The Relevance and Usefulness of IFRSs to Saudi Arabia

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Presented Paper in
International Financial Reporting Standards (IFRS) Conference - Challenges & Opportunities
1st – 2nd May, 2012
Organized by
College of Business & Economics, Qassim University, Saudi Arabia

Abstract. This paper investigates the suitability of International Financial Reporting Standards (IFRSs) to Saudi Arabia by examining the perceptions of accounting users and preparers in terms of costs and benefits of the adoption of IFRSs. A questionnaire survey and series of interviews were conducted among preparers and users of external reports. The findings suggest that the adoption of IFRSs will be associated with difficulties and costs for a number of companies on the Saudi stock market. However, the results indicate that these problems and costs would apply more to small companies and local accounting firms rather than the Big Four, for whom the adoption of IFRSs will be advantageous. On the other hand, 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 initial problems that can arise from their adoption. The findings contribute to an awareness of the problems that may arise when developing countries make the transition to the use of IFRSs, the reasons for these problems and how they can be resolved. Furthermore, the results contribute to an understanding of the impact of IFRS adoption on the quality of financial reporting in Saudi Arabia.

Keywords: Saudi Arabia; IFRSs; Cost and Benefits.
1. Introduction

Over the past few years, many emerging countries have started 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. Thus, a number of accounting researchers have stated that it would be beneficial for emerging countries to adopt these standards (Belkaoui, 1994; Halbouni, 2005; Tyrall, et al. 2007; Stroulal, et al., 2007). Nevertheless, there is debate amongst academics and practitioners concerning the extent to which IFRSs can be relevant to these economies. This is because environments vary across countries. Furthermore, the adoption of these standards may actually be detrimental, because they have been developed for capital markets in developed countries (Hove, 1989; Perera, 1989a; Briston, 1990; Larson, 1993).

Several prevailing factors must be considered, such as culture, the level of development of capital markets, the economy and the political systems, which differ considerably amongst countries and therefore represent possible barriers to establishing an accounting system that is appropriate for all countries (Nobes and Parker, 2006). According to Perera (1989b), developing countries have different and specific needs, which the IASB does not consider. In addition, professional accounting bodies may be weak in these countries, if they exist at all, which creates an obstacle to harmonising accounting standards among countries. IFRSs have previously focused on developed countries’ needs. Therefore, it is time for the IASB to study the needs of the less developed nations in order to spread the global acceptance of IFRSs. One important step to achieving this is by understanding the cultures of less developed nations. Cultural factors are an important differentiator between developed and less developed nations and thus understanding the impact of these factors could direct harmonization efforts towards a global set of accounting standards. For example, Saudi Arabia, a developing country, has significant cultural differences from the developed economies of the West; therefore, this study will focus on Saudi Arabia.

The main contribution of this research is that no other study has examined the adoption of IFRSs in emerging economies, using Saudi Arabia as a case study. This represents a research gap in the area of IFRSs’ relevance to developing countries. The focus on Saudi Arabia is of relevance for several reasons. The most important reason is that Saudi Arabia is an Arabic country and the only country that implements Islamic rules in its national legislation. Second, it has a reputation for adopting a conservative style in most aspects of life. Third, it is one of the largest oil producing country in the world. Fourth, it has the largest capital market in the region. Fifth, it is a G20 country, highlighting its importance to venture capitalists and international organizations. For these reasons, the IASB needs to seriously consider harmonization of its rules with Saudi Arabia. Moreover, this study follows the establishment of the Saudi stock market, which has witnessed a rapid increase in the numbers of listed companies. Furthermore, the government’s recent efforts to attract foreign direct investment (FDI) have resulted in the country being currently rated as one of the best FDI destinations. In addition, this study was conducted after
the decisions by the Saudi Arabia Monetary Agency’s (SAMA) that all Saudi Arabian financial institutions must prepare their financial reporting according to IFRSs and by the Saudi Organization for Certified Public Accountants (SOCPA) that other listed companies should use IFRSs in the absence of a suitable Saudi Accounting Standards (SAS). These factors allow the researcher to test the short and limited experience with IFRSs in Saudi Arabia.

This study collects stakeholders’ perspectives about the role of cultural factors on the issue of adopting IFRSs in Saudi Arabia through questionnaires and interviews. Section 2 presents a review of the relevant literature and theoretical framework. Section 3 describes the research methods. Section 4 presents the results and the analysis and the conclusions are presented in section 5.

2. Literature Review

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 internationalization 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, Fry and Chandler (2007) state that the adoption or modification of IFRSs by developing countries saves time and effort in comparison with establishing their own national standards. Critics such as Turner (1983) argue that adopting IFRSs leads to a better quality of accounting in developing countries, while Saudagaran and Diga (2003) point out that it can lead to increased competitiveness in international capital markets.

However, in some cases adoption is not optional; some developing countries may adopt IFRSs because of the pressure from external organizations such as the World Bank and the International Monetary Fund (IMF) which use IFRSs’ adoption as a condition for providing assistance (Rahman, 2000; Hooper and Morris, 2004; Sucher and Alexander, 2004; Judge, et al. 2010). International accounting firms (IAFs) can also play a role in influencing 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 want their domestic companies to be listed overseas, or if they want auditing to be carried out by an IAF.

Nevertheless, the global application of a single system of accounting facilitates the understanding of financial statements across different countries, allowing more effective comparison (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 in which they prefer to invest (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 make financial statements more understandable (Ashraf and Ghani, 2005).

However, although there are many benefits to be gained from a unified accounting system, accounting harmonisation involves considerable expense. In addition, professional accounting bodies may be weak in some countries, which acts as an obstacle 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 International Accounting Standards (IASs) 39, 40 and 41. It has been argued that the objective of this is to provide accounting users with the opportunity to make decisions based on an accurate valuation 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, implementing fair value accounting may be less reliable than historical cost (Barth, 1994).

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 (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.

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), who conclude that IFRSs are required for the benefit of international investors. However, to fulfil this requirement it is necessary to implement IFRSs gradually and in certain appropriate matters, rather than adopting them in their entirety at the outset. Nonetheless, this situation may change, as the private sector and private capital markets develop, which could mean that IFRSs will become increasingly relevant (Tyrrall, et al. 2007).

Halbouni (2005) conducted a survey that investigated the suitability of IASs to Jordan. 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. 22 of the 36 companies (85.2%) claimed not to have any problems with the interpretation of IASs. However, while the majority of the companies (25) maintained that their accountants were capable of preparing financial statements that complied with IASs, only 14 had offered their staff any training in such preparation (Joshi and Ramadhan, 2002). 22 of the companies stated that the implementation of IASs did not result in any major expense for them, while the overwhelming majority (26, representing 92.8%) stated that IASs were very useful in helping reach the aims of their financial reporting and enhancing its efficiency.

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 should encourage other companies to adopt them. Ghassan, et al. (2012) find that segmental disclosures under IFRS 8 in Jordanian listed companies have increased compared to the information published under IAS 14R. There is an increase in the number of companies disclosing segmental information while the number of business and geographic segments for which information is provided rose under IFRS 8. Next section discussed the theoretical framework that will be used in this study.

**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.” (IASC, 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:

“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’
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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. 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. Research Methodology

3.1. Research Objectives and Questions

As discussed earlier there is a lack of research regarding the relevance of IFRSs in terms of costs and benefits affecting IFRSs’ harmonization in Saudi Arabia. Thus, the main objectives of this paper are to understand problems that must be taken into account when considering the adoption of IFRSs in Saudi Arabia and to understand the benefits that may be gained from adoption.

The questions addressed in the research are:

1. What are the problems of applying IFRSs in the Saudi environment?
2. How can these problems be overcome?
3- What are the benefits of applying IFRSs in the Saudi environment?

3.2. Data Collection

In order to achieve the objectives and answer the research questions, this study employs two data collection methods, questionnaires and interviews. This mixed-method approach 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). In addition, the combination of the two approaches permits the shortcomings of each to be overcome.

3.2.1. Questionnaire design and analysis

Four different questionnaires were distributed to the study sample. The first was designed for the preparers of financial statements (i.e. accountants) in the banking sector, as this is the only sector that is presently required to issue financial statements based on IFRSs. The second questionnaire was designed for the preparers of financial statements (i.e. accountants) in other sectors (insurance, industry, and services), 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) who make, at least, moderate use of corporate annual reports. The fourth questionnaire was designed for external auditors working in accounting firms (local and the ‘Big Four’), among them Certified Public Accountants (CPAs). These groups were derived from studies that examine related issues of IFRSs in different developing countries, including Joshi and Ramadhan (2002), Kosonboov (2004) and Tyrrall, et al. (2007).

3.2.2. Interviews

However, the questionnaires were not sufficient to achieve the research objectives, particularly as these require greater understanding of banks’ experiences of the adoption of IFRSs. Therefore, semi-structured interviews with a number of the preparers and users of accounting information in Saudi Arabia provided further benefits including: the general benefits of combining different research methods; seeking clarification to the answers to the questionnaire; addressing more specific questions than those included in the questionnaires; and collecting more material. According to Easterby-Smith, et al. (2002) 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 to 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.

Interview respondents (see Table 1) were selected based on their position and experience. They were also chosen based on their ability to make an important contribution to the study, and their involvement in setting SASs or using financial information. A number revealed their experience and interest through their contribution to the questionnaire survey, making it useful to interview them in order to gather in-depth information. Furthermore, a number of interviewees recommended other key people who should be interviewed to gain more in-depth information. Through interviewees’ recommendations, the researcher was able to gain access to
other interviewees who were willing to be interviewed more easily than would have been expected.

Table 1: Number of Interviewees

<table>
<thead>
<tr>
<th>Group</th>
<th>Number of respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Standard Setters</td>
<td>2</td>
</tr>
<tr>
<td>External Auditors</td>
<td>5</td>
</tr>
<tr>
<td>CFOs of listed companies</td>
<td>3</td>
</tr>
<tr>
<td>CFOs in the banking sector</td>
<td>4</td>
</tr>
<tr>
<td>Zakat and Tax Officers</td>
<td>2</td>
</tr>
<tr>
<td>Financial Analysts</td>
<td>2</td>
</tr>
<tr>
<td>Academics</td>
<td>2</td>
</tr>
<tr>
<td>Regulators</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>20</td>
</tr>
</tbody>
</table>

4. Analysis of Results

Table (2) shows the overall response rate of 40.6%. This rate represents 93.3% of the Chief Financial Officers (CFOs) approached in the banking sector, 30.0% of CFOs in listed companies in other sectors, 40.0% of the financial analysts and 41.1% of the external auditors. This response rate seems satisfactory, particularly compared with the normal response rate for postal questionnaires, which is expected to be around 10% (Oppenheim, 2000), and compared with other similar studies (Joshi and Ramadhan, 2002; Halbouni, 2005).

Table 2: Respondent Groups and Response Rate

<table>
<thead>
<tr>
<th>Group</th>
<th>Population</th>
<th>Sample</th>
<th>Distributed</th>
<th>Received</th>
<th>Response Rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chief Financial Officers (banking sector)</td>
<td>10</td>
<td>10</td>
<td>15*</td>
<td>14</td>
<td>93.3</td>
</tr>
<tr>
<td>Chief Financial Officers (listed companies in other sectors)</td>
<td>80</td>
<td>80</td>
<td>80</td>
<td>24</td>
<td>30.0</td>
</tr>
<tr>
<td>Financial Analysts and Fund Managers</td>
<td>30</td>
<td>30</td>
<td>30</td>
<td>12</td>
<td>40.0</td>
</tr>
<tr>
<td>External Auditors</td>
<td>170</td>
<td>170</td>
<td>170</td>
<td>70</td>
<td>41.1</td>
</tr>
<tr>
<td>Total</td>
<td>290</td>
<td>290</td>
<td>295</td>
<td>120</td>
<td>40.67</td>
</tr>
</tbody>
</table>

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

4.1 Problems and Costs that May Result from Applying IFRSs in the Saudi Arabian Environment

4.1.1. 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, familiarisation 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 face is that Saudi accountants are unused to
exercising professional judgment (See Appendix 1). This problem was a concern for a number of questionnaire and interview respondents. This suggests that this issue may appear more problematic in Saudi Arabia than in other developing countries for educational and cultural reasons.

This study suggests that the education system may influence individuals’ abilities 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.

Culturally, ways of thinking influence professional judgment (Tyrrall, et al. 2007). The findings of the present study suggest that 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 authority. 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 are expected to listen 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.

Some interviewees mentioned that professional judgement will require to 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. This helps to understand 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 linked to education: 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) 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 the standards refer to many types of derivatives that are difficult to master. Other IFRSs were also identified as being complex; for example, IFRSs 2 and 7.

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), Tyrrall, et al. (2007), and Dunne, et al. (2008), which find that these standards can pose difficulties in both developed and developing countries. However, these standards may present particular difficulties in Saudi Arabia for several reasons.

First, there is the question of the quality of education, as the education system in Saudi Arabia is weaker than that of developed countries such as the UK, which is an important contributor to IASB (Larson, 2007), and has a strong influence on IFRSs. Therefore, it can 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. However, although in the UK students are also provided with materials and assistance from teachers and lecturers, in contrast to Saudi students, UK students must rely on their own independent learning to a far greater extent. This leads to them gaining skills that will assist in dealing with accounting standards that require a degree of professional judgement.1

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. It is therefore logical to assume that SOCPA may find it difficult to answer questions on IFRSs.

SAMA (the regulator of the banking sector) obliges banks to encourage their staff to become familiar with these standards (IFRSs) and overcome their difficulties regarding them. SAMA has played a major role in educating and training those in the banking sector in order to produce staff at all levels that are 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.

Overall, most participants mentioned that details, examples, interpretations and guidelines for IFRSs are needed prior to their full adoption in Saudi Arabia (See Appendix 2).

4.1.2. 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

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1 This difference was noticed by the researcher during his studies. Lecturers in Saudi universities lead students directly to the relevant 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 give a number of references (books and articles) at the end of lecture, and students have to make the effort to cover these references in preparation for the exam. Therefore, UK students are more self-reliant. This helps them develop independent thinking and use their professional judgment, as opposed to Saudi students, who in most cases merely repeat what the lecturer wants.
disadvantages of the fair value method (Kosonboov, 2004), as it reduces reliability compared with the historical cost method (Barth, 1994).

The results suggest that most respondents agreed about the potential advantages of fair value over historical cost (See Appendix 5), although some were 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. First, the level of economic growth may affect the determining of fair value in Saudi Arabia, as there is no reference for the price of or market for assets apart from the Saudi stock market. However, even with the existence of the Saudi stock market, fair value figures may to some extent be unreliable and inaccurate for decision-making purposes. This is because although the Saudi stock market is 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). The Saudi stock market is still developing and most interviewees believed that the price of shares in the majority of listed companies may not represent the true fair value of the company. This may be because elements of Saudi culture influence individual investors in the Saudi stock market, as they tend to follow others (when buying or selling shares) and act according to hearsay. This can lead to an increase or decrease in the share price which then does not reflect the fair price.\(^2\) Saudi culture emphasizes joining groups and asking others about any matter; Hofstede (1980) classified Arab countries as strongly collectivist. However, on occasions the groups do not have any knowledge or experience of the Saudi stock market.

Second, 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, a number of interviewees highlighted that no regulating body to enforce and control the evaluation method exists. This can also create 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.

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 can be subject to influence by company management.

The above results may explain why the Ministry of Commerce does not use fair value for assets that do not have a market value in Saudi Arabia. This is reflected in the comparison of treatment between SASs and IFRSs. 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, a number of respondents were concerned

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\(^2\) 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 social groups.
The Relevance and Usefulness of IFRSs to Saudi Arabia

about fair value measurement due to the lack of measuring methods, including the absence of an active market for the majority of assets, the lack of qualified valuers and a weak regulatory body. Therefore, most interviewees suggested that before Saudi Arabia begins to use fair value, the aforementioned issues should be 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. Until this occurs, historical cost should still be applied by making modifications to IFRSs to suit the Saudi environment.

4.1.3. The limited knowledge of IFRSs

Studies highlight that one of the main problems facing developing countries during the adoption of IFRSs is accountants’ limited knowledge of these standards (Kosonboov, 2004; Halbouni, 2005). This is reflected in this study which suggests that there is a lack of qualified accounting personnel in Saudi Arabia generally and in listed companies in particular. In turn, this can lead to constraints in the implementation of appropriate accounting standards. Although the level of education is improving, including individuals being educated abroad, most interviewees attributed the limitation of Saudi accountants’ knowledge of IFRSs to a lack of training and education. Furthermore, no attention is given 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. In addition, a number of interviewees highlighted that there is no appropriate system to help overcome potential difficulties should Saudi Arabia adopt IFRSs. Facilities that can help improve the quality of education, such as group discussions and computer use, are still comparatively limited.

However, despite SOCPA’s decision to use IFRSs in preference to SASs, the findings suggest that SOCPA still has insufficient and inappropriate courses regarding IFRSs in Saudi Arabia. This finding raises questions about SOCPA’s ability to supervise the full implementation of IFRSs. An external auditor believed that there was insufficient information on IFRSs in a number of courses organised by SOCPA. He mentioned that some training courses mislead those who attend as the information provided on the course does not correspond to the title of the course.

Another interesting finding is that courses relating to IFRSs in Saudi Arabia may be used by regulators to address their interest in and preference for accounting standards in Saudi Arabia. A number of interviewees highlighted that SOCPA organizes few sessions on IFRSs; moreover, the content of these sessions is questionable. An external auditor asserted that some SOCPA organised workshops or courses about IFRSs were led by people who did not accept that any standard other than SASs should exist in Saudi Arabia or by individuals with little experience of IFRSs.6

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6 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...
Furthermore, a number of interviewees also indicated that the shortfall in 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 that US textbooks have been widely used in Saudi universities for a considerable period of time, many of which have been translated into Arabic. Academic 1 commented that in Saudi Arabia many American textbooks are translated into Arabic in order 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 Bachelors degree courses. A number of 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, the results suggest that the dearth of courses in the Saudi curricula is one of the factors leading to the difficulty of implementing IFRSs in Saudi Arabia.

In summary, the results suggest that the lack of qualified staff will impact negatively not only on listed companies but also local accounting firms; staff 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 can lead some to leave their local companies 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.

4.1.4. Training of accounting staff

The findings suggest that training of accounting staff represents the main expense banks faced and other listed companies will face. A number of 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 level of education required. However, interviewees highlight that costs will be incurred not only for training accounting staff in Saudi Arabian companies but also for training auditors in local accounting firms, as they appear to know less about IFRSs than staff working in the Big Four firms. As a number of interviewees highlighted the cost of training accounting staff may differ depending on company size.

The implication is that 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 because of its limitations. This raises the question of whether or not all other listed companies on the Saudi stock market should adopt IFRSs at the present moment. It may suggest that if small companies are not able to implement IFRSs effectively, the benefits from adoption will decrease.

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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.
In summary, this cost (training of accounting staff) will be faced by other listed companies. However, training is the most important method for overcoming the problems of implementation (See Appendix 2). 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). 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.

4.1.5. Other problems of IFRS implementation

The findings suggest that the transfer to IFRSs in Saudi Arabia may result in other problems, including Comparative Figures for the Previous Financial year on the Basis of IFRSs, Alternative Methods in IFRSs, Management and new Disclosure, and Weakness of the Enforcement Mechanism.

4.2. Benefits of IFRS Implementation in Saudi Arabia

In this section the benefits resulting from the transition to IFRSs in Saudi Arabia will be explored.

4.2.1. 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 of a country’s 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.

Although there appears to be overall agreement among respondents that the quality of financial reporting, in terms of reliability, relevancy, comparability and understandability, will increase after the adoption of IFRSs in Saudi Arabia (See Appendix 4), there was 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. However, a number of the interviewees argued that the quality of financial reporting in Saudi Arabia might not be influenced or improved by the transition to IFRSs.

In terms of comparability, a number of interviewees highlighted that the adoption of IFRSs in Saudi Arabia would create greater comparability and transparency, and make financial reporting more consistent. 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. In addition to the benefit of comparable financial reports between listed companies in Saudi Arabia and those outside the country, interviewees mentioned that comparison among companies...
within Saudi Arabia will also improve, particularly between insurance companies regulated by SAMA, which requires these companies to prepare their financial reporting based on IFRSs, and other listed companies which use SASs.

This suggests that the adoption of IFRSs in Saudi Arabia may benefit insurance companies more than other companies in other sectors. These companies are increasing on the Saudi stock market (CMA, 2010)\(^4\) and, in the current situation, preparing more than one financial report costs them more than companies which only have to prepare one.

Nevertheless, a number of interviewees were concerned about comparison. Standard setter 1 highlighted that some IFRSs allow more than one accounting treatment, which may actually decrease comparability between companies. Some authors argue that the adoption of IFRSs may not provide consistency across countries, attributing this to cultural differences and to the alternative methods that some IFRSs permit. Each country may choose methods based on certain factors, such as their prior national standard. For example, KPMG (2006) found that there was a degree of inconsistency in the financial reporting of EU countries, and that 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 consider that comparison benefits will be limited.

Second, most of the interviewees believed that understandability would also increase. Moreover, some even suggested that after the adoption of IFRSs, financial reporting would be easier to understand. Furthermore, a number of 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. This supports the belief of those respondents that accounting in Saudi Arabia is not primarily geared towards serving financial information users. If this is the case, it would be in conflict with the objectives of Islamic principles according to Islamic accountability (Lewis, 2001), and even with the objectives of regulatory bodies, including the IASB and SOCPA. This result 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.

Importantly, two 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 considered that parts of financial reporting are difficult 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”.

\(^4\) According to Capital Market Authority (CMA) These companies increased dramatically on the Saudi stock market, from 2 companies in 2008 to 27 companies in 2010.
A number of interviewees also disagreed with the idea that IFRS adoption in Saudi Arabia could 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 automatic improvement in the quality of financial reporting. Instead, both interviewees linked improved quality to a strong enforcement mechanism. In countries, such as Pakistan, the adoption of IFRSs did not improve the quality of financial reporting, but factors such as the lack of a body to provide investor protection were more influential towards the state of financial reporting, (Ashraf and Ghani, 2005). Therefore, it can be suggested 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.

In summary, there appears to be general agreement on the potential to increase the quality of financial reporting following the adoption of IFRSs in Saudi Arabia, but this advantage will only be gained on the condition that all domestic regulatory bodies, such as SOCPA and SAMA, are effective. Moreover, the level of education of accounting users needs to increase in order to improve the level of their understanding of financial reporting based on IFRSs.

4.2.2. Improving the level of disclosure

Most respondents in this study suggested that IFRS adoption would improve the level of disclosure, implying that IFRSs may respond to user demand. The CFO of Bank 4 also believed that since 2008, financial reporting under IFRSs had become more transparent and featured greater disclosure than in 2007. This was associated with changes and improvements to IFRSs. Improved disclosure was also highlighted as a benefit, particularly for shareholders and for investors.

However, although a number of interviewees, particularly the CFO of Bank 1 and External auditor 4, agreed that greater disclosure was good, but may mislead users who could have difficulty understanding the reports. This concern reflect an element of Saudi culture that Hofstede (1980) terms high power distance. 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 decisions; it is almost always the head of the tribe who is in this position (Sabri, 1995). These respondents are trying to reflect the features of a leader who leads others.

Other listed companies on the Saudi stock market may not prefer the increase of disclosure as it may lead to disadvantages for them. Companies may keep secret any information that could potentially harm them or negatively influence investors’ confidence. This may be the case in Saudi Arabia because most companies are primarily family-owned (Chang and Kumawala, 1994), with the owners controlling the majority of company shares. This may account for why levels of disclosure are so low. In contrast, those companies in which the majority of shareholders are external may disclose more information in order 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).

It can 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.

In summary, this study suggests that the level of disclosure will improve following the adoption of IFRSs in Saudi Arabia, particularly if this is reinforced with enforcement by (CMA, the stock market regulatory body). This result is consistent with some studies such as Ghassan, et al. (2012). This result conforms with Sharia law, which requires full disclosure and transparency (see, Baydoun and Willett, 2000; Lewis, 2001), particularly when the accounting users that participated in this study suffer from a lack of information being disclosed at present in Saudi Arabia. Therefore, it can be suggested that those users may be provided with more or all of the information that they need.

4.2.3 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 the quality of financial reporting, 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. 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. 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. 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. However, this study provides some suggestions for overcoming this problem.

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 valuators, 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 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.

The results of the questionnaires and interviews show that the adoption of IFRSs in Saudi Arabia would provide other advantages, such as SOCPA’s ability to save time and money involved in issuing SASs. The reduction in costs and time involved in issuing SASs, adopting high-quality standards, increasing capital and entering international markets and some benefits for the requirements of Saudi society and an increased level of disclosure compared with current standards.

5. Summary and Conclusion

The findings suggest that the adoption of IFRSs will be associated with difficulties and costs for a number of companies on the Saudi stock market. However, the results indicate that these problems and costs would apply more to small companies and 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 which are highly technical. Other standards that could also cause problems are IFRS 2, IFRS 7 and IFRS 8. It can be suggested that factors raised by Hofstede (1980), such as high power distance and high levels of statutory control and secrecy, dominate a number of accounting practices at present, in addition to the weakness of accounting education, contribute to exacerbating this problem. It suggests that accounting users may find decision-making difficult, as their ability to do so can be affected by professional judgement or the lack thereof.

Another problem may arise from the use of fair value. Although the majority of interviewees 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 dearth 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 education and training. A number of interviewees suggest that even with the current training sessions on IFRSs, the number and content of training sessions is inadequate. Indeed, a number of participants think that the organisers of these sessions are influenced by accounting setters who prefer that SASs continue to be used in Saudi Arabia rather than other accounting standards such as IFRSs. 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 contributes to creating this problem. The results

5 The weak practice of Sharia requirements and some Islamic theory, such as Islamic accountability, by the majority of companies lead Saudi Arabia to apply some of these dimensions (which essentially conflict with Islamic theory) in accounting practice at present.
suggest that training accounting staff will be the main expense other listed companies will incur, although this will increase their knowledge of IFRSs.

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 weigh up the costs and benefits of the changeover to IFRSs in terms of their company’s interests. The findings clearly show that this group tried to lobby the choice of accounting standards. The finding suggest that the above problems may be overcome via education and training. Moreover, details, examples, interpretations and guidelines for IFRSs are needed prior to their full adoption in Saudi Arabia.

However, it appears from the overall findings that the majority of respondents agreed that the adoption of IFRS would be beneficial to Saudi Arabia. The majority respondents agreed that financial reporting would improve in terms of relevancy, reliability, comparability, and understandability. As a result both foreign investment and investor confidence would increase (See Appendix 5).

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. A number of 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, IFRSs provide more disclosure than the former and cover most standards in greater detail. This aspect is reflected in the questionnaire and interview results which confirm that the level of disclosure would increase under IFRSs. This finding is consistent with the Sharia requirement, which requires full disclosure (Lewis, 2001; Napier, 2007). However, a number of participants suggested that the level of disclosure may be curtailed by political influence and the effort of accounting preparers to guard their own self-interests by trying to reduce the costs which greater disclosure could incur.

To have the above benefits, the findings suggest that a strong regulatory body is required for the adoption of IFRS, and it was highlighted that SAMA plays a significant role in the effective implementation of IFRSs in financial institutions. A number of interviewees also indicated that IFRS adoption in Saudi Arabia may contribute to providing information associated with Sharia requirements, such as greater disclosure and the preparation of figures according to fair value, which is of greater relevant than historical cost in Zakat calculations.

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.

Although the researcher believes that the objectives of the study have been achieved and the research questions successfully answered, a number of limitations exist. The first is that not all the groups relevant to the subject were investigated, particularly in the interviews. For instance, regulators in the banking sector (who declined due to time constraints) and religious scholars (who were difficult to contact) were not involved. Moreover, other limitations include the small number of questionnaire respondents and interviewees in certain groups, particularly in relation to the user group of financial analysts/fund managers. A number of respondents thought they had sufficiently aired their views through the questionnaire surveys and did not have time for the interviews. This could 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. Nevertheless, this is a usual limitation of interpretative research. Furthermore, the questionnaires used in this study were relatively long, which may have affected the low response rate of the financial analysts/fund managers’ user group; this is an important message for the researcher to consider in further research. In addition, this study is subject to limitations typically affecting the research methods employed, questionnaires and interviews. For example, respondents may not have provided honest opinions, as they hoped to conceal their lack of the knowledge or to avoid giving answers that would disadvantage their organisation or company. As the data were collected in 2008 and 2009, circumstances may change over time thereby affecting the findings, which may constitute another limitation.

Despite these limitations, the findings contribute to an awareness of the problems that can 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 through 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 results also 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 could increase decision-usefulness following their adoption in Saudi Arabia.

Further research could extend this study by examining the impact of macro- and micro-economic and political factors that shed light on the understanding of the factors that should be considered before adopting IFRS in developing economies. Moreover, culture factors that might influence the adoption of IFRSs in Saudi Arabia may be researched. Finally, this study has several implications for
accounting and capital market authorities in developing economies, in particular Saudi Arabia, in understanding the barriers in IFRSs' adoption.

6. References


Appendix 1

Perceptions of questionnaire respondents regarding overall problems and costs of the transition to IFRSs

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

Total 145

Perceptions of questionnaire respondents regarding costs that banks incurred during IFRS implementation

<table>
<thead>
<tr>
<th>Cost</th>
<th>Yes (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Training of accounting staff in IFRSs</td>
<td>78.6</td>
</tr>
<tr>
<td>Consulting service</td>
<td>50</td>
</tr>
<tr>
<td>Purchase of technical literature</td>
<td>35.7</td>
</tr>
<tr>
<td>Changes to software systems</td>
<td>64.3</td>
</tr>
</tbody>
</table>

Perceptions of questionnaire respondents regarding costs that other listed companies may incur when implementing IFRSs

<table>
<thead>
<tr>
<th>Cost</th>
<th>Yes (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Training of accounting staff in IFRSs</td>
<td>88</td>
</tr>
<tr>
<td>Consulting service</td>
<td>79</td>
</tr>
<tr>
<td>Purchase of technical literature</td>
<td>42</td>
</tr>
<tr>
<td>Changes to software systems</td>
<td>42</td>
</tr>
</tbody>
</table>
Appendix 2
Suggestions by interviewees for overcoming problems that may result from transition to IFRSs

N Suggestions
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

Appendix 3
Opinions of questionnaire respondents about SOCPA’s decision

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”.

<table>
<thead>
<tr>
<th>To what extent do you agree with SOCPA’s decision?</th>
<th>Mean</th>
<th>SD</th>
<th>Level of disagreement (1 or 2) %</th>
<th>Level of agreement (4 or 5) %</th>
<th>Sig*</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>4.31</td>
<td>.785</td>
<td>0</td>
<td>80.2</td>
<td>.23</td>
</tr>
</tbody>
</table>

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.

Opinions of questionnaire respondents about SAMA’s decision

Question 2: For the past few years SAMA has required all banks in Saudi Arabia to prepare their financial statements in accordance with IFRSs.

<table>
<thead>
<tr>
<th>To what extent do you agree with SAMA’s decision?</th>
<th>Mean</th>
<th>SD</th>
<th>Level of disagreement (1 or 2) %</th>
<th>Level of agreement (4 or 5) %</th>
<th>Sig*</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>4.65</td>
<td>.767</td>
<td>0</td>
<td>82.3</td>
<td>.08</td>
</tr>
</tbody>
</table>

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.
Appendix 4

Perceptions of questionnaire respondents about groups that will benefit from IFRS adoption

Question 5: In your view, to what extent will each of the following groups benefit from the adoption of IFRSs in Saudi Arabia?

<table>
<thead>
<tr>
<th>Factors</th>
<th>Mean</th>
<th>SD</th>
<th>Level of disagreement (1 or 2) %</th>
<th>Level of agreement (4 or 5) %</th>
<th>Sig*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Multinational companies</td>
<td>3.87</td>
<td>.357</td>
<td>1</td>
<td>88</td>
<td>.15</td>
</tr>
<tr>
<td>Foreign investment</td>
<td>3.84</td>
<td>.430</td>
<td>2</td>
<td>87</td>
<td>.24</td>
</tr>
<tr>
<td>International auditing firms</td>
<td>3.78</td>
<td>.510</td>
<td>4</td>
<td>82</td>
<td>.60</td>
</tr>
<tr>
<td>Global capital market</td>
<td>3.69</td>
<td>.632</td>
<td>9</td>
<td>78</td>
<td>.11</td>
</tr>
<tr>
<td>Saudi Stock Exchange</td>
<td>3.62</td>
<td>.609</td>
<td>7</td>
<td>69</td>
<td>.22</td>
</tr>
<tr>
<td>International organisations (i.e. the World Bank)</td>
<td>3.53</td>
<td>.745</td>
<td>15</td>
<td>65</td>
<td>.10</td>
</tr>
<tr>
<td>Academics in accounting fields</td>
<td>3.50</td>
<td>.709</td>
<td>12.5</td>
<td>66</td>
<td>.36</td>
</tr>
<tr>
<td>Local users’ needs</td>
<td>3.48</td>
<td>.673</td>
<td>10</td>
<td>57</td>
<td>.00*</td>
</tr>
<tr>
<td>The government (e.g. the Ministry of Commerce)</td>
<td>3.33</td>
<td>.792</td>
<td>20</td>
<td>53</td>
<td>.11</td>
</tr>
<tr>
<td>Islamic principles</td>
<td>2.83</td>
<td>.823</td>
<td>44</td>
<td>27</td>
<td>.01*</td>
</tr>
</tbody>
</table>

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.

Perceptions of questionnaire respondents about the quality of financial reporting based on IFRSs

Question 6: To what extent do you agree that the implementation of IFRSs in Saudi Arabia will improve the quality of financial reporting?

<table>
<thead>
<tr>
<th>N</th>
<th>Factors</th>
<th>Mean</th>
<th>SD</th>
<th>Level of disagreement (1 or 2) %</th>
<th>Level of agreement (4 or 5) %</th>
<th>Sig*</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Relevance</td>
<td>3.80</td>
<td>.975</td>
<td>15</td>
<td>71</td>
<td>.99</td>
</tr>
<tr>
<td>2</td>
<td>Reliability</td>
<td>4.08</td>
<td>.724</td>
<td>2</td>
<td>77</td>
<td>.59</td>
</tr>
<tr>
<td>3</td>
<td>Comparability</td>
<td>4.17</td>
<td>.748</td>
<td>1</td>
<td>79</td>
<td>.45</td>
</tr>
<tr>
<td>4</td>
<td>Understandability</td>
<td>3.93</td>
<td>.837</td>
<td>5.8</td>
<td>73</td>
<td>.14</td>
</tr>
</tbody>
</table>

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.
#### Perceptions of questionnaire respondents about benefits of IFRSs in Saudi Arabia

**Question 7**: What are the advantages of the adoption of IFRSs by Saudi Arabia compared to the current situation?

<table>
<thead>
<tr>
<th>Advantages</th>
<th>Frequency</th>
</tr>
</thead>
<tbody>
<tr>
<td>Enhance the comparability of financial reporting</td>
<td>38</td>
</tr>
<tr>
<td>Have comprehensive, improved, regularly updated standards that consider economic variables</td>
<td>28</td>
</tr>
<tr>
<td>Facilitate the growth of foreign direct investments in Saudi Arabia</td>
<td>17</td>
</tr>
<tr>
<td>Increase the transparency of financial reporting</td>
<td>14</td>
</tr>
<tr>
<td>Transfer knowledge</td>
<td>10</td>
</tr>
<tr>
<td>Enter international markets</td>
<td>8</td>
</tr>
<tr>
<td>Save the time and effort needed to issue Saudi standards</td>
<td>8</td>
</tr>
<tr>
<td>Used by foreign users</td>
<td>5</td>
</tr>
<tr>
<td>The harmonisation of accounting languages inside and outside Saudi Arabia</td>
<td>5</td>
</tr>
<tr>
<td>Other</td>
<td>16</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>150</strong></td>
</tr>
</tbody>
</table>

#### Appendix 5

**Perceptions of the respondents regarding use of fair value and historical cost in Saudi Arabia**

<table>
<thead>
<tr>
<th>N</th>
<th>Statements</th>
<th>Mean</th>
<th>SD</th>
<th>Level of disagreement (1 or 2)</th>
<th>Level of agreement (4 or 5)</th>
<th>Sig*</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Investment property should be measured by the fair value method</td>
<td>3.87</td>
<td>.814</td>
<td>21</td>
<td>61</td>
<td>.15</td>
</tr>
<tr>
<td></td>
<td>Investment property should be measured by the historical cost method</td>
<td>2.19</td>
<td>.804</td>
<td>62</td>
<td>20</td>
<td>.07</td>
</tr>
<tr>
<td></td>
<td>Use of the fair value measurement in investment property provides useful and accurate information for economic decision-making</td>
<td>4.07</td>
<td>.674</td>
<td>7</td>
<td>63</td>
<td>.53</td>
</tr>
</tbody>
</table>

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.

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?

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.
Reasons for respondents’ answers concerning an appropriate method in investment property in Saudi Arabia

**Reasons**

**Fair value should be used because:**
- 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:**
- 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

**Appendix 6**

Perceptions of questionnaires respondents regarding the timing of IFRS adoption

<table>
<thead>
<tr>
<th>Which of the following statements is the closest to your personal opinion? (Tick one)</th>
<th>Overall response</th>
<th>CFO (banks)</th>
<th>CFO (other listed companies)</th>
<th>External auditors</th>
<th>Financial analysts</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>F</td>
<td>%</td>
<td>F</td>
<td>%</td>
<td>F</td>
</tr>
<tr>
<td>No response IFRSs should have been adopted earlier in Saudi Arabia</td>
<td>13</td>
<td>10.8</td>
<td>0</td>
<td>0</td>
<td>2</td>
</tr>
<tr>
<td>It is too early to implement IFRSs in Saudi Arabia.</td>
<td>41</td>
<td>34.2</td>
<td>6</td>
<td>42.9</td>
<td>10</td>
</tr>
<tr>
<td>This is a suitable time to adopt IFRSs.</td>
<td>10</td>
<td>8.3</td>
<td>1</td>
<td>7.1</td>
<td>2</td>
</tr>
<tr>
<td>It is difficult to adopt IFRSs in Saudi Arabia</td>
<td>55</td>
<td>45.8</td>
<td>7</td>
<td>50.0</td>
<td>9</td>
</tr>
<tr>
<td>Total</td>
<td>120</td>
<td>100</td>
<td>14</td>
<td>100</td>
<td>24</td>
</tr>
</tbody>
</table>
Respondents’ reasons for their answers concerning the timing of IFRS adoption

**Reasons:**

- **This is a suitable time to adopt IFRSs because:**
  - 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

- **IFRSs should have been adopted earlier in Saudi Arabia because:**
  - 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.

- **It is too early to implement IFRSs in Saudi Arabia because:**
  - 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
أهمية وفائدة معايير التقارير المالية الدولية للمملكة العربية السعودية

سلطان القطان
جامعة الملك خالد، المملكة العربية السعودية

مؤتمر معايير التقارير المالية الدولية - النحيدات والقصص
21-22 تموز/يول 1433هـ – 1-2 مايو 2012م
كلية الاقتصاد والإدارة – جامعة القصيم

المملكة العربية السعودية

من خص البحث. تتقصى هذه الورقة ملاءمة معايير التقارير المالية الدولية IFRSs للمملكة العربية السعودية وذلك لبحث مزايا استخدامها وتعليقها فيما يتعلق بتكلفة ومنافع تبني IFRSs، وكذلك تحليل إجراء مسح استدامي ومقاومات مع مستخدمي وعديد التقارير الخارجية. وتشير النتائج إلى أن تبني IFRSs سوق تسكنه الصعوبات والتكلفة في عدد من الشركات بسوق الأسهم السعودية. غير أن النتائج تشير إلى أن هذه المشكلات والتكلفة ستشكل أكبر على الشركات الصغيرة والمتوسطة المالية وليست على الأربعة الكبار الذين سوف يحتمل الربح في تسليم IFRSs. ومن الناحية الأخرى تشير النتائج إلى أن تبني IFRSs جودة التقارير المالية. كما تكشف النتائج أيضًا أن التقارير المالية المحددة استدامة على IFRSs تقدم المزيد من المعلومات المطلوبة لأجل التفاؤل القرار. كما تشير النتائج أيضًا إلى وجود اتفاق على بعد ما في أوساط المستثمرين على IFRSs لمجلة المملكة العربية السعودية وأن منافعها سفوق آخر الأمر المشاكل الأولية التي يمكن أن تظهر عند التبني. وتتشمل نتائج في إيجاد نوع من الوعي بالمشكلات التي يمكن أن تبرز عندما تقوم الدول النامية بالتحول نحو IFRSs. وأسباب تلك المشاكل وأسلوب حلها. فضلًا عن ذلك فإن النتائج تشير إلى أن تبني IFRSs على جودة التقارير المالية في المملكة العربية السعودية.

كلمات مفتاحية: المملكة العربية السعودية، IFRSs، أداء المحاسب، التكلفة.