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THE DEVELOPMENT OF ACCOUNTING STANDARDS AND PRACTICES
IN THE KINGDOM OF SAUDI ARABIA

by

Saleh Rashed Al-Amari, BA, MS

A thesis submitted to the University of Glasgow in fulfilment of the requirement for the degree of Doctor of Philosophy in the Department of Accounting and Finance.

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بِسْمِ اللّٰهِ الرَّحْمٰنِ الرَّحِیْمِ

THIS PhD THESIS IS DEDICATED TO THE MEMORY OF MY MOTHER

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ABSTRACT

The objective of this thesis is to make a contribution towards achieving a greater understanding of the process of accounting development in a developing country, and to achieve greater awareness and understanding of the influences brought to bear on this process within the specific environment of Saudi Arabia. This understanding covers a wide range of issues which include, among others, understanding accounting and reporting practices; accounting regulation and policy making; influences and factors; professional motivation; problem areas; and more recent developments.

Towards this objective, a combination of research methodological procedures has been employed in this thesis. These methodological procedures comprise a survey of accounting and reporting practices, and a Delphi exercise. These methodological procedures are consistent with, and complementary to, each other. 30 corporate annual reports of Saudi joint stock corporations have been examined, incorporating information on the type of financial statements presented; the format used; the items reflected; accounting policy disclosure; the format and content of auditors' reports; and many other accounting and reporting issues. 52 experts ranging from academics and public accountants to practicing accountants in government, industry, and banking participated in the final phase of the Delphi study, incorporating their opinions and perceptions regarding professional development, professional motivation,

problem areas, and problem resolution. The results of this study are summarised in 18 opinions and 10 conclusions.

The conclusions of this study contribute towards a better understanding of accounting development in Saudi Arabia and developing countries in general. In this respect, the more recent privatisation and development programmes in the Kingdom have not yet attained a requisite level to exercise sufficient pressure for the development of an accounting and reporting system of regulation. Consequently, disclosure is still generally perceived to be low, and the auditor's ability to maintain his independent professional status is impaired without adequate legal or professional protection and/or sanctions. The low level of disclosure and the relative lack of independence are both reinforced by local traditions: of informal business dealings and informal methods of obtaining important information on the one hand, and of personalisation, mutual protection and the desire for job security on the other.

As a result, the accounting profession's development suffers from a lack of enthusiasm and direction on the part of its members, a situation which is evident from members' apparent contentment with accounting as it is presently practiced - or rather, their reliance on government initiatives and directions. These factors, together with many others, such as problems of enforcement, institutional support, and professional educational deficiencies, render the development of accounting along the lines of developments in Anglo-Saxon countries extremely difficult at the present time.

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CHAPTER 1

ACCOUNTING DEVELOPMENT IN SAUDI ARABIA: AN INTRODUCTION

1.1 Introduction

Knowledge of accounting development in Saudi Arabia reported to date comprises a few articles in the International Journal of Accounting Education and Research and some doctoral dissertations in the United States and the United Kingdom (e.g. Shinawi, 1971; Ba-essa, 1984; Abdeen & Yavas, 1985; Elkharouf, 1985; Mostafa, 1985; Merei, 1985). These studies generally begin by stressing the absence of an organised public profession, expand on the deficiencies in accounting practice and education, and close with recommendations to improve the existing conditions.

Apart from these studies, Saudi Arabia has been omitted from all important comparative international accounting surveys (e.g. Price Waterhouse 1973, 1975, 1979; Frank, 1979; Choi & Mueller, 1984; Nobes, 1984). This lack of interest on the part of the international accounting community may have been caused by the limited number of multinational corporations operating in the Kingdom which would generate such interest, and/or by the non-existence of professional organisations which would have been in a position to provide the necessary information for such accounting surveys.

Despite the shortcomings in its accounting practice, Saudi Arabia is a rapidly developing country. The environmental circumstances affecting accounting practice have changed considerably over the last decade. Accounting is continuously confronted with new problems and challenges emerging from this changing environment. A number of attempts have already been made to meet these new challenges and demands, from which lessons can be learned. As such, accounting development in Saudi Arabia deserves the attention of international accounting research.

The objective of this study is, therefore, to explore the status of accounting in Saudi Arabia, the current stage of development, and to acquire a greater understanding of the influences brought to bear on this development within this specific environment. This objective covers understanding a wide range of issues including accounting and reporting practices, legal and economic aspects, the more recent efforts to develop and establish accounting standards, the motivation and involvement in the development of a profession, plus a number of other issues such as accounting education and the influence of international accounting standards development on the approach to, and the establishment of, accounting standards in the Kingdom.

This study differs from all other previous studies undertaken on the development of accounting in Saudi Arabia, not only because of the extent of its coverage but also because of its unique methodology. This methodology employs a combination of a survey of accounting and reporting

practices, and a survey of experts' opinions. This methodology is explained later in this chapter and expanded upon in the relevant chapters.

The potential contribution and benefit of a study of accounting development in Saudi Arabia lies not least in its significant implications for multinational business, international accounting firms, international harmonisation efforts, and international accounting research in general, but also in the benefits that will accrue to further understanding and improving national accounting practice. For example, based on the findings of this study, multinational firms will be in a better position to design accounting systems and control procedures appropriate to Saudi Arabia and other similar environments, especially the Gulf Cooperation Council (GCC) countries. International accounting firms will also be able to design auditing control procedures appropriate to this and other similar environments, and will be better able to educate their employees to recognise the differences which exist between their own and other environments in which they might, one day, be working. The potential contribution of this research to international accounting research lies in its methodology and methodological procedures which can be applied to the study of accounting development in other developing countries. This will help towards achieving a greater understanding of accounting in its wider social and economic context - an area of accounting about which very little is known at the present time. The ensuing benefit to

international harmonisation efforts as a whole cannot be underestimated.

This introductory chapter explains and evaluates the methodological position of this study, together with its methodology and procedures. This chapter has been developed systematically, as follows: in the first section, the case for the need for nation specific research is presented. In the second section, the methodological development of accounting research is evaluated. In the third section, international accounting research methodology is also evaluated. The objective of this evaluation is to assess the applicability of the philosophical positions of both areas of accounting research to the study of accounting development in developing countries. In the fourth section, an alternative methodological view is presented and evaluated. This alternative methodological position is argued to be the most suitable and appropriate for the study of accounting development in developing countries, and in the final section, the methodological procedures chosen for this study under the alternative view are explained and assessed.

1.2 Nation Specific Research

The need to understand the problems of accounting development and standard setting in different nations is widely recognised; so too is the need to consider the influence of specific national environments on that process. This need follows from the limited success of international accounting standards developed by the International

Accounting Standards Committee (IASC) and other international organisations in the establishment of universally accepted standards. This limited success is attributed to national differences between countries of the world, which cannot be taken into account simultaneously (Zeff, 1972; Previts, 1975; McComb, 1979, 1982; Hays, 1980; Nair & Frank, 1980; Schoenfeld, 1981; Turner, 1983; Choi & Mueller, 1984).

As a result of this limited success, several accounting authors have considered the determinants of international accounting differences from political, economic, and cultural perspectives, in the hope that such an understanding may help towards achieving international accounting harmonisation. These scholars, however, simply served to create an enhanced awareness of the many problems involved, rather than provide answers to the problem of harmonisation. For example, attempts to define clusters of countries subject to similar influences have yielded results that are helpful in grouping countries but fall short of providing a full explanation or permitting a projection of future development in the respective countries (Schoenfeld, 1981; Gray, 1988).

This enhanced awareness includes the recognition that the increased reporting requirements of corporations, the heart of corporate regulation and policy formulation, is not a result of accounting research findings that such requirements will improve the utility of accounting information in economic decision making; rather, it is a

consequence of increased public interest in the role of corporations, and how they should be governed in society. Thus, the wide divergence of philosophies regarding the nature of corporations, the way in which they are governed, and who is responsible for accounting regulation in different countries, has prevented worldwide acceptance of internationally developed standards (Previts, 1975; Ghandi, 1976; McComb, 1979; Tricker, 1979; Hays, 1980; Puxty, 1985).

At the present time, the international accounting literature indicates that national accounting development does not stem from specific scientific theory but rather from the interaction of many and varying influences. What are these influences? What is the nature of their relationship with the development of accounting at the international level? These issues have not yet been made clear (Gray, 1988). The objective of this study is to help towards achieving this understanding.

In the following two sections, the main reasons for the failure of both accounting research in general, and international accounting research in particular, to provide this required level of understanding is highlighted.

1.3 Accounting Theory and Theory Development

A primary goal of accounting theory construction has been recognised as being the provision of a basis for the prediction and explanation of accounting events and behaviour (Baxter, 1981; Belkaoui, 1985; Whittington, 1986). Numerous attempts have been made to construct such a theory.

To date, these attempts have accumulated a vast literature, which has been attributed to either the wide range of approaches used in attempts to construct one single theory, or attempts to develop several middle range theories rather than a single comprehensive one (AAA, 1977; Tricker, 1979; Baxter, 1981; Belkaoui, 1985).

Despite half a century of research efforts to construct a univervally acceptable accounting theory from which usable accounting standards could be derived and utilised on an international level, many still believe that such a universal or scientific theory does not exist (Zeff, 1972; Cooper and Sherer, 1984; Tricker, 1979; Choi & Mueller, 1984; Belkaoui, 1985).

Attempts in the early 1900s to construct such a theory followed the distillation of theoretical principles from accounting practice by first carrying out a survey of accounting practices and then providing a generalisation of accounting principles based on this survey (e.g. Hatfield, 1927; AAA, 1936; Gilman, 1939). This approach, however, was later recognised to be suffering from serious limitations, mainly with regard to its inability to deal effectively with problems outside the scope of current practices. As a result, it became the subject of severe criticism.

In view of these difficulties and criticisms, in the late 1950s and during the 1960s some researchers resorted to deriving theoretical principles by deduction from assumptions drawn from economic theory. The typical

approach followed was to firstly carry out an extensive study into accounting practices to establish accounting principles used by practitioners, and then compare these principles with ideally-derived principles from economic theory in order to suggest improvements (e.g. Chambers, 1966; Solomons, 1966; Baxter, 1967).

In the 1970s the amount of research published following this latter approach became extensive, and it is hardly surprising that this era was described as being the "Golden Age" by virtue of the sheer volume of research published during this period (Nelson, 1973). This development, however, led to a sterile debate between rival theories, each claiming to be superior in order to achieve wider acceptance. These attempts were later regarded by some as unscientific, and the role of accounting theory was seen as a subject of political interference and accounting research was seen as a political tool for justification (Watts & Zimmerman, 1978, 1979, 1986).

As a result, in the late 1970s and early 1980s a new approach was called for. The approach that emerged relies more on empirical evidence to establish which theory has the most realistic assumptions or the greatest predictive power, and in this way is seen as the most effective method of eliminating political interference. According to its advocates the primary goal of accounting theory construction should be the provision of a basis upon which accounting events and behaviour can be explained, controlled, and predicted, and it should be constructed in the same manner

as scientific theories (Abdel-Khalik & Ajinkya, 1979; Watts & Zimmerman, 1986).

However, the methodological position of this new development, and its applicability to accounting, has been in question and the subject of fierce attacks and criticism by many accounting scholars (Christenson, 1983; Lowe et al, 1983; Cooper & Sherer, 1984; Chua, 1986; Gaffikin, 1988; Whitely, 1988).

1.4 Critics of Mainstream Accounting Research (the New Empiricism)

In a discussion of methodology, epistemology or the particular philosophical position which dominates recent accounting research (all of which are interchangeable terms), Gaffikin (1988) argued that this new development has similar ontological and epistemological presumptions to the "Golden Age" theorists, and owes the introduction of a rigorous standard of argument for effective and reliable accounting knowledge to them. That is, both the 1970s Golden Age research and the new empiricism (as it became to be known) perceive the world, and how knowledge of it can be obtained, in the same way. This particular view emphasises "hypothetico-deductivism" and technical control, and is based on the belief that there is a world of objective reality that exists independently of the researchers so that any theory can be subjected to exhaustive and conclusive testing against natural facts - similar to the way in which scientific research is carried out.

Gaffikin traced the historical development of this now virtually mainstream accounting research and literature since 1955, and argued that despite the different research "methods" employed the methodological underpinning remained relatively similar. That is, while the methods are different, especially with regard to the introduction and employment of rigorous requirements, their philosophical position and view of the world (the scientific view) are the same, and therefore the more recent claims of producing a higher degree of reliable knowledge are subject to the same methodological criticism as their predecessors. This criticism is mainly in relation to their perception of empirical philosophies of science, and the coherence and applicability of its methodological rules for accounting research (Christenson, 1983; Lowe et al, 1983; Whitely, 1988; Chua, 1986).

In Whitely's (1988) view there are at least three major sets of reasons why the application of the rules governing the study of natural phenomena to the study of human sciences, such as accounting, is questionable. Firstly, the goals of the two are different, thus control, methodological rules and justification may not necessarily be compatible. Secondly, social research and interactions are value-laden and so cannot be objectively applied in the same way as the natural sciences. Thirdly, unlike natural phenomena, social events are constituted by meanings, cultural conventions, and values, and therefore vary accordingly. Despite these main criticisms together with other methodological falsifications, Watts & Zimmerman and many others continue

to presume the scientific status of this new style of research and its practical utility to accounting without systematic justification.

Whitely's words summarise this criticism and raise the question of why (despite the ongoing criticism levelled at it) does this approach continue to dominate current research (Whitely, 1988, p.640):

"If the sort of research summarised and advocated by Watts & Zimmerman does not follow the methodological rules they claim to adhere to, and in many cases are neither characteristic of the natural science nor free from internal incoherence nor directly applicable to social science, then it may be wondered why so much of it has been done in the past two decades in the USA and elsewhere?"

The development of scientific research in accounting has been explained in part by the general expansion of higher education in the 1960s and 1970s in the United States. This expansion is combined with the more general belief that scientific research could not only increase mastery over the natural world but could also resolve social problems and help manage social change. This belief is reinforced by a World War II experience in which the role of operations research encouraged the use of similar scientific techniques in managing social organisations.

Moreover, the relative ease with which this type of research is carried out and published, mainly by using publicly available information which is machine readable, in comparison to field studies which are not, is a quick way to academic prestige and promotion.

Furthermore, the basic techniques of mathematical modelling and statistical analysis, which are readily available in computer software, can be applied to a variety of problems and issues without having to learn large amounts of descriptive detail. That is why a number of researchers from other fields were able to publish and obtain higher degrees in accounting in a fairly short time.

This sort of research is also recognised to reduce uncertainty and risk in the validity of the outcome of the research, because the subject becomes a technical rather than a conceptual or theoretical matter (Cooper & Sherer, 1984; Dyckman & Zeff, 1984; Chua, 1986; Zeff, 1989).

However, despite the many advantages and favourable outcomes of this research, strong advocacy and commitment to this approach is recognised to have had a restraining effect on the range of problems studied, and intolerance of the use of other research methods. In this regard, Chua (1986, p.613) wrote:

"Mainstream accounting research has attempted to develop useful generalisable knowledge which can be applied in organisations to predict and control empirical phenomena. It has insisted on certain standards of validity, rigour, and objectivity in the conduct of scientific research. But these once liberating assumptions have ignored new questions being raised in other disciplines, imposed even more severe restrictions on what is to count as genuine knowledge and obscured different rich research insight."

1.5 International Accounting Research and Methodology Developments

Several accounting authors have considered the nature and domain of international accounting research. Schoenfeld

(1981), for example, suggested that international or multinational accounting research should address the following issues:

1. Comparative analysis research, which includes:
 - a) national accounting, reporting and auditing practices (principles, procedures, standards, and disclosure issues);
 - b) national accounting theory, including historical dimension.
2. Accounting policy at the international level (standardisation and harmonisation).
3. Accounting for multinational operations, which includes:
 - a) financial accounting (translation, consolidation, segmental reporting, inflation accounting, disclosure, and auditing);
 - b) managerial accounting (risk and exposure measurement, foreign investment analysis, information systems, transfer pricing control, and performance evaluation, operations auditing, and behavioural dimensions).
4. Taxation for international operations in different countries. Shalchi & Smith (1981) classified international accounting research as follows: firstly, research into the forces influencing accounting practice; secondly, international aspects of accounting profession research; thirdly, an international perspective of financial accounting and auditing; fourthly, an international perspective of accounting

and economic development; and finally, international aspects of management accounting.

Gray (1985) suggested that international accounting research includes: (1) accounting in countries which are foreign to the researcher from UK/USA perspectives; (2) accounting in foreign countries reported by local researchers in the UK/USA literature; (3) accounting across countries on a comparative basis; and (4) accounting issues which are either unique to international business or have an international dimension.

This research and literature has been criticised as being unable to provide an understanding of the existing differences and influences on the development of accounting internationally, and of not permitting a projection of its future developments (Gray, 1985).

According to Gray, research efforts into the forces influencing the development of accounting practices and patterns internationally have tended to approach the international classification of accounting systems from two major directions. Firstly, there is the deductive approach, whereby relevant environmental factors are first identified and then, by linking these factors to national accounting practices, international classification or development patterns are proposed (e.g., Mueller, 1967, 1968; Nobes, 1983, 1984).

Mueller (1967), for example, identified four distinct approaches to accounting development in Western nations with market-oriented economic systems. These were:

1. The macro-economic patterns, where business accounting inter-relates closely with national economic patterns. France is a good example of this.
2. The micro-economic pattern, where accounting is viewed as a branch of business economics. Holland is a good example of this.
3. The independent discipline approach, where accounting is viewed as a service function and derived from business practice. The US and UK are good examples of this approach.
4. The uniform accounting approach, where accounting is viewed as a scientific, administrative device. Germany is a good example of this approach.

While all of these approaches were indicated to be closely linked to economic or business factors, a wider set of additional factors were recognised to be relevant, though without precise specification.

Mueller's analysis was adapted and extended by Nobes (1983, 1984) who based his classification on an evolutionary approach to the identification of measurement practices in developed Western nations. Nobes adopted a hierarchical scheme of classification in an endeavour to provide more subtlety and discrimination in the assessment of

differences. However, similar to Mueller, a number of factors are recognised without precise specification and the result of his statistical analysis did not go much beyond providing support for the classification of countries as either micro-based or macro-based.

Secondly, there is the inductive approach whereby accounting practices are analysed, development patterns identified, and explanations proposed with reference to a variety of economic and social factors (e.g. Frank, 1979; Nair & Frank, 1980). This approach typically begins with an analysis of accounting practices in an endeavour to identify accounting patterns. The empirical results of Nair and Frank's 1980 study, using factor analysis applied to individual practice based on Price Waterhouse (1975) data, indicated the identification of five groupings of countries in terms of measurement practices. This number increased to seven in terms of disclosure practices. Subsequent to this grouping identification, an attempt was made to assess their relationship with a number of cultural and economic variables. While relationships were established in respect of some of the variables such as language, various aspects were not made clear.

It is clear from this brief review of major international accounting studies into environmental influences that, to date, only very broad country groupings on accounting practices have been identified with only very general relationships between environmental factors and accounting patterns being established - and on many occasions these

relationships lack explanation. Moreover, this research appears to be mainly concerned with understanding accounting practices in the more industrialised countries with no explicit recognition of the environments and development patterns of developing countries.

In view of these shortcomings, some attempts have been made to develop a methodology capable of providing a better understanding of the relationship between international accounting practices and their respective environments, and which accommodate an historical perspective (McKinnon, 1986; Harrison & McKinnon, 1986).

McKinnon (1986), for example, proposed and utilised a methodology by which she studied the process of corporate regulation and accounting policy formulation in Japan. This methodology is directed towards identifying and understanding the development of social systems. It centres on understanding how and why a phenomenon exists in time and with respect to change, and utilises the modified exogenous framework of processual change analyses developed by Smith (1973,1976). This methodology is recognised to allow for a structured historical perspective and provide an interpretive framework against which environment and influences on a system of regulations could be assessed.

While the modified exogenous methodological framework is seen as a step in the right direction which has uncovered a number of interesting aspects of the process of accounting regulation and policy formulation with respect to the

Japanese environment and culture this methodology, unfortunately, seems to be inappropriate for the study of accounting development in less developed countries in general and accounting development in Saudi Arabia in particular, for a number of reasons among which is that the "modified exogenous framework" approach requires certain elements to make it operational. These elements are absent in newly developed systems such as that of Saudi Arabia. They include: firstly, the analysis of change requires studying or observing the system over a long period of time (Nisbet, 1972). The Saudi accounting system is newly-developed, and arguably a system of regulation does not exist at all. Secondly, this approach requires the occurrence of events which constitute the concrete substance of the historical record which provides data for the study of change (Smith, 1973). This concrete substance is difficult to find in Saudi Arabia and many other developing countries. Thirdly, this approach requires a change to be taking place to initiate the study in the first place (Smith, 1976); it is difficult to say whether such change is taking place in Saudi Arabia at the present time. For these main reasons a different method has been proposed and employed in this research. It is briefly outlined in the next section, and its procedures are expanded upon in the chapters in which they were employed.

1.6 The Methodological Underpinning of this Research

In view of the criticism and the limitations of the scientific method and its applicability to accounting research in general, and to the study of accounting

development in developing countries in particular, and in view of the limitation of international accounting research, other alternatives have been suggested. These alternatives may offer research methods which are fundamentally different from what is currently prevailing and which can potentially enrich and extend our understanding of accounting in practice. The interpretive view is one of these alternatives. Its methodological view and assumptions are derived from Germanic philosophical interests which emphasise the role of language, interpretation, and understanding in social science (Schultz, 1962; 1964; 1966; 1967). This view, in short, assumes that reality is subjectively created and the role of the interpretive scientist is to seek to make sense of human actions by paying greater attention to the role of symbols and meanings. In this way, social phenomena such as accounting are seen in the wider social context. Accordingly, instead of the rigorous scientific requirements, the adequacy or validity of social science theory is - or should be - assessed in terms of the extent of agreement with the explanation of the theory (Chua, 1986).

As far as the specific and precise procedures of interpretive research are concerned, they as yet remain unspecified; however, they are recognised to be broadly similar to those procedures followed by anthropologists in which the emphasis is on observation, awareness of linguistic signals and meanings, careful attention to detail, with each item of information being interpreted in the light of other items (Chua, 1986).

In this study, a combination of two methodological procedures - a survey of accounting practice and a Delphi exercise - are proposed and applied. These procedures are consistent with and complementary to each other, and are compatible with the interpretive view methodology (Mitroff & Turoff, 1975; Barrett, 1976; Benston, 1976; Scott & Troberg, 1980; Chua, 1986; Wallace, 1988).

While recognising that the resulting theories from these philosophical (i.e. scientific, interpretive, etc) views deal mainly with problems arising from the institutional environment of the western world and may not necessarily be transferrable to other institutions and environments, their methodological underpinnings are less susceptible to institutional boundaries and may be transferrable; therefore, this alternative methodological view and assumption can be used in studies of accounting development in developing countries, and is used as an underlying methodological position for this current research, "Accounting Development in Saudi Arabia", and should subsequently be used to evaluate its adequacy (Chua, 1986; Whitely, 1988).

Despite the apparent advantage of interpretive research, mainly with regard to its flexibility and the ascription of meanings to social phenomena such as accounting, thus making it particularly suitable to the study of accounting development in other countries from the US and UK perspectives, the methodological assumptions of this

approach, like all others, are not free of methodological weaknesses.

Firstly, it has been argued that using the extent of actors' agreement as the standard for judging the adequacy of an explanation is weak. For example, how does one reconcile fundamental differences between the researcher and the actors? How does one choose between alternative explanations?

Secondly, the interpretive view lacks an evaluative dimension upon which, critics argue, the interpretive researcher is unable to evaluate critically the forms of life which he observes and is therefore unable to analyse forms of "false consciousness" and domination that prevent the actors from knowing their true interest or intent (Habermas, 1978).

Finally, the assumption of the interpretive view of social order and the containment of conflict through common interpretive schemes and the focus on micro social "interaction" tends to neglect major conflicts of interest. (Habermas, 1978; Bernstein, 1976; Fay, 1975). These weaknesses are particularly apparent in the procedures underlying the Delphi method.

1.7 Research Methodological Procedures Followed in this Research

The methodological procedures followed in this research are eclectic in the sense that no attempt has been made to develop or test comprehensive conceptual models, or specific hypotheses. Instead, these procedures build on the

interpretive world view methodological position as underlying assumptions and a methodological backbone. This view regards accounting as an integral part of the larger system, and therefore should be investigated in conjunction with it. The procedures to be followed under this methodological viewpoint should be sufficiently flexible to allow for further consideration of many different aspects of accounting (Chua, 1986).

To achieve this objective, three main procedures have been followed in this research. They have been developed in a systematic way, and are as follows:

Firstly, the literature relating to the developing of accounting in Anglo-Saxon countries was reviewed. This literature review is used as a frame of reference and as a guide to the development of issues in this thesis. In particular, this review is used in the identification of potential accounting problems and the development of questions which were later raised and presented to the selected experts in the Delphi exercise, followed in the third step.

Secondly, a survey of 30 corporate annual reports of the largest shareholding companies in Saudi Arabia are examined. The objective of this survey is to achieve greater knowledge and understanding about the existing accounting and reporting conditions.

Thirdly, a Delphi exercise is carried out in order to explain the existing accounting and reporting conditions. To this end, experts' views on these conditions, how they might be improved, and their main contributing factors, were obtained. 52 experts ranging from academics and public accountants to practicing accountants in government, industry, and banking participated in the final phase of this Delphi study.

The procedures of the survey and the Delphi exercise are explained in greater detail in the chapters in which they are applied.

The first procedure in this research design, the literature review, is recognised to be an indirect but effective way of conducting theoretical research in accounting (Ijiri, 1972; Baladouni, 1977; Tricker, 1979). The second procedure in this research design, the survey method, is well recognised and has been long established in accounting research and cannot be over-emphasised. The third procedure, the Delphi exercise, has become increasingly popular in accounting research in the last few years and is expected to play an even greater role in the future (Scott & Troberg, 1980; Birkett, 1988).

1.8 SUMMARY

In this introductory chapter, the objectives of this study were stated: to acquire an understanding of the process of accounting development in a developing country, and to achieve greater awareness and understanding of the

influences brought to bear on this process and development in the specific environment of Saudi Arabia.

In view of the existing accounting problems and shortcomings in accounting practices and developments in developing nations, it is suggested that this understanding and awareness can not only help to improve (and possibly overcome) many of these problems and shortcomings, but may also offer a greater opportunity for successful international harmonisation.

In this introductory chapter, a methodology capable of achieving this understanding and awareness has been proposed. This method is based on the "interpretive" world-view as opposed to the "scientific" world-view which currently dominates accounting research. The "interpretive" world-view regards accounting as an integral part of the larger system, and is seen to offer a greater chance of understanding accounting in the context of the wider system.

As far as the methodological procedures of this study are concerned, three main procedures were selected and combined in a systematic way under this interpretive methodological world view. These procedures (or steps) are as follows, respectively: literature pertaining to the development of accounting in Anglo-Saxon countries is reviewed; a survey of Saudi Arabia's accounting practices was carried out; and a Delphi exercise was undertaken. These procedures were briefly discussed in this introductory chapter, but their details are contained in the relevant chapters.

The outcome of this research has an important implication not least for international harmonisation, international accounting firms, and international business and economic integration as a whole, but also for the benefit that can accrue to national accounting practice and developments in Saudi Arabia.

CHAPTER 2

ACCOUNTING AND PROFESSIONAL DEVELOPMENT: THE ANGLO-SAXON FRAME OF REFERENCE

2.1 Introduction

The objective of this chapter is to overview major issues and problems of concern to the development of accounting in Anglo-Saxon countries. These issues are mainly related to accounting theory, theory development, and accounting standard setting. It is hoped that an examination of the Anglo-Saxon experience will enrich understanding of the current debates and conflicts relating to accounting development generally, and to the development of accounting standards in particular.

Although many of these issues in this chapter are, in many ways, irrelevant to accounting development in developing nations (the subject of this thesis) a review and discussion of these issues is necessary for the following main reasons: firstly, the development of accounting standards in Anglo-Saxon countries, such as the United States or the United Kingdom, can be used as a frame of reference of analysis where and when appropriate. Secondly, although some aspect of the American or British experiences may have no relevance either to understanding existing standards setting or developing new standards in other environments, an examination of those experiences may help to explain some of the existing differences and identify some considerations that are indeed relevant. Thirdly, the examination of the

evolution of standard setting in the US or the UK may well be useful in order to identify the concerns that fostered changes in these countries, and how these concerns were, and are, addressed, in order to learn from these experiences. Finally, these countries' experiences are used as the primary source of reference for issues, problems, and questions which are developed in this thesis.

The discussion of materials and issues in this chapter are developed as follows: in the first section, the changing role of accounting is discussed. In the second section, the crisis in which the accounting profession in Anglo-Saxon countries finds itself is reviewed. In the third section, accounting standards development, as a means of challenging the new role of accounting and as a defence against criticism and crisis avoidance, is reviewed. In the fourth section, the nature, methods, and problems of accounting standards are explained. In the fifth section, the ways by which accounting standards are established and enforced are explained. In the sixth section, the accounting policy models which have been used are discussed, together with their strengths and limitations. Finally, the more recent criticisms of accounting professional organisational development are seen in perspective.

2.2 The New Role of Accounting and Influences:

Despite the many claims that accounting is influenced by, and exerts some influence over, its environment, doubt has been cast on this mutual relationship; more recently, however, international accounting research and the study of

accounting history has supported the former view (Baladouni, 1977; Lister, 1983). Some believe that this mutual adaptation and influence does not necessarily occur simultaneously, or at the same rate. As some scholars have expressed, there will always be differences between what is being done and what should have been done (Gilling, 1976). What is important for the subsequent discussion in this chapter is that accounting has been observed to be closely related to jurisprudence, in that accounting as a social behaviour has been influenced to a great extent by regulations, either by law or by self-imposed regulations, now known as accounting standards (Zeff, 1972; Choi & Mueller, 1984; Lister, 1983).

Moreover, there have also been varying viewpoints as to the role of theory in accounting practice and development. It is neither appropriate nor necessary for the purpose of the discussion in this chapter to restate the arguments put forward by the holders of these views. Suffice to say that the majority believe that theoretical input to the process has had little direct impact, and that accounting research has made only a small contribution. This view maintains that accounting standards, company financial reporting, and the increased amounts of items and statements witnessed today exist, not because accounting research has shown that these items will lead to better decisions, but rather it is because of the increased public interest in the role of companies in society that led to these developments (Henderson & Pierson, 1978; Tricker, 1979; Pound & Pollard, 1981; Lister, 1983).

This interest was the result of the widespread loss of faith in the idea that the free market was able to resolve economic conflicts fairly. Because accounting was seen to be the base on which economic conflict could be resolved, it found itself caught up in this conflict. As a result, in the past the accounting profession has attempted to construct a universal theory from which usable standards can be derived to resolve these conflicts. These attempts, however, have failed and accordingly a new approach was developed and followed.

In this new approach, theory, practice and socio-economic factors were combined to derive such standards (Zeff, 1972; Tricker, 1979; Choi & Mueller, 1984). This approach has not only been followed by the United States, the leader in the field, but also by many other countries. This shift in approach coincides with, and is seen to be a result of, the increased complexity and diversity of business which led to the erosion of the philosophical idea of the free market (Tricker, 1979). Some scholars explained this shift in terms of post-industrial versus industrial society's requirements. They indicated that, unlike the industrial age where the economic function enjoys an ascendancy or position of primacy in society, the major economic problem of post-industrial society is essentially political in nature. Consequently, if accounting is to transform relevant messages which go beyond the boundaries of the market economy and its monetary measurement, it has to change. The traditional function of accounting was seen as an impossible task for post-industrial society in that

accounting tries to reduce a multi-dimensional reality into a a uni-dimensional monetary figure (Ghandi, 1976; Gilling, 1976).

However, the ability of accounting to cope with these requirements is seen as arguable, for a number of reasons. Firstly, accounting suffers from technical constraints in its ability to measure or communicate certain economic realities. Secondly, it suffers from an institutional framework and certain normative patterns which dominate its professional conduct. Thirdly, and above all, accounting suffers from a human inability to absorb and process all the information which can possibly be obtained. For these reasons, among many others, accounting is seen to be in crisis. As a result of these limitations, several legal proceedings have been brought against accountants, and the accompanying negative publicity has had a damaging effect on the profession (Goldman & Barlev, 1974; Ghandi, 1976; Ansari & McDonagh, 1980).

In the past, the profession has followed a self-regulatory process which was seen to be highly responsive to many of the accounting problems and to the changing needs of society. But many undesirable features of this process have resulted in a search for, or imposition of, alternatives, such as additional regulations by government agencies or independent bodies.

2.3 The Accounting Profession in Crisis

Reference has been made to the closely inter-twining nature of accounting and its environment, and the mutual adaptation between them. This mutual adaptation, however, does not always occur simultaneously and time-lags may arise when accounting fails to respond to the changing needs of the environment, either because of its failure to perceive the need for change or because of an unwillingness to accept the consequences of change. When this situation occurs, the accounting profession is said to be facing something of crisis (Ghandi, 1976; Gilling, 1976; Tricker, 1979). This section will discuss the issues involved in such a crisis.

2.3.1 The idea of the post-industrial society

The idea of post-industrial society has been developed by Bell (1971), and deals with the long-term changes in the social structure of society. According to Bell, the social evolution of the post-industrial society could be divided into three development stages: pre-industrial, industrial, and post-industrial. The important factor of this idea is the design of each stage, which is built around different principles, and distinct organisational and institutional features. The industrial society, for example, in its capitalist mode, is built upon private property in the form of firms or corporations. Throughout its history, the major problem has been seen as being the conflict between management and workers. With the erosion of the effective market mechanism in the post-industrial stage, the major economic problem became centred around the growth of the huge non-market welfare economy which is preoccupied with

public goods and services. Accordingly, the economic problem became political in nature. This later development is what distinguishes the post- from the industrial stage, and has been seen to have a great implication for accounting (Bourricaud, 1971). Many have suggested that for accounting to survive it must be capable of adapting to a constantly changing, rather than an already changed society, and that future accounting theory and practice should merge into a large body of knowledge of a number of social sciences disciplines on the basis of continuing technological changes and advances in the knowledge of human behaviour to cope with these social changes (AAA, 1966; Chambers, 1966; Bedford, 1970; Ghandi, 1976; Gilling, 1976).

Ghandi (1976) observed that for nearly five centuries accounting has been occupied with the monetary component of the economy in which accountants traditionally have formed their answers in a uni-dimensional pattern of monetary units, and have constantly refused to measure and communicate significant events and properties of the firm. This measurement tool is said to have constrained the scope of their vision and the boundaries of their experience. According to Ghandi, accounting on a large scale seeks to clarify for society as a whole a certain dimension of societal properties which are critical to the decision-making process, and if this dimension is measured in monetary terms alone accounting will remain short of accomplishing its required function. For this reason, among others, many accounting problems are seen to be solved

politically rather than technically (Watts & Zimmerman, 1978, 1979).

2.3.2 The idea of social change and social control

These two ideas complement and extend the idea of post-industrial society requirements discussed above, and are concerned with the nature of changes taking place in the accounting field. These changes are seen as the result of either changes in the environment or changes in the perception of the environment. The environment has certainly changed, and so has professional perception of this environment; these changes, however, were unmatched. The behaviour of the profession is a matter of perceptions of the real world around it. Once an image of this real world has been established, the behaviour will be determined by that image and frame of reference. If that image corresponds to the real world, the behaviour will be appropriate accordingly. Unfortunately, this was not the case within the accounting profession. Accountants have many ideas and differ on many issues among themselves - each ascribing certain properties to accounting and subsequently prescribing solutions. These differences are seen not only as differences of opinions on technical matters but differences in the structure of reality - which provide little possibility of recognition or compromise in the field (Chambers, 1973; Gerboth, 1973; Gilling, 1976).

Because accounting in modern society is seen to have replaced market theory as a basis on which economic conflicts should be resolved, and because social control

became urgently required as values and interests were at stake, accounting moved from the neutral provision of information to an active mechanism of social control. Upon realisation the profession began a search for ways in which to improve the utility of accounting. Among these ways, for example, was the shift from the profit maximisation goal assumption to the survival of the firm. Many of these ways, however, have failed to prevent the profession from falling into a major crisis. Company clashes and major law suits concerning accounting matters have shown all too clearly the failure of the profession to adapt to or match the changing environment. Many have expressed concern that if the profession allows these clashes and lawsuits to continue it will run the risk of losing its historical right to control accounting development, and consequently will become subject to social control (Puxty, 1985).

In the past, the problem of control over accounting development has been solved by strong emphasis on individual self-control by the profession, but many who have critically appraised the activities of the profession observed that they have failed to adapt their attitude, mode of work, and technology to the changing needs of society. As a result, the public, government, and management are becoming critical and are increasingly exerting influence on the development of accounting (King, 1968; Rueschemeyer, 1969; Gerboth, 1973; Gilling, 1976).

2.3.3 The idea of system crisis and legitimacy crisis

In the discussion of why the accounting profession is in crisis in the Anglo-Saxon context, Puxty (1985) indicates that previous theories of accounting crisis view the development of accounting as mainly a development from technical to political; that is, a development from a concern with the technical correctness in terms of corresponding theory to a demand-driven theory that supports social or users needs; or a development of accounting from a neutral representation of economic reality to an instrument of political interest demand. These theories took the view that the changes which have been observed such as increased disclosure, increased uniformity and changes in the regulatory process, have been expressed through the socio-political process to the needs of those involved in the production and use of financial statements (Zeff, 1972; Gilling, 1976; Mumford, 1978).

Instead, Puxty (1985) argued that this development is far from being a development from technical to political or from a view of accounts as neutral representations to a view of accounts as instruments of political interest demand, but a change from a view of accounts as instruments of representation to a drive for accounting policies that satisfy administrative demand for short-term manageable equilibrium in a society increasingly characterised by fundamental class interest. Puxty views the changes in terms of the total social structure of society; that is, a change in the economic and social structure of society: a change from a loosely-coupled set of mostly owner-manager

capitalists into a collection of market structures characterised by oligopoly and interdependence between corporations. This change has been mirrored by a change in accounting from fragmented adhocery before the introduction of compulsory disclosure of the balance sheet to the formularised charts of accounts, high levels of disclosure, compulsory audit, and professional regulation.

This development and these crises are said to be the result of contradiction in the late capitalist system. This system requires fair trade and justice for everybody but its basic ideology eventually leads to crisis. Puxty indicates that it is the same freedom which permitted unregulated markets that led to the more powerful companies driving out other businesses. It is this transformation from owner-manager enterprise to oligopoly and market power that led the State to act as guardian of the public interest, and to intervene with regulation and legislation to avoid economic crisis.

The State was expected to use its legitimacy power to regulate against this market abuse but because of international competition in the post-industrial era and the counter-pressure not to intervene, the State was faced with a rationality crisis because of its failure to satisfy electoral demand to intervene. This rationality crisis created a further crisis of legitimacy.

Now that the State is in crisis, other institutions such as the accounting profession are also facing a crisis situation. These institutions provide the State with the

activities in the socio-political sphere that the State would otherwise be obliged to undertake. In return, these institutions depend on the State for power and legitimacy.

With regard to accounting, the State, instead of confronting its own crises, shifted some of these crises on to the accounting profession. Fortunately for the State, the accounting profession was found to be willing to intervene and regulate corporations on its behalf in exchange for privilege, status, power, and wealth. As a result of this delegation, the accounting profession was granted social legitimacy. This arrangement, however, was unsuccessful. One of the reasons for this lack of success is perceived to be the profession's relative inability to act as an adequate independent judge and governing body of its own members (Goldman & Barlev, 1974; Ansari & McDonagh, 1980).

Puxty (1985) analysed the idea of legitimacy crisis through the rise of the decision-usefulness criterion. He indicated that the relationship between the State and the accounting profession is a technical and administrative process whose principal aim is to avoid the crisis that is the inevitable result of the system's contradictions. His analysis indicates that historically the profession viewed the purpose of accounts as representational, and with an underlying weak-user criterion. But the increased specialisation of functions in the late capitalism led to a fundamental split between the finance and productive capital demands. Thus a conflict emerged over the needs of each fraction of capital, with finance capital desiring high

information quantities and productive capital opposing them for defensive reasons.

The State, and accordingly the accounting profession, has chosen to support finance capital. The State has done so by its fiscal policies, and the accounting profession via embarking on decision usefulness criteria. By doing so, the State and profession's legitimacy were threatened by productive capital support. The State managed this threat by shifting the problem to the profession, i.e. "crisis avoidance". The profession, on its part, attempted to accommodate the demand of both finance and productive capital, which are essentially in conflict, by initially favouring finance capital needs in its exposure drafts but recognising the needs of productive capital in subsequent negotiation processes.

The accounting profession, however, is finding it increasingly difficult to adjust its position to accommodate fundamentally opposed positions. As a result, it has become unstable in many of its stances and has become the subject of severe criticism. This, in turn, is causing a legitimacy crisis for the profession, and it is now in search of an appropriate solution.

2.4 Accounting Standards: Their Nature, Methods, and Problems

As a result of the severe criticism and legitimacy crisis in which the accounting profession found itself, and in order to avoid public criticism and maintain its legitimacy, the

profession embarked on a new strategy and technique; namely "standardisation". Unlike its previous attempts to construct a universal theory from which standards could be derived, the new standardisation approach combines theory, practice, and socio-economic factors to produce accounting standards. This section will review the nature, methods, and problems involved in standardisation and the standard setting process.

Accounting standards were almost unknown before World War II. In present times they have come to dominate the accountant's work. They are found in many countries, and almost all accounting professions around the world are involved in standardisation programmes (Choi & Mueller, 1984).

Accounting standards grew from inconspicuous beginnings in the 1940s into an on-going system. They were originally designed as "gentle guides" but are increasingly seen, in the present day, as firm rules (Baxter, 1981).

To understand the nature and the problems of accounting standards is first to understand corporate objectives for which accounting standards are mainly constructed, and to understand the nature of accounting itself (Stamp, 1981). In an abbreviation of the corporate objective, Stamp (1981, p.39) wrote:

"To provide adequate information about the real economic position and performance of an enterprise to all potential users who need such information to make decisions."

This abbreviated definition, according to Stamp, focuses attention on two of the most important aspects and problems of accounting standards: economic reality and underlying concepts. Firstly, one has to ask "what is economic reality?". To many, economic reality is evident in the form of cash or cash equivalents that are easily convertible into cash. The measurement of this economic reality is not easily carried out in an unambiguous way because all values reside ultimately in the future benefits that can be derived from an asset in the form of cash flow which determines the value to its owner today. Judgements are necessary in making measurements of value. Similarly, judgements are required in the measurement of income which in its broadest sense is represented by change in value. This problem is reinforced by the almost impossible task of making unambiguous accounting allocations. These difficult tasks of measurement of value and allocations are entrusted to accountants and accounting standards.

Secondly, one has to ask about the underlying concepts on which corporate reporting rests. If such concepts exist, are they permanent and universally applicable? Or do they change over time or from one place to another? If different concepts of income and value are possible, and if they are of varying degrees of objectivity and usefulness, which is the case, then accountants are faced with the problem of deciding which concept should be used.

Because of these uncertainties, ambiguities, and different concepts that can be used, it became necessary to narrow the

areas of differences. Thus, the overriding purpose of accounting standards is to improve comparability and to ensure that like situations are treated in the same manner. Assuming that such comparability and uniformity is desirable the next question seems to be: is it possible? And if not, why not? Accounting standard setting deals with these and many other related issues.

Generally, there are three types of standards which can be established and enforced: disclosure standards, presentation standards, and content standards of financial statements.

Disclosure standards require an explicit description of the accounting methods and assumptions on which the numbers presented are based, such as cash, accruals etc. These standards do not require any particular number or variable to be reported. Instead, it implies a generally accepted definition and requires an explicit statement of changes in the methods and assumptions followed. It also implies, but does not require, some agreement among financial statement preparers as to what the content of the statements should be (Benston, 1980).

Presentation standards specify the form and type of numbers presented. This standard is consistent, and may be applied in conjunction with, the disclosure standards.

In contrast to the last two, the content standard is the most difficult. It specifies what numbers are to be published, rather than how they are published.

Alternatively, three aspects of standardisation are distinguished: disclosure, specific-construct, and conceptual aspects. Disclosure simply specifies the items that must be included in financial statements. The specific-construct aspect refers to the basis upon which individual items are to be reported. The conceptual aspect requires a theory from which operational rules are derived which can be used to evaluate alternative procedures.

The conceptually based content standard assumes the existence of a coherent and complete framework or theory that governs accounting and which makes content standards more difficult. Although many agree that such a theory is necessary for the development of accounting standards, unanimous agreement on what form it should take has not yet been reached (Benston, 1980).

2.5 The Establishment and Enforcement of Accounting Standards

The mechanism by which accounting standards can be established and enforced can be voluntary or by the use of government power. In the former case, accountants or firms agree among themselves to follow the same standards and accept penalties if they violate their pledges. In the latter case, government power may be invoked to enforce adherence to certain standards.

Given that accounting standards are desirable, there are those who believe that the self evolutionary, voluntary developments are too slow and incomplete. They favour instead a government type enforcement, such as the Security

and Exchange Commission (SEC) in the US, with the following claims: firstly, the rules can be updated by experts who are in continual contact with the reporting problems of companies and users' changing requirements; secondly, the SEC has the legal authority to enforce the standards; thirdly, the SEC has the resources and expertise to develop and design standards in an attempt to optimise the social net benefit. Others argue that these expectations have not been met at least in the US. They believe that such a regulatory commission is staffed with people who, like many others, tend to maximise their own welfare. Moreover, such a commission would tend to use its power to further regulate accounting not because it is needed but because it is thought to prevent a real crisis. Furthermore, the Commission has no incentives to reduce the cost of regulation and would probably prefer written rules that protect it from public criticism at the expense of flexibility. To them, the alternative is to put the emphasis on private sector regulation, such as the UK approach. In this approach, although the Companies Act specifies the financial statements to be disclosed and the rules governing the measurement of income, the accounting bodies specify the standards that qualified accountants should follow, through SSAPs, while at the same time allowing the auditor to accept statements that are based on other methods if they can quantify the differences and explain why the alternative is more consistent with the "true and fair" criterion (Benston, 1980; Kirk, 1983; Larson, 1983).

The advantages and disadvantages of both government and private accounting standard setting methods have been widely discussed in the literature. Whatever the outcome of these arguments, it is agreed by many that standardisation programmes are necessary (Benston, 1980; Baxter, 1981; Stamp, 1981).

A few, however, have expressed doubt regarding the success and merit of these programmes. Jones (1975), for example, argued that the case for the present programme of standardisation is superficially strong. It is tempting to assume that by standardisation and applying uniform accounting methods the solution to comparability and consistency will be found. This solution is a treatment of the symptoms, not a cure of the problem. The real solution is in the provision of relevant and useful information to users. It is also argued that no set of standards exists that will always rank accounting alternatives in relation to consistent individual preference and beliefs. Even partial standards are fraught with conceptual difficulties (Demski, 1973; Benston, 1980; Bromwich 1980).

Apart from these main difficulties, some argue further that, since the introduction of standardisation programmes, a problem has existed in relation to compliance: standards have not been unanimously accepted by any means. Powerful groups, such as large companies and accounting firms, threatened to boycott the use of some standards; accountants objected to what they saw as their thoughts and actions being dictated to by accounting or government

bodies. Industrialists also objected to standardisation on the basis that companies differ from one another, even within the same industry, and therefore the same standards cannot be enforced across the board. There have also been concerns that standard-setters may be obliged to bow to political pressures when deriving accounting standards. There has also been growing concern that members of the profession will lose the ability, and the responsibility, to judge matters of principle, which is the essence of the profession. This view argues that regardless of how well standards are laid down, the scope for personal estimation will still be necessary. Moreover, in most standards the interpretation of the wording may lead to confusion between rules and reality (Baxter (1981)).

More recently there has also been growing concern regarding accounting standards overload (Mosso, 1983; Thompson, 1983; Richardson & Wright, 1986).

It is becoming clear that the setting and enforcing of accounting standards throughout the world is becoming increasingly difficult. It is more clearly visible in the American experience. The FASB has committed substantial resources of time, manpower and money to develop a conceptual framework in the hope that it will specify the fundamental concepts upon which standards should be developed. This task has not been completed without controversy and problems. The source of many of these problem is recognised to be the economic impact of accounting standards. There is a growing recognition that

the legislation of accounting standards involves a redistribution of wealth (Zeff, 1978). This phenomenon places heavy burdens on the accounting standard setting bodies because the responsibility of this task rests with the legislators and not with the standard setters. It is also recognised that there is no single body with both the technical competence to deal with the complexity of measurement and disclosure issues of accounting and which has, at the same time, the social legitimacy to assess and resolve conflicts among competing interests in society (Rappaport, 1977).

2.6 Accounting Standard Setting: The Policy Models

Despite the fact that there is, as yet, no universal agreement regarding the desirability of accounting standards, the need for some form of standards is well recognised. This need stems from the generally accepted fact that the behaviour of enterprises should be regulated either by law or by institutional practices in order to protect the public interest (Bird, 1974; Solomons, 1978; Lafferty, 1979).

To date, there have been four main arguments for not permitting corporations the complete freedom to choose their accounting and reporting methods (Benston, 1982; Solomons, 1986):

Firstly, it has been argued that the market cannot be relied upon to take prompt disciplinary action, where necessary, with corporations that are allowed the freedom to choose

what and how to report. This argument rests on the peculiarity of information as a commodity and the problems of free-riding, and that regulations are needed to correct these irregularities.

Secondly, it has been argued that there is a need for comparability of financial information between published statements by business enterprises. In the absence of standards, there would be no reward which might encourage a large enterprise to conform to any particular model for the sake of comparability (Horngren, 1973).

Thirdly, there is some concern over the limited capacity of the receivers of information to interpret and use accounting information. In the absence of standards, explicit and lengthy statements would be necessary to accompany the accounting reports for this purpose (Benston, 1980; Baxter, 1981).

Finally, there is some public concern regarding the ability of financial reporting to present a true and fair view when different standards are used.

For these main reasons a number of policy models have been advanced in the literature upon which accounting standards can be developed. A good summary of these models can be found in Hendricksen (1982), Belkaoui, (1985), and Whittington (1986). However, there are three major models or approaches which have generated a fair amount of discussion: namely, the constitutional approach, the common

law or legal approach, and the empirical or scientific approach to standard setting.

2.6.1 The Common Law Approach: This approach regards the establishment of accounting principles in the same way as in the legal system develops - case by case. The main idea of this approach is to deal with specific issues when they arise and then to formulate statements to cover all possible situations. This approach was first advanced by May (1932) and followed later by others such as Spacek (1965), Briloff (1972), and Burton (1978). This approach, however, did not receive wider acceptance mainly because of the argument that what is decided in court is not necessarily what is "right" or "wrong" but rather "deciding" and "enforcing", which is different from problem solving methods used in other disciplines (Sterling, 1976).

2.6.2 The Conceptual Approach: This approach was first adopted by the AAA in 1936, Paton and Littleton in 1940, and later updated by Moonitz in 1961 and Sprouse and Moonitz in 1962. It first set forth basic "postulates" as basic assumptions on which principles such as continuity, objectivity, and consistency rest. It then uses the postulates as the foundation for defining and measuring assets, costs, liabilities, etc. The essential features of the more recently developed conceptual framework include the development of the following: a statement of the objectives of financial reporting; a set of definitions of the elements upon which financial statements and other forms of reports are to be constructed; a specification of the

characteristics that financial statements must have in order to qualify for inclusion in general purpose financial reports; a specification of the criteria for deciding when to recognise the various elements of financial statements; and finally, a set of measurement rules as to how the various elements should be measured. The accounting profession in the United States followed this approach for some time in the past, and some have argued that the adoption of the conceptual framework by the FASB cannot be seen as giving rise to a new model: instead it reinforces and updates the profession's existing model. In developing a conceptual framework for financial accounting and reporting, the FASB (1976) referred basically to the same postulates (Buckley, 1980). This approach is sometimes referred to as "problem oriented", or "conceptual" or "legalistic" (Moonitz, 1961; Story, 1964; Sterling, 1976 respectively). This approach is now observed to be followed broadly not only by the US but also by the IASC and most other accounting policy groups throughout the world (Burton, 1978; Buckley, 1980).

This later reinforcement of the conceptual approach is made under the belief that a coherent theoretical base is an essential weapon in the armoury which can defend accounting from political interference (Pacter, 1983). Many examples of political interference in accounting policy setting have been witnessed in Anglo-Saxon countries: for example, accounting for inflation in the UK, and accounting for oil and gas in the USA. Although it is recognised that the conceptual framework approach may not give complete

protection against such interference, it is believed that it might ward off some of the political attacks. Without it, some believe that it is not possible for an individual group or committee to issue rulings or recommendations on a series of problems over an extended period of time without a check for consistency to protect them from political interference (Rappaport, 1977; Zeff, 1978).

Accounting policies are recognised to be those accounting questions that can only be answered by making value judgements as opposed to those factual or technical questions. It is not reasonable to expect an individual or a group to be able to prove one particular value judgement's superiority over another. Different interest demands eventually lead to different value judgements and different policies, and with the complexity of modern society it is impossible for any standards setting body to satisfy the variety of interest demands. The accounting profession recognises the existence of this problem, but there is little the profession can do except to try and convince the different interest groups that the benefits they will accrue by following accounting standards, rules and recommendations will far outweigh any losses they might make. To make these standards acceptable it must be shown that they are, at the very least, consistent with an agreed set of objectives (conceptual framework). In this way, together with emphasising the differences between political and technical questions, it is believed that accounting standards can be de-politicised - provided that the development of a conceptual framework is a continuous process which

recognises that changes have to be made as the environment or the different interest demands change (Cushing, 1977; Solomons, 1983).

Despite the strong case for the conceptual framework as the best alternative accounting policy model, some argue that the contention that a particular framework will provide definitive solutions to the setting of financial accounting standards is at best unrealistic and at worst damaging to progress in financial reporting, since such a contention promotes expectations that are almost bound to be frustrated. According to this view, reliance on the sole conceptual approach is likely to prove disappointing because the adoption of a conceptual framework that serves as an authoritative derivation of accounting standards is based on subjectively derived concepts of income and wealth and the very act of choosing one framework over another is in itself a value judgement (Rappaport, 1977). Moreover, others have argued that this choice is made, not because the conceptual framework model is the best alternative available, but because it is consistent with the group self-interest hypothesis (Watts & Zimmerman, 1979; Buckley, 1980). This latter view is considered in more detail in the next section.

2.6.3 The Scientific Approach (Empirical): This approach is recognised to use a methodology which is broad, comprehensive, and homologous to the scientific method. By the employment of empirical research in accounting policy development, it is claimed, this approach would be

consistent with the use of the scientific method in other fields and the best approach for the development of accounting standards because it would provide greater defence against political interference (Buckley, 1980; Watts & Zimmerman, 1986). This approach has been welcomed by the accounting standards setters in the US and the UK; for example, the Financial Accounting Standards Board (FASB) in the USA has adopted this approach in the study of the impact of oil and gas reserve disclosure requirements, and in the UK the Accounting Standards Committee (ASC) has adopted it in the publication of the Carsberg Report (1984) on the usefulness of current cost accounting.

However, because the standards relating to those issues were later surrounded by, and were the subject of, controversy, it was recognised that empirical studies alone cannot resolve all the problems which other approaches failed to resolve. Although it can aid standard setting, it does not permit standard setting on its own, mainly because empiricism is concerned with what is, rather than what should be. Empirical studies are necessary but insufficient without wide acceptance of their results (Solomons, 1983; Bromwich, 1985; Whittington, 1986).

Moreover, the methodology followed in this approach and its applicability to accounting was the subject of controversy and questioning. Critics of this approach's methodology and methodological procedures have been considered in the introductory chapter.

2.7 Accounting Standards, Self-interest, and the Alternative World-View

It has been argued that the development of accounting standards, by following the theoretical or conceptual approaches, has had little substantive or direct impact on accounting practice and policy formulation. This lack of impact has been attributed to basic methodological weaknesses in research and/or to the different objectives used by researchers. Researchers were observed not only to disagree among themselves on the objectives of financial statements but also on the method of deriving prescriptions to achieve those objectives (Watts & Zimmerman, 1979; Buckley, 1980).

Because there are no bases that are satisfactory to everyone on which optimal standards can be set, the holders of this view argue that while many accounting researchers believe that accounting theory should be used to determine accounting practice and standards, and which can logically and objectively determine the merits of alternative accounting procedures, many of the resulting theories and recommendations were found to be subjectively derived, which favours certain interest groups over others. To them, because the demand side of accounting theories is dominated by a demand for excuses in the political process, the supply side of accounting theories is dominated by a supply for justifications; that is, accounting theories are seen as justifications in pursuit of self-interest (Watts & Zimmerman, 1979).

However, in analysing the political process of accounting standard setting in the light of the problems of the conceptual framework, Laughlin & Puxty (1983) offered an alternative view to that of self-interest. This view is different but not necessarily in opposition; its focus, however, can lead to different conclusions concerning the desirability of any given standards. This alternative is based on a world-view.

While the self-interest view is based on the individual as a self-seeker to gain its legitimacy and is based on self-regard such as wealth transfer restrictions, the world-view is more general and allows partitioning amongst groups based on affiliation to certain values, rather than on material gain. This view is also takes a positive approach to opinions, theories, and attitudes rather than the negative approach of the self-interest concept.

Laughlin and Puxty proposed that the debate over given accounting standards should be seen as a difference in the world-view of two main classes: users of information and providers of information. The user class is related to finance and investment capital, and the provider class is related to productive capital. While the value of a piece of information to the user class is judged in terms of its usefulness, its value to the provider class is judged in terms of the firm's survival.

According to Laughlin and Puxty, this view, regardless of what form it takes, has dominated both accounting theory and

practice, and it has one main concern in standard setting: namely, the needs of users - the needs of investment capital. They demonstrated the validity of this view by providing evidence from three different standards: SSAP13 (Accounting for Research and Development) in the UK; SFAS8 (Accounting for Foreign Currency Translation) and SFAS19 (Accounting for Oil and Gas) in the US. Although these examples have also been used to demonstrate the self-interest hypothesis, the world-view is suggested to have greater explanatory powers for a number of reasons.

Firstly, while the self-interest perspective assumes a common view of the nature of information providers (industry and management), namely that they are self-maximising, the world-view does not need such assumptions in order to be valid. Thus it is said to be a richer hypothesis.

Secondly, to explain the accounting firm's position to support the decision usefulness criteria in terms of self-interest is difficult to justify because it is in conflict with the interests of their clients. In terms of self-interest, accounting firms would be expected to support the views of their clients (the information providers) over information users. Despite the argument that the prospect of government intervention should make it in the best interests of accounting firms to support the users side, evidence from cases such as the Investment Credit Controversy in the US suggest that industry representation bears down strongly upon government decisions. Thus the world-view offers a better explanation.

Thirdly, the self-interest hypothesis suggests that it is in the self-regulatory body's self-interest to support users because of the pressure they can exert upon government. If this is the case, then it might be expected that industry would receive greater support than users, because there is little organisation amongst users in comparison to industry. Thus the world-view offers a better explanation.

Despite the strength of the world-view argument, Willmott (1984) argued that while the world-view perspective exposes and rejects the implausible theory underpinning the self-interest framework, it is inadequate in so far as it fails to recognise the world-view as an expression of collective interests. Thus the world-view is incomplete without making reference to collective interests.

2.8 The Accounting Profession Under Criticism

Alternative accounting policy formulations have been discussed in the preceding section. This literature emphasises the importance of neutrality in maintaining the credibility of accounting policy determination - a credibility which can easily be damaged if there is a suspicion that the results of policies were pre-determined by political or interest groups influences. Despite the genuine effort to develop a conceptual framework as a defence, critics are still questioning the profession's neutrality.

The accounting profession in the US, from where these critics have mainly originated, is currently under attack

from many different quarters and on many counts. In particular, questions have been raised and criticism levelled at the conventions governing financial reporting, the standard and policy setting machinery, the quality of audits, and the process by which the profession governs itself. These criticisms are said to be aimed at the very foundation of professional performance, and raise some pertinent questions regarding the role of accounting in society (Ansari & McDonagh, 1980). This section overviews these critics.

Ansari and McDonagh (1980) examined the origin, nature, and intellectual character of the framework used by the various critics. They identified two different frameworks that underly the main criticisms directed at the profession: the "rational scientist" and the "humanist philosopher" points of view. These points of view differ in their approach to criticism of the profession. This difference centres around the key notion of "intersubjectivity" requirements.

The "rational scientist" approach relies on the requirements of "intersubjectivity" to call explicit attention to what is seen as a major source of bias in any research findings. This approach accuses the profession of failing to control bias towards clients, auditors and auditing firms bias, and institutional bias.

With regard to client bias, in most financial reporting issues the profession has been criticised for providing too much latitude for management to colour financial reports.

With regard to auditors and auditing firm bias, these critics question the ability of public accounting firms to be objective towards clients who provide them with significant amounts of income through tax and management services. This criticism is directed at quality control and independence, and calls for greater disclosure of tax, management, and consulting fees etc by auditing firms. These issues, among many others, are viewed as invalidations of the intersubjectivity requirements because the firms validating the results are those which design the system.

With regard to institutional bias, these critics accuse the accounting profession of being dominated by the "Big 8" accounting firms. They allege that the standard setting bodies are taking action and maintaining positions that directly benefit the profession rather than society as a whole (Burton, 1978; Ansari & McDonagh, 1980; Buckley, 1980).

The "humanist philosopher" approach, on the other hand, focuses on meaning rather than objectivity. The problem of the profession, in the human philosopher's view, is that it does not appreciate the highly symbolic and representational character of accounting. These critics accuse the accounting profession of violating the requirements of intersubjectivity at three levels.

Firstly, the accounting profession is ignoring the meaning of symbols, and it perceives its role as being one of providing absolute criteria without regard to the meaning.

The human philosopher does not consider the lack of uniformity, consistency, or tight definitions as the major problem. Instead, he sees the problem as one of meaning. The profession, according to the human philosopher, fails to recognise that accounting symbols are ultimately judged by their ability to communicate meanings,

Secondly, the accounting profession is ignoring the expanded intersubjective community, i.e. disregarding the number of interests that have become aware of their stake in accounting and have made a bid for inclusion. These critics charge that, despite the proliferation of viewpoints, little genuine progress has been made in expanding and reintegrating the accounting intersubjective community.

Thirdly, the human philosopher criticises the profession for violating its own frame of reference. This problem arises when the profession takes a position that is inconsistent with its publicly declared frame of reference. This problem of violation is clearly seen with regard to the issue of independence and regulation. Regarding the issue of independence, the profession is setting forth one theory of control for itself and another for its clients. These critics express concern about a control system in which the controller (auditor) is financially dependent on the controlled (client), and they argue that the profession would like the public to believe that accountants have the capacity to set aside their own interests in the face of conflict between what is progressively desirable and what is personally beneficial. The profession does not say whether

all control systems would be designed on a theory in which people can consistently set aside their own self-interest, or whether they regard themselves as a special case.

The symbolic issue raised by this criticism is whether or not public accountants genuinely subscribe to this theory of control. To the human philosopher, the symbolic conflict is between the profession's role as overseer and that of a partner. These critics used this conflict to illustrate their view that the profession is trying to have it both ways.

Despite the lack of uniformity among critics in the way they interpret and apply the criteria of intersubjectivity, Ansari and McDonagh argued that the main problem facing the profession now is not how to ensure greater objectivity but rather how to deal with the difficult issues of meaning, raised by the steady expansion of the accounting intersubjective community. They suggest that, despite the profession being caught in the crossfire in which there is no conceptual framework, a framework based on meaning would provide a powerful means of understanding the current predicament of the profession, and may put bias and meaning issues in perspective (Ansari & McDonagh, 1980).

2.9 SUMMARY

The objective of this chapter was to provide a review of major issues, problems, and controversies surrounding the development of accounting and accounting policy making in Anglo-Saxon countries. This development is an area of

considerable controversy and debate at this moment in time, and it may remain as such in the foreseeable future. It is recognised that the issues covered in this chapter are very broad and complex, and that a single study, such as this, could not possibly hope to examine and cover them all in great detail. For this reason, this chapter has attempted to summarise the main issues as much as possible, in order to formulate a fruitful discussion and to avoid becoming enmeshed in the detail of each issue.

However, despite the recognition that many of the issues and controversies covered in this chapter may not be entirely relevant to the development and understanding of accounting in developing countries, these issues are particularly important for the development of this thesis. The issues covered in this chapter are used as a frame of reference in the discussion of many subjects relating to accounting development in Saudi Arabia. In particular, reference is continually made to the concepts of accounting regulation, accounting standards, the development of a conceptual framework, and the roles of the government and the profession in the development of the accounting profession and professional standards.

The stage of development and the usefulness of the accounting debates in Anglo-Saxon countries can also be used as a guide, where appropriate, to identify similarities and differences between Anglo-Saxon countries and developing countries. In addition, this review can be used as a frame of reference to evaluate the contribution of the Anglo-Saxon

experience to the development of accounting debates in other countries. Because of the relative importance of this contribution, the next chapter will focus on accounting professional institutional arrangements in Anglo-Saxon countries and their attempts to control the problems and regulate the activities of the accounting profession.

CHAPTER 3

ACCOUNTING STANDARD SETTING AND INSTITUTIONAL ARRANGEMENTS: THE US AND UK EXPERIENCES

3.1 Introduction

The review in Chapter Two, which encompassed a wide range of issues relating to accounting development in Anglo-Saxon nations generally, was carried out primarily for use as a frame of reference in this thesis. This frame of reference, as mentioned, has been used mainly in the development of issues and questions raised in this thesis.

This chapter focuses on, and examines in greater detail, the US and UK experiences in the process of accounting policy making and the different institutional arrangements for setting accounting standards. The issues encompassed in the examination of their experiences cover institutional arrangements; the process of identifying, addressing, and solving accounting problems; the problem of independence; the issue of authoritative support; and the roles of both the government and the profession in relation to their involvement and support function in the development of accounting standards. This examination is particularly important, as almost all the countries of the world - including Saudi Arabia - are now involved in accounting standardisation programmes. In particular, this review will serve to highlight those issues most relevant to the development of accounting standards in developing

countries, which should be borne in mind when Saudi Arabia's experience in this field is considered in Chapter Five.

As a result of the discussions in this chapter, the similarities and differences which exist between the UK and US can be identified; so too can the lessons which have been learned by Saudi Arabia from these two experiences. The US and UK experiences were chosen for this discussion because of the significant influence on the process of developing accounting standards worldwide which those countries have had in general, and on the development of the accounting structure in developing countries in particular.

This chapter has been developed as follows. Firstly, the historical development of accounting policy making in both the US and UK will be briefly considered. This short review will include the main institutional arrangements, activities, and problems of these institutions. This review is particularly necessary in order that the deficiencies and problems of each arrangement can be identified, and so that the ability of each arrangement to overcome the problems of its predecessors can be assessed. Secondly, the US and UK arrangements will be evaluated and compared; and finally, based on the results of this comparison and evaluation, an assessment of these experiences will be made.

3.2 The American Experience

The accounting standard setting developments in the US are fairly well documented in the literature (Garner, 1960; Hawkins, 1963; Zeff, 1972; Blake, 1979; Baxter, 1981;

Hendriksen, 1982; Sprouse, 1983; Bromwich, 1985). This literature includes institutional settings, the activities of institutions, the approaches used in establishing generally accepted standards, and the deficiencies of both the institutions and their approaches. The following discussion draws, in the main, from this literature.

During the past fifty years or so, the American accounting profession has been involved in various institutional structures and objectives in an attempt to develop accounting standards. These institutions include, respectively:

- 1) The American Institute of Certified Public Accountants Committee on Accounting Procedures (1936-1959).
- 2) The Accounting Principles Board (1959-1973).
- 3) The Financial Accounting Standards Board (1973-onwards).

Firstly, the AICPA Committee on Accounting Procedures (1936-1959). The Committee was an arm of the AICPA, and consisted of twenty members, predominantly active practitioners, all of whom were members of the AICPA and served without compensation. This Committee addressed specific accounting issues on an ad hoc basis, and enjoyed minimal staff support. The Committee, through its Accounting Research Bulletins, provided substantial authoritative support for the accounting practices which they recommended by making them acceptable for financial statements filed with the Securities and Exchange Commission.

The Committee's activities during its lifetime were described as follows. The Committee was active for twenty years and issued sixty one Bulletins. Throughout its existence, the Committee focused its efforts on the identification of accepted practices including alternatives. However, while some questionable practices were generally eliminated, the Committee did not make firm choices between "acceptable" alternatives, and did not seek to prescribe widely used accepted methods. As a result, there continued to exist an abundance of "acceptable" alternatives for specific types of transactions (Sprouse, 1983).

During the Committee's lifetime, much of the accounting concerns were with the question of uniformity and comparability and the principal objective of the Committee was seen to narrow the areas of differences and inconsistencies in the accounting practice and the development and recognition of generally accepted accounting principles. At that time, the profession did not concern itself with the philosophy of standard setting, as it does in the present.

In the 1950s, there was growing concern mainly regarding the Committee's brush-fire approach to accounting problems, and its inability to communicate its ideas without an intellectual framework. There was also concern and dissatisfaction with the number of acceptable alternatives. The Committee's failure to respond to these two main concerns led to the complete review of the Committee's

function and its subsequent downfall (Chambers, 1955, 1957; May, 1958; Spacek, 1969).

Secondly, the AICPA Accounting Principles Board (1959-1973). As a result of the concerns and criticisms of the structure and accomplishments of the AICPA Committee on Accounting Procedures to deal with the accounting problems in existence at that time, the Accounting Principles Board was created to overcome the Committee's shortcomings. The following are the main features of the newly created body:

The members of the APB continued to be members of the AICPA, serving on a part-time basis. Unlike the AICPA Committee, which was entirely made up of public accountants, some of the APB's members were practicing accountants drawn from industry or the academic field. Also, a Research Division was established to support the APB in its work. The primary objective of the Research Division was to produce, in collaboration and consultation with the APB, a series of statements on generally accepted accounting principles. Upon its formation, the Research Division was immediately charged to undertake two studies: one on the basic postulates underlying accounting principles generally, and the other on the broad principles of accounting. These studies were intended to serve as a foundation for the entire body of future pronouncements on accounting matters.

The new research programmes started out at a fast pace, and the studies were completed in a timely fashion in 1961 and 1962 respectively (Moonitz, 1961; Sprouse & Moonitz, 1962).

The results of the studies, however, were not widely accepted by the APB on the grounds that they were too radically different from the existing generally accepted accounting principles prevailing at that time.

Shortly after, a new project was undertaken under the direction of Paul Grady, a prominent member of the AICPA, for the same purpose. The results of this project were contained in the now famous "Inventory of Generally Accepted Accounting Principles for Business Enterprises"; however, these results were also not taken seriously, and were referred to by the board as an extension of the two original projects, in terms of their long range objectives.

The development of an inventory of generally accepted accounting principles was seen as a useful reference work which assimilated all the preceding Research Bulletins and APB Opinions in a logical and well-organised sequence; but whether it had any significant impact on subsequent standard setting is still debatable (Sprouse, 1983).

In its latter years, in a desperate attempt to counter its failure to formulate a basis for its pronouncements, the APB published Statement No.4 "Basic concepts and accounting principles underlying financial statements of business enterprises" but subsequently failed to adhere to it, indicating that the Board did not intend to allow its Statement to obstruct its ad hoc decisions on specific accounting issues.

The APB's failure to integrate its research findings meant that it continued to issue its Opinions on an ad hoc basis in exactly the same way as its predecessors. In fact, it was thought that the two main features which were designed to distinguish the activities of the APB from its predecessors - the significance of the new research programmes and the development of the underlying basic postulates and broad principles on which the APB could look for guidance in addressing specific issues - were never achieved.

In 1964, the AICPA Council adopted a resolution requiring the disclosure of material departures from APB Opinions in footnotes to financial statements or in the independent auditor's report, thus enhancing the authoritative status of the APB. This was seen as an important development in private sector standard setting in the US at that time; however, it was not enough to counter the mounting criticism against the APB (Sprouse, 1983).

As a result of this criticism, the American Institute of Certified Public Accountants started to look for alternative ways and institutional settings in which accounting standards should be developed. In 1971 it appointed a seven-man team, which later became known as the Wheat Commission, to study the ways in which accounting principles could be established. Among its recommendations was the establishment of an independent accounting standard setting body. The recommendations of this Committee were adopted almost immediately upon completion, and this led to the

creation of the Financial Accounting Standard Board (FASB) in 1973.

Thirdly, the Financial Accounting Standards Board (FASB) (1973-present). The creation of the FASB was designed to repair the perceived flaws in the structure and procedures of the APB. At least five features of the newly developed body deserve specific appraisal when considering the establishment of accounting standards, and which distinguishes it significantly from its predecessors. These features are:

- 1) The new Board has semi-independent status. It issues accounting standards in its own right, and does not need to obtain the professional institutions' agreement for its output. This independence is a direct result of the criticism levelled at its predecessors for being influenced mainly by the Institute. Accordingly, it was decided that the team should comprise seven full-time members, with adequate remuneration; in addition, they were required to have no economic relations with former employers or firms. They were also required to maintain up-to-date information regarding their personal investments in corporate securities and make this information available for inspection to ensure their independence.

- 2) The FASB has broad participation. Members of the FASB were chosen to be representative of a cross-section of interested groups. The Board of Trustees of the Financial Accounting Foundation (FAF), which is responsible for the

appointment of members and funding of the FASB's activities, is appointed by various organisations. These organisations include, among others, the American Accounting Association, the Financial Executives Institute, the National Association of Accountants, the AICPA, the Financial Accounting Council, and the Banking community. This cross-section is intended to ensure broad participation in the FASB's procedures.

3) An emphasis on research. The FASB should rely on research, the importance of which was seen to be amongst the significant deficiencies of its predecessors. For this purpose, the FASB was guaranteed the support of a Research and Technical Activities Division consisting of approximately forty professionals. The research activities of the Board are part of the procedures for issuing Statements. These research activities are normally analytical in nature but formal empirical research is often undertaken. These procedures are explained in more detail later in this chapter.

4) The FASB has authoritative status. The authority of the FASB is supported by two factors, or in two ways:

A. In 1973, the year in which the FASB was established, the AICPA amended its Code of Ethics Rule No.23 to designate the FASB as the body responsible for establishing accounting standards. This rule indicated that material departures from FASB standards are allowed only if a member can demonstrate that, due to unusual circumstances, the financial statement would otherwise be misleading. In these circumstances, the departure must be described, the

approximate effect stated, and the reason(s) why compliance with the FASB standard would result in a misleading statement.

B. In the same year, the Securities and Exchange Commission (SEC) issued its Accounting Series Release No.150 recognising the FASB as the standard setting body and requiring adherence to FASB pronouncements for SEC filings.

These two factors have provided an effective basis for the enforcement of FASB pronouncements up until the present day (Sprouse, 1987; Solomons, 1989).

5) The FASB was requested to develop a conceptual framework. It was hoped that this would provide an underlying philosophy on which pronouncements on specific accounting issues could be related. The commitment by the FASB to develop such a framework was encouraged by an AICPA Study Group which undertook the task of establishing the objectives of financial statements. The Study Group's report, the "Trueblood Report", was published in October 1973 and provided the foundation on which the FASB constructed its conceptual framework.

At the outset of the development of this conceptual framework, the FASB acknowledged that it was unrealistic to plan the development of, and adopt, a complete conceptual framework in one single action. At the same time, the FASB recognised that the construction of the framework was by no means complete and could change when circumstances require it to.

As a result of the unique features or characteristics of the FASB and its commitment to the development of a theoretical framework, the Board has been successful in issuing a number of pronouncements on a number of major issues; but others were less successful. Among the successful ones, for example, are the pronouncements on research and development costs, goodwill, and contingency accounting. Unsuccessful attempts, for example, include accounting for foreign currency translation, and oil and gas accounting. These latter issues, as mentioned in the previous chapter, provoked considerable controversies, particularly regarding the FASB's impartiality and independence. Even with the reasonable precautions that have been taken to guarantee impartiality, some are still critical of the FASB's claim to independence (Sprouse, 1983; Bromwich, 1985).

Despite the considerable time and effort and the involvement of a variety of institutional arrangements that have been exerted, US standard setting has not been a complete success. The results of this lesson suggest that the development of a conceptual framework alone, or the reliance on research alone, cannot solve all accounting problems which the brush-fire approach has failed to solve - especially those problems relating to independence and the introduction of bias (Bromwich, 1985; Whittington, 1986).

3.3 The British Experience

The British experience in accounting standards and standard setting has also been fairly well documented (Blake, 1979;

Zeff, 1972; Baxter, 1981; Hendriksen, 1982; Bromwich, 1985).

This literature indicates that the British interest in accounting policy formulation started as early as 1935 when the Society of Incorporated Accountants and Auditors established its Research Committee. This initial interest was followed soon after by the formation of another research group by teachers at the London School of Economics in 1936. At that time, this interest was mainly concerned with the assessment of existing practice urging the acceptance of a normative theory.

The first significant British interest in the area of accounting policy formulation appears to have started in the 1940s. This interest was the result of discontent with the accounting establishment at that time, especially in that non-practicing accountants were not permitted to serve on the Institute of Chartered Accountants in England and Wales Council, the primary authority for accounting policies at that time.

The dissatisfaction with the ICAEW Council resulted in the formation of the Taxation and Financial Relations Committee. This Committee permitted the inclusion of non-practicing members, and was charged with the task of recommending guidelines concerning accounting practices.

Immediately after its formation in 1942, the Taxation and Financial Relations Committee was granted the power to draft

guidance statements for members on "best practice". However, two main features of this Committee were considered to be unsatisfactory: firstly, the deliberations of the Committee on recommendations were confidential and seen to be under the control of the more powerful members of the Institute; and secondly, the necessity for recommendations to be approved by an overwhelming majority of the Institute's Council and survive a complicated exposure process before becoming recommended guidelines. In other words, the Committee was criticised as being complicated, lacking in openness, and lacking in independence (Bromwich, 1985).

This situation continued in Britain up until the 1960s, during which time (in contrast with the US) there was little concern with the process of accounting policy making, nor was there any significant concern about the authority of issuing recommendations. However, there were occasional questions: for example, when Baxter (1953) raised a concern about the lack of a theoretical foundation of the recommended accounting practice. This concern had little or no impact on the process of accounting standard setting in the UK at that time. In addition, during this period the recommendations on accounting practice remained the sole property of accountants, with a few exceptions. Only those recommendations which commanded easy acceptance within the profession were promulgated (Bromwich, 1985).

During the 1960s, a number of financial crises, such as the Rolls Razor Ltd case in 1964, the AEI takeover by GEC in

1967, and the failure of the Leasco-Programon takeover of GEC in 1967, raised many concerns and criticisms regarding British accounting. These concerns were mainly related to the absence of underlying theoretical concepts of recommended practice (Stamp & Morley, 1970).

In 1970, the English Institute took a major step towards accounting standardisation by issuing a statement of intent on accounting standards in Accountancy, January 1970. The major objective of this statement was indicated to be to narrow the differences and variations in accounting principles, the disclosure of accounting bases, the disclosure of departure from established definitive standards, and the widespread exposure of major new proposals.

This new development was rapidly followed by the establishment of the Accounting Standards Steering Committee by the English Institute. Soon after its formation, this Committee was joined by all the major accounting bodies in Britain. The main responsibility of this Committee was to establish statements of standard accounting practice.

This arrangement in the standard setting process in Britain, however, has serious limitations, mainly with regard to the ASSC authority. This authority is undermined by the Committee's inability to act independently without the agreement of all the six accounting bodies in the UK, and by auditing practice, in which the auditor is not required to comment on departure from ASSC standards (Blake, 1979).

Moreover, the profession formally insists on compliance with standards, subject to the usual constraints of materiality and of the "true and fair view" requirements, and despite the fact that non-adherence to accounting standards may contribute to a failure to give a true and fair view, which in turn may lead to prosecution under the Companies Act, no formal disciplinary action of this sort has been taken to enforce accounting standards; thus depriving the Accounting Standards Committee of the essential authoritative support (Bromwich, 1985).

Two explanations have been put forward for this lack of authoritative support for accounting standards in Britain at that time. One is that the degree of compliance may have been regarded as satisfactory and therefore the need for enforcement did not arise; and the other is that reliance may have been seen to be placed on the more informal systems of compliance which were regarded by some as one of the major strengths of self-regulation in the UK. The latter explanation seems to be more consistent with the British attitude towards accounting in general (Bromwich, 1985).

In view of this criticism, among many others (such as the Committee's membership and the weight that should be given to consultation), in 1976 the Accounting Standards Steering Committee was re-established. Apart from the word "Steering" being deleted, nothing material had altered. For example, membership continued to be confined to qualified accountants, with practicing members carrying more weight on the Committee. Although greater attention was given to

consultations with others, these consultations were not aimed at persuasion, and the the debate over proposed standards was seen to be one-sided (Bromwich, 1985).

In 1978, the ASC reviewed its standard setting process in the light of its past experience, and invited outside comments on the process. A summary of these comments was provided by Stamp (1979). The dominant theme of those opinions was the feeling that there was no generally accepted conceptual framework upon which the Committee could discharge its functions.

However, the American experience with the establishment of a conceptual framework led some to doubt as to the possible success of a similar scheme in the UK. As a result, in 1981 the Committee commissioned Professor Macve to consider and evaluate the FASB framework and assess the potential lessons which might be learnt from this experience. One of the major recommendations of this evaluation and the resulting contribution was that the ASC Committee became open to outside comment, and greater emphasis was placed on the openness of the Committee's procedures (Macve, 1981).

Since then, the accounting standard setting process in Britain witnessed review, reorganisation, and reconstruction of the ASC. However, little has fundamentally changed, and the main problems of the Committee, on the whole, remain unsolved. The authority over standards remains with the six accountancy bodies, and the mechanism for enforcing standards remains unaltered. Moreover, the Committee's

attitude and "brush-fire" approach, to some extent, remains (Bromwich, 1985).

In November 1987, the Consultative Committee of Accountancy Bodies (CCAB) appointed a task force (later known as the the Dearing Committee), comprising sixteen members, to review and make recommendations for improving the standard setting process in the UK. This Committee's responsibilities were identical to those of the Wheat Committee, which was established in the USA in 1971. One year after its inception, the Dearing Committee's report, "The Making of Accounting Standards", was made public. Among the Committee's recommendations in this report was the replacement of the Accounting Standards Committee (ASC) by a smaller board, who in turn should be responsible for promulgating accounting standards in the UK. One of the most significant features of this proposed board which distinguishes it from the ASC is that it would have the right to make pronouncements on its own authority, without being subject to the CCAB bodies' approval; thus enhancing the independence requirement of the accounting standard setting process in the UK. The Dearing Committee also proposed a major change to the structure for setting accounting standards. This proposed new structure has four organs. At the top is the Financial Reporting Council (FRC), which would be incorporated as a company limited by guarantee. This Council would consist of twenty to twenty five members, with the Chairman being appointed by the Secretary of State for Trade and Industry and the Governor of the Bank of England acting jointly and in consultation

with the Chairman of the CCAB and other relevant bodies. Nine members of the council would be nominated by the CCAB bodies, and a further nine members would be nominated by organisations of preparers and users of financial reports. The government would be able to appoint members or observers on this Council, and the Chairman would also be permitted to appoint a small number of additional members.

The principal function of Financial Reporting Council would be to give guidance to the standard setting body, the Accounting Standards Board, on priorities and work programmes, and to advise the board in broad terms on issues of public concern or controversy. The FRC would also have an Appointments Committee who would be responsible for the appointment of the Accounting Standards Board and the Review Panel, the other two organs of this structure. The Appointments Committee would comprise the Chairman of the Financial Reporting Council, the Chairman of the CCAB, and two other members appointed by the Chairman of the Financial Reporting Council.

As mentioned, the principal activity of the Accounting Standards Board would be to promulgate accounting standards. In order for these standards to be implemented, it would be necessary for them to command a two-thirds majority of the board's two full-time members (the Chairman and the Technical Director) and the seven part-time members. A Review Panel would be established in order to undertake the proposed enforcement mechanism of these standards. This

Review Panel would be responsible for reporting cases of non-compliance by large companies.

In the following section, the Dearing Committee's proposals are compared with those of the Wheat Committee, in order to identify the similarities and differences between the two, as well as to assess their strengths and weaknesses.

3.4 The Wheat and Dearing Committees' Proposals: A Comparison

The objectives of the Dearing and Wheat Committees are similar in that they both aim to review and make recommendations on the standard setting process in the US and the UK. Their overall messages are the same and are based on the notion that the survival of the free enterprise system depends largely on improvements being made in the methods of financial reporting. Both committees were able to publish their recommendations within a relatively short space of time from their inception, i.e. within a 12 month period.

The principal recommendations of both committees are broadly similar. For example, the principal recommendation of the Wheat Committee is to transfer the work of the existing APB in setting standards to a new and substantially different organisational structure in order to ensure its independence from the AICPA. The principal recommendation of the Dearing Committee is also the transference of the accounting standard setting process from the existing ASC to an organisational structure which is independent of the professional organisational bodies.

The Wheat Report, however, generally contains much more detail, is around one hundred pages long (twice as long as the Dearing Report), and pays great attention to the openness of the accounting standard setting process, the case for accounting standards, and the importance of research. The Dearing Committee's Report, on the other hand, is relatively silent about these issues. The Dearing Report is a brief document, comprising fifty pages plus a glossary.

In addition, there are a number of differences between the two committees and their proposals. Some of these differences are fundamental, and have serious implications for the process of setting accounting standards, while others are relatively minor.

Among those less serious differences are the following: the Wheat Committee was significantly smaller than the Dearing Committee in terms of membership: seven members as compared to sixteen, respectively. The Dearing Committee did not include academics amongst its members, unlike the Wheat Committee. The principal recommendation of the Wheat Committee was the establishment of a three-tier organisational structure, whereas the Dearing Committee proposed a four-tier organisational structure. In the Wheat Committee's proposal, this structure consisted of: the Financial Accounting Foundation (FAF), the Financial Accounting Standards Board (FASB), and the Financial Accounting Standards Advisory Council (FASAC). In the Dearing Committee's proposal this structure took the form

of: the Financial Reporting Council, the Appointments Committee, the Accounting Standards Board, and the Review Panel.

Other relatively minor differences include: the difference in the voting rules between the FASB and the ASB (a simple majority, and a two-thirds majority respectively); and the government's involvement as one of the sponsoring organisations which also appoints some of the Financial Reporting Council's members - including the Chairman - under the new proposals in the UK.

However, the most fundamental and serious differences between the two committees' recommendations and proposals relate to the issue of independence. On this issue, the Wheat Committee's proposals were explicit and firm, whereas it is not clear from the language of the Dearing Committee's Report whether the independence of the proposed Accounting Standards Board would be adequately protected (Solomons, 1989).

For example, while the organisational structure under the Wheat Committee's proposals makes it explicitly clear that the FAF Trustees Board should be precluded from interfering with the technical work of the FASB, under the Dearing Committee's proposal the Financial Reporting Council combines both the function of the FAF Trustees and the Advisory Council, thus impairing the independence of the ASB's output.

Moreover, nine members of the Financial Reporting Council are nominated by the CCAB bodies, and nine others are likely to be selected by the CCAB bodies because they are not specified only as being preparers and users. In addition, the Appointments Committee responsible for the appointment of the Accounting Standards Board and the Review Panel is chaired by the Chairman of the CCAB. Thus the influence of the accounting professional bodies on the ASB is eminent.

Finally, the potential success of the newly-established institutional arrangements in the UK has yet to be realised, whereas the FASB's arrangements have been in existence since 1973, during which time their success has been endorsed by the fact that no substantially different alternative arrangements have been suggested to date.

3.5 Steps Used to Produce an FASB Statement in the US and an SSAP in the UK:

3.5.1 The United States

The FASB is currently the independent body responsible for establishing accounting standards in the US. This body was established in response to outside pressure, mainly from industry and government, to ensure independence and objectivity in standard setting. Cooperation, however, exists between the FASB and AICPA through the Accounting Standards Executive Committee (ASEC) designation by the AICPA. This Committee is one of the sources of input of topics for consideration by the FASB. Moreover, the authority of the FASB, as mentioned, is given under rule 203

of the Rules of Conduct of the AICPA code of professional ethics and the SEC filing requirement.

The accounting matters subject to FASB statements stem from the following major sources:

- 1) The Screening Committee set up by the FASB. This Committee constitutes fifteen members, two of whom are FASB representatives, seven are from the Accounting Standards Executive Committee (ASEC) and the remaining six are drawn from industry, the academic world, and the financial community. This Committee advises the Board on what action should be taken on emerging practice problems.
- 2) The AICPA through the ASEC's issuance of statements of position on particular subject. These statements are normally recommendations to other authoritative bodies until such bodies take action. These recommendations are considered to be the best thinking of the profession on the subject.
- 3) The Financial Accounting Standards Advisory Council (FASAC) through which the FASB maintains constant contact with business requirements and the profession. The appointment of the FASAC is made by the Financial Accounting Foundation (FAF) which is the overall governing body of the FASB dealing with administrative and organisation issues. The FAF appoints members of FASAC from all walks of business and professional life to serve on a voluntary basis for a one year period.

4) The Securities and Exchange Commission, a US government agency responsible for regulating publicly owned corporations. The SEC requires that all accounts filed to it are to be drawn up in accordance with accounting principles which have substantial authoritative support and recognise that FASB pronouncements constitute such authority. The SEC can also decide on which topics statements have to be issued by the FASB.

The FASB research procedures are normally carried out by a primary research document being issued as a discussion memorandum in which the issues, alternatives, pros and cons are set forth without conclusions or recommendations. The discussion memorandum is then widely distributed, free of charge, for the submission of additional information and statements of position on the issues. In a typical case, a public hearing is held to allow those who wish to elaborate their views to do so, and to permit an exchange of opinions. Subsequent to the public hearing, the Board deliberates on the issues in a series of meetings open to the public for observation. The Board then reaches a point where an exposure draft of a proposed Statement of Standards can be issued, on which comments are then invited. Having received and examined all the comments, and subject to a majority decision, the FASB finally issues a statement. Should any member of the Committee dissent on this decision, the reason for his dissent is included in the statement.

3.5.2 The United Kingdom

In Britain, the steps followed to produce an SSAP are quite similar to that of the US. In Britain, as indicated, the role of standard setting has evolved through time and currently rests with the Accounting Standards Committee (ASC). Originally, the ASC was formed in 1969 by the Institute of Chartered Accountants in England and Wales (ICAEW) and by 1976 was joined by all the other accounting institutions. Since then, the ASC has become a joint committee of the six accountancy bodies who now form the Consultative Committee of Accountancy Bodies (CCAB). The input for the development of an SSAP by the ASC emanates from the following sources:

- 1) The original charter of the ASC which listed some twenty subjects upon which it is to issue standards.
- 2) The Research Committee of the CCAB.
- 3) The Technical Advisory Committee (TAC) of the ICAEW.
- 4) A consultative group which has been formed by the ASC for consultation on matters such as programmes, proposals, and work. This group comprises producers and users of financial information.

Once a subject is determined, a research study is commissioned through the Research Committee of the CCAB. On completion of the study, a preliminary draft is produced by a drafting committee, then passed to the Technical Advisory Committee (TAC). The TAC makes suggestions for necessary changes but does not have the power to change the draft. The next step for the ASC is to hold a meeting with organisations likely to be affected by the proposals under

consideration. Once agreement is reached on the proposal, the ASC issues an exposure draft in its own name. Comments on the draft are received within six months of issuance. The ASC then sets up a panel within itself to advise on any changes based on the comments received. Once a proposal is approved by a three quarters majority of ASC members it is then passed to the CCAB member bodies who are responsible for issuing an SSAP.

It seems that the processes by which standards are issued in the US and the UK are, to some extent, quite similar and that once a statement is issued any significant departure from the standard must be disclosed and explained in the accounts. There are, however, differences in the authoritative support of the standard setting bodies in the two countries. These differences have been referred to in the last section. Briefly, however, the authority for adherence to SSAPs in Britain is given by the Councils of the various institutions of the CCAB in that members who assume responsibilities in respect of financial accounts should observe accounting standards, whereas in the US this authority is not only given by the AICPA Rules of Conduct but also by SEC filing requirements. There are also other minor organisational differences in the number of staff and the resources available for both bodies (Blake, 1979).

3.6 SUMMARY

The intention of this chapter is to highlight those issues most relevant to the development of accounting standards, mainly with regard to the institutional arrangements and

approaches to accounting standards setting. The American and British experiences were chosen because they are considered to be the leaders in this field, exerting significant influence on other countries, at least based on the "follow-the-leader" principle.

The lessons which it is hoped will be learnt from these two countries' experiences are: the identification of the problems of accounting standards; the available alternative approaches to deal with these problems; the alternative institutional settings that have dealt with the problems to date; and the conclusions that have been reached as a result.

The historical problem of accounting standards setting in the British and American experiences lies mainly in the brush-fire approach followed by the standard setters to deal with the difficulties of choosing between alternative accounting procedures. This problem is reinforced by a lack of authoritative support to accounting standards which have already been set. Two main further problems include the domination of accounting standard setting by the professional members, and the relative lack of impartiality within the standards themselves.

The Americans, to some extent, have succeeded in dealing with the first two problems - the brush-fire approach and authoritative support - by placing greater emphasis on research and the development of the conceptual framework to deal with the brush-fire approach, and by the creation of an

independent body, the FASB, to deal with the problem of authoritative support. The FASB was granted both the AICPA's (the profession's) support and the support of the SEC (the Government). However, the Americans were unable to deal effectively with the latter two problems - the issue of members' professional domination, and the problem of bias or impartiality of the resulting standards.

The British, on the other hand, seem to have been, on the whole, less effective in dealing with almost all of these problems. The brush-fire approach is, to some extent, still dominant in the standard setting process. Little has been done towards enhancing the authority of accounting standards. This authority remains with the six accountancy bodies, and the mechanism for enforcing standards remains unaltered. Little has also been done to overcome the domination of profession members, and the problem of bias in standards that are set. The success of the newly-proposed institutional arrangements in the UK (proposed by the Dearing Committee) has not yet been fully realised, and its ability to deal effectively with these and many other problems cannot be determined at this stage.

However, one has to take into consideration that the responsibility of accounting standard setting in the US now rests with an independent body, whereas in the UK this responsibility has always been, and is likely to remain, with the professional bodies, where it continues to be informal (flexible) and derived from that authority which is invested in the profession by the government of the day.

This is regarded by some as being one of the major strengths of self-regulation in Britain. The extent of the departure from this attitude of the newly-proposed arrangements cannot yet be determined.

It is hoped that the review of the US and UK experiences in this chapter will serve as an indicator of those issues most relevant to the development of accounting standards in Saudi Arabia. It is also hoped that this review will help to illustrate that many of the major problems facing the accounting standard setters today emerged early in the history of standard setting in the US and the UK. These problems have proved to be virtually unsolvable within the existing institutional arrangements of those two countries; and indeed, it is questionable whether they can be resolved within any future institutional arrangements, particularly the problems of independence and the introduction of bias. The best that can be hoped for is an arrangement which minimises the effects of those problems - a useful lesson from which developing countries should learn.

CHAPTER 4

ACCOUNTING IN DEVELOPING COUNTRIES AND THE DEVELOPMENT OF INTERNATIONAL STANDARDS

4.1 Introduction

The discussion contained in the preceding chapters of this thesis have largely been concerned with the development of accounting at the comparative international level; or, more accurately, the development of accounting in Anglo-Saxon countries.

As already mentioned, a review of the development of accounting in Anglo-Saxon countries was deemed necessary because it can be used as a frame of reference in the absence of any other alternative. It can also be helpful in identifying similarities and differences between Anglo-Saxon countries and developing nations where and when they exist. The Anglo-Saxon experience is particularly helpful in the identification of the accounting problems of those countries, and how those problems are addressed and resolved, from which lessons can be learned.

This chapter reviews accounting developments in developing countries, and puts forward arguments which suggest that such developments, along the lines of internationally developed accounting standards based on the Anglo-Saxon experience, are questionable. This review is necessary for the systematic development of this thesis, in the sense that the development of accounting in Anglo-Saxon countries (the

frame of reference) is first considered, followed by a consideration of the development of accounting in developing countries, which in turn is followed by a consideration of the development of accounting in Saudi Arabia, the subject of this thesis.

However, because accounting development in developing countries has been fairly well covered in the literature from economic, legal, and political perspectives, this chapter will focus on the cultural aspect. This aspect is becoming increasingly important for the study of accounting development at the international level. This aspect of accounting is recognised to have a long-term impact, which is beyond the scope of physical or formal changes in the economy, technology, law, or politics. This review is general, and covers the most important ideas and philosophical viewpoints currently prevailing in this area.

This chapter has been developed as follows. In the first section, the role and function of accounting in developing countries is briefly discussed. In the subsequent two sections, the desirability and feasibility of developing accounting standards at the international level - including developing countries - is considered. In the fourth section, the cultural perspective in accounting research is addressed and assessed. In the fifth section, a theory of cultural influence on accounting development is presented and a model for accounting research, incorporating cultural aspects into the study of accounting development at the national and international level, is presented. This theory

and general framework has been developed relatively recently, and is of particular importance for future studies and research into accounting development at the international level in general, and the development of accounting research in developing countries in particular. In the final section, some of the most culturally informative studies are briefly reviewed. These selected studies are chosen to illuminate the cultural perspective in accounting research, along which lines accounting development in developing countries may be better understood.

4.2 Accounting in Developing Countries

Accounting in developing countries in general has been studied by many accounting scholars, both national and interational (e.g. Seidler, 1967; SyCip, 1967; Elliot, 1968; Scott, 1970; Shinawi, 1971; Jaggi, 1975; Needles, 1976; Enthoven, 1981; Chandler & Holzer, 1984; Choi & Mueller, 1984; Ba-essa, 1984). The International Journal of Accounting Education and Research is a rich source of this literature. The wealth of information in this literature reveals the following critical observations.

Accounting suffers from a shortage of qualified staff - not only accountants but bookkeepers, clerks, and auditors; accounting systems are often poorly designed, many lacking appropriate forms, procedures, and records. Accordingly, manuals hardly exist, common forms such as invoices and purchase orders are badly designed and require unnecessary manual copying and manipulation, and internal control

features are inadequate or non-existent. Thus there is very little data upon which to base effective management control systems, cost accounting is rarely present, and information required by shareholders, creditors, and government is seldom available (Scott, 1970).

Additionally, professional standards (where they exist) are often borrowed from other countries with whom they have colonial or other ties. These standards are not usually suitable for them, and might possibly do them more harm than good (Samuels & Oliga, 1982; Briston & El-Ashkar, 1984).

4.2.1 Problem Areas

Many of the reported problems of accounting in developing nations are attributed to technical, economic, political, cultural, and/or educational factors. One of the most serious of these is the cultural aspect (Scott, 1970). In this regard, Scott indicated that accounting in developing countries suffers from the attitude of businessmen towards accountants and the attitude of accountants towards the State.

The attitude of businessmen towards accountants is reflected in the low status given to accountants and the lack of confidence in their work. This lack of confidence is largely the result of ignorance: accounting is seen as a legally required triviality or a means of deceiving the tax authorities. Consequently, accountants do not enjoy a prestigious position and their work is considered to be low level and clerical.

With regard to accountants' attitude towards the State, this attitude is said to stem from the traditional bias towards the centralisation of authority; that is, centralisation hampers any organisational effort (Scott, 1970). In addition, in most developing countries there is an elite class, or a coalition of elite groups which dominate the major economic, social, and political aspects of their society. This group is a small percentage but owns, manages, and controls most domestic firms, the result of which is market control, minimum competition and high rates of return on investment. Thus there are no incentives for management to reduce costs and increase efficiency, which in turn does not foster the development of extensive management information systems and cost control procedures. Moreover, because financial information is not extended to the public and kept within the group, the whole idea of reporting and disclosure is affected (Qureshi, 1974; Jaggi, 1975).

As a result, there is an attitude of hostility and non-cooperation towards the State. The poor in society regard the State as far-removed from their problems, and the rich regard the state's aim in trying to improve the well-being of its citizens as interference or oppression. Tax evasion is an aspect of non-cooperation and hostility. Company management does not feel responsible for taxes and they cannot comprehend the extent to which state can assist the development of the private enterprise economy. Businessmen and management alike do not see this evasion as immoral, dishonourable, or lacking in integrity because, from their viewpoint, these traits can apply only in interpersonal

relationships and do not apply to institutions (Scott, 1970; Arpan & Radebaugh, 1984).

Similarly, business dealings in developing countries tend to be personal and restricted to friends whose word can be believed and trusted. Thus reliability, objectivity in reporting, and the independent attitude of auditors are seen or measured on those terms. Moreover, accounting and reporting is hampered by a tradition of secrecy in which managers neither divulge their innermost secrets nor would they believe data provided by others. Consequently, shareholders are kept uninformed, tax authorities are deceived, and all other outsiders are kept in ignorance. Furthermore, there is an attitude of suspicion and insecurity. Thus every person tries to appear to conform to the laws and regulations in order to preserve their innocence; however, this conformity is framed within the rigidity of routine procedures and forms rather than personal judgement. This is seen to be great barrier to the advancement of accounting, depriving accountants from the exercise of personal judgement (Foroughi, 1981).

Although many of these problems are seen to be, in the main, the result of educational deficiencies in most developing countries, it is not yet clear where education ends and culture begins or vice versa. In more recent years, because accounting is seen as a mean of achieving compatibility and comparability in the financial reporting of international companies, and ultimately in the promotion of international trade and worldwide economic integration, developing

countries have been under mounting pressure from developed countries and international organisations to improve their accounting techniques; and at the present time the examination of the source of existing accounting systems in most developing countries reveals that these systems are mainly imposed by powerful foreign investors or imported from home to host countries through the influence of multinationals or previous colonial ties. These pressures provide little room for developing countries to develop accounting systems suitable for their specific needs and compatible with their culture (Keyserlingk, 1975; Briston, 1978).

4.3 The Feasibility and Desirability of International Accounting Standards

The pressures for worldwide economic integration are well recognised in the international business literature. This worldwide economic integration necessitates the existence of international accounting standards on which the performances of corporations in different parts of the world can be evaluated and compared (Hofstede, 1983; Arpan & Radebaugh, 1984).

Before the 1970s, the "ethnocentric" management, or "convergence" theory, dominated the international business literature. This theory views business and management techniques and principles as universal, which can be applied internationally, regardless of national differences. According to this view, these principles and techniques can also be applied in less developed countries which will

ultimately enable them to achieve faster economic growth and development (Hofstede, 1983).

However, differences among countries of the world are found to exist, not only between developed and less developed countries, but also between developed countries themselves. These differences are now more widely acknowledged in the international business field but to a lesser extent in accounting.

In the 1970s, the belief in the existence of universally accepted principles which can be applied internationally was adopted by the supranational organisation responsible for the development and the promotion of international accounting standards, the International Accounting Standards Committee (IASC). This belief now not only threatens the existence of the organisation itself but also the success of international business management and worldwide economic integration alike.

The development of international accounting standards is following in the developmental footsteps of accounting in Anglo-Saxon nations, particularly the United States. The appropriateness of this approach for Anglo-Saxon nations is questionable; so too is its appropriateness for developing countries. Accounting in the US is generally perceived as an art or craft, consisting of the historical accumulation of practices which neither contain internal standards nor external principles to separate the good from the bad. US accounting has developed in an evolutionary manner by

solving accounting problems on a situational basis. This "pragmatic", or "situationistic" method, despite its success in solving many accounting problems, is recognised as being incapable of evolving into an internationally accepted method because, among many other things, the development of generally accepted standards under this approach is often incoherent; and the trial and error process followed under this approach is virtually incapable of evolving into internationally accepted standards (Zeff, 1972; Hendriksen, 1982; Violet, 1983; Choi & Mueller, 1984).

Critics of international accounting standards development have argued that while there can be little doubt about the aim of improving the intelligibility of corporate financial reporting at the international level, this aim is currently not feasible. These realistic views are supported by the little success that the pragmatically developed international accounting standards have achieved at the national and international level (Hays, 1980; Violet, 1983).

These critics, however, do not agree among themselves as to the best alternative. While some believe that the only solution likely to achieve the wider acceptability of internationally developed accounting standards lies in the establishment of an internationally agreed upon "conceptual framework" which, in turn, may lead to the establishment of an agreed set of accounting standards (McComb, 1979), others have questioned the feasibility - or even the desirability - of this suggested solution. These latter questions are concerned with whether there is - or should be

- a universally accepted conceptual framework, given the existence of national historical, legal, economic, political, and cultural differences between the countries of the world (Stamp, 1980).

If these differences are observed to exist between the most closely related countries, such as Canada and the USA, in which Stamp argued that the FASB approach may not necessarily be appropriate for Canada, then the question of whether there is, or should be, universal accounting standards is, indeed, relevant.

Among the many differences that exist between countries of the world, language is seen as one of the most prominent. Given that differences are observed between countries which speak basically the same language, such as the UK, the US, and Canada (evident from the publication of the comparative glossary of accounting terms by the professions of these countries), these differences may well be in existence between English speaking and non-English speaking countries.

In recognition of this problem, the IASC have adopted a central language - English - in order to avoid translation problems and difficulties. By the adoption of the English language, the IASC may have avoided the problem of translation but certainly the problem of transmitting meaning into the local languages has not been completely overcome. The meaning of many words has not been entirely agreed upon within the English language itself; and therefore the transmission of real meaning to other

languages is particularly difficult (AISG, 1975; Previts, 1975; Gartner & Rueschoff, 1980).

In transnational financial reporting, for example, countries with different customs and heritages are recognised to derive different and sometimes opposing meanings from the same report. These different meanings create subtle communication problems (Belkaoui, 1977; Choi, 1980).

In recognition of this problem, the Accountants International Study Group recommended a framework based on a multiple set of statements, primary and secondary, to be prepared by firms with interested audiences in different countries (AISG, 1975). Contrary to the good intentions of the study group to improve communication between audiences in these different countries, this arrangement is seen to be potentially misleading. Accounting is recognised to be a symbolic representation of meanings, and unless the symbols made by accountants and the symbols received by the readers have a common meaning confusion is bound to ensue. If this confusion, due to the varying interpretations of accounting systems, is being observed to rise domestically, its potential for confusing outsiders is even greater (Mueller & Walker, 1976; Choi, 1980).

These are just some of the problems associated with the development of international accounting standards; others will be considered in the discussion that follows, and are mainly associated with the inclusion of developing countries.

4.4 The Feasibility and Desirability of International Accounting Standards Involving Developing Countries

If the feasibility and desirability of international accounting standards within developed countries is questioned, the viability of broadening these standards to include developing countries is even more questionable.

Samuels and Oliga (1982) argued that attempts to make such an inclusion have presented conceptual and practical problems of a wider dimension than was initially anticipated. Based on a historical case study of the development of the accounting system in Egypt, they demonstrated these difficulties. In this specific case, by using a systems approach in discussing the purpose of accounting and the nature of its subject matter, it was indicated that in any positive system the question of why the system is in existence precedes the question of what the system should be doing, which in turn precedes the question of how the system should conduct its activities. This hierarchy is explained in terms of metatheory, theory, and reality.

Samuels and Oliga argued that harmonisation efforts at the international level are misguided from the outset - i.e. the metatheory level - because the nature of accounting and its subject matter depend on the epistemological (positivism, individualism, or realism), and ontological (individualism versus holism) position one takes, in which there seems to be no universal agreement on these positions. When developing countries are involved this problem extends to

the second level - i.e. the theory level. The theoretical problems between developed and developing countries stem mainly from the different views as to what constitutes the main objectives of corporate reporting. These objectives are the bases for developing accounting standards. If these objectives are not made clear and are not widely accepted within developed countries themselves, the prospect of developing a universally acceptable theory upon which international accounting standards can be established, including developing countries, is in doubt.

Moreover, because the development of international accounting standards are seen to be misguided at both the first and second level - i.e. the metatheory and theory level - there are likely to be further problems at the realistic or practical level.

Despite the fact that accountants worldwide are now having to adapt themselves to living with this reality, developing countries are still under constant pressure from multinational business, international accounting firms, international accounting organisations, and international investors to adopt internationally recognised standards. This pressure is causing major difficulties for developing countries in their attempts to establish an accounting system appropriate to their needs (Samuels & Oliga, 1982; Briston & El-Ashker, 1984).

This pressure has also presented conceptual and practical difficulties for developing countries. These difficulties

and problems are recognised to be the result of economic, cultural, and contextual differences between developed and developing countries. Some of these differences are explained in the following sections.

4.4.1 The Objectives of Accounting and Developing Countries

It is well recognised that accounting is a service function, whose purpose should be clearly stated in the objectives of any accounting system. These objectives provide the basis for developing accounting and reporting standards, which in turn lead to a specific practice (Belkaoui, 1985; Whittington, 1986).

It has been suggested that the main objectives of financial accounting and reporting is to assist users in making sound economic decisions. This view has dominated discussions of the objectives of the financial accounting and reporting literature in Anglo-Saxon nations, and it relies on shareholders/bondholders as the primary user group whose interests should be reflected in the objectives of financial statements (AICPA, 1973; ASC, 1975; FASB, 1978).

This view, i.e. devising a set of objectives based on the domination of investors' needs, is not without difficulties and has been - and is still being - challenged on a number of grounds, among which are the following: firstly, there is no homogeneity of preference for information within this group. Secondly, this group is unable to impose their preferences on others without creating problems and additional costs for themselves; and thirdly - and most

importantly - there are many difficulties which exist in devising a sub-set of objectives from the much larger set of potential objectives (Cyert & Ijiri, 1974; Dopuch & Sunder, 1980).

With regard to the latter of these problems, Dopuch & Sunder (1980) indicated that social objectives can either be defined as functional, common, or dominant. Functional accounting objectives are too diverse and contradictory, and cannot serve as a guide to accounting policy making. The common objectives which have been adopted by most accounting policy making bodies do not adequately reflect the economic reality of the supply and demand for accounting information in the market place and are, therefore, also unworkable.

The dominant group objectives and the view that users' primacy should be reflected in the objectives of accounting is said to be confusing these objectives with that of the firm. This confusion is a result of the inappropriate application of the single-person theory in a multi-person context. It has been argued that while the profit maximisation objective of the firm may be - under the assumption of homogeneous shareholder preferences - a shorthand way of stating the objectives of shareholders - it does not represent the specific objectives of managers, employees, or any other users inside or outside the firm (Dopuch & Sunder, 1980).

If these difficulties and controversies are haunting the accounting policy makers in developing the objectives of

accounting and reporting in Anglo-Saxon countries, it can be expected that further complications and controversies will arise in deriving these objectives when taking into consideration the needs of developing countries.

4.4.2 Agency Theory

Much of the contemporary reporting philosophies upon which the objectives of accounting are derived in Anglo-Saxon countries are based on an assumption of an "arm's length" relationship between managers, as agents, and shareholders, as principles, and on an assumption of managers' and shareholders' behaviour in the establishment and enforcement of contractual arrangements (Jensen & McKline, 1976). Such a relationship and behaviour may not be automatically attributed to other countries in which loyalty to friends and family is beyond any contractual arrangement (McKinnon, 1986).

4.4.3 Self-Interest Motivation

The premise of self-interest motivation guiding utility maximisation behaviour, where utility is described in terms of wealth gain and upon which criticism of accounting standards is based in Anglo-Saxon countries (Watts & Zimmerman, 1978) is misguided, at least as far as developing countries are concerned. In many of these countries, social relationships and personal and familial reputation are often more important indicators of status and position and are, therefore, a more accurate guide of behaviour than the suggested wealth maximisation (Al-Awaji, 1971; Muna, 1980; Anatos et al, 1982; Al-Nimar & Palmer, 1982).

4.4.4 Disclosure

While such concepts as full disclosure, objectivity, and reliability are adopted as essential characteristics of financial reporting in Anglo-Saxon countries, (AICPA, 1973; ASC, 1975; FASB, 1978), as far as some developing countries are concerned these characteristics are impaired by subjectivity, interpersonality, and interdependence in which management decisions on what to report are seen to be biased, unreliable, or misleading (Jaggi, 1973; McKinnon, 1986).

Similarly, while much of the controversy surrounding the amount of financial information to be disclosed in financial statements in Anglo-Saxon countries indicates that the additional information is impaired by the extra cost associated with the preparation and presentation of additional data (AICPA, 1976; Benston, 1976), the amount of financial information disclosed in developing countries is further impaired by an attitude of secrecy and lack of responsibility to social obligations (Jaggi, 1975).

4.4.5 Professional Ethics

Auditors' independence has always been a concept fundamental to the accounting profession, and a cornerstone of its philosophical structure in Anglo-Saxon countries (AICPA, 1973, 1975). The value of the practitioner's work, to a large extent, depends on the degree to which he is perceived to be independent and not subject to external influences in the performance of his duties. This concept, as far as developing countries are concerned, has been observed to be

inhibited by tradition and family and group orientation (McKinnon, 1986).

The root of this phenomenon has been traced to the degree of differentiation between institutions within a society. In the industrialised world, for example, the functions of these institutions are, to a large extent, clearly separated. In the less developed world, the functions of these institutions overlap considerably (Kluckhohn & Strodtbeck, 1961; Riggs, 1964).

Individuals in the industrialised world view themselves as separate from others and from the group to which they are affiliated. In these situations, "man-made" links or bonds are established to satisfy a need for some kind of relationship. These relationships allow the type of arm's length links that support professional and contractual arrangements. These formal rules and relationships, in the context of accounting and reporting, are perceived as links supporting the relationship between corporations and interested parties, and are reinforced by the appointment of the independent auditor as an arbiter between the parties. These formal rules and relationships are not intrinsically appreciated in countries where group consciousness and interdependence exist (Haire et al, 1966; McKinnon, 1986).

Individuals in less developed countries tend to view themselves in the context of an associational frame, typically related to a group or organisational affiliation. The code of conduct among these individuals is based on

mutual loyalty and trust, guided by social values such as internal settlement of disputes and mutual protection. In this social environment even the introduction and existence of legal requirements for auditors' independence is insufficient to ensure efficient operation against the strength of loyalty and mutual protection (McKinnon, 1986).

In view of the social characteristics of most developing countries, it is expected that auditors' independence would be impaired despite legal or professional requirements.

4.4.6 Professionalism and Self-Regulation

With regard to professionalism and self-regulation, the accounting profession in Anglo-Saxon countries developed self-made rules for the conduct of its profession, and has relied on the acceptance and compliance of its members. This professionalism, or self-regulation of activities, is also found to be closely related to the functional differentiation between the institutions and relationships of these societies. This functional differentiation is not intrinsically appreciated in developing countries.

Self-regulation is also dependent on the appreciation and respect for formal rules and procedures. These procedures increase productivity and enhance the quality and effectiveness of organisations. These rules and procedures have to be impersonal and universalistic. Formal rules and procedures are observed to be inversely related to particularism, interdependence, or group orientation (Gray, 1988).

In view of the characteristics of most developing countries, professional self-regulation is likely to be less effective and therefore additional regulations by means of legislation are required to ensure compliance.

4.5 The Cultural Perspective in Accounting Research

In the first two sections of this chapter a number of difficulties were indicated to exist in the development of internationally accepted accounting standards, especially when developing countries have to be taken into account. While many of these difficulties have been considered widely in the literature (e.g. Zeff, 1972; Choi & Mueller, 1984), little attention has been given to the importance and influence of cultural factors.

Interest in the cultural perspective in accounting research stems from advances in the social sciences, which have clearly demonstrated the importance of understanding the cultures of other nations before any judgement can be made about them. This understanding is a prerequisite for the success of international business and the promotion of economic integration worldwide. This understanding has been widely acknowledged in the international business literature, but to a much lesser extent in accounting (Hofstede, 1983; Arpan & Radebaugh, 1984).

This section overviews some of the more recent methodological developments and attempts to study the role of culture in the development of accounting systems internationally. In this section two main issues are

considered: the criticisms of accounting research in its failure to take into account the relative importance of culture in the development of accounting systems is first considered and then, secondly, the more recent attempts to develop a theory upon which future accounting and cultural research can be carried out is described. This overview is particularly important for future studies of the development of accounting systems in developing nations.

4.5.1 Accounting and Culture

Accounting, when viewed in its widest sense, can be regarded both as a mechanical tool and a communication device. From this perspective, analysis of accounting practice can be carried out at two levels. Firstly, questions can be raised relating to substance: for example, what do accountants do in their professional activities? What are the formal properties of accounting systems? And so on. Secondly, at a deeper level, questions can be raised about the meaning ascribed to accounting practice. At this level, questions can be raised as to the significance of accounting to a specific set of people; what message it conveys to them; and what meanings they infer from it; etc. It is in these latter questions that culture comes into play, and with which the cultural perspective in accounting research is especially concerned (Winjum, 1970; Tricker, 1979; McComb, 1982; Violet, 1983; Dent, 1986; McKinnon, 1986; Harrison & McKinnon, 1986).

Up until the present time, accounting research in general has concentrated on the formal properties of accounting

systems, with little or no regard to their symbolic meanings. In this way, accounting is seen as a technical activity; its properties are evaluated at the formal objectives and analytical level with no recognition of its role in creating meaning. Accordingly, empirical studies carried this view into the field, concentrating almost exclusively on the measurable properties of accounting. But the role of accounting in creating meaning has been neglected (Whitely, 1988).

Culture has been treated as one of these given things, like strategy, system, and structure, which can be - or should be - manipulated towards organisational goals. This approach takes the role of accounting in organisation and society as given; it is seen to be a mechanism through which organisations may seek to analyse and implement choices, but the role of accounting in the creation and reproduction of meaning is not addressed. Critics of this approach have argued that culture and accounting are inextricably entwined and interpenetrate each other; culture shapes accounting as much as accounting shapes culture. Culture and accounting evolve through a dualistic process, and only if it is seen in this way can the development of accounting systems be understood (Violet, 1983; Dent, 1986).

Although there have been a few attempts to apply other alternatives which, to some extent, incorporate cultural or interpretive perspectives in empirical research (e.g. Meyer & Brown, 1977; Boland & Bondy, 1983, 1986; Berry et al,

1985) no published studies can yet be said to have fully incorporated a cultural perspective in accounting research.

There have also been some attempts to take explicit account of culture in the study of corporate regulation and policy making and the development of accounting systems internationally. These attempts, however, acknowledged their own inability to explain the nature of the relationship between accounting systems development and culture, despite the statistical support for such a relationship (Frank, 1979; Nair & Frank, 1980).

As a result, more recently, Harrison and McKinnon (1986) and McKinnon (1986) proposed a methodological framework incorporating culture for analysing changes in corporate financial reporting regulations at the nation specific level. This framework - the modified exogenous framework - is based on the analysis of change in the social system developed by Smith (1973, 1976), and it was used to assess the impact of culture on the form and functioning of accounting regulation in Japan.

Subsequent to Harrison and McKinnon's work in this area, Gray (1988) proposed a methodological framework incorporating culture which can be used to explain and predict international differences in accounting systems and patterns of accounting development internationally. This framework complements Harrison and McKinnon's proposed framework, and is an adaptation and extension of Hofstede's (1980, 1983, 1984) cultural patterns model.

This latest development provides much of the necessary criteria for future accounting cultural and cross-cultural research in general, and is of particular importance for the study of accounting development in developing countries. The next section will overview its main features and developments.

4.6 Towards a Theory of Cultural Influence on the Development of Accounting Systems Internationally

A major problem in accounting and cultural research is recognised to be the absence of a basic theoretical conceptual framework within which the hypothesis that certain cultural factors do generally and significantly tend to influence certain accounting practices (Gray, 1988).

In the international business field, and particularly in the 1970s, there was a growing need to integrate research method and theory to direct issues in comparative cross-cultural analysis. In response to this growing need, Hofstede (1980, 1983, 1984) developed a model to bridge the gap between conceptualisation and methodology. This model, together with the identification of the four value dimensions which are purported to be fundamental to all human activities were to become the basis on which cross-cultural research is carried out.

In accounting, Gray (1988) extended Hofstede's model by expressing Hofstede's value dimensions at the level of the accounting sub-culture. This extended model provides much of the necessary criteria for future research into

accounting and cultural influences both at the national and international levels. The following discussion provides a brief description of these latest developments.

4.6.1 Hofstede's model

Various writers, including some accountants, have given a variety of definitions of culture (Jaggi, 1973; Baladouni, 1977; Violet, 1983; Dent, 1986). Dent (1986) indicated that no matter how culture is defined, it is like art - nice to think about but hard to define. At one level, the concept is self-evident: it is linked with the interpretation of structure in organisations; that is, beliefs, values, and meanings which are shared. At a deeper level, understanding the concept is more difficult.

However, despite its complexity, Hofstede (1980) argued that culture can be analysed from certain basic characteristics. In an attempt to identify these characteristics, Hofstede identified the mechanism by which cultural patterns around the world are determined, and developed the now famous cultural patterns model (Hofstede, 1980, p.27).

In this model, societal values are determined by ecological influences modified by external factors such as international trade and investment, conquest, and forces of nature. In turn, societal values have institutional consequences in the form of legal systems, political systems, nature of capital markets, patterns of corporate ownership, and so on. These institutions reinforce both ecological influences and societal values.

Based on this model, and through a combination of multivariate statistical analysis and theoretical reasoning, Hofstede uncovered four value dimensions which are considered to be the basic characteristics of culture, and demonstrated the applicability and importance of these characteristics in organisational behaviour and conflict management worldwide (Hofstede, 1980, 1983).

These basic characteristics or value dimensions are well expressed by Hofstede (1984) as follows:

"Individualism versus Collectivism

Individualism stands for a preference for a loosely knit social framework in society wherein individuals are supposed to take care of themselves and their immediate families only. Its opposite, Collectivism, stands for a preference for a tightly knit social framework in which individuals can expect their relatives, clan, or other in-group to look after them in exchange for unquestioning loyalty (it will be clear that the word 'collectivism' is not used here to describe any particular political system). The fundamental issue addressed by this dimension is the degree of interdependence a society maintains among individuals. It relates to people's self-concept: 'I' or 'we'.

Large versus Small Power Distance

Power Distance is the extent to which the members of a society accept that power in institutions and organisations is distributed unequally. This affects the behaviour of the less powerful as well as of the more powerful members of society. People in Large Power Distance societies accept a hierarchical order in which everybody has a place which needs no further justification. People in Small Power Distance societies strive for power equalisation and demand justification for power inequalities. The fundamental issue addressed by this dimension is how a society handled inequalities among people when they occur. This has obvious consequence for the way people build their institutions and organisations.

Strong versus Weak Uncertainty Avoidance

Uncertainty Avoidance is the degree to which the members of a society feel uncomfortable with uncertainty and ambiguity. This feeling leads them to beliefs promising certainty and to maintaining institutions protecting conformity. Strong Uncertainty Avoidance societies maintain rigid codes of belief and behaviour and are intolerant towards deviant persons and ideas. Weak Uncertainty Avoidance societies maintain a more relaxed atmosphere in which practice counts more than principles and deviance is more easily tolerated. The fundamental issue addressed by this dimension is how a society reacts on the fact that time only runs one way and that the future is unknown: whether it tries to control the future or to let it happen. Like Power Distance, Uncertainty Avoidance has consequences for the way people build their institutions and organisations.

Masculinity versus Femininity

Masculinity stands for a preference in society for achievement, heroism, assertiveness, and material success. Its opposite, Femininity, stands for a preference for relationships, modesty, caring for the weak, and the quality of life. The fundamental issue addressed by this dimension is the way in which a society allocates social (as opposed to biological) roles to the sexes."

4.6.2 Hofstede's Extended Model

Gray (1988) indicated that if Hofstede has correctly identified these basic cultural characteristics, it should then be possible to establish a relationship between these characteristics and accounting sub-characteristics. In doing so, Gray (1988) identified the mechanism by which Hofstede's value dimensions or characteristics at the social level are related to accounting sub-culture, which directly affects accounting practice (Exhibit 4.1). In this model, the value systems or attitudes of accountants is expected to be related to and derived from societal values with special reference to work-related values. Accounting values will, in turn, impact on accounting systems.

However, in recognition of the need to narrow accounting characteristics or accounting sub-values to a manageable range, Gray identified four of the most important accounting sub-values worldwide. These proposed accounting sub-values are expressed as follows:

"Professionalism versus Statutory Control - a preference for the exercise of individual profession judgement and the maintenance of professional self-regulation as opposed to compliance with prescriptive legal requirements and statutory control.

Uniformity versus Flexibility - a preference for the enforcement of uniform accounting practices between companies and for the consistent use of such practice over time as opposed to flexibility in accordance with the perceived circumstances of individual companies.

Conservatism versus 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.

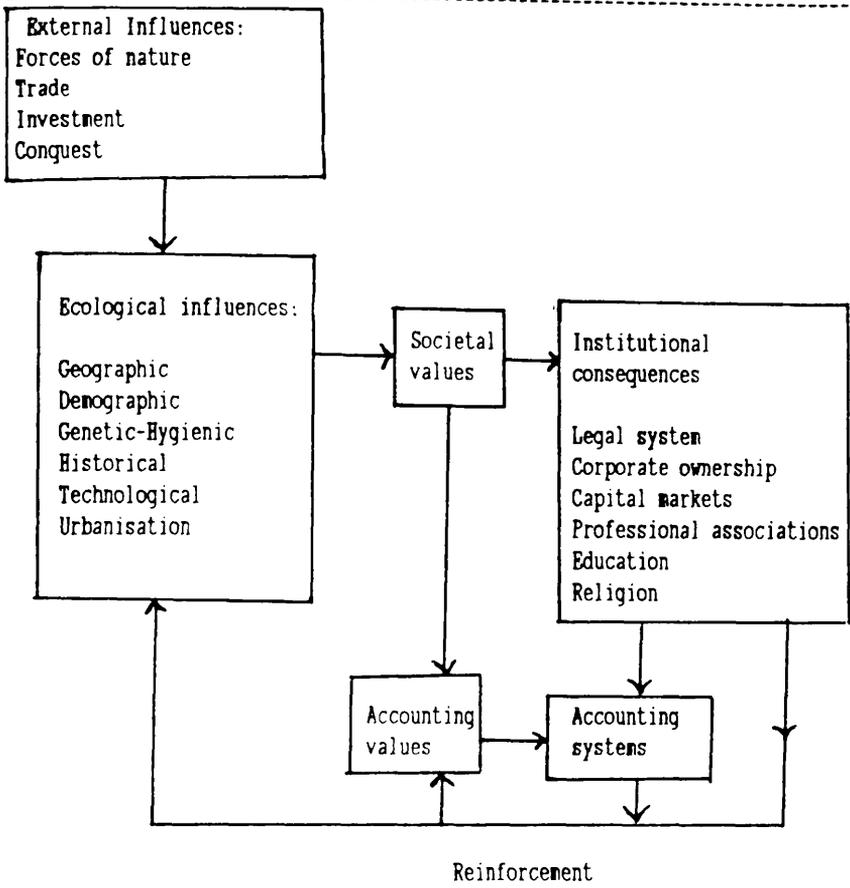
Secrecy versus Transparency - a preference for confidentiality and the restriction of disclosure of information about the business only to those who are closely involved with its management and financing as opposed to a more transparent, open and publicly accountable approach."

Gray provided the following analysis of the relationship between societies' value dimensions and the accountants' sub-culture.

1. Professionalism versus Statutory Control:

Professionalism is explained in terms of the preference for the exercise of individual professional judgement and the maintenance of professional self-regulation, as opposed to compliance with prescriptive legal and statutory controls. Professionalism is seen as a significant accountants' value dimension because accountants are perceived to adopt

EXHIBIT 4.1
 Culture, Societal Values and the Accounting Sub-Culture



Source: "Towards a Theory of Cultural Influence on the Development of Accounting Systems Internationally" by S J Gray, *ABACUS*, Vol.24, No.1, 1988.

professional attitudes and to exercise their professional judgement to greater or lesser extent around the world. Professionalism is also seen as the source of much of the controversy surrounding the control of accounting standardisation and with whom this responsibility should lie - the profession, or public controlling and regulating bodies. For example, while countries such as the UK and US are developing professional associations in which the

profession retains and controls accounting development, in countries such as France and Germany the professional accountants' role is concerned primarily with the implementation of relatively prescriptive and detailed legal requirements.

Professionalism is seen to be an accountants' value dimension which seems to be particularly related to the societal value dimensions of individualism and uncertainty avoidance, and it is seen to be strongly positively related to individualism based on the emphasis on individual independence and the importance which professionalism places on personal opinion. At the same time, professionalism is seen to be strongly negatively related to uncertainty avoidance based on the inherent flexibility associated with the professional judgement required in professionalism as opposed to following the rules required for uncertainty avoidance. Professionalism is also seen to be moderately negatively related to power distance which requires a hierarchy which makes and enforces rules, instead of professional judgement.

2. Uniformity versus Flexibility:

Uniformity is explained in terms of the preference for the maintenance of uniform accounting practices among companies, and for the consistent use of such practices over long periods of time as opposed to flexibility in accordance with the perceived circumstances of individual companies. Uniformity is seen as a significant accountants' value worldwide because, for example, in some countries like

France accountants have chosen strict inter-company and inter-temporal uniformity while others have chosen flexibility to suit the circumstances of individual companies. In the US and the UK there has always been concern with inter-temporal consistency, together with some degree of inter-company comparability subject to the perceived need for flexibility.

Uniformity is seen to be strongly positively related to uncertainty avoidance because of the latter's emphasis on rules and regulations, intolerance of different approaches, and uncertainty reduction. Uniformity is also seen to have a moderately positive relation to power distance because of the latter's emphasis on order and coercion. On the other hand, uniformity is seen to have a strong negative relationship with individualism based on the latter's emphasis on independence and personal judgement.

3. Conservatism versus Optimism:

Conservatism is explained as the preference and support for a prudent and cautious approach to measurement, in order to cope with the uncertainty of future events. This accounting value is perceived to be the fundamental attitude of accountants worldwide. Conservatism in accounting varies from one country to another, ranging from strong conservative approach followed by many European countries to a much less conservative approach followed in the US and UK. As an accountants' value dimension, conservatism is seen to have a strongly positive relation to uncertainty avoidance due to the latter's emphasis on a need to adopt a cautious

approach to cope with the uncertainty of the future, thereby reducing anxiety and stress. Conservatism is also seen to have a moderately positive relationship with power distance because of the latter's concern for order. On the other hand, conservatism is seen to have a strongly negative relationship with individualism which encourages flexibility but increases uncertainty or risk.

4. Secrecy versus Transparency:

Secrecy in accounting is explained in terms of the preference and support for confidentiality and the restriction of information regarding business activity which should only be divulged to those who are closely involved with the business's management or finance. The extent of secrecy in accounting information has been observed to vary from nation to nation, with some experiencing a low level disclosure (and in some cases creating secret reserves as is the practice in some European countries) and others experiencing a less conservative or high level of disclosure, such as the US and the UK. Secrecy is seen to be closely related to conservatism in that both emphasise the employment of a cautious approach to reporting. As in the case of conservatism, secrecy is seen to have a strongly positive relationship with uncertainty avoidance because of the latter's emphasis on competition and conflict avoidance to preserve security. Secrecy is also seen to have a moderately positive relationship to power distance in the sense that only those at the top of the hierarchy should be kept informed. Secrecy is also seen to have a moderately

positive relationship with masculinity in the sense that machismo promotes conservatism and secrecy.

On the other hand, secrecy is seen to have a strongly negative relationship with individualism because of the latter's emphasis on overall social responsibility as opposed to familial and group interests.

In these analyses and proposed model, Gray established the required relationships between societies' value dimensions and accounting sub-culture, and provided a contribution towards a theory of cultural influence on the development of accounting systems internationally, and provided much of the necessary criteria for further research into accounting and culture; however, further work is needed to operationalise the link between accounting practices and accounting sub-values, and to assemble and organise the relevant cross-cultural data. Once this process has been completed, empirical research can be carried out to assess the extent of the relationship between societal values and accounting sub-values.

4.7 The Current State of Accounting Research in Developing Countries

Although it has been more than a decade since Jaggi (1973) made his bibliographical study in which he described the status of accounting research in developing countries, nothing has materially changed in this status. In this bibliography it is indicated that accounting research in general is not extensive and can be categorised into three main types: descriptive, conceptual, and hypothesis testing.

While descriptive studies seem to have dominated accounting research in developing countries, others received little or no attention. Much of the descriptive studies are mainly concerned with the current status of accounting practice, some of which have been mentioned in this chapter and many others are reported in the International Journal of Accounting Education and Research. This literature generally stressed the absence of a well-organised profession, inadequate legal requirements, lack of qualified accountants, and an education and social environment which inhibits full utilisation of accounting for economic progress.

However, despite the importance of this descriptive literature and research, it does not provide the necessary analytical basis for understanding the relationship between accounting in developing countries and their respective environments. What seems to be still lacking is the kind of research that conceptualises the role of accounting within these environments, upon which hypothesis testing research can later be built (Radebaugh, 1975).

Accounting in developing countries is recognised to be the product of a number of environmental factors, some of which are economic, political, and/or social. Unfortunately, there has been no comprehensive research to date which could be said to have considered all these factors, and arguably it seems beyond the ability of any single research study to consider all the possible dimensions collectively and comprehensively.

While much of the research and literature concerned with accounting development in developing countries has mainly concentrated on the economic and/or legal aspects of accounting in developing countries and the role which accounting can play in the economies of developing countries (e.g. Abdeen, 1974; Mirghni, 1982), very little attention has been given to the cultural perspective.

In this chapter, a methodological and conceptual framework regarding the cultural aspect of accounting has been outlined. This conceptual framework, as mentioned, was developed by Hofstede (1980, 1983) and has been adapted and extended by Gray (1988). This methodological perspective offers a greater chance of understanding the development of accounting in relation to its cultural environment, and it is hoped that it will assist in future research that is undertaken in this area.

4.8 Culturally Informative Accounting Studies and Articles

Despite the growing interest and calls for cultural studies and analysis in accounting, up until the present time few studies can claim to be culturally informative with the exception of some sporadic papers and articles and some limited research. These publications, weighted against the unprecedented growth of research activity in other areas of accounting such as the application of quantitative methods, system design, and model building, reveal the relative neglect of cultural enquiry in accounting (Baladouni, 1977; Violet, 1983; Dent, 1986). While some of these culturally informative publications have dealt with broader issues such

as historical, social, and political (Stamp, 1980), others have been more specific and dealt with character, perception, and outlook (Jaggi, 1975; Amernic et al, 1983; McKinnon, 1984, 1986; McKinnon & Harrison, 1986).

This section reviews some of these most important studies and publications. Although this review is by no means exhaustive, it is hoped that this review will help future research in the visualisation of specific accounting systems from the larger picture of culture. This will ultimately provide a basis for understanding current accounting practices and the possible future course of accounting development. This perspective of understanding is what has been referred to by the concept of "cultural relativism" (Arpan & Radebaugh, 1984). This concept was first introduced into accounting by SyCip (1981) who argued that accounting principles, standards and practices are usually a direct product of the circumstances and influences of their environment, and are most meaningful if viewed against such factors.

4.8.1 The Development of a Conceptual Framework

Stamp (1980) examined the FASB approach in the development of a conceptual framework and accounting standards in the US, and questioned whether a similar approach would be appropriate for Canada. Stamp argued that there are broad differences between the two countries. These differences explain why a solution to the problem of accounting standards setting in the US is not necessarily appropriate for Canada.

Stamp indicated that among the many differences which exist between the USA and Canada, historically the US broke away from Britain as a result of the revolutionary war whereas Canada evolved as an independent, bilingual federation within the Commonwealth. Within the US the west was won with the barrel of the gun, whereas more orderly means were used in Canada; and Canada still takes a less adversarial approach to solving their problems than the US. In Canada there is greater emphasis on social justice, social welfare, and a wider political spectrum of acceptance than the US.

These differences, among many others, were outlined in what was later to become known as the Adam Report (1978). These differences are recognised to have great significance for the development of an accounting conceptual framework, accounting objectives, and the subsequent development of accounting standards.

The implication and importance of Stamp's study lies in the recognition that every country is unique from all others in its history, politics, and culture, and should therefore develop a conceptual framework and accounting standards which are suitable for its own specific needs.

4.8.2 The Value Orientation Model and Accounting Sub-Values

While Stamp's study seems to have been concerned with the environment as a whole (including culture) and its implication for the development of an accounting conceptual framework, other culturally informative studies appear to

have been more concerned with the value orientation model and its implication for accounting.

The value orientation model's influence over accounting stems mainly from its influence over management decisions, who are ultimately responsible for accounting information disclosure. This influence has been demonstrated by Harbison & Myers (1950) and Haire et al (1961).

The value orientation model is postulated in the general theory of action (Parsons & Shils, 1950) which relates to "universalism" versus "particularism". Universalism is recognised to be a value orientation towards an institutionalised obligation to society whereas particularism is a value orientation towards institutionalised obligation to family, group, and friendship. The choice between those two models is determined by individuals' culture and background.

4.8.3 Disclosure

Based on this value orientation model, Jaggi (1975) argued that despite the strong belief that the information disclosure in financial statements and its reliability is strongly correlated to the development of capital markets, it does not fully explain the existing lack of reliability in financial statements, at least as far as developing countries are concerned. For example, although the stock market and financial institutions are steadily developing in India, there is no indication that the reliability of financial statements is increasing. The capital market may

be a significant factor but it does not fully explain this lack of reliability.

Instead, Jaggi argued that managers with a "universalistic" value orientation are deeply committed to disclosing relatively reliable information compared to those who hold the "particularistic" point of view. Based on this view, Jaggi developed his general hypothesis that the reliability of disclosure in financial statements is likely to vary according to the differences in value orientation of managers, and his more specific hypothesis that the reliability of financial disclosure is not expected to be high in developing countries. Although these hypotheses have not yet been tested directly, some of the existing literature supports the latter hypothesis (Mahon, 1965; Seidler, 1967; Singhvi, 1968; Scott, 1970).

4.8.4 Professional Commitment

Similarly, based on the value orientation model, Amernic et al (1983) examined the professional accountants' work value in two cultural groups in the Canadian province of Quebec: the Anglophile and the Francophile chartered accountants. In this study, the main interest was in the degree to which these groups differ in their work and professional values. Amernic et al argued that while Anglophiles are characterised by the term "Protestant work ethic", which places great value on work for its own sake, the Francophiles' environment is one that inhibits the work ethic. This is mainly because the Francophiles place greater importance on the family as the centre of behaviour.

In the accountants' work value context, Amernic et al argued that Francophile chartered accountants place greater emphasis on values or extrinsic job outcomes that satisfy material and security needs whereas Anglophile chartered accountants place a higher value on intrinsic needs such as self-satisfaction and pride in what they do.

Based on this view, Amernic et al developed the following hypotheses:

- 1) Francophile CAs value extrinsic job outcomes more highly than Anglophile CAs;
- 2) Anglophile CAs value intrinsic outcomes more highly than francophile CAs; and
- 3) Anglophile CAs score highly on a scale measuring professional commitment than Francophile CAs.

The overall findings of their study support all three hypotheses, the implication of which is particularly important for self-regulation and professional commitment and developments internationally.

4.8.5 Audit Independence

Similar findings to those of Jaggi (1975) and Amernic et al (1983), which can also be considered to be based on the value orientation model, are reported by McKinnon (1984, 1986). In this study, McKinnon examined the contemporary operations of the corporate auditing function in Japan from the perspective of audit independence.

McKinnon argued that underlying the introduction of the audit independence requirement in Japan is an assumption that this requirement will function in a similar fashion to the US. However, the result of the analysis of the fraudulent bankruptcy which has taken place in Japan since the introduction of this requirement indicates that legal requirements for the independence of CPA audit were not sufficient to ensure its efficient operation.

McKinnon argued that although auditors had been aware of fraudulent accounting and had both the legal power and duty to reveal accounting manipulation, this has not been done. This, McKinnon indicates, is explained in terms of cultural determinants which are based on interdependence and group affiliation in the Japanese culture, rather than independence and individuality which characterise Western culture.

McKinnon explained that while Westerners typically tend to perceive themselves as individuals possessing certain attributes and skills, the Japanese tend to view themselves in the context of an associated frame typically related to an organisational or group affiliation. This affiliation is reflected in their behaviour and their code of conduct and interdependent relationships. This behaviour is based on implicit mutual loyalty and trust guided by social values such as internal settlement of disputes and the protection of mutual interest. This, McKinnon indicates, might help explain why there has been a low level of litigation among

corporations and legal prosecution of auditors despite the existence of fraudulent activities.

The implication and findings of this study are particularly important for auditors' independence and compliance requirements internationally.

4.8.6 Motivation and Involvement in the Process of Standard Setting

McKinnon and Harrison (1985) examined another implication of Japanese culture in accounting development: namely, the motivation behind and involvement of bureaucracy and corporate management in accounting policy determination.

In this study, three propositions regarding the role of culture on this process are formulated. The first two are related to the motivation of bureaucratic and corporate involvement in accounting standard setting. The third relates to the mode of such involvement. These propositions were then evaluated against the events that occurred in the formulation and implementation of the Japanese 1976 ordinances concerning the consolidation reporting requirements.

The findings of this study indicate that Japanese bureaucratic behaviour is motivated in the same manner as their Western counterparts. This behaviour is designed to avoid an imputation of blame on the government which may arise from future crises of inadequate policies (Watts, 1977). This motivation is, however, intensified in Japan

because of the direct involvement of bureaucrats in corporate disclosure regulation.

With regard to management motivation, the second proposition, Japanese management behaviour and involvement was found to be strongly motivated by management resistance towards public disclosure. This resistance has been documented throughout the history of Japanese corporate regulation and still reflects the contemporary attitude of management to retain information within the group. This attitude and behaviour is derived from a fundamental and cultural characteristic of group consciousness and interdependence within Japanese society.

With regard to the mode of bureaucratic and management involvement in the policy making process, the third proposition, this was found to be a mode of a long-term collaborative relationship between the two parties. This collaboration is determined by cultural values which emphasise the maintenance of harmony across interacting groups. This harmony is perceived through open confrontation avoidance and participation and consultation in the decision making process which is unlike Western culture which emphasises the differential benefits among parties.

The implication of the findings of this study lies in its significance to the process and deliberation of accounting standard setting internationally.

4.9 SUMMARY

The main objective of this chapter was to highlight the primary issues and problems confronting developing countries in the development of an accounting profession. Some of these problems are recognised to be caused by local economic and/or social constraints within developing countries themselves, and others are caused by the continuous political pressure to adopt international accounting standards. These international accounting standards are recognised to be based on philosophies and environments specifically designed for highly industrialised countries, which are significantly different from those prevailing in less developed countries, thus creating subtle difficulties for developing countries.

A number of these differences have been considered in this chapter. These differences make it extremely difficult for developing countries to adopt the present international accounting standards because, among many other things, the needs of developing countries have not been adequately taken into account, nor have they been adequately represented on the International Accounting Standards Development Committee.

As a result, and because of the growing need for nation specific research, one aspect of accounting research has been emphasised in this chapter: the cultural perspective. This perspective is becoming increasingly important in understanding accounting development at the national and

international levels, with significant implications for future accounting research.

A number of studies which have taken explicit account of the role of culture in accounting have been highlighted. It is hoped that these selected studies will serve to illuminate the cultural perspective in accounting research along the lines of which future accounting research can be carried out, and consequently upon which accounting practices and developments internationally can be better understood.

CHAPTER 5

ACCOUNTING DEVELOPMENT IN SAUDI ARABIA: MAIN INFLUENCES

5.1 Introduction

In Chapter 2, reference was made to the accounting problems of Anglo-Saxon nations. As mentioned, some of these problems were attributed to accounting itself, mainly in its inability to measure and communicate certain economic realities; whereas others were attributed to institutional settings and constraints of these nations.

The underlying causes of accounting problems in Anglo-Saxon countries are seen to be the result of, or attributed to, a variety of causes and circumstances within the specific environment of these countries: for example, the growth in complexity of modern business, together with enhanced public awareness of the role of modern business in society, is seen to have placed a greater demand on accounting. This new demand has moved accounting from its neutral role of representation to that of an economic and social control mechanism. This new role of accounting is recognised to have induced many problems, hitherto unknown to the profession, including the subjection of accounting to political interference.

The problems of accounting in Anglo-Saxon nations can also be attributed to the number of legal proceedings that have been brought against companies and accountants. These

proceedings, together with their negative publicity, is seen to have moved accounting from a self-regulatory discipline to a state controlled profession in support of the state role as the guardian of public interest. Accordingly, accounting has been used to impose additional regulations, and has been used to pave the way for ever-expanding ones.

The state and the profession in Anglo-Saxon countries have been involved with different institutional arrangements designed to solve the problems of accounting by what has become known as standardisation arrangements. These arrangements were reviewed in Chapter Three, where it was emphasised that although many of the factors affecting the development of accounting standards in Anglo-Saxon countries might not be relevant to the development of accounting in developing countries, the review is a useful frame of reference in the discussion of accounting development in any country. This review is useful in order to highlight similarities or to draw attention to differences, where and when they exist.

In Chapter 4 a similar review of accounting developments and problems in developing countries was carried out. This chapter reviews some of the relevant factors relating to the development of accounting in Saudi Arabia. However, because of the difficulty in identifying all the possible factors, and because of the broad nature of those which can be identified, the discussion in this chapter will focus on the factors which are considered to be most relevant. In the first section, a brief review of the legal system will be

presented. In the second section, the form of government will be briefly considered. In the third section, the economy will be discussed. In the fourth section the accounting legal framework will be considered, and in the fifth and final section a summary and conclusions will be presented.

5.2 The Legal System

Saudi Arabia is an independent monarchy based on the principles of the Islamic religion. These principles constitute the economic, social, and legal principles of the country. These legal principles are known as Sharia. The Sharia is a code of law based on the Quran (referred to by Moslems as Al-Quran Al-Karim) and the interpretation from the period of the Prophet Mohamed (referred to by Moslems as Al-Sunnah Al-Sharifa). The Sharia prescribes directives for the regulation of individuals as well as for collective life. A discussion of these directives transcends the purpose of this thesis; suffice to say, however, that these directives touch on such varied subjects as religious rituals, personal character, moral habits, family relationships, social and economic affairs, the rights and duties of citizens, and many other important issues (Al-Awaji, 1971; Abdul Majid, 1981; Al-Farsy, 1982; Mostafa, 1985).

In discussing the legal basis of Saudi Arabia, Al-Awaji (1971, p.105) indicated that the Islamic law (the Sharia) is the supreme law of the land:

"As a socio-legal framework, it is concerned with all the activities of individuals and government from the most private to the most public; that is, from questions relating to the definitions of higher public authority to detailed laws regulating marriage and divorce".

Like most other general laws, the Islamic law does not distinguish between commercial and other activities. Special laws, therefore, in a number of specific fields such as commerce, tax, and labour are promulgated to supplement this general law.

Unlike other general laws, however, the Islamic law takes precedence when there is conflict between the general and specific laws. If such a conflict should arise, the specific laws will not apply. In any dispute, when seeking the legitimacy of a disputant's position, the level of reference will always be first to the Islamic law regardless of the magnitude of the argument. In this regard, the Islamic law is seen as different from many other general laws applied elsewhere (Al-Jabor, no date).

Al-Awaji (1971) indicated that because of the comprehensive nature and dominance of the Islamic law, the specific laws or customary laws have relatively minor status in relation to the legal activities of the government. This may include commercial or accounting laws.

5.3 The Government

Saudi Arabia is an independent monarchy which operates as follows: The King is the head of the government, and carries out his legislative and executive duties through two

main institutions: the Royal Cabinet and the Council of Ministers. The role of the Royal Cabinet is advisory, and comprises various posts held by special advisers who enjoy the personal trust of the King (Lipskey, 1959; Al-Awaji, 1971). The role of the Council of Ministers is to act as an administrative arm of the King. Its function is to combine the state legislative, executive, and occasionally judicial duties. Its main responsibility is to determine high priority mandatory policies, and to receive high priority public complaints. The Council brings together all the various ministers into a single body for the administration of the entire country's affairs. The establishment of the Council of Ministers in 1953 is seen as the first genuine effort to institutionalise the country, separating the exercise of formal authority from the arbitrary decision making procedures which existed previously. Since its formal establishment, the Council has undergone redefinition and reclassification of its functions and structure, once in 1958 and again in 1964. However, as a major decision making organ of the government exercising the legislative, executive, and administrative affairs of the government with the exclusive jurisdiction to legislate laws, the Council's main function remains, fundamentally, unchanged up until the present time (Johany et al, 1986).

The process by which the Council of Ministers initiates and develops legislation has not been the subject of simple generalisation, and accordingly an intimate knowledge of its process is difficult to attain (Johany et al, 1986). Typically, potential legislation is not discussed in public

but is considered by ministerial committees and legal experts in the presidency of the Council of Ministers. Initially, each minister in his field of responsibility proposes a particular item of legislation and submits it to the Council of Ministers for approval. If approval is obtained, the proposal is then sent to the Acts Committee. There are three main committees on the Council: the Financial Committee, the Legislative Committee, and the Administrative Committee. Each committee reviews subjects which are directly related to its specialised area. If the proposed Act is endorsed by the appropriate committee, the Act is then sent to the King for approval. Once the King has given his endorsement, the Act becomes an item of legislation and the application of the new law starts from the moment the law is published in the official newspaper. Each Ministry in its field is responsible for enforcing the new legislation (Al-Farsy, 1982; Johany et al, 1986).

5.4 Influential Groups and the Development of Regulations

There are a number of groups which exert significant influence on major policy issues and the development of new regulations. The extent of these groups' influence, however, depends on the degree of relevance which the subject may have to their concerns. These influential groups include (Al-Awaji, 1971):

- 1) **The Royal Family.** This group's influence stems from their close relations to the King and from members of the Royal Family who occupy key Ministerial positions which greatly influence the decision making process.

- 2) **The Islamic Scholars.** This group's influence emanates from the position of respect and high regard which they have held in the Muslim community since the early days of Islam. Their knowledge, and interpretation of Al-Quran Al-Karim and Al-Sunnah Al-Sharifa, the bases of the legal system, are the main sources of this esteem. This group's main concern is in the maintenance of the fundamental principles of Islam.
- 3) **The Merchants (businessmen) and Tribal Chiefs.** This group's influence stems from its members' knowledge, and the respect which their respective communities have for them. Their main concern is with trading, commerce, and life in general.
- 4) **Public Officials.** This group's influence stems mainly from its members' personal and organisational positions, which enable them to exercise significant influence on public affairs. According to Al-Awaji, because these public officials are the administrative heads of government ministries, departments, and agencies whose role is primarily the formulation and implementation of policies, this group has become the focus for public attention, and their favourable judgement, support, and influence are sought.

5.5 The Saudi Arabian Economy

5.5.1 The Private Sector:

The Kingdom of Saudi Arabia is an advocate of the concept of the free market economy, and the government intervenes only when it is deemed essential for the welfare of its citizens and the country as a whole. Oil is the main source of revenue and has considerable impact on the economy. In

recent years, however, and as a result of and emphasis on diversification of the economy, and through means of support and subsidies, industry and agriculture in the private sector have grown to become significant economic activities and resources in the Kingdom.

The private sector is regarded as the cornerstone of the economy. Since the mid-1970s, the country has been pursuing the private enterprise system, and the private sector has been encouraged to participate in the development of the economy. Since then, the private sector has responded positively, and there are now around 6,000 private business organisations, with a total finance cost of approximately SR 62 billion, 65% of which are shareholding public corporations (Exhibit 5.1); thus exerting unprecedented pressure for accounting services to meet the needs of these business organisations.

The activities and products of these business organisations range from the production of the very highly sophisticated engineering and chemicals such as iron, stainless steel, paints, oil field valves, petrochemicals, and electrical appliances to stationery and beverages. Moreover, the agricultural and fisheries industries are thriving on a steady base and at this time Saudi Arabia's wheat output exceeds demands, resulting in the export of the excess production to other countries.

EXHIBIT 5.1: Business Organisations

ORGANISATION	COMPANY		CAPITAL (MILLIONS)	
	NO.	%	SR*	%
1. JOINT STOCK COMPANY	53	00.88	40197	65.38
2. LIMITED LIABILITY COMPANY	3249	54.18	17389	28.28
3. GENERAL PARTNERSHIPS	2098	34.98	2451	03.98
4. LIMITED PARTNERSHIPS	586	09.78	1434	02.33
5. LIMITED PARTNERSHIPS BY SHARES	10	00.17	7	00.01
TOTAL	5996	100.00	61478	100.00

* \$1 = SR 3.75

Source: Riyadh Chambers of Commerce and Industry, Companies Directory 1987.

5.5.2 Commercial banks:

The government agency in Saudi Arabia which is equivalent to the central banks in other countries is the Saudi Arabian Monetary Agency (SAMA). This agency is responsible for the supply of money, banking controls, and foreign investments. Unlike most other central banks, however, SAMA has no government debt or swap system to control liquidity and interest rates. Its monetary policies are mainly in regulating the flow of government disbursements, and in changing and controlling bank reserves and liquidity requirements (Abdeen & Shook, 1984).

In 1975 there were ten international commercial banks in the Kingdom, with a total of twenty three branches. Since then, the government has adopted a strategy of Saudi-isation (transferring the control of commercial banks to Saudi nationals). The Saudi-isation of commercial banks allowed them the opportunity to enlarge their capital and open

additional branches throughout the Kingdom. These banks are now controlled by Saudi national shareholders (Exhibit 5.2).

EXHIBIT 5.2: Commercial Banks

NAME OF BANK	REGISTRATION NO.	PAID IN CAPITAL		SHARES	
		*SR (MILLIONS)	%	NO.	%
RIYADH BANK	1054	50	02.77	50	00.28
AL-JAZIRA BANK	6377	100	05.55	1000	05.69
SAUDI INVESTMENT BANK	11570	90	05.00	900	05.12
SAUDI AL-HOLLANDY	13168	210	11.66	2100	11.96
SAUDI AL-FARANSI BANK	14565	200	11.11	2000	11.93
SAUDI AL-BIRITANI	25779	300	16.66	3000	17.09
SAUDI AL-KAHIRA BANK	21374	150	08.33	1500	08.54
ARAB NATIONAL BANK	27912	150	08.33	1500	08.54
SAUDI AL-AMRICI BANK	35319	300	16.66	3000	17.09
UNITED COMMERCIAL BANK	51411	250	13.88	2500	14.24
TOTAL		1800	100.00	17550	100.00

* \$1 = SR 3.75

Source: Riyadh Chamber of Commerce, Companies Directory 1987.

To complement these private sector finance institutions, the Saudi government established funds in order to encourage long-term planning development projects in different social and economic fields. Each fund specialises in lending to a particular sector. These institutions lend money to individuals and private companies without interest. These lending institutions include:

- 1) **The Saudi Industrial Development Fund**, which provides medium and long-term loans to private industrial developments.
- 2) **The Public Investment Fund**, which provides funds to finance investments in commercial projects or to establish corporations and then re-sell them to the public.

- 3) **The Real Estate Development Fund**, which grants loans to individuals or organisations to set up real estate for private or commercial use.
- 4) **The Saudi Arabian Agricultural Bank**, which provides loans and credit facilities for the development and promotion of agricultural production.
- 5) **The Saudi Credit Bank**, which provides medium and long-term loans to businesses and individuals for financing potential new projects.
- 6) **The Contractor's Financing Programme**, which provides loans to Saudi contractors to finance direct purchases of basic materials they require.
- 7) **The Saudi Investment Incorporation**, which provides medium and long-term loans to businesses and individuals, particularly for financing new projects in agriculture, industry, and other fields.
- 8) **The Government Organisation for Social Insurance**, which invests its funds in profitable public limited companies which can be regarded as sources of industrial finance.
- 9) **Saudi International Banks**, which develop business relationships with companies trading and investing in the Middle East, especially in Saudi Arabia (Exhibit 5.3).

These latest developments - i.e. the Saudi-isation programmes and the establishment of the specialised credit funds - have also increased the pressure for an improved accounting service.

EXHIBIT 5.3: Specialised credit (funding) agencies and banks in Saudi Arabia:

INSTITUTION	YEAR OF ESTABLISHMENT	CAPITAL INVESTMENT	
		\$ (MILLIONS)	%
Saudi Arabian Agriculture Bank	1963	223	04.97
Public Investment Fund	1971	2093	46.70
Saudi Credit Bank	1973	-	-
Credit Fund for Contractors	1974	13	00.29
Saudi Industrial Development Fund	1974	1203	26.84
Real Estate Development Fund	1974	849	18.94
Saudi Investment Banking Corporation	1976	8.5	00.18
General Organisation for Social Insurance	1969	-	-
Saudi International Bank	1975	92	02.05
TOTAL		4481.5	100.00

Source: Compiled from Adnan M Abden and D N Shook "The Saudi Financial System", John Wiley & Sons, 1984, pp.265-266.

5.6 Economic Development and the Five Year Planning

Since 1970, the Saudi government has been involved in the public sector five year economic development programme, which has also exerted considerable additional pressure for an enhanced accounting service.

5.6.1 The first five year plan: 1970-1975

The five year planning phenomenon started in 1970. The Central Planning Organisation (CPO, 1974) reported on the objectives of the first five year plan (1970-75) as follows:

"The general objectives of economic and social development for Saudi Arabia were to maintain its religious and moral values, and to raise the living standards and welfare of its people, while providing for material security and maintaining economic and social stability. These objectives were to be achieved by:

1. Increasing the rate of growth of gross domestic product (GDP);
2. Developing human resources so that several elements of society would be able to contribute more effectively to production and participate fully in the process of development, and

3. Diversifying sources of national income and reducing dependence on oil through increasing the share of other productive sectors in gross domestic product."

The CPO further commented on these objectives and plans as providing a rational and orderly approach to achieving the nation's development goals, and indicated that the plan was not intended to be a rigid, restrictive set of rules and regulations but rather a means of bringing increased rationality into public sector programmes by establishing priorities and integrating activities to avoid bottlenecks and ensure coordination in the development process.

In 1975, the Wall Street Journal, 6 October issue, commented on the achievement of this first five year plan. It indicated that although not every programme in the plan had been fully implemented, several objectives had been achieved. For example, water supply projects were carried out for six major cities; five desalination plants were built on the Red Sea and two on the Arabian Gulf Coast; principal towns and cities were linked by a network of 6,800 miles of paved road; twenty domestic airports were served by Saudi Airlines; the education system was re-established on stronger bases; and health and social services were improved.

Improvement programmes which had not been fully implemented included housing, which had not fully kept pace with urban growth, and the telecommunications system which did not sufficiently meet demand.

5.6.2 The second five year plan: 1975-80

Among the main objectives of the second five year plan, 1975-80, was the diversification of the economy from a narrow oil base into much wider products such as petrochemicals, petroleum refineries, steel and iron, and other heavy industries; to maximise the utility of the country's other mineral resources; to improve education in a way that will increase the efficiency of the work force in these newly developed industries; and to develop the agricultural sector. In this second five year plan, Saudi Arabia also indicated its awareness of its international responsibility and allocated funds to international aid. This appropriation amounted to \$1.3 billion - that is, 5.75% of its 1974 \$22.6 billion total revenue (Al-Farsy, 1982).

5.6.3 The third five year plan: 1980-85

In the third five year plan, 1980-85, the industrial diversification policy continued. The large petrochemical projects originated in the second five year plan were continued, but this time greater emphasis was placed on production rather than infrastructural developments, as most of the infrastructure had been completed by this time. Greater emphasis was also placed on human resources development, and several training institutions were established and a number of existing ones expanded.

5.6.4 The fourth five year plan: 1985-90

Because most industrialisation programmes were completed by the end of 1985, and because most real estate,

communications, and road systems were completed, the fourth five year plan, 1985-90, emphasised the achievement of a reduction in foreign labour, and the provision of greater employment opportunities for Saudi nationals. More importantly, in this plan the private sector was invited to undertake the 300 new products which could be manufactured from the basic industries that were completed and, as mentioned, several specialised credit agencies were established for this purpose (Al-Yammamah, 1985). The private sector has responded positively to these initiatives, and the number of corporations established for this purpose is on the increase.

However, a key component in the economic planning process, the accounting profession, was not explicitly included in any of the five year development planning programmes, nor was the role and significance of accounting in this process adequately realised.

While the development programmes have transformed the relationship between the private and public sectors and have created a substantial demand for private and public sector accounting services in a variety of areas, this development has not been matched by a significant improvement of the accounting services.

Accounting information is needed to assist in the planning and control of both private and public sector industries. Accounting, for example, guarantees sufficient investor confidence, stimulates the flow of capital, and helps ensure

the continued efficient use of accumulated capital. Accounting can also facilitate the government's role in planning, allocating and controlling public resources in an economic and efficient manner. Accordingly, accounting should be viewed as an integral part of the development process, and a necessary component of the developmental infrastructure. In this way, development planning has a greater opportunity to achieve its stated objectives.

It is apparent from the examination of the major accounting legislations, discussed in the following sections, that the real significance of accounting has not yet been fully recognised, nor has it been allotted the priority and importance it deserves in relation to economic development and planning.

5.7 The Accounting Legal Framework in Saudi Arabia

5.7.1 The Companies Law

Up until the present time, the Companies Law has been the primary authoritative reference for accounting professional practice. The Companies Law was first introduced in 1965 and amended in 1982. This law established the legal basis for companies and accountants. Under the provision of this law, eight types of business entities are recognised:

- General partnership (Sharikah tadhamun)
- Limited partnership (Sharikah tawssiyah bassetah)
- Partnership limited by shares (Sharikah-tawssiyah bilasshom)
- Limited liabilities companies (Sharikah that mossaalih mahdoda)

- Variable capital company (Sharikah that rasmal gabel litagher)
- Joint stock company (Sharikah mosahemah)
- Cooperative company (Sharikah taawniah)
- Joint venture (Sharikah mahassah)

The Articles of this law deal exclusively with the fundamental details of business formation: minimum capital required, number of directors, and other similar matters. However, it provides very little guidance for accounting and auditing rules and procedures. For example, some of the relevant accounting and auditing requirements of the Companies Law include the following:

At the end of every fiscal year, the directors shall prepare an inventory of the company's assets and liabilities as at that date, as well as a balance sheet, a profit and loss account, and a report showing the company's activities and financial situation during the fiscal year. Such a report shall contain suggestions as to the method of distributing the net profits. The directors shall place those documents at the disposal of the auditor, not less than twenty five days before the date set for the ordinary general meeting. The headings of the balance sheet and the profit and loss account shall be the same as those used in preceding years; the bases of evaluating the assets and liabilities shall remain constant, unless the ordinary general meeting passes, upon the auditor's motion, a resolution amending such headings or bases of evaluation.

The board of directors shall, every year, set aside 10% of the net profits to form a reserve, to be termed the "statutory reserve". The ordinary general meeting may, when such reserves have attained an amount equal to one half of the capital, suspend such setting aside.

The statutory reserve shall be applied to cover company losses or to increase capital. If the amount of the statutory reserve exceeds one half of the capital amount, the ordinary general meeting may resolve to distribute the excess to the shareholders in years during which the company has not realised a sufficient net profit to distribute the amount prescribed in the Articles of Association.

The company's Articles of Association may also provide for setting aside a certain specified percentage of the net profits for a reserve to be named the "conventional reserve", to be allocated for the purposes prescribed in the Articles. At the ordinary general meeting, a resolution may be passed to form other reserves that will ensure the continuity of the company's activities or the maintenance of a fixed profit for the shareholders. This allocation can be taken from the net profits. At this meeting, an allocation may also be made from net profits for establishing social institutions for the company's employees and workers, or for reviewing and refurbishing any existing social institutions.

The "conventional reserve" shall only be used in accordance with a resolution passed by the general meeting. If such a reserve has not been allocated for certain specified

objectives, the ordinary general meeting may, on the motion of the directors, pass a resolution to spend a similar amount for the benefit of the company.

The company's Articles of Association shall prescribe the net profit percentage to be allocated to the shareholders after setting aside the amounts required for both the statutory and the convention reserves, provided that such a percentage is not less than 5% of the capital.

The shareholder's dividend shall accrue on the passing of the resolution allocating dividends.

The directors shall, within thirty days of the date on which the ordinary general meeting has approved the balance sheet, the profit and loss account, the directors' report, and the auditor's report, file copies of those documents in the offices of both the Registrar of Commerce and the Companies Department.

With respect to auditing, auditors, and auditors' reports, the Companies Law requires all corporations, partnerships limited by shares, and limited liability companies to appoint, at their ordinary general meeting, one or more auditors chosen from those auditors licenced to practice in the Kingdom; it shall fix their term of office and their fees; and it may re-appoint them from year to year. It may also, at any time, replace them; however, if this takes place without sufficient justification, the company must sufficiently compensate the outgoing auditor.

An auditor may not perform his duties while simultaneously participating in the company's incorporation, occupying the post of director, or performing any technical or administrative function in the company, even in an advisory capacity; nor can he be an employee or relative to the fourth degree of a partner in the company, or of any of the company's founders or directors.

The auditor may, at any time, examine the company books, registers, and other documents; he may call for any details or explanations as may be deemed necessary by him; he may also verify the company's assets and obligations.

The chairman of the board of directors shall accommodate the auditor in performing the assignment entrusted to him, and if the auditor encounters any difficulty in this respect he shall note it in a report which will be submitted to the board. If the board fails to provide him with the necessary facilities, the auditor shall convene the ordinary general meeting to consider the matter.

The auditor shall submit to the ordinary general meeting a report in which he states the attitude of the company's management in placing at his disposal all the particulars and explanations called for, as well as any violation of the provisions or of the Articles of Association, and his opinion as to the conformity of the company accounts to the facts.

The auditor's report shall be read to the ordinary general meeting. If the meeting passes a resolution approving the

directors' report without hearing the auditor's report, such a resolution shall be cancelled.

The auditor shall not divulge to the shareholders (other than in the ordinary general meeting) or to a third party any of the company's secrets which are in his possession as a result of performing his duties. Failure to abide by this provision necessitates the replacement of the auditor, who shall also be liable to damages sustained by the company as a result of his actions.

The auditor shall be liable to compensate the company, the shareholders, or third parties for damages sustained on account of actions taken by him in the course of his duties. If more than one auditor is involved, they will be liable jointly.

As can be seen from this summary, the Companies Law accounting requirements are general; for example, there are no specific prescribed accounting rules or procedures, nor has there been any sufficient attempt to define the scope and objectives of accounting and reporting or the scope and duties of the audit or auditors.

Because the Companies Law has a number of features in common with the Accountants Law and the Income Tax Law (the two other major legislations) with regard to accounting requirements, all three laws will be assessed and evaluated together at the end of this section.

5.7.2 The Accountants Law

The Accountants Law was enacted by Royal Decree No.43 in 1974, and sets the standards that should be applied to auditors. Articles 1 through 7 of the Law set the general conditions of registration: for example, Article 1 indicates that no person shall practice as a public or chartered accountant unless his name has been entered in the register of the Ministry of Trade and Industry. Article 2 indicates that in order to be in the register a person shall be a Saudi national, 21 years of age, fully competent, of good behaviour, a holder of at least a BA degree in accounting or any other comparable certificate acknowledged by the Ministry of Education, and have joined a certified public accountants office as a full-time trainee.

Articles 8 through 13 establish the procedure for application. Article 8, for example, sets the items and materials required to accompany the application to register. Article 11 states that chartered or public accountants shall, before commencing business, undertake to execute their assignments with integrity, honesty and impartiality, and shall observe professional secrecy. Such an undertaking shall be written in a signed statement to be deposited with the Ministry of Trade.

Articles 14 through 16 call for the establishment of the Higher Committee of Chartered Accountants. Article 15, for example, indicates that the terms of membership of that committee shall be three years renewable for one term only. Article 16 requires the committee to submit to the Ministry

of Trade and Industry proposals for the development of standards of accounting and auditing.

Articles 17 through 24 provide for general provisions: for example, Article 18 indicates that a person whose name is entered on the list of chartered accountants shall be permitted to audit the accounts of individuals, companies, partnerships, banks, public institutions, cooperative societies, and others in the manner provided for in the law and in conformity with the norms of accountancy; further, he shall prepare the statements of the final accounts and balance sheet in conformity with the information contained in the books; he shall further also in his report make whatever comments he deems pertinent with regard to the books, records, and violations of the Companies Law. Article 19 indicates that no person other than those whose names are recorded in the register shall sign on behalf of chartered accountants. Article 20 indicates that a chartered accountant or public accountant shall insert, next to his name, the number of his registration in the register. Article 21 indicates that a chartered accountant may not engage in commercial activities which are inconsistent with his profession, and he may not solicit business for his profession through advertisement or by any other way which might be deemed degrading to his profession. Article 22 indicates that a chartered accountant may not be a partner or director of a company; or undertake any administration duties within the company under audit; or be related, to the fourth degree, to any person who is in charge of the company's management or accounts; or be a partner or

employee of any of the above persons. Article 24 indicates that public accountants shall be liable for damages which may be suffered by a client or by a third party as a result of faults committed by him in the course of his duties.

These are some of the more important Articles of the Law of Certified Accountants. Other Articles include those which govern registration procedures, violations and trial procedures, or transitional provisions. Exhibit 5.4 indicates the number of licenced accountants by nationality.

5.7.3 Income Tax and Zakat Law:

The first income tax law in Saudi Arabia was issued by virtue of Royal Decree No.17/2/28/3321 dated 21.1.1370H (1950). This law has been amended in 1951, 1956, 1961 (twice), 1962, 1964, 1970 (twice), 1974, 1975, and in 1986. In addition, many Ministerial decisions, circulars, and memos have been issued interpreting the Income Tax and Zakat Law, and explaining its provisions and applications.

EXHIBIT 5.4: Public accountants licenced to practice in Saudi Arabia:

NATIONALITY	NUMBER OF ACCOUNTANTS
Saudi Arabian	77
Egyptian	7
Jordanian	4
Lebanese	4
Palestinian	1
Kuwaiti	2
Iraqi	1
Bahraini	1
Syrian	1
British	1
Pakistani	1
TOTAL	100

Source: compiled from Saudi Chamber of Commerce Professional Directory, 1987.

These publications include, for example: Resolution No.5 of 3.1.1406AH (1986); Ministerial Order No.8853 of 20.4.1391 (1971); Circular No.2921/7/1 of 9.4.1382H (1962); Circular No.S/1/303/2714/11/2 of 24.5.1387H (1967); Circular No.6153/1/2 of 5/12/1387H (1967); Circular No.45/8/4/2 of 2.8.1390AH (1970); Circular No.7490/2 of 28.4.1395H (1975); Circular No.17/9346 of 15/5/1395H (1975); Periodic Publication No.3 of 1395H (1975); Periodic Publication No.1 of 1376H (1956); Periodic Publication No.1 of 1378H (1958); Periodic Publication No.7 of 1376H (1956); Circular No.1679/2/3 of 14/2/1393H (1973); Periodic Publication No.2 of 1378H (1958); Periodic Publication No.8 of 1381H (1961); Periodic Publication No.10 of 1381H (1961); Circular No.52/M/13 of 25.1.1392H (1972); Periodic Publication No.3 of 1379H (1959); Periodic Publication No.5 of 1393H (1973); and Circular No.12025/2/1 of 18/12/1392H (1972).

While some of these circulars and periodicals indicate the conditions and rules of accounting - for example, Circular No.12025/2/1, which indicates the conditions and methods of depreciation, and Periodic Publication No.8 of 1381H (1961) which indicates the method for computing tax for less than a twelve month period - many others do not contain explicitly defined rules.

These periodic publications and circulars are issued by various government ministries and departments, such as the Department of Zakat and Income Tax, the Ministry of Commerce, the Ministry of Finance, and the Ministry of the Interior. These ministries are empowered to interpret the

law and to establish rules and regulations for the application thereof. However, any amendments to the laws have to be issued by Royal Decree. Up until the present time, the tax regulations have not been completely codified.

Because of the absence of clearly defined accounting rules contained in the present Income Tax and Zakat Law, the tax authority will normally accept any support for any accounting treatment, especially internationally recognised rules (Merei, 1985).

5.8 Accounting Regulations: An Assessment

The examination of the three main accounting related laws - the Companies Law, the Accountants Law, and the Income Tax and Zakat Law - indicates the following observations and conclusions:

- 1) None of the laws examined attempt to explicitly define the scope, functions, and objectives of accounting or reporting. Those objectives that are implied are of a legal rather than professional nature, and are introduced to ensure the rights of the parties concerned.
- 2) While a few of the laws examined, and in particular the Income Tax and Zakat Law, explicitly or implicitly recognise some of the basic concepts of financial accounting, such as entity, accrual, the accounting period, the historical cost, and the matching costs, many other important accounting concepts, such as the going concern, the unit of measurement, the

materiality, conservatism, and the realisation concept are left with no explicit or implicit recognition.

- 3) Although the laws examined require the preparation of a directors' report, an auditors' report, a balance sheet, and a profit and loss account, no more detail is given as to the form or content of these reports and statements.
- 4) Very few specific measurement and communication standards are contained in the examined laws. Those standards that are included are very limited in scope and nature, and they fall under the heading of "rules" rather than "standards". This is because they are designed to achieve specific legal purposes rather than reporting objectives.
- 5) While the examined laws contained some auditing standards regarding professional conduct, ethics, responsibility, technical training, and professional independence, these standards are not adequately covered.
- 6) The laws examined contained no official statement defining auditing objectives. The implicit objectives included are narrowly defined and deal with legalistic rather than profession objectives.
- 7) None of the laws examined contained or referred to any technical standards except the Income Tax and Zakat Law which requires the auditor to perform his audit function in accordance with generally accepted accounting and auditing principles, and to prepare financial statements reflecting what is contained in

the books and accounts; however, there is no reference as to what these standards are.

It is probably not unrealistic to conclude at the end of this section, and after the examination of the above mentioned laws, that accounting, as far as rules, procedures, and standards are concerned, is not regulated to any significant extent. This lack of any legal or authoritative support for the accounting profession is probably the single most serious problem facing the field of accounting at the present time.

5.9 Accounting Standardisation Programmes and Efforts

During the 1970s, as mentioned earlier, the Kingdom of Saudi Arabia witnessed a massive social and economic development programme, and it became imperative that accounting should develop in conjunction with these social and economic developments. A number of professional accountants and academics, as well as international accounting firms, expressed dissatisfaction with the existing accounting and auditing practices which were proving themselves unable to match developments in other areas.

In response to this dissatisfaction, the Department of Accounting at King Saud University organised a conference in 1981 on the theme of current accounting and auditing practices in Saudi Arabia. This was the first conference of its kind to be held in the Kingdom. The objectives of the conference were primarily to discuss the issues involved in current accounting and auditing practices, including an

evaluation of the problems giving rise to the high level of dissatisfaction, and to make recommendations on the most appropriate alternatives for improvement. A number of prominent people, such as the Deputy Minister of Trade, the Principal of King Saud University, the Dean of Higher Education at King Saud University, as well as prominent public accountants, representatives of banks, industries, and universities, were invited to participate in the conference (Exhibit 5.5).

EXHIBIT 5.5:
Participants in the King Saud University 1981 Accounting Conference:

INSTITUTION	NUMBER OF PARTICIPANTS
1. Department of Zakat and Income Tax	8
2. General auditing preserve	3
3. Ministry of Trade	3
4. High Accounting Committee	4
5. King Abdulaziz University	3
6. Institute of Public Administration	2
7. Saudi Service and Consultation Company	5
8. Riyadh Furniture Factory	2
9. Saudi Property Development Fund	1
10. Saudi Manufacturing Development Fund	2
11. Saudi Property Development Company	2
12. Saudi Faransi Bank	2
13. Saudi Biritani Bank	2
14. Saudi Americi Bank	2
15. Others	51
TOTAL	92

Source: the King Saud University 1981 Annual Accounting Conference.

A number of participants at the 1981 conference expressed their views as to what they considered to be the main problems, and what they saw as the most appropriate ways to counter the existing shortcomings (Exhibit 5.6).

EXHIBIT 5.6: The research and discussion papers presented at the King Saud University 1981 Accounting Conference:

TOPIC	AUTHOR	GROUP
<u>RESEARCH:</u>		
1. The Role of Accounting in the Economic Development	Dr A Abdul Khadir	Academic
2. Auditing Standards & the Auditor's Report	Dr M S Al-Saban	Academic
3. Accounting & Accounting Regulation in the Kingdom of Saudi Arabia	Dr K A Al-Kurdi	Academic
4. Auditing Standards & the Company Law	A A Baashan	Practicing Accountant
5. The Accounting Profession & Auditing Practices in the Kingdom of Saudi Arabia	Dr A M Hijazi	Practicing Accountant
6. The Role of Universities in the Preparation of Accountants	Dr M Al-Sultan	Academic
7. The Accountants' Society	Dr S A Al-Ghandi	Academic
<u>DISCUSSION PAPERS:</u>		
1. Accounting & Accounting Regulation in the Kingdom of Saudi Arabia	K Fatani	Practicing Accountant
2. Auditing Standards & Auditors' Reports	Dr A M Al-Faisal	Academic
3. Accounting Supply & Demand	Dr Essam Merei	General Auditing Bureau
4. The Role of Universities in the Preparation of Accountants	Dr A G Yamani	Practicing Accountant
5. The Accounting Profession in the Kingdom of Saudi Arabia	A A Mohandis	Practicing Accountant

Source: King Saud University 1981 Annual Accounting Conference

These views are subsumed in the absence of clearly defined accounting and auditing regulations, and called for the development of accounting and auditing standards, taking into account the experiences of other countries in this field. The 1981 conference was sufficiently successful for a decision to be taken to hold a further conference on the same theme in 1983, with the intention of establishing a series of annual accounting conferences.

The response to the 1983 conference was even greater than to the first one, with a significant increase in the number of participants applying to register, and an enthusiastic response to the call for papers. Twenty four research topics were received from all sections of the accounting community, including academia, public accounting, and industry. After consideration, sixteen papers were finally accepted although only ten were presented at the conference. Exhibit 5.7 provides a summary of the research topics presented, and Exhibit 5.8 provides a summary of the participants.

In the midst of the developments and recommendations ensuing from King Saud University's first and second annual accounting conferences, Al-Rashed office - one of the leading public accounting firms in the Kingdom - submitted a report to the Ministry of Commerce stating the current accounting problems and the areas for potential improvement, together with a proposal for the development of accounting and auditing standards and an organisational structure for the development of the profession.

EXHIBIT 5.7: Research topics presented at the King Saud University 1983 Accounting Conference:

RESEARCH TOPIC	AUTHOR	PROFESSION
1. Auditors' Legal Responsibility	Dr A A-Homaid & Dr A Al-Munif	Academic KSU
2. Study of Auditors' Responsibility in Examining Internal Cost Systems Design	Dr A F Hassan	Academic KSU
3. Internal Auditing	Dr A M Al-Aliyan	Academic KAU
4. Internal Auditing & the Auditor's Responsibility in Saudi Arabia	M A Baker	Public Accountant
5. Performance Auditing & its Importance in the Kingdom of Saudi Arabia	D S Jadallah	Public Accountant
6. The Importance of Auditing Rules in the Development of Accounting in K.S.A.	Dr Essam Merei	General Auditing Bureau
7. Ways of Developing the Accounting Profession in Saudi Arabia	A R Al-Rashed	Public Accountant
8. The Auditor & Management Consultation Services	T Abugazalaeh	Public Accountant
9. The Control Concept & the Role of the General Auditing Bureau	Dr K A Kurdy	Academic KSA
10. The Problems Facing the External Auditor in the Kingdom of Saudi Arabia	A M Badran	Public Accountant

Source: King Saud University 1983 Annual Accounting Conference

After careful examination of the proposal and further discussion with Al-Rashed office, the Ministry of Commerce agreed to sponsor the project. It was decided that the project should be carried out in a series of stages: firstly, sufficient account should be taken of the experiences of other countries in this field. For this purpose, three countries were chosen: the US, West Germany, and Tunisia. These particular countries were chosen because they represented three very different accounting development systems: the professional approach, the legal approach, and accounting in a developing country.

EXHIBIT 5.8: The participants in the King Saud University 1983 Accounting Conference:

INSTITUTION	NUMBER OF PARTICIPANTS
1. Accounting firms	80
2. Universities	8
3. King Saud University members	16
4. Public Administration Institute	3
5. Government Departments and Ministries	20
- Industrial Development Fund	
- Department of Zakat and Income Tax	
- Royal Air Force	
- King Faisal Hospital	
- Ministry of Trade	
- General Auditing Bureau	
6. Private companies and banks	5
7. Participants from GCC	4
TOTAL	136

Source: King Saud University 1983 Annual Accounting Conference

The results of this stage were then submitted to the Ministry of Commerce for appraisal. In this report, two options were proposed for the next stage: 1) to develop comprehensive accounting and auditing standards and the professional organisational structure; or 2) to limit the development to auditing standards, reporting standards, and a general framework for accounting. The Ministry of Commerce, after careful consideration, decided to adopt the second option as it seemed logical in terms of the current state of accounting development, and it was officially agreed in 1982 that the project should commence.

The main tasks of the second option were to develop financial accounting objectives, to choose among the accounting concepts and define them, to develop reporting standards, to develop auditing standards, and to develop an organisational structure for the profession. These tasks were divided into three major areas of development:

1. The area of financial reporting. This included developing accounting objectives, financial reporting concepts, and reporting standards. This task was assigned to a team of experts in the field, two of whom were members of the AICPA, Dr Sabri Hykal and Dr Mohammed Eied Mostafa, and a third member from King Saud University's Accounting Department, Dr Abdulrahman Al-Homaid, who at that time was the Head of Department.
2. The area of auditing. This included the development of auditing standards and auditing planning and procedures. This task was assigned to David Hatherly of the Institute of Chartered Accountants of Scotland, Peter Sykoze of the Institute of Chartered Accountants of England and Wales, and Dr Abdullah Al-Faisal of King Saud University's Accounting Department.
3. The area of internal organisation of the accounting profession. This was assigned to Earn Paul and Wally Olsen, members of the AICPA, and Dr Abdullah Al-Monif of King Saud University's Accounting Department.

To accomplish these tasks, each team was requested to draft a proposal on their subject and circulate it to the other team members for discussion. In late 1982, the members from all three teams met in Riyadh for discussion. In early 1983

they met again for further discussion; however, on this occasion the meeting was open to the public and was attended by the Minister of Commerce and his deputy. At this meeting, several amendments were suggested to the final draft to meet the specific needs of the Saudi environment. Five months later, another meeting was held to discuss the amendments. Subsequently, the final proposal, incorporating the necessary amendments, was submitted to the Ministry of Commerce for approval. Nearly one and a half years later, the Ministry of Commerce, after further consideration and consultation with other Ministries and government agencies, issued a Ministerial Decree No.692 dated 28/2/1406H (1986) accepting the results of the study as a guide to which accounting practitioners should refer for auditing matters, and whose purpose was to identify the main objectives of accounting and reporting upon which accounting standards should be established in the future. However, up until the present time no specific standards have been established. What has been published - in Arabic - are some auditing guidelines, a definition of accounting items, and accounting objectives.

The impact of this latest development on actual accounting practice, however, is very difficult to assess at this time. The impression obtained from discussions with a number of public practicing accountants indicates that this development has been useful as a theoretical frame of reference but actual practice is still dictated by circumstances, and remains as varied and flexible as ever. This impression is reinforced by the results of the survey

undertaken in this research, in which it was revealed that little reference is made to the application of or compliance with any newly-established standards.

It is argued, however, that this latest development is intended to provide the foundation on which future accounting standards would rest, but would not establish any specific standards at this stage.

A further attempt to develop accounting and auditing standards has also been made by the General Auditing Bureau. This Bureau is a branch of the Council of Ministers, and is a government agency equivalent to the US Government Accounting Office. The President of the General Auditing Bureau holds a Ministerial rank, is appointed by Royal Decree, and reports directly to the King. The Bureau is mainly responsible for auditing the revenues and expenditures of all Ministers, government agencies, and companies which the government subsidises or prescribes.

In 1982, the President of the Bureau established a full-time team of five specialists to develop accounting and auditing standards in the Kingdom. The purpose of limiting the membership of this team to five people was to increase the efficiency of this process - a lesson which was learnt from the FASB experience. At the outset of this programme, four alternatives were considered by the team.

The first alternative was the adoption of international accounting standards promulgated by the IASC, and the

auditing guidelines issued by the International Federation of Accountants. Although the team recognised the advantages of adopting international standards, the disadvantages were also considered (Merei, 1985). According to Merei, who was one of the five team members, this option has several disadvantages: firstly, there is little evidence as yet to prove that these international standards are actually achieving their objectives. These standards have not yet been widely accepted, and therefore did not receive the full support of all the team members. Secondly, these standards - though attractive in some respects - are not considered to be founded on a sound conceptual basis which would accommodate the information needs of all the participating countries. Thirdly, international accounting standards are sometimes considered too technical and difficult to understand by users in countries which have a lower level of technical expertise. Fourthly, developing countries in general, and Middle Eastern countries in particular, are under-represented in the development of these standards and their particular needs have not been adequately recognised.

For these main reasons, the team of experts concluded that this alternative, at that moment in time, was inappropriate for Saudi Arabia.

The second alternative was to select a set of accounting standards from a developed country, such as the United States, the United Kingdom, or Canada, and then to enforce them. Again, this alternative was avoided for three main reasons: firstly, adopting foreign standards may be seen as

an infringement of national or professional sovereignty and therefore may be resisted. Secondly, these standards are designed for the environment and business conditions of developed countries which may not be compatible with those of a developing nation. Thirdly, foreign standards in general may not be compatible with the needs of local users (Merei, 1985).

The third alternative was to develop a set of national standards, with complete recognition of international efforts and the experiences of developed countries in this area. In recognition of the difficulties of adopting international standards or the standards of developed countries, this alternative was adopted. Various steps and methodologies were used by the team of experts under this approach:

- 1) The leading international and national professional organisations, such as the IASC, the IFAC, and the FASB, were consulted on these matters.
- 2) Contact and communication channels with experts in this field, both nationally and internationally, were maintained.
- 3) Auditing experiences and original pronouncements of developed countries were carefully studied and compared. A comparative study was carried out between the following: the IFAC guidelines, the Union Europeene des Experts Comptables Economiques et Financieres (UEC) auditing standards, the ICAEW, the AICPA, the US General Accounting Office, the Constitution No.122 of the Accounting Profession of 1951 in Egypt, and the

provisions of the Accounting and Auditing Constitution issued by the Egyptian Association of Accountants and Auditors on 4 August, 1958.

- 4) Compliance with the General Auditing Bureau constitution, the General Auditing Bureau regulations, and the Department of Zakat and Income Tax regulation was observed.
- 5) Consultation with leaders of the public accounting profession in Saudi Arabia.

As a result of these procedures and consultations, a preliminary report was drafted in both Arabic and English. A local committee consisting of public accountants and academics reviewed the Arabic version, while the English version was distributed to the relevant countries abroad to be checked for internal consistencies. After revision and amendment, comprehensive auditing standards were finally issued by the President of the General Auditing Bureau in 1982, consisting of five chapters. Chapter one of the standards explains the concept of comprehensive auditing and its scope and objectives. Chapter two provides details of comprehensive auditing, defined as the criteria by which the quality and effectiveness of auditing is evaluated, and explaining the basic postulates of auditing. Chapter three presents details of the general auditing standards. Chapter four explains the field standards. The final chapter explains the content and form of standards that must be used in preparing an opinion or report (Merei, 1985). These standards, when issued and as indicated by the President of the General Auditing Bureau, represent the general framework

for the Bureau and a contribution towards the development of the accounting profession in the Kingdom.

These standards are now probably being utilised by the Bureau itself in carrying out its audit functions and duties; but because these standards are especially designed for the Bureau itself, it is difficult at this time to assess their impact on public accounting practice. This difficulty is reinforced by the survey exercise undertaken in this research, in which no reference is made to the application of or conformity with these standards.

5.10 SUMMARY

This chapter was aimed at highlighting those factors most relevant to accounting development in Saudi Arabia. In the first two sections, a brief discussion of the legal system and the development of legislation, together with the most influential groups on the decision making process, is presented. This discussion is particularly important for achieving greater understanding of the development of accounting's most authoritative legislation in Saudi Arabia: the Companies Law, the Accountants Law, and the Income Tax and Zakat Law presented in second section.

In the third section, the essential features of the Saudi economy, together with the economic development programmes, are discussed. This discussion is important because it indicates the level of needs and demands for accounting services. In this discussion, the more recently established corporations and institutions in industry, agriculture, and

finance were indicated. The implications of these recently established ventures for the development of accounting is of paramount importance.

In the fourth section, the essential features of the three most authoritative accounting legislations - the Companies Law, the Accountants Law, and the Income Tax and Zakat Law - are examined. The results of this examination indicate that accounting, at the present time, is not regulated to a significant extent. There are some rules and guidelines which exist to accomplish certain legal requirements but they cannot be regarded as professional accounting rules or standards. Given this lack of adequate authoritative professional rules, many expressed the expectation that this would result in undue flexibility in accounting practice.

In the fifth section, a review of the more recent efforts to develop accounting rules and standards, together with the parties involved and the methodologies utilised, is carried out. The results of this review indicate that these development programmes have not yet completely achieved their stated objectives. This may be due to the long-term nature of such objectives and benefits, the results of which have not yet been observed; or it may be due to the lack of authoritative support and enforcement applied to these efforts.

Finally, the reviews and discussions in this chapter reveal three important observations and findings. Firstly, in view of the mutual relationship and adaptation between

accounting and its environment, and despite the lack of conclusive evidence as to the causality of relationships between the growth of the private enterprise economy and the development of accounting (Pound & Pollard, 1981; Lister, 1983; Chandler & Holzer, 1984), it would appear that the growth in the private enterprise economy and industrialisation currently taking place in Saudi Arabia is probably the strongest driving force towards the need for developing the accounting profession at the present time. This pressure manifested itself in the theme of King Saudi University's first and second accounting conferences, in which many participants expressed their dissatisfaction with the current accounting practice's inability to meet the growing demands of private sector enterprises (Abdul Khadir, 1981; Kurdi, 1981; Badran, 1983).

Secondly, the history of accounting in Anglo-Saxon countries indicates that the development of accounting regulations emerged as a result of financial crises and legal proceedings brought against companies and accountants (for example, the stock market crash in 1929 and the McKesson and Robbins case in 1938 in the US, and the Rolls Razor crisis and the AEI and Pergamon takeovers in the UK), all of which had a positive and reforming effect on the accounting profession. Without these crises and proceedings and their negative publicity it is unlikely that the failings prevailing in the accounting system at that time would have been recognised and tackled.

Up until recently, there had not been any evidence of major legal proceedings or negative publicity relating to the accounting profession in Saudi Arabia, nor was there any substantial evidence to suggest that financial crises or material disputes involving accountants were taking place. As a result, pressure for accounting reform is offset by the absence of financial crises.

Thirdly, while the development of accounting theory and policy in Anglo-Saxon countries at this stage is seen to have been, at best, dominated by a demand for excuses or subject to political interference, and at worst as being hindered by business and industry's resistance to additional and excessive accounting legislation, the evidence of which has been demonstrated by the introduction of oil and gas reporting requirements in the US and the introduction of accounting for inflation in the UK (Watts & Zimmerman, 1979, 1980; Solomons, 1983), the demand for accounting theory and policy in the Kingdom of Saudi Arabia is currently dominated by a concern for technicality - mainly for verification - based on some kind of existing theory to ensure sufficient comparability and consistency. Saudi Arabia's business and industry are, however, (unlike their counterparts in Anglo-Saxon countries) likely to be more successful in their resistance to additional and excessive accounting legislation because, at this early stage of economic development, business and industry are offered favourable terms and concessions. This, among other things, may explain why up until now no standards have been introduced or enforced.

CHAPTER 6

A SURVEY OF CORPORATE DISCLOSURE PRACTICES IN THE KINGDOM OF SAUDI ARABIA

6.1 Introduction

The introductory chapter set out the objectives of this thesis and described the methodological procedures which were followed. These procedures include a survey of accounting and reporting practices, and a Delphi exercise. The survey methodological procedures were briefly explained in the introductory chapter, and are explained in further detail in this chapter. The introductory chapter also brought to the reader's attention Saudi Arabia's exclusion from all important comparative international accounting surveys to date, and explained why acquiring a greater understanding of accounting and reporting practices in Saudi Arabia is particularly important for the international accounting community. Saudi Arabia is a rapidly socially and economically developing country: accounting may reflect these developments and may offer a number of instructive topics to the international accounting community, particularly with reference to understanding accounting developments in developing countries in general. This chapter reports the findings of the survey.

This survey chapter is compiled as follows: in the first section of this chapter, a brief history and statistics of corporations in Saudi Arabia is provided. In the second section, the details of the survey's methodological

procedures are described in full. In the third section the results of the survey are reported; and, in the final section, the summary and conclusions are presented. This survey chapter is complemented by the Delphi exercise, the subject of the next chapter.

6.2 A Brief History and Statistics

The history of public corporations in the Kingdom of Saudi Arabia is very short. For example, before the 1950s this form of business was practically unknown, and in 1965 there were only six corporations with an estimated invested capital of 943 million Saudi Riyal and about 9 million shares. However, since the early 1970s - and as a result of the economic and social changes which took place during that period - there has been a marked increase in the number and popularity of these shareholding companies. For example, in the period between 1984 and 1987 the number of corporations increased from 41 to 53, with a capital increase from 38549 million SR to 40197 million SR; the number of shares increased from 330 millions to 407 millions; and there are more corporations yet to be formed (Chamber of Commerce Statistics, 1987).

Up until the present time, the primary source of (mandatory) corporate disclosure requirements in the Kingdom has been the Company Law of 1965, amended in 1982. This law, as indicated in the previous chapter, deals mainly with the routine process of business formation: minimum capital requirement, the number of directors to be appointed, etc. However, there is no definitive set of comprehensive and

authoritative accounting and reporting rules (Deloitte, Haskins & Sells, 1984; Elkharouf, 1985; Mostafa, 1985) and as of December 1988 there is still no operational unit (public or private) empowered to set such rules and standards.

As a result, many alternative sources of corporate disclosure requirements, such as locally developed rules, regulations from other countries, and/or internationally developed standards, are followed voluntarily. Based upon that fact, this survey of accounting and reporting practice in Saudi Arabia will proceed on the assumption that the items of information selected, and which are to be checked against Saudi corporate annual reports, are voluntarily disclosed, and will be treated as such. This assumption will not only illuminate the impact which the absence of statutory requirements has on disclosure generally, but it may also determine the level of impact which accounting practices in developed countries and internationally developed standards have on the development of accounting in developing countries (Chow & Wong-Boren, 1987).

As of December 1985, the 53 public corporations of Saudi Arabia were in the following economic sectors (Exhibit 6.1).

6.3 Scope and Methodology

The objective of this survey chapter is to investigate the extent to which various parts of corporate annual reports are voluntarily disclosed in the absence of definitive legal or professional requirements. This survey is intended to

provide a greater understanding of accounting and reporting practices in the Kingdom of Saudi Arabia. This survey incorporates information on the type of financial statements presented, the form used, the items reflected, accounting policy disclosure, the form and content of directors' and auditors' reports, and many other accounting, reporting, and measurement issues.

EXHIBIT 6.1: Public Corporations

Economic sector	Number of corporations	Paid in Capital SR (millions) %		No of shares (thousands)
Banks	10	1,800	4.5	17550
Electricity	10	22,008	54.8	237199
Cement & Construction	8	5,038	12.5	61850
Industrial & Chemical	12	6,044	15.0	20700
Agriculture	5	1,125	2.8	15000
Transportation & Services	8	4,182	10.4	54231
TOTAL	53	40,197	100	406530

Note: All amounts shown are in Saudi Riyals. \$1 = 3.75 SR and £1 = 6.78 SR as at January 1989.

Source: "Saudi Arabian Corporations Directory", Riyadh Chamber of Commerce, 1987 pp.11-25.

The objective of this survey is general in nature. This generality may provide more meaningful information regarding the status of financial reporting within a country than preceding studies on national disclosure - which have focused on selected information items - have revealed (Singhvi, 1968; Busby, 1974; Benny, 1975, 1976; Barrett, 1977;

For this purpose, a list of relatively comprehensive information items that are, and could be, disclosed in the

annual report of a profit-seeking company has been developed. These information items and questions were related to, and categorised under, three main sections of annual reports:

- a) General information items necessary for a complete presentation of a company's financial affairs;
- b) Specific information items necessary for the complete presentation of a company's financial position; and
- c) Specific information items necessary for a complete presentation of a company's results of operations.

This division of headings was formulated to determine the level of disclosure within each category, and to remain consistent with the Delphi exercise, the subject of the next chapter. However, because there is no general theory upon which items can be selected within this categorisation (Singhvi & Desi, 1971; Choi, 1973, 1974; Busby, 1974; Barrett, 1977; Firth, 1978), the list of chosen information items is based primarily on the recommendations of the international accounting literature as being relevant and significant to the average user of company annual reports, although many of these recommended items are perceived from a developed capital market context, and are possibly biased towards the needs of US investors and institutions. These recommended items are chosen as a frame of reference in the absence of any other alternative (i.e. information items relevant to the needs of users in developing countries). The objective in this case is to develop a wide-ranging list of information items that could, or should, be

disclosed by company annual reports (Chang et al, 1983; Choi & Mueller, 1984).

The scoring mechanism for the extent and scope of reporting which will be followed in this survey is based on whether an information item is disclosed or not, i.e. a YES or NO score. All items in this scoring mechanism are therefore perceived to be of equal importance, and are thus given (1) when an item is disclosed and (0) when it is not. In these terms the disclosure score for a company is additive. This scoring mechanism is not based on the idea that some information items are specifically more important than others to certain users; instead, it is based on the equal importance of information items to all users. This idea is consistent with the general purpose annual reports examined in this survey.

Each company is evaluated on the basis of the relationship between what it discloses and what it is expected to disclose as a maximum; for example, a company that has no subsidiary and/or does not operate in a variety of geographical areas would not be expected to publish group accounts or any segmented information. For this reason, a score of "NOT APPLICABLE" has been incorporated into the scoring sheet.

To decide on the relative level of disclosure by a company, and the extent of disclosure in comparison to other companies, a disclosure index will be constructed for each company. This index is the ratio of actual scores awarded

to each company for the content of its annual report and the scores that company is expected to earn, i.e. the ratio of the number of items disclosed divided by the total number of items that it could have disclosed out of the total information items on the list. This index is, however, unweighted.

The main advantage of the unweighted index is that it permits the undertaking of analysis which is independent of the perceptions or preferences of a particular user group. It also allows for evaluation of the annual reports in a general purpose context, as all disclosure items are treated as equally important to all users. Moreover, this survey is mainly concerned with the description of the state of financial reporting in Saudi Arabia without necessarily making inferences about the quality of disclosure in a quantitative manner. This description involves comparing the content of annual reports with a regime of minimum disclosure requirements so as to reveal any likely deficiencies. For this purpose, the unweighted index would appear to be sufficient (Benston, 1976; Wallace, 1988). To avoid bias, an attempt has been made to incorporate as many information items as possible in the scoring sheet, taking into account the Saudi Arabian corporate accounting and reporting environment. To reflect this requirement it was necessary for the scoring sheet to be refined, and this was achieved by carrying out an initial pilot survey. The items included in this scoring sheet have been disclosed by at least one company, or are considered too important to be omitted (see scoring sheet in Appendix A).

6.4 Sample of Companies:

The most recently published figures reveal that there are 53 established corporations in the Kingdom of Saudi Arabia, of which 10 are banks. However, banks are excluded from this survey due to the special nature of their activities and, out of the remaining 43 corporations, 30 - selected at random - are covered in the survey - i.e. 70% (Exhibits 6.2, 6.3, 6.4). The most recent annual reports available on the selected 30 companies were published in 1987.

EXHIBIT 6.2: Summary of Public Corporations by Industry

Industry	Population		Sample		Sample/Population
	no.	%	no.	%	%
1. Electricity	10	23	4	13.3	40.0
2. Cement & Construction	8	18	5	16.7	62.5
3. Industrial & Chemical	12	27	9	30.0	75.0
4. Agricultural	6*	14	6	20.0	100.0
5. Transp. & Services	8	18	6	20.0	75.0
TOTAL	44*	100	30	100.0	68.0*

* One of the agricultural companies in the sample was not included in the Chamber of Commerce 1987 survey illustrated earlier.

EXHIBIT 6.3: Sample of Public Corporations by Industry (Sector)

Industry	No. of companies	No. of shares		Total assets	
		(millions)	%	(millions)	%
1. Electricity	4	250.0	53	70349	63
2. Cement & Construction	5	39.9	8	6023	5
3. Industrial & Chemical	9	118.2	25	27296	24
4. Agricultural	6	15.9	3	2981	3
5. Transp. & Services	6	52.0	11	5744	5
TOTAL	30	476.0	100	112393	100

EXHIBIT 6.4: Detailed information on corporations within each sector

A) THE ELECTRICITY INDUSTRY:

COMPANY NAME	No. of shares		Total assets		Total revenue		Net profit
	(mill)	%	(mill)	%	(thou)	%	(loss) (thou)
1. Saudi Consolidated Electricity Co (Eastern Region)	50	20	21789	31	1531901	37	(74271)
2. Saudi Consolidated Electricity Co (Central Region)	80	32	20239	29	1204069	29	(679956)
3. Saudi Consolidated Electricity Co (Western Region)	80	32	20217	29	1238298	30	(697095)
4. Saudi Consolidated Electricity Co (Southern Region)	40	16	8104	11	166990	4	(615527)
TOTAL	250	100	70349	100	4141258	100	(2066849)*

* These figures are prior to the addition of government subsidy.

B. THE CEMENT INDUSTRY:

COMPANY NAME	No. of shares		Total assets		Total revenue	Net profit
	(mill)	%	(mill)	%	(thou)	(loss) (thou)
1. Arabian Cement Ltd	1.5	4	1081	18	-- *	16161
2. Saudi Bahraini Cement Co (SBC)	12.0	30	1221	20	-- *	4950
3. Saudi Kuwaiti Cement Co (SKC)	6.0	15	1422	24	173297	(46871)
4. Saudi Cement Co	8.4	21	1016	17	-- *	42062
5. Yammamah Cement Co	12.0	30	1283	21	-- *	13271
TOTAL	39.9	100	6023	100	173297	29573

* These companies did not disclose their sales figures.

C. INDUSTRIAL AND CHEMICAL:

COMPANY NAME	No. of shares		Total assets		Total revenue		Net profit
	(mill)	%	(mill)	%	(thou)	%	(loss) (thou)
1. National Gas & Manufacturing Co	5.0	4.2	614	2.2	298429	4.5	(48778)
2. Saudi Co for the Manuf. Machine & Medical Equip.	3.0	2.5	196	0.7	49270	0.7	33422
3. National Manuf. Co	3.0	2.5	359	1.3	20829	0.3	2029
4. Saudi Arabian Basic Industry Corp (SABIC)	100.0	84.6	23596	86.4	5282163	80.2	1077871
5. Al-Khaleegiah Fiber Glass Co	0.5	0.4	29	0.1	2173	0.1	754
6. Saudi Arabian Fertilisers	2.0	1.7	1405	5.2	231606	3.5	109652
7. National Gypsum Co	0.7	0.6	129	0.5	58806	1.0	9389
8. Saudi Ceramic Co	1.5	1.3	292	1.1	116528	1.8	(3850)
9. Saudi Cable Co	2.5	2.1	676	2.5	525171	7.9	13622
TOTAL	118.2	100.0	27296	100.0	6584975	100.0	1194111

D. AGRICULTURAL:

COMPANY NAME	No. of shares		Total assets		Total revenue		Net profit
	(mill)	%	(mill)	%	(thou)	%	(loss) (thou)
1. Hail Agric. Devel. Co	3.0	19	662	22	195913 *	15	264879
2. Saudi Co for the Prod. of Vegetable Oil	0.9	6	271	9	330634	26	46314
3. Al-Gassim Agric. Co	5.0	31	362	12	52116	4	24922
4. Tabuk Agric. Devel. Co	2.0	13	440	15	158693	12	65558
5. National Company of Agric. Devel.	4.0	25	1012	34	399486	31	65028
6. Saudi Fisheries Co	1.0	6	234	8	157979	12	29808
TOTAL	15.9	100	2981	100	1294821	100	496509

* Six month period

E. TRANSPORTATION AND SERVICES:

COMPANY NAME	No. of shares		Total assets		Total revenue		Net profit
	(mill)	%	(mill)	%	(thou)	%	(loss) (thou)
1. National Shipping Co	20	38	1196	20	433839	36	2892
2. The Saudi Co for the Transportation of Livestock	5	10	387	7	394088	33	29494
3. Saudi Public Trans- portation Co	10	20	1697	30	223321	18	(104744)
4. The Saudi Company for Equipment & Car Services	6	11	347	6	14524	1	4939
5. Saudi Property Development Co	6	11	1336	23	92726	8	14513
6. Saudi Hotels and Resort Area Company	5	10	781	14	50363	4	23981
TOTAL	52	100	5744	100	1208861	100	(33925)

6.5 Survey Results

6.5.1 Individual Companies' Overall and Disaggregated Disclosure Indexes

Table 6.1 illustrates the results of the scoring technique followed in this survey. In this table there are four different indexes, of which the overall index is the most important. This index indicates the disclosure status of an individual company, and it represents the percentage of information items actually disclosed by the company set against the items which it might be expected to disclose as a maximum from the list contained in the scoring sheet. The procedure followed to derive this index is as follows:

Firstly, an examination of the annual report was necessary to gain an insight into, and familiarity with, the company.

TABLE 6.1: INDIVIDUAL COMPANIES' OVERALL AND DISAGGREGATED DISCLOSURE INDEX

NAME OF COMPANY	INDUSTRY	OVERALL	DISAGGREGATED		
		INDEX %	(A)*	(B)*	(C)*
1. Saudi Consolidated Electricity Co (Eastern Region)	Elect.	40	36	54	33
2. Saudi Consolidated Electricity Co (Central Region)	Elect.	32	36	35	27
3. Saudi Consolidated Electricity Co (Western Region)	Elect.	29	33	46	23
4. Saudi Consolidated Electricity Co (Southern Region)	Elect.	30	36	30	23
5. Arabian Cement Ltd	Cement	52	45	70	43
6. Saudi Bahraini Cement Co	Cement	46	39	68	31
7. Saudi Kuwaiti Cement Co	Cement	50	44	67	40
8. Saudi Cement Co	Cement	47	48	66	27
9. Yamamah Cement Co	Cement	48	39	65	40
10. National Gas & Manufacturing Co	Indust.	54	50	67	43
11. Saudi Co for the Manufacture of Medicine & Medical Equipment	Indust.	44	45	46	40
12. National Manufacturing Co	Indust.	50	49	64	40
13. Saudi Arabian Basic Industry Corporation (SABIC)	Indust.	51	53	56	43
14. Al-Khaleegiah Fiber Glass Co	Indust.	44	45	51	37
15. Saudi Arabian Fertilisers Co	Indust.	50	48	56	43
16. National Gypsum Co	Indust.	53	45	66	47
17. Saudi Ceramic Co	Indust.	51	47	64	43
18. Saudi Cable Co	Indust.	59	51	72	57
19. Hail Agricultural Development Co	Agric.	61	50	86	50
20. Saudi Co for the Production of Vegetable Oil	Agric.	61	50	81	53
21. Al-Gassim Agricultural Co	Agric.	58	58	67	48
22. Tabuk Agricultural Development Co	Agric.	61	56	75	51
23. National Co for Agricultural Devel.	Agric.	71	65	86	63
24. Saudi Fisheries Co	Agric.	56	50	75	43
25. National Shipping Co	Trans/Serv.	67	64	84	57
26. Saudi Co for the Transportation of Livestock	Trans/Serv.	65	59	56	57
27. Saudi Public Transport Co	Trans/Serv.	60	59	74	50
28. Saudi Co for Equip. & Car Services	Trans/Serv.	62	50	81	57
29. Saudi Property Development Co	Trans/Serv.	68	61	80	63
30. Saudi Hotel & Resort Area Co	Trans/Serv.	60	52	80	48

* (A) Disclosure index of items of a general nature

* (B) Disclosure index of balance sheet items

* (C) Disclosure index of income statement items

Secondly, information items which the company was not expected to disclose were excluded from the scoring sheet by ticking the "not applicable" box provided therein (see scoring sheet in Appendix A). The remaining items were

those which the company was expected to disclose. Thirdly, by going through the annual reports and ticking the "yes" or "no" responses provided in the scoring sheet, the company's actual disclosure score was determined. Finally, by dividing the actual score (the sum of all the "yes" responses) by the expected score an overall disclosure index was obtained.

As stated earlier, the overall disclosure index indicates the level of disclosure achieved by the companies. A scoring sheet has been provided for each company in the survey, and an overall index derived for each of them by using the process outlined above.

The three other indexes labelled "Disaggregated Indexes A, B, and C" divide the scoring sheet into three parts or sections of items. Section A is related to the presentation of general information items; Section B relates to the presentation of the statement of financial position; and Section C is related to the presentation of the statement of income. The disaggregated A, B, and C indexes are derived in the same manner as the overall index.

6.5.2 All Industries Overall and Disaggregated Disclosure Indexes

While Table 6.1 indicates the disclosure level of individual companies, Table 6.2 illustrates the status of reporting practice throughout all the companies put together, in terms of the number of companies which have achieved above and below a certain level of disclosure. Table 2 indicates

that only one company has achieved more than 70% on the overall index (that is, 70% of the maximum that the company could disclose). This means that only 3% of the companies surveyed have achieved greater than 70% disclosure status. On the other hand, three (or 10% of the companies) scored below the 40% level. The remaining corporations fall between the 40-60% disclosure status, with the majority of companies (eleven out of twenty six) scoring between 50-59%.

TABLE 6.2: ALL INDUSTRIES OVERALL AND DISAGGREGATED INDEX

COMPANY INDEX	OVERALL INDEX		SECTION (A)		SECTION (B)		SECTION (C)	
	No.co.	%	No.co.	%	No.co.	%	No.co.	%
Greater than 70%	1	3	0	0	14	47	0	0
Between 60-69%	9	30	3	10	7	23	2	7
Between 50-59%	11	37	12	40	5	16	8	27
Between 40-49%	6	20	9	30	2	7	14	46
Below 40%	3	10	6	20	2	7	6	20
	30	100	30	100	30	100	30	100

The disaggregated disclosure indexes, however, Sections A, B and C show different results: in particular, Section B ("Disclosure of Information Items Related to the Presentation of the Statement of Financial Position") reveals a situation in which fourteen corporations achieved more than 70% of maximum disclosure compared to only two which scored below 40%. This observation can only be explained in terms of the Saudi Arabian corporate emphasis on the balance sheet as the most important component of the annual report, and the accompanying view that it should

receive greater attention relative to other issues. In fact, many people in the country refer to the annual report as the balance sheet.

An important observation related to the results of both Tables 6.1 and 6.2 is that the three companies which have scored below 40% are found to be in the electricity industry, and those which have scored over 60% are found to be either in the agricultural industry or the transportation and services industry.

The cement industry was found to be a low level disclosing industry (refer to Table 6.1). This observation can be explained in terms of the cement industry market conditions in which the industry has found itself in more recent years. The cement industry is facing diminishing demand and severe competition, chiefly as a result of the completion of major construction projects in the country and competition from imported cement. Little wonder, then, that four out of the five corporations surveyed did not disclose their sales figures and pricing policies.

6.5.3 The Main Characteristics of the Top Five Corporations with a Relatively High Level of Disclosure

Tables 6.3 and 6.4 contain the five top ranking corporations of those surveyed with a relatively high level disclosure index. In Table 6.3 these corporations are set against their industry or sector, size, and debt/equity ratio. In Table 6.4 the same five corporations are set against their date of incorporation and their current auditing firm.

The results shown in Tables 6.3 and 6.4 illustrate the main characteristics of these five corporations. These companies are found to be either in the agricultural industry or the transportation and services industry. The main common characteristics of these companies are as follows:

1. they are almost all incorporated in the late 1970s or in the 1980s;
2. they reveal some cases of extremely low debt/equity ratios, relative to other corporations;
3. they are managed by a relatively highly educated Board of Directors and Management Team; and
4. four out of the five corporations are associated with the Abdulaziz Al-Rashed accounting office, one of the leading public accounting firms in Saudi Arabia.

TABLE 6.3: THE TOP FIVE CORPORATIONS WITH A RELATIVELY HIGH LEVEL OF DISCLOSURE BY INDUSTRY, AND BY OVERALL DISCLOSURE INDEX IN RANK ORDER

NAME OF COMPANY AND RANK	INDUSTRY	OVERALL DISCL. INDEX	TOTAL ASSETS (M)	TOTAL REVENUE (THOU)	DEBT/EQUITY RATIO %
1. National Co for Agric. Development	Agric.	71	1012	399486	1.0
2. Saudi Property Dev.Co.	Transp.& Serv.	68	1336	92726	8.0
3. National Shipping Co	Transp.& Serv.	67	1196	433839	0.25
4. Saudi Co for the Transportation of Livestock	Transp.& Serv.	65	387	394088	0.23
5. Saudi Co for Equipment & Car Services	Transp.& Serv.	62	347	14524	0.68

* This figure is derived by dividing long-term debts by owner's equity.

TABLE 6.4: THE TOP FIVE CORPORATIONS WITH A RELATIVELY HIGH LEVEL OF DISCLOSURE, IN RANK ORDER, BY DATE OF INCORPORATION AND AUDITOR

NAME OF COMPANY AND RANK	OVERALL DISCL. INDEX	DATE OF INCORP.	COMPANY'S AUDITOR	AUDITOR'S LICENCE NO.
1. National Co for Agric. Development	71	17/10/140H (1981)	A R Al-Rashed	50
2. Saudi Property Devel. Co	68	17/7/1396H (1976)	A R Al-Rashed	50
3. National Shipping Co	67	12/2/1398H (1978)	A R Al-Rashed	50
4. Saudi Co for Transportation of Livestock	65	29/1/1401H (1981)	A R Al-Rashed	50
5. Saudi Co for Equipment & Car Services	62	27/2/1402H (1982)	Dr M A Shabani	72

However, compared to the remaining corporations in the survey there is no emerging pattern which can be depicted relating to the size of their assets, their number of shares outstanding, or their profit margin.

6.5.4 The Main Characteristics of the Bottom Five Corporations with a Relatively Low Level of Disclosure

Tables 6.5 and 6.6 comprise the five lowest ranking corporations of those surveyed, with a relatively low level of disclosure. Table 6.5 sets these five corporations against their industry, size, and debt/equity ratio. Table 6.6 sets the companies against their date of incorporation, and their current auditing firm.

The results in Tables 6.5 and 6.6 illustrate the main characteristics of these five corporations. These corporations were found mainly to belong to the electricity

industry. The primary characteristics of this industry were revealed to be as follows:

1. This industry is amongst the earliest established industries in the country, despite the dates of incorporation shown in Table 6.6. These approximate dates represent when the corporations were transferred to private ownership.
2. The industry is very highly capital intensive, as indicated by the size of the corporations' assets, relative to others.
3. All corporations within this industry are loss-making and depend on the government to guarantee their survival.
4. They are all under a relatively conventional style of management.
5. The industry is characterised by extremely high debt/equity ratios.

TABLE 6.5: THE BOTTOM FIVE CORPORATIONS WITH A RELATIVELY LOW LEVEL OF DISCLOSURE BY INDUSTRY AND SIZE IN RANK ORDER

NAME OF COMPANY AND RANK	INDUSTRY	OVERALL DISCL. INDEX	TOTAL ASSETS (M)	TOTAL REVENUE (THOU)	DEBT/EQUITY RATIO %
1. Saudi Consolidated Electricity Co (Western)	Electricity	30	20217	1238298	170
2. Saudi Consolidated Electricity Co (Southern)	Electricity	31	8104	166990	951
3. Saudi Consolidated Electricity Co (Central)	Electricity	33	20234	1204069	131
4. Saudi Consolidated Electricity Co (Eastern)	Electricity	41	21789	1531901	323
5. Saudi Co for the Manuf. of Medicine & Medical Equip.	Industrial	44	196	49270	0

TABLE 6.6: THE BOTTOM FIVE CORPORATIONS WITH A RELATIVELY LOW LEVEL OF DISCLOSURE BY DATE OF INCORPORATION AND COMPANY'S AUDITOR IN RANK ORDER

NAME OF COMPANY AND RANK	DATE OF INCORP.	OVERALL DISCL. INDEX	COMPANY'S AUDITOR	AUDITOR'S LICENCE NO.
1. Saudi Consolidated Electricity Co (Western)	1402H * (1982)	30	Dr M A Al-Amri	60
2. Saudi Consolidated Electricity Co (Southern)	1403H * (1983)	31	A M Badran	59
3. Saudi Consolidated Electricity Co (Central)	1401H * (1981)	33	M Al-Damig	95
4. Saudi Consolidated Electricity Co (Eastern)	27/8/1396H (1976)	41	A H Ajoza	58
5. Saudi Co for the Manuf. of Medicine & Medical Equip.	14/1/1405H (1985)	44	I Al-Soubil	76

* These were amongst the earliest companies to be formed in the country, and were government-owned. The dates shown above indicate the estimated time of their transfer to private ownership.

Although one corporation in this list belongs to the industrial sector (company no.5), this corporation has some similar characteristics with the others in this group - in particular its dependence on the government for grants and subsidies.

However, while the above patterns and relationships have been relatively simple to depict, it was more difficult to associate the relatively low level of disclosure of these companies with one or more of the country's auditing firms. In particular, some of the auditing firms associated with these corporations were also found to be associated with the relatively high disclosing corporations. The Dr M Al-Amri office, for example, was found to be associated with more than one of the relatively high index disclosing

corporations. The level of responsibility assumed by these external auditing firms may have been lessened by these corporations' involvement with the General Auditing Bureau (an accounting investigative branch of the government).

6.5.5 Information Items List and Disclosure Status

The results in Tables 6.7, 6.8, and 6.9 reveal the information items contained in the scoring sheet, and their associated scores. These tables contain three important results. One is the number of companies which are expected to disclose an item on the list; the second is the number of corporations which have actually disclosed the information item; and, finally, the number of companies which did not do so.

Tables 6.7, 6.8 and 6.9 are particularly important in that they complement Tables 6.1 and 6.2. They also reveal the disclosure status of particular items of accounting information, independent of others: for example, they show whether the disclosure of information about accounting for changing prices is common practice in Saudi Arabia, or whether the statement of changes in financial position is always disclosed. A discussion of the accounting treatment of many of these accounting information items will be considered in the next section. Tables 6.7, 6.8 and 6.9 indicate the following list of relatively important items which have not been disclosed by any of the annual reports examined:

Information Item	Table
Directors' interest in the company	6.7
Directors' interest in contractual obligations	6.7
Supplementary financial data (e.g. price level adjusted)	6.7
Quantitative forecast of sales and profit	6.7
Qualitative forecast of sales and profit	6.7
Subsequent events	6.7
Intangibles	6.8
The accounting treatment of intangibles	6.8
Preference shares	6.8
Amounts charged to reserves	6.8
Extraordinary gains and losses	6.9
Fully diluted earnings per share	6.9
Expenditure on human resources	6.9

Amongst this list (and of particular importance) is that none of the companies examined disclosed the directors' interests in the company, the directors' interests in contractual obligations, or the interest of any other person on their behalf.

On the other hand, Table 6.7, 6.8 and 6.9 show the following list of information items which has been disclosed by all the company annual reports examined:

Information Item	Table
Directors' reports	6.7
Principal activities of the company	6.7
Description of major products	6.7
Auditor's report	6.7
Auditor's name and date	6.7
Balance sheet	6.7
Income statement	6.7
Cash and bank balance	6.8
Shareholders' interest	6.8

Some of these items (for example, balance sheet, income statement, and auditor's report) are required by law and are therefore expected to be disclosed. However, the decision of the companies to disclose those items which are not required by law can perhaps be explained in terms of their aspiration to the same level of disclosure as their international counterparts.

TABLE 6.7: INFORMATION ITEMS OF A GENERAL NATURE WHICH ARE CONSIDERED NECESSARY FOR A COMPLETE PRESENTATION OF THE FINANCIAL AND OTHER AFFAIRS OF THE COMPANY DISCLOSURE STATUS

INFORMATION ITEM	Expected to disclose		Disclosing		Not disclosing	
	No.co.	%	No.co.	%	No.co.	%
1. Directors reports	30	100	30	100	0	0
2. Description of org.structure	30	100	3	10	27	90
3. Names of directors	30	100	29	97	1	3
4. Directors interest in company	30	100	0	0	30	100
5. Principal activities of company	30	100	30	100	0	0
6. Description of major products	30	100	30	100	0	0
7. Plans for future capital exp.	30	100	14	47	16	53
8. Co.plans for following year	30	100	2	7	28	93
9. Contractual obligations	30	100	2	7	28	93
10. Directors interest in cont.oblig.	30	100	0	0	30	100
11. Contingent liabilities	30	100	6	20	24	80
12. Employee-related information	30	100	15	50	15	50
13. Government grants	16	100	14	88	2	12
14. Auditor's report	30	100	30	100	0	0
15. Auditor's name and date	30	100	30	100	0	0
16. Balance sheet	30	100	30	100	0	0
17. Income statement	30	100	30	100	0	0
18. Fund statement	30	100	26	87	4	13
19. Statement of retained earnings	30	100	14	47	16	53
20. Comparative figures	30	100	28	93	2	7
21. Notes to financial statements	30	100	26	87	4	13
22. Segmental information	26	100	1	4	25	96
23. Consolidated group accounts	6	100	1	17	5	83
24. Supplementary data(price adjust)	30	100	0	0	30	100
25. Quantitative forecast sales/prof.	30	100	0	0	30	100
26. Qualitative forecast sales/prof.	30	100	0	0	30	100
27. Accounting changes	30	100	2	7	28	93
28. Subsequent events	30	100	0	0	30	100
29. Prior period adjustments	30	100	4	13	26	87
30. Capital expenditure	30	100	20	67	10	33
31. Loss/gain on property disposal	26	100	2	8	24	92
32. Dividends paid or declared	27	100	19	70	8	30
33. Historicalcost method declared	30	100	25	83	5	17
34. Accrual concept declared	30	100	21	70	9	30
35. Consistency concept declared	30	100	6	20	24	80

TABLE 6.8: DISCLOSURE OF ITEMS AND ACCOUNTING POLICIES NECESSARY FOR THE COMPLETE PRESENTATION OF A COMPANY'S FINANCIAL POSITION

INFORMATION ITEM	Expected to disclose		Disclosing		Not disclosing	
	No.co.	%	No.co.	%	No.co.	%
1. Itemised fixed assets	30	100	23	77	7	23
2. Basis of valuing fixed assets	30	100	26	89	4	13
3. Accumul.deprec.on fixed assets	30	100	24	80	6	20
4. Major construction in progress	30	100	24	80	6	20
5. Amount of receivables	30	100	29	97	1	3
6. Breakdown of receivables	30	100	20	67	10	33
7. Expected collection cost provis.	30	100	18	58	12	40
8. Pre-paid expenses	30	100	26	87	4	13
9. Itemised inventory	28	100	21	75	7	25
10. Inventorybreakdown (raw/fin.)	21	100	15	71	6	29
11. Method of invent.valuation	28	100	23	82	5	18
12. Valn.basis of self-manuf.invent.	15	100	7	47	8	53
13. Invest.in marketable securities	22	100	20	91	2	9
14. Method of valuing market.secur.	22	100	16	73	6	27
15. Cash and bank balance	30	100	30	100	0	0
16. Cash/bank balance breakdown	30	100	17	57	13	43
17. Bank balance breakdown	30	100	15	50	15	50
18. Amount of lease commitment	30	100	1	3	29	97
19. Method of accounting for leases	30	100	1	3	29	97
20. Invest.in subsidiaries & assoc.	16	100	12	75	4	25
21. Method of acc.for consolidation	16	100	2	12	14	88
22. Intangible assets	30	100	0	0	30	100
23. Treatment of goodwill	30	100	0	0	30	100
24. Liability breakdown(short/long)	25	100	24	96	1	4
25. Current liability breakdown	30	100	29	97	1	3
26. Unearned (deferred) income	30	100	9	30	21	70
27. Deferred Zakat	30	100	11	37	19	63
28. Deferred charges	30	100	24	80	6	20
29. Long-term debts & terms	24	100	20	83	4	17
30. Long-term debts retirement method	24	100	14	58	10	42
31. Shareholders interest in company	30	100	30	100	0	0
32. Preference shares & terms	30	100	0	0	30	100
33. Provisions & reserves	30	100	26	87	4	13
34. Legal or statutory reserves	30	100	25	83	5	17
35. Amount charged to reserves	30	100	0	0	30	100

TABLE 6.9: DISCLOSURE ITEMS AND ACCOUNTING POLICIES NECESSARY FOR THE COMPLETE PRESENTATION OF A COMPANY'S RESULTS OF OPERATIONS

INFORMATION ITEM	Expected to disclose		Disclosing		Not disclosing	
	No.co.	%	No.co.	%	No.co.	%
1. Net income before/after Zakat	30	100	25	83	5	17
2. Income from other sources	30	100	26	87	4	13
3. Sales/revenue disclosed	30	100	26	87	4	13
4. Revenue recogn.method generally	30	100	19	63	11	37
5. Cost of sales determination	30	100	23	77	7	23
6. Cost of sales determ.method	30	100	11	37	19	63
7. Other operating expenses	30	100	29	97	1	3
8. Operating expenses breakdown	30	100	23	77	7	23
9. Depreciation charges	30	100	26	87	4	13
10. Depreciation method	30	100	26	87	4	13
11. Depreciation rates	30	100	24	80	6	20
12. Conservatism via depreciation	30	100	24	80	6	20
13. Extraordinary gains/losses	30	100	0	0	30	100
14. Allowance for doubtful debt	30	100	14	47	16	53
15. Research & development expenses	30	100	1	3	29	97
16. R & D expenses accounting method	30	100	1	3	29	97
17. Advertising/publicity expenses	30	100	1	3	29	97
18. Expenses on human resources	30	100	0	0	30	100
19. Zakat (tax) expenditure	30	100	25	83	5	17
20. Employee retirement provision	30	100	19	63	11	37
21. Foreign exchange gain/loss	30	100	3	10	27	90
22. Foreign exch. translation method	30	100	17	57	13	43
23. Income from short/long invest.	30	100	22	73	8	27
24. Interest on short/long loans	24	100	2	8	22	92
25. Revenue from long-term contracts	30	100	1	3	29	97
26. Account.for long-term contracts	30	100	1	3	29	97
27. Earnings per share	30	100	1	3	29	97
28. Basic(primary) e.p.s.	30	100	1	3	29	97
29. Fully diluted e.p.s.	30	100	0	0	30	100
30. E.p.s. calculation basis	30	100	0	0	30	100

6.6 Observations and Discussion

In the absence of corporate statutory reporting requirements, it would be expected - in any country - to find diversity in the methods and extent of reporting. The findings of this survey lend strong support to this expectation. Table 6.1 indicates that the overall companies disclosure index ranges from a 71% high to a 29% low. Moreover, the accounting treatment of certain accounting items, the format and content used in the financial statements, the content of directors' and auditors' reports varies extensively.

The following general findings are considered important:

1) Table 6.1 indicates that those corporate reports with a relatively high level of disclosure index are mainly found in the newly-developed industries within the country, i.e. the companies which have recently been formed, are solely-owned by the public, are less capital intensive, have a Board of Directors who are comparatively more aware of newly-developed management and accounting techniques, and are associated with one or another of the leading accounting firms. These companies are predominantly in the agricultural, service, or transportation industries.

On the other hand, corporate reports with a relatively low level of disclosure index are chiefly found in companies which are highly capital intensive, partially Government-owned, long-established, and operated by a more conventional management and accounting team which in all probability still regards accounting as purely a control mechanism.

These corporations are mainly within the electricity industry.

2) The company annual reports examined indicate that in general great emphasis is placed on a glossy presentation and qualitative data relative to accounting figures and accounting policy issues. This observation is best explained in terms of management's belief that majority shareholders are financially unsophisticated and are therefore more interested in simple statistics which are presented attractively rather than the more complex accounting numbers and terminology. Moreover, 70% of the annual reports examined show that these companies have distributed or declared dividends - even those which are newly-formed. This observation is best explained in terms of management's belief that the majority of shareholders and investors intend to retain their investments in the company on a long-term basis, and are therefore more interested in dividends rather than the limited short-term gain from selling their shares. This latter observation can be explained in terms of the relative immaturity of the stock market in Saudi Arabia.

3) None of the annual reports examined revealed the directors' interests in the company or in contractual obligations, or the interests of any other parties on their behalf. This observation is an inevitable consequence of the absence of legal requirements, and is probably reinforced by an attitude of secrecy. Some companies may also consider it to be a low priority disclosure item.

4) The results of this survey show that all Saudi corporations prepare a balance sheet or statement of financial position and a profit and loss account. This is the result of Company Law requirements which require these statements to be prepared, and as such there are no problems with compliance on this issue. However, there are no requirements governing the preparation or content of these statements, and as a result the form and content is often diverse. Moreover, almost all Saudi corporations prepare a statement of changes in the financial position and a statement of retained earnings, together with many other important information items which are voluntarily disclosed. This observation is best explained by the level of contact which Saudi accountants have with the outside world and the extent to which that contact influences them, either through education, expatriates, international accounting standards, and/or the influence of international accounting firms - despite the fact that none of the annual reports examined mentioned international accounting standards or international accounting bodies. A large number of personnel within the licenced auditing offices are from different countries worldwide, including some Britons and Americans.

Almost all statements examined contain at least the previous year's comparative figures, and provide notes to the accounts by marking items in the financial statement with a number which can then be referred to in the "Notes to the Accounts" section. This is an internationally recognised practice. Moreover, all the companies' annual reports

examined in this survey disclosed (in a separate section) a statement to the fact that the notes to the accounts constitute an important part of the financial statements and should be used in connection with them. The extent of information contained in these statements and/or in the notes, however, varies to a great extent from one company to another. While some statements and notes seem to contain sufficient information upon which any informative decision can be made others contain practically none.

5) With regard to the format of financial statements, the general practice in preparing the statement of financial position is to follow the horizontal format with assets and liabilities and owners' equity adjacent to each other. A typical balance sheet prepared according to the horizontal format is as follows: the assets side starts with the current assets section, including prepaid expenses, followed by fixed assets minus accumulated depreciation, followed by capital work in progress, followed by any other assets (such as investments), with the final figure showing the total assets. On the liabilities and owners' equity side, this format starts with the current liabilities section, followed by the long-term liabilities section, followed by the owners' equity and reserves sections, the result of which would show the total liabilities and owners' equity (Exhibit 6.5).

EXHIBIT 6.5
 SAUDI ARABIAN FERTILISER COMPANY (SAFCO)
 BALANCE SHEET AS AT DECEMBER 31, 1987

	Notes	1987 SR	1986 SR
		----	----
<u>ASSETS</u>			
CURRENT ASSETS			
Cash and bank balance		797,811,280	717,791,553
Accounts receivable - trade		30,266,987	33,181,329
Inventories	2b,5	81,834,216	84,222,492
Other receivables and prepayments	6	17,302,295	19,438,520
		-----	-----
Total current assets		927,214,778	854,633,894
FIXED ASSETS - net	2c,7	371,255,072	395,628,186
CAPITAL WORK-IN-PROGRESS	2e	2,426,693	2,004,154
INVESTMENT	8	105,000,000	105,000,000
		-----	-----
TOTAL ASSETS		1,405,896,543	1,357,266,234
		=====	=====
<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>			
CURRENT LIABILITIES			
Accounts payable	9	27,784,262	22,668,591
Dividends payable		44,990,625	43,751,390
Long-term loans - current portion	11	37,323,042	38,842,850
Accrued expenses and other	10	41,316,596	43,321,139
		-----	-----
Total current liabilities		151,414,525	148,583,970
LONG TERM LOANS	11	56,538,000	93,861,042
EMPLOYEES SEVERANCE BENEFITS	2f	45,262,983	41,792,586
		-----	-----
Total liabilities		253,215,508	284,237,598
		-----	-----
SHAREHOLDERS' EQUITY			
Share capital	12	200,000,000	200,000,000
Statutory reserve	13	40,000,000	32,585,002
Other reserves	14	905,360,018	833,360,018
Retained earnings		7,321,017	7,083,616
		-----	-----
Total shareholders' equity		1,152,681,035	1,073,028,636
		-----	-----
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		1,405,896,543	1,357,266,234
		=====	=====

The accompanying notes 1 through 19 form an integral part of these financial statements.

However, a number of corporations use the vertical format. This format typically begins with current assets followed by current liabilities (subtracted) to arrive at the working capital figure, followed by fixed assets, followed by long-term liabilities (subtracted) to arrive at the net assets figure which is in turn followed by the equity and reserves section (Exhibit 6.6).

With regard to the income statement, this is less varied, and in almost all cases it takes a vertical format, starting with sales/revenue at the top followed by cost of sales/expenses (subtracted), followed by other revenue minus associated costs, followed by operating expenses, including provisions, to arrive at income before Zakat, followed by Zakat expenses to arrive at the net profit after Zakat (according to a more recent ministerial decree the Zakat expenses should be treated as one of the operating expenses). This figure is then followed by government subsidies or government guaranteed minimum profit, if applicable, to arrive at the the net income for the year.

None of the annual reports examined contained any income tax, and therefore as yet there is no company income tax in Saudi Arabia and the Zakat levy remains the sole form of tax. The method of determining this levy, however, has not been revealed in any of the reports examined (Exhibit 6.7).

With regard to the statement of retained earnings, in some annual reports this statement follows the net income figure (i.e. together with the income statement) while others

EXHIBIT 6.6

THE NATIONAL SHIPPING COMPANY OF SAUDI ARABIA - SAUDI JOINT STOCK COMPANY
BALANCE SHEET AS AT 31ST DECEMBER 1987

31 December 1986		31 December 1987		Note
SR	SR	SR	SR	
		CURRENT ASSETS		
11,985,824	Cash and bank balances	17,768,088		3
27,311,498	Short term deposits	76,125,000		
46,922,747	Trade receivables	44,785,416		4
25,217,594	Other receivables	19,718,863		5
7,221,844	Zakat receivable	3,721,844		6
4,173,271	Prepayments	3,665,776		
7,304,680	Agents current accounts	8,181,880		
26,909,365	Grant receivable	28,810,899		8&23
157,046,823	TOTAL CURRENT ASSETS	202,777,766		
		CURRENT LIABILITIES		
	Account payable and other			
42,507,770	credit balances	43,954,854		9
4,092,229	Agents current accounts	2,040,279		
4,366,954	Accrued expenses	14,136,125		
2,411,244	Incomplete voyages	2,481,535		7
1,990,385	Unclaimed dividends	1,747,948		10
1,200,923	Refund due to shareholders	1,114,528		11
2,912,965	Arabian Chemical Carriers	675,824		12
(59,482,470)	TOTAL CURRENT LIABILITIES	(66,151,093)		
97,564,353	Working capital	136,626,673		
114,687,170	INVESTMENT PORTFOLIO	122,495,862	14C	
		Non-CURRENT ASSETS		
935,033,579	Net fixed assets	880,378,910		13
	Investment in Saudi			
	Livestock Transport &			
56,309,350	Trading Co	56,309,350		14A
	Investment in Arabian			
46,197,304	Chemical Carriers	57,034,310		14B
1,037,540,233	TOTAL NON-CURRENT ASSETS	993,722,570		
		Non-CURRENT LIABILITIES		
(3,128,291)	Employees terminal benefits	(3,289,277)		
1,246,663,465	Net assets	1,249,555,828		
		SHAREHOLDERS' EQUITY		
	Share capital (20m shares of			
	nominal value of SR 100 for each			
	share)			
1,250,000,000	Paid up share capital	1,250,000,000	15	
-	Statutory reserve	-	16	
(3,336,535)	Losses	(445,172)	23	
1,245,663,465	TOTAL SHAREHOLDERS' EQUITY	1,249,555,826		

The attached notes (1) to (24) form an integral part of the financial statements

prepare it separately. The typical statement of retained earnings prepared by Saudi corporations starts with the retained earnings balance at the beginning of the period followed by any prior period adjustment (addition/subtraction), if applicable, to arrive at the new balance after adjustment. This figure is then followed by net income for the year (addition), followed by reserves and distributable income for the year (subtraction) to arrive at the balance at the end of the period.

EXHIBIT 6.7

SAUDI HOTELS AND RESORT AREAS COMPANY

INCOME AND RETAINED EARNINGS STATEMENT AS OF 31 DECEMBER 1987

REVENUE	Note no.	1987-SR	1986-SR
Activity Revenue	18	30,350,991	29,991,209
Other Revenue	19	20,012,423	22,445,128
TOTAL REVENUE		50,363,414	52,436,337
OVERHEADS			
Activity Expenses	20	10,828,779	10,702,307
Depreciations	21	10,357,742	10,444,572
Members of the Board Allowances	22	214,000	215,000
Provisions for Saudi Hotels Services Losses		681,783	997,942
TOTAL OVERHEADS BEFORE ZAKAT PROVISION		22,082,304	22,359,821
INCOME BEFORE ZAKAT PROVISION		28,281,110	30,076,516
Zakat provision	23	4,299,449	-
YEAR NET INCOME		23,981,661	30,076,516
LESS: RESERVES			
10% Statutory Reserve		(2,398,166)	(3,007,652)
5% Agreement Reserve		(1,199,083)	(1,503,826)
Net Income After Deducting Reserves		20,384,412	25,565,038
Plus Retained Earnings from 1986		14,021,563	20,634,434
TOTAL		34,405,975	46,199,472
LESS: Last Year's Zakat		(4,411,505)	(7,177,909)
5% Interim Dividend for Shareholders		(25,000,000)	(25,000,000)
RETAINED EARNINGS FOR THIS YEAR		4,994,470	14,021,563

With regard to statements of changes in financial position (funds statements), most corporations apply the working capital concept or what can be described as the "changes in working capital" type. This statement shows the sources of funds followed by application of funds (subtracted) to arrive at the increase (decrease) in the working capital. This figure is then broken down into its components (Exhibit 6.8).

6) None of the company annual reports examined contained any supplementary financial data such as ratio or price level adjusted supplementary information. This observation is possibly explained firstly by the absence of any legal requirement; secondly by the low rate of inflation; thirdly by the the added cost of preparing such information relative to its use; and finally, possibly by the increased subjectivity associated with it. This latter observation is reinforced by the prevailing viewpoint in Saudi Arabia of accounting as a control mechanism rather than as a communication device for sound economic decision making.

7) On examination of the annual reports it was observed that none of the companies issued or disclosed any preference shares. Although the Companies Regulations have not been specific about this matter, it would appear that the issuance of preference shares is simply not customary. Moreover, almost none of the annual reports examined disclosed basic earnings per share despite its relative importance.

8) With regard to accounting policy disclosure, this survey reveals that those companies which disclose accounting policies tend to disclose the following: the method of assets measurement, inventory measurement, depreciation method, and income recognition.

EXHIBIT 6.8

SAUDI HOTELS AND RESORT AREAS COMPANY

SOURCES & APPLICATIONS OF FUNDS FOR THE YEAR ENDING 31 DECEMBER 1987

SOURCES OF FUNDS	1987-SR	1986-SR
Net profit for the present Year	23,981,661	30,076,516
Increase in Capital Reserve	(12,175)	85,554
Fixed Assets Sold	137,710	66,571
Depreciations	10,357,742	10,444,572
Pre-Opening Amortisation	396,000	396,000
Deferred Expenses Amortisation	-	16,167
Provision for Hotel Services Losses	681,783	997,942
Increase in Benefits & Indemnity Provisions	490,120	229,146
TOTAL SOURCES OF FUNDS	36,032,841	42,312,468

APPLICATION OF FUNDS

Advance payments for Capital Works	31,139,535	1,557,421
Projects Under Progress & Study	6,629,679	10,997,850
Increase in Investments	27,000	3,297,532
Additions to Fixed Assets	118,822	677,903
Repayment of Government Loans	20,000,000	20,000,000
Shareholders' Dividend	25,000,000	25,000,000
Repayment of Last Year's Zakat	4,411,505	7,177,909
	(87,326,541)	(68,708,615)
Net Change in Sources & Applications of Funds	(51,293,700)	(26,396,147)
Cash in Hand and Banks	(44,130,831)	(23,152,154)
Debtors	757,640	(1,814,591)
Inventories	(73,370)	(213,797)
Accrued Revenues	(312,117)	(594,327)
Pre-Paid Expenses	364,840	(71,565)
Guarantees	(53,020)	106,025
Bank overdraft	3,298	3,298
Creditors	(3,310,498)	(3,015,518)
Accruals	41,244	(14,980)
Board of Directors' Reward	-	339,329
Accrued Expenses & Provisions	(4,593,357)	1,146,960
Pre-Paid Revenues	12,471	662,623
	(51,293,700)	(26,625,293)

Some also disclose the method of foreign currency translation. But other important accounting policy issues such as accounting for investments and business combinations, accounting for leases and contracts, the treatment of gains and losses on disposal of assets, the treatment of advertising and publicity expenditure, and accounting for pension funds, some of which are encountered by Saudi corporations, are rarely disclosed. The following are some of the accounting policy issues and accounting methods encountered in the annual reports examined. The US and UK practices are cited when appropriate for reference, and in order to observe similarities and differences where they exist.

6.7 Accounting Policies

6.7.1 Assets Measurement

Both US and UK accounting practices adhere to the historical cost basis of accounting for assets. In the US, while increases in the carrying value of fixed assets is prohibited, decreases in the carrying value occasionally occur. In Britain, the Companies Act of 1985 gives specific legal authority to the practice of basing annual accounts on the historical cost basis, but also allows the basing of accounts on the alternative method of current cost accounting. However, the historical cost as a concept or set of agreed upon accounting rules is fairly precise in both the US and the UK.

With regard to depreciation of fixed assets with a limited useful life, the tendency is to systematically depreciate

them over their lifetime. Several methods are accepted in both the US and the UK. The straight line method is the most common but various methods of providing accelerated charges are also accepted, including the reducing balance method and the sum-of-the-years-digits. A high level of inflation is recognised as a good reason for choosing accelerated depreciation methods.

The accounting practice of Saudi corporations was found to apply the historical cost convention to assets measurement. This historical cost figure includes the purchase price of assets, plus all other costs incurred to make the assets operational. It also includes any significant expenditures which are later incurred, such as major maintenance expenditure. The extent of disclosure on this matter, however, varies from one company to another (see examples below). Projects under construction are also recorded at cost. This cost includes all direct materials, direct labour and other indirect costs. The basis on which other indirect costs are accounted for is not usually disclosed.

6.7.2 Depreciation

All the corporations' annual reports examined in this survey revealed the application of the straight line depreciation method on all assets. In all cases, conservatism was also applied in the determination of depreciation rates; for example, all buildings (excluding land) are usually depreciated based on a 5-10% depreciation rate; tools, fixtures, and furniture are depreciated based on a 15-25% rate; and vehicles and machines are depreciated based on a

rate in excess of 20%. The depreciation charges are calculated as follows: the total cost of an asset (as above) minus its expected salvage value divided by the expected life of the asset. In most of the cases examined there was no disclosure of the expected salvage value or the life expectancy of assets. See examples 1-5 for the depreciation method used.

Example 1

Fixed assets are depreciated on the basis of historical cost using the straight line method and age estimates at the following rates:

Buildings	5%, 20%
Civil construction	5%, 7.5%, 10%, 15%, 20%
Irrigation network	15%, 20%
Agricultural machinery	20%, 25%

(Hail Agricultural Development Company, 1987, Annual Report, p.24)

Example 2

The company follows the straight line method of depreciating fixed assets costing more than SR 500 on the following annual rates:

i) Fleet is depreciated on the basis of a 20 year life for new vessels and on the basis of the estimated remaining life for used vessels after taking into account the residual value of the vessel estimated at 10% of the cost. ii) Additional equipment for fleet 15%

iii) Furniture and fixtures	10%
iv) Machinery and equipment:	
Air conditioners	25%
Safes	2.5%
Others	15%
v) Motor vehicles	25%
vi) Leasehold improvement	33%

(The National Shipping Co of Saudi Arabia, 1987, Annual Report, p.33-34)

Example 3

Fixed assets are registered under the historical cost convention and depreciated using the straight line method according to the following rates:

Buildings	2%
Furniture and fixtures	10-25%
Vehicles	25%

(Saudi Hotels and Resort Area Co, 1987, Annual Report, p.15)

Example 4

Projects under construction are valued at direct cost plus a percentage of indirect cost.

(Translated from Al-Akhariyah Co, 1987, Annual Report, p.12)

Example 5

Fixed assets depreciation:

1) The assets figure shown in the financial statement includes the cost of the asset plus any other incurred associated cost to make the asset operational minus accumulated depreciation. Also, all associated costs with conversion of vessels are capitalised.

2) Depreciation on fixed assets is based on the straight line method starting from the first quarter of the year in which it was acquired, except for vessels where depreciation starts from the date on which the vessels becomes operational. The depreciation is based on the cost of the asset minus any expected salvage value at the end of its service. Depreciation rates on assets are as follows:

Cars	25%
Machinery and equipment	25%
Furniture and fixtures	25%
Ships	10%, 6.67% (dependent on the of the ship when purchased)
Stables/pens	6.67%
Improvements of rented buildings	20%, 50% (dependent on the terms and length of the lease)

These rates are applied to fixed assets whose value exceeds SR 1250. Those assets which cost less than this amount are expensed on purchase.

(Translated from the Saudi Co for the Transportation of Livestock, 1987, Annual Report, p.22-23)

6.7.3 Inventory

In both the US and the UK accounting for inventories is generally measured at the lower of cost or market value in accordance with the conservatism concept. In the US, overheads must be included in the measurement of cost of manufactured inventory. Once an inventory is marked down to reflect market value, it is not marked up again. The US accepts most inventory accounting methods; in particular, the LIFO method is accepted despite the fact that it reduces the reported income figure when prices are increasing, which accordingly reduces the company's tax liability. The US tax system allows the use of such a method provided that it has been used previously by the company. In the UK there is a statutory requirement for the disclosure of accounting policies adopted in the determination of inventories' amounts. SSAP9, the applicable statement of standard accounting practice in the UK, also requires the disclosure of the accounting policies which have been used in the calculation of costs, net realisable value, attributable profits, and feasible losses (as appropriate) should be stated.

In Saudi Arabian practice, and in contrast to assets measurement and depreciation, the method of inventory measurement has not been used in a consistent manner throughout the companies examined. Whilst some record their inventory at cost, others record it at the lower of cost or market price; and when it comes to the determination of the cost of the inventory the practice varies even further. Whilst some apply the last invoice price others use the

moving average, the base stock value, or any other valuation method. With regard to the determination of inventory market value, none of the annual reports examined revealed how this value was determined. With respect to self-manufactured inventories, the cost of such an inventory usually includes direct materials based on one of the bases mentioned above, direct labour, and other non-direct costs. The basis on which other non-direct costs are determined is not usually disclosed.

Example 1

1) Fish inventories are valued on the basis of purchasing one kilogram plus its share of storage, transportation, and other expenses. Spare parts and materials are valued on the basis of average cost.

(Saudi Fisheries Co, 1987, Annual Report, pages unnumbered)

Example 2

Inventories are valued at the base of cost price as follows:

<u>Type of Inventory</u>	<u>Basis</u>
Food and beverage	last invoice price
Engineering & chinaware, glass, silver, & other supplies	moving average
Miscellaneous serving equipment	base stock value

(Saudi Hotel and Resort Area Co, 1987, Annual Report, p.15)

Example 3

Inventories consist of items and spare parts related to transportation buses and vehicles. These items and spare parts are based on average cost.

(Translated from Saudi Public Transportation Co, 1987, Annual Report, p.28)

Example 4

Self-manufactured inventories are valued on the date of the balance sheet based on the average cost of production during the year. Materials and spare parts are valued at cost (based on first-in-first-out for materials and based on average cost on spare parts) or at market value, if lower.

(Translated from the Saudi Cement Co, 1987, Annual Report, pages unnumbered)

Example 5

Inventories are valued at the lower of cost or market value. Cost is determined based on the average cost. Manufactured inventories (finished and unfinished) cost is determined based on direct materials, direct labour costs, and a percentage of non-direct cost excluding depreciation and insurance instalments on fixed assets. A provision is made for slow-moving or damaged inventories.

(Translated from the Saudi Kuwaiti Cement Co, 1987, Annual Report, p.22)

6.7.4 Accounting for Business Combinations (acquisitions and mergers) and Consolidation (group accounting)

1. Business Combination (acquisitions and mergers)

Accounting practice related to business combinations in the US has been determined on the basis of APB Opinion No.16 requirement which provides for the use of two alternative methods: "purchase" and the "pooling of interest".

Under the purchase method, the accounting basis for the acquired company's assets is recorded at the fair market value at the time of business combination. Under the pooling of interest method, the accounting of the acquired company's assets remains at historical cost (adjusted for depreciation). These two alternative methods have a significant effect on the acquiring company's financial position and results of operation, especially in a period of

rising prices. The purchase method tends to report increases in the amount of assets and intangibles which may be created, such as goodwill. The purchase method also tends to reduce the net income figure because of the increased depreciation and amortisation charges associated with the increased value of assets and intangibles respectively.

In the UK, SSAP 23 in the relevant standard of accounting for business combination ("acquisition" is the term used in Britain). According to this standard, where a business combination is accounted for as an acquisition the fair value of the purchase consideration should, for the purpose of a consolidated financial statement, be allocated between the underlying net tangible and intangible assets, other than goodwill, on the basis of the fair value to the acquiring company in accordance with SSAP 14. Any differences between the fair values of the consolidation and the aggregate of the fair values of the separable net assets including identifiable intangibles such as patents, licences, and trademarks, will represent goodwill.

With regard to merger accounting, it is not necessary to adjust the company value of the assets and liability of the subsidiary to fair value either in the subsidiary's own books or the consolidation accounts. However, appropriate adjustments should be made to achieve uniformity of accounting policies between the combining companies. Merger accounting is considered to be an appropriate method of accounting when two groups of shareholders continue, or are

in a position to continue, their shareholding as before but on a combined basis. Acquisition accounting, on the other hand, is required when there is a transfer of the ownership of at least one of the combining companies.

2. Consolidation (group) accounting

Both British and American accounting requirements are, in many ways, similar in that both are based on the parent company concept, the concept of considerable influence, and the application of the equity method. In the UK, group accounting is required by Section 229 of the 1985 Companies Act and by SSAP 10 and 14. The Companies Act defines group accounts as accounts (financial statements) dealing with the state of affairs and profit and loss of a company and its subsidiaries. Group accounts usually comprise a consolidated balance sheet and a consolidated profit and loss account. SSAP 14 is usually applied to associated companies under the provision of SSAP 1 which requires the application of the equity method of accounting, a method under which the investment in a company is shown in the consolidated balance sheet at a) the cost of the investment; b) the investing company or group's share of the post-acquisition retained profits and reserves of the company; and c) less any amounts written-off in respect of a) and b) above, and under which the investing company accounts separately in its profit and loss account for its share of the profit before tax and extraordinary items of the company concerned.

In the United States, accounting for consolidation is governed by the SEC rules and by the relevant accounting

standards, which are: Accounting Research Bulletin No.51 (ARB.51) and Opinion Nos.16 and 18 of the Accounting Principles Board (APB 16 & 18). APB No.16 specifies the criteria by which a purchase (acquisition) is to be distinguished from pooling of interest (merger). APB No. 18 stipulates that the equity method should be used to account for investments in unconsolidated subsidiaries, in joint ventures, and in companies in which at least 20% but no more than 50% of the voting stock is held and the investor has the ability to exercise significant influence over the operational and financial policies of the investee. However, the equity method cannot be a substitute for consolidation procedures where a company's share exceeds 50%. The only difference between the consolidation and the equity methods of accounting is the amount of detail reported in the consolidated financial statement. Under both methods all inter-company transactions are eliminated. In consolidated financial statements the details of all entities to the consolidation are reported in full. In the equity method the investment is shown as a single amount in the investor's balance sheet, and earnings and losses from investments are generally shown as a single amount in the income statement.

Accounting for business combinations (acquisitions) is not common in Saudi corporations. With regard to investments in other companies and the resulting consolidation or group accounting, as shown in the following examples. The equity method seems to be followed by a number of Saudi corporations for unconsolidated subsidiaries.

Example 1

Investments in other companies are valued according to historical cost and a provision has been established for Saudi Hotel Services Co losses equivalent to the company's shares.

(Saudi Hotel and Resort Area, 1987, Annual Report, p.15)

Example 2

Investments are recorded on the basis of historical cost at the end of each fiscal year.

(Hail Agricultural Development Co, 1987, Annual Report, p.25)

Example 3

Investments are recorded at cost and any associated revenue from these investments are recognised when declared.

(Translated from the National Agricultural Development Co, 1987, Annual Report, p.34)

Example 4

i) The investment in Arabian chemical carriers is accounted for under the equity method of accounting. In 1986 this investment was accounted for under the cost method of accounting. The investment in the Saudi Livestock Transportation and Trading Co is accounted for under the cost method of accounting.

ii) The investment portfolio is valued at the lower of cost or market value at the year end.

(The National Shipping Co of Saudi Arabia, 1987, Annual Report, p.35)

Example 5

The consolidated accounts of the Saudi Arabian Basic Industry Corporation (SABIC) consists of that of the company and any other companies of which SABIC owns more than 50% of outstanding voting shares. Investment in other companies of which SABIC owns less than 50% but more than 20% of the outstanding voting shares are accounted for by the equity method. All intercompany transactions between SABIC and its associated companies have been reconciled or eliminated.

(Translated from SABIC, 1987, Annual Report, p.39)

6.7.5 Intangibles

None of the financial statements examined contained any intangibles, nor did any of the annual reports disclose the accounting method for intangibles, or the method by which they are amortised. This suggests that either intangibles are written-off when they arise as a result of a strong conservative attitude or the conditions under which intangibles arise (for example, purchase, acquisition, or merger) are non-existent.

6.7.6 Government Grants, Gifts, and Subsidies

The method of accounting for grants, gifts, and subsidies is not usually disclosed, and it appears that no single pattern for the disclosure of such items has yet been established. In general, land and properties donated by the government are treated as assets; cash disbursement is treated as a revenue or cost reduction item.

Example 1

The government grant consists of land and fixed assets given by the government to the company. The counter amount of this grant is shown as undistributable reserves labelled "Government Grant" in the balance sheet.

(Translated from the National Co for Agricultural Development, 1987, Annual Report, p.35)

Example 2

Government grants for bunker fuel are deducted from operating costs.

(National Shipping Co of Saudi Arabia, 1987, Annual Report, p.37)

6.7.7 Long-term Contracts and Leases

Both the US and the UK accounting for leases methods are based on the economic substance concept. Current accounting practice relating to leases in the US is governed by FASB Statement no.13 and its subsequent amendments. The concept underlying this statement is that a lease should be the basis for reporting both an asset and a liability of equal amounts. A lease (a capital lease) represents an intangible right to the exclusive use of specific items for a specific time by the lessee. The right to the use of such items is regarded as an asset having a value equal to the present value of the cash payment in exchange for that right. However, there are certain requirements in order for a lease to be capitalised: firstly, if ownership of the item was to be transferred to the lessee at the end of the lease period; secondly, if the lessee has an option to purchase the property at a bargain price; thirdly, if the lease extends over 75% of the item's useful life; and finally, if the present value of the minimum lease payment totals at least 90% of the fair market value for the leased item. In the UK, SSAP No.21 (issued in 1984) governs accounting for leases or hire purchase contracts, is relatively similar to the system used in the USA. The standard requires leases to be capitalised by the lessee. The lessor should record in the balance sheet a debt at the net amount invested in the lease after making provisions for items such as bad debts and doubtful rentals receivable. The total gross earnings from a lease should normally be allocated to accounting periods during the lease.

With regard to Saudi corporate practice, many of the annual reports examined did not disclose the amounts and method of accounting for long-term contracts or leases, one company which did so followed the project completion policy in which all revenue and costs associated with the contract are delayed until the project has been completed. Another company which disclosed its policy on leases indicated that leases with options to buy are capitalised.

Example 1

The company follows the project completion policy with respect to its contracts in which all revenue and costs associated with the contract are deferred until the project is complete. The accounts are then closed.

(Translated from Al-Akhariyah Co, 1987, Annual Report, p.12)

Example 2

The company capitalises all leases with an option to buy. The value of the lease is recognised together with the company's other fixed assets where the obligation on these leases are recognised as long-term liabilities.

(Translated from SABIC, 1987, Annual Report, p.40)

6.7.8 Long-term Loans

Despite the fact that a number of Saudi corporate annual reports examined disclosed the amounts of long-term loans outstanding on the date of the balance sheet, only one company disclosed the terms and the accounting treatment of its long-term loans.

Example 1

"This item represents two loans granted by the Saudi Industrial Development Fund [SIDF]. The first loan was granted to Al-Lahig Establishment for financing its cold stores which were purchased by the Saudi Fisheries Co in 1984. Saudi Fisheries Co requested SIDF to transfer the

remaining balance of the said loan to it. The loan is repayable by semi-annual instalments which were settled by Al-Lahig Establishment. The second loan was for financing the project of processing and packing fish and shrimps in Dammam. The repayments commenced on 10-10-1406H (8/6/86G).

The movement on the loans is summarised as follows:

Loans	Al-Lahig Cold Stores Loan SR	Loans for Processing & Packing of Fish & Shrimps SR	TOTAL SR
Loans	4,905,000	12,300,000	16,809,000
Repaid to 31/12/86	(2,121,880)	(4,000,000)	(6,121,880)
Balance at 31/12/86	2,387,120	8,300,000	10,687,120
Repayment due in 1987	(530,470)	(5,000,000)	(5,530,470)
Balance at 31/12/87	1,856,650	3,300,000	5,566,650
Repayment due in 1988	(530,470)	(3,300,000)	(3,830,470)
Repayment due after 1988	1,326,180	-	1,326,180

(Saudi Fisheries Co, 1987, Annual Report, pages unnumbered)

6.7.9 Revenue and Expense Recognition

All the companies' annual reports examined in this survey recognise revenue and expenditure on the accrual basis. One corporation which disclosed its sales recognition method indicated that sales are recognised when delivery is made to customers. Another corporation which disclosed its revenue recognition from contracts indicated that it followed the project completion method in which all costs, receipts, and revenue are recorded but not recognised until the project has been completed. This company has been cited above in connection with contracts and leases accounting.

With respect to revenue from short-term investments, companies generally recognise associated revenue when declared by the investee and are recorded as other income or revenue from investments.

Example 1

Assets and liabilities of the company are recorded under the historical cost convention. Revenue and expenditure are accounted for on the accrual basis.

Freight revenue and direct and indirect operating expenses are recognised on a completed voyage basis. Voyages are considered as completed when a vessel sails from the last discharging port. Freight revenue and direct and indirect operating expenses associated with incomplete voyages are deferred until the voyages are completed and are shown in the balance sheet under the heading "Incomplete Voyages". Profits and losses expected to be realised on incomplete voyages are not recognised until the related voyages are completed.

(National Shipping Co of Saudi Arabia, 1987, Annual Report, p.33)

6.7.10 Research & Development, Advertising & Publicity Expenditure, Formation and Consultation Costs

The practice of accounting for R & D expenditure in the US and the UK differ slightly from each other. While in the US the underlying principle for accounting for R & D seems to be "conservatism", in Britain the matching principle is balanced by the principle of conservatism. In the US, FASB Statement no.2 makes it clear that it mandates a current expensing approach, with very few exceptions. It states: "All research and development costs encompassed should be charged to expenses when incurred." The only exception to this requirement is "the costs of research and development activities conducted for others under a contracted arrangement." On the other hand, SSAP No.13 (1977) in the UK is based on the grounds that the cost of development of new and improved products (clearly identifiable, separable, feasible, and commercial) is to be based on the matching principle and therefore may be deferred.

Although most companies in Saudi Arabia do not usually expend funds on research and development or advertising and publicity, the general practice is that such expenses are capitalised and amortised over the years, which benefit from such expenditure. Expenses associated with the formation of the company are also capitalised and amortised over a period of time.

Example 1

Research and development expenditure and advertising costs are distributed over the years which will benefit from it.

(Translation from the National Company for Agricultural Development, 1987, Annual Report, p.35)

Example 2

Formation and consultation costs are amortised over a three year period.

(Translated from Tabuk Agricultural Development Co, 1987, Annual Report, p.20)

Example 3

Organisational and consult expenses are to be amortised over three years.

(Hail Agricultural Development Co, 1987, Annual Report, p.25).

Example 4

Deferred charges are amortised over three years, effective from 1985.

(Saudi Fisheries Co, 1987, Annual Report, pages unnumbered)

6.7.11 Employee Retirement Provision

None of the Saudi companies examined disclosed the method and conditions of the employee retirement provision. One

company, however, indicated that the employee retirement provision is calculated based on half the base salary for the first five years and based on the full base salary thereafter (Al-Alkharayah Co, 1987, Annual Report, p.12). Most companies indicated that this provision is made in accordance with Saudi Labour Laws, but is not further explained.

Example 1

End of service indemnity is calculated on entitlement according to the provisions of the Saudi Labour and Workman Laws.

(Hail Agricultural Development Co, 1987, Annual Report, p.25).

Example 2

Employee retirement provision is made in accordance with the Labour Laws.

(Translated from the Saudi Co for the Transportation of Livestock, 1987, Annual Report, p.23)

Example 3

Provision of annual leave, air tickets, and end of service bonuses is made under Saudi Arabian Labour Laws and Company Regulations.

(Saudi Hotel and Resort Area Co, 1987, Annual Report, p.15)

6.7.12 Statutory Reserves

The Saudi corporate annual reports examined in this survey reveal the deduction of 10% of yearly income as a statutory requirement by all corporations. A number of companies include it in their accounting policy statement, whereas others disclose it in the body of financial statements. However, one company reported that loss-making companies

which are subject to government subsidies are exempt from this requirement (National Gas Manufacturing Co, 1987, Annual Report, p.22-23). The following examples are policy statements on this issue.

Example 1

In accordance with the requirements of the corporate laws of the Kingdom of Saudi Arabia, the company has transferred 10% of its net income to the statutory reserve. Such transfers can be discontinued at the request of the General Assembly of the company when such reserves reach 50% of capital.

(Saudi Fisheries Co, 1987, Annual Report, pages unnumbered)

Example 2

In accordance with SAFCO's by-laws, 10% of annual net income is required to be set aside to form a statutory reserve until such reserve equals 20% of paid capital. During the year, the reserve reached 20% of the paid-up capital. This reserve is not currently available for distribution to the shareholders.

(Saudi Arabian Fertilisers Co, 1987, Annual Report, pages unnumbered)

Example 3

Statutory and agreement reserves at 10% and 5% respectively, have been formed from this year's profit, which confirms to company regulations.

(Saudi Hotels and Resort Area Co, 1987, Annual Report, p.15)

6.7.13 Zakat (The only corporate tax in Saudi Arabia at this time)

This item of expenditure is disclosed separately in the income statement, before the calculation of net income. However, according to Ministerial Decree No.104 30.1, 1408H, as from 11 January 1987, Zakat was to be considered as a cost item to be included in the general expenses of the

company. In the future, therefore, it is likely that this item will be included with other items of expenditure and not as a separate item, as the current general practice indicates. None of the corporate annual reports examined, however, disclosed the method of determining this item of expenditure.

Example 1

Starting January 11, 1987, Zakat is considered as a cost item to be included in the general expenses of the company according to Ministerial decision no. 104 dated 30.1.1408H.

(Saudi Hotels and Resort Area Co, 1987, Annual Report, p.15)

Example 2

On 11 Safer 1407H (14 October 1986) a new regulation was issued which stated that Zakat should not be imposed on investment loans which were used as in the case of NSCSA for acquiring fixed assets. Accordingly, in a letter dated 30 December 1986 from the Department of Zakat and Income Tax (DZIT) a final assessment of Zakat was sent to NSCSA for 1983 and 1984 after recomputing Zakat based on the new instruction; this resulted in a Zakat overpayment of SR 10,000,844. The DZIT has stated that this overpayment will be used to offset Zakat due for future years.

(The National Shipping Co of Saudi Arabia, 1987, Annual Report, pp.37-38)

6.7.14 Foreign Currency Translation

In general practice, foreign subsidiary assets and liabilities are translated using either the historical translation rate or the closing rate. Three different methods have been in widespread use:

- 1) The closing rate method, which uses the closing rate for all assets and liabilities.
- 2) The current/non-current method which uses the closing rate for current assets and current liabilities, and

the historical rate for all other assets and liabilities.

- 3) The monetary/non-monetary method which uses the closing rate for monetary items and the historical rate for non-monetary items.

These three methods produce different translated figures because of their differing assumptions on which assets and liabilities are to be translated at which rate.

In 1972 the "temporal method" was established, a method which at that time seems to have been univervally acceptable. It is, in principle, broadly similar to the monetary/non-monetary method under the historical cost concept of accounting. The essence of this principle is that the valuation method used for subsidiaries' assets and liabilities accounting (e.g. historical cost, current placement cost, net realisable value, or the value of future receipts) should be retained, and that a date is set and an exchange rate is established for translation. For example, the date of acquisition if the historical cost is applied, or the date of the balance sheet if current replacement cost or net realisable value are applied. In the case of future receipts, however, the closing date would apply, not the future rate as would be expected. This method is consistent with the monetary/non-monetary method.

In 1975 the FASB in the US accepted the use of the temporal method. FAS No.8 made the application of this method obligatory and no alternative was permitted. However, many

multinationals were unhappy at having to report translation losses on foreign currency borrowing, whilst no translation gains could be reported in respect of foreign fixed assets translation under this requirement. Consequently, this method became the subject of debate and controversy.

In 1981, the FASB issued FAS 52 which is still in effect today. This statement stipulates that financial statements of foreign entities, as expressed in their functional currency, must be translated at the closing rate method, with two main exceptions:

- 1) Where foreign operations are a direct and integral component or extension of the parent company's operations.
- 2) Where the foreign entity operates in a highly inflationary economy.

In Britain, the Accounting Standards Committee (ASC) issued its SSAP 20 which, in relation to the translation of foreign subsidiaries assets and liabilities, is more or less identical to FAS 52. SSAP 20 specifies the closing rate for most situations, and the temporal method where the trade of the foreign enterprise is largely dependent upon the economic environment of the investing company's currency than on its own reporting currency. The only difference between the two is that SSAP 20 specifies that, where a foreign enterprise operates in a country with a very high rate of inflation, its local financial statements should be adjusted to reflect current price levels before translation (Nobes & Parker, 1985).

With regard to the translation of gains and losses as opposed to assets and liabilities, the FASB Statement No.52 specifies the use of the exchange rate at the date when the revenue and expenses are recognised by the subsidiary but, because this is generally impractical, the statement permits the use of an appropriate weighted average. The statement specifies that gains and losses arising from translation under the closing method approach should be transferred directly to a reserve balance and should not pass through the profit and loss account. This reserve is termed a "separate component of equity rather than reserves".

In the UK, SSAP 20 permits the use of either the average rate or the closing rate for translating subsidiaries revenue and expenditure, and specifies that gains and losses arising from translations should be transferred to reserves, a position similar to that of the US. However, SSAP 20 states that the gains and losses "should be recorded as a movement on reserves". Moreover, SSAP 20 differs from FAS 52 on the treatment of this reserve. Whilst FAS 52 states that this amount should be transferred to income upon liquidation of investments in the foreign subsidiary as part of gains and losses from liquidation, SSAP 20 is silent about this treatment.

6.7.15 Foreign Currency Transactions

Up until 1981, the FASB's Statement No.8 provided the authoritative guidance on accounting for foreign currency transactions in the US. This statement mandates the following treatment for foreign currency transactions:

- 1) At the transaction date each asset, liability, revenue, or expense arising from the transaction shall be translated into dollars by use of the exchange rate in effect at that date, and shall be recorded at that dollar amount.
- 2) At each balance sheet date, recorded balances representing cash and amounts owed by or to the enterprise that are denominated in a foreign currency shall be adjusted to reflect the current rate.

On this basis, a foreign currency exchange adjustment (i.e. gains or losses on a settled transaction) is necessary wherever the exchange rate changes between the transaction and settlement dates. Should a company's financial statements be prepared prior to the settlement date, the accounting adjustment (gains and losses) will equal the difference between the amount originally recorded and the amount translated at the date of the financial statements. The FASB statement rejected the distinction between settled and unsettled transactions based on practicality. With regard to forward exchange contracts used by importers or exporters to offset the risk of transaction gains and losses, or to hedge (offset) balance sheet translation, gains and losses, they should be recognised in the income/loss of the period in which they occur. Any discount or premiums on these contracts would be amortised over the duration of the contract.

The FASB Statement No.52 requirements on these issues are similar to those under FAS No.8, with two major exceptions.

Transaction adjustments on conversion gains and losses from settled and unsettled transactions are to be reported in a separate component of stockholders equity when these conditions are met.

- 1) When the adjustment relates to transactions between a parent company and an affiliate that are on a long-term basis.
- 2) When the foreign currency transaction, including the forward contract, is intended as a hedge for a foreign operation's exposed net asset or liability position.

In Britain, the position according to SSAP 20 is that each asset, liability, revenue, or cost arising from transactions demanded in a foreign currency should be translated into the local currency at the exchange rate in operation on the date of the transaction. If the rates do not fluctuate significantly an average may be used. Where a transaction is set at a contracted rate, that rate should be applied. Where a transaction is covered by a relating matching forward contract, the rate of exchange specified in the contract may be used. At each balance sheet date, monetary assets and liabilities denominated in a foreign currency should be translated by using the closing rate. Where there are related or matching forward contracts in respect of trading transactions, the rates of exchange specified in those contracts may be used. All gains or losses and settled or unsettled transaction items should be reported as part of the profit or loss for the year from ordinary activities, unless they result from transactions which themselves would fall to be treated as extraordinary items.

This survey indicates that none of the Saudi corporations have any foreign subsidiaries, and therefore foreign currency translation is not a relevant matter. With regard to foreign currency transactions, those corporations who disclosed their accounting policies on this issue indicate that all transactions in foreign currency are recorded into local currency at the exchange rate prevailing on the transaction date, and that any assets or liabilities acquired or incurred in foreign currency are recorded in the statement of financial position at the exchange rate prevailing on the statement date. All gains or losses on foreign currency transactions or gains and losses on assets in foreign currency translation are treated as operating revenue or expenses. This practice is unanimously followed by all Saudi corporations.

Example 1

Transactions denominated in foreign currencies are converted to Saudi Riyals at the rates prevailing at the dates of such transactions. Current assets and liabilities recorded in foreign currencies are translated to Saudi Riyals at the rates prevailing at balance sheet date. Gains or losses on conversion of foreign currencies for the current year are included in the accompanying statement of income.

(Saudi Fisheries Co, 1987, Annual Report, pages unnumbered)

Example 2

Transactions denominated in foreign currencies are translated to Saudi Royals at rates prevailing at the dates of such transactions. Current assets and current liabilities recorded in foreign currencies are translated to Saudi Riyals at rates prevailing on the balance sheet date. The translation gains or losses are credited or charged respectively to income in the current year.

(Saudi Arabian Fertilisers Co, 1987, Annual Report, pages unnumbered)

Example 3

Foreign currency transactions are translated into Saudi Riyals at exchange rates ruling at the transaction date. Gains and losses resulting from foreign exchange differences between the transaction date and the settlement date are reflected in other revenue or expense on the settlement date.

(National Shipping Co of Saudi Arabia, 1987, Annual Report, p.35)

6.7.16 Auditor's Report

Saudi auditors' reports vary considerably, both in their language and their content. Some of these reports refer to generally accepted auditing standards, but there is no indication of what these standards are. Some reports refer to company financial statements as genuine representations of the financial position of the company, while others refer to them as being fair representations of the company's financial position. There appears to be no general pattern on which auditors' reports are written, or reference to specific standards or regulations. Very few of the auditors' reports examined mentioned or referred to Company Law regulations or any accounting regulations - an indication that, up until the present day, auditors are only regulated with respect to licencing. This is reinforced by the apparent attitude of auditors that the disclosure of their licence number alone is the minimum requirement. All auditors' reports include the auditor's name, licence number, and date of completion. Three examples of auditors' reports are shown below, and they represent a sample of the language in which auditors' reports are generally written (Exhibits 6.9, 6.10, 6.11).

EXHIBIT 6.9

Hail Agricultural Development Company
Saudi Public Shares Company

AUDITORS' REPORT

Respectable shareholders of Hail Agricultural Development Co
(HADCO)
(A Saudi Public Shares Co.)
Hail - Kingdom of Saudi Arabia

We have examined the balance sheet of Hail Agricultural Development Co. (HADCO) as at 31st July, 1987 and the related statements of income and retained earnings for the period of 31st January, 1986 to 31st July, 1987 together with the statement of sources and applications of funds for the financial period ending in that date and the relating notes from 1-10.

Our examination was made in accordance with generally accepted auditing standards, and accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion the accompanying financial statements and the relating notes as a whole:

1-Present fairly enough the financial position of the company as at 31st July, 1987 and the results of its operations and sources and applications of funds for the year then ended, in the light of the data revealed by the financial statements in conformity with the generally accepted accounting principles suiting the circumstances of the company.

2-Go in conformity with the requirements of financial statements processing and forwarding.

[Auditor's Name]
Certified Public Accountant
Licence No.()

Date:
Safar, 19, 1408 H.
12th Oct., 1987

EXHIBIT 6.10

[NAME OF AUDITING FIRM]
CERTIFIED PUBLIC ACCOUNTANTS
LICENCE NO. ()

From: [The Auditor]
Certified Public Accountants

To: The Shareholders
The National Shipping Company of Saudi Arabia

AUDITOR'S REPORT

We have audited the statement of financial position of the National Shipping Company of Saudi Arabia, a Saudi Joint Stock Company, as at 31 December 1987 and the related statements of income, retained earnings (losses), and sources and applications of funds for the year then ended and notes from No. (1) to No. (24) which form part of these financial statements as prepared by the management of the Company in accordance with article 123 of the Companies Law. We obtained all the information and explanations which we requested. Our audit has been performed in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements, referred to above, taken as a whole:

1) Give a fair view of the financial position of the National Shipping Company of Saudi Arabia (Saudi Joint Stock Company) as at 31 December 1987 and the results of its operations and the sources and applications of its funds for the year then ended, based upon sufficient presentation and disclosure of the information contained in the financial statements and in accordance with the accounting policies as set forth in note No. (2).

2) Comply with the provisions of the Companies Law and the Articles of Association of the Company with regard to the preparation and presentation of financial statements by this Company.

[Auditor's Name]

Riyadh

Date: 5 Ramadan 1408H
21 April 1988

AUDITOR'S REPORT

To the Shareholders of
Saudi Hotels and Resorts Areas Company
(A Saudi Joint Stock Company)
Riyadh, Saudi Arabia

We have examined the balance sheet of SAUDI HOTELS AND RESORT AREAS COMPANY (A Saudi Joint Stock Company) as of December 31, 1987, and the related statements of income and retained earnings as of 31.12.87, notes from 1-25 and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying financial statements and notes from 1-25 present fairly the financial position of the company as of December 31, 1987 and the results of its operations and changes in its financial position for the year then ended, in conformity with generally accepted accounting principles applied on previous years, and company's regulations.

[Name of Auditor]
CERTIFIED ACCOUNTANT & AUDITOR
LICENSE NO. ()
RIYADH ON 21.9.1408 H
CORR. TO 7.5.1988

6.8 SUMMARY AND CONCLUSIONS

The objective of this chapter is to establish a greater level of understanding of current accounting and reporting practices in the Kingdom of Saudi Arabia. This increased understanding, together with the additional and complementary level of understanding expected to be established as a result of the Delphi survey, will hopefully provide a comprehensive and unique insight into accounting development in a developing country - Saudi Arabia.

The survey results reported in this chapter covered approximately 70% of Saudi public corporations. The survey itself encompasses many aspects of annual reporting, including accounting, presentation, and disclosure. This survey is a significant step in the development of this thesis, and is particularly important for its contribution towards acquiring a better understanding of the status of accounting and reporting in an environment where definitive accounting and reporting rules are notably absent. It can be expected that, in such an environment, accounting and reporting practices will be unduly flexible. This excessive flexibility, in turn, is likely make consistency and comparability more difficult to achieve.

The findings of this survey lend strong support to this expectation, and may well provide further evidence as to the effect or consequences of an absence of accounting regulation.

Saudi corporate accounting and reporting is found to vary from one company to another. While some of the annual reports examined can be regarded as relatively comprehensive, or at least adequate, as far as the presentation of financial statements, directors' reports, auditors' reports, accounting policy disclosure, and other relevant financial and non-financial information is concerned, others fall short of being informative in both form and substance.

The main characteristics common to those corporations who produce relatively comprehensive or informative reports are as follows: the corporations tend to be newly-formed and wholly-owned by private investors - that is, the government is not a part-owner; they are likely to be less capital intensive - that is, mainly in agriculture and service industries; they are generally associated with one or other of the leading public accounting firms in the Kingdom; and they are, in the main, predominantly run by considerably younger directors and managers who are likely to have a greater awareness of modern management and accounting techniques.

On the other hand, corporate annual reports which can be regarded as uninformative and lacking are found to belong to corporations with the following characteristics in common: the corporations tend to be long-established; they are likely to be partly-owned and subsidised by the government; they are, in general, heavily capital intensive, usually in the electricity industry and manufacturing companies; and

they are, in the main, predominantly run by a conventional board of directors and managers who, with all due respect, are unlikely to fully appreciate the role of accounting and reporting.

The generally low level of disclosure revealed by this survey can, in all probability, be attributed primarily to the absence of a definitive set of disclosure requirements. However, additional factors may also have made a significant contribution to this situation. These factors include: the relatively unsophisticated business conditions and investors' requirements; management's averse attitude to disclosure; the weak position in which the auditor finds himself in order to maintain his job security; and finally, the role of the government as the main provider of capital and the ultimate overseer of companies, with the power to obtain any additional information outside the scope of the general purpose annual reports.

These factors are, to some extent, offset by a number of positive factors, including Saudi accountants' increasing awareness of the importance of reporting as a result of interaction and contact with their international counterparts, and the increased public and government awareness of the role of accounting and reporting in Saudi Arabian economic development.

In this chapter, reference has been made to a few of the accounting and reporting requirements in the US and the UK with regard to some of the important and controversial

treatments of certain accounting items and transactions, such as accounting for leases; acquisitions and mergers, and consolidation; and foreign currency translation. While many of these controversial issues are infrequently encountered by Saudi corporations, accounting practice in the Kingdom adheres to those methods, borrowed from the US and the UK, which are the simplest and most widely accepted, when and where it seems most appropriate to do so.

CHAPTER 7

ACCOUNTING DEVELOPMENT IN SAUDI ARABIA: A DELPHI EXERCISE

7.1 Introduction

The introductory chapter to this thesis proposed two complementary research methodological procedures: a survey of accounting and reporting practices (observation), and a Delphi technique (interpretation). It is hoped that this methodological combination will enrich and extend the somewhat limited knowledge of accounting in developing countries which currently exists, with particular reference to Saudi Arabia.

The survey technique, together with its results, was reported in the previous chapter. This chapter goes on to explain the Delphi technique, and the methodological procedures involved in carrying out the Delphi exercise. This will be followed by a presentation of results and findings.

It is intended that this Delphi study should provide the analytical basis for acquiring a comprehensive understanding of accounting development in Saudi Arabia, which involves the consideration of a wide range of issues and questions. These issues and questions are related to accounting and reporting practices, accounting regulation and rule making, professional ethics, independence, motivation, and professional education.

This chapter has been developed as follows: in the first section, the Delphi technique itself is explained. In the second section, the details of the procedures followed in carrying out this Delphi will be provided. In the third section, a discussion of the results will be carried out; and in the final section a summary and conclusions will be presented.

7.2 The Delphi Technique

The Delphi technique is a relatively newly-developed research method. It was formulated in the early 1950s but was not widely used up until the 1960s, when it was used mainly in the fields of education, medicine, and development programmes research. Up until the present time it has been used, on occasion, in accounting research (Scott & Troberg, 1980). The Delphi technique is recognised to be a process of structuring communication among expert groups in which interaction, anonymity, and feedback are used to create an awareness of a full range of considerations to allow for the effective dealing with complex problems. This technique, traditionally, seeks consensus among homogeneous groups of experts, with a strong emphasis on consensus as a means to convergence of opinion on technical issues. More recently the technique has expanded with respect to both its application and the areas in which it can be applied. For example, while it has been more frequently applied in technological forecasting, the technique has also been used for establishing agreement with regard to problem definition, problem importance and priority, and the action necessary for problem resolution. Moreover, it has been

used in the ascertainment of values and preferences in areas where judgemental information is indispensable and where the identification of potential measures to deal with a given problem is needed. The technique proposes measures and assesses them in terms of feasibility, desirability, and effectiveness. Furthermore, the technique can be used to obtain a consensus about future trends, events, or changes in a field, and may clarify and explain apparent dissent or divergence of opinion, where it exists (Liston & Turoff, 1975; Scott & Troberg, 1980; Birkett, 1988).

This method assumes that experts in a field are individually and collectively in the best position to identify measures to deal with the problems encountered in the field. However, two main important features distinguish the Delphi from methods which attempt to obtain, refine, and communicate the informed judgement of knowledgeable people such as a committee deliberation, panel studies, or group discussion. These two features are: i) successive refinement (feedback), and ii) the assurance of absolute anonymity for the participants. The Delphi replaces face-to-face discussion with a series of sequential questionnaires. Each series is accompanied by information and feedback from the opinions revealed by the preceding questionnaire results. This process of successive refinement allows individual participants to evaluate a full range of considerations based on the opinions of others, and in this way offers an opportunity to modify and refine their own judgement. The anonymity aspect eliminates many undesirable psychological aspects of face-to-face

interaction such as domination by key personalities, the loudest speakers, and confusion of the status of opinion with the status of their proponents. It also provides individuals with an opportunity to present and evaluate their opinions freely, objectively, and without interference.

In most Delphi applications, the technique involves at least two rounds of questions. The anonymous results of the first round are summarised and distributed with the subsequent round of questions. Convergence of opinion is the main objective of Delphi studies; however, where consensus (convergence) is not achieved this method has proved to be a valuable way of increasing awareness and gaining insight into the problem area, and documents the existence of strong divergence of opinion. It also provides a learning exercise for its participants (Scott & Troberg, 1980). As far as application is concerned, the Delphi method is particularly useful, where objective data are unavailable or costly to obtain, as a basis for extrapolation, and where the conditioning of future status is at issue. The method produces subjective but quantitative estimates of future activity levels and some analysis of technological or social development (Helmer & Rescher, 1959; Mitroff & Turoff, 1975; Birkett, 1988).

The Delphi method is not, however, free from shortcomings. Amongst these is one from which many other research methods suffer - that is, the introduction of bias in the selection of experts and in the judgement which must be exercised in

preparing the questionnaires and selecting, interpreting, and summarising the results. The method may also achieve consensus of opinion without a detailed review of substantive arguments and available evidence. Other possible weaknesses include the introduction of deliberately false responses, problems of interpretation, sample construction, and scaling.

With regard to the research design features and philosophical foundation of the Delphi method, the technique still lacks a complete theoretical basis. While much of the literature pertaining to Delphi to date has concentrated on its uses and applications, its design features and philosophical foundation has not yet been blueprinted, possibly due to the fact that the method is still regarded as in an evolutionary stage (Mitroff & Turoff, 1975).

In view of the existing philosophical foundations of enquiry systems which represent the most significant basic philosophies to date and from which many others have developed (i.e. Locke, Leibnitz, Kant, Hegel, and Singer), who differ from each other on how truth is determined and how knowledge can be obtained and justified; that is, research methodology. All these philosophies have a foundation which might be applicable to the Delphi technique. However, to a great extent the Delphi is, traditionally, typically regarded as Lockean in nature.

The Lockean inquiry system is the epitome of an experimental, consensual system. Its philosophical stance

is as follows: the truth content of a system of communication is associated entirely with its empirical content. This system views truth as "experimental" and is measured in terms of the system's ability to reduce any complex propositions in terms of simple "observation" by means of widespread and freely-obtained "agreement" between different human observations. As a corollary, truth does not rest upon any theoretical consideration or prior assumption of any theory. The only general propositions accepted under this system are those which can be justified through "direct observation" or those which have already been justified previously.

In terms of these philosophies and inquiry procedures, this system is recognised as being constructed based on data input. Moreover, the system not only regards data input as prior to any formal model or theory but is also separate from it. In this way, the system builds an empirical inductive representation of any given problem, starting from an elementary empirical judgement (raw data, observation, sensation) and from this basis develops a network of ever-expanding, increasingly more general factual propositions.

From this inquiry system perspective, the Delphi technique is seen as a procedure for structuring a communication process amongst a group of experts in order to reach agreement or consensus, and can be regarded as a pure and perfect Lockean procedure because a) the raw data input can be interpreted as opinions or judgement of experts and b)

the validity of the resulting judgement of the group is measured in terms of the explicit degree of consensus among the experts. For this reason the Delphi is recognised as a perfect example of Lockean inquiry philosophy (Mitroff & Turoff, 1975).

7.3 The Delphi procedures followed in this study: Research method

This section sets out the general characteristics of this Delphi study, and the details regarding the procedures followed in the application of the two rounds of questionnaires.

The two quasi-structured questionnaires which were distributed to selected experts are intended to facilitate the emergence of a consensus of opinion regarding certain accounting issues encountered in Saudi Arabia. These issues are, in the main, related to the form and authority of the accounting system, the motivation and involvement of accountants in the development of the profession, the issues of auditors' competence and independence, accounting education, and a number of issues related to measurement and formal and informal reporting. The questionnaires were compiled in both Arabic and English. The questionnaires were written in the form of statements followed by a five-point scale 1-5 which, in some cases, indicated the experts' level of agreement with the statement and, in other cases, the level of importance they attached to a problem, or their opinions on specific issues in terms of frequency: for example, high or low use of certain items of information. The experts were also provided with additional space in

which to add any comments on certain questions when they felt it was necessary. In addition, the experts were given the opportunity to mark a question "UTA" (unable to answer) when they felt it was necessary to do so, either because of the nature of their experience or for any other reason. Copies of the questionnaires are reproduced in Appendix B.

The initial step in this Delphi was to undertake a review of the accounting literature pertaining to the above mentioned accounting issues generally (reported in Chapters 2 and 3), and the literature pertaining to accounting in Saudi Arabia (reported in Chapters 4 and 5). From this initial step, a series of questions was drafted and subsequently developed to form the first round questionnaire. Accompanying the questionnaire was a description of the objective of the study, including an instructions sheet. A letter was then drafted and attached to the questionnaire inviting the experts to participate in the study, and includes a brief description of the Delphi technique itself. A sample of the letter accompanies the questionnaire in Appendix B.

The second step was to conduct the questionnaire. For a number of reasons, including the problems often associated with overseas mail distribution and the low response rate expected of an overseas mailshot, it was felt that it would be unwise to carry out this part of the study by mail. Instead, the questionnaire was delivered in person during a visit to Saudi Arabia between early July and early October 1988. As a citizen of Saudi Arabia and as a member of the

academic staff of King Saud University's Accounting Department, personal contact (either direct or indirect) identified a number of experts to whom the questionnaire was circulated. In this Delphi, an individual is regarded as an expert if he possesses a university degree and has worked in the accounting field in Saudi Arabia for at least five years. These experts were allotted a two week period in which to complete the questionnaires, after which time they were collected personally. 58 experts out of the 80 circularised completed and returned the questionnaire within the required time limit. These 58 experts consisted of 13 accounting academics, 16 public accountants, 9 practicing accountants in government, 12 practicing accountants in industry, and 8 practicing accountants in banking.

The responses to the first round questionnaire were brought back to the UK where they were analysed, summarised, and incorporated into a second round of questions. However, whilst the first round questions contained 150 items of relevant information, round two questions were reduced to contain 97 items. This is mainly due to the elimination of some questions because of the low rate of response to certain items, and the number of complaints received from respondents regarding the length of the questionnaire.

From early December 1988 until late February 1989 the second round questionnaire was conducted in Saudi Arabia, and in the same way as before. This time, however, the process proved to be much easier; this can be primarily attributed to the experience gained in the first round, in

terms of locating the experts and contacting them. 52 out of the 58 experts who responded in the first round were able to complete and return the questionnaire within this period of time. Exhibit 7.1 profiles the responses in both rounds.

EXHIBIT 7.1: Response Rate

EXPERT GROUPS	FIRST ROUND			SECOND ROUND		
	Total	Responses	Response Rate %	Total	Responses	Response Rate %
Academic	20	13	65	13	13	100
Public accountant	20	16	80	16	13	81
Practicing accountants in government	10	9	90	9	9	100
Practicing accountants in industry	20	12	60	12	10	83
Practicing accountants in banking	10	8	80	8	7	87
	80*	58	72**	58	52	89

* Academics, public accountants, and practicing accountants in industry are given more weight than practicing accountants in government and in banking because of the specific nature of their experience.

** The very high response rate is mainly due to personal distribution and collection of the questionnaire.

The results of both the first and second rounds of this Delphi follow in the next section.

7.4 Results of the Delphi Exercise

Eighteen tables are provided in this section, summarising the overall results of the Delphi exercise. Each table contains a summary of experts' responses to one main question, representing an issue or a problem under

examination. These tables are divided into two main sections: one comprising the results of the first round, and the other comprising the results of the second round questionnaire. This division facilitates analysis and comparison of the results in the two rounds.

The summary tables include the following important information and indicators:

7.4.1 Aggregate Mean Score. This figure indicates all experts' average response to a question on the five point scale, where one represents the highest point and five represents the lowest point. This figure is further broken down into the average response by each individual group. This information is indicated under the subgroup heading (1), (2), (3), (4), and (5) in the tables.

7.4.2 Rank Order. This item of information ranks experts' average responses to a problem or an issue in order. For example, a response with a mean score of 1.5 is ranked higher than a response with a mean score of 4.5. This ranking represents the strength of responses in terms of high to low, important to not important, or agree to disagree. The rank order is particularly important for this study in that it indicates experts' opinion in terms of their perception of the importance of a specific problem or an issue and their preferred solutions from the alternatives provided.

7.4.3 Coefficient of Variation. This figure is produced in the tables in place of the standard deviation. It is preferred because, while the standard deviation measures the spread of individual responses within a particular distribution (that is, responses to a specific question), the coefficient of variation measures the relative disparity between responses to different questions which can be used as a standard figure. This makes it particularly valuable for comparison purposes. It is also a percentage figure, which makes it easier to use and to interpret than the standard deviation.

7.4.4 Kruskal-Wallis One-Way Analysis of Variance Test Score. This test is the non-parametric version of the parametric Anova test for calculating the differences in the population mean. It also extends the non-parametric Mann-Whitney test when more than two populations are being tested. In this Delphi, this test is used to indicate whether there is a statistically significant variation between the mean scores of the different expert groups. This test score is indicated for both first round and second round responses.

7.4.5 Wilcoxon Signed-Rank Test. This test is the non-parametric equivalent of the parametric matched-sample t.test. This test is commonly used with matched pairs of observations or in pre-test/post-test designs to test the null-hypothesis of no differences between the matched population, or pre- and post-testing. In this Delphi this test is used to indicate whether there has been any

statistically significant change in experts' opinions between the two rounds.

Because there are some doubts concerning the appropriateness of the methodological assumptions, relating to the use of parametric statistics, mainly concerning normality in population distribution and the requirement of interval data, the non-parametric test statistics Kruskal-Wallis 1-way Anova and Wilcoxon tests have been used in this Delphi instead of the more familiar parametric statistics.

7.5 Discussion

In the discussion that follows, a significance level of 10% has been used to interpret the results of the statistical test in this Delphi. The literature relating to the questions and issues raised in the tables has been discussed in earlier chapters and it will not be necessary to indulge in a similar discussion in this section. Moreover, two or more tables are discussed under one heading when they are related or can be combined, or when it facilitates the analysis and discussion. Furthermore, the results of this study are obviously concerned with Saudi accounting practices and development and thus, to avoid repetition, the use of common phrases pertaining to Saudi Arabia such as "in Saudi Arabia", "for Saudi Arabia", "with regard to Saudi Arabia" etc are omitted, as these expressions are implicit in the discussion.

7.5.1 External Reports: Users and Purposes

The results in Table 7.1 indicate experts' responses to a question in which they were asked to indicate their opinion as to who are the main users of corporate annual reports. In this question, experts were provided with a selection of potential users, and were requested to indicate their level of opinion on a five-point scale in terms of very high to very low utilisation.

The overall results indicate that, in general, corporate annual reports are not perceived as being highly used by a wide range of groups. However, in the first round the following groups emerged as relatively high level users: the Department of Zakat, owners and investors, Saudi banks, and the Ministry of Commerce, respectively. The Department of Zakat is the only tax authority in the country, and it is therefore of no surprise that it should be perceived as the highest user group. The Ministry of Commerce is the government branch which oversees and regulates corporations, and it is also unsurprising that it was perceived to be amongst the highest users. Saudi local banks are perceived as relatively high and frequent users, mainly because they provide limited credit to Saudi corporations. In the second round there was a slight change in the rank order of user groups 2 and 3 (owners and investors, and Saudi banks) in which the order was reversed. However, the ranking of the other user groups remained unchanged: in particular, employees and the general public are perceived to be among the lowest user groups in both rounds.

Table 7.1 indicates the experts' responses as to who are the main users of corporate annual reports.

TABLE 7.1

User Group	Mean Aggreg. Rank	Subgroup					Coeff. of var. %	Kruskal Chi-sq.	1-way Anova Significance	Wilcoxon Test 2-value Prob.	
		(1)	(2)	(3)	(4)	(5)					
FIRST ROUND											
Dept. of Zakat	1.54	1	1.53	1.18	1.11	2.33	1.57	57	11.9703	0.0176	-
Owners & investors	1.81	2	2.15	1.68	1.66	1.75	1.75	54	2.4261	0.6579	-
Saudi banks	1.85	3	1.53	1.62	2.00	2.30	2.12	49	6.3276	0.1760	-
Ministry of Commerce	2.18	4	2.33	1.81	1.33	2.91	2.66	47	16.2522	0.0027	-
Foreign banks	2.23	5	1.84	2.00	2.66	2.30	2.75	56	5.4508	0.2441	-
Chambers of Commerce	3.28	6	3.45	3.86	2.55	3.27	2.66	38	8.6370	0.0708	-
Employees	4.03	7	4.53	4.23	4.11	3.63	3.37	27	5.2590	0.2617	-
General public	4.43	8	4.61	4.35	4.77	4.77	4.12	21	3.2247	0.5210	-
SECOND ROUND											
Dept. of Zakat	1.69	1	1.76	1.61	2.10	1.55	1.37	47	3.9568	0.4119	1.0247
Owners & investors	2.05	3	2.00	1.92	2.77	1.55	2.12	48	7.6392	0.1057	1.1862
Saudi banks	2.03	2	1.92	1.92	2.22	2.11	2.12	44	1.1833	0.8808	1.1469
Ministry of Commerce	2.38	4	2.61	2.46	2.00	2.55	2.12	33	4.0165	0.4038	1.5146
Foreign banks	2.70	5	2.53	2.61	2.87	2.55	2.12	37	2.4851	0.6473	2.4396
Chambers of Commerce	3.26	6	3.38	4.00	2.88	2.88	2.75	35	9.7847	0.0442	0.7148
Employees	3.62	7	4.15	4.15	2.75	3.55	2.87	39	9.9689	0.0410	2.0756
General public	4.00	8	4.07	3.92	4.00	4.00	4.00	28	0.8492	0.9317	2.0475

Subgroup (1) = Academics; (2) = Public accountants; (3) = Practicing accountants in government; (4) = Practicing accountants in industry; (5) Practicing accountants in banks.

Response scale = 1-5; 1=very high.....5=very low.

With regard to whether there have been any significant differences of opinion between the expert groups on these issues in the two rounds, the results indicate that, in the first round, there were significant differences with regard to the Department of Zakat, the Ministry of Commerce, and the Chamber of Commerce user groups. In relation to the Department of Zakat and the Ministry of Commerce, it would appear that practicing accountants in government have a significantly different perception from the other expert groups. In relation to the Chamber of Commerce, it seems that academics and public accountants have significantly different views. In the second round, academics and public accountants indicated significantly different views with regard to the Chamber of Commerce and employees user groups.

With regard to whether there has been a significant change in experts' opinions between the two rounds of questions, the results indicate that there was indeed a significant change in relation to the perceived use of annual reports by foreign banks, employees, and the general public. These significant changes are reflected in the changes in the mean scores between the two rounds.

The results in Table 7.2 complement those in Table 7.1 in the sense that experts were requested to indicate their opinions on the main purposes or uses of corporate annual reports. In this question, experts were provided with a number of possible alternatives upon which they were asked to indicate their opinions on the five point scale in terms of very high to very low utilisation.

Table 7.2 indicates experts' responses as to the main purposes (uses) of corporate external reporting.

TABLE 7.2

Purpose	Mean Aggreg. Rank	Subgroup					Coeff. of var. %	Kruskal 1-way Anova Chi-sq. Significance	Wilcoxon Test Z-value Prob.			
		(1)	(2)	(3)	(4)	(5)						
<u>FIRST ROUND</u>												
Stewardship	2.06	1	2.38	1.93	1.88	2.00	2.12	48	0.5274	0.9708	-	-
Decision making	2.29	2	2.92	2.12	2.00	2.33	1.87	52	5.2288	0.2646	-	-
Government control	2.48	3	3.07	2.25	1.55	2.72	2.71	48	10.0510	0.0396	-	-
Annual reports are not used in any meaningful way												
.....Added in the second round.....												
<u>SECOND ROUND</u>												
Stewardship	1.98	1	1.84	2.16	1.88	1.88	2.14	42	1.4430	0.8367	0.5896	0.5554
Decision making	2.30	2	2.38	2.52	2.11	2.11	2.25	37	1.5468	0.8183	0.0435	0.9653
Government control	2.63	3	2.76	2.84	2.33	2.66	2.37	35	2.8905	0.5763	1.0745	0.2826
Annual reports are not used in any meaningful way *												
	2.88	4	2.75	2.92	2.62	3.22	2.87	40	1.6387	0.8018	-	-

Subgroup (1) = Academics; (2) = Public accountants; (3) = Practicing accountants in government; (4) = Practicing accountants in industry; (5) Practicing accountants in banks.

Response scale = 1-5: 1=very high.....5=very low.

* Response scale = 1-5: 1=strongly agree.....5=strongly disagree.

The overall results indicate that experts do not perceive annual reports to be used to a great extent for any purpose. However, when experts were asked to indicate their opinions on whether corporate annual reports are used in any meaningful way, their responses were indecisive. The results in both rounds indicate that annual reports are perceived to be relatively highly used for the purposes of stewardship, followed by decision making, followed by government control.

With regard to whether there have been any significant differences in opinion between the expert groups on these issues, the results in the first round showed a significant difference in relation to government control on which academics and practicing accountants in government appear to have significantly different views to the other expert groups.

With regard to whether there has been any significant change in experts' opinions between the two rounds, the results indicate that no significant change has taken place.

The results in both Tables 7.1 and 7.2 indicate that greater consensus has been achieved in the second round as a result of the feedback, or successive refinement. This is indicated by the significant changes in the coefficient of variation figures between the two rounds.

The overall results of Tables 7.1 and 7.2 are complementary and consistent with each other in the sense that corporate

reports are perceived to be highly used by relatively few groups.

7.5.2 The Extent of Disclosure:

The results in Table 7.3 indicate experts' responses as to the extent to which certain accounting information is disclosed in annual reports. In this question, experts were provided with selected general information items upon which they were requested to indicate their opinion on the five point scale in terms of very high to very low disclosure levels.

The results indicate that the overall disclosure level in relation to many of these information items is perceived to be relatively low. Among the items which were considered to receive a relatively high disclosure level were those items related to company profitability, company financial position, underlying accounting rules, and the effect of Zakat; and amongst the items which were perceived to receive the lowest level of disclosure were auditing related items, foreign exchange risk, non-accounting information, and disaggregated data. These results were consistent in both rounds, with slight changes in the ranking of the relatively lower level disclosure items 5, 6, 7, 8, and 9, between the two rounds.

In terms of whether there have been significant differences in opinion between the expert groups in their perception of these issues, the first round results indicate a significant difference of opinion regarding accounting information

Table 7.3 indicates experts' responses regarding the extent of corporate accounting information disclosure.

TABLE 7.3

Information Item	Mean	Aggreg. Rank	Subgroup					Coeff. of var. %	Kruskal 1-way Anova Chi-sq. Significance	Wilcoxon Test Z-value	Prob.
			(1)	(2)	(3)	(4)	(5)				
FIRST ROUND											
Company profitability	1.86	1	1.69	1.75	1.11	2.50	2.25	54	12.0258	0.0172	-
Co. financial position	2.13	2	2.30	2.06	2.22	2.25	1.75	56	1.2975	0.8618	-
Underlying accounting rules	2.58	3	3.23	2.50	1.88	2.75	2.25	48	6.5308	0.1629	-
Effect of Zakat	2.75	4	2.30	2.50	3.22	3.41	2.50	44	8.3149	0.0807	-
Price level changes effects	3.29	5	4.00	3.62	1.88	3.50	2.75	43	14.6187	0.0056	-
Auditing related information	3.72	6	4.23	3.81	3.33	3.66	3.25	29	6.4504	0.1679	-
Foreign exchange risk	3.72	7	4.23	3.68	3.22	3.91	3.25	32	6.5082	0.1643	-
Non-accounting info.	3.79	8	4.15	3.56	4.11	3.41	3.87	31	4.3563	0.3599	-
Disaggregated data	3.84	9	4.07	4.00	4.00	3.75	3.12	26	6.2958	0.1781	-
SECOND ROUND											
Company profitability	1.68	1	1.46	1.84	2.12	1.25	1.75	48	9.2085	0.0561	0.5512 0.5815
Company position	1.74	2	1.61	1.76	2.12	1.87	1.37	50	3.7562	0.4400	1.4785 0.1392
Underlying accounting rules	2.60	3	2.46	2.84	2.50	2.87	2.25	37	2.2434	0.6911	0.0842 0.1392
Effect of Zakat	2.74	4	3.15	2.69	2.75	2.50	2.37	34	3.0242	0.5538	0.0157 0.9875
Price level changes effects	3.44	7	3.53	3.76	2.62	3.87	3.12	30	7.7921	0.0995	0.4013 0.6882
Auditing related information	3.06	5	3.23	3.38	2.50	3.12	2.75	36	2.9297	0.5697	2.6862 0.0072
Foreign exchange risk	3.42	6	3.76	3.46	2.50	3.87	3.25	31	7.6654	0.1046	0.8377 0.4022
Non-accounting info.	3.85	9	3.84	4.08	3.37	4.12	3.75	26	2.3969	0.6632	0.2571 0.7971
Disaggregated data	3.61	8	3.53	3.50	3.37	4.00	3.75	29	1.2558	0.8688	1.5592 0.1190

(1) = Academics; (2) = Public accountants; (3) = Practicing accountants in government; (4) = Practicing accountants in industry; (5) Practicing accountants in banks.
 Response scale = 1-5; 1=very high.....5=very low.

relating to company profitability, the effect of changing prices, and the effect of Zakat. On these issues, practicing accountants in government appear to have significantly different opinions to the other expert groups. In the second round a significant difference in perception between the expert groups exists in relation to the disclosure of information items relating to company profitability and information items relating to the effect of changing prices. On these issues, academics and practicing accountants in government appear to have significantly different opinions to the other expert groups.

With regard to whether there has been a significant change in experts' perceived opinion between the two rounds, the results indicate that there has been a significant change with regard to the disclosure of information items relating to auditing. This significant change is reflected by the change in the mean score between the two rounds.

The results in Table 7.4 complement the results in Table 7.3 in the sense that they address the main reasons for the generally low level of disclosure. In this question, experts were provided with a number of possible alternatives upon which they were requested to indicate their level of opinion on the five point scale in terms of strong agreement to strong disagreement.

The overall results indicate a relatively strong agreement on the identity and ranking of these alternatives. In both rounds the alternatives were ranked respectively as follows:

Table 7.4 indicates experts' responses as to the main reasons for the generally low level of corporate disclosure.

TABLE 7.4

Reason	Mean	Aggreg. Rank	Subgroup					Coeff. of var.	Kruskal 1-way Anova	Wilcoxon Test		
			(1)	(2)	(3)	(4)	(5)					
FIRST ROUND												
Lack of professional requirements	1.77	1	1.61	1.62	1.33	2.41	1.87	50	13.0091	0.0112	-	-
Lack of legal requirements	1.96	2	1.92	1.68	1.77	2.66	1.75	53	7.0536	0.1331	-	-
Management attitude	1.98	3	1.61	2.62	1.66	2.00	1.60	68	10.6836	0.0304	-	-
Informal reporting	2.36	4	2.23	2.87	1.66	2.41	2.25	51	8.0723	0.0890	-	-
SECOND ROUND												
Lack of professional requirements	1.86	1	2.07	1.61	2.44	1.44	1.75	52	4.4822	0.3447	0.6075	0.5434
Lack of legal requirements	2.05	2	2.23	1.69	2.44	2.33	1.62	50	5.0823	0.2790	0.5718	0.5675
Management attitude	2.17	3	2.38	2.30	1.77	2.11	2.12	41	3.4163	0.4907	0.7251	0.4684
Informal reporting	2.40	4	2.30	2.46	2.33	3.00	1.87	40	6.6924	0.1531	0.0279	0.9777

Subgroup (1) = Academics; (2) = Public accountants; (3) = Practicing accountants in government; (4) = Practicing accountants in industry; (5) Practicing accountants in banks.

Response scale = 1-5; 1=strongly agree.....5=strongly disagree.

lack of professional requirements; lack of legal requirements; management attitude of secrecy; and customary informal reporting.

In relation to whether there have been any significant differences in opinion between the expert groups on these issues, the results in the first round indicate that substantial differences do exist with regard to almost all of the suggested alternatives. Practicing accountants in industry appear to perceive the effect of the first two alternatives differently from the other groups. Academics and practicing accountants in government perceive the effect of the last two alternatives in a significantly different way from the other expert groups. In the second round these significant differences in opinion are virtually eliminated.

With regard to whether there has been a significant change in the experts' perceived opinions between the two rounds, the results indicate that no substantial change has taken place, as can be seen from the little or no significant changes in the mean scores between the two rounds.

The results in both Tables 7.3 and 7.4 in this section reveal an emerging consensus between the first and second round on the issues raised as a result of the feedback process. This emerging consensus is indicated by the significant changes in the coefficient of variation figures between the two rounds.

7.5.3 Problem Areas and Developments

The results in Table 7.5 indicate experts' opinions regarding the main contributing factors to the problems of the accounting profession in general. In this question, experts were provided with a number of possible reasons or problem areas upon which they were requested to indicate their level of opinion on the five point scale in terms of very important to not important.

The results indicate that the lack of professional requirements is perceived to be the main reason for many of the problems experienced in the accounting profession. In round one, this factor is followed by a perceived lack of professional education, followed by the virtual non-existence of an accounting professional body, followed by the enforcement problem. In round two, however, the order of importance of these problems changes significantly. While the lack of professional requirements remains the number one perceived problem, the lack of an existing accounting professional body takes second place, followed by the enforcement problem, followed by a perceived lack of adequate professional education.

With regard to whether there have been any significant differences in opinion between the expert groups on these issues, the results indicate that, in the first round, there was a significant difference with regard to the problem of enforcement on which it appears that every expert group has significantly different views from the others. For example, public accountants view this problem as more important than

Table 7.5 indicates experts' responses as to the main sources of problems encountered in current accounting practice in order of importance.

TABLE 7.5

Source	Mean Aggreg. Rank	Subgroup					Coeff. of var. %	Kruskal 1-way Chi-sq. Significance	Milkoxon Test Z-value	Prob.		
		(1)	(2)	(3)	(4)	(5)						
FIRST ROUND												
Lack of professional requirements	1.57	1	1.76	1.37	1.44	1.36	2.12	53	5.3110	0.2569	-	-
Lack of professional education	1.62	2	2.00	1.62	1.66	1.16	1.62	63	7.4878	0.1122	-	-
Lack of professional accounting body	1.75	3	1.84	1.75	1.77	1.50	2.00	55	1.3343	0.8555	-	-
Enforcement problem	1.82	4	2.00	1.37	1.66	2.41	1.75	50	8.2978	0.0813	-	-
SECOND ROUND												
Lack of professional requirements	1.88	1	1.84	1.69	2.55	1.77	1.62	53	5.0811	0.2791	1.8851	0.0594
Lack of professional education	2.01	4	2.30	1.69	2.55	1.88	1.62	45	7.4406	0.1144	2.1713	0.0299
Lack of professional accounting body	1.94	2	1.78	1.84	2.44	1.55	2.25	53	5.3528	0.2530	1.0845	0.2781
Enforcement problem	1.96	3	2.46	1.83	1.75	2.00	1.50	50	5.2917	0.2587	0.7266	0.4675

Subgroup (1) = Academics; (2) = Public accountants; (3) = Practicing accountants in government; (4) = Practicing accountants in industry; (5) Practicing accountants in banks.

Response scale = 1-5: 1=very important.....5=not important.

any other expert group, whereas practicing accountants in industry consider the problem as less important than the others. In the second round, this significant difference in perception has virtually disappeared as a result of the feedback process.

With regard to whether there has been any significant changes in experts' opinions between the two rounds on these issues, the results indicate that there has indeed been a significant change with regard to the perception of the professional requirements problem and the professional education problem. These issues, to some extent, became less important in the second round, especially the lack of adequate professional accounting education. This change in perception in the second round, together with the substantial difference in opinion on the enforcement problem in the first round, may have contributed towards the significantly different ranking between the two rounds.

The results in Table 7.6 complement those in Table 7.5 in the sense that they address the reasons why it is necessary for professional requirements (ranked number one in Table 7.5) to be established. In this question, experts were provided with a number of possible reasons on which they were requested to indicate their opinions in terms of strong agreement to strong disagreement on the five point scale. The results indicate that the need for accounting information credibility is perceived to be the most likely reason, followed by a need for accounting comparability, followed by a need to safeguard company assets and profit

Table 7.6 indicates experts' responses as to the main reasons for which accounting should be regulated.

TABLE 7.6

Reason	Mean	Aggreg. Rank	Subgroup					Coeff. of var.	Kruskal 1-way Anova	Wilcoxon Test		
			(1)	(2)	(3)	(4)	(5)					
FIRST ROUND												
Accounting credibility	1.60	1	1.53	1.87	1.44	1.50	1.50	62	0.2237	0.9942	-	-
Accounting comparability	1.68	2	1.53	1.60	2.11	1.50	1.87	60	2.5358	0.6382	-	-
Management abuse	1.96	3	1.92	1.68	2.00	1.75	2.87	66	3.8292	0.4296	-	-
No good reason	4.53	4	4.61	4.87	3.44	4.75	4.62	19	14.4119	0.0061	-	-
SECOND ROUND												
Accounting credibility	1.51	1	1.38	1.46	1.88	1.66	1.25	51	2.7886	0.5938	0.3902	0.6964
Accounting comparability	1.80	2	1.46	1.61	2.33	1.66	2.25	47	7.4900	0.1122	0.9172	0.3590
Management abuse	1.94	3	1.46	2.00	2.88	1.77	1.75	47	12.3001	0.0153	1.0989	0.2718
No good reason	3.92	4	3.53	4.00	3.37	4.77	4.00	33	6.6441	0.1559	2.5104	0.0121

Subgroup (1) = Academics; (2) = Public accountants; (3) = Practicing accountants in government; (4) = Practicing accountants in industry; (5) Practicing accountants in banks.

Response scale = 1-5: 1=strongly agree.....5=strongly disagree.

from management misuse. This order remains consistent in both rounds. The results also reveal fairly strong disagreement with the suggestion that there is no good reason for introducing accounting regulations or requirements.

With respect to whether there have been any significant differences in opinion between the expert groups on these issues, the results in round one indicate that there is a substantial difference with regard to the suggestion that accounting should not be regulated. It appears that practicing accountants in government have significantly different opinions to the other expert groups. In round two the results indicate a significant difference in perception with regard to the need to safeguard company assets against management misuse. Again, it appears that practicing accountants in government have substantially different views from the other expert groups.

In terms of whether there has been any significant change in experts' perceptions between the two rounds, the results indicate a notable change with regard to the suggestion that there is no good reason for accounting regulation, though the level of disagreement is still high. This change is reflected in the change in the mean score of this item between the two rounds.

The results in Table 7.7 complement both Tables 7.5 and 7.6 in the sense that in view of the existing problems, especially the lack of professional requirements, they

Table 7.7 indicates experts' responses as to the main factors which may have assisted in the relative comparability in accounting practice.

TABLE 7.7

Approach	Mean	Aggreg. Rank	Subgroup					Coeff. of var. %	Kruskal 1-way ANOVA	Wilcoxon Test
			(1)	(2)	(3)	(4)	(5)			
<u>FIRST ROUND</u>										
International standards	2.14	1	2.76	2.18	1.55	2.18	1.62	51	7.6488	0.1053
Legal requirements	2.16	2	2.23	2.18	2.11	2.10	2.12	55	0.1068	0.9986
Local customs	2.61	3	1.84	3.06	2.44	3.09	2.50	52	7.5301	0.1104
<u>SECOND ROUND</u>										
International standards	1.86	1	2.46	1.76	1.62	1.62	1.50	54	6.0526	0.1953
Legal requirements	2.30	2	2.46	2.07	2.50	2.50	2.00	41	1.9991	0.7359
Local customs	2.71	3	2.38	3.07	2.57	2.75	2.75	45	2.3156	0.6779

Subgroup (1) = Academics; (2) = Public accountants; (3) = Practicing accountants in government; (4) = Practicing accountants in industry; (5) Practicing accountants in banks.

Response scale = 1-5: 1=very high.....5=very low.

indicate the factors most likely to have contributed towards the relatively comparable accounting and reporting practices. In this question, experts were provided with a number of possible factors on which they were asked to indicate their level of opinion in terms of very high to very low on the five point scale.

The results reveal that internationally developed standards is the highest contributing factor, followed by the limited legal requirements factor, followed by the locally developed customs factor. The identification of these factors and the order of their contribution remains consistent between the two rounds. There were also no significant differences in opinion between the expert groups on these issues in either round, nor was there any significant change in the experts' perceptions, as indicated by the lack of significant changes in the mean score between the two rounds.

The results in Table 7.8 complement the results in Tables 7.5, 7.6 and 7.7 in the sense that experts were asked to indicate their opinions as to the main areas in need of urgent development in order to overcome many of the problems encountered by the accounting profession. In this question, experts were provided with a number of alternatives upon which they were requested to indicate their level of opinion in terms of very important to not important on the five point scale. In the first round, the development of professional standards was considered the most important area for development, followed by the development of reporting standards, followed by the development of

Table 7.8 indicates experts' responses as to the main accounting areas in need of immediate development, in order of importance.

TABLE 7.8

Approach	Mean	Aggreg. Rank	Subgroup					Coeff. of var.	Kruskal 1-way Chi-sq.	Anova Significance	Wilcoxon Test Z-value	Prob.
			(1)	(2)	(3)	(4)	(5)					
FIRST ROUND												
Professional standards	1.42	1	1.41	1.18	1.55	1.41	1.75	49	6.1462	0.1885	-	-
Reporting standards	1.45	2	1.66	1.06	1.33	1.66	1.75	47	10.7540	0.0295	-	-
Professional education	1.50	3	2.00	1.25	1.22	1.41	1.62	32	5.1301	0.2742	-	-
SECOND ROUND												
Professional standards	1.50	2	1.38	1.38	1.77	1.44	1.62	40	3.7701	0.4380	1.1166	0.2641
Reporting standards	1.65	3	1.61	1.46	2.11	1.44	1.75	47	4.3194	0.3645	1.7058	0.0881
Professional education	1.38	1	1.46	1.15	1.77	1.22	1.37	45	5.3965	0.2490	0.2000	0.8415

Subgroup (1) = Academics; (2) = Public accountants; (3) = Practicing accountants in government; (4) = Practicing accountants in industry; (5) Practicing accountants in banks.

Response scale = 1-5: 1=very important...5=not important

professional education. In round two, however, the development of professional education was perceived to be the most important, followed by the development of professional standards, followed by reporting standards.

With regard to whether there have been any significant differences in opinion between the expert groups on these issues, the results indicate that in the first round there was indeed a significant difference with regard to the importance of the development of reporting standards. On this issue it appears that public accountants have a significantly different opinion in that they perceive it as being more important than any of the other expert groups. In the second round no significant differences in opinion were identified.

With regard to whether there has been any significant change in experts' perceptions between the two rounds, the results indicate that there was a significant change with respect to the importance of the development of reporting standards. This change is indicated by the significant change in the mean score between the two rounds.

The results in Tables 7.5, 7.6, 7.7 and 7.8 reveal an emerging consensus of opinion regarding the issues in question, as a product of the feedback process. This emerging consensus is indicated by the significant changes in the coefficient of variation figures between the two rounds.

7.5.4 Accounting Professional Development: Authority and Problems

The results in Table 7.9 indicate experts' responses as to who, in their opinion, should be responsible for regulating the accounting profession, given that such regulation be deemed necessary. In this question, experts were provided with a number of alternatives or options upon which they were requested to indicate their level of opinion in terms of strong agreement to strong disagreement on the five point scale. The results indicate that the development of accounting standards jointly by the government and the profession is preferred as the most appropriate alternative, followed by the development of accounting standards by a professional body only, followed by the development of standards by a government body only. This order of preference remains consistent over the two rounds.

With regard to whether there have been any significant differences of opinion between the expert groups concerning these issues, the results in both rounds indicate that no such differences exist. The results also indicate no marked change in experts' perceptions between the two rounds, as indicated by the minimal differences in the mean scores.

The results in Table 7.10 complement those in Table 7.9 in the sense that experts were requested to indicate their opinions on the possible reasons why government regulations have not yet been established. In this question, experts were provided with a number of possible difficulties upon which they were asked to indicate their level of opinion in

Table 7.9 indicates experts' responses as to who should be responsible for accounting regulation.

TABLE 7.9

Organisation	Mean Aggreg. Rank	Subgroup					Coeff. of var. %	Kruskal 1-way Anova Chi-sq. Significance	Wilcoxon Test Z-value	Prob.		
		(1)	(2)	(3)	(4)	(5)						
FIRST ROUND												
Jointly by government & the profession	1.87	1	1.61	2.18	2.22	1.66	1.62	79	1.9613	0.7429	-	-
Professional accountancy body only	2.60	2	2.84	2.33	2.00	2.70	2.25	50	5.0071	0.2866	-	-
Government body only	3.86	3	4.00	4.15	3.00	3.72	3.50	26	3.7083	0.4469	-	-
SECOND ROUND												
Jointly by government & the profession	2.00	1	2.30	1.92	1.77	1.77	2.12	54	2.2457	0.6907	0.2175	0.8278
Professional accountancy body only	2.21	2	2.00	2.00	2.77	2.33	2.12	42	3.8758	0.4231	1.2689	0.2045
Government body only	3.73	3	3.76	3.84	3.00	4.00	4.00	27	4.8245	0.3058	0.1028	0.9181

Subgroup (1) = Academics; (2) = Public accountants; (3) = Practicing accountants in government; (4) = Practicing accountants in industry; (5) Practicing accountants in banks.

Response scale = 1-5; 1=strongly agree...5=strongly disagree

Table 7.10 indicates experts' responses as to the possible reasons why the government may have been reluctant to introduce accounting regulation.

TABLE 7.10

Difficulty	Mean	Aggreg. Rank	Subgroup					Coeff. of var.	Kruskal 1-way Anova	Wilcoxon Test		
			(1)	(2)	(3)	(4)	(5)					
FIRST ROUND												
No urgent necessity	2.48	1	2.69	2.68	2.66	2.16	2.00	58	2.5192	0.6412	-	-
Absence of expertise	2.75	2	3.23	3.12	3.00	3.08	2.50	48	6.1547	0.1879	-	-
Free market attitude	2.94	3	2.76	3.18	1.66	3.90	2.87	46	13.8948	0.0076	-	-
Cost involved	3.45	4	3.76	3.56	2.55	3.90	3.12	34	6.8493	0.1441	-	-
SECOND ROUND												
No urgent necessity	2.50	2	2.76	2.69	2.87	2.33	1.62	41	7.9507	0.0934	0.1680	0.8666
Absence of expertise	2.04	1	2.00	2.27	2.00	2.11	1.71	47	1.2667	0.8670	2.9839	0.0028
Free market attitude	2.61	3	2.84	2.76	2.55	2.11	2.62	35	3.5210	0.4747	1.2883	0.1977
Cost involved	3.25	4	3.61	3.15	2.88	3.55	2.87	33	4.9363	0.2939	1.1954	0.2319

Subgroup (1) = Academics; (2) = Public accountants; (3) = Practicing accountants in government; (4) = Practicing accountants in industry; (5) Practicing accountants in banks.

Response scale = 1-5: 1=strongly agree....5=strongly disagree

terms of strong agreement to strong disagreement on the five point scale. The first round results indicate that the need for such regulation has not yet become an important priority as the number one possible reason, followed by the absence of expertise, followed by the free market attitude. In the second round, the lack of expertise is regarded as the number one possible reason, followed by the absence of necessity, followed by the free market attitude. The problem of cost has not been considered as serious in either round.

With regard to whether there have been any significant differences in opinion between the expert groups on this issue, the first round results indicate a significant difference with regard to experts' perception of the free market attitude. Practicing accountants in government and practicing accountants in industry appear to have significantly different opinions to the other expert groups. The second round results indicate that there is a substantial difference in opinion with regard to the perception of the importance or the urgency of accounting regulation. On this issue, practicing accountants in banking appear to have a significantly different opinion to the other expert groups.

In relation to whether there has been any significant change in experts' opinions between the two rounds, the results indicate a marked change with respect to the absence of expertise factor. This significant change is reflected in

the significant change in the mean score between the two rounds.

The results in Table 7.11 also complement Table 7.9 in the sense that experts are asked to indicate their opinions on the main difficulties with self-regulation alone. In this question, experts were provided with a number of possible difficulties which might be encountered, upon which they were requested to indicate their level of opinion in terms of strong agreement to strong disagreement on the five point scale.

In the first round, the results indicate that the lack of experience in self-regulation is perceived to be the highest ranking possible difficulty, followed by the enforcement problem, followed by the lack of interest problem. However, in the second round the problem of enforcement is considered to be the most likely problem, followed by lack of experience, followed by lack of interest. The results in both rounds indicate that the cost factor is perceived to be the lowest ranking possible difficulty.

With regard to whether there have been any significant differences in opinion between the expert groups on these issues, the results in the first round indicate that there is a substantial difference in perception with regard to the lack of interest factor. On this issue, public accountants seem to have a significantly different opinion to the other expert groups. In the second round, no significant differences in perception can be detected.

Table 7.11 indicates experts' responses as to the main difficulties with professional self-regulation.

TABLE 7.11

Difficulty	Mean Aggreg. Rank	Subgroup					Coeff. of var.	Kruskal 1-way Anova	Wilcoxon Test			
		(1)	(2)	(3)	(4)	(5)						
FIRST ROUND												
Lack of experience	1.98	1	2.53	2.18	1.44	1.83	1.50	60	5.5859	0.2323	-	-
Enforcement problem	2.37	2	2.46	2.12	2.00	3.08	2.12	54	4.5694	0.3344	-	-
Lack of interest	2.51	3	3.30	2.62	1.22	2.83	2.00	54	16.5744	0.0023	-	-
Cost involved	3.93	4	4.15	4.06	3.11	4.08	4.00	31	4.6749	0.3223	-	-
SECOND ROUND												
Lack of experience	2.40	2	2.76	2.30	2.55	2.22	2.00	49	2.3172	0.6776	1.6974	0.0896
Enforcement problem	2.21	1	2.23	2.23	2.44	2.11	2.00	52	0.8541	0.9310	0.7745	0.4386
Lack of interest	2.51	3	3.00	2.69	2.00	2.44	2.12	38	6.9006	0.1412	0.2610	0.7941
Cost involved	3.03	4	3.23	3.15	2.77	3.00	2.87	33	0.9077	0.9235	3.2443	0.0012

Subgroup (1) = Academics; (2) = Public accountants; (3) = Practicing accountants in government; (4) = Practicing accountants in industry; (5) Practicing accountants in banks.

Response scale = 1-5: 1=strongly agree...5=strongly disagree

With regard to whether there has been any significant change in experts' opinions between the two rounds, the results indicate that a notable change has taken place in relation to the perception of the lack of experience factor, and to the cost factor. These changes are reflected by the significant changes in the mean scores between the two rounds.

The results in Table 7.9, 7.10 and 7.11 complement each other in the sense that accounting regulation, as perceived by the experts, should be established by joint cooperation between the government and the profession, as undertaking such a task can pose a number of difficulties for both bodies if they attempt to do it alone. In all these three tables consensus amongst the experts has been achieved between the first and second rounds, as a result of the feedback process. This emerging consensus is reflected by the significant changes in the coefficient of variation figures between the two rounds.

7.5.5 Motivation

The results in Table 7.12 indicate experts' perceived opinions regarding the likely participants in the development of the accounting profession. In this question, experts were provided with a number of potential groups who might be expected to be motivated by and involved in the development of the accounting profession. The experts were then asked to indicate their opinion with regard to the level of motivation and involvement of these groups in terms of very high to very low on the five point scale.

Table 7.12 indicates experts' responses as to which groups are motivated and involved in the development of the accounting profession.

TABLE 7.12

Group	Mean	Aggreg. Rank	Subgroup					Coeff. of var. %	Kruskal 1-way Anova Chi-sq. Significance	Wilcoxon Test Z-value Prob.		
			(1)	(2)	(3)	(4)	(5)					
FIRST ROUND												
Internat'l accountants	2.06	1	3.15	2.00	1.33	1.83	1.62	59	14.5107	0.0058	-	-
Academics	2.24	2	1.92	3.12	1.55	2.27	1.75	54	12.7624	0.0125	-	-
Local accountants	2.41	3	2.07	3.25	1.77	2.25	2.25	54	9.1024	0.0586	-	-
Government agencies	2.47	4	2.15	3.06	2.66	2.27	1.87	45	8.1308	0.0869	-	-
International banks	2.67	5	3.23	2.56	3.33	2.08	2.12	50	9.6737	0.0463	-	-
Local banks	2.68	6	3.07	2.56	3.44	1.91	2.62	44	11.1379	0.0251	-	-
Corporate management	2.75	7	3.61	3.00	1.66	2.81	1.85	49	14.9570	0.0048	-	-
Owners/investors (local)	3.03	8	3.84	3.18	2.88	2.33	2.62	44	9.2152	0.0559	-	-
General public	4.10	9	4.38	4.40	3.88	3.83	3.75	24	5.0511	0.2821	-	-
SECOND ROUND												
Internat'l accountants	2.03	1	2.38	2.15	1.44	2.33	1.62	49	6.8334	0.1450	0.1340	0.8934
Academics	2.11	2	1.61	2.46	2.00	2.44	2.12	44	6.6615	0.1549	0.7504	0.4530
Local accountants	2.15	3	2.15	2.00	2.22	2.55	1.87	42	2.4980	0.6450	1.3165	0.1880
Government agencies	2.34	4	2.23	2.53	2.11	2.66	2.12	43	2.7131	0.6069	1.0466	0.2953
International banks	2.76	7	3.15	2.76	2.37	2.88	2.37	39	2.9864	0.5601	0.5252	0.5995
Local banks	2.43	5	2.92	2.23	2.12	2.55	2.12	43	3.6593	0.4541	1.1792	0.2383
Corporate management	2.53	6	2.76	2.69	1.77	2.55	2.75	36	8.3667	0.0790	1.1457	0.2519
Owners/investors (local)	2.94	8	3.15	3.07	2.87	2.77	2.62	33	1.7010	0.7905	0.7745	0.4386
General public	3.76	9	4.07	3.92	3.37	3.77	3.37	28	4.4738	0.3457	1.8790	0.0602

Subgroup (1) = Academics; (2) = Public accountants; (3) = Practicing accountants in government; (4) = Practicing accountants in industry; (5) Practicing accountants in banks.

Response scale = 1-5; 1=very high...5=very low

The results in both rounds indicate that international accountants, academics, local accountants, and government agencies respectively are perceived to be the groups most likely to be motivated by and involved in the development of the profession. Owners/investors and the general public are perceived to be the least motivated by or involved in the development of the profession.

With regard to whether there have been any significant differences in opinion between the expert groups on these issues, the results in the first round indicate that the expert groups differ on almost all the issues in question. For example, in relation to the involvement of international accountants, academics, local accountants, and practicing accountants in government seem to have significantly different opinions from the others. With regard to government agencies' motivation and involvement, public accountants and practicing accountants in banking seem to have significantly different opinions. In relation to the motivation and involvement of international banks, academics and practicing accountants in government seem to have significantly different opinions. With respect to local banks' motivation and involvement, practicing accountants in industry seem to have a significantly different view. With regard to corporate management involvement, public accountants and academics appear to have significantly different views. With regard to owners/investors involvement, academics and public accountants seem to have significantly different opinions. However, these differences in views or opinions are virtually eliminated in the second

round, with the exception of the role of corporate management on which practicing accountants in government appear to have a significantly different opinion from the other expert groups.

With regard to whether there have been any significant changes in experts' perceptions between the two rounds, the results indicate that a marked change did occur with respect to the motivation and involvement of the general public, though this is still perceived to be relatively low. This significant change is reflected in the significant difference in the mean scores between the two rounds.

The results in Table 7.12 indicate an emergence of consensus between the results of the first and second rounds, as a direct result of the feedback process. This consensus is reflected by the marked changes in the coefficient of variation figures between the two rounds.

7.5.6 Accounting Professional Development: Approach and Level

Assuming that accounting is to be regulated by joint cooperation between the government and the profession, the results in Table 7.13 indicate experts' responses as to which approach should be followed in establishing accounting regulations. In this question, experts were provided with a number of alternative approaches upon which they were requested to indicate their level of opinion on the five point scale in terms of strong agreement to strong disagreement. The results indicate that the adoption of

Table 7.13 indicates experts' responses as to what would be the best approach towards establishing accounting standards.

TABLE 7.13

Approach	Mean	Aggreg. Rank	Subgroup					Coeff. of var. %	Kruskal Chi-sq.	1-way Anova Significance	Wilcoxon Z-value	Test Prob.
			(1)	(2)	(3)	(4)	(5)					
FIRST ROUND												
Adopting international rules	1.93	1	2.30	1.50	1.88	2.33	1.62	59	2.8884	0.5767	-	-
Conceptual framework	2.01	2	2.30	1.87	2.00	1.70	2.25	59	1.2505	0.8697	-	-
Empirical	2.45	3	2.92	2.75	1.44	2.45	2.25	51	9.1769	0.0568	-	-
Borrowing from other countries	2.64	4	3.00	2.50	1.77	3.18	2.62	53	8.2477	0.0829	-	-
SECOND ROUND												
Adopting international rules	2.03	1	2.61	2.30	1.77	1.77	1.25	59	9.0967	0.0587	0.3814	0.7029
Conceptual framework	2.29	2	2.76	2.33	1.77	2.22	2.12	42	4.7341	0.3157	1.5868	0.1126
Empirical	2.75	3	3.15	3.38	1.88	2.88	1.87	39	18.3708	0.0010	1.4105	0.1584
Borrowing from other countries	3.09	4	3.15	3.23	2.55	3.11	3.37	34	2.7829	0.5948	2.0811	0.0374

Subgroup (1) = Academics; (2) = Public accountants; (3) = Practicing accountants in government; (4) = Practicing accountants in industry; (5) Practicing accountants in banks.

Response scale = 1-5: 1=strongly agree...5=strongly disagree.

international standards is the highest ranking and most favoured approach, followed by the development of a conceptual framework, followed by the empirical approach. This order remains consistent in the two rounds. Borrowing from the rules of other countries is regarded as the least suitable approach in both rounds.

With regard to whether there have been any significant differences in opinion between the expert groups on these issues, the results in the first round indicate that a significant difference exists in relation to the empirical approach and the borrowing from other countries approach. On these two issues, academics and practicing accountants in government appear to have significantly different opinions to the other expert groups. In the second round, there have been significant differences with respect to adopting international standards and the empirical approach. On these issues public accountants have a significantly different opinion to the other expert groups.

With respect to whether there has been any significant change in experts' perceptions between the first and second rounds, the results indicate that a marked change has taken place in relation to borrowing from the rules of other countries. This change is reflected by the significant change in the mean scores between the two rounds.

The results in Table 7.14 complement those in Table 7.13 in the sense that one of the main objectives of accounting regulation is to achieve greater uniformity. In this

Table 7.14 indicates experts' responses as to the appropriate level of uniformity that should be established.

TABLE 7.14

Level	Mean Aggreg. Rank	Subgroup					Coeff. of var. %	Kruskal 1-way ANOVA	Wilcoxon Test Z-value	Prob.		
		(1)	(2)	(3)	(4)	(5)						
FIRST ROUND												
In format & underlying procedures	1.60	1	1.38	1.50	2.66	1.41	1.25	68	7.8617	0.0968	-	-
In format only	3.85	2	4.00	4.20	3.11	3.83	3.87	33	5.0153	0.2857	-	-
Underlying procedures only	3.96	3	4.07	4.46	3.66	3.33	4.12	28	7.4158	0.1155	-	-
Total flexibility	4.50	4	4.92	4.93	2.77	4.50	4.87	23	23.8159	0.0001	-	-
SECOND ROUND												
In format & underlying procedures	1.62	1	1.58	1.69	1.88	1.62	1.25	46	4.1435	0.3869	0.5237	0.6005
In format only	3.52	4	4.00	3.53	2.77	3.12	4.00	31	7.8951	0.0955	1.4618	0.1438
Underlying procedures only	3.48	3	3.66	3.61	3.12	3.62	3.25	30	2.0492	0.7267	1.9373	0.0527
Total flexibility	3.16	2	3.00	3.46	3.12	2.33	3.87	44	5.0562	0.2816	4.2203	0.0000

Subgroup (1) = Academicians; (2) = Public accountants; (3) = Practicing accountants in government; (4) = Practicing accountants in industry; (5) Practicing accountants in banks.

Response scale = 1-5; 1=strongly agree...5=strongly disagree.

question, experts were asked to consider the the level of uniformity which would be most appropriate, and were asked to indicate their opinions in terms of strong agreement to strong disagreement on the five point scale. The results in the first round indicate that uniformity in format and underlying procedures is perceived to be the most appropriate, followed by in format only, followed by in underlying procedures only, followed by total flexibility. However, while complete flexibility was seen as the least appropriate level in round one, in the second round it was ranked number two, which suggests that experts perceive uniformity in format alone or in underlying procedures alone as of little importance.

With regard to whether there have been any significant differences of opinion between the expert groups on these issues, in the first round the results indicate that there is a marked difference in relation to the complete uniformity and complete flexibility options. Practicing accountants in government seem to have a significantly different opinion on these two options. Indeed, they are indifferent as to which approach is adopted. In the second round, significant differences were noted in relation to uniformity in format alone. Practicing accountants in government again appear to have a significantly different opinion on this option than the other expert groups.

With respect to whether there have been any significant changes in experts' perceptions between the two rounds, the results indicate that there was a notable change in relation

to uniformity in underlying procedures and in complete flexibility. These changes are reflected in the change in the mean aggregate score between the two rounds.

Consensus has emerged in Tables 7.13 and 7.14 as a result of the feedback process. This consensus is reflected in the changes in the coefficient of variation figures between the two rounds.

7.5.7 Auditors' Independence

The results in Table 7.15 indicate experts' responses as to the most likely reasons which may have contributed towards auditors' relative lack of independence. In this question, experts were provided with a number of potential contributing factors on which they were asked to indicate their opinions in terms of strong agreement to strong disagreement on the five point scale.

In the first round, the results indicate that investors' indifference is perceived to be the most likely contributing factor, followed by an attitude of internal settlement of disputes between auditors and their clients, followed by a need to maintain job security. In the second round, however, the job security factor is perceived to be the most likely contributing factor, followed by investors' indifference, followed by an attitude of conflict avoidance. In both rounds, personalisation and friendship, mutual protection, and the acceptance of additional remuneration were considered to be relatively less contributing factors.

Table 7.15 indicates experts' responses as to the main contributing factors to auditors' relative lack of independence.

TABLE 7.15

Reason	Mean	Aggreg. Rank	Subgroup					Coeff. of Var. %	Kruskal 1-way Anova Chi-sq. Significance	Wilcoxon Test Z-value	Prob.
			(1)	(2)	(3)	(4)	(5)				
FIRST ROUND											
Investors' indifference	2.01	1	2.23	2.00	1.66	2.33	1.62	51	3.4330	0.4881	-
Internal settlement	2.21	2	2.50	2.18	1.44	2.16	2.75	48	7.9555	0.0932	-
attitude	2.59	3	2.69	3.56	3.00	2.83	2.12	54	16.4869	0.0024	-
Job security	2.92	4	2.66	3.56	3.00	2.83	2.12	42	7.7864	0.0997	-
Management participation	2.94	5	2.92	3.75	1.44	3.41	2.28	48	18.0898	0.0012	-
Personal friendship	3.02	6	3.00	3.42	2.00	3.25	1.80	44	6.7783	0.1481	-
Conflict avoidance	3.08	7	3.15	3.87	1.77	3.33	2.42	41	15.5489	0.0037	-
Mutual protection	Fine line between										
dependence/independence	3.15	8	3.15	3.68	1.66	3.33	3.50	41	3.4255	0.4893	-
Additional remuneration	3.35	9	3.66	3.50	2.55	3.50	3.25	46	13.7638	0.0081	-
SECOND ROUND											
Investors' indifference	2.13	2	2.30	1.92	2.00	2.22	2.25	41	1.3685	0.8497	0.5914 0.5542
Internal settlement	2.41	4	2.91	2.46	2.00	2.33	2.12	31	8.4570	0.0762	1.4168 0.1565
attitude	1.96	1	2.53	1.76	1.77	2.11	1.37	54	7.1086	0.1304	3.6618 0.0003
Job security	2.76	7	3.30	3.07	1.88	2.66	2.50	38	10.1266	0.0383	0.8132 0.4161
Management participation	2.48	5	3.15	2.61	2.22	2.00	2.00	41	9.7956	0.0440	2.3987 0.0165
Personal friendship	2.36	3	2.69	2.53	1.88	2.33	2.12	35	6.4275	0.1694	2.7098 0.0067
Conflict avoidance	2.86	8	3.15	3.00	2.66	2.88	2.37	37	2.1865	0.7015	2.5334 0.0113
Mutual protection	Fine line between										
dependence/independence	2.57	6	2.92	2.61	2.44	2.33	2.37	35	4.5830	0.3328	0.8071 0.4196
Additional remuneration	3.13	9	3.00	3.69	2.66	3.11	3.00	30	4.0532	0.3989	1.3817 0.1671
Subgroup (1) = Academics; (2) = Public accountants; (3) = Practicing accountants in government; (4) = Practicing accountants in industry; (5) Practicing accountants in banks.											
Response scale = 1-5: 1=strongly agree...5=strongly disagree.											

With respect to whether there have been any significant differences in opinion between the expert groups on these issues, the results indicate that some expert groups hold notably diverging opinions on many of these issues, especially in the first round. For example, experts have markedly varying perceptions on the contribution of the internal settlement of disputes factor, on which academics, practicing accountants in banking, and practicing accountants have significantly different opinions. With respect to the job security factor, practicing accountants in banking appear to hold significantly different views from the other expert groups. In relation to auditors' participation in management decision making, practicing accountants in banking seems to have significantly different opinions to the other groups of experts.

In the second round, expert groups differed in their opinions on three main contributing factors: the internal settlement of disputes, the participation in management decision making, and personalisation and friendship factors. On all these three issues, academics seem to have a significantly different view to the other experts.

With regard to whether there has been any significant change in experts' perceptions between the two rounds, the results indicate that there was indeed a substantial change in relation to the factors of job security, conflict avoidance, and mutual protection. These differences are indicated by the significant changes in the mean aggregate scores between the two rounds.

The results in Table 7.16 complement those in Table 7.15 in the sense that they seek to answer what would be the most appropriate step which, if followed, might achieve greater auditors' independence. In this question, experts were requested to indicate their opinion in terms of strong agreement to strong disagreement on the five point scale.

In the first round, the results indicate that professional sanctions is regarded as the most appropriate step, followed by legal sanctions, followed by stronger educational requirements. In the second round, improvement in educational requirements was seen as the most appropriate step, followed by legal sanctions, followed by professional sanctions. In both rounds, experts disagreed with the suggestion that independence could not be achieved by any means.

With respect to whether there have been any significant differences in opinion between the experts groups on these issues, the results in the first round indicate that practicing accountants in government have a significantly different opinion with regard to the suggestion that independence cannot be achieved in comparison to the other expert groups. In the second round, academics registered a significantly different view on the issue of legal sanctions, and practicing accountants in government held a significantly different view in relation to the suggestion that independence cannot be achieved by any means.

Table 7.16 indicates experts' responses as to the main approaches towards ensuring greater independence.

TABLE 7.16

Approach	Mean Aggreg. Rank	Subgroup					Coeff. of var. %	Kruskal 1-way Chi-sq. Significance	Wilcoxon Z-value	Prob.		
		(1)	(2)	(3)	(4)	(5)						
<u>FIRST ROUND</u>												
Professional sanctions	1.72	1	2.07	1.37	1.55	2.08	1.50	58	4.9008	0.2976	-	-
Legal sanctions	1.75	2	2.07	1.50	1.55	1.83	1.87	50	4.5556	0.3360	-	-
Educational requirements	1.86	3	1.69	1.68	1.55	1.91	2.75	58	5.1178	0.2754	-	-
Independence cannot be achieved	3.51	4	3.61	4.00	2.00	4.00	3.37	39	12.7267	0.0127	-	-
<u>SECOND ROUND</u>												
Professional sanctions	1.86	3	2.07	1.61	2.25	1.44	2.00	44	5.7623	0.2176	0.9336	0.3505
Legal sanctions	1.68	2	2.15	1.38	1.87	1.55	1.37	43	9.2171	0.0559	0.3842	0.7009
Educational requirements	1.63	1	2.00	1.61	1.66	1.33	1.37	48	4.6898	0.3206	0.4018	0.6879
Independence cannot be achieved	3.80	4	3.61	4.07	2.66	4.33	4.37	31	12.1683	0.0105	0.9559	0.3391

Subgroup (1) = Academical; (2) = Public accountants; (3) = Practising accountants in government; (4) = Practising accountants in industry; (5) Practising accountants in banks.

Response scale = 1-5; 1=strongly agree....5=strongly disagree.

With respect to whether there has been any significant change in experts' perceptions between the two rounds, the results indicate that no such change has taken place to a significant degree.

In Tables 7.15 and 7.16 consensus has emerged as a direct result of the feedback process. This consensus is reflected in the significant change in the coefficient of variation figures between the two rounds.

7.5.8 Accounting Education

The results in Table 7.17 indicate experts' opinions regarding major deficiencies in the existing educational programs. In this question, experts were provided with a number of possible deficiencies on which they were requested to indicate their opinions in terms of very important to not importance on the five point scale.

In the first round, the results indicate that experts consider students' lack of acquaintance with the accounting literature and research findings as the most important deficiency, followed by the orientation of books and reading materials towards other business environments and conditions, followed by the lack of practical training requirements, followed by no exposure to other related disciplines, followed by no uniform standards between universities. This rank order of importance remains the same throughout the two rounds. In the second round, however, the fourth and the fifth ranking items (exposure to accounting-related disciplines, and uniform standards between universities) are reversed.

Table 7.17 indicates experts' responses as to the main deficiencies in the existing accounting educational programmes, in order of importance.

TABLE 7.17

Deficiency	Mean					Coef. of var. %	Kruskal 1-way Anova	Wilcoxon Test
	Aggreg. Rank	(1)	(2)	(3)	(4)			
<u>FIRST ROUND</u>								
Students are unacquainted with literature & research findings								
	2.09	1	2.23	2.50	1.66	2.00	1.62	48
Books/materials oriented to other environments	2.29	2	2.61	2.56	1.44	2.33	2.12	44
No practical training	2.52	3	3.38	2.37	2.77	1.44	2.37	53
No exposure to other related disciplines	2.53	4	2.92	2.60	2.00	2.44	2.50	42
No uniform standards between universities	2.56	5	3.50	2.38	2.00	2.22	1.60	44
<u>SECOND ROUND</u>								
Students are unacquainted with literature & research findings								
	2.04	1	2.38	2.00	2.00	1.62	2.00	41
Books/materials oriented to other environments	2.12	2	2.76	2.00	1.55	2.42	1.50	46
No practical training	2.22	3	2.76	1.91	2.11	1.57	2.57	42
No exposure to other related disciplines	2.39	5	3.07	1.83	2.33	2.14	2.42	50
No uniform standards between universities	2.25	4	2.92	2.00	2.00	2.14	1.83	39

Subgroup (1) = Academics; (2) = Public accountants; (3) = Practicing accountants in government; (4) = Practicing accountants in industry; (5) Practicing accountants in banks.

Response scale = 1-5: 1=very important...5=not important.

With regard to whether there have been any significant differences in opinion between the expert groups on these issues, the results in the first round indicate that practicing accountants in government seem to have a significantly different opinion from the other experts in relation to the orientation of books and reading materials; practicing accountants in industry appear to have a significantly different opinion from the other groups in relation to practical training requirements; and practicing accountants in banking seem to have a significantly different view to the other experts with regard to uniform standards between universities.

In the second round there were significantly differing opinions with regard to the same issues. This time, academics appear to have a significantly different opinion from the other experts on these issues.

With regard to whether there has been any significant change in experts' perceptions between the two rounds, the results indicate a significant change has taken place in relation to practical training requirements. This change is reflected in the significant change in the mean aggregate score between the two rounds.

The results in Table 7.18 complement those in Table 7.17 in the sense that experts were asked to indicate the accounting educational programs which, in their opinion, are most likely improve those already in existence. In this question, experts were provided with a number of

Table 7.18 indicates experts' responses as to the best approaches towards improving the current accounting educational programmes, in order of importance.

TABLE 7.18

Approach	Mean	Aggreg. Rank	Subgroup					Coeff. of var. %	Kruskal 1-way Anova Chi-sq. Significance	Wilcoxon Test Z-value	Prob.	
			(1)	(2)	(3)	(4)	(5)					
FIRST ROUND												
Emphasis on professional ethics	1.50	1	1.76	1.37	1.33	1.27	1.87	57	6.7428	0.1501	-	-
Emphasis on standardisation & policy issues	1.66	2	2.07	1.50	1.55	1.63	1.50	54	6.0101	0.1984	-	-
Emphasis on theory & theory development	1.70	3	1.84	1.68	1.33	1.81	1.75	52	3.4529	0.4851	-	-
Emphasis on comparative international practices	1.78	4	1.92	1.75	2.00	1.72	1.50	49	2.0804	0.7210	-	-
Emphasis on nat/internat business conditions	2.10	5	2.30	2.33	2.00	2.00	1.62	48	3.6721	0.4522	-	-
SECOND ROUND												
Emphasis on professional ethics	1.49	1	1.46	1.46	1.88	1.25	1.37	41	6.0807	0.1932	0.2703	0.7869
Emphasis on standardisation & policy issues	1.68	2	1.61	1.61	2.00	1.75	1.50	41	1.8496	0.7634	0.0098	0.9922
Emphasis on theory & theory development	1.94	3	2.15	2.07	1.88	1.87	1.50	40	4.2506	0.3732	1.3729	0.1698
Emphasis on comparative international practices	2.23	4	2.61	2.23	1.88	2.37	1.87	44	3.6667	0.4530	1.9029	0.0571
Emphasis on nat/internat business conditions	2.35	5	2.53	2.46	1.88	2.37	2.37	45	2.0256	0.7310	1.7920	0.4283

Subgroup (1) = Academics; (2) = Public accountants; (3) = Practicing accountants in government; (4) = Practicing accountants in industry; (5) Practicing accountants in banks.

Response scale = 1-5; 1=very important...5=not important.

alternatives on which they were asked to register their opinion in terms of very important to not important on the five point scale.

In the first round, the results indicate that emphasis on professional ethics is perceived to be the most important program, followed by standardisation and accounting rules setting programs, followed by theory development programs, followed by emphasis on comparative international practices, and finally emphasis on global business conditions.

This rank order of importance remains consistent throughout the two rounds, and no significant differences in opinion between the expert groups were identified on these issues.

With respect to whether there has been any significant change in experts' perceptions between the two rounds, the results indicate that there has indeed been a significant change in relation to the importance of comparative international accounting practices, i.e. its importance has been reduced. This marked change is reflected in the mean aggregate score between the two rounds.

In Tables 7.17 and 7.18 consensus emerges as a result of the process of feedback. This consensus is indicated by the significant changes in the coefficient of variation figures between the two round in both tables.

7.6 SUMMARY AND CONCLUSIONS

In recognition of the accounting problems encountered in Saudi Arabia, which have been reported in the literature, the objectives of this Delphi exercise have been to identify and assess these problems in terms of importance or priority, and to identify measures by which they might be resolved. This Delphi exercise has been undertaken in conjunction with the survey of accounting and reporting practices in the Kingdom. These two approaches constitute the research methodological procedures followed in this study of accounting development in Saudi Arabia. The findings of the two approaches were found to be consistent with, and complementary to, each other. For example, while the survey section revealed inconsistencies in accounting practice and a generally low level of disclosure within the company annual reports surveyed, the Delphi exercise provided an assessment of this problem in terms of causes, importance, or priority, and suggested the best approach to deal with this problem.

This summary and conclusions section overviews the major findings of this Delphi. The results of this Delphi are contributed by the participating experts.

Disclosure:

Accounting information disclosure is generally not perceived to be very high and mainly limited to certain assets, liabilities, costs, and profit items to satisfy minimum stewardship requirements. This reported accounting information has been used to some extent by the Department

of Zakat, the only tax authority in the Kingdom, and to a lesser extent by owners/investors and creditors (Saudi banks), and the Ministry of Commerce, the government branch which oversees and regulates companies. This modest level of disclosure and usage has been attributed mainly to the lack of adequate legal or professional requirements and reinforced by management's attitude of retaining important information within the company and within a circle of close relations and friends. It has also been affected by the customary practice of obtaining important information informally through personal contacts.

In the experts' opinion, the preferred solution to this problem is the establishment of definitive accounting procedures and disclosure rules. These disclosure rules should be established by joint cooperation between the government and the profession. This joint cooperation, as conceived by the experts, will eliminate many of the difficulties associated with governmentally established rules alone, and with professionally established rules alone. This joint cooperation should also be supported by strong professional educational programs. However, in view of the absence of both government and professional expertise in establishing accounting standards, and in view of the urgency of the matter, the adoption of international standards, when suitable, is regarded as the most appropriate short-term solution to the problem of accounting regulation, and the establishment of accounting and reporting standards in the Kingdom.

Motivation:

At the present time, there is no interest group which appears to be highly motivated or involved in the development of an accounting profession. In the experts' opinion, this is the result of a number of factors, among which is that accounting is still seen as a private matter due to the relatively limited number of shareholding companies, and the absence of a broadly-based capital market, and the limited role of the private sector economy. Accounting academics, international accountants, public officials, and local accountants are the only groups with a significant interest in the development of accounting standards, and who would like to observe some form of comparability and consistency in accounting practice.

Independence:

Auditing practice suffers from a relative lack of independence. This lack of independence, in the experts' opinion, is mainly attributed to the auditors' need to maintain job security. This job security problem, as seen by the experts, is the result of the number of auditors applying for posts which is in excess of the number of jobs available; thus jeopardising independence. This problem is reinforced by an attitude of internal settlement of disputes, personalisation, and friendship between the auditors and their clients. In the experts' opinion, greater independence can be achieved by improving professional education standards and legal sanctions.

Education:

There are a number of deficiencies in existing accounting educational programmes, including inadequate exposure to the accounting literature and research findings, lack of orientation towards local and other business and economic environments, insufficient practical training, and minimal exposure to accounting-related disciplines. In the experts' view, concentration on the following education programmes would materially improve educational standards: a priority on the study of professional ethics; a focus on the process of standardisation and accounting policy formulation; exposure to comparative international practices; and more emphasis on local and international business conditions.

CHAPTER 8
CONCLUSIONS AND DISCUSSION

8.1 The Survey Results

This examination of accounting legislation and requirements in Saudi Arabia leads to the conclusion that, at the present time, accounting is not regulated to any significant extent. There are virtually no definitive or comprehensive accounting and reporting rules that can be followed or enforced.

Despite this fact, it was decided that this research should include among its objectives a survey of accounting and reporting practices. It is hoped that this survey will not only illuminate the impact which the absence of any form of accounting requirements has had on the country's accounting and reporting practices generally, but will also determine the level of influence which accounting practices and development in developed countries, or indeed internationally developed accounting standards, have had on the development of accounting and reporting practices in Saudi Arabia.

The survey that has been carried out incorporates information on the type of financial statements presented, the form used, the items reflected, accounting policy disclosure, the form and content of auditors' and directors' reports, and many other reporting and measurement issues.

Rather than confining the survey to a narrow focus on a few specific information items, it was anticipated that the general nature of this survey would provide more meaningful information regarding the status of accounting and reporting in Saudi Arabia. For this purpose, a comprehensive list of accounting information items was developed and checked against the 30 corporate annual reports selected in this survey. These 30 randomly selected annual reports constitute 70% of the existing 43 corporations in 1987. A scoring sheet has been developed, and a disclosure index has been determined for each company. The details of the methodological procedures of this survey are contained in Chapter 6.

8.1.1 Disclosure

The findings of this survey indicate that accounting and reporting practices in Saudi Arabia vary considerably from one company to another. This variation exists in both what is being reported and how it is being reported. For example, the disclosure index varies from 71% high to 29% low, and the format in which accounting information is disclosed is markedly varied. However, disclosure is revealed by this survey as being generally low. This low level of disclosure is, in all probability, attributed to the absence of a definitive set of disclosure requirements. This factor, however, is reinforced by other, equally important, factors that exist within the specific environment of Saudi Arabia.

Firstly, disclosure is likely to have been affected to some extent by management's attitude of revealing important information items only to those who are connected with the company or with whom they have a close relationship or friendship. This attitude of secrecy is doubtless reinforced by management's lack of understanding or appreciation of the importance of corporate reporting to the general public.

Secondly, disclosure is likely to have been affected to a great extent by shareholders' and potential investors' relative lack of sophistication in relation to their demands for accounting information. It has also been affected by the government's role as the major source of credit finance, with the ability to acquire any necessary information outwith the general purpose annual reports.

Thirdly, disclosure is likely to have been significantly affected by the customary and traditional methods of informal business dealings and obtaining important information in Saudi Arabia. This tradition has been long-established as an effective way of avoiding the problem of free riding, and as an effective method of rewarding those who possess useful information. However, this tradition is having a negative effect on the concept of full disclosure and corporate annual reporting, which are necessary components in the efficient functioning and operation of the joint stock corporations which have recently been established.

Finally, disclosure is likely to have been significantly affected by the auditor's contribution towards enhanced accounting information disclosure. This contribution may have been negatively affected in Saudi Arabia, because auditors, at this time, are struggling for job security, and they therefore find it necessary to concede to management in most situations, including issues relating to the content and method of reporting.

8.1.2 Accounting Policies

Disclosure of accounting policies in Saudi Arabia is also generally low and varies from one company to another. In practice, accounting policies have been disclosed, for example, in relation to the methods of asset measurement, inventory measurement, depreciation, income recognition, and foreign currency transactions. However, other important accounting policy issues, such as accounting for major investments, business combinations, accounting for leases and contracts, the treatment of gains and losses on the disposal of assets, the treatment of advertising and publicity expenditure, accounting for pension funds, some of which are encountered by Saudi corporations, are rarely disclosed. More importantly, there is no specific reference to any nationally or internationally developed standards in the accounting policies disclosed.

8.1.3 Auditors' Reports

Auditors' reporting practice also varies considerably, both in language and content. Some auditors' reports refer to generally accepted auditing standards, but with no

reference as to what these standards are. Very few auditors' reports mentioned or referred to the Company Law, the Accountants Law, or any other legislation - a clear indication that, up until the present time, auditors have been regulated only in relation to licencing. This is reinforced by the apparent attitude of auditors that the disclosure of their licence number is the minimum requirement. In general, however, there appears to be no pattern within which auditors' reports are written, nor are there any references to any specific standards or regulations.

8.1.4 General Findings

This survey was also able to reveal the following important findings with regard to the characteristics of the corporations with a relatively high level of disclosure, and those with a relatively low level of disclosure. For example, in the former category the corporations were found mainly to be newly-formed, wholly-owned by shareholders (investors), less capital intensive, managed by a relatively young board of directors, and associated with one or other of the leading public accounting firms in the Kingdom. These corporations were mainly in the agricultural and service industries. In the latter category, the corporations were generally found to be long-established, partly-owned or subsidised by the government, heavily capital intensive, with an extremely high debt/equity ratio, and managed by a somewhat more mature board of directors. These corporations were mainly in the electricity and manufacturing industries.

In addition, this survey was able to reveal the following findings with regard to specific information items disclosure. The following items were found to be disclosed by all the companies surveyed. These items include: the directors' report; principal activities of the company; a description of the major product(s); the auditor's report; the auditor's name, date, and licence number; the balance sheet; the income statement; the cash and bank balances; and shareholders' interest. Some of these items (for example, the balance sheet, income statements, and auditor's report) are required by the Companies Law, and are therefore mandatory. In this regard, there does not appear to be any significant problem with compliance. The disclosure of the additional items on a consistent basis, however, may have been the result of Saudi accountants' interaction and contact with their international counterparts and their aspiration to a similar level of disclosure.

On the other hand, the following relatively important information items were not disclosed by any of the companies surveyed. These items include: directors' interests, or the interests of any person on their behalf, in the company; directors' interests in contractual obligations; the number of preference shares; fully diluted earnings per share; amounts charged to reserves; extraordinary gains and losses; the amount and treatment of intangibles; the amount expended on human resources; supplementary financial data; and qualitative or quantitative forecasts of sales and profits. The decision not to disclose these items may have been the result of the strong attitude of secrecy towards some of the

items, such as those relating to directors' interests, or else these items are not common practice; for example, the issuance of preference shares, or the preparation of price level adjusted figures.

Finally, the findings of this survey reveal that many of Saudi Arabia's accounting and reporting practices at the present time are inspired by the practices in the US and the UK. However, this inspiration is limited to the most widely-accepted methods, and those methods which are relatively simple to implement and use.

8.2 The Results of the Delphi Procedures

The Delphi procedures were carried out to provide the analytical basis for this study by providing information on selected experts' opinions relating to the development of accounting in Saudi Arabia. A group of 52 accounting experts participated in the final phase of the study. This expert group included academics, public accountants, practicing accountants in government, practicing accountants in banking, and practicing accountants in industry. This information includes their opinions on accounting and reporting practices, professional developments, accounting regulation and policy making, motivation, accounting education, problem areas, and problem resolutions. Eighteen opinions are revealed by this Delphi study, each of which corresponds to one of the eighteen tables presented in Chapter 7, and relates to a question or an issue raised in this study.

8.2.1 Users and Uses of Accounting Information

Opinion 1:

Opinion 1 relates to the question of who the main users of corporate annual reports are. Experts' opinions indicate that corporate annual reports are not perceived to be highly used by any of the known user groups. However, the following groups emerged as relatively frequent users, in rank order: firstly, the Department of Zakat; secondly, owners and investors; thirdly, Saudi banks; and fourthly, the Ministry of Commerce. On the other hand, other user groups, such as employees and the general public, are perceived to be relatively infrequent users. Experts' opinions on this question is consistent between the two rounds of questions, and there are no significant differences of opinion between the expert groups.

Opinion 2:

Opinion 2 relates to the question of the purposes which experts consider accounting information is used for. While there does seem to be a significant difference of opinion between the expert groups on this question, the general perception is that company annual reports are not used to any significant extent for any specific purpose; nonetheless, there is a strong feeling among experts that stewardship is the most likely purpose. Corporate annual reports are perceived to be used relatively little for decision making purposes.

8.2.2 Disclosure

Opinion 3:

Opinion 3 relates to the question of what items of accounting information experts consider to be likely to receive a high level of disclosure. Experts' opinions indicate that, in general, disclosure is relatively low; however, items relating to company profitability are more likely to receive a higher level of disclosure than the others. While information items relating to company financial position are ranked second, other important information items, such as those relating to rules underlying accounting, auditing related information, price level adjusted, and non-accounting information, are likely to receive the lowest level of disclosure. On this question, the opinions of the expert groups remained consistent between the two rounds, and no significant differences of opinion between the groups were found to exist.

Opinion 4:

Opinion 4 relates to the question as to the possible main reason for the generally low level of disclosure. Although there does seem to be significant differences in opinion among the expert groups as to the importance of each given reason, the following reasons were considered important in rank order: firstly, the lack of professional requirements; secondly, the lack of legal regulations; thirdly, management's attitude of secrecy; and thirdly, dependence on customary informal reporting.

8.2.3 Problem Areas and Resolutions

Opinion 5:

Opinion 5 relates to the question as to what the main problems of the accounting profession are at the present time. Although there does seem to be some disagreement among expert groups as to the rank order of importance of each given problem, the following problems were generally considered important in rank order: firstly, the lack of legal and/or professional requirements; secondly, the lack of adequate professional education; thirdly, the non-existence of an accounting professional body; and fourthly, enforcement and compliance.

Opinion 6:

Opinion 6 relates to the question of what the most effective way of overcoming many of the existing accounting problems would be at this time. Although there appears to be no general agreement among experts groups as to the most effective method, the following are considered important in rank order: firstly, emphasis on professional education; secondly, the development of professional standards; and thirdly, the development of reporting standards.

Opinion 7:

Opinion 7 relates to the question of why the development of accounting professional standards is considered important. The following main reasons emerged in rank order: firstly, the need for accounting information credibility; and secondly, a need to safeguard the company's assets and profit. Comparability of accounting information between

companies was not regarded as an important reason at the present time. Experts' opinions regarding this question is consistent between the two rounds of questions, and no significant differences of opinion between the expert groups are identified.

Opinion 8:

Opinion 8 relates to the extent (i.e. level of uniformity) to which accounting standards should be established. Although significant differences of opinion exist among the expert groups as to the importance of each of the given alternatives, in the first round the following alternatives were ranked in order of importance: firstly, jointly in format and underlying procedures; secondly, in format only; and thirdly, in underlying procedures only. However, there was a marked change of opinion in the second round in which standardisation in format and underlying procedures was ranked first, and complete flexibility was ranked second - which suggests that, in the experts' opinions, standardisation in format alone or in underlying procedures alone may be of little value.

Opinion 9:

Opinion 9 relates to the question as to the most appropriate way of solving the problems of accounting standards and regulation. The following approaches emerged as the most effective methods in rank order: firstly, the adoption of international accounting standards; and secondly, the development of local standards. Borrowing from other countries was strongly rejected as a possible approach.

Experts' opinions on this issue were generally consistent throughout the two rounds, and there appeared to be no significant differences in opinion between the expert groups.

Opinion 10:

Opinion 10 relates to the reasons why accounting regulations have not yet been established by the government. The following possible reasons emerged in rank order: firstly, the need for such regulation has not been an urgent priority to date; secondly, the development of accounting regulation requires expertise which the government does not possess at this time; and thirdly, the government's attitude of non-intervention, and its attitude of reliance on market forces to play a greater role. Experts' opinions on this question were generally consistent between rounds one and two, and there does not appear to be any significant differences of opinion between the expert groups.

Opinion 11:

Opinion 11 relates to the question of why accounting professional standards have not been established by the professional accountants themselves. The following important factors emerged in rank order: firstly, a lack of the necessary experience required for the establishment of such standards; secondly, the problem of compliance with, and enforcement of, self-regulatory rules which exists in the specific environment of Saudi Arabia; and thirdly, the lack of interest among professionals in the development of such standards. Experts' opinions on this issue were consistent

between the two rounds, and no significant differences of opinion between expert groups was identified.

Opinion 12:

Opinion 12 relates to the question of where the authority of establishing accounting standards would best lie. The following alternatives were ranked in order: firstly, by joint cooperation between the profession and the government; secondly, by a professional accountancy body alone; and thirdly, by a government body alone. Experts' opinions on this question are consistent between the two rounds, and there appear to be no significant differences in opinion between the expert groups.

8.2.4 Motivation

Opinion 13:

Opinion 13 relates to the question as to who is likely to be motivated by, or participate in, the development of the accounting profession. Although significant differences of opinion do exist between the expert groups regarding the extent of the motivation or participation of each given group, the following groups were generally regarded as highly motivated, in rank order: firstly, international accountants; secondly, academics; thirdly, local accountants; and fourthly, government agencies.

Opinion 14:

Opinion 14 relates to the question as to the main sources from where the existing accounting and reporting practices in the country derived inspiration. The following

influential sources emerged in rank order: firstly, internationally developed standards; secondly, limited legal requirements; and thirdly, locally developed customs. Experts' opinions on this question were generally consistent between the two rounds, and no significant differences in opinion seems to exist between the expert groups.

8.2.5 Auditors' Independence

Opinion 15:

Opinion 15 relates to the question as to what are the main contributing factors to the current lack of auditors' independence. Although there are significant differences of opinion regarding the importance of these factors, the following were considered to be generally important in rank order: firstly, auditors' need for job security; secondly, owners' and investors' lack of appreciation of the importance of auditors' independence; and thirdly, auditors' and auditees' attitude of friendship and mutual protection.

Opinion 16:

Opinion 16 relates to the most appropriate steps which experts consider should be taken in order to guarantee greater auditors' independence. Although there does seem to be significant differences of opinion between the expert groups regarding the effectiveness of each of the given alternatives, the following steps were generally regarded as effective in rank order: firstly, improvement in the professional educational programmes; secondly, legal sanctions; and thirdly, professional sanctions.

8.2.6 Accounting Education

Opinion 17:

Opinion 17 relates to the question of what the experts consider to be the main deficiencies of the existing accounting educational programmes. The following deficiencies were considered important in rank order: firstly, students' lack of exposure to accounting literature and research findings; secondly, the orientation of books and study materials towards business and economic environments other than their own; thirdly, inadequate practical training; and fourthly, the lack of uniform standards between university curricula. Experts' opinions on this question are consistent between the two rounds, and no significant differences in opinion between the expert groups are identified.

Opinion 18:

Opinion 18 relates to the question of the educational programmes which experts consider would enhance those programmes already in existence. The following were recommended in rank order: firstly, emphasis on professional ethics; secondly, emphasis on accounting regulation and policy making; thirdly, emphasis on accounting theory and theory development; and fourthly, emphasis on comparative international practice. Experts' opinions on this question were generally consistent between the two rounds, and there appeared to be no significant differences of opinion between the expert groups.

8.3 Conclusions

The following conclusions are drawn from this study based on a combination of the findings of three separate, but complementary, methodological steps; firstly, an examination of the Saudi Arabian accounting environment in general, and the accounting legal framework in particular; secondly, a survey of accounting and reporting practices; and thirdly, an experts survey.

8.3.1 Users

Conclusion 1:

Despite the latest economic development programmes, and despite the increase in size and number of private shareholding companies, the private sector still constitutes a relatively small section of the overall economy. More precisely, despite the more recent attempt to widen the basis of ownership, a broadly based capital market has not yet been fully developed. Consequently, companies external annual reporting is used, to some extent, by the Department of Zakat and Income Tax (the only tax authority in the Kingdom) and by the Ministry of Commerce (the government agency responsible for company regulations) but to a lesser extent by shareholders/investors and others, and in view of the close relationship between the development of capital market activities and the development of financial reporting requirements, the latest economic development programmes have not yet attained the requisite level to exercise sufficient pressure for the regulation of accounting and reporting practice in the Kingdom.

8.3.2 Regulation

Conclusion 2:

As a corollary of Conclusion 1, accounting and reporting practices are not regulated to any significant extent. This relative lack of regulatory authoritative support towards accounting is further reinforced by additional factors within the specific environment of Saudi Arabia. Accounting regulation and policy making has not yet been regarded as a matter of national priority or urgency among the many other, equally important, competing matters. This is due, in part, to the absence of any financial crises or negative publicity involving companies and accountants, and in the absence of any significant complaints registered against them. There is also a tendency to regard accounting as a private matter involving only a small section of society, and is often thought to be best served if it is left to market forces alone. In addition, the establishment of accounting regulations requires expertise and human resources which are scarce at the present time. It is also likely that business and industry, like their counterparts elsewhere in the world, have resisted additional and excessive regulation in favour of flexibility and the application of different rules for different circumstances. Saudi Arabian business and industry appears to have been successful in carrying out such resistance, and in having favourable terms granted to them at this early stage of economic development activities.

8.3.3 Disclosure

Conclusion 3:

As a corollary of Conclusions 1 and 2, corporate information disclosure is generally low and is limited to certain minimal accounting information items, such as assets, liabilities, costs, sales, and profit, to satisfy minimum stewardship requirements. This generally low level of disclosure is attributed to additional factors within the specific environment of Saudi Arabia. These factors include: firstly, the inadequacy of the existing regulatory disclosure framework; secondly, management's adverse attitude towards disclosure in which important accounting information is often retained within the company and within a relatively small group of people with whom they have close contacts or relationships; and thirdly, the traditional method of informal business dealings, and the informal ways in which important information is obtained.

8.3.4 Motivation

Conclusion 4:

As a corollary of Conclusion 3, accounting professional standards development is currently suffering from a lack of enthusiasm and commitment from its professional members, evident from their apparent contentment with accounting per se. In addition, professional standards require the development of professional rules and procedures that are formal and objective, against which the local professional attitude may often have an inherent bias. According to this attitude, loyalty to friends and close relatives comes first, over and above any commitment to formal and objective

professional rules and procedures. This attitude may have been responsible for the relative lack of trust in accounting information and the failure of financial statements to command a high level of public credibility. On the other hand, academics and public officials are motivated by such developments for the sake of academic interest, and their awareness of its role in the prevention of future crises. Consequently, accounting regulation and policy making will continue to be dominated by the involvement and direction of public officials. This is consistent with the government's role in directing the economy as a whole, and is consistent with the attitude of local professional accountants of acceptance of, or rather reliance on, such direction.

Conclusion 5:

As a corollary of conclusion 4, the more recent attempt at establishing corporate reporting standards was motivated by, and arose mainly as a component of, the overall economic and social developments, and not - as previously thought - as a response to a perceived need for corporate disclosure per se or a need for the regulation of such disclosure.

Conclusion 6:

As a corollary of Conclusion 4, the more recent attempt to develop accounting and reporting standards via the development of accounting objectives (a conceptual framework approach) and the attitude that accounting should be developed by accountants - independent of legal direction or minimal government involvement - is misguided. In addition,

the development of a conceptual framework requires systematic research studies to accurately determine the Kingdom's particular accounting needs. The reliance on other countries' research - especially the US and UK - in the determination of users and users' needs is, at the very least, unjustified, and its real benefit to an accounting environment such as that of Saudi Arabia is doubtful. However, the adoption of international accounting standards is regarded as an acceptable solution in the short-term.

8.3.5 Independence

Conclusion 7:

As a corollary of Conclusions 3 and 4, the auditor (with whom the verification of accounting is entrusted, and whose credibility is relied upon) is unable to carry out his responsibilities effectively without adequate legal protection and/or sanctions, particularly in relation to his inability to maintain his independent status. This independent status is further impaired by additional factors within the specific environment of Saudi Arabia. These factors include the auditor's need to maintain his job security in a highly competitive and unregulated market; auditors'/auditees' attitude of personalisation, friendship, and mutual protection; and the relative lack of adequate attention, priority, and importance currently allotted to independence in professional education and training programmes.

8.3.6 Enforcement

Conclusion 8:

As a corollary of Conclusion 6, the absence of professional or authoritative accounting rules and standards would appear to be the main problem currently being experienced by the accounting profession. However, underlying this undoubtedly serious problem is an even greater, and more fundamental, problem: enforcement and compliance. This problem is proving to be exceedingly difficult to overcome within the specific environment of Saudi Arabia at this time. The responsibility for compliance and enforcement is entrusted to specialist accountants in the Companies Department of the Ministry of Commerce. The Department itself is understaffed, with inadequate authority to impose sufficient legal sanctions against improper management or misrepresentation. This factor, together with the absence of additional support from other institutions which would require companies to submit certified financial statements in accordance with specified authoritative or professional rules; for example, in order to be listed, to be granted certain benefits, or avoid certain punishment, makes compliance particularly difficult as there would be no incentive for a single firm to conform to any practice rules for the sake of compliance per se.

8.3.7 Education

Conclusion 9:

Deficiencies in the accounting professional education programmes are currently seen as the underlying cause of the most serious accounting problems in the Kingdom (compliance,

independence, motivation, and ethics), and it is recognised that the educational system is undoubtedly one of the most effective instruments through which many of these problems can be overcome. For example, via improved educational programmes accountants would be better able to appreciate that the benefits of compliance far outweigh the disadvantages; they would be better able to appreciate the importance of independence by understanding that independence applies to all parties involved: in other words, it is a double edged sword; and, more importantly, they would be better able to recognise the importance of their profession, and indeed of their own role, within society, thus enhancing their self-esteem and motivation - two areas in which accountants suffer substantially at the present time.

Conclusion 10:

In view of the most serious accounting problems currently in existence, and in view of the shortcomings of the existing educational programmes, the following educational topics are seen to be deserving of greater attention and priority than they are currently receiving. These topics include: accounting professional ethics, professional standards, accounting regulation and policy making, the accounting legal framework, and comparative international practice.

8.4 Implications

The implications of the findings and conclusions of this study will be felt in two main areas: locally and internationally.

Locally, the implications will be felt in four principal areas: firstly, a greater understanding of national accounting practice has been achieved by this study, with a deeper appreciation of the problem areas that exist within the accounting field, the method of addressing these problems, and the most appropriate approaches towards their resolution. Secondly, this study provides a relatively comprehensive - and scarce - source of reference materials for national accounting students and teachers. This includes references to accounting and reporting practices, the legal framework and requirements, problem areas, and alternatives solutions. Thirdly, this study contributes to the history of accounting and the accounting profession in the Kingdom of Saudi Arabia in the 1980s, which may be of value for future research. Fourthly, and most importantly, this study has significant accounting policy implications for Saudi Arabia. For example, the wide range of issues raised in this study regarding accounting and accounting problems in general, together with the experts' opinions on these issues, provides a unique opportunity and valuable source of reference for accounting policy decision making. It also provides a similar opportunity for accounting education policy decision making.

Internationally, the implications of this study will be felt in four important areas: firstly, this study provides a source of reference and a unique opportunity to understanding accounting practices in a developing country, and provides an opportunity to assess the extent to which

Western- style systems - for example, Anglo-Saxon or Continental European - can be used or adapted to meet the needs of a developing country such as Saudi Arabia. This study provides an opportunity to assess the relevance of internationally developed accounting standards to the needs of developing countries. This study can also provide an opportunity to assess the extent to which international organisational efforts have influenced the accounting practices of a developing country, and their likely impact on other similar environments. It also provides an opportunity to evaluate the costs and benefits of such efforts. Secondly, this study provides the necessary information about an individual country, which can be used in future analyses of comparative international financial reporting practices and requirements. It also provides an opportunity to understand the differences between international and domestic pressures on financial reporting requirements. In addition, this study provides useful information about the impact of national culture and accounting traditions, vis-a-vis the information needs of financial markets, on reporting practices. Thirdly, with the dramatic growth in international firms providing accounting and auditing service world-wide, the international accounting literature is becoming an increasingly important subject within the educational curriculum. This study provides a valuable source of study materials for international accounting students and teachers about accounting in developing countries. Fourthly, and most importantly, a unique opportunity is provided to evaluate the outcome of the methodological procedures

followed in this study, and upon this evaluation the use of these procedures might be encouraged or discouraged in nation specific research in the future. If the outcome of this evaluation is positive, international accounting knowledge would undoubtedly be enhanced by carrying out similar procedures in other countries.

8.5 Limitations

Research of this kind, which attempts to break new ground in unravelling the underlying complexities of a developing nation's accounting and reporting practices will inevitably face limitations. The limitations of this study lie in the following aspects.

Firstly, although direct comparison between accounting developments in Saudi Arabia and accounting developments in Anglo-Saxon countries is considered of little relevance in this study, the development of ideas, issues, and questions - particularly the development of accounting information items used in the survey of accounting and reporting practices, and the development of issues and questions in the Delphi - is related to the needs and circumstances of Anglo-Saxon nations as reported in the literature. The decision to borrow such ideas and questions from this literature, however, was made for practical reasons - especially in the absence of any other alternative - since accounting theory, concepts, principles, objectives, and the accounting information needs of developing countries have not yet been fully established or reported.

Secondly, although one of the main objectives of this study was to examine Saudi Arabia's specific environmental influences on the development of the accounting and reporting system rather than the mere technical description of the output of this system, the complexity - or, more accurately, the relative lack of knowledge which exists about this process at the present time - makes it difficult to assess the influence of all the possible factors on the development of accounting and system of reporting requirements. Therefore, the findings of this study must be viewed as indicative rather than conclusive, and should be interpreted as such. This study also acknowledges the difficulty in considering all the possible environmental influences simultaneously. However, despite (or rather, because of) these difficulties, the findings of this study are based mainly on the results of the survey and the analysis of the Delphi responses.

Thirdly, although the results attained in the Delphi are provided by the participating experts and not the researcher, the initial selection of issues, questions, and problems for the Delphi exercise was made by the researcher and, inevitably, a certain amount of bias or value judgement is involved in that process. This value judgement is especially apparent in the preparation of the questionnaires and in interpreting and summarising the results. For example, the structuring of the questions, the designation of categories, the separation of overlapping problems, the combination of similar but independently submitted problems, and other similar judgemental matters, such as the selection

of the expert groups, are entirely based on decisions taken by the researcher. Each of these matters requires the exercise of judgement, which could introduce a certain amount of bias or perhaps alter the intent or the context of a problem from that which was originally intended.

Fourthly, the survey of accounting and reporting practice contained in this study may also suffer from the limitations imposed by the introduction of bias and value judgement in terms of the selection of companies, the selection of information disclosure items, and the determination of the disclosure index.

Finally, accounting as a social system (the subject of this thesis), like the social system itself, is not static. The problems and issues that are considered important or relevant in this study may not have been considered important or relevant in the past, nor might they be considered thus in the future. Entirely new problems will inevitably arise from time to time, and as time progresses and circumstances change, so will the relevance of many of the issues and problems contained in this study.

However, the limitations which inevitably exist in a study of this kind do not detract from its importance or its relevance. As an historical record, and as a contribution towards the establishment of an accounting and reporting system which is best suited to the needs of developing countries in general, and Saudi Arabia in particular, together with its usefulness as part of the educational

curriculum, it is hoped that this study will remain as relevant in the future as it is today.

CHAPTER 9
SUMMARY AND REVIEW

9.1 Objective

The overriding objective of this study has been to acquire a greater depth of understanding of the process of accounting development in a developing country, and to achieve a greater awareness and understanding of the influences brought to bear on this process in the specific environment of Saudi Arabia. This objective covers a wide range of issues which include, among others, understanding accounting and reporting practices; accounting regulation and policy making; professional motivation; problem areas; and more recent developments.

Saudi Arabia was chosen as the subject of this study for a number of reasons. Firstly, Saudi Arabia's accounting practice and developments have not been adequately covered in comparative international research or international accounting surveys to date (Price Waterhouse, 1973, 1975, 1979; Frank, 1979; Choi & Mueller, 1984; Nobes, 1984). Nonetheless, Saudi Arabia is a rapidly developing country, with many instructive topics to offer the international accounting community; for example, the circumstances affecting accounting practice have changed considerably over the last decade, and accounting is continuously being confronted with new problems and challenges; accounting in Saudi Arabia may reflect these challenges. In addition, on

the international level, Saudi Arabia has adopted economic policies - particularly on its oil and energy resources - which have been the subject of considerable praise by many international observers. These policies are recognised to have had a significant effect on the global economy (Abdeen & Shook, 1984; Johani et al, 1986), and consequently, the development of Saudi Arabian accounting practice is undoubtedly of significant interest to the international economic community.

Secondly, Saudi Arabia is relatively unique among developing countries, not only in terms of the high income per capita and the structure of its economy, but also because it is a country with a unique form of government and a unique form of legal and constitutional system. These factors are recognised to be of paramount importance to understanding accounting regulation and policy making internationally (Gray, 1988; Perera, 1989). Therefore, an in-depth and thorough comprehension of accounting development in Saudi Arabia may considerably enhance the understanding of this relationship.

Thirdly, Saudi Arabia's experience in accounting practice and the adoption of modern accounting techniques is comparatively recent. This study can contribute towards the historical records of accounting development in the Kingdom, and towards identifying or indicating the main influences on accounting in the initial stages of its development. Both these potential contributions would be of particular value to the understanding of accounting development in Saudi

Arabia, especially during this crucial period in the country's history and development.

Fourthly, because of the need for world-wide economic integration, Saudi Arabia - like many other developing countries - is under pressure to adopt international accounting standards, raising the question as to whether the Kingdom needs to develop separate accounting standards suitable for its own specific purposes (Hays, 1980; Samuels & Oliga, 1982; Briston & El-Ashkar, 1984). This study can assist in contributing to this debate by adding to the existing, somewhat limited, knowledge and understanding of the Saudi environment and accounting practice, and in this way this study can also assist in, or contribute to, the development of future accounting standards in the Kingdom.

Finally, one of the most serious accounting educational problems in developing countries, including Saudi Arabia, is recognised to be the absence of adequate study materials upon which students in these countries can acquire a better understanding of accounting practice in their home country, and the influence that the environment has had on this practice (Abdeen & Yavas, 1985; Perera, 1989). This study can provide some of the necessary materials, and go a substantial way towards providing the required level of understanding. It can also provide useful study materials for interested international students and international accounting scholars and researchers in general.

The importance and implication of this study can also be seen from the following perspectives: multinational business; international accounting firms; and international accounting organisations. Equally important is the national perspective, which also has to be considered. For example, as a result of this study multinational firms will be in a better position to develop and design accounting systems and control procedures more appropriate not only to Saudi Arabia but also to other similar environments. The ability of accounting firms to design accounting systems, and auditing and control procedures more appropriate for specific environments will also be significantly enhanced; so too will their ability to transfer accountants to countries to which their skills are most suited. The ensuing benefit to international accounting organisations in the development of international accounting standards is well recognised and cannot be underestimated. Equally important is the ensuing benefit to national practice and the furtherance of understanding.

9.2 Accounting Research: Methodological Weaknesses

The need for nation specific research is recognised to be the result of the failure of accounting research in general - and international accounting research in particular - to provide the necessary required level of understanding and relationship between the development of accounting on the international level and environmental influences, and the failure of this research to provide a basis for projecting future accounting development internationally (Schoenfeld, 1981; Salchi & Smith, 1981; Gray, 1988; Perera, 1989).

For example, mainstream accounting research - that is, the development of the scientific method in accounting research - has been criticised in relation to its perception of the empirical philosophies of science and the coherence and applicability of its methodological rule for the study of human sciences (such as accounting), which renders it unable to provide the necessary required level of understanding in this wanting area of accounting knowledge (Christenson, 1983; Chua, 1986; Whitely, 1988).

Similarly, major international accounting studies into environmental influences have, to date, provided only broad country groupings, with only a very general relationship between environmental factors and accounting patterns being established, and in many instances this relationship lacks clear and comprehensive explanation (Gray, 1988).

As a result of this failure, together with the failure to take into account or fully recognise the specific nature of the accounting environment in developing countries, international accounting standards development and harmonisation efforts are fraught with difficulties, and the required level of acceptance has not yet been achieved. Thus, a need for nation specific research, and the development of local accounting standards, has become imperative (Hays, 1980; Samuels & Oliga, 1982; Briston & El-Ashker, 1984).

9.3 Accounting Research in Developing Countries

Specific accounting research in developing countries too has failed to contribute substantially towards enhancing this understanding. The failure of this research to provide such understanding is also attributed to methodological weaknesses.

Accounting research in developing countries has been dominated by descriptive studies. This research is primarily concerned with the current status of accounting practice. Data are usually obtained from observations and impressions gained directly from being either a citizen or a resident of a developing country. Much of this literature consists of articles in international journals and some doctoral dissertations in the US and UK (e.g. Seidler, 1967; Scott, 1968; Elliot, 1968; Shinawi, 1970; Perera, 1975; Radebaugh, 1975; Ba-essa, 1984). Despite the importance of this descriptive research, it has been criticised for being unable to provide the necessary analytical basis for understanding the relationship between accounting and the environment of developing countries (Jaggi, 1973; Radebaugh, 1975; Perera, 1989).

There has also been a considerable amount of conceptually-based research, in which a model is used to determine the relationship between an accounting system and certain environmental factors - thus adding an extra level of sophistication and understanding between an accounting system and its environment. This research has been mainly concerned with the relationship between accounting and

economic development, and the role which accounting can play in this process (e.g. Holzer & Tremblay, 1973; Seidler, 1967; Abdeen, 1974, 1980; Enthoven, 1976, 1983; Mirghani, 1982; Samuels & Piper, 1985). However, the reciprocal role and significance of other environmental factors has not been adequately incorporated

Hypothesis testing is, by far, the least used form of research in developing countries. This level of research is recognised to involve the testing of a hypothesis to ascertain whether certain environmental factors do, indeed, affect accounting practice, or involve testing against reality certain hypotheses concerning the principles and practices which ought to be established in a country (e.g. Singhvi, 1968; Wallace, 1987). However, despite being the most rigorous research method it is recognised to be generally narrow in focus, and therefore its ability to provide the required level of understanding between accounting and environmental factors is in doubt, at least as far as the present knowledge of accounting in developing countries is concerned (Previts, 1975; Needless, 1976).

Therefore, considerable work is still needed in both descriptive and conceptually-based research in order to fully comprehend accounting development in developing countries, and to acquire the necessary level of understanding of accounting development in relation to its environment, before any hypothesis testing can be carried out.

9.4 Saudi Arabia's Accounting Research

Saudi Arabian accounting research which has been published in English to date is, in the main, typical of the sort of accounting research carried out in developing countries; descriptive research has dominated this literature. In general, this descriptive research has stressed the absence of a well-organised profession, inadequate legal requirements, the lack of qualified accountants, and an educational and local environment which inhibits the full utilisation of accounting for economic progress (for example, Shinawi, 1970; Ba-essa, 1984; Abdeen & Yavas, 1985).

There has also been some limited conceptually-based research which has attempted to transcend the mere description of existing accounting practice by seeking to explain this practice in terms of social, legal, or economic factors. This research, however, is general in nature, and has been unable to clearly establish or link accounting practice with any of these factors (Mostafa, 1985; El-Kharouf, 1985; Merei, 1985).

Hypothesis testing is, by far, the least type of research undertaken in Saudi Arabia. The very limited hypothesis testing falls short of providing an understanding of accounting practice in the Kingdom or an understanding of the relationship between accounting practice and environmental factors.

9.5 The Methodological Procedures Followed in this Research

In view of the present limited understanding of accounting practice and developments in Saudi Arabia, and in view of the limitations and shortcomings of the reported research - especially in those areas in which research is most urgently needed, i.e. description and conceptualisation - this study attempts to go some way towards filling the gap in this understanding by carrying out methodological procedures which are recognised to be more effective in providing useful and relevant information which can be of greater use as a basis for description and conceptualisation as they are more formal (empirical), complementary to each other, and cover a wide range of issues. As such, these methodological procedures are in a better position to provide a broader base on which a greater understanding of the relationship between accounting and its environment can be established rather than the relatively casual observations and impressions which have been the main characteristics of previous research. These methodological procedures include a survey of accounting and reporting practices, and a Delphi exercise.

9.5.1 The Survey Methodological Procedures:

The survey methodological procedures undertaken in this research cover 30 general purpose corporate annual reports of Saudi joint stock corporations; that is, approximately 70% of all the existing corporations in the Kingdom. This coverage incorporates information on the type of financial statements presented, the format used, the items reflected, accounting policy disclosure, the format and contents of

auditors' reports, and many other accounting, reporting, and measurement issues. The details of this methodological procedures survey are explained in full in Chapter 6.

9.5.2 The Delphi Methodological Procedures:

The Delphi methodological procedure is known as a process of structuring communication among groups of experts in which interaction, anonymity, and feedback (or successive refinement) are used to create an awareness of a full range of considerations to allow for the effective dealing with complex problems and/or to provide a basis for analysis of technological or social developments (Listone & Turoff, 1975). This technique involves systematically collecting the opinions of experts on specific issues in a particular field. It is particularly useful in research areas where there is a need for problem identification, problem importance or priority, and necessary action for problem resolution. This technique has been especially useful in social sciences research in providing judgemental but quantitative input data in cases where hard data are unavailable or costly to obtain (Birkett, 1988).

In view of the many advantages which render the Delphi technique particularly valuable to the study of accounting developments in a developing country, two successive questionnaires were developed in this study, and 80 accounting experts were identified and circularised with these questionnaires. The questions covered a wide range of issues related to accounting development in the Kingdom of Saudi Arabia, and included information relating to

accounting and reporting practices, professional organisations, accounting regulations and policy making, accounting education, problem areas, and problem resolution. The detailed procedures of this Delphi are explained in full in Chapter 7.

9.5.3 Approach:

This study has been developed systematically, as follows: Firstly, the literature pertaining to accounting development in Anglo-Saxon countries - the leaders in the accounting development field - was reviewed. Although it is recognised that this literature may, in some ways, be irrelevant to accounting development in developing countries, this review was deemed necessary for a number of reasons. For example, this literature can be used as a frame of reference where and when appropriate, and can be used as a guide to the identification of similarities and differences between Anglo-Saxon countries and developing countries. It can also be used as a frame of reference to evaluate the contribution of the Anglo-Saxon experience to the development of accounting structure and practice in developing countries. However, the potential contribution of this literature review to the development of this thesis lies primarily in the identification and development of issues, problems, and questions which were later used in the compilation of the Delphi questionnaires and in the development of the scoring sheet and the selection of information items used in the survey method (see Chapters 6 and 7).

The literature pertaining to accounting development in developing countries was also briefly reviewed. The main objective of this review was to indicate that this literature alone cannot serve as a guide to the study of accounting development in Saudi Arabia, especially if improvements are to be suggested and consequently implemented. This review, however, proved useful in the identification of many problems which were also taken into account or used when designing the Delphi questions and the survey scoring sheet. The review also served as an indicator of those issues most relevant to the development of accounting in Saudi Arabia (see Chapters 4 and 5).

Secondly, the environmental factors most relevant to the development of accounting in Saudi Arabia were examined. These factors include, among others, the form of government, the legal system, the state of the economy, and - most importantly - the accounting legal framework (see Chapter 5). This examination was later used in conjunction with the survey and the Delphi results to provide the basis for the formulation of conclusions in this study.

Thirdly, a survey of accounting and reporting practices was undertaken. As mentioned earlier, this survey covered 30 general purpose annual reports of joint stock companies in the Kingdom, incorporating information relating to many accounting and reporting issues. The aim of this survey was to provide information regarding the present state of the art of accounting in the Kingdom, in order that this information could be used in conjunction with the results of

the Delphi exercise to provide an extra level of sophistication or rigour to the conclusions reached in this study (see Chapter 6).

Finally, the Delphi exercise was undertaken to provide the analytical basis of accounting development in the Kingdom and to identify problem areas, problem importance or priority, and the necessary action or actions for problem resolution (see Chapter 7). The Delphi exercise results provide the analytical basis for the conclusions made in this study.

It is hoped that the combination of these methodological steps will provide a comprehensive coverage and awareness of a wide range of considerations in relation to accounting development in a developing country. This will ultimately provide a contribution to the currently limited accounting knowledge in this area, and provide greater opportunities for further understanding by carrying out similar research in other countries. The following sections will summarise the main discussions and the development of ideas in this thesis.

9.6 The Anglo-Saxon Experience

Theories of accounting development in Anglo-Saxon countries indicate that national accounting development - that is, the increased accounting and reporting requirement of corporations (the heart of corporate regulation and accounting policy making) - does not stem from specific scientific theory but rather from interaction between many

and varying influences (Ghandi, 1976; Tricker, 1979; Puxty, 1985).

This development is mainly a consequence of increased public interest in the role of corporations, and how those corporations should be governed within society. This interest and awareness is a result of the increase in complexity and diversity of modern business which has led to market control, and consequently to the erosion of the philosophical idea of the free market in its ability to solve economic problems (Ghandi, 1976).

With the erosion of the idea of effective market control, accounting is seen as having replaced the market as a method of such control, and as a basis on which economic conflicts should be resolved. Accordingly, accounting has moved from the neutral provision of information to an active mechanism of social control.

Before this new role emerged, accounting development was controlled by a strong emphasis on self-discipline by the profession. However, many undesirable features of this arrangement - especially its inability to cope with the requirements of the new role, evident from company clashes and major law suits involving accountants - have resulted in a search for, or imposition of, other alternatives such as additional regulation by government agencies or independent bodies.

In a bid to avoid public criticism, maintain control over accounting, and maintain legitimacy, the accounting profession embarked on a new strategy and technique: namely, standardisation. In this technique, and unlike its previous attempts to construct a universal theory from which standards could be derived, the new standardisation programme combined theory, practice, and socio-economic factors to produce accounting standards (Puxty, 1985; Whittington, 1986).

9.6.1 Accounting Standards

The overriding purpose of accounting standards is to improve comparability and to ensure that similar situations are presented and treated in the same manner, thus providing an effective mechanism of corporate regulation and control requirements - something which has been urgently required in more recent years.

Accounting standards were almost unknown before the 1950s in Anglo-Saxon countries; however, they now dominate the accountant's work in almost all countries around the world. There are three types of standards which have been established and enforced in Anglo-Saxon countries: disclosure standards, presentation standards, and content standards.

While the experience of Anglo-Saxon countries indicates that disclosure standards and presentation standards are relatively easy to establish and enforce, content standards have proved to be much more difficult. This is mainly

because they specify the numbers which are to be reported, instead of how they should be reported. Content standards require a theory which can objectively evaluate alternative methods. Although many believe that such a theory is necessary, they do not agree upon the form it should take (Bromwich, 1985).

A number of policy models have been advanced in the Anglo-Saxon literature upon which accounting standards can be developed. Three of these models have generated a considerable amount of discussion in the literature. They include: the common law model, the conceptual model, and the scientific (or empirical) model (Buckly, 1980).

The accounting profession in Anglo-Saxon countries, especially the US, have expressed a preference for the conceptual model. This preference is based on the belief that a coherent theoretical foundation is an essential weapon in the armoury against political interference in the development of accounting standards.

In more recent years, however, the accounting profession in the US and UK have adopted the scientific model in the development of certain accounting standards, based on the argument that this would be consistent with the use of the scientific method used in other fields, as it is more formal and objective, and therefore it would provide a greater defence against political interference (Watts & Zimmerman, 1986).

9.6.2 Institutional Arrangements:

The mechanism by which accounting standards can be established and enforced can either be voluntary or by the use of government pressure. In the former case, accounting firms agree among themselves to establish and follow the same standards and accept penalties if they violate their pledge. In the latter case, government power may be invoked to enforce adherence to certain standards.

In the US, the first private sector institutional arrangement to set and enforce accounting standards was established in 1936 by the creation of the Certified Public Accountants Committee on Accounting Procedures. This arrangement failed, mainly because of its brush-fire approach in setting standards and the professional domination of the development of accounting standards. In 1959, a second attempt was made with the establishment of the APB by the AICPA. This arrangement has also failed, chiefly because it has not succeeded in overcoming the main criticism of its predecessor: that is, it continued with the brush-fire approach, it continued to be dominated by AICPA members, and it failed to integrate its research findings with its pronouncements.

In 1973, the FASB arrangement was established. This arrangement was designed to repair the perceived flaws in the structure and procedures of its predecessors. The main feature that distinguished this new arrangement from the others was that its members included non-practicing accountants, thus averting the criticism of professional

domination; its authority was supported by the profession and the government, thus enhancing its authoritative status; and it placed significant emphasis on research and was committed to the development of a conceptual framework, thus it was seen as an effective mechanism against political interference.

In the UK, prior to 1960, there were little or no significant interest in accounting policy making, nor was there any significant concern with the authority of accounting standards. However, the financial crises of the 1960s brought attention to, and raised questions regarding, accounting standards. In the early 1970s, the Accounting Standards Steering Committee was established. This Committee was entrusted with the establishment of standards of accounting practice, which was dominated by the six accountancy bodies in the UK. The Committee was re-established in 1976 but, apart from the deletion of the word "Steering" from its title, nothing material had changed. This accounting policy making institutional arrangement in Britain was subject to the same criticism as had been levelled at earlier institutional arrangements in the US, mainly in relation to its ad hoc basis or brush-fire approach, its professional domination, and its authoritative support. Since that time, this arrangement has been reviewed, reorganised, and reconstructed, but little has changed and the main criticisms, on the whole, remain unsolved.

In 1987, the Dearing Committee was briefed to review and make recommendations for improving the standard setting arrangements in the UK. This Committee's responsibilities were identical to those of the Wheat Committee established in 1971 in the US, whose recommendations led to the creation of the FASB independent standard setting body.

The recommendations of the Dearing Committee were, to some extent, identical to those of the Wheat Committee. Among those recommendations was the creation of the Accounting Standards Board whose primary responsibility was the setting of accounting standards in the UK - very similar to the FASB's responsibility in the US.

However, fundamental concerns have been raised with regard to the recommendations of the Daaring Committee, especially in relation to the lessons that have been learnt from the American experience. These concerns focus mainly on the issue of independence, in that the independence of the Accounting Standards Board has not been adequately protected under the Dearing Committee's proposals (Solomons, 1989).

Nonetheless, account has to be taken of the fact that the responsibility for accounting standards setting in the UK has always rested with, and may continue to rest with, the professional bodies, and derived from that authority which is entrusted to the profession by the government of the day. This is regarded by some as being one of the major strengths of self-regulation in the UK. The extent of the departure from this attitude of the newly-proposed arrangement cannot

yet be determined, and its potential success in overcoming the shortcomings of the previous arrangements has still to be fully realised.

9.7 The Anglo-Saxon Experience: An Assessment

Accounting standards (the heart of accounting regulation and policy making), in the UK and US experiences, is faced with three main historical problems. Firstly, the brush-fire approach, which is followed by standard setters to deal with the difficult problem of choosing between the alternative accounting procedures. Secondly, the lack of authoritative support for accounting standards which are already in existence, and thirdly, the domination of accounting standards setting by professional members, and the subsequent lack of impartiality which results from this domination.

It is becoming clear that the setting and enforcing of accounting standards in Anglo-Saxon countries is becoming increasingly difficult. This is more clearly visible in the US. Despite considerable time and effort, and the involvement of a variety of institutional arrangements, US standards setting has not been a complete success. For example, problems are still exist is relation to compliance. Accounting standards have not been universally accepted by any means; powerful groups such as large corporations and accounting firms have threatened to boycott the use of certain standards; accountants have objected to their thoughts being dictated to by accounting or government bodies; and industrialists have also indicated their

objection to some standards on the basis that all industries differ from one another.

The FASB has committed substantial resources of time, manpower, and money to the development of a conceptual framework to overcome many of the problems of accounting standards, including impartiality and interference. However, the contention that a particular conceptual model will provide the definitive solution is clearly unrealistic. The FASB has also increased its emphasis on research, which has resulted in the successful issuance of a number of standards, although others have been less successful. This suggests that scientific research (empirical) is necessary but inadequate without wide acceptance. Thus, reliance on the conceptual model alone and/or reliance on research alone cannot solve all the accounting problems which the brush-fire approach has, to date, been unable to resolve.

Anglo-Saxon countries have been involved in a variety of institutional arrangements to set and enforce accounting standards in order to avoid public criticism, maintain credibility, maintain the independent status of accounting standards, and ward off political interference. Even with the sensible precautions that have been taken to guarantee impartiality, criticism is still being levelled at these institutional arrangements and their claim to independence.

It is hoped that this review of the Anglo-Saxon experience will help illustrate that many of the major accounting problems of facing the accounting standard setters in Anglo-

Saxon countries today emerged early in the history of standard setting in these countries. These problems have proved to be virtually unsolvable within the existing institutional arrangements of these countries. Indeed, it is questionable whether they can be resolved within any future arrangements, particularly with regard to the problem of independence and the introduction of bias. If these approaches to accounting standards, and the different mechanisms of enforcement, cannot be regarded as a resounding success in Anglo-Saxon countries, their ability to achieve greater success in developing countries is, indeed, questionable. The following discussions explain, in part, why.

9.8 Accounting Development in Developing Countries

The wealth of literature on accounting development in developing countries indicates a number of shortcomings and problems in that area. Many of these reported shortcomings and problems are attributed to technical, economic, political, institutional, cultural, and/or educational factors.

Technically accounting in developing countries suffers from a shortage of qualified staff - not only accountants but also bookkeepers, clerks, and auditors. Accounting systems are poorly designed, many lacking appropriate forms, procedures, and records; manuals rarely exist; common forms, such as invoices and purchase orders, are badly designed and require unnecessary manual copying and manipulation; internal control features are non-existent;

management control systems are poor; cost accounting procedures are inadequate; and the information required by shareholders, creditors, and government is seldom available (Scott, 1970).

Economically, the general environment in developing countries is not conducive to the development of accounting. For example, sufficient capital formation has not yet been achieved; savings are expended on social customs, spent on building mansions, hoarded, or even exported to financial centres in Europe and the United States. Major economic activities and private sector industrial, commercial, and financial activities are generally concentrated in the hands of a few individuals or families - a situation which minimises competition, and does little towards fostering the development of management information systems and cost control procedures. Thus, the whole idea of accounting, control, and reporting is affected, discouraging small investors and keeping others in a state of ignorance (Qureshi, 1974).

Culturally, accounting suffers from the businessman's negative attitude towards accountants. This attitude is reflected in the low status bestowed on accountants, and the lack of trust and confidence in their work. Accounting is seen as a legally required triviality or a means of deceiving the tax authority, and the work of accountants is regarded as low level and clerical. The prevailing attitude towards business activities is that of personalisation, and business dealings tend to be restricted to a close group of

relatives and friends. This attitude promotes secrecy, and consequently shareholders are kept in ignorance, the tax authority is deceived, and all others remain uninformed. There is also an attitude of suspicion and insecurity in which accountants try to appear to conform to the laws and regulations in order to preserve a semblance of innocence. However, this conformity is formed within the rigidity of routine procedures, thus depriving accountants from the exercise of personal judgement (Scott, 1970; Qureshi, 1974; Faroughi, 1981).

Politically, almost all developing countries depend heavily on the inflow of foreign capital for industrial development. This inflow requires the adoption of professional standards which are imposed by foreign investors - mainly those with whom they have close economic or colonial ties. These standards are not usually suitable for developing countries. Moreover, the pressure for world-wide economic integration necessitates the adoption of internationally developed standards. These standards are mainly developed following the developmental steps of industrialised countries, and their appropriateness to developing countries has not been fully justified. In addition, many developing countries are inadequately organised institutionally, in terms of accounting professional organisations and/or institutions that support the profession; therefore, the accounting profession in those countries has been significantly influenced by foreign accounting professional bodies (Briston, 1976; Samuels & Oliga, 1982; Briston & El-Ashkar, 1984).

Educationally, in many developing countries the accounting programmes are inadequate and/or inappropriate. Books and teaching materials are translated or borrowed entirely from developed countries. These books and teaching materials are tailored for business and economic environments different from those of developing countries. Moreover, the teaching staff in the majority of teaching institutions are often unqualified, and/or unfamiliar with the local environment in which they are teaching. Furthermore, staff members tend to be from many different countries, with a variety of educational backgrounds. This inevitably results in inconsistencies within the curriculum (Abden & Yavas, 1985).

9.9 Differences Between Developing and Developed Countries

In addition to the problems and difficulties between developed and developing countries mentioned above, there are a number of essential differences which have an important implication for the development of accounting and accounting professional standards on the international level. These differences, among many other things, may indicate why the imposition of international accounting standards or the standards of developed countries may not achieve the same rate of success in developing countries, and highlight the importance of developing countries' need to establish accounting concepts and standards suitable for their specific needs.

9.9.1 Objectives

The main objective of financial accounting in Anglo-Saxon countries lies in its usefulness for economic decision

making, and its reliance on investors or shareholders/bondholders as the primary user group of accounting information. However, this objective may not necessarily apply in developing countries, and the primary users of accounting information are not necessarily shareholders/bondholders. For example, it might be the case that the implementation of social or economic programmes is the main objective, and that the government, employees, and the general public are the primary user groups (Dopuch & Sunder, 1980; Perera, 1989).

9.9.2 Agency:

The philosophy of financial accounting and reporting in Anglo-Saxon countries is founded on the notion of the arm's length relationship between managers as the agents, and shareholders/bondholders as the principles, and on the assumption of the behaviour of managers and shareholders in the establishment and enforcement of contractual obligations. This behaviour is based on the realisation of interested parties that they have a great deal more to gain if they conform to such behaviour than if they do not. This behaviour is also reinforced by the attitude of social obligation towards society as a whole. Such assumptions, relationships, and attitudes cannot automatically be attributed to developing countries, where the priority obligation is to family before any contractual or social obligation (Jaggi, 1973; McKinnon, 1986).

9.9.3 Motivation:

The utility maximisation driving force described in terms of wealth gain as the primary motivating behaviour in Anglo-Saxon countries may not be the primary motivating behaviour in developing countries, especially in those countries where social relationships, and personal and familial reputation are the chief indicators of prestige and status, and therefore may be regarded as more accurate guides to behaviour than the suggested wealth maximisation (Al-Namir & Palmer, 1982).

9.9.4 Disclosure:

Concepts such as full disclosure, objectivity, materiality, and reliability, are described as essential features of accounting and reporting in Anglo-Saxon countries. These features are impaired in developing countries by attitudes of subjectivity, interpersonality, interdependency, secrecy, and lack of social responsibility (Jaggi, 1973; McKinnon, 1986).

9.9.5 Self-Regulation and Professional Ethics:

The concept of auditor independence, together with the concept of functional differentiation between institutional obligation and relationships, is fundamental to professional self-regulation and to the conduct of professional members in Anglo-Saxon countries. However, these concepts are not intrinsically appreciated in many developing countries. These concepts are often hampered by loyalty to family and friends, and by an attitude of mutual protection. Independence and self-regulation are also dependent on

appreciation and respect for professional rules and procedures, and as these procedures tend to be formal and objective, many developing countries have an inherent bias against them.

In view of these differences, the development of accounting objectives, concepts, ethics, and standards would assume different meanings between developed and developing countries. Therefore, it would seem that such developments would be better carried out locally, since then they would at least convey and attribute similar meanings. This local development would also offer greater scope for understanding others by a process of comparison - allowing for differences instead of adopting a one-sided viewpoint.

9.10 Saudi Arabia's Accounting Environment

Since the mid-1970s, Saudi Arabia has been pursuing the private enterprise system, actively encouraging the private sector to participate in the development of the economy. The private sector has responded positively to this encouragement, making a significant contribution towards the creation of an economic phenomenon which has had important implications for accounting. For example, there are now 6,000 private enterprises with a total estimated capital of SR 62 billions, with 65% of this capital in shareholding corporations. In addition, there are now 10 large commercial banks, with branches throughout the Kingdom. These banks are all owned by Saudi shareholders. The public sector, too, has played a significant role in the creation of this economic phenomenon with, for example, the

development of public sector industries and the creation of specialised public sector lending institutions. These developments have created an enormous and unprecedented demand for accounting services.

However, while the private and public sector development programmes have significantly transformed the economic structure in the Kingdom and have created substantial demand for private and public sector accounting services in a variety of areas, this development has not been matched by improvements in the accounting service. Accounting has not been viewed as an integral part of this development process, and is not seen as a necessary component of the developmental infrastructure.

On examination of the major accounting legislations, it becomes apparent that the real significance of accounting has not yet been fully realised, nor has accounting been allotted the priority and importance it deserves in relation to economic development planning.

At the present time, the primary authoritative sources for accounting professional practice are the Company Law, the Accountants Law, and the Income Tax and Zakat Law. On examination, these sources reveal a number of shortcomings. For example, none of the legislations have attempted to explicitly define the scope, function, or objectives of accounting and reporting. While some basic accounting concepts, such as historical cost, entity, accrual, and accounting period have been explicitly or implicitly

recognised by these legislations, other important concepts such as the going concern, unit of measurement, materiality, conservatism, or realisation have been denied adequate recognition. Although several of these legislations contain some reporting requirements, such as the preparation of directors' and auditors' reports, the balance sheet, and the results of operations, these requirements do not specify the form or contents of these reports and documents; and, more importantly, they do not contain any specific measurement or communication standards. The few standards that are specific are very limited in scope and nature, and fall under the heading of "rules" rather than "standards".

In relation to auditing requirements, none of the fundamental auditing standards, such as professional conduct, ethics, auditors' responsibility, technical competence, or independence, have received adequate coverage within these legislations.

From an examination of the existing accounting legislations, it can be concluded that Saudi Arabia's accounting practice at the present time is not regulated to any significant extent. This lack of specific authoritative requirements, together with the virtual non-existence of professional requirements (evident from the absence of an accounting professional body and/or professional pronouncements), is probably the single most serious problem currently facing accounting in the Kingdom. This problem will almost certainly eventually lead to undue flexibility in actual practice. This excessive flexibility has been among the

most significant problems the accounting profession in Anglo-Saxon countries has had to deal with in the development of accounting standards. It is argued that undue flexibility will inevitably lead to undesirable consequences, including accounting manipulation, difficulties in comparison, and loss of faith and confidence in accounting data.

In Saudi Arabia during the early 1980s, the Department of Accounting at King Saud University held two successive accounting conferences, choosing as their theme the current accounting and auditing practices in the Kingdom and how they might be improved. As a by-product of these conferences, two attempts have been made to develop accounting and auditing standards.

The first of these attempts was carried out by one of the leading accounting firms in Saudi Arabia, in cooperation with the Ministry of Commerce. As a result of this attempt, Ministerial Decree No.692 dated 28/2/1406H (1986) was published, accepting the results as a guide (conceptual framework) to which practitioners could refer for accounting and auditing matters. The second attempt was undertaken by the General Auditing Bureau, a government agency equivalent to the US Government Accounting Office. The results of this attempt, issued in 1982, were designed to be used by the Bureau itself in conducting its audit function, and as a guide for others.

However, it is difficult to assess the potential benefit of these attempts at the present time, particularly as there has been little or no reference to the application or compliance with any newly-established standards in the survey carried out by this research, and by the negative responses to the Delphi questions as to the existence of, or compliance with, such standards.

Moreover, an intimate knowledge of how accounting legislation is initiated and developed has not been achieved by this study, nor has this study been able to assess the extent of the influence of various groups on the decision making process in the Kingdom, with particular reference to the development of accounting legislation. These issues would undoubtedly be worthwhile subjects for future research. However, there are strong indications from the more recent development efforts that academics, public officials, and leading accounting practitioners will all play an important, cooperative role in the development of future accounting legislation in the Kingdom.

Finally, while there is little doubt as to the significant role that the growth of the private enterprise economy and industrialisation programmes has played in exerting the strongest pressure for improved accounting services and the development of regulation, this pressure or need for accounting regulation has not been supported by the existence of financial crises, or any attending negative publicity. This lack of support may indicate or explain, in part, why the government has been reluctant or cautious in

its attempts to develop accounting regulations. Many favourable terms and concessions are granted to Saudi businesses and industries at this early stage of the country's economic development, and their counter-pressure not to intervene may have been one of the main reasons why accounting is not regulated to any significant extent at the present time. Business and industry's resistance to additional regulation may have also played a significant role in the more recent development attempts, and an in-depth knowledge of this role would also be a worthwhile research topic in a study of accounting history in the Kingdom.

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A P P E N D I C E S

APPENDIX A

ANNUAL REPORT SCORING SHEET

NAME OF COMPANY: _____

INDUSTRY: _____

IDENTIFICATION NO: _____

SIZE OF ASSETS: _____

NO OF SHARES: _____

MAXIMUM EXPECTED DISCLOSURE SCORE: _____

ACTUAL DISCLOSURE SCORE: _____

COMPANY'S UNWEIGHTED INDEX: _____

COMPANY'S AUDITOR: _____

SECTION (1): Disclosure items of a general nature which are considered necessary for a complete presentation of the financial and other affairs of the company

	Yes	No	Not Applicable
1. Directors' reports	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. Description of organisational structure	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. Names of directors	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. Directors' interests in the company	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. The principal activities of the company	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6. Description of major product(s)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7. Plans for future capital expenditure	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
8. Company plans for the following year	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
9. Contractual obligations	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
10. Directors' interests in contractual obligations	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
11. Contingent liabilities of importance	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
12. Employee-related information	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
13. Government grants	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
14. Auditor's report	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
15. Auditor's name, and date of completion	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

16. Balance sheet	Yes	No	Not Applicable
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
17. Income statement	Yes	No	Not Applicable
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
18. Statement of changes in the financial position	Yes	No	Not Applicable
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
19. Statement of retained earnings	Yes	No	Not Applicable
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
20. Comparative figures	Yes	No	Not Applicable
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
21. Notes to financial statements	Yes	No	Not Applicable
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
22. Segmental information	Yes	No	Not Applicable
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
23. Consolidated group accounts	Yes	No	Not Applicable
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
24. Supplementary financial data	Yes	No	Not Applicable
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
25. Quantitative forecasts of sales and profit	Yes	No	Not Applicable
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
26. Qualitative forecasts of sales and profit	Yes	No	Not Applicable
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
27. Accounting changes	Yes	No	Not Applicable
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
28. Subsequent events	Yes	No	Not Applicable
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
29. Prior period adjustments	Yes	No	Not Applicable
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
30. Capital expenditure	Yes	No	Not Applicable
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
31. Losses or gains on disposal of property	Yes	No	Not Applicable
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
32. Dividends paid or declared	Yes	No	Not Applicable
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
33. Historical cost method being declared	Yes	No	Not Applicable
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
34. Accrual concept being declared	Yes	No	Not Applicable
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
35. Consistency concept being declared	Yes	No	Not Applicable
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

SECTION (2): Disclosure of items and accounting policies necessary for the complete presentation of the company's financial position.

1. Itemised fixed assets	Yes	No	Not Applicable
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. The basis on which fixed assets are valued	Yes	No	Not Applicable
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. Accumulated depreciation on fixed assets	Yes	No	Not Applicable
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. Major construction/operation in progress	Yes	No	Not Applicable
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. The amount of receivables	Yes	No	Not Applicable
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6. Breakdown of receivables	Yes	No	Not Applicable
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7. Provisions to cover expected collection costs	Yes	No	Not Applicable
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

	Yes	No	Not Applicable
8. Pre-paid expenses	[]	[]	[]
	Yes	No	Not Applicable
9. Itemised inventory	[]	[]	[]
	Yes	No	Not Applicable
10. Inventory breakdown (raw, finished)	[]	[]	[]
	Yes	No	Not Applicable
11. Method of inventory valuation	[]	[]	[]
	Yes	No	Not Applicable
12. Valuation basis of self-manufactured inventories	[]	[]	[]
	Yes	No	Not Applicable
13. Investments in marketable securities	[]	[]	[]
	Yes	No	Not Applicable
14. The method of valuing marketable securities	[]	[]	[]
	Yes	No	Not Applicable
15. Cash and bank balance	[]	[]	[]
	Yes	No	Not Applicable
16. Cash/bank balance breakdown	[]	[]	[]
	Yes	No	Not Applicable
17. Bank balance breakdown (current/deposit)	[]	[]	[]
	Yes	No	Not Applicable
18. The amount of lease commitments	[]	[]	[]
	Yes	No	Not Applicable
19. The method of accounting for leases	[]	[]	[]
	Yes	No	Not Applicable
20. Investment in subsidiaries and associates	[]	[]	[]
	Yes	No	Not Applicable
21. The method of accounting for consolidation	[]	[]	[]
	Yes	No	Not Applicable
22. Intangible assets	[]	[]	[]
	Yes	No	Not Applicable
23. The treatment of goodwill	[]	[]	[]
	Yes	No	Not Applicable
24. Liability breakdown (short/long term)	[]	[]	[]
	Yes	No	Not Applicable
25. Current liabilities component breakdown	[]	[]	[]
	Yes	No	Not Applicable
26. Unearned (deferred) income	[]	[]	[]
	Yes	No	Not Applicable
27. Deferred Zakat (tax)	[]	[]	[]
	Yes	No	Not Applicable
28. Deferred charges	[]	[]	[]
	Yes	No	Not Applicable
29. Long-term debts and their terms	[]	[]	[]
	Yes	No	Not Applicable
30. Method for calculating long-term debts retirement	[]	[]	[]
	Yes	No	Not Applicable
31. Shareholders' interests in the company	[]	[]	[]
	Yes	No	Not Applicable
32. Preference shares' rights to dividend/principle	[]	[]	[]
	Yes	No	Not Applicable
33. Provisions and reserves	[]	[]	[]
	Yes	No	Not Applicable
34. Legal or statutory reserves	[]	[]	[]
	Yes	No	Not Applicable
35. The amount charged or credited to reserves	[]	[]	[]

SECTION (3): Disclosure of items and accounting policies necessary for the complete presentation of the company's results of operation.

	Yes	No	Not Applicable
1. Net income disclosed before and after Zakat	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Yes	No	Not Applicable
2. Income from operations & other sources separated	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Yes	No	Not Applicable
3. Sales/revenue disclosed	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Yes	No	Not Applicable
4. Method of revenue recognition generally disclosed	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Yes	No	Not Applicable
5. Cost of sales/expenditure disclosed	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Yes	No	Not Applicable
6. Method of cost of sales determination	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Yes	No	Not Applicable
7. Other operating expenses disclosed	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Yes	No	Not Applicable
8. Operating expenses breakdown	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Yes	No	Not Applicable
9. Depreciation charges	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Yes	No	Not Applicable
10. Depreciation method	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Yes	No	Not Applicable
11. Depreciation rates	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Yes	No	Not Applicable
12. Conservatism exercised via depreciation rates	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Yes	No	Not Applicable
13. Extraordinary gains and losses disclosed	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Yes	No	Not Applicable
14. Allowances for doubtful debts	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Yes	No	Not Applicable
15. Research and development expenditure	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Yes	No	Not Applicable
16. Accounting method for R & D expenditure	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Yes	No	Not Applicable
17. Expenses on advertising and publicity	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Yes	No	Not Applicable
18. Expenses on human resources (training)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Yes	No	Not Applicable
19. Zakat (tax) expenses	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Yes	No	Not Applicable
20. Employee retirement provision	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Yes	No	Not Applicable
21. Gains and losses on foreign currency transactions	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Yes	No	Not Applicable
22. Method of foreign currency translation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Yes	No	Not Applicable
23. Income from short or long term investments	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Yes	No	Not Applicable
24. Interest on short or long term loans	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Yes	No	Not Applicable
25. Revenue from long term contracts/leases	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Yes	No	Not Applicable
26. Accounting for revenue from long term contracts	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

	Yes	No	Not Applicable
27. Earnings per share	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
28. Basic (primary) earnings per share	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
29. Fully diluted earnings per share	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
30. The basis for calculating the basic and fully diluted earnings per share	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

APPENDIX B

ACCOUNTING DEVELOPMENT IN SAUDI ARABIA:

ISSUES AND QUESTIONS

A DELPHI QUESTIONNAIRE

FIRST ROUND

Conducted by:

S.R. AL-AMARI

King Saud University, Riyadh, Saudi Arabia

and

University of Glasgow, Scotland, UK

This questionnaire is being distributed to a panel of experts consisting of individuals who have an applicable speciality or relevant experience with accounting in Saudi Arabia. These experts belong to the following main groups: academics, public accountants, government officials, and practising accountants in banking and industry.

The objective is to collect responses on:

- * THE FORM AND AUTHORITY OF ACCOUNTING SYSTEM MOST DESIRABLE IN SAUDI ARABIA.
- * THE MOTIVATION AND INVOLVEMENT OF ACCOUNTANTS IN THE DEVELOPMENT OF THE PROFESSION.
- * THE ISSUES OF OVERLY-CONSERVATIVE MEASUREMENT, AND FORMAL AND INFORMAL REPORTING.
- * THE ISSUES OF AUDITORS' COMPETENCE AND INDEPENDENCE.
- * ACCOUNTING EDUCATION AND TRAINING ISSUES.

Dear Sir

You are among several experts invited to participate in a Delphi study of accounting in Saudi Arabia. The purpose of the study is to collect and evaluate ideas expressed by experts regarding certain accounting issues and questions. Many of these issues and questions have been cited in the literature and are, in the main, related to the uses and usefulness of company accounting information provided externally, to the development of the accounting profession, to the authority of the accounting system and its force of application, to measurement and reporting practices, to auditing independence, and to accounting education. The experts chosen are individuals who have an applicable speciality or relevant experience with accounting in the Kingdom.

The primary instrument of this study is the Delphi questionnaire. This questionnaire consists of a series of questions with each series accompanied by a summary of the results of the previous one as a means of feedback. This feedback facilitates movement in the direction of agreement or consensus of opinion among experts about the issues and questions raised in the study.

The major advantage that this Delphi technique has over many other forms of group communication - and which makes it best suited to this type of study - is the process of feedback and the anonymity involved. The process of feedback provides each expert with an opportunity to evaluate his previous responses based on the opinions of others, which he may have overlooked; anonymity provides each expert with an opportunity to express his opinion freely, objectively, with confidence, and without being influenced by the majority opinion or the loudest voice.

This study is monitored by a team which consists of myself and one of our staff members, Saleh Rashed Al-Amari, who is currently enrolled as a PhD candidate at the University of Glasgow in the UK. Your permission to participate in this study will enable him to obtain his degree and enhance our knowledge at home. This study, however, should by no means be considered as a committee deliberation or a decision making process regarding accounting policy formulation in the Kingdom. Rather, it is an academic research intended to increase our understanding about the nature of accounting in its own economic and/or social context. If used in conjunction with other accounting policy deliberations it may facilitate this process.

This study is the first of its kind to be carried out in our country. I do, therefore, strongly recommend that you give it special attention.

Please find enclosed a brief description of the study, and the first round of questions.

Yours faithfully
Head of Department of Accounting
King Saud University

INSTRUCTIONS

1. ALL STATEMENTS OR QUESTIONS IN THIS QUESTIONNAIRE ARE WRITTEN WITH SAUDI ACCOUNTING PRACTICE AND SAUDI ACCOUNTANTS IN MIND. THE PHRASE "IN SAUDI ARABIA" HAS BEEN OMITTED TO SAVE SPACE AND TO AVOID REPETITION. FOR EXAMPLE, A QUESTIONS THAT WOULD READ "ACCOUNTING INFORMATION IN SAUDI ARABIA IS USED FOR THE FOLLOWING PURPOSES....." IS SHORTENED TO READ "ACCOUNTING INFORMATION IS USED FOR THE FOLLOWING PURPOSES....."
2. MOST STATEMENTS IN THIS QUESTIONNAIRE ARE FOLLOWED BY A FIVE POINT SCALE 1-5, INDICATING IN SOME CASES YOUR LEVEL OF AGREEMENT, IN OTHER CASES THE LEVEL OF IMPORTANCE YOU ATTACH TO A PROBLEM, AND OCCASIONALLY YOU ARE REQUESTED TO INDICATE YOUR OPINION ON ISSUES. YOU ARE REQUESTED TO TICK THE APPROPRIATE NUMBER IN THE BOXES PROVIDED.
3. YOU WILL FIND THAT THE QUESTIONNAIRE IS DIVIDED INTO SIX MAIN SECTIONS. SECTION (A) IS HEADED "GENERAL QUESTIONS". SECTION (B) IS HEADED "STATEMENTS ITEMS MEASURING EXPERT OPINION REGARDING THE FORM OF THE ACCOUNTING SYSTEM AND ITS FORCE OF APPLICATION". SECTION (C) IS HEADED "STATEMENT ITEMS MEASURING THE MOTIVATION AND INVOLVEMENT OF ACCOUNTANTS IN THE DEVELOPMENT OF THE PROFESSION". SECTION (D) IS HEADED "STATEMENT ITEMS MEASURING EXPERT OPINION REGARDING MEASUREMENT AND REPORTING PRACTICES". SECTION (E) IS HEADED "STATEMENT ITEMS MEASURING EXPERT OPINION REGARDING AUDIT INDEPENDENCE. SECTION (F) IS HEADED "STATEMENT ITEMS MEASURING EXPERT OPINION REGARDING ACCOUNTING EDUCATION". AT THE END OF THE QUESTIONNAIRE YOU ARE PROVIDED WITH A BLANK SHEET ON WHICH YOU MAY WISH TO RAISE ADDITIONAL QUESTIONS OR EXPAND ON ISSUES WHICH HAVE ALREADY BEEN RAISED IN THE QUESTIONNAIRE.
4. STATEMENTS THAT YOU MAY FEEL UNABLE TO ANSWER, DUE TO THE NATURE OF YOUR EXPERIENCE, PLEASE MARK UTA (UNABLE TO ANSWER).
5. PLEASE SEND YOUR COMPLETED QUESTIONNAIRE TO:

THE HEAD OF THE DEPARTMENT OF ACCOUNTING
COLLEGE OF ADMINISTRATIVE SCIENCE
KING SAUD UNIVERSITY
RIYADH.

THE RESULTS OF THIS FIRST ROUND OF QUESTIONS WILL BE ANALYSED, SUMMARISED, AND RETURNED TO YOU IN A SECOND ROUND AS A MEANS OF COMMUNICATION BETWEEN YOU AND OTHER EXPERTS.

CHARACTERISTICS OF RESPONDENTS

NAME:

(for reference only)

ORGANISATION

YEARS OF EXPERIENCE

QUALIFICATIONS:

EDUCATIONAL

PROFESSIONAL

RESPONDENT GROUP:

- | | | |
|----|--|-----|
| A) | ACADEMIC | [] |
| B) | PUBLIC ACCOUNTANT | [] |
| C) | GOVERNMENT
OFFICIAL | [] |
| D) | PRACTISING ACCOUNTANT
IN BANKING & FINANCIAL SERVICES | [] |
| E) | PRACTISING ACCOUNTANT
IN COMMERCE AND INDUSTRY | [] |

A) GENERAL QUESTIONS:

This section is designed to gather your opinions on general accounting questions and issues.

1) Company external accounting information is used by the following groups:

	very high			very low	
	1	2	3	4	5
a) Owners/investors	<input type="checkbox"/>				
b) Creditors (excluding banks)	<input type="checkbox"/>				
c) Government officials in:					
* Ministry of Commerce	<input type="checkbox"/>				
* Ministry of Finance	<input type="checkbox"/>				
* Ministry of Industry & Electricity	<input type="checkbox"/>				
* Saudi Monetary Agency	<input type="checkbox"/>				
* Chambers of Commerce	<input type="checkbox"/>				
* Dept. of Zakat & Income Tax	<input type="checkbox"/>				
* General Auditing Bureau	<input type="checkbox"/>				
d) Saudi banks	<input type="checkbox"/>				
e) Foreign banks	<input type="checkbox"/>				
f) Employees	<input type="checkbox"/>				
g) The general public	<input type="checkbox"/>				
h) Others: list -					
*					
*					
*					

2) Company external accounting information is used for the following purposes:

	very high			very low	
	1	2	3	4	5
a) Economic decision making	<input type="checkbox"/>				
b) Mechanism of ownership control - (stewardship function)	<input type="checkbox"/>				
c) Mechanism of government control - (i.e. economic, administrative, & social control)	<input type="checkbox"/>				
d) Others: list -					
*					
*					

3) Accounting regulations are made for the following reasons:

	strongly agree			strongly disagree	
	1	2	3	4	5
a) Companies cannot be left alone to choose what to report	<input type="checkbox"/>				
b) There is a need for comparability of accounting information between companies	<input type="checkbox"/>				
c) There is a need to ensure the credibility of accounting information in the public eye	<input type="checkbox"/>				
d) Others: list - * * *					
e) There is no good reason for accounting regulation	<input type="checkbox"/>				

4) Uniformity in accounting should be established:

	strongly agree			strongly disagree	
	1	2	3	4	5
a) In format only	<input type="checkbox"/>				
b) In underlying procedures only	<input type="checkbox"/>				
c) In format and underlying procedures	<input type="checkbox"/>				
d) Others: list - * * *					
e) There is no need for uniformity	<input type="checkbox"/>				

5) To what extent have the following contributed to uniformity and comparability:

	very high			very low	
	1	2	3	4	5
a) Local professional standards	<input type="checkbox"/>				
b) International professional standards	<input type="checkbox"/>				
c) Legal requirements	<input type="checkbox"/>				
d) Others: list - * *					

B) STATEMENT ITEMS (QUESTIONS) MEASURING EXPERT OPINIONS REGARDING THE MOTIVATION AND INVOLVEMENT OF ACCOUNTANTS IN THE DEVELOPMENT OF THE PROFESSION.

This section intends to gather your opinions regarding past trends and the future outlook of the accounting profession.

7) The following areas of accounting are in urgent need of further development:

	very important			not important	
	1	2	3	4	5
a) Accounting objectives	[]	[]	[]	[]	[]
b) Professional standards	[]	[]	[]	[]	[]
c) Corporate reporting standards	[]	[]	[]	[]	[]
d) Auditing standards	[]	[]	[]	[]	[]
e) Professional organisation	[]	[]	[]	[]	[]
f) Professional education	[]	[]	[]	[]	[]
g) Others: list -					
*					
*					
*					

8) The following parties have been involved in, and motivated by, the development of the profession:

	very high			very low	
	1	2	3	4	5
a) Corporate management	[]	[]	[]	[]	[]
b) Professional accountants					
- local	[]	[]	[]	[]	[]
- international	[]	[]	[]	[]	[]
c) Owners/investors					
- local	[]	[]	[]	[]	[]
- international	[]	[]	[]	[]	[]
d) Creditors					
- local banks	[]	[]	[]	[]	[]
- international banks	[]	[]	[]	[]	[]
e) Government agencies	[]	[]	[]	[]	[]
f) Academics	[]	[]	[]	[]	[]
g) The general public	[]	[]	[]	[]	[]
h) Others: list-					
*					
*					

9) The government and the profession together, in an attempt to improve the accounting conditions in the Kingdom, and as a result of a extensive study of the process of accounting regulation and policy formulation, issued Ministerial Decree no. 692 dated 28/2/1406(1986), in which section 51-82 established the accounting objectives; section 233-336 established the accounting concepts to be used; section 578-751 established disclosure standards; and section 1001-3654 established auditing standards.

A) The objectives and the concepts were set in order to be used in the establishment of accounting standards. Projecting from your experience, indicate:

1) the number of accounting standards that have been established based on these objectives and concepts in:

1986	-----
1987	-----
1988	-----

2) the percentage improvement in practice as a result of these standards (using 1985 as a base year):

	% change	
	+	-
1985	0%	0%
1986		
1987		
1988		

3) the percentage of compliance with these standards (using 1985 as a base year):

	% change	
	+	-
1985	0%	0%
1986		
1987		
1988		

B) The disclosure standards identify which items of accounting and non-accounting information should be disclosed, the basis on which they are disclosed, and the format in which they are disclosed. Projecting from your experience, indicate:

1) the percentage improvement in accounting information disclosure (using 1985 as a base year):

	% change	
	+	-
1985	0%	0%
1986		
1987		
1988		

2) the percentage of compliance with these standards (also using 1985 as a base year):

	% change	
	+	-
1985	0%	0%
1986		
1987		
1988		

C) The auditing standards have established qualification rules, professional conduct rules, planning and auditing procedures, independence rules, and audit reporting rules. Projecting from your experience, indicate:

1) the percentage improvement in auditing practice (using 1985 as a base year):

	% change	
	+	-
1985	0%	0%
1986		
1987		
1988		

2) the percentage of compliance with these rules and procedures (also using 1985 as a base year):

	% change	
	+	-
1985	0%	0%
1986		
1987		
1988		

10) Drawing from your experience, indicate what underlying factors have been responsible for the need to improve accounting practice in the past, and may continue to be influential in the future (write in):

C) STATEMENT ITEMS AND QUESTIONS MEASURING EXPERT OPINION REGARDING THE FORM AND AUTHORITY OF THE ACCOUNTING SYSTEM AND ITS FORCE OF APPLICATION

This section is designed to gather your opinions on the form of accounting system most appropriate for the Kingdom, its force of application, and the difficulties associated with the alternatives.

11) The following should be responsible for accounting regulation:

	strongly agree			strongly disagree	
	1	2	3	4	5
a) Professional accounting body only	<input type="checkbox"/>				
b) Company law only	<input type="checkbox"/>				
c) Government body only	<input type="checkbox"/>				
d) Jointly by the profession, law and government	<input type="checkbox"/>				
e) Others: list -					
*					
*					
*					
*					
f) Accounting should not be regulated (free market approach)	<input type="checkbox"/>				

12) If accounting is to be regulated, the following approach should be followed:

	strongly agree			strongly disagree	
	1	2	3	4	5
a) Comprehensive approach (theoretical/conceptual framework)	<input type="checkbox"/>				
b) Pragmatic approach (case by case)	<input type="checkbox"/>				
c) Scientific approach (empirical)	<input type="checkbox"/>				
d) Borrowing from the rules of other countries	<input type="checkbox"/>				
e) Adapting international rules	<input type="checkbox"/>				
f) Other: list -					
*					
*					
*					
*					

13) The following may have been the reasons for the lack of professional regulation:

	strongly agree			strongly disagree	
	1	2	3	4	5
a) The lack of interest in the development of professional rules	[]	[]	[]	[]	[]
b) The lack of interest in the development of professionally organised accountancy body	[]	[]	[]	[]	[]
c) The lack of experience required for self regulation	[]	[]	[]	[]	[]
d) The problem of enforcement	[]	[]	[]	[]	[]
e) The problem of the cost involved	[]	[]	[]	[]	[]
f) Other: list -					
*					
*					
*					
*					

14) The following may have been the reasons for the lack of legal regulation:

	strongly agree			strongly disagree	
	1	2	3	4	5
a) The need for such regulation has not yet been seen as a serious public concern	[]	[]	[]	[]	[]
b) Regulation in this area requires the specialities and human resources which the government does not yet possess	[]	[]	[]	[]	[]
c) Government regulation has not yet been justified in terms of the cost involved	[]	[]	[]	[]	[]
d) Government attitude of non-interference in market mechanisms	[]	[]	[]	[]	[]
e) Professional resistance to such regulations	[]	[]	[]	[]	[]
f) Others: list -					
*					
*					
*					
*					

15) The following may have been the reasons for the accounting regulation enforcement problem:

	strongly agree			strongly disagree	
	1	2	3	4	5
a) The lack of a professional attitude	<input type="checkbox"/>				
b) The lack of respect of formal rules and procedures	<input type="checkbox"/>				
c) The absence of punishment/reward mechanism	<input type="checkbox"/>				
d) Social and cultural constraints (list)					
*					
*					
*					
e) Others: list -					
*					
*					
*					

16) In your opinion, what would be the underlying reason(s) behind the lack of accountants' professional attitude (write in):

D) STATEMENT ITEMS AND QUESTIONS MEASURING EXPERT OPINION REGARDING CERTAIN MEASUREMENT AND DISCLOSURE ISSUES

This section is intended mainly to collect your views regarding the lack of accounting information disclosure and the over-conservative attitude of measurement.

17) Drawing from your experience, indicate the level of disclosure related to the following items of information:

	very high			very low	
	1	2	3	4	5
a) Company's profitability	<input type="checkbox"/>				
b) Company's financial position	<input type="checkbox"/>				
c) Underlying accounting rules & procedures	<input type="checkbox"/>				
d) Accounting changes	<input type="checkbox"/>				
e) Company's activities	<input type="checkbox"/>				
f) The effect of changing prices	<input type="checkbox"/>				
g) Foreign currency translation	<input type="checkbox"/>				
h) Foreign currency risks	<input type="checkbox"/>				
i) Income tax and Zakat	<input type="checkbox"/>				
j) Future plans	<input type="checkbox"/>				
k) Extraordinary items	<input type="checkbox"/>				
l) Bad debts	<input type="checkbox"/>				
m) Advertising and promotion	<input type="checkbox"/>				
n) Research and development	<input type="checkbox"/>				
o) Disaggregated line of business data	<input type="checkbox"/>				
p) Auditing fees	<input type="checkbox"/>				
q) Directors' remuneration and interest	<input type="checkbox"/>				
r) Litigation against the company	<input type="checkbox"/>				
s) Prior period adjustments	<input type="checkbox"/>				
t) Charitable contributions	<input type="checkbox"/>				
u) Employees' related information	<input type="checkbox"/>				
v) Others: list -					
*					
*					
*					

18) Drawing from your experience, indicate the level of disclosure of the following items relative to each other:

	very high			very low	
	1	2	3	4	5
a) Assets disclosure					
x long term	<input type="checkbox"/>				
x short term	<input type="checkbox"/>				
b) Liability disclosure					
x long term	<input type="checkbox"/>				
x short term	<input type="checkbox"/>				
c) Equity disclosure	<input type="checkbox"/>				
d) Operations results disclosure	<input type="checkbox"/>				
e) Non-accounting information disclosure	<input type="checkbox"/>				
f) Others: list -					
*					
*					

19) The following may have been the reasons for the low level of disclosure:

	strongly agree			strongly disagree	
	1	2	3	4	5
a) Lack of professional requirements	<input type="checkbox"/>				
b) Lack of legal requirements	<input type="checkbox"/>				
c) Investors' indifference	<input type="checkbox"/>				
d) General public indifference	<input type="checkbox"/>				
e) Management's attitude of secrecy	<input type="checkbox"/>				
f) Investors' and other outsiders' dependence on informal systems of information sharing, i.e. through connections and personal contacts	<input type="checkbox"/>				
g) Other social and cultural considerations (list) -					
*					
*					

20) Accounting information is disclosed for the following reasons:

	strongly agree			strongly disagree	
	1	2	3	4	5
a) Accounting information is useful to outside users for decision making	<input type="checkbox"/>				
b) It is required by law only	<input type="checkbox"/>				
c) Management motives and incentives	<input type="checkbox"/>				
d) Companies in other countries do it	<input type="checkbox"/>				
e) Others: list - * *					
f) There is no good reason for disclosure	<input type="checkbox"/>				

21) Drawing from your experience, indicate the level of conservatism in the following items:

	very high			very low	
	1	2	3	4	5
a) Assets measurement	<input type="checkbox"/>				
b) Profit measurement	<input type="checkbox"/>				
c) Accounting estimates	<input type="checkbox"/>				
d) Others: list - * *					

22) In your opinion, what would you think the underlying reason(s) for accountants' over-conservative attitude would be? (write in):

E) STATEMENT ITEMS AND QUESTIONS MEASURING EXPERT OPINION REGARDING AUDITORS' INDEPENDENCE

This section is designed to gather your opinions regarding auditor/auditee interdependence, the underlying reasons for this interdependence, and the best strategy for ensuring independence.

23) Auditors are perceived to be:

	very high			very low	
	1	2	3	4	5
a) Independent	[]	[]	[]	[]	[]
b) Professional	[]	[]	[]	[]	[]

24) The following are more likely to ensure independence

	strongly agree			strongly disagree	
	1	2	3	4	5
a) Professional sanctions	[]	[]	[]	[]	[]
b) Legal sanctions	[]	[]	[]	[]	[]
c) Education	[]	[]	[]	[]	[]
d) Others: list -					
*					
*					
*					
e) Independence cannot be ensured	[]	[]	[]	[]	[]

25) Independence cannot be ensured for the following reasons:

	strongly agree			strongly disagree	
	1	2	3	4	5
a) Job security is more important than professional independence	[]	[]	[]	[]	[]
b) Personalisation and friendship is more important than professional independence	[]	[]	[]	[]	[]
c) Familial and friends mutual protection is more important than independence	[]	[]	[]	[]	[]
d) Conflict avoidance is more important than independence	[]	[]	[]	[]	[]
e) Others: list -					
*					
*					
*					

26) Legal or professional requirements of independence are unlikely to guarantee independence because:

	strongly agree			strongly disagree	
	1	2	3	4	5
a) Legal or professional requirements are difficult to enforce effectively	<input type="checkbox"/>				
b) It is difficult to determine when an auditor is dependent or not	<input type="checkbox"/>				
c) Job security is beyond any legal or professional sanctions	<input type="checkbox"/>				
d) Familial and friendship considerations are beyond any legal or professional sanctions	<input type="checkbox"/>				
e) Others: list -					
*					
*					
*					

27) The following statements are related to independence:

	strongly agree			strongly disagree	
	1	2	3	4	5
a) Many auditors/client conflicts are settled internally and privately	<input type="checkbox"/>				
b) Many auditors would accept gifts and/or any other forms of compensation over and above their fee, which can seriously impair independence	<input type="checkbox"/>				
c) Many auditors combine audit service and participation in the decision making process of their client which can seriously impair independence	<input type="checkbox"/>				
d) Many auditors do not consider their client's protection as being in conflict with the honesty and integrity of their audit	<input type="checkbox"/>				
e) Owners/investors do not appreciate or understand the importance of auditors independence	<input type="checkbox"/>				
f) Others: list -					
*					
*					
*					

28) Drawing from your experience, in your opinion what would be the most effective and likely mechanism for achieving greater independence (write in):

F) STATEMENT ITEMS MEASURING EXPERT OPINION REGARDING ACCOUNTING EDUCATION.

This section is intended to gather your opinions regarding general accounting education issues which may be related to one or more of the issues raised in this questionnaire.

29) The most important accounting educational problems are:

	strongly agree			strongly disagree	
	1	2	3	4	5
a) Accounting education is more oriented towards other countries' economic and business environments	[]	[]	[]	[]	[]
b) Accounting programmes concentrate more towards methods and procedures rather than theory	[]	[]	[]	[]	[]
c) Accounting programmes do not follow a national standard	[]	[]	[]	[]	[]
d) Accounting educational programmes do not contain a sufficient number of other related disciplines	[]	[]	[]	[]	[]
e) Accounting research is not effectively distributed among accounting interests	[]	[]	[]	[]	[]
f) Accounting students are not required to undertake any practical training	[]	[]	[]	[]	[]
g) Others: list -					
*					
*					

30) Concentration on the following in educational programmes is more likely to achieve improvements in accounting practice, at least in the short term:

strongly agree				strongly disagree
1	2	3	4	5

- | | |
|--|---------------------|
| a) Accounting regulation and policy formulation (standardisation) | () () () () () |
| b) Professional and ethical issues | () () () () () |
| c) Accounting theory and theory development nationally and internationally | () () () () () |
| d) Comparative international accounting practices | () () () () () |
| e) National and international economic and business conditions | () () () () () |
| f) Others: list - | |
| * | |
| * | |
| * | |
| * | |

31) Drawing from your experience, identify areas which are, if concentrated on, more likely to benefit the development of accounting in the long term (list):

ACCOUNTING DEVELOPMENT IN SAUDI ARABIA:

ISSUES AND QUESTIONS

A DELPHI QUESTIONNAIRE

SECOND ROUND

Conducted by

S.R. AL-AMARI

King Saud University, Riyadh, Saudi Arabia

and

University of Glasgow, Scotland, UK

This questionnaire has been distributed to the panel of experts who responded to the first round questionnaire. The questions in this second and final round have been developed from the responses obtained in the first round.

The objectives of the final round questionnaire are:

- 1) To seek to establish, by means of feedback, consensus (agreement) among experts regarding the answers to questions and issues raised in round one.
- 2) To seek to establish, by means of feedback, the order of importance of certain accounting problems; to specify the possible causes of these problems in rank order; and to determine the appropriateness of their solutions in order of preference.
- 3) To seek to provide further interpretation of certain accounting issues and questions which may have been misunderstood or misinterpreted in the first round (i.e. where little or no agreement was revealed).
- 4) To seek to uncover key ideas or viewpoints drawn from the specialist expert group, and to establish the level of agreement concerning these ideas or viewpoints.

RESPONDENT'S CHARACTERISTICS

Name:.....

- A) ACADEMIC []
- B) PUBLIC ACCOUNTANT []
- C) PRACTICING ACCOUNTANT
IN GOVERNMENT []
- D) PRACTICING ACCOUNTANT
IN INDUSTRY []
- E) PRACTICING ACCOUNTANT
IN BANKING []

INSTRUCTIONS

1. There are considerable similarities between the first round and the second final questionnaires in that respondents are requested to indicate their level of agreement on a five-point scale by ticking the appropriate box provided.
2. Each question in the second round, however, is accompanied by a statistical summary of the first round results. These statistics include:
 - A) The mean. This figure indicates the average responses to each question on the five-point scale.
 - B) The standard deviation. This figure indicates the spread of individual responses from the mean, and is particularly important for this study in that it indicates the strength of consensus (agreement) among experts on specific questions, or on solutions to specific problems. In general, a number larger than two indicates little or no agreement, and a number less than one indicates strong consensus.
 - C) The coefficient of variation. While the standard deviation measures the spread of individual responses within a particular distribution, i.e. responses to a specific question, the coefficient of variation measures the relative disparity between responses to different questions, i.e. the coefficient of variation is a standardising figure. This makes it particularly valuable for the purpose of comparison.

3. This questionnaire has been designed and compiled specifically with Saudi Arabian accounting practice and developments in mind. As an expert on this subject, your opinion is sought; however, you may feel that because of the nature of your experience you are unable to answer some of the questions. In this case, please mark beside or beneath the question "UTA" - UNABLE TO ANSWER.

QUESTIONS

(A) QUESTION ITEMS MEASURING THE EXPERTS' FINAL OPINIONS REGARDING ACCOUNTING AND REPORTING PRACTICES

1. In addressing the question of who are the main users of companies' external accounting reports, the following groups are considered to be significant users:

a) The Department of Zakat and Income Tax:

mean	std. dev.	coeff. of var. %	very high					very low						
			1	2	3	4	5	1	2	3	4	5		
1.5439	0.8878	57.50	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]

b) Owners and investors:

mean	std. dev.	coeff. of var. %	very high					very low						
			1	2	3	4	5	1	2	3	4	5		
1.8103	0.9815	54.21	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]

c) Saudi Banks:

mean	std. dev.	coeff. of var. %	very high					very low						
			1	2	3	4	5	1	2	3	4	5		
1.8571	0.9230	49.70	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]

d) Ministry of Commerce:

mean	std. dev.	coeff. of var. %	very high					very low						
			1	2	3	4	5	1	2	3	4	5		
2.1818	1.0380	47.57	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]

e) Foreign Banks

mean	std. dev.	coeff. of var. %	very high					very low						
			1	2	3	4	5	1	2	3	4	5		
2.2321	1.2648	56.66	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]

f) Chambers of commerce:

mean	std. dev.	coeff. of var. %	very high					very low						
			1	2	3	4	5	1	2	3	4	5		
3.2885	1.2732	38.71	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]

g) Employees:

mean	std. dev.	coeff. of var. %	very high					very low						
			1	2	3	4	5	1	2	3	4	5		
4.370	1.1153	27.62	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]

h) The general public:

mean	std. dev.	coeff. of var. %	very high					very low						
			1	2	3	4	5	1	2	3	4	5		
4.4364	0.9382	21.14	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]

2. In addressing the level of disclosure relating to information issues at a general level, the following information items are considered to have relatively significant levels of disclosure:

a) Company profitability:

mean	std. dev.	coeff. of var. %	very high					very low						
			1	2	3	4	5	1	2	3	4	5		
1.8621	1.0165	54.58	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]

b) Company financial position:

mean	std. dev.	coeff. of var. %	very high					very low						
			1	2	3	4	5	1	2	3	4	5		
2.1379	1.2060	56.41	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]

c) Underlying accounting rules and procedures:

mean	std. dev.	coeff. of var. %	very high					very low						
			1	2	3	4	5	1	2	3	4	5		
2.5862	1.2430	48.06	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]

d) The effects of income tax and Zakat:

mean	std. dev.	coeff. of var. %	very high					very low						
			1	2	3	4	5	1	2	3	4	5		
2.7586	1.2184	44.16	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]

e) The effects of changing prices:

mean	std. dev.	coeff. of var. %	very high					very low						
			1	2	3	4	5	1	2	3	4	5		
3.2931	1.4267	43.32	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]

f) Auditing related information:

mean	std. dev.	coeff. of var. %	very high					very low						
			1	2	3	4	5	1	2	3	4	5		
3.7241	1.1049	29.66	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]

g) Foreign currency risk:

mean	std. dev.	coeff. of var. %	very high					very low						
			1	2	3	4	5	1	2	3	4	5		
3.7241	1.1964	32.12	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]

h) Non-accounting information:

mean	std. dev.	coeff. of var. %	very high					very low						
			1	2	3	4	5	1	2	3	4	5		
3.7931	1.1811	31.09	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]

i) Disaggregated line of business data:

mean	std. dev.	coeff. of var. %	very high					very low						
			1	2	3	4	5	1	2	3	4	5		
3.844	1.0053	26.14	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]

3. In addressing the reasons for the relatively low level of disclosure in some areas, the following are considered relevant:

a) The lack of professional requirements:

mean	std. dev.	coeff. of var. %	strongly agree				strongly disagree
			1	2	3	4	5
1.7759	0.8992	50.63	{ }	{ }	{ }	{ }	{ }

b) The lack of legal requirements:

mean	std. dev.	coeff. of var. %	strongly agree				strongly disagree
			1	2	3	4	5
1.9655	1.0591	53.88	{ }	{ }	{ }	{ }	{ }

c) Management's attitude of secrecy:

mean	std. dev.	coeff. of var. %	strongly agree				strongly disagree
			1	2	3	4	5
1.9828	1.0172	68.59	{ }	{ }	{ }	{ }	{ }

d) The reliance of investors and others on informal methods of obtaining information:

mean	std. dev.	coeff. of var. %	strongly agree				strongly disagree
			1	2	3	4	5
2.3621	1.2096	51.20	{ }	{ }	{ }	{ }	{ }

4. In addressing the purposes for which company external accounting reports are used, the following are considered relevant:

a) Stewardship function:

mean	std. dev.	coeff. of var. %	very high				very low
			1	2	3	4	5
2.0690	1.0063	48.63	{ }	{ }	{ }	{ }	{ }

b) Economic decision making:

mean	std. dev.	coeff. of var. %	very high				very low
			1	2	3	4	5
2.2931	1.2141	52.94	{ }	{ }	{ }	{ }	{ }

c) Government control:

mean	std. dev.	coeff. of var. %	very high				very low
			1	2	3	4	5
2.4821	1.2059	48.58	{ }	{ }	{ }	{ }	{ }

5. Some of the comments obtained in the first round suggested that company external reports are not used by external groups in any meaningful way. Please indicate the level of your agreement with this viewpoint, and/or make additional comments of your own.

strongly agree					strongly disagree
1	2	3	4	5	
[]	[]	[]	[]	[]	

Comments:

(B) QUESTION ITEMS MEASURING THE FINAL OPINIONS OF THE EXPERTS REGARDING THE MOTIVATION AND INVOLVEMENT OF ACCOUNTANTS AND OTHERS IN THE DEVELOPMENT OF THE PROFESSION

6. In addressing the question of who is involved in and motivated by the development of the profession, the following groups are considered to be relevant:

a) International professional accountants:

mean	std. dev.	coeff. of var.	very high				very low
		%	1	2	3	4	5
2.0690	1.2406	59.96	[]	[]	[]	[]	[]

b) Academics:

mean	std. dev.	coeff. of var.	very high				very low
		%	1	2	3	4	5
2.2456	1.2288	54.72	[]	[]	[]	[]	[]

c) Local professional accountants:

mean	std. dev.	coeff. of var.	very high				very low
		%	1	2	3	4	5
2.4138	1.3250	54.89	[]	[]	[]	[]	[]

d) Government agencies:

mean	std. dev.	coeff. of var.	very high				very low
		%	1	2	3	4	5
2.4737	1.3155	45.90	[]	[]	[]	[]	[]

e) Creditors (international banks):

mean	std. dev.	coeff. of var.	very high				very low
		%	1	2	3	4	5
2.6724	1.3428	50.24	[]	[]	[]	[]	[]

f) Creditors (local banks):

mean	std. dev.	coeff. of var.	very high				very low
		%	1	2	3	4	5
2.6897	1.1878	44.16	[]	[]	[]	[]	[]

g) Corporate management:

mean	std. dev.	coeff. of var. %	very high				very low
			1	2	3	4	5
2.7500	1.3652	49.64	[]	[]	[]	[]	[]

h) Owners and investors:

mean	std. dev.	coeff. of %	very high				very low
			1	2	3	4	5
3.0345	1.3373	44.06	[]	[]	[]	[]	[]

i) The general public:

mean	std. dev.	coeff. of var. %	very high				very low
			1	2	3	4	5
4.1053	0.9943	24.21	[]	[]	[]	[]	[]

(C) QUESTION ITEMS MEASURING THE EXPERTS' FINAL OPINIONS REGARDING THE FORM AND AUTHORITY OF THE ACCOUNTING SYSTEM AND ITS MOST APPROPRIATE FORCE OF APPLICATION

7. In addressing the reasons for which accounting should be regulated, the following factors are considered relevant:

a) There is a need to ensure the credibility of accounting information in the public eye.

mean	std. dev.	coeff. of var. %	strongly agree				strongly disagree
			1	2	3	4	5
1.6034	1.0077	62.84	[]	[]	[]	[]	[]

b) There is a need to ensure comparability of accounting information between companies.

mean	std. dev.	coeff. of var. %	strongly agree				strongly disagree
			1	2	3	4	5
1.6842	1.0265	60.94	[]	[]	[]	[]	[]

c) The choice of information to be disclosed cannot be left to individual companies.

mean	std. dev.	coeff. of var. %	strongly agree				strongly disagree
			1	2	3	4	5
1.9655	1.3108	66.69	[]	[]	[]	[]	[]

d) There are no sufficient reasons for introducing accounting regulations.

mean	std. dev.	coeff. of var. %	strongly agree				strongly disagree
			1	2	3	4	5
4.5345	0.8829	19.47	[]	[]	[]	[]	[]

8. In addressing the question of who should be responsible for accounting regulation, the following regulatory arrangements are considered appropriate:

a) Jointly by the profession and government:

mean	std. dev.	coeff. of var. %	strongly agree			strongly disagree	
			1	2	3	4	5
1.8793	1.4877	79.16	[]	[]	[]	[]	[]

b) By a professional accountancy body:

mean	std. dev.	coeff. of var. %	strongly agree			strongly disagree	
			1	2	3	4	5
2.6000	1.3137	50.52	[]	[]	[]	[]	[]

c) Government body only:

mean	std. dev.	coeff. of var. %	strongly agree			strongly disagree	
			1	2	3	4	5
3.8636	1.0251	26.53	[]	[]	[]	[]	[]

9. In addressing the question of what would be the best approach towards establishing accounting regulations, the following approaches are considered relevant:

a) Adapting international rules:

mean	std. dev.	coeff. of var. %	strongly agree			strongly disagree	
			1	2	3	4	5
1.9310	1.1526	59.68	[]	[]	[]	[]	[]

b) The comprehensive approach (conceptual framework):

mean	std. dev.	coeff. of var. %	strongly agree			strongly disagree	
			1	2	3	4	5
2.0179	1.1983	59.38	[]	[]	[]	[]	[]

c) Scientific approach (empirical):

mean	std. dev.	coeff. of var. %	strongly agree			strongly disagree	
			1	2	3	4	5
2.4561	1.2546	51.08	[]	[]	[]	[]	[]

d) Borrowing from the rules of other countries:

mean	std. dev.	coeff. of var. %	strongly agree			strongly disagree	
			1	2	3	4	5
2.6491	1.4204	53.61	[]	[]	[]	[]	[]

10. In addressing the difficulties with government regulations, the following factors are considered significant:

a) The need for such regulations has not yet been recognised as an urgent priority:

mean	std. dev.	coeff. of var. %	strongly agree				strongly disagree
			1	2	3	4	5
2.4828	1.4418	58.07	[]	[]	[]	[]	[]

b) Regulation in this area requires specific expertise which the government has not possessed to date:

mean	std. dev.	coeff. of var. %	strongly agree				strongly disagree
			1	2	3	4	5
2.7586	1.3418	48.64	[]	[]	[]	[]	[]

c) The government's attitude of non-interference in the market mechanism:

mean	std. dev.	coeff. of var. %	strongly agree				strongly disagree
			1	2	3	4	5
2.9474	1.3683	46.42	[]	[]	[]	[]	[]

d) Government regulation has not been justified in terms of the cost involved:

mean	std. dev.	coeff. of var. %	strongly agree				strongly disagree
			1	2	3	4	5
3.4561	1.1963	34.61	[]	[]	[]	[]	[]

11. In addressing the difficulties with accountants' self-regulation, the following factors are considered relevant:

a) The lack of experience required for self-regulation:

mean	std. dev.	coeff. of var. %	strongly agree				strongly disagree
			1	2	3	4	5
1.9828	1.1920	60.11	[]	[]	[]	[]	[]

b) The problem of enforcement:

mean	std. dev.	coeff. of var. %	strongly agree				strongly disagree
			1	2	3	4	5
2.3793	1.2954	54.44	[]	[]	[]	[]	[]

c) The accountants' lack of interest in self-regulation:

mean	std. dev.	coeff. of var. %	strongly agree				strongly disagree
			1	2	3	4	5
2.6724	1.4676	54.91	[]	[]	[]	[]	[]

d) The problem of cost involved:

mean	std. dev.	coeff. of var. %	strongly agree				strongly disagree
			1	2	3	4	5
3.9310	1.2263	31.19	[]	[]	[]	[]	[]

12. In addressing the question of the level of uniformity that should be established, the following are considered appropriate:

a) In format and underlying procedures:

mean	std. dev.	coeff. of var. %	strongly agree					strongly disagree						
			1	2	3	4	5	1	2	3	4	5		
1.6034	1.0913	68.06	()	()	()	()	()	()	()	()	()	()	()	()

b) In format only:

mean	std. dev.	coeff. of var. %	strongly agree					strongly disagree						
			1	2	3	4	5	1	2	3	4	5		
3.8506	1.3016	33.80	()	()	()	()	()	()	()	()	()	()	()	()

c) In underlying procedures only:

mean	std. dev.	coeff. of var. %	strongly agree					strongly disagree						
			1	2	3	4	5	1	2	3	4	5		
3.9699	1.1333	28.54	()	()	()	()	()	()	()	()	()	()	()	()

d) Accountants should be allowed the option to choose between the various accounting methods available to them (i.e. accounting should be flexible):

mean	std. dev.	coeff. of var. %	strongly agree					strongly disagree						
			1	2	3	4	5	1	2	3	4	5		
4.5000	1.0638	23.64	()	()	()	()	()	()	()	()	()	()	()	()

13. In addressing the factors which may have contributed to the relatively uniform and comparable accounting practice, the following are considered relevant:

a) International professional standards:

mean	std. dev.	coeff. of var. %	very high					very low						
			1	2	3	4	5	1	2	3	4	5		
2.1404	1.1090	51.81	()	()	()	()	()	()	()	()	()	()	()	()

b) Legal requirements:

mean	std. dev.	coeff. of var. %	very high					very low						
			1	2	3	4	5	1	2	3	4	5		
2.1607	1.2027	55.66	()	()	()	()	()	()	()	()	()	()	()	()

c) Local professional standards:

mean	std. dev.	coeff. of var. %	very high					very low						
			1	2	3	4	5	1	2	3	4	5		
2.6140	1.3726	52.50	()	()	()	()	()	()	()	()	()	()	()	()

14. In addressing the reasons for the major accounting problems currently encountered, the following are considered to be relevant factors:

a) The lack of professional regulation:

mean	std. dev.	coeff. of var. %	very important			not important	
			1	2	3	4	5
1.5789	0.8440	53.45	()	()	()	()	()

b) The lack of adequate professional education:

mean	std. dev.	coeff. of var. %	very important			not important	
			1	2	3	4	5
1.6207	1.0230	63.12	()	()	()	()	()

c) The non-existence of a professional accountancy body:

mean	std. dev.	coeff. of var. %	very important			not important	
			1	2	3	4	5
1.7586	0.9789	55.66	()	()	()	()	()

d) The problem of enforcement of any form of accounting regulation:

mean	std. dev.	coeff. of var. %	very important			not important	
			1	2	3	4	5
1.8276	0.9203	50.35	()	()	()	()	()

15. First round comments indicate that compliance/enforcement problems stem from the broadly-based, unclear, and relatively few accounting standards and regulations. Please indicate the level of your agreement with this viewpoint, and/or make any additional comments.

strongly agree			strongly disagree		
1	2	3	4	5	
()	()	()	()	()	()

Comments:

(D) QUESTION ITEMS MEASURING THE EXPERTS' FINAL OPINIONS REGARDING AUDITORS INDEPENDENCE

16. In addressing the question of whether auditors are professional and independent, the following responses are considered appropriate:

a) Auditors are professional:

mean	std. dev.	coeff. of var. %	strongly agree			strongly disagree	
			1	2	3	4	5
2.2069	1.1811	53.31	()	()	()	()	()

b) Auditors are independent:

mean	std. dev.	coeff. of var. %	strongly agree			strongly disagree	
			1	2	3	4	5
2.2414	1.2184	54.35	()	()	()	()	()

17. In addressing the ways by which greater independence could be achieved, the following approaches are considered relevant:

a) More professional sanctions:

mean	std. dev.	coeff. of var. %	strongly agree					strongly disagree						
			1	2	3	4	5	1	2	3	4	5		
1.7241	1.0051	58.29	()	()	()	()	()	()	()	()	()	()	()	()

b) More legal sanctions:

mean	std. dev.	coeff. of var. %	strongly agree					strongly disagree						
			1	2	3	4	5	1	2	3	4	5		
1.7586	0.8848	50.31	()	()	()	()	()	()	()	()	()	()	()	()

c) More education:

mean	std. dev.	coeff. of var. %	strongly agree					strongly disagree						
			1	2	3	4	5	1	2	3	4	5		
1.8621	1.6833	58.17	()	()	()	()	()	()	()	()	()	()	()	()

d) Independence is impossible to achieve:

mean	std. dev.	coeff. of var. %	strongly agree					strongly disagree						
			1	2	3	4	5	1	2	3	4	5		
3.5172	1.3796	39.22	()	()	()	()	()	()	()	()	()	()	()	()

18. First round comments suggest that public accountants are constantly under pressure by the dictates of their clients rather than by professional standards. Please indicate the level of your agreement with this viewpoint, and/or make additional comments.

strongly agree					strongly disagree				
1	2	3	4	5	1	2	3	4	5
()	()	()	()	()	()	()	()	()	()

Comments:

19. In addressing the possible reasons for the relative lack of independence, the following factors are considered relevant:

a) Owners' and investors' indifference towards audit independence:

mean	std. dev.	coeff. of var. %	strongly agree					strongly disagree						
			1	2	3	4	5	1	2	3	4	5		
2.0172	1.0343	51.27	()	()	()	()	()	()	()	()	()	()	()	()

b) Auditor's attitude of internal settlement of disputes:

mean	std. dev.	coeff. of var. %	strongly agree					strongly disagree						
			1	2	3	4	5	1	2	3	4	5		
2.2105	1.0813	48.91	()	()	()	()	()	()	()	()	()	()	()	()

c) Auditor's job security:

mean	std. dev.	coeff. of var. %	strongly agree					strongly disagree						
			1	2	3	4	5	1	2	3	4	5		
2.5965	1.4124	54.39	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]

d) Auditor's participation in the decision making process of companies:

mean	std. dev.	coeff. of var. %	strongly agree					strongly disagree						
			1	2	3	4	5	1	2	3	4	5		
2.9298	1.2516	42.71	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]

e) Auditor/auditee personalisation and friendship:

mean	std. dev.	coeff. of var. %	strongly agree					strongly disagree						
			1	2	3	4	5	1	2	3	4	5		
2.9479	1.4195	48.15	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]

f) Auditor/auditee conflict avoidance:

mean	std. dev.	coeff. of var. %	strongly agree					strongly disagree						
			1	2	3	4	5	1	2	3	4	5		
3.0222	1.3566	44.88	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]

g) The fine line between dependence and independence:

mean	std. dev.	coeff. of var. %	strongly agree					strongly disagree						
			1	2	3	4	5	1	2	3	4	5		
3.1552	1.2951	41.04	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]

h) Auditor's acceptance of additional forms of remuneration:

mean	std. dev.	coeff. of var. %	strongly agree					strongly disagree						
			1	2	3	4	5	1	2	3	4	5		
3.3509	1.3822	41.24	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]

i) Auditor/auditee mutual protection:

mean	std. dev.	coeff. of var. %	strongly agree					strongly disagree						
			1	2	3	4	5	1	2	3	4	5		
3.8771	1.4303	46.32	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]

20. Comments obtained in the first round suggest that public accountants compete fiercely for job security. Consequently, some public accountants secure their jobs through contacts, by paying commission, or, in some circumstances, by certifying false reports. Please indicate your level of agreement with this viewpoint, and/or make additional comments.

strongly agree					strongly disagree				
1	2	3	4	5	1	2	3	4	5
[]	[]	[]	[]	[]	[]	[]	[]	[]	[]

Comments:

21. Comments obtained in the first round suggest that there is a credibility gap between accountants and the public, and accountants and their clients in that there is a lack of confidence in the quality of work undertaken by accountants. Please indicate your level of agreement with this viewpoint, and/or make additional comments.

strongly agree					strongly disagree
1	2	3	4	5	
[]	[]	[]	[]	[]	

Comments:

22. Comments obtained in the first round suggest that there is a credibility gap between accountants and their clients, in that the clients do not trust the ability of accountants to maintain confidentiality. Please indicate your level of agreement with this viewpoint, and/or make additional comments.

strongly agree					strongly disagree
1	2	3	4	5	
[]	[]	[]	[]	[]	

Comments:

(E) QUESTION ITEMS MEASURING THE EXPERTS' FINAL OPINIONS REGARDING ACCOUNTING EDUCATION

23. In addressing the question of which areas are in need of urgent development, the following are considered relevant:

a) Professional standards:

			very		not
mean	std. dev.	coeff. of var.	important		important
		%	1	2	3
			4	5	
1.4211	0.7058	49.66	[]	[]	[]
			[]	[]	[]

b) Reporting standards:

			very		not
mean	std. dev.	coeff. of var.	important		important
		%	1	2	3
			4	5	
1.4561	0.6966	47.84	[]	[]	[]
			[]	[]	[]

c) Professional education:

			very		not
mean	std. dev.	coeff. of var.	important		important
		%	1	2	3
			4	5	
1.5000	0.4829	32.19	[]	[]	[]
			[]	[]	[]

24. In addressing the major deficiencies in the existing accounting educational programmes, the following are considered to be relevant factors:

a) Accounting research findings and other related literature are not effectively distributed to accounting students:

mean	std. dev.	coeff. of var. %	very important			not important	
			1	2	3	4	5
			()	()	()	()	()
2.0909	1.0232	48.94					

b) Accounting education is more orientated towards the economic and business environment of other countries:

mean	std. dev.	coeff. of var. %	very important			not important	
			1	2	3	4	5
			()	()	()	()	()
2.2909	1.0124	44.19					

c) Accounting students are not required to undertake practical training:

mean	std. dev.	coeff. of var. %	very important			not important	
			1	2	3	4	5
			()	()	()	()	()
2.5273	1.3588	53.76					

d) Accounting educational programmes do not contain a sufficient number of other related disciplines:

mean	std. dev.	coeff. of var. %	very important			not important	
			1	2	3	4	5
			()	()	()	()	()
2.5370	1.0766	42.43					

e) The accounting programmes of universities do not adhere to uniform standards:

mean	std. dev.	coeff. of var. %	very important			not important	
			1	2	3	4	5
			()	()	()	()	()
2.5610	1.1412	44.56					

25. In addressing the major steps which could be taken to improve accounting educational programmes, the following approaches are considered to be relevant:

a) Concentration on professional and ethical issues:

mean	std. dev.	coeff. of var. %	very important			not important	
			1	2	3	4	5
			()	()	()	()	()
1.5088	0.8686	57.56					

b) Concentration on the process of standardisation and accounting policy formulation:

mean	std. dev.	coeff. of var. %	very important			not important	
			1	2	3	4	5
			()	()	()	()	()
1.6667	0.9129	54.77					

c) Concentration on accounting theory and theory development:

mean	std. dev.	coeff. of var. %	very important			not important	
			1	2	3	4	5
			()	()	()	()	()
1.7018	0.8857	52.04					

APPENDIX C

DELPHI FREQUENCY TABLES

Table 1 indicates experts' responses as to the main users of corporate annual reports.

TABLE 1

User	Frequency					Total	Mean	Rank	Std.dev.	Mean
	(1)	(2)	(3)	(4)	(5)					Score
<u>FIRST ROUND</u>										
Dept. of Zakat	37	12	6	1	1	57	1.543	1	0.887	-
Owners & Investors	28	19	5	6	-	58	1.810	2	0.981	-
Saudi banks	25	17	11	3	-	56	1.857	3	0.923	-
Ministry of Commerce	17	17	17	2	2	55	2.181	4	1.038	-
Foreign banks	22	12	13	5	4	56	2.232	5	1.264	-
Chambers of Commerce	5	9	16	10	12	52	3.288	6	1.273	-
Employees	3	1	11	15	24	54	4.037	7	1.115	-
General Public	1	1	8	8	37	55	4.436	8	0.938	-
<u>SECOND ROUND</u>										
Dept. of Zakat	27	14	11	-	-	52	1.692	1	0.805	09.6
Owners & Investors	18	19	9	6	-	52	2.058	3	0.998	13.7
Saudi banks	17	19	13	3	-	52	2.038	2	0.907	09.7
Ministry of Commerce	6	24	18	4	-	52	2.385	4	0.796	09.3
Foreign banks	6	16	17	11	1	51	2.706	5	1.006	21.2
Chambers of Commerce	6	4	20	14	8	52	3.269	6	1.173	00.5-
Employees	7	5	7	13	19	51	3.627	7	1.428	10.1-
General Public	3	3	6	18	21	51	4.000	8	1.149	09.8-

(1) = very high; (2) = high; (3) = moderately high; (4) = low; (5) = very low.

Table 2 indicates experts' responses as to the main purpose (uses) of company external reporting.

TABLE 2

Purpose	Frequency					Total	Mean	Rank	Std.dev.	Mean Score % Δ
	(1)	(2)	(3)	(4)	(5)					
<u>FIRST ROUND</u>										
Stewardship	20	20	13	4	1	58	2.069	1	1.006	-
Decision making	20	14	14	7	3	58	2.293	2	1.214	-
Government control	18	7	18	12	1	56	2.482	3	1.205	-
Annual reports (not used in a meaningful way)						(Added in the second round)				
<u>SECOND ROUND</u>										
Stewardship	15	24	8	3	-	50	1.980	1	0.845	04.3-
Decision making	10	20	18	4	-	52	2.308	2	0.875	00.6
Government control	6	16	22	7	1	52	2.635	3	0.929	06.1
Annual reports (not used in a meaningful way)	6*	14*	14*	12*	4*	50	2.880	4	1.154	-

(1) Very high; (2) High; (3) Moderately high; (4) Low; (5) Very low.

*(1) Strongly agree; (2) Agree; (3) Moderately agree; (4) Disagree; (5) Strongly disagree.

Table 3 indicates experts' responses regarding the extent of corporate accounting information disclosure.

TABLE 3

Item	Frequency					Total	Mean	Rank	Std.dev.	Mean
	(1)	(2)	(3)	(4)	(5)					Score
										% Δ
FIRST ROUND										
Company										
profitability	38	15	11	3	1	58	1.862	1	1.016	-
Co.financial										
position	23	16	10	6	3	58	2.137	2	1.206	-
Underlying										
acct. rules	15	12	17	10	4	58	2.586	3	1.243	-
Effect of										
Zakat tax	10	15	18	9	6	58	2.758	4	1.218	-
Price level										
changes	10	8	9	17	14	58	3.293	5	1.426	-
Auditing										
related info.	2	7	12	21	16	58	3.724	6	1.104	-
Foreign										
exchange risk	3	8	9	20	18	58	3.725	7	1.196	-
Non-accounting										
information	2	7	14	13	22	58	3.793	8	1.181	-
Disaggregated										
data	1	4	16	19	18	58	3.844	9	1.005	-
SECOND ROUND										
Company										
profitability	25	18	5	2	-	50	1.680	1	0.819	09.7-
Co.financial										
position	24	18	5	3	-	50	1.740	2	0.876	18.5-
Underlying										
acct. rules	7	15	20	7	1	50	2.600	3	0.969	00.5
Effect of										
Zakat tax	4	16	21	7	2	50	2.740	4	0.944	00.6-
Price level										
changes	4	3	16	21	6	50	3.440	7	1.053	04.4
Auditing										
related info.	7	8	11	23	1	50	3.060	5	1.132	17.8-
Foreign										
exchange risk	2	9	13	18	8	50	3.420	6	1.090	08.1-
Non-accounting										
information	1	4	12	16	16	49	3.857	9	1.041	01.6
Disaggregated										
data	3	4	11	22	9	49	3.612	8	1.077	06.0-

(1) = very high; (2) = high; (3) = moderately high; (4) = low; (5) = very low.

Table 4 indicates the experts responses as to the possible reasons for the general low level of corporate disclosure.

TABLE 4

Reason	Frequency					Total	Mean	Rank	Std.dev.	Mean Score % Δ
	(1)	(2)	(3)	(4)	(5)					
<u>FIRST ROUND</u>										
Lack of professional requirements	26	23	6	2	1	58	1.775	1	0.899	-
Lack of legal requirements	23	22	7	4	2	58	1.965	2	1.059	-
Management attitude	23	19	11	4	1	58	1.982	3	1.017	-
Informal reporting	15	22	11	5	5	58	2.362	4	1.209	-
<u>SECOND ROUND</u>										
Lack of professional requirements	22	20	6	3	1	52	1.865	1	0.971	05.0
Lack of legal requirements	20	14	14	3	1	52	2.058	2	1.037	04.7
Management attitude	12	24	11	5	-	52	2.173	3	0.901	09.6
Informal reporting	8	23	15	4	2	52	2.404	4	0.975	01.7

(1) strongly agree; (2) agree; (3) moderately agree; (4) disagree; (5) strongly disagree.

Table 5 indicates experts' responses as to the major contributing factors to the currently encountered accounting profession's problems.

TABLE 5

Factors	Frequency					Total	Mean	Rank	Std.dev.	Mean Score % Δ
	(1)	(2)	(3)	(4)	(5)					
<u>FIRST ROUND</u>										
Lack of professional requirements	33	18	4	1	1	57	1.578	1	0.844	-
Lack of adequate professional education	37	12	5	2	2	58	1.620	2	1.023	-
Lack of professional accountancy body	30	17	7	3	1	58	1.758	3	0.978	-
Enforcement problem	27	17	11	3	-	58	1.827	4	0.920	-
<u>SECOND ROUND</u>										
Lack of professional requirements	23	17	8	3	1	52	1.885	1	1.003	19.4
Lack of adequate professional education	17	21	10	4	-	52	2.019	4	0.918	24.6
Lack of professional accountancy body	24	12	11	5	-	52	1.942	2	1.037	10.4
Enforcement problem	20	16	11	2	1	51	1.960	3	0.989	07.2

(1) Very important; (2) important; (3) moderately important; (4) less important; (5) not important.

Table 6 indicates experts' opinions regarding the reasons for which accounting should be regulated.

TABLE 6

Reasons	Frequency					Total	Mean	Rank	Std.dev.	Mean Score %Δ
	(1)	(2)	(3)	(4)	(5)					
<u>FIRST ROUND</u>										
Accounting credibility	37	13	4	2	2	58	1.603	1	1.007	-
Accounting comparability	35	11	5	6	-	57	1.684	2	1.026	-
Management misuse	29	17	3	3	6	58	1.965	3	1.310	-
No good reason	2	-	3	13	40	58	4.534	4	0.882	-
<u>SECOND ROUND</u>										
Accounting credibility	32	15	3	2	-	52	1.519	1	0.779	05.2-
Accounting comparability	20	26	3	2	1	52	1.808	2	0.864	07.3
Management misuse	21	15	14	2	-	52	1.942	3	0.916	01.1-
No good reason	4	6	3	15	23	51	3.922	4	1.309	13.4-

(1) Strongly agree; (2) Agree; (3) Moderately agree; (4) Disagree; (5) Strongly disagree.

Table 7 indicates the experts' responses as to the main factors which may have assisted the relative comparability in accounting practice.

TABLE 7

Factors	Frequency					Total	Mean	Rank	Std.dev.	Mean Score % Δ
	(1)	(2)	(3)	(4)	(5)					
<u>FIRST ROUND</u>										
International standards	18	23	9	4	3	57	2.140	1	1.090	-
Legal requirements	22	14	12	5	3	56	2.160	2	1.202	-
Local customs	17	10	15	8	7	57	2.614	3	1.372	-
<u>SECOND ROUND</u>										
International standards	21	21	4	2	2	50	1.860	1	1.010	13.0-
Legal requirements	11	19	14	6	-	50	2.300	2	0.953	06.4
Local customs	10	12	13	10	4	49	2.714	3	1.242	03.8

(1) Very high; (2) High; (3) Moderately high; (4) Low; (5) Very low.

Table 8 indicates experts' responses as to the main areas in need of immediate development in order of importance.

TABLE 8

Areas	Frequency					Total	Mean	Rank	Std.dev.	Mean Score	% Δ
	(1)	(2)	(3)	(4)	(5)						
<u>FIRST ROUND</u>											
Professional standards	39	13	4	1	-	57	1.421	1	0.705	-	
Reporting standards	36	16	5	-	-	57	1.456	2	0.696	-	
Professional education	36	19	1	-	2	58	1.500	3	0.482	-	
<u>SECOND ROUND</u>											
Professional standards	29	20	3	-	-	52	1.500	2	0.610	05.5	
Reporting standards	27	17	7	1	-	52	1.654	3	0.789	13.5	
Professional education	36	12	4	-	-	52	1.385	1	0.631	07.6-	

(1) Very important; (2) important; (3) moderately important; (4) less important; (5) not important.

Table 9 indicates the experts' responses as to who should be responsible for accounting regulation.

TABLE 9

Organisation	Frequency					Total	Mean	Rank	Std.dev.	Mean Score	%Δ
	(1)	(2)	(3)	(4)	(5)						
<u>FIRST ROUND</u>											
Jointly by government and the profession	40	4	3	3	8	58	1.879	1	1.487	-	
Professional accountancy body only	13	16	13	6	7	55	2.600	2	1.313	-	
Government body only	-	4	14	10	16	44	3.863	3	1.025	-	
<u>SECOND ROUND</u>											
Jointly by government and the profession	23	12	12	4	1	52	2.000	1	1.085	06.4	
Professional accountancy body only	14	17	17	4	-	52	2.212	2	0.936	14.9-	
Government body only	2	3	15	19	13	52	3.731	3	1.031	03.4-	

(1) Strongly agree; (2) Agree; (3) Moderately agree; (4) Disagree; (5) Strongly disagree.

Table 10 indicates the experts' responses as to the main difficulties with government regulation.

TABLE 10

Factors	Frequency					Total	Mean	Rank	Std.dev.	Mean Score % Δ
	(1)	(2)	(3)	(4)	(5)					
<u>FIRST ROUND</u>										
No urgent necessity	19	16	8	6	9	58	2.482	1	1.441	-
Absence of expertise	12	15	15	7	9	58	2.758	2	1.341	-
Free market attitude	11	10	18	7	11	57	2.947	3	1.368	-
Cost involved	3	10	16	14	14	57	3.456	4	1.196	-
<u>SECOND ROUND</u>										
No urgent necessity	9	17	17	6	2	51	2.510	2	1.046	01.1
Absence of expertise	13	17	8	2	1	41	2.049	1	0.973	25.7-
Free market attitude	7	15	21	9	-	52	2.615	3	0.932	11.2-
Cost involved	2	12	16	15	7	52	3.250	4	1.082	05.9-

(1) Strongly agree; (2) Agree; (3) Moderately agree; (4) Disagree; (5) Strongly disagree.

Table 11 indicates the experts' responses as to the main difficulties with professional self-regulation.

TABLE 11

Factors	Frequency					Total	Mean	Rank	Std.dev.	Mean Score	% Δ
	(1)	(2)	(3)	(4)	(5)						
<u>FIRST ROUND</u>											
Lack of experience	26	18	7	3	4	58	1.982	1	1.920	-	
Enforcement problem	17	19	12	3	7	58	2.379	2	1.295	-	
Lack of interest	17	13	10	8	10	58	2.672	3	1.467	-	
Cost problems	5	2	9	18	24	58	3.931	4	1.226	-	
<u>SECOND ROUND</u>											
Lack of experience	13	19	9	8	3	52	2.404	2	1.192	21.2	
Enforcement problem	17	17	11	4	3	52	2.212	1	1.160	07.0	
Lack of interest	7	20	17	7	1	52	2.519	3	0.960	05.7-	
Cost problems	4	10	21	14	3	52	3.038	4	1.009	22.7-	

(1) Strongly agree; (2) Agree; (3) Moderately agree; (4) Disagree; (5) Strongly disagree.

Table 12 indicates experts' responses as to who is motivated and involved in the development of the accounting profession.

TABLE 12

Groups	Frequency					Total	Mean	Rank	Std.dev.	Mean Score	% Δ
	(1)	(2)	(3)	(4)	(5)						
<u>FIRST ROUND</u>											
International accountants	24	19	7	3	5	58	2.069	1	1.240	-	
Academics	21	13	15	4	4	57	2.245	2	1.228	-	
Local accountants	19	16	7	12	4	58	2.413	3	1.325	-	
Government agencies	12	20	14	8	3	57	2.473	4	1.315	-	
International banks	14	15	12	10	7	58	2.672	5	1.342	-	
Local banks	10	17	17	9	5	58	2.689	6	1.187	-	
Corporate management	12	15	13	7	9	56	2.750	7	1.365	-	
Owners and investors (local)	11	8	16	14	9	58	3.034	8	1.337	-	
General public	1	2	13	15	26	57	4.105	9	0.994	-	
<u>SECOND ROUND</u>											
International accountants	19	18	9	6	-	52	2.038	1	1.004	01.4-	
Academics	15	21	11	5	-	52	2.115	2	0.943	05.7-	
Local accountants	12	25	11	3	1	52	2.154	3	0.916	10.7-	
Government agencies	12	18	15	6	1	52	2.346	4	1.027	05.1-	
International banks	8	10	22	8	3	51	2.765	7	1.088	03.4	
Local banks	12	13	20	4	2	51	2.431	5	1.063	09.5-	
Corporate management	7	17	22	5	1	52	2.538	6	0.917	07.7-	
Owners and investors (local)	5	8	26	9	3	51	2.941	8	0.988	03.0-	
General public	1	8	7	21	14	51	3.765	9	1.088	08.2-	

(1) Very high; (2) High; (3) Moderately high; (4) Low; (5) Very low.

Table 13 indicates experts' responses as to what would be the best approach towards establishing accounting standards.

TABLE 13

Approach	Frequency					Total	Mean	Rank	Std.dev.	Mean Score % Δ
	(1)	(2)	(3)	(4)	(5)					
<u>FIRST ROUND</u>										
Adopting international rules	28	15	9	3	3	58	1.931	1	1.152	-
Conceptual framework	25	15	10	2	4	56	2.017	2	1.198	-
Empirical	15	17	15	4	6	57	2.456	3	1.254	-
Borrowing from other countries	16	13	12	7	9	57	2.649	4	1.420	-
<u>SECOND ROUND</u>										
Adopting international rules	22	17	5	5	3	52	2.038	1	1.024	05.5
Conceptual framework	13	15	19	3	1	51	2.294	2	0.986	13.7
Empirical	9	8	25	7	3	52	2.750	3	1.082	11.9
Borrowing from other countries	4	11	17	16	4	52	3.096	4	1.071	16.8

(1) Strongly agree; (2) Agree; (3) Moderately agree; (4) Disagree; (5) Strongly disagree.

Table 14 indicates the experts' responses as to the appropriate level of uniformity that should be established.

TABLE 14

Uniformity Level	Frequency					Total	Mean	Rank	Std.dev.	Mean
	(1)	(2)	(3)	(4)	(5)					Score
<u>FIRST ROUND</u>										
In format & underlying procedures	39	11	3	2	3	58	1.603	1	1.091	-
In format only	5	4	10	13	25	57	3.850	2	1.301	-
Underlying procedures only	1	5	16	8	27	57	3.969	3	1.133	-
Total flexibility	2	3	4	4	45	58	4.500	4	1.063	-
<u>SECOND ROUND</u>										
In format & underlying procedures	27	15	8	-	-	50	1.620	1	0.753	01.0
In format only	2	7	15	15	11	50	3.520	4	1.111	08.5-
Underlying procedures only	2	7	13	19	8	49	3.490	3	1.063	12.0-
Total flexibility	11	5	7	19	8	50	3.160	2	1.419	29.7-

(1) Strongly agree; (2) Agree; (3) Moderately agree; (4) Disagree; (5) Strongly disagree.

Table 15 indicates experts' responses as to the main factors contributing to the relatively low level of independence.

TABLE 15

Factors	Frequency					Total	Mean	Rank	Std.dev.	Mean Score	% Δ
	(1)	(2)	(3)	(4)	(5)						
<u>FIRST ROUND</u>											
Investors' indifference	22	20	10	5	1	58	2.017	1	1.034	-	
Internal settlement of disputes	16	22	13	3	3	57	2.210	2	1.081	-	
Job security	17	12	14	5	9	57	2.596	3	1.412	-	
Participation in corporate decisions	6	19	14	9	9	57	2.929	4	1.251	-	
Personalisation & friendship	12	11	13	10	11	57	2.947	5	1.419	-	
Conflict avoidance	6	13	9	8	9	45	3.022	6	1.356	-	
Mutual protection	7	20	19	3	8	57	3.087	7	1.430	-	
Fine line between dependence & independence	5	17	12	12	12	58	3.155	8	1.295	-	
Additional forms of remuneration	7	10	12	12	16	57	3.350	9	1.382	-	
<u>SECOND ROUND</u>											
Investors' indifference	13	22	15	1	1	52	2.135	2	0.886	05.8	
Internal settlement of disputes	4	26	17	4	-	51	2.412	4	0.753	09.1	
Job security	23	14	10	4	1	52	1.962	1	1.066	24.4-	
Participation in corporate decisions	8	10	23	8	3	52	2.769	7	1.078	05.4-	
Personalisation & friendship	13	8	24	7	-	52	2.481	5	1.019	15.8-	
Conflict avoidance	7	24	16	5	-	52	2.365	3	0.841	21.7-	
Mutual protection	3	15	20	14	-	52	2.865	8	0.886	07.1-	
Fine line between dependence & independence	9	14	19	10	-	52	2.577	6	0.997	18.3-	
Additional forms of remuneration	5	8	19	15	5	52	3.135	9	1.103	06.4-	

(1) Strongly agree; (2) Agree; (3) Moderately agree; (4) Disagree; (5)

Table 16 indicates experts' responses as to how greater independence can be achieved.

TABLE 16

Method	Frequency					Total	Mean	Rank	Std.dev.	Mean Score	% Δ
	(1)	(2)	(3)	(4)	(5)						
<u>FIRST ROUND</u>											
Professional sanctions	31	18	5	2	2	58	1.724	1	1.005	-	
Legal sanctions	27	21	8	1	1	58	1.758	2	0.884	-	
Educational requirements	29	14	12	-	3	58	1.862	3	1.683	-	
Independence cannot be achieved	6	10	9	14	19	58	3.517	4	1.379	-	
<u>SECOND ROUND</u>											
Professional sanctions	19	22	8	2	-	51	1.863	3	0.825	08.0	
Legal sanctions	23	22	5	1	-	51	1.686	2	0.735	04.0-	
Educational requirements	27	19	4	2	-	52	1.635	1	0.793	12.1-	
Independence cannot be achieved	4	4	7	20	17	52	3.808	4	1.205	08.2	

(1) Strongly agree; (2) Agree; (3) Moderately agree; (4) Disagree; (5) Strongly disagree.

Table 17 indicates experts' opinions as to major deficiencies in the existing accounting educational programmes, in order of importance.

TABLE 17

Factors	Frequency					Total	Mean	Rank	Std.dev.	Mean
	(1)	(2)	(3)	(4)	(5)					Score

<u>FIRST ROUND</u>										
Students are unacquainted with books/materials	19	18	13	4	1	55	2.090	1	1.023	-
Orientation to other business environments	14	19	14	8	-	55	2.290	2	1.012	-
No practical training	15	16	12	4	8	55	2.527	3	1.358	-
No exposure to other related disciplines	10	17	17	8	2	54	2.537	4	1.076	-
No uniform standards within universities	8	12	14	4	3	41	2.561	5	1.141	-
<u>SECOND ROUND</u>										
Students are unacquainted with books/materials	14	23	10	3	2	52	2.040	1	0.856	02.3-
Orientation to other business environments	14	19	11	3	1	48	2.125	2	0.981	07.2-
No practical training	13	15	16	4	-	48	2.229	3	0.951	11.7-
No exposure to other related disciplines	16	8	14	9	1	48	2.396	5	1.198	05.5-
No uniform standards within universities	10	18	17	1	1	47	2.255	4	0.896	11.9-

(1) Very important; (2) important; (3) moderately important; (4) less important; (5) not important.

Table 18 indicates experts' opinions regards major accounting programmes which could contribute towards improving accounting education, in order of importance.

TABLE 18

Accounting Programme	Frequency					Total	Mean	Rank	Std.dev.	Mean
	(1)	(2)	(3)	(4)	(5)					Score
										% Δ
FIRST ROUND										
Emphasis on professional ethics	36	17	2	-	2	57	1.508	1	0.868	-
Emphasis on standardisation & policy	31	18	5	2	1	57	1.667	2	0.912	-
Emphasis on theory & theory development	29	19	7	1	1	27	1.701	3	0.885	-
Emphasis on comparative international practice	25	22	8	1	1	57	1.789	4	0.881	-
Emphasis on national/international business conditions	21	12	20	2	1	56	2.107	5	1.021	-
SECOND ROUND										
Emphasis on professional ethics	29	19	3	-	-	51	1.490	1	0.612	01.1-
Emphasis on standardisation & policy	22	24	4	1	-	51	1.686	2	0.707	01.1
Emphasis on theory & theory development	15	26	8	2	-	51	1.941	3	0.785	14.1
Emphasis on comparative international practice	12	22	11	5	1	51	2.235	4	0.992	24.9
Emphasis on national/international business conditions	12	18	14	5	2	52	2.353	5	1.074	11.6

(1) Very important; (2) important; (3) moderately important; (4) less important; (5) not important.