bit difficult..... We are not used to making that level of disclosure, so this was a quantum leap in disclosure. It’s like saying you look at me and describe me to someone; you can say I’m a gentlemen, I’m a man, I wear specs. Now when the IFRS comes, you will say I wore a shirt and my shirt is this colour, it’s a long sleeved shirt etc, etc. Now the IFRS asks you, tell me how you put on your shirt. First I put my right hand, then my left hand..... But what is coming up is IFRS 8 and what IFRS 8 deals with is operating statements. Now operating statements will be a little more difficult than IFRS 7. Why? Because IFRS 8 says that it’s not the operating statement alone that you disclose, meaning that retail, investment, corporate, treasury and others are not what you disclose in the operating statement. In the operating statement you disclose how the CEO of the corporation looks at his business or evaluates his business. So in an NCB corporate and treasury might be looked at in one go...”

However, some interviewees, particularly the CFO of Bank 1 and External auditor 4, agreed that more disclosure was good, but may mislead readers and such users may have difficulty understanding the reports. The CFO of Bank 1 added:

“There is a big advantage in having a financial statement that is transparent so that readers can make a reasonable judgment. On the other hand if you give too much information the reader may not be able to decipher what is important and what is unimportant and he might not make the correct judgment. Similarly, if you give him too little he might not be able to make the correct judgment either. So our advice is good and it is important but we need to use it very judiciously. We need to make certain disclosures very elaborately and certain disclosures can be made briefly.”

It can be seen from this quote that an element of Saudi culture is reflected in this answer: high power distance (see Hofstede, 1980). Saudi society is divided into many tribes, and the regulation of these tribes generally depends on the personality of the individual in the tribe with the authority to make the regulations; it is almost always the head of the tribe who is in this position (Sabri, 1995). This respondent is trying to reflect the features of a leader who tries to lead others.

Other listed companies on the Saudi stock market may not prefer the increase of disclosure as it may lead to disadvantages for them (see section 7.4.4). Companies may keep secret any information that may harm them or influence their investors' confidence. This may be the case in Saudi Arabia because most companies are essentially family-owned (Chang and Kumawala, 1994), and the owners still own a big part of company shares. This may indicate why levels of disclosure are so low. In contrast with those companies where the majority of owners are external shareholders and companies may try to disclose more information to keep their shareholders confident. However, as companies are working in an Islamic country they are required to apply Islamic accountability effectively and follow Islamic principles that require full disclosure even if it is disadvantageous (Gambling and Karim, 1991) (see section 7.3.1.1.2.2). It may be suggested that increasing the level of disclosure could contribute to increasing the extent to which companies discharge their accountability. As a result, companies in Saudi Arabia will discharge their accountability to accounting users more than they currently do. Moreover, increasing the level of disclosure also influences the decision-usefulness of accounting users (see section 7.5.3).

To sum up, this study suggests that the level of disclosure will increase after the adoption of IFRSs in Saudi Arabia, compared to the current situation. Particularly with remain of effort of enforcement from CMA. This result is consistent with the comparison between SASs and IFRSs, which reveals that IFRSs generally provide more detail and disclosure than SASs (see Chapter Four). It may suggest that this result may conform with Sharia law, which requires full disclosure and transparency (see e.g. Baydoun and Willett, 2000 and Lewis, 2001), particularly when accounting users participated in this study suffer from a lack of information being disclosed at present in

Saudi Arabia (see section 7.2). Therefore, it may suggest that those users may be provided with more or all of the information that they need.

- **Some Benefits for the Requirements of Saudi Society**

As mentioned in section 6.2.1.2.2, one of the main needs in Saudi Arabia is correct accounting policies to determine the correct figure of Zakat. One of these policies is to record all items for Zakat purposes, and according to fair value at the time of Zakat (Maali et al., 2006).

The results suggest that the use of fair value is more accurate and preferable to the historical cost method in terms of computing Zakat (63% of respondents agreed; see chapter Six). Moreover, fixed assets should essentially be measured by fair value according to Sharia law. External auditor 1 stated:

*“Zakat is based on historical cost data income, which is higher than it should be ...should you value your wealth based on the fair value or historical cost strictly going on the idea of Zakat for a person and not a business? Is it the price you paid to acquire the gold, or is it the current value of the gold you possess? What’s the answer? **The current value of the gold you possess.** So that’s the fair value then, from an Islamic point of view.”*

This means that the adoption of IFRSs in Saudi Arabia will serve the DZIT, as the orientations of Zakat and some IFRSs will converge in the use of fair value. Therefore, the transition to IFRSs will respond to some Sharia requirements. The use of fair value will assist the DZIT in determining accurate Zakat figures, and interviewees from the DZIT indicated that fair value should be used, even if this meant that the DZIT’s income would decrease in some cases compared to its income with the use of historical cost.

7.5.3 Decision Usefulness

The objective of many accounting standard setters, such as the IASB and the FASB, is to provide financial reporting that enables investors to make useful decisions. Moreover, in Saudi Arabia there are some organizations, such as SOCPA and the CMA, whose objective is to help Saudi investors make useful decisions.

However, the findings of this study suggest that most accounting users in Saudi Arabia stated that in general and at present they were unable to obtain adequate information from the financial reporting of companies on the Saudi stock market to help them make decisions. In addition, the questionnaire results and interviews with individuals in the banking sector suggest that, firstly, certain banking transactions involve interest and secondly, that in referring to interest by a euphemistic term and not providing its amount clearly, companies do not offer adequate disclosure enabling users to make Sharia-compliant and appropriate decisions. Therefore, those users are unable to make correct decisions. Thus, this result suggests that companies on the Saudi stock market are currently in conflict with the main objective of financial reporting as mentioned above. They (users) have expressed the desire for companies and banks in Saudi Arabia to be more informative and more transparent. However, when asked in the questionnaires about their preference between financial reports prepared under IFRSs and financial reports prepared under SASs, they stated that the financial reports from the banking sector provided more information.

The findings also show that there is overall agreement among the respondents that the adoption of IFRSs will increase the usefulness of investment decision-making. This study suggests, firstly, from the discussion of section 7.5.1 (the quality of financial

reporting) that most respondents suggested that the adoption of IFRSs will provide accounting users with comparable, reliable and understandable accounting information. Furthermore, the level of disclosure would increase compared with the current situation (see section 7.5.2). This was confirmed by a respondent from the banking sector who mentioned that all new standards, such as IFRSs 7 and 8, required banks to provide greater disclosure for accounting users (see section 7.5.2). Furthermore, this study suggests that there is agreement concerning the benefits of the use of fair value in Saudi Arabia, most respondents also agreeing that fair value provided useful and accurate information for economic decision-making. Moreover, the use of fair value is more appropriate than historical cost according to Sharia requirements, which emphasize the use of the fair value of figures in balance sheets for Zakat purposes.

However, some respondents were entirely convinced that the adoption of IFRSs would not assist useful decision making, for some reasons. Firstly, comparability benefit will be limited due to multiple alternatives within some standards. It was suggested that Saudi companies may use the appropriate alternative in order to protect their self-interest (see section 7.5.1). Secondly, some interviewees argued that financial reporting under IFRSs may be difficult to understand, particularly for users with limited knowledge of IFRSs. This is one of the major problems facing Saudi accountants, particularly with the current level of education and lack of adequate, comprehensive training sessions (see section 7.4.3). However, this study provides some suggestions for overcoming this problem (see section 8.5).

Furthermore, some of the interviewees were of the opinion that with the use of fair value at present in Saudi Arabia, there is a risk of manipulation of the price of assets

and the provision of inaccurate information for decision makers. They mentioned that this risk existed because of the lack of fair value measurements, a strong regulatory body and qualified valuers, as well as the absence of an active market. Those respondents (who think that adoption does not improve decision-usefulness) suggest that even if IFRSs were implemented in Saudi Arabia, there would be a lack of disclosure which could have an effect on investors' ability to make appropriate decisions, due to the reasons mentioned above, in addition to the lack of a strong professional body with the authority to enforce and help implement these standards effectively.

To sum up, the overall results suggest that the decision usefulness of financial reporting under IFRSs will increase with the adoption of IFRSs, however, this improvement may be limited. The decision-usefulness framework in Saudi Arabia may be affected by some Saudi cultural features that dominate accounting practice through accounting regulators and preparers. For example, friendship and family relationships, nationalistic bias and an inherent lack of transparency, which allow nepotism and kinship ties to override economic rationale, and allow secrecy to surround any negative reports of improper accounting practices (Al-Rumaihi, 1997). Therefore it may be suggested that accounting regulators and preparers may attempt to protect their interests and also weight their costs and benefits regardless of the needs of accounting users; a weak regulatory body makes this situation worse. As a result, the IASB's objective of decision-usefulness based on financial reporting may be achieved with some limitations if the adoption of IFRSs is carried out at the present time. This adoption is nonetheless preferable to the current situation according to most respondents, particularly with the

clear effort made by some bodies in Saudi Arabia, such as the CMA (stock market regulator body) to enforce listed companies to provide appropriate disclosure.

7.5.4 Summary

Regarding question number 5.2: “*What is the benefit of applying IFRSs in the Saudi environment?*”

Results of this study suggest that there was overall agreement that the benefits of IFRSs in Saudi Arabia would outweigh the problems and costs. The results suggest that the adoption of IFRSs in Saudi Arabia will change and increase the quality of financial reporting, which will help attract investors. Moreover, there are other benefits of IFRS adoption, such as reducing the costs and saving the time that SOCPA spends in issuing SASs, increasing the level of disclosure compared with current standards, and reducing the cost and time needed to issue more than one financial report. However, the results suggest that to benefit from all the advantages of IFRS adoption, a strong enforcement body is required; this was currently a concern for most respondents. Although financial reporting based on IFRSs may be useful for decision-making, some respondents were still concerned that decision usefulness is affected by the level of education of accounting users, the alternative methods provided by some IFRSs, and the weak enforcement mechanism.

The results contribute to an understanding of the impact of IFRS adoption on the quality of financial reporting in Saudi Arabia. Moreover, they help explore to what extent financial reporting based on IFRSs will increase decision usefulness after their adoption in Saudi Arabia, in comparison to the current situation.

7.6 Conclusion

This chapter presents the combined results of the questionnaires and interviews and explores the accounting information needs in Saudi Arabia and the perception of respondents regarding the adoption and suitability of IFRSs in Saudi Arabia. The cultural factors that may act as barriers to the adoption of IFRSs were also discussed, as were the drawbacks and benefits of IFRSs to Saudi Arabia.

The results of this study indicate that the principal accounting need in Saudi Arabia is financial reporting with greater levels of disclosure and transparency. Moreover, financial reporting which serves religious purposes (Zakat) is also needed. The findings of this study support the adoption of IFRSs in Saudi Arabia, as this may contribute to resolving this issue as well as encouraging FDI, which is continuing to increase in Saudi Arabia. However, there was some disagreement as to the suitability of all IFRSs to the Saudi environments.

Some of the interviewees stated that not all IFRSs are suitable for Saudi Arabia and some of them may need to be modified. One of the most surprising findings of this study is that the Islamic religion, which shapes the culture of Saudi Arabia, will not be a barrier to the adoption of IFRSs in Saudi Arabia, as the influence of this factor in accounting regulation in Saudi Arabia is limited. Instead, certain other factors such as accounting education and the weak regulatory body in Saudi Arabia may be the main barriers to the adoption of IFRSs.

The findings suggest that the benefit of the adoption of IFRSs in Saudi Arabia would outweigh the problems and cost of these standards. The respondents also provided some suggestions for overcoming these problems, such as increasing education and training in the use of IFRSs. The results also reveal that financial reporting prepared under IFRSs will provide a more suitable basis for accounting users to make decisions than , exists currently, as financial reporting will be more comparable, reliable and understandable. Moreover, there will be more information that will assist in decision making. However, some respondents were still concerned about the weakness of the enforcement body, which may influence the quality of financial reporting based on IFRSs.

8 Conclusion

8.1 Introduction

This chapter represents the main conclusions of the present study. Section 8.2 summarises the research objectives and questions. Section 8.3 summarises the methods that were used to answer the research questions. Section 8.4 summarises the key findings. Section 8.5 addresses the suggestions arising from this research. Section 8.6 deals with the limitations of this study. Possibilities for future research are set out in section 8.7.

8.2 Research Objectives

This study aims to investigate the suitability of IFRSs to Saudi Arabia and provide understanding into the related issues of IFRSs by:

- Determining accounting needs of Saudi Arabia.
- Identifying the differences between SASs as compared to IASs/IFRSs in order to explore the participants' perspectives of which system can better satisfy users' needs.
- Exploring the cultural issues that must be taken into account when considering the adoption of IFRSs in Saudi Arabia.
- Exploring the difficulties occurring during the transition to using IFRSs from the current situation in Saudi Arabia.

- Investigating the factors that might motivate and influence Saudi Arabia to adopt IFRSs, and the benefits and costs of this adoption.

8.3 Research Strategy

In order to achieve the above objectives a pragmatic approach was used. This approach allowed the researcher to use quantitative and qualitative research (Saunders et al., 2009). A quantitative method provides a general picture of the issues surrounding IFRS adoption in Saudi Arabia. Moreover, the use of interpretive approaches with qualitative methods allows the researcher to follow further investigations in depth. Apart from comparing the content of SASs and IASs/IFRSs, the perceptions of Saudi stakeholders were collected through a questionnaire survey and semi-structured interviews. 295 questionnaires were sent to participants in the questionnaire survey (CFOs of banks and other listed companies, financial analysts and external auditors). The overall response rate was 40.6%. Semi-structured interviews were done with preparers of financial statements and covered all the major industries in Saudi Arabia (banking, insurance, industrial, service). The second series of interviews was conducted with users of financial statements, i.e., investors, academics, tax and Zakat officials, and auditors (from local and Big Four offices).

8.4 Key Findings

- *This section discusses the findings that answer the research questions related to the needs of accounting information users in Saudi Arabia, and respondents' perceptions on whether SASs or IFRSs can satisfy users' needs*

The findings reveal that accounting preparers in Saudi Arabia indicate that their financial reporting is prepared for institutional investors, financial analysts, the DZIT, creditors, individual investors, the government and academics. They considered these groups to represent the most significant groups; however, they did not include Saudi society among them, which should be a priority for listed companies working in Saudi Arabia (see Chapter Three). This finding was attributed to accounting preparers weak acknowledgment of some of the priorities of Sharia. Hence, they may implement the Islamic accountability framework inadequately. Some participants also attributed the fact that they did not mention society to a lack of accounting regulations geared towards protecting the interests of Saudi society (see section 7.3.1.1.1).

Although accounting preparers acknowledge the significance of the aforementioned groups as the main financial reporting user groups, the findings suggest that few of these groups (users) are satisfied with the current levels of disclosure and transparency (see section 7.2.1.2). This may impact the ability of accounting users to make decisions. This suggests that financial reporting of Saudi listed companies at present may be limited in terms of achieving one of its objectives, which is decision usefulness, as emphasized by various accounting bodies both inside and outside Saudi Arabia, such as SOCPA and the IASB (see Chapter Three). The results may also show that accounting preparers tend to avoid greater disclosure for their own self-interest (see section 7.4.4),

which could explain why they make more of an effort to lobby accounting regulation in Saudi Arabia than do users.

Accounting users were of the opinion that accounting preparers provided disclosure that was insufficient for religious purposes, such as information that assists in calculating the amount of Zakat. Although the majority of users are not satisfied with the current level of disclosure, the results indicate that they are satisfied with financial reports prepared according to IFRSs compared to those prepared according to SASs, in terms of level of disclosure. The findings show that there was an overall consensus on the adoption of IFRSs in Saudi Arabia at present, as they have several advantages over SASs. However, the findings also appear to suggest that some respondents think that not all IFRSs are suitable for the Saudi environment.

The findings reveal that the motivation behind the adoption of IFRSs in Saudi Arabia is primarily economic and that full adoption is expected to have a positive effect on increasing FDI, which is currently one of Saudi Arabia's main economic objectives (see section 7.2). The results indicate that although the accounting system after the adoption of IFRSs in Saudi Arabia would still serve local accounting needs in terms of religious purposes, it would more significantly serve investment and economic purposes. The majority of participants mentioned that the benefit of IFRS adoption will be more significant for foreign parties, such as FDI and international accounting firms, rather than local parties.

- *This section discusses the findings that answer research questions related to cultural issues that may influence the adoption of IFRSs in Saudi Arabia, and to what extent these issues might act as barriers to the adoption of IFRSs*

The findings suggest that the religious (Islamic) factor shaping Saudi culture (see Chapter Four) has a limited influence on its accounting system, as the results indicate that interest is involved in some of the transactions of most other companies and banks on the Saudi stock market. However, although some efforts have been made by some SASs setters to follow Sharia principles, SASs still have limitation in terms of their consideration of Sharia. From the findings, it seems that the existing SAS concerning Zakat does not assist in providing appropriate information for Zakat calculation. This has led the DZIT to use companies' financial reports as only a starting point. This is evidence that although accounting preparers acknowledge that the DZIT is one of the main users of financial reporting, this group (DZIT) is not satisfied with the information that is disclosed. Thus, the findings suggest that with the effort of listed companies in reflecting Sharia principles, there are still defects in terms of operating within the Islamic accountability framework. Consequently, Islamic accounting users are unable to make fully informed decisions.

The findings indicate that the degree to which Sharia law is observed in the process of accounting standard setting depends on individual effort. The results also suggest that economic factors override religious and cultural factors in Saudi's accounting system. Moreover, the political nature of accounting standard setting is dominant. Regulators and preparers have more power to protect their interests through the accounting system than do accounting users.

The results suggest that the deficiencies of accounting practices in reflecting the local Saudi environment and culture is a result of the weak enforcement mechanism as well as the influence of Western culture on Saudi culture and regulators. Therefore, IFRSs may be adopted by Saudi Arabia at present. The findings show that the this adoption would in part assist in achieving certain religious purposes, such as greater disclosure and the use of fair value, which may be more appropriate than historical cost for the calculation of Zakat.

One cultural issue may arise from IFRS adoption in Saudi Arabia: the translation of IFRSs from English into Arabic. The results indicate that this may pose a problem for small listed companies in Saudi Arabia, for the stock market and also for local accounting firms, as they have limited resources to help them overcome this problem. The problem would be exacerbated by the fact that there is a weak enforcement system which may not be helpful to these companies and firms if they need assistance. Participants are concerned about the gap between updated standards and their corresponding translations. Moreover, although Arabic versions of IFRSs are available on the IASB website, there is concern about this translation and its relevance to all Arab regions.

Some participants mentioned that Saudi pride will represent another cultural issue; however, the interview results indicate that it is not a major issue. This issue was mentioned by individuals with experience working with the setting of SASs, which may suggest that they are attempting to keep their efforts from being lost. Another cultural issue suggested by some respondents is that of accounting illiteracy. Some participants relate this issue to the lack of sufficient accounting education in Saudi Arabia. The

results suggest that this issue contributes to accounting preparers not increasing the level of disclosure and also contributes to leaving decision-makers to choose accounting standards in Saudi Arabia, regardless of user needs, which helps them (preparers), put their interests before those of accounting users.

In conclusion, the findings suggest that the use of the Islamic accountability framework is limited in practice, and that politics and self-interest dominate accounting practice in Saudi Arabia. Moreover, economic factors exert a stronger influence over accounting regulation than do Islamic and cultural factors, however, the priority of accounting should be to reflect and serve Sharia requirements⁴⁶ (see Chapter Four). Therefore, the majority of participants suggest that the above cultural issues and actual accounting practice (in terms of reflecting religious needs) do not represent great barriers to the adoption of IFRSs. However, IFRS adoption is still associated with some problems which will be discussed in the next section.

- ***This section discusses the findings that answer the research questions related to difficulties/problems and costs occurring during the transition to IFRSs in Saudi Arabia***

The findings suggest that the adoption of IFRSs will be associated with some difficulties and costs for some companies on the Saudi stock market. However, the results indicate that these problems and costs may apply more to small companies and

⁴⁶ However, the weakness of Sharia implementation is restricted by the existence of interest in some companies' transactions and the lack of full disclosure, although this does not mean that there is no religious impact on business in Saudi Arabia at all. There are clear efforts to follow Sharia law in all aspects of life in Saudi Arabia, including business and accounting which are in many respects much better than in other Islamic countries. However, there are limitations which have been mentioned in the findings of this thesis.

local accounting firms rather than the Big Four, for whom the adoption of IFRSs will be advantageous.

The results suggest that one problem is accountants' unfamiliarity with the use of professional judgement, particularly regarding especially problematic standards, such as IAS 32 and IAS 39; these two standards are highly technical. Other standards that could also cause problems are IFRS 2, IFRS 7 and IFRS 8. Most interviewees mentioned that these standards require a good deal of experience and expertise. It may be suggested that some dimensions of Hofstede (1980) and Gray (1988), such as high power distance and high levels of statutory control and secrecy, may dominate some accounting practices at present⁴⁷ (see Chapter Four), in addition to the weakness of accounting education, contribute to exacerbating this problem related to the adoption of IFRSs in Saudi Arabia. It suggests that accounting users may find decision-making difficult, as their ability to do so may be affected by professional judgement or the lack thereof.

Another problem may arise from the use of fair value. Although most participants, particularly in interviews, agreed on the advantages of fair value over historical cost, this is inconsistent with the questionnaire results. They expressed their concern about the use of fair value measurements in Saudi Arabia, as currently there is a lack of an active market, a lack of suitably qualified individuals and a weak regulatory body.

The findings also suggest there is limited knowledge of IFRSs on the part of accountants in Saudi Arabia, which may be attributable to the lack of appropriate

⁴⁷ The weak practice of Sharia requirements and some Islamic theory, such as Islamic accountability, by most companies lead us to apply some of these dimensions (which essentially conflict with Islamic theory) in accounting practice at present (see Chapter Four).

education and training. Some interviewees suggest that even with the current training sessions on IFRSs, the number and content of training sessions is inadequate. Some participants think that the organisers of these sessions are influenced by accounting setters who essentially prefer that SASs continue to be used in Saudi Arabia rather than other accounting standards such as IFRSs. Those participants agree that these training sessions focus mainly on supporting the use of SASs and presenting the advantages of SASs over IFRSs. This result may provide some evidence that the organizers (SOCPA) try to influence the content of these sessions, and offers evidence as to how this group attempts to lobby accounting standards in Saudi Arabia. This raises questions regarding the benefit of the content of current sessions to increasing knowledge of IFRSs among accountants. The findings also suggest that the dearth of materials on IFRSs in Saudi Arabia also contributes to creating this problem. The results suggest that training accounting staff will be the main expense other listed companies will incur (see section 7.4.3), although this will be a way in which other listed companies will increase their knowledge of IFRSs (see section 8.5).

Furthermore, the findings suggest that alternative methods of IFRSs may present a problem, as there are some IFRSs which may limit the compatibility that the IASB is attempting to achieve through accounting harmonisation. Some participants mentioned, as an example, that some standards allow use of fair value or historical cost. Moreover, more than one method can be used to measure the cost of inventory. Some interviewees suggest that this may affect decision-usefulness; users' decision-making ability may therefore affect. However, some of the participants in this study suggested that alternative methods may be advantageous for Saudi Arabia, as it would become possible to choose methods appropriate to the Saudi environment while at the same

time achieving accounting harmonisation. For example, in Saudi Arabia only the weighted average method is allowed for measuring the cost of inventory; as a result, this method may still be used within the choice of standards. Moreover, some respondents think that this is a chance for Saudi Arabia to address some particular accounting needs to IASB to be within the alternatives methods of standards. Some interviewees mentioned that the alternative methods in IFRSs constitute the IASB's response to political lobbying from different countries.

From the findings, it also appears that one major problem is the weakness of the enforcement mechanism, as SOCPA's current capacity may not be sufficient to enforce the implementation of IFRSs. This would therefore call into question the benefit of implementing IFRSs; this may influence investors in making their decisions. Some participants think that the lack of current level of disclosure and simultaneous weakness of the enforcement body may reduce the ability of users to make the decision to some extent. Some interviewees indicate that SOCPA suffers from a lack of suitably qualified members with sufficient free time to devote themselves to SOCPA's requirements. In addition, all the members work part-time and do not meet regularly; as a result, they do not have sufficient time to deal with accounting standards and their related updates at present. Moreover, this body takes a long time to deal with and answer most enquiries regarding SASs. Therefore, the effectiveness of IFRS implementation in Saudi Arabia is questionable.

The results also suggest that other costs, such as changes in software systems and consultation services, will be incurred by Saudi listed companies, as they will need to adjust their systems to be compatible with new disclosure requirements. This was one

of the problems that company CFOs expressed concern about, offering evidence as to how CFOs try to weigh up the costs and benefits of the changeover to IFRSs, as their interests will influence their opinions. The findings clearly show that this group tried to lobby the choice of accounting standards.

- ***This section discusses the findings that answer the research questions related to the benefits of applying IFRSs in the Saudi environment***

It appears from the overall findings that the majority of respondents agreed that the adoption of IFRS would be beneficial to Saudi Arabia. Most respondents agreed that financial reporting would improve in terms of relevancy, reliability, comparability, understandability, and as a result both foreign investment and investor confidence would increase. However, some participants disagreed that the adoption of IFRSs would improve the quality of financial reporting of other listed companies.

The results also suggest that there are other benefits, such as saving the time and expense involved in issuing SASs, particularly given SOCPA's current situation. Some participants thought that SOCPA should stop issuing SASs, which are unfamiliar to foreign investors, and should use instead IASB standards, which take into account the dynamics of the economic situation and are regularly updated. Moreover, although in some cases SASs provide as much disclosure as IFRSs do or more, IFRSs provide more disclosure in general than SASs and cover most cases in detail (see section 4 for more comparisons between SASs and IFRSs). This result is associated with the questionnaire and interview results that confirmed that the level of disclosure would increase compared to the current situation. This finding is consistent with the Sharia requirement, which requires full disclosure (Lewis, 2001; Napier, 2007). However, some participants

suggest that the level of disclosure may be affected by political influence and the effort of accounting preparers to guard their own self-interests by trying to reduce the costs which greater disclosure may incur (see section 7.4.4). This may be particularly true in view of the weak regulatory and enforcement mechanism in place. As a result, users may not find the information that they require, which would be reflected in their ability to make decisions.

The findings suggest that a strong regulatory body is required for the adoption of IFRS, and it was suggested that SAMA would play a significant role in the effective implementation of IFRSs in financial institutions. Some interviewees also indicate that IFRS adoption in Saudi Arabia may contribute to providing some information associated with Sharia requirements, such as greater disclosure and the preparation of figures according to fair value, which would be more relevant than historical cost figures in Zakat calculation.

Regarding decision-usefulness, it appears from the findings that there is overall agreement that financial reporting based on IFRSs may be useful for decision-making. As with the adoption of IFRSs, the results suggest that the quality of financial reporting and level of disclosure will improve. However, some respondents suggest that decision usefulness is influenced by the weakness of the enforcement body. Moreover, these respondents think that decision usefulness is also influenced by the strong lobbying of accounting regulators and preparers. In addition, it is affected by the education levels of Saudi users and their lack of knowledge of IFRSs. Therefore, they think that even after the adoption of IFRSs in Saudi Arabia, this objective may still be questionable.

To sum up, it appears that the adoption of IFRS will contribute to increasing the quality of other listed companies' financial reporting; consequently, decision usefulness will improve.

8.5 Contributions

The findings of this study contribute to a greater comprehension of factors affecting the adoption of IFRSs in Saudi Arabia as well as assessing to what extent IFRSs are suitable for the requirements of Saudi Arabia. The results also contribute to a comprehension of the factors that impact upon the accounting system in Saudi Arabia, and the extent to which this system is appropriate for local users' requirements by offering them sufficient information.

Moreover, the findings contribute to an awareness of the problems that may arise when developing countries make the transition to IFRSs, the reasons for these problems and how they can be resolved. One of these reasons, according to the findings, is the dearth of study material on IFRSs. This study therefore contributes to the literature its investigation of IFRS adoption in the developing country of Saudi Arabia. A further contribution the study makes is by the provision of evidence as to the manner in which accounting preparers, in the course of their participation in the study, attempted to defend their own interests by lobbying the selection of accounting standards through the use of cost and benefit comparison.

The findings also contribute by their elucidation of the effect of IFRS adoption on the quality of financial reporting in Saudi Arabia. They assist in exploring the degree to which financial reporting based on IFRSs could enhance decision usefulness.

The findings contribute to an understanding of the factors that affect accounting systems in a developing Islamic country (Saudi Arabia), and to what extent the adoption of IFRSs may be supported or hindered by such factors. Another contribution is that the study sheds light on the framework of Islamic accountability *vis-à-vis* current accounting practices in Saudi Arabia.

The study offers suggestions for organisations concerned with the dissemination of financial reporting standards in developing countries. It presents evidence of elements which influence the suitability of IFRSs and could therefore serve regulators interested in enhancing the suitability of accounting standards in other countries, as well as researchers concerned with the adoption of IFRSs. It is recommended that regulatory, supervisory and monitoring authorities in the business domain should possess the adequate capability and resources to meet their responsibilities.

8.6 Implications and Suggestions for Policy

This study suggests that the majority of respondents were in favour of the immediate adoption of IFRSs as they will serve the needs of both the accounting profession and users in Saudi Arabia better than the current accounting system. Therefore, this study provides some suggestions and recommendations prior to the decision as to the adoption.

- Some IFRSs require some modification to suit the Saudi environment. Participants suggest that when Saudi Arabia adopts IFRSs, SOCPA may adopt all IFRSs that suit the Saudi environment, examining those which they think may conflict with the Saudi environment section by section within each standard and ignoring

specific cases of conflict. In other words, they should benefit from the choice of alternative accounting treatment of IFRSs which are suitable for the Saudi environment while keeping the comparability of financial reporting. Some studies found that even modified IFRSs had a positive impact on the economies of developing countries (see Larson, 1993)

- Islamic features of Saudi society must be considered in accounting regulations. They indicted that Saudi listed companies should increase the practice of accountability by providing stakeholders with the information they need through their financial reporting.
- Saudi Arabia should still have its own standards in specific cases, which would be more appropriate to its specific environment; for example, concerning requirements not covered by IFRSs. However, they also believed that standards specific to Saudi Arabia should be based on appropriate, Sharia-compliant laws. In these cases, other standards such as the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) standards could be drawn upon, as these standards have a specific board composed of specialists in issuing standards related to Sharia law (Abuhmaira, 2006). Listed companies should pay greater attention to Zakat and those in the Saudi stock market should issue separate financial reporting for the DZIT, according to Sharia requirements. On the other hand, DZIT staff must improve their system and increase the number of specialists working in the Zakat department, as well as making more effort to achieve the target of Zakat and arrive at a correct calculation of it.

- Saudi Arabia and other Islamic countries could express their specific needs to the IASB in order to influence them in offering some provision for their Islamic needs with some alternative IFRS treatments, or even some other standards to deal with issues related to Sharia law. This study also suggests that in developing countries such as Saudi Arabia the government must play a major role in enforcing the implementation of regulations and providing legal protection, and that a uniform accounting standard is also required.
- Education and training relating to IFRSs should be carried out for both accounting staff and management. In addition, SOCPA should work to improve the knowledge of accounting staff about complex standards. Training courses should be increased and the content of these courses should be reviewed in order to ensure that they are able to help those taking them to understand IFRSs well; as some of the interviewees were not satisfied about the content and material of existing courses on IFRSs. Moreover, SOCPA should work closely with Saudi universities to try and improve the content of the accounting educational background and encourage them to include some subjects related to IFRSs in the universities' requirements in order to increase students' skills in the use of IFRSs.
- Trainers and experts should be brought in and consulting services should be used. An interviewee from the banking sector believed that they SOCPA should also work closely with SAMA for the provision of experts and also to benefit from their experience with IFRSs.

- Workshops are needed and experts should be brought in from outside Saudi Arabia to give lectures on IFRSs to those who prepare and are interested in them. Moreover, research related to IFRSs is deficient and more research should be carried out. Researchers should try to study IFRSs and discuss problems with companies before the standards are put into use, as well as discussing the suitability of full adoption of IFRSs in the Saudi environment. External auditor 5 mentioned that among those involved in the accounting profession there is a dearth of discussion concerning new standards and how to find problems and overcome them, so there should be more discussion of standards, even among individuals who work in accounting firms. The interviewees also believed that all interested parties must be involved and contribute their opinions about IFRSs.
- The findings also suggest that Saudi Arabia also has limited resources (financial, technical and HR) for supporting full adoption of IFRSs. It is necessary for all related parties to be aware that full adoption must be supported by good resources.
- Systems should be modified and amended and that accounting staff should work with IT specialists who could advise and assist them in working with new software to provide and produce information associated with IFRS requirements. In addition, the interviewees agreed that using IFRSs for the first time requires a great deal of preparation and conversion. This demands time from users, other listed companies and local auditing offices.
- In terms of problems of alternative accounting treatments, the interviewees mentioned that SOCPA can organise these choices and ask other listed companies

to choose which treatment is most appropriate and then continue to use it under the supervision of SOCPA. Some interviewees were of the opinion that a culture of change should be cultivated in parties involved with IFRSs.

- Since the introduction of IFRSs there has been a lack of relevant material in the Arabic language. This may represent a barrier to a good understanding of IFRs; therefore, textbooks relating to IFRSs should be updated, translated and provided. External auditor 2 stated that although we have a good resource in the Big Four, we still do not have a hard copy of the latest version of IFRSs.
- Before Saudi Arabia begins to use fair value, the aforementioned issues should be addressed and resolved. Suitable guidelines should be provided to measure fair value and the information systems should be improved to assist in the provision of reliable information about assets to facilitate correct decisions being taken. Otherwise, historical cost should still be applied by making some modifications to IFRSs to suit the Saudi environment.
- IASB should consider developing countries needs and particularly Islamic countries and consider these needs on the process of standards setting, moreover, arabic version of IFRSs should be updated frequently according to the issues of new standards or the amendments of exists standards. Moreover, translations committee should involve all Arabia regions.

8.7 Limitations of the research

Although it is believed that the objectives of this study have been achieved and the research questions successfully answered, some limitations exist.

The first limitation of this study particularly in interviews as not all groups was considered. For instance, regulators in the banking sector (as they refused due to their times constraints) and religious scholars (as it was difficult to contact them) were not involved. Moreover, other limitations, e.g., a small number of questionnaire respondents or interviewees for some groups, particularly the user group of financial analysts/fund managers. Some thought they had sufficiently aired their views through the questionnaire surveys and did not have time to do interviews. This might affect the ability to generalize the results of this group, because the findings were based on the views of those who participated and their knowledge of IFRSs; however, others may have different views. But this is a usual limitation of interpretative research. Further, the questionnaires used in this study were quite long, which may have affected the low response rate of the financial analysts/fund managers user group; this is an important message and opportunity for the researcher to consider in further research.

Furthermore, this study was subject to limitations typically affecting the research methods employed, i.e. questionnaires and interviews. Some respondents may not have provided honest opinions, as some of them may hope to conceal their lack of the knowledge or may want to avoid giving answers that may not be to their organisation or company's advantage. This issue applies to all studies that use questionnaires and interviews.

Circumstances that may change over time may affect the findings of this study; this may constitute another limitation. The number of listed companies will increase and the number of participants such as financial analysts will also increase. Moreover, some regulations may change over time, such as the application of more regulations ensuring that the Saudi accounting system serves and applies Sharia law effectively. The level of education may also improve. However, though these represent limitations of the present study they may also be starting points for future research.

8.8 Suggestions for Further Research

According to the researcher's knowledge, this is the first study of the suitability of IFRSs for Saudi Arabia. The questionnaire survey sample included all CFOs in listed companies on the Saudi stock market at the time of data collection. Further research may extend to include unlisted companies, which may provide other findings.

This study was carried out prior to the full adoption of all listed companies (apart of banking sector) in Saudi Arabia. As a result, future studies may follow after the decision of adoption in Saudi Arabia, which will doubtless provide different findings.

This study considers the influence of religious factors (Islam) on the accounting system, and explores the extent of its influence on the adoption of IFRSs. Therefore, it may be interesting to extend this study to include other Islamic countries that may provide significant, comparable findings.

Appendixes

Appendix 1: Level of significance based on the Mann-Whitney test

(1) Groups influence the development of Saudi accounting standards

	Banks	Other listed Company	Auditor	User	
International lending organisations (i.e. the World Bank)					
Bank		.22	.02	.02	
Company			.57	.14	
Auditor				.04	
Users					
Multinational companies					
Bank		.24	.38	.02	
Company			.55	.001*	
Auditor				.000*	
Users					

(2) Groups influence the adoption of IFRSs

	Banks	Company	Auditor	User	
International lending organisations (i.e. the World Bank)					
Bank		.77	.161	.002*	
Company			.238	.004*	
Auditor				.006*	
Users					
Multinational companies					
Bank		.011	.503	.007*	
Company			.018	.000*	
Auditor				.000*	
Users					
Local users' needs					
Bank		.002*	.011	.256	
Company			.334	.334	
Auditor				.615	
Users					

(3) Groups benefits from the adoption of IFRSs in Saudi Arabia

	Banks	Company	Auditor	User	
Islamic principles					
Bank		.06	.77	.06	
Company			.01	.58	
Auditor				.02	
Users					
Local users' needs					
Bank		.000*	.002*	.49	
Company			.40	.041	
Auditor				.10	
Users					

(*) indicates the statistically significant differences of responses between respondent groups according to the Mann-Whitney test at the .008 level (using to the Bonferroni correction method).

Appendix 2: the comparison between SASs and IFRSs

SAS	IAS	Title	The key differences between SASs and IASs
2	21	Foreign Currency	<p>1- The contract of foreign currency to pay a due liability. The IAS adds that an estimated exchange rate can be used to facilitate the transaction, which is not the case in the SAS.</p> <p>2- Forward exchange contract to avoid the risks associated with and specific to foreign currency. The SAS has an accounting provision for this, but the IAS does not.</p> <p>3- The contract of foreign currency for <i>modarabih</i> The SAS has an accounting provision for this, but the IAS does not.</p>
3	2	Inventories	<p>1- The IAS does not have a separate accounting provision for bought goods and manufactured goods, but the SAS has a separate accounting provision for each of them.</p> <p>2- The IAS allows an alternative method for assigning the cost of inventories by using the LIFO, whereas the SAS permits only the use of weighted average cost formulas for assigning the cost of inventories. However, in some cases, the SAS allows the use of any one of the FIFO, LIFO and weighted average cost formulas for assigning the cost of inventories by the company if the weighted averages do not suit its activities, but it must disclose all the reasons for the use of methods other than the weighted averages method.</p> <p>3- In exceptional cases, the SAS allows the measurement of inventories at the end of the financial period by more than one cost formula, if the cash value is stable and there is no need for marketing costs when sold, as with precious metals.</p>
4	24	Related Party Transactions	<p>1- The SAS requires additional disclosures which are not included in the IAS, such as (a) the value of the transaction or transactions which have been carried out between the company and the related party within the financial period and ; (b) the balance of the related party at the end of the financial period.</p> <p>2- The SAS gives more detail and examples concerning the definition of the related party.</p>
5	18	Revenues	<p>1- The SAS adds that this standard does not apply to transactions which are not part of the main transactions of the company; this standard therefore applies only to the revenues of the main transactions or activities of the companies. On the other hand, the IAS divides the revenues into three types: revenues from sales, revenues from services and the revenues from the use of the company's resources by others.</p> <p>2- In terms of revenues of the transaction of sale with right to return, in the SAS there is recognition of the revenue at the time of collection if there is ability to estimate the returns with a high degree of accuracy and reliability. Otherwise, recognition must be delayed until the final acceptance of the goods by the customer; this is also used as a base by the IAS for recognition of the revenues in this type of sale.</p> <p>3- In term of instalment sales, if there is a high degree of uncertainty of reception of payment then the cost recovery method should be used to as the main method of recording the revenues, according to the SAS. However, according to the IAS the record of the revenues should be delayed until reception of the cash payment.</p> <p>4- The SAS states that the <i>details</i> of the revenues of the main transactions of the company must be disclosed, whereas in the IAS it is the <i>total</i> of the revenues in each type of the revenues that should be disclosed.</p>
7	9	Research and	<p>1- The SAS objective is to specify the requirements for measuring the research and development costs and to present and</p>

		Development Costs	<p>disclose them in the financial statement. However, the IAS objective is to describe the accounting treatment of the research and development costs and to specify when these costs should be considered as expenses and when they should be considered as assets.</p> <p>2- In the SAS, disclosure should include the changes in the capitalist development costs during the financial period and their production's age. On the other hand, the IAS states that detailed equations for the movement of the balance of the development costs which is not amortised should be disclosed.</p> <p>3- The scope of the SAS regarding development costs is extended to include pilot plants.</p>
8	27	Consolidation of Financial Statements	<p>1- The SAS excludes companies which are completely owned by other companies from the application of this standard.</p> <p>2- While the SAS states the objective of this standard, there is no mention of an objective in the IAS.</p> <p>3- Regarding the treatment of the goodwill which may be established from the buying of the controlling interest in a subsidiary, according to the IAS there should be records and proofs of the interest of the goodwill of only the controlling enterprise, whereas the SAS requires the records and the proofs of the interests of both the controlling enterprise and the minority in the balance sheet.</p> <p>4- According to the IAS, the records of non-controlling interest in the net assets of the subsidiary which is controlled by the purchase and the records and proofs of the minority interest in the assets of the subsidiary at the time of the control should not include goodwill, whereas the SAS includes the goodwill.</p> <p>5- Regarding the changes of the controlling interest which is with it cannot miss the control, the SAS mentions this and has an accounting treatment for it; on the other hand, there is no mention of it in the IAS.</p> <p>6- There are more details about the disclosure and additional disclosure requirements in the SAS than there are in the IAS.</p>
9	25	Accounting for Investments	<p>1- In the SAS, this standard does not apply to an enterprise which has special standards issued by SOCPA, not to investments in securities, for which its accounting treatment is based on the consolidation of the financial statements and the equity method.</p> <p>2- The objective of the SAS is to measure and disclose the accounting treatment for the investment in securities; however, the IAS applies to all specialist and non- specialists enterprises for investment and investment in real estate.</p> <p>3- According to the SAS, the investment of securities is categorised as available-for-sale securities, held-to-maturity securities and readily marketable securities, while the IAS categorises them as current and non-current investments.</p>
10	34	Interim reports	<p>1- The scope of SAS is extended to include the accounting treatment of (a) the excluded activities and unusual sections, and (b) gains and losses which are probably held.</p> <p>2- The IAS adds that the changes in equity should be presented at interim reports.</p>
13	16	Fixed Assets	<p>1- According to the SAS, the company should stop the computation of the deprecation of a fixed asset which will be eliminated immediately.</p> <p>2- There is a separate section for the presentation of the fixed assets in the balance sheet under the SAS.</p> <p>3- SOCPA only uses historical cost for re-evaluate fixed assets, whereas IASs allow for the use of fair value, such as IAS 40 and 41.</p>

14	17	Accounting for Leases	<p>1- The SAS categorises the leases from the standpoint of the lessee as operating leases or capital leases, and from the standpoint of the lessor as operating leases or finance leases. On the other hand, there is no such distinction in the IAS, which categorises leases only as finance leases or operating leases.</p> <p>2- In the IAS no accounting treatment is specified for real estate leases, but in the SAS there is a separate accounting treatment for this type of lease.</p> <p>4- In the SAS there is a separate section for the presentation of leases in the financial statements.</p> <p>4- As the SAS distinguishes between leases from the standpoints of both lessee and lessor, it thus makes more disclosure requirements than the IAS.</p>
15	14	Segment Reporting	<p>1- In the SAS this standard applies to all joint stock companies, however, in the IAS this standard applies to all companies which have current shares for the public or intend to issue current shares to the public.</p>
16	28	Investment using the Equity Method or Investment in Associates	<p>The SAS excludes the application of this standard to investments which are treated based on another accounting standard, such as consolidation of the financial statement standard, investment in securities standard or any investments which have a separate standard from SOCPA.</p> <p>2- The SAS indicates the accounting treatment for the first time use of the equity method, but there is no indication for this treatment under the IAS.</p> <p>3- Under the SAS, the reasons which lead to non-application of the equity method by the investing company owning 20% to 50% of the net assets of the investee company should be disclosed.</p>
17	38	Intangible Assets	<p>1- The SAS does not apply to current intangible assets.</p> <p>2- The IAS indicates that goodwill, which is an internal product, should not be recognised as an asset and the disclosure must distinguish between internally-produced intangibles and other intangible assets.</p> <p>3- According to the SAS, the intangible assets should be amortised by using a weighted average through its productive or legal life, whichever is shorter, except for the organisational cost, which should be amortised by no more than seven years. On the other hand, the IAS assumes that the beneficial life for intangible assets should be not more than twenty years, and there is no distinction between any of them.</p> <p>4- The SAS does not permit an increase in the value of intangible assets after their value has been decreased.</p> <p>5- The specified life for each intangible asset and the rate of its amortisation should be disclosed.</p>
18	20	Accounting for Grants and Subsidies	<p>1- The SAS makes a distinction between grants and subsidies and the accounting treatment of each one. Moreover, it distinguishes between different types of grants and different types of subsidies and the accounting treatment of each type according to the sources of grants or subsidies and the reasons for them. For example, some of the types of grants and subsidies are gratuitous, conditional and restricted government grants.</p> <p>2- Under the SAS, government grants and subsidies are measured and recorded based on a fair value of the assets which were received from the company as a guarantee to the government that the company agreeing to them would implement the government's policies and programmes. However, under the IAS they are measured and recorded based on monetary transactions and the fair value of the assets.</p> <p>3- In addition to the presentation and disclosure requirements of the IAS, the SAS also specifies further requirements to</p>

			be presented and disclosed, due to the SAS being extended to include different types of government grants and subsidies, as mentioned above.
19	36	Impairment of Assets	<p>1- The IAS allows the use of different methods to estimate the rate of discount by the company if there is no discount rate specified by market directions</p> <p>2- The IAS has an accounting treatment in case of difficulties in specifying the recoverable amount for the assets.</p> <p>3- The disclosure requirements of the IAS are greater than those of the SAS.</p>
20	33	Earnings per Share	<p>1- According to the SAS, the earning per share from both the main continuous activities and from the net income must be specified in the income statement, and the earnings per share of other activities such as the non-continuous activities and ordinary activities must be disclosed.</p> <p>2- In the SAS, to compute the earning per share, a distinction must be made between companies with simple capital and companies with complex capital There are no clear indications for 1 and 2 in the IAS.</p> <p>3- The scope of the IAS is expanded to include the accounting treatments of some types of shares, such as issues of conditional shares.</p>

(Source: SOCPA, 2007)

Appendix 3: (Analysis process) The process of specifying the codes and placing them into nodes or sub-titles that can help answer the research questions

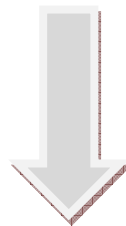
Frequency of each problem	5	1 for each
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Problem	Fair value	Problem 2	Problem 3	Problem 4	Problem 5	Others
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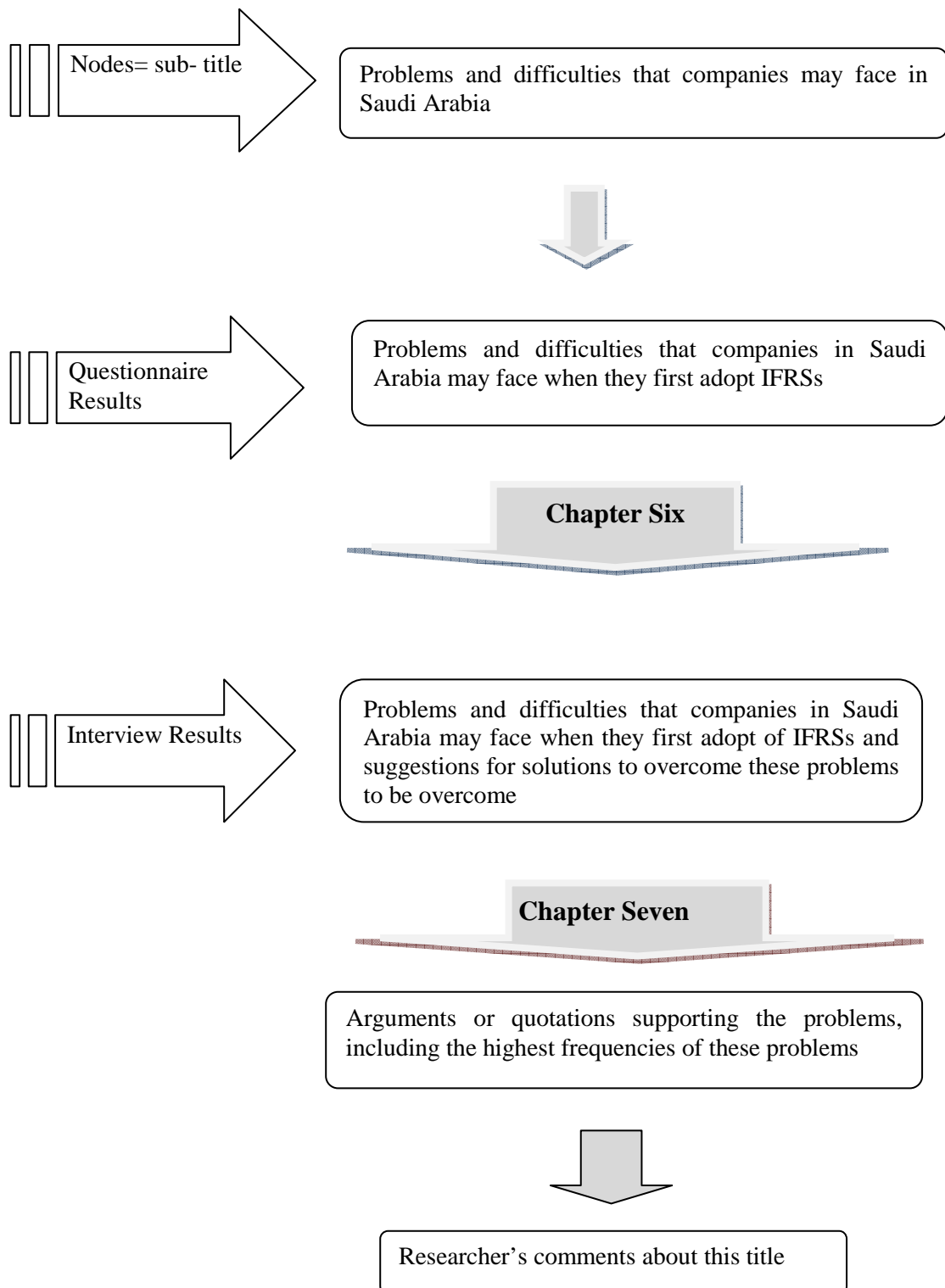


Node1 Title1	=	Problems and difficulties that other listed companies may face in Saudi Arabia	Node2= Title2	
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Research question	3
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Appendix 4: The Presentation of the results of both the questionnaires and interviews, and their relation to the discussion of them in the results chapter



Appendix 5: Zakat payments of listed company X for the financial year ending 2008

Term	Amount
Capital	10,200,000
Statutory reserves	9,630,800
Retained earnings	146,850,602
dividend credits	386,057
Loans	453,616,153
Employment leave provision	12,016,598
Training provision	1,675,217
Total and deducted by :	634,375,427
Fixed assets	(500,906,092)
Spare parts	(21,359,888)
year's losses	(10,204,649)
Total subjected to Zakat	101,904,798
Zakat payment (2.5%)	2,547,620
Zakat paid by company	(743,927)
Outstanding balance due by company	1,803,693

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