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INSTITUTIONAL ASPECTS AND THE IMPLEMENTATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS IN SAUDI ARABIA

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Abstract: *Saudi Arabia has recently made the decision for the transition to International Accounting Standards (IAS) and International Standards on Auditing (ISA). In fact, it is hard to name precisely the body involved in monitoring and enforcement of reporting and disclosure standards because of the diversity and complexity in the Saudi institutional framework for financial reporting system. Saudi Arabian Monetary Agency (SAMA) has mandated International Financial Reporting Standards (IFRS) for banks and insurance companies. Whereas all other listed companies continue to use domestically developed accounting standards by Saudi Organization for Certified Public Accountants (SOCPA) over IFRS. The purpose of this paper is to explore the institutional aspects of Saudi Arabia's readiness to implement IFRS. The research methodology is archival using mainly secondary sources. There is evidence that the SAMA is more capable of adopting IFRS, than the SOCPA which is less enthusiastic to converge with IFRS.*

Keywords*: IAS, ISA, IFRS, SAMA, SOCPA, MOC, CMA, IFAC.*

I. INTRODUCTION

As of the beginning of 2012 over 130 countries either require or permit use of international financial reporting standards (IFRS) for preparation of financial statements by enterprises in their respective jurisdictions. Most major economies have either adopted IFRS or established time lines and action plans to converge with or adopt IFRSs in the near future. For example, Australia and New Zealand are developed standard-setting countries and have adopted IFRS since 2005 and 2007 respectively. Hong Kong also adopted IFRS in 2005. Brazil, Russia, India, Canada, and Japan are also now applying IFRS. Most European countries were undeveloped in standard-setting terms in 2005. There are currently two major debates surrounding the adoption of IFRS. The proponents believed application of IFRS results in higher quality financial reporting than domestic standards. Proponents of IFRS argue that improvement in financial reporting and disclosure resulting from application of IFRS would lower information asymmetry and insider

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trading and will decrease costs of capital, improve transparency, heighten forecasting capability by the investors about firm's future earnings, and will eventually increase capital flow across borders (e.g., Armstrong *et al.*, 2010; Ball, 2006; Barth *et al.*, 2008; Gordon, 2008; Kvaal and Nobes, 2010, Ramanna and Sletten, 2009; Soderstrom and Sun, 2007). By eliminating many international differences in accounting standards, and standardizing reporting formats, many others believe that IFRS will eliminate differences and will make companies' financial information more comparable internationally. IFRS adoption therefore could make it less costly for investors to compare firms across markets and countries (Armstrong *et al.*, 2010; Brown, 2011).

Indeed, leaders from the Group of Twenty (G20) countries have established their support for developing a single set of high-quality global accounting standards (FSB Sep, 2009). In April 2009, at its London Summit, the leaders of the G20 countries stated that standard setters should "make significant progress towards a single set of high quality global accounting standards." Then at their summit in Pittsburgh in September 2009 they called international accounting bodies to redouble their efforts to achieve a single set of high quality, global accounting standards within the context of their independent standard-setting process, and complete their convergence project by June 2011.

The Financial Accounting Standard Board (FASB) and International Accounting Standard Board (ISB) convergence plan has been one of the greatest advantages in helping IFRS gain a foothold. U.S. Generally accepted accounting principles (GAAP) and IFRS are the prominent and most widely used accounting standards. If the convergence project leads to future agreement between these two standards sets, global financial reporting will be based on one set of standards.

The opponents, on the other hand, argue that the process of adoption and conversion to IFRS creates many obstacles and challenges as a result of significant differences among countries with respect to institutional, legal, economic, and cultural systems. Prior research (e.g., Ball [1995], Ball, Robin, and Wu [2003], and Ball [2006]) indicates that the effectiveness of the IFRS adoption is likely to depend on the underlying economic and political institutions influencing the incentives of the managers and auditors responsible for financial statement preparation. They express concerns about whether the IFRS adoption can credibly increase disclosure and comparability in settings where implementation and enforcement of IFRS is poor and, thus, could erase any potential benefits. Ball (2006) argues that despite the more widespread use of one set of IFRS around the world, this may not lead to convergence in actual financial reporting because the institutional context may not support the implementation of standards aimed to satisfy investor needs for information. Thus, a single set of standards might not accommodate the differing political and economic features and the use of IFRS does not necessarily improve accounting quality. As a result, there are still many challenges to further development and authoritative implementation.

Studies by academics (UN 2008) have found that challenges facing adopting IFRS might be classified on the following issues: institutional, enforcement, implementation, translation, complexity and structure of the International Standards, technical, lack of IFRS knowledge of the firms, inexperience of the audit firms, ignorance of the investment environment, comprehensive assessment of GAAP differences and their effects, customized IFRS education and training for all different, constituents, ensuring due process and governance improvement of the IFRS Foundation, and maintenance of convergence progress between IFRSs and national GAAP. Although many countries have adopted IFRS, questions continue to be raised about the use of IFRS, (Lont and Wong, 2010).

The research on IFRS is still very limited in the Arab/Gulf countries. In Saudi Arabia the research on IFRS is scarce, Al Motairy and Al Torky (2012) conducted a survey research on accounting curriculum and IFRS in Saudi universities. The questionnaire used by KPMG-AAA Faculty Survey (2008) was adopted in this research after amending it to serve the purposes of this research and in conformity with the reality of accounting education in Saudi Arabia. From the research results, a large majority of respondents agreed on the need to adopt the IFRS in Saudi Arabia, which require Saudi universities to incorporate and teach IFRS.

Saudi Arabia has been listed in some official and international reports as the only country of the G20, which does not permit or require the use of IFRS (see appendix 1), nor the local accounting standards setting body, the SOCPA) has yet announced a clear adoption plan to converge its own accounting standards with IFRS. This controversy is due to Saudi Arabia has not yet officially indicated its intention to adopt IFRS, although only recently a decision has been made to the transition to IAS and International Standards on Auditing.

Thus the major objective of our paper is to identify and to examine institutional aspects of implementing IFRS in Saudi Arabia.

II. RESEARCH METHODOLOGY

This study is primarily qualitative and do not use any quantitative tool to analyze the data. In order to explore the institutional aspects and challenges facing the adoption of IFRS in the Saudi context, this paper relies on documentary evidence. Information has been obtained from following sources: the regulations issued by professional and related government agencies, annual reports issued by some listed companies, and the official reports[1] relating to the efforts of the adoption of the IFRS.

The remainder of the paper is organized as follows. The section III describes the Saudi institutional context and the overhaul of relevant Saudi laws, regulations, and framework for disclosure. Section IV provides an overviews of the adoption of IFRS in Saudi banks and insurance companies. The paper then concludes with insightful discussions in section V.

III. THE SAUDI INSTITUTIONAL FRAMEWORK

In Saudi Arabia, it is hard to name precisely the body involved in monitoring and enforcement of reporting and disclosure standards because of the diversity and complexity in the Saudi legal framework for disclosure. These functions are currently undertaken by various bodies, in varying degrees: Ministry of Commerce (MOC), d Capital Market Authority (CMA), SOCPA, and SAMA. The MOC, through its Companies General Management (CGM), is currently the body involved in the review of all annual reports, and offering documents issued by listed companies. The CGM, with its legislative power, can take enforcement actions against listed companies, in cases of serious non-compliance, and impose sanctions, which serve to deter improper financial reporting.

Until the end of 1991, there was no professional accounting organization in Saudi Arabia. A new comprehensive regulation was introduced in November 1991 to be effective from that date.[1] The current structure of the auditing profession in Saudi Arabia was based initially on the 1991 Certified Public Accountants Regulation (1991 CPA Regulation), which superseded the 1974 Public Accountants Regulation. It consists of 38 articles divided into four categories: conditions and procedures of registration in the register, obligations of public accountants, the call to establish SOCPA, and general rules. The most important feature of this new regulation was the establishment of the professional organization. SOCPA is the only professional accounting organization in Saudi Arabia and it works under the supervision of the Ministry of Commerce (MOC) with some administrative responsibility delegated by them. The primary objectives of SOCPA include providing CPA examinations, developing accounting and auditing standards, defining professional ethics, establishing CPA quality review programs, and organizing training courses to provide continuous professional education for CPAs. After the emergence of SOCPA early in 1992, technical committees were created, responsible for the achievement of SOCPA's objectives. The SOCPA regulates the reporting and disclosure standards for listed companies. However, its scope is restricted to practicing members of SOCPA in their capacity as auditors of listed companies. As SOCPA has no authority over listed companies, it is unable to monitor and enforce compliance with reporting and disclosure requirements by the companies. As presented in the report of (SOCPA, 2009), the 2009 action plan prepared by the SOCPA for the International Federation of Accountants (IFAC) states that the SOCPA has indicated that the convergence of national standards with IFRSs is its objective. The SOCPA, in the action plan (see appendix 2), highlights ongoing efforts to identify obstacles to the convergence process, as well as in identifying opportunities to further enable the implementation of IFRSs.

However, there is still a lack of clarity in convergence with IFRS. During the last 20 years SOCPA worked heavily on providing CPA examinations, developing accounting and auditing standards, overseeing professional ethics, establishing CPA quality review programs, and organizing training courses to provide continuous professional education for CPAs.

According to ROSC (2009), "SOCPA is the accounting and auditing standard setter, their authority is generally respected and there is an explicit legal basis for SOCPA to set accounting and auditing standards via sub-committees (SOCPA has nine in total)." (ROSC, 2009, p. 4). The development and reviewing of all accounting standards in Saudi Arabia is the responsibility of the Accounting Standards Committee (ASC), which is part of SOCPA. By the end of 2011 there were 20 Saudi Accounting Standards in effect and they covered most business transactions and events relevant to public companies in Saudi Arabia. Generally, Saudi Accounting Standards deal with topics covered by the USA, the UK and international accounting standards plus topics of local importance (i.e. the Zakat and income tax). The following table shows the Saudi Accounting that was issued by SOCPA up to present. Table 1 summarizes positions of Saudi Accounting Standards as of December 2011.

Table 1
Saudi Accounting Standards up to the Present

N	*Standards*	*Year of issue*
1	General presentation and disclosure	1986
2	Foreign currency	1997
3	Inventory	1997
4	Related party disclosure	1997
5	Revenue	1998
6	Administration and marketing expenses	1998
7	Research and development cost	1998
8	Consolidation of financial statements	1998
9	Investment in securities	1998
10	Preliminary financial reports	1999
11	Zakat and income tax	1999
12	Fixed assets	2001
13	Accounting for leases	2001
14	Segmental reports	2002
15	Accounting for investment according to property rights	2002
16	Intangible assets	2002
17	Accounting for government grants and subsidies	2003
18	Accounting for the Impairment of non current assets	2004
19	Earning per Share	2007
20	Accounting for services constructions contracts	2010
21	Accounting for Business Combinations	2011

Source: www.socpa.org.sa

Over the years, SOCPA was not in favor of the adoption of IASs/IFRSs, SOCPA has followed a regular approach to issue Saudi Standards. SOCPA launched its 'strategic Plan' for 2009-2013, in February 2009. It outlines how the SOCPA will continue in its current procedure to issue accounting standards (i.e. Saudi accounting standards). The strategic plan, has not referred to convergence to IASs/ IFRS.

Since December 2002, SOCPA has issued only four standards as compared to sixteen standards that been issued during the period previous to 2003. This might be justified by the fact that in December 2002, SOCPA issued a decision stated that in the absence of Saudi accounting standard or professional opinion as issued by SOCPA, the accounting standard issued by the IASC or that issue shall be considered the generally accepted standard in this respect. As a matter of fact, some of the IFRS are translated into Arabic, forming the basis for drafting Saudi accounting standard. In short, IFRS is adopted in Saudi Arabia when the national accounting standards do not offer a provision for a particular case. It was understood that SOCPA decision in 2002 to start adopting IASs was primarily to solve the disagreement with SAMA, where SAMA arguments were influential.

According to ROSC (2009), "progress has been made in improving National Accounting and Auditing Standards, but convergence with IFRS is not currently planned." (ROSC, 2009, p. 4). Only recently, the announcement to move to IFRS happens on April 2012 through SOCPA' board of directors chaired by the Minister of Commerce and Industry (the Chairman of SOCPA' Board), at its ninth meeting for the sixth session. The meeting was chaired by His Excellency the Minister of Trade and Industry Dr. Tawfiq Al-Rabiah. The main topic discussed was the transition to international accounting standards and international auditing standards.[3]

The Steering Committee has held a number of meetings to consider the issue of compatibility with international standards, and reviewed the decisions of the committees of standards of accounting and auditing standards in this regard, which included the recommendation that the two Committees in accordance with the interim accounting standards and international auditing standards. The Committee considered a majority suitable transition to international standards thoughtfully take into account local factors and that is this shift gradually and over a period of time sufficient to create a local environment technically and professionally to the transition to international standards, and to achieve the best results to improve the quality of financial reporting. The project included the operational procedures for the transition to the criteria International and clarification of the role of the Authority after the transformation, which includes follow-up developments on the international standards and to provide standards and guidelines applied accounting for transactions compliant with *Sharia* and review it with is not covered by international standards, and the establishment of the body play an active role in influencing the international standards before they are issued, and sending notes on papers debate and draft standards , and propose issues new standards, and other areas that can be shared international councils where, with emphasis on the continuation of the body in the service of interested parties regarding the issuance of instructions applied to the criteria as needed, in addition to the issuance of standards and the views of a professional for any topics not issued upon processing within the international standard. The implication of this endeavor is to give confidence that the convergence process in the Saudi context is on its early stage to provide a clear adoption /convergence plans to converge its own accounting standards with IFRS.

SAMA requires all banks, insurance companies, and other financial institutions in Saudi Arabia to prepare their financial statements in accordance with IFRSs. Other listed companies are required to prepare their financial reporting based on Saudi accounting standards. This means that the greatest influence for the adoption of IFRSs in Saudi Arabia is done by SAMA.

The CMA, established in 2003, is a government organization responsible for regulating the Saudi Arabian capital markets. Its responsibilities include setting rules and regulations, making sure they are followed, operating a committee to settle disputes and developing the capital markets in Saudi Arabia. The CMA ensures the compliance of listed companies with the initial disclosure requirements. Reviewing announcements of listed companies' financial results, material developments or events to ensure their compliance with the CMA and implementing its regulations, and all relevant instructions issued by the CMA. In 2006, the CMA passed a Corporate Governance Regulation for listed companies to strengthening the supervisory functions.

According to CMA (2010), there are nearly 146 listed companies in the Saudi stock market. The Saudi stock market comprises eight sectors: Banking 11, Services and Real Estates 45, Industrial 36, Cement 9, Electrical 1, Telecommunication 4, Insurance 31, and Agriculture 9. They are allowed to use only national standards or IAS. In contrast, Saudi banks and insurance companies are required to apply IFRS and accounting and disclosure standards prescribed by SAMA.

The World Bank's Report on the Observance of Standards and Codes (ROSC) Saudi Arabia states that, "financial statements are to be prepared according to local National Accounting Standards and audited with National Standards on Auditing. According to the Saudi Organization for Certified Public Accountants (SOCPA), Saudi Arabia does not intend to converge its own accounting standards with International Financial Reporting Standards (IFRS). Compliance with the national standards is reportedly high, however, there is a strong case to be made to converge with internationally acceptable accounting and auditing standards to improve upon financial reporting and further assure investors." (ROSC, 2009, p. 4).

For this diversity and complexity in the Saudi institutional framework for financial reporting system, the researchers found that there is insufficient publicly available information as to Saudi Arabia's compliance with the IFRS.

IV. COMPARISON OF IFRSS AND SASS

This section provides an introduction comparison between the more key parts of IFRSs and Saudi standards (SAS). The comparison is not inclusive and does not attempt to cover all the similarities and differences between the two sets of standards. The comparison is intended to provide readers with information about the extent of similarity between SASs and IFRSs, and to help regulators obtain an overview of IFRSs to assist in determining the convergence agenda. In addition, this section does not contain an analysis of the interpretations either under IFRS or SASs. This covers all standards issued by the SOCPA and the IASB up to December 2011[4].

IFRSs and SAS cover much the same topics and reach similar conclusions on many issues. The style and form of IFRSs are generally quite similar to Saudi standards. The 2006 self-assessment prepared by the SOCPA for the International Federation of Accountants states that the SOCPA compares national accounting standards with the international requirements with a view to reduce differences, where possible. The main differences between Saudi accounting standards and IASs/IFRSs lie in their alternative accounting measurements. For example, IASs offer greater flexibility for assigning the cost of inventories by using the FIFO, whereas the Saudi accounting standard permits only the use of weighted average cost for assigning the cost of inventories. Moreover, historical cost is used under Saudi accounting standards more than fair value, as the use of fair value is permitted only in market share. For instance, the other accounting differences are related to fixed assets. IFRS permits revaluations of property, plant, and equipment. Usually, these upward adjustments to the historical cost values are reflected in a revaluation reserve, which is part of the shareholders' equity. Saudi accounting standards, however, only permit recording historical cost and emphasize conservatism; any upward revaluation is specifically forbidden. Table 2 summarizes comparisons between SOCPA SASs and IAS/IFRS.

Implementation of IFRS in Saudi Banks and Insurance Companies

The adoption of IASs in Saudi Arabia was initiated by SAMA from the early days of controlling the banking sector, and particularly in 2002. SAMA' regulation requires all banks to appoint two external auditors, at least one of which must be from the Big Four.[5] Financial statements are prepared in accordance with the Accounting Standards for Financial Institutions promulgated by the SAMA and IASB. SAMA requires banks and insurance companies to encourage their staff to become familiar with the IFRSs and overcome their complexity.[6] SAMA plays a

Table 2
Similarities and Differences-International Financial Reporting Standard (IFRS) and Saudi Accounting Standards (SAS)

IAS/IFRS International Financial Reporting Standards (IFRSs)	*Issue date*	*SAS Saudi Accounting Standards (SASs) that corresponding to IFRSs*	*Issue date*	*Major Differences*
IAS 1 Presentation of Financial Statements.	Aug 1997	SAS 1 General Presentation and Disclosure Requirements of Financial Statements	Mar 1997	Statement of comprehensive Income Under **IFRS**, an entity shall present all items of income and expense recognised in a period in a single statement of comprehensive income, or in two statements: a statement displaying components of profi t or loss (separate income statement) and a second statement beginning with profi t or loss and displaying components of other comprehensive income (statement of comprehensive income). It is not applicable under SAS.
IAS 2 Inventories		SAS 3 Inventories	Mar 1997	Method for determining inventory cost. LIFO is prohibited Under **IFRS**, but permitted under SAS.
IAS 7 Cash Flow Statements	Dec 1992	There is no specific standard under SAS		SOCPA stipulates that IFRS should be adopted for those issues not covered by the SOCPA Standards
IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors	Dec 1993	There is no specific standard under SAS		SOCPA stipulates that IFRS should be adopted for those issues not covered by the SOCPA Standard.
IAS 10 Events After the Balance Sheet Date	May 1999	There is no specific standard under SAS		SOCPA stipulates that IFRS should be adopted for those issues not covered by the SOCPA Standard.

contd. table 2

IAS/IFRS International Financial Reporting Standards (IFRSs)	*Issue date*	*SAS Saudi Accounting Standards (SASs) that corresponding to IFRSs*	*Issue date*	*Major Differences*
IAS 11	Mar 1979	SAS	Jan 2010	Similar
Construction Contracts		Accounting for construction and services Contracts		
IAS 12	July 1977	SAS 11	Dec 1999	There is no Zakat standard under IFRS. There is no Income Taxes standard under SAS.
Income Taxes		Zakat and Income tax		
IAS 16	Mar 1982	SAS 13	2001	Under **IFRS,** may use either revalued amount or historical cost. Revalued amount is fair value at date of revaluation lesssubsequent accumulated depreciation and impairment losses. revaluation surplus has to be credited directly through retained earnings. Under SAS**,** Revaluations is prohibited.
Property, Plant and Equipment		Fixed assets		
IAS 17	Sep 1982	SAS 14	2001	Similar
Leases		Accounting for leases		
IAS 18	Dec 1982	SAS 5	Dec 1998	Similar
Revenue		Revenue		
IAS 19	Jan 1983	There is no specific standard under SAS		SOCPA stipulates that IFRS should be adopted for those issues not covered by the SOCPA Standards
Employee Benefits				
IAS 20	Apr 1981	SAS 18	Nov 1981	Similar
Accounting for Government Grants and Disclosure of Government Assistance		Accounting for Government Grants and subsidies		

contd. table 2

IAS/IFRS International Financial Reporting Standards (IFRSs)	*Issue date*	*SAS Saudi Accounting Standards (SASs) that corresponding to IFRSs*	*Issue date*	*Major Differences*
IAS 21 The Effects of Changes in Foreign Exchange Rates	July 1983	SAS 2 Foreign currency	Mar 1981	Similar
IAS 23 Borrowing Costs	Mar 1984	There is no specific standard under SAS		SOCPA stipulates that IFRS should be adopted for those issues not covered by the SOCPA Standards
IAS 24 Related Party Disclosures	July 1984	SAS 4 Disclosure of the Related Party Transactions	Mar 1997	Similar
IAS 26 Accounting and Reporting by Retirement Benefit Plans	Jan 1987	There is no specific standard under SAS		SOCPA stipulates that IFRS should be adopted for those issues not covered by the SOCPA Standards
IAS 28 Investments in Associates <u>Superseded by **IAS 28 (rev. 2011)** and **IFRS 12**</u>	April 1999	SAS 16 Accounting for Investment according to equity method	Dec 2002	Similar
IAS 29 Financial Reporting in Hyperinflationary Economies	Aug 1990	There is no specific standard under SAS		SOCPA stipulates that IFRS should be adopted for those issues not covered by the SOCPA Standards

contd. table 2

IAS/IFRS International Financial Reporting Standards (IFRSs)	*Issue date*	*SAS Saudi Accounting Standards (SASs) that corresponding to IFRSs*	*Issue date*	*Major Differences*
IAS 33 Earnings Per Share	Feb 1997	SAS 20 Earnings Per Share	Jun 2007	Similar
IAS 34 Interim Financial Reporting	Jun 1998	SAS 10 Interim Financial Reporting	1999	Similar
IAS 36 Impairment of Assets	Jun 1998	SAS 19 Impairment of non-current assets	Apr 2007	Similar
IAS 37 Provisions, Contingent Liabilities and Contingent Assets	Sep 1998	There is no specific standard under SAS		SOCPA stipulates that IFRS should be adopted for those issues not covered by the SOCPA Standards
IAS 38 Intangible Assets	Sep 1998	SAS 17 Intangible Assets	Dec 2002	Under IFRS, Development costs Are Capitalized if specified criteria are met. Under SAS, Development costs are Expensed as incurred Under IFRS, Revaluation of intangible assets is Permitted only if the intangible asset istraded in an active market. Under SAS, Revaluations is prohibited.
IAS 40 Investment Property	Apr 2000	There is no specific standard under SAS		SOCPA stipulates that IFRS should be adopted for those issues not covered by the SOCPA Standards

contd. table 2

IAS/IFRS International Financial Reporting Standards (IFRSs)	*Issue date*	*SAS Saudi Accounting Standards (SASs) that corresponding to IFRSs*	*Issue date*	*Major Differences*
IAS 41 Agriculture	Dec 2000	There is no specific standard under SAS		SOCPA stipulates that IFRS should be adopted for those issues not covered by the SOCPA Standards
IFRS 1 First time Adoption of International Financial Reporting Standards	2003	There is no specific standard under SAS		SOCPA stipulates that IFRS should be adopted for those issues not covered by the SOCPA Standards
IFRS 2 Share-based Payment	2005	There is no specific standard under SAS		SOCPA stipulates that IFRS should be adopted for those issues not covered by the SOCPA Standards
IFRS 3 Business Combinations	2004	SAS 21 Business Combinations	April 2011	similar
IFRS 4 Insurance Contracts	2005	There is no specific standard under SAS		SOCPA stipulates that IFRS should be adopted for those issues not covered by the SOCPA Standards
IFRS 5 Non-current Assets Held for Sale and Discontinued Operations	2005	There is no specific standard under SAS		SOCPA stipulates that IFRS should be adopted for those issues not covered by the SOCPA Standards
IFRS 6 Exploration for and Evaluation of Mineral Resources	2006	There is no specific standard under SAS		SOCPA stipulates that IFRS should be adopted for those issues not covered by the SOCPA Standards
IFRS 7 Financial Instruments: Disclosures	2007	There is no specific standard under SAS		SOCPA stipulates that IFRS should be adopted for those issues not covered by the SOCPA Standards

contd. table 2

IAS/IFRS International Financial Reporting Standards (IFRSs)	*Issue date*	*SAS Saudi Accounting Standards (SASs) that corresponding to IFRSs*	*Issue date*	*Major Differences*
IFRS 8 Operating Segments	2009	SAS 15 Segment Reporting	2002	similar
IFRS 9 Financial Instruments	2009	SAS 9 Investment in securities	Dec 1998	The biggest difference is that IFRS is more comprehensive and detailed than SAS.
IFRS 10 Consolidated Financial Statements	May 2011	SAS 8 Consolidated Financial Statements	1998	SAS is old compares to IFRS. However, SOCPA stipulates that IFRS should be adopted for those issues not covered by the SOCPA Standards
IFRS 11 Joint Arrangements	May 2011	There is no specific standard under SAS		SOCPA stipulates that IFRS should be adopted for those issues not covered by the SOCPA Standards
IFRS 12 Disclosure of Interests in Other Entities	May 2011	There is no specific standard under SAS		SOCPA stipulates that IFRS should be adopted for those issues not covered by the SOCPA Standards
IFRS 13 Fair Value Measurement	May 2011	There is no specific standard under SAS		SOCPA stipulates that IFRS should be adopted for those issues not covered by the SOCPA Standards

* It may be noted that International Accounting Standards #. 3, 4, 5, 6, 9, 13, 14, 15, 22, 25, 27, 30, 31, 32, 35 and 39 have already been withdrawn by the International Accounting Standards Board (IASB).

** SOCPA SASs without corresponding IFRSs are: (1) Research and development costs, (2) Accounting for Zakat and (3) Administrative and marketing expenses. These standards implicitly found in IFRS except Accounting for Zakat.

significant role in influencing the insurance companies to apply IFRS. In contrast, after SOCPA's decision which appeared in December 2002, SOCPA stipulates that IASs/IFRSs should be adopted for those issues not covered by it's standards, after taking into account the circumstances of the company in Saudi Arabia.

To find out the extent of Saudi banks in compliance with IFRS, there is evidence from Al Rajhi Bank, one of the largest banks in Saudi Arabia, that the accounting policies used in the preparation of their consolidated financial statements for 2010, are consistent with those of the prior year except for (1) the Bank has adopted IFRS 8 Operating Segments, effective since January 1, 2009, which supersedes IAS14 "Segment Reporting" and requires disclosure of information about the Bank's operating segments; (2) amendments and revisions to IAS 1 "Presentation of Financial Statements"; (3) Amendments to IFRS 7, Financial instruments: Disclosures" as the amendment requires enhanced disclosures about fair value measurements and liquidity risk. In addition, the AlRajhi Bank has chosen to not adopt IFRS 9, "Financial Instruments" early, which has been published and is mandatory for compliance in the Bank's fiscal year beginning January 1, 2013 (AlRajhi Bank, Annual Report, 2009, p. 73.

The AlRajhi Bank has decided not to adopt early. Following is the updates of the mandatory standards beginning January 1, 2011:

- IAS 24 - disclosure on related parties
- Amendments on IFRS and IAS 19
- IFRS 9 - Financial Instruments
- IAS 32 - Presentation of Financial Instruments

The adoption of the above standards and amendments will not result in any change on the consolidated financial statements other than IFRS 9. The Bank is still evaluating the implications of IFRS 9 on it's financial statements. [Fourth Quarter Report AlRajhi Bank, annual report, 2010, p. 49].

Riyad Bank has also chosen not to adopt IFRS 9 before January 1, 2013. The Bank is currently assessing the implication of the standard on the Group and the timing of its adoption. The Bank has also chosen not to early adopt revised IAS 24 Related Party and Improvements to IFRSs 2010 – amendments to applicable and relevant standards and interpretations, which are applicable for annual periods beginning on or after 1 January 2011 and early adoption is permitted. Fourth Quarter Report (2010, p. 39).]

Number of insurance companies has increased dramatically on the Saudi stock market, from 2 companies in 2008 to 31 companies in early 2011. By the end of 2003, the Law on Supervision of Cooperative Insurance Companies, promulgated by Royal Decree (M/32) dated 02/06/1424H, was enacted, followed by the implementing of regulation in 2004. The Law entrusted the regulation and supervision of the insurance companies to SAMA. Shortly after the enactment of the Law, SAMA established a team of insurance supervisors to operate in its Banking inspection department. Since then, the team has been operating as an independent department within SAMA, dedicated to insurance regulatory and supervisory activities. The SAMA's Insurance Supervision Department aims towards:

- Protecting policyholders and shareholders' rights.
- Ensuring fair and effective competition and providing better insurance services with competitive prices and covers.
- Fostering stability of the insurance market.

Developing insurance market in the region including training and providing employment opportunities for Saudi nationals.[7]

Although SOCPA audits financial statements of the insurance companies, it has not yet set any accounting standards applied by insurance companies. SOCPA imposes Audit Firms to auditing financial statements, in accordance with IFRS, not in accordance with accounting standards generally accepted in Saudi Arabia. According to ROSC "an Accounting and Auditing ROSC should be carried-out to evaluate the costs and benefits of convergence with IFRS. Additional resources are essential for SOCPA to continue the revision, update, and interpretation of the accounting standards. The regulators should also consider increasing coordination between the supervision and financial disclosure department of the CMA and SOCPA to ensure consistency.[8]

V. RECOMMENDATIONS AND CONCLUDING REMARKS

Saudi banks and insurance companies prepared? their financial statements in compliance with the IFRS. SAMA from the very beginning knew that there was a need to take the necessary steps to adopt IASs/IFRS. OUR findings had raised questions about SOCPA's ability to supervise the full adoption of IFRS. The ROSC also recommended that policymakers should review policies related to accounting standards development, particularly convergence to IFRS. (ROSC, 2009, p. 7).

This paper discusses the institutional framework and aspects related to adoption and implementation of IFRS in Saudi Arabia. Our paper indentifies the challenges of adoption and implementation of IFRS, and a need for a clarity in convergence mechanism of IFRS in Saudi Arabia. The convergence with IFRS requires more cooperation among key institutions. Authorities like the SAMA, CMA, MOC and SOCPA should work closely with each other to implement the IFRS. Some other ways to remove the obstacles to the adoption and implementation of IFRS can be summarized as follows:

- Establishment of both an independent governance body and standard setters for accounting and auditing. In addition ,an independent authority should be responsible for the enforcement.
- In order to ensure that all firms are complying with adoption procedure, regulators must implement arrangements for effective and efficient monitoring of compliance, and will take necessary actions against violators.
- SOCPA can also enhance its expertise and focus on technically qualified personnel, practical training with regard to IFRS, as what SAMA is doing.
- Accounting and related degrees in Saudi universities should include courses teaching various aspects of IFRS adoption and implementation. To achieve this purpose, faculty members should be well trained for further research.
- A significant challenge to the accounting profession will be the availability of sufficiently educated and experienced professionals. Therefore, accountants and auditors with proper training in IFRS will be required.

Therefore, policy makers, standard setters and regulators must work together towards the adoption of IFRS. Future research will explore to what extent the IFRSs can meet the needs of accounting users in Saudi Arabia.

NOTES

1. It is important to note that most of documents were in Arabic which has had to be translated into English by the researchers.
2. It should be noted that the Council of SOCPA had already formed a Steering Committee in January 2011, under the SOCPA supervision to explore the relationship between Saudi Standards and International Accounting Standards and International Standards on Auditing, and in the challenges environment including the decisions of G20 regarding IFRS. The committee comprises of 6 members and 4 of them are SOCPA' accounting and auditing members, the other 2 represent the Ministry of Finance, and SAMA. That means, there is no clear direction towards the convergence with IFRS in recent times.
3. From 1973 until 2000 the International Accounting Standards Committee (IASC) released a series of International Accounting Standards (IAS) in numerical sequence that began with the (IAS 1) and ended with the (IAS 41). There are 29 IASs on the books at present. In 2001 the IASC was restructured and was replaced by the International Accounting Standards Board (IASB). instead of the IAS, the IASB has continued to develop standards calling International Financial Reporting Standards (IFRS). IFRS comprise the remaining IASs and the new IFRSs. At present, there are 13 IFRS. So, IFRSs include IFRS 1 to 13, and IAS 1 to 41.
4. In general, banks are being audited mainly by the Big Four.
5. SAMA has played a key role in educating and training those in the banking sector in order to produce efficient staff at all levels to deal with these standards.
6. Regulators do have their own objectives and so are not well suited to being standard-setters. According to Article 10 of the Law on Supervision of Cooperative Insurance Companies:

(i) The general assembly of the insurance or re-insurance company shall, each year, appoint two auditing firms licensed to operate in the Kingdom and fix their remuneration.

(ii) The annual report submitted by the auditors to the general assembly must include, in addition to the particulars provided for in the Companies Law, the auditors' opinion as to whether company's financial statements fairly reflect its financial position as of the date of the balance sheet and the result of its operations in the financial year then ending, as well as whether the preparation, presentation and auditing of these statements have been done in accordance with the accounting principles applicable in the Kingdom.

(iii) The financial statements and the auditors' report must be published within three months from the expiry of the company's financial year.

7. The insurance companies' financial statement have been prepared in accordance with IFRS, not in accordance with accounting standards generally accepted in Saudi Arabia.

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Appendix 1
Current use of IFRSs in the Countries of the G20

Country	*Status for listed companies*
Argentina	Required for fiscal years beginning on or after 1 January 2012
Australia	Required for all private sector reporting entities and as the basis for public sector reporting since 2005
Brazil	Required for consolidated financial statements of banks and listed companies from 31 December 2010 and for individual company accounts progressively since January 2008
Canada	Required from 1 January 2011 for all listed entities and permitted for private sector entities including not-for-profit organisations
China	Substantially converged national standards
European Union	All member states of the EU are required to use IFRSs as adopted by the EU for listed companiessince 2005
France	Required via EU adoption and implementation process since 2005
Germany	Required via EU adoption and implementation process since 2005
India	Is converging with IFRSs over a period beginning 1 April 2011
Indonesia	Convergence process ongoing; a decision about a target date for full compliance with IFRSs is expected to be made in 2012
	Italy Required via EU adoption and implementation process since 2005
Japan	Permitted from 2010 for a number of international companies; decision about mandatory adoptionby 2016 expected around 2012
Mexico	Required from 2012
Korea	Required from 2011
Russia	Required for banking institutions and some other securities issuers; permitted for other companies
Saudi Arabia	Not permitted for listed companies
South Africa	Required for listed entities since 2005
Turkey	Required for listed entities since 2008
United Kingdom	Required via EU adoption and implementation process since 2005
United States	Allowed for foreign issuers in the US since 2007; target date for substantial convergence withIFRSs is 2011 and decision about possible adoption for US companies expected in 2011

Source: IFRS: The move towards global standards *http://www.ifrs.org/use+around+the+world/use+around+the+world.htm*

Appendix 2
Action Plan Developed by Saudi Organization for Certified Public Accountants (SOCPA)

BACKGROUND NOTE ON ACTION PLANS

Action Plans are developed by IFAC members and associates to address policy matters identified through their responses to the IFAC Compliance Self-Assessment Questionnaires. They form part of a continuous process within the IFAC Member Body Compliance Program to support the ongoing development and improvement of the accountancy profession around the world.

Action Plans are prepared by members and associates for their own use based on the national frameworks, priorities, processes and challenges specific to each jurisdiction. As such, they will vary in their objectives, content and level of detail, consistent with their differing national environments and stages of development, and will be subject to periodic review and update.

Refer to responses to the Part 1 Assessment of the Regulatory and Standard-Setting Framework Questionnaire and Part 2 SMO Self-Assessment Questionnaire for background information on each member and associate their environment and existing processes. These responses may be viewed at: *http://www.ifac.org/ComplianceAssessment/published_surveys.php*

Use of Information

Please refer to the Disclaimer published on the Compliance Program website.

ACTION PLAN
IFAC Member: Saudi Organization for Certified Public Accountants (SOCPA)
Approved by Governing Body: SOCPA Board
Date Approved: June 2009
Date Published: July 2009

Source: http://www.estandardsforum.org/saudi-arabia/standards/international-financial-reporting-standards