

PREFACE

HISTORICAL REVIEW OF THE PROJECT

In mid 1399H. talks were held with H.E. the Deputy Minister of Commerce, Mr. Yousaf Al-Hamdan, at that time. The subject was accounting environment, auditing profession and aspects of its development in Saudi Arabia. At that time, the situation seemed critical and certain deficiencies in the profession were having a more serious impact on the economic and financial activities in the country than was actually recognized. The discussion concluded with an agreement on the necessity of taking practical measures to remedy such deficiencies and to develop the profession in a manner that would enable accountants and auditors to cope with the fundamental changes occurring in this field. Three months later, further discussions on this subject were held with H.E. the Minister of Commerce, Dr. Sulaiman Al Saleem, and it was determined that the profession in Saudi Arabia was not keeping abreast with the changes taking place in the country. However, deficiencies were not clearly identified to allow designing effective solutions. A brief summary of deficiencies which have a general impact on the financial, commercial and economic activities, and also on the level of development of the profession itself being one of the fundamental activities of society is provided in this preface.

2.1

To assist the Ministry in taking appropriate steps for developing the profession, Al-Rashed firm, through its professional activity, formed a team of researchers, with the participation of Dr. Abdullah Al-Faisal from the department of accountancy at King Saud University, to conduct a preliminary survey in order to define the deficiencies. The survey was summarized in a memorandum which specifies deficiencies in the major areas of the profession.

The finding of the study was reviewed by the Ministry and was accepted as a suitable start for the development of the profession. Al-Rashed firm was requested to prepare a plan taking into consideration the experiences of other countries in this field, and the specific requirements of the of the Kingdom's environment. The result, was a comprehensive plan illustrating methods to be followed to develop the profession. This plan comprises the preparation of accounting and auditing standards and an internal organisation of the profession which provide bases for its continuous development.

The plan was discussed with concerned authorities at the Ministry and it was decided to develop the profession in two phases which are :

PHASE 1 :

Conduct a comparative study of the profession in three different countries. The purpose of the study was to obtain information about the development of the profession in these countries to benefit from their experiences.

The Ministry of Commerce commissioned the Al-Rashed firm to start phase 1 of the project. Three countries were selected for this comparative study. To make the selection, nine different countries were identified and classified into three groups based on the extent of development of their profession, their economic environments and the ability to benefit from their experiences in developing the profession in the Kingdom. The three groups are as follows :

The First Group : U.S.A; England and Canada
The Second Group : France, West Germany and Sweden
The Third Group : Tunisia, Venezuela and Brazil

2.2

Selected countries, one of each group, to comprise the study were U.S.A., West Germany and Tunis.

This comparative study specifically consisted of :

- i) Review of authoritative pronouncements, laws and regulations of the three countries which relate to :
 - a) Accounting standards and financial reporting requirements;
 - b) Auditing standards and other auditing requirements;

- c) Professional ethics; and
- d) The internal organization of the profession.
- ii) Interviews with officials representing the profession from the three countries to seek the help of experts from these countries proficient in their languages.
- iii) Analysis of data gathered from steps i and ii.
- iv) The preparation of a comparative report to be written in Arabic, setting forth the profession's status in the three countries; the report should touch on the following :
 - a) A comparison of the internal organization of the profession; the standards of accounting and auditing; and the code of professional ethics in the three countries.
 - b) Tentative conclusions as to the implications of the study to the development of the profession in Saudi Arabia.

A detailed comparative study report on phase 1 results was submitted to the Ministry of Commerce. The report was discussed with Al-Rashed firm in a meeting attended by H.E. The Minister of Commerce, H.E. The Deputy Minister and other high ranking officials of the Ministry. Later on, a discussion was conducted with H.E. The Deputy Minister of Commerce, Dr. Abdul-Rahman Al-Zamil, to determine the most suitable method for the implementation of phases II and III of the project.

2.2

Two options were considered which are :

OPTION ONE :

Combine phases two and three into one comprehensive study to develop the profession in the Kingdom of Saudi Arabia to cope with developments in other areas within the Kingdom and accommodate the best available practices of other developed countries. However, it was decided that combining the two phases would require a substantial amount of time including a field survey in order to specify the major beneficiaries from financial statements in the Kingdom, the information required by them to make their decisions and the extent of the profession's capability to provide such information .

OPTION TWO :

Implement phase two for the time being, especially the most immediate requirements for developing the profession. Specifically, limit this phase to developing auditing standards, the internal organization of the profession, the code of professional ethics, the financial accounting conceptual framework, and the general presentation and disclosure standard.

The Ministry of Commerce chose option two and entrusted the Al-Rashed firm to implement it. The contract was signed on 11.10.1402H.

PHASE II : STUDY OF THE PROFESSION'S CURRENT CONCERNS

This phase of the plan concentrated on the following aspects of the profession :

1. Selected subjects from financial accounting which cover the following :
 - a) Determination of the objectives of financial accounting.
 - b) Selection and definition of the most important concepts of financial accounting.
 - c) Preparation of standard of general presentation and disclosure.
2. Auditing standards.
3. Internal organisation of the profession.

A) METHOD OF IMPLEMENTATION

Extensive research was conducted and a variety of methods were explored to determine the best approach for the implementation of this phase in order to arrive at recommendations suitable for dealing with the existing environment in the Kingdom within a reasonable time frame and also to

establish a basis for continuous development of the profession with the assistance of professionals in the Kingdom who are capable of following up such recommendations after being approved and developed. Due care and attention was taken to involve technical experts from the selected countries who had mastered the Arabic language, hereinafter called «the experts», and highly qualified Saudi professors and advisors, hereinafter called «the advisors», were also invited to take part in the preparation and review of the recommendations of the experts. Al-Rashed firm's officials particularly Sheikh Abdul-Aziz Al-Rashed and Mr. Yousef Al-Mobarak, hereinafter called «the officials», have extended all possible efforts and expertise to organise the work of both the experts and the advisors and gave it top priority over all other work in Al-Rashed firm. Experts from other Arab countries, hereinafter called «the Arab experts», were also asked to assist with one or more aspects of the project including translation.

It is worth noting that translation of all parts of the projects from English into Arabic and vice versa was carried out by the experts themselves. The services of highly specialized translators to help with the translation were hired but to no avail from the viewpoint of time and quality. This was due to the special characteristics of the project's components which required a thorough understanding of each statement within the context of the whole project, and not individually whether in any one paragraph or within other paragraphs. This had its impact on the cost and timing of the project.

The proper organisation and coordination of work among the participants (experts, advisors, officials and Arab experts) has largely contributed to the achievement of the stated objectives of the project as regards quality, speed, comprehensiveness, suitability to the Kingdom's circumstances and refraining from depending, without adequate study, on the experience of an individual country.

The project was divided into three major parts, each assigned to a team of experts and an advisor who also participated extensively in the project parts. Following is an overview of the method of implementation of the project which will help in interpreting the final results.

- (1) A number of meetings were held among team members and certain advisors to prepare a background paper setting forth for the different teams the status quo of the profession and the laws and regulations which govern the profession in the Kingdom. Several meetings were held inside the Kingdom and abroad and culminated with the compiling of the most important aspects of the profession and the basic study trends in one comprehensive paper which included the laws and basic background that might affect the profession in the Kingdom, and the bases that might affect the preparation of the project's parts. This paper was prepared in both Arabic and English and distributed to the team members who were requested to take the stated information into consideration while preparing the initial drafts for each part of the project.
- (2) Individual working visits to the Kingdom were arranged for team members at various stages of the project and they conducted actual case studies and participated in the discussion of certain problems revealed by the audits of certain clients of the Al-Rashed firm. Some of the team members, together with Al-Rashed firm's officials, worked continuously on the project from its inception four years ago to its completion. All of them were in continuous contact whether they were experts, advisors or officials.
- (3) Upon deliberate and in-depth study of all aspects of the project and visits to a number of professional institutes in this field and considering the work experience and knowledge of the team members, it was decided that the most suitable approach to implement this project was to divide it into the following segments :
 - a) The study of selected subjects in financial accounting including :
 - o Objectives of financial accounting.
 - o Basic concepts in financial accounting.
 - o Preparation of General Presentation and Disclosure Standards.

These issues were handled by the following experts :

1. Dr. Sabry Heakal, Ph. D. in accountancy, 1968, and a fellow of the American Institute, with 11 years experience in teaching accounting and auditing in the U.S.A. where he was promoted to the level of a full professor and Head of the Accountancy Department at the University of Minnesota, St. Claude. Dr. Heakal has 5 years experience as a partner in-charge of the technical aspects of accounting and auditing in one of the major public accounting firms in the United States. Dr. Heakal has also contributed to the various activities of the American Institute of Certified Public Accountants and is presently a member of one of the technical committees of this institute.
 2. Dr. Mohamed E. Mostafa, Ph. D. in Accountancy, University of Illinois 1956, with a number of research works and publications in a variety of academic subjects of international concern. Dr. Mostafa conducted research work for the United Nations on the use of accounting data in industrial projects of developing nations. Dr. Mostafa has held the position of advisor to the International Labour Office since 1975. Most of Dr. Mostafa's research work is devoted to the development of financial accounting. Dr. Mostafa has held a number of positions in U.S. universities including head of an accountancy department and currently occupies the post of the Dean of the School of Business Administration at California State University.
 3. Dr. Abdul-Rahman J. Al-Humaid, advisor, Ph. D. in accountancy, with diversified experience as advisor to a number of government agencies followed an academic career at King Saud University until he was promoted to the post of Head of the Accountancy Department in the Faculty of Administrative Sciences.
- b) Auditing standards, which cover :
General standards ... planning auditing, control, recording, evidence ... reporting standard and relevant procedures. These areas were handled by the following team members :
1. Mr. David Hatherly, who is the holder of a Master's degree in Accountancy and is a fellow of the British Institute of Chartered Accountants. Mr. Hatherly is presently head of the technical division for accountancy and auditing research at the institute of Chartered Accountants in Scotland. He has 11 years of accounting and auditing experience with a major accounting firm. Mr. Hatherly is also the author of the book "Collection of Evidence for Auditing".
 2. Mr. Peter Skuze, Licentiate in Law and a fellow of the British Institute of Chartered Accountants. Mr. Skuze is the partner in charge of the technical aspects of accounting, auditing and training in a medium sized company in England. He represented his company in the discussions held to finalise draft recommendations relevant to the auditing standards prepared by the British Institute of Chartered Accountants. Mr. Skuze has over 13 years experience in the field of accounting and auditing.
 3. Dr. Abdullah Al-Faisal, Advisor, Ph. D. in Accountancy, with more than four years experience as professor of accountancy in the Faculty of Administrative Sciences at King Saud University. Dr. Al-Faisal is part-time consultant to a large number of government agencies. He has been acquainted with this project since the initial stages of its development.
- c) Internal organisation of the profession :
This was handled by the following team members :
1. Mr. Ivan O. Bull, a fellow of the American Institute of Certified Public Accountants (AICPA). He was Chairman of the board of directors of said Institute for 1976. Mr.

Bull also headed the AICPA committee in charge of the affairs of small businesses and was a member of the executive committee in charge of the operations of the Institute and the ad hoc committee formed to study the problems confronting the accounting profession in the U.S.A. which developed into the council presently in charge of issuing the accounting and auditing standards. Mr. Bull is also a member of the advisory council in charge of the preparation of consolidated financial statements for the government of the United States. Mr. Bull has over 35 years experience in the fields of accounting and auditing. The latest post in his career was as the managing partner of one of the major accounting firms in the United States.

2. Mr. Wallace E. Olson, a fellow of the AICPA, deputy Chairman of the board of directors of the AICPA (1972-1973), head of the executive committee and managing director of the Institute (1973-1980), Head of the AICPA division in charge of the code of ethics (1970-1972), and a partner (managing director) of a major accounting and auditing firm in the United States.
 3. Dr. Abdullah AL-Moneef, Advisor, Ph. D. in accountancy, part time consultant to many government agencies and professor of Tax Accounting at the Faculty of Administrative Sciences at King Saud University for two years.
- (4) Each team prepared the preliminary drafts of the section for which they were responsible. The draft was reviewed and then returned to them with fundamental comments so that they could prepare their study and proposals to be sent to the members of the other teams for study and comment.
 - (5) The drafts of all the sections were distributed among the teams in charge of the other sections and they were requested to send their comments in writing to the officials to be studied and sent to the other teams.
 - (6) The notes made by the team members together with the comments of the advisors were sent to each team in order to review them and get acquainted with the efforts exerted by other teams and their mutual impact. Many contacts took place between the team members, the advisors and the officials during the preparation of the final draft which would be distributed to the team members, the advisors and the officials in order to discuss it in a meeting to be attended by all team members, the advisors and the officials. There were several alternatives regarding the location of the meeting. The Scottish Institute generously offered to host the meeting and to provide for all of the necessary facilities. After studying the best alternatives it was decided to hold the meeting in Riyadh.
 - (7) During the period from 6.1.1403 to 12.1.1403H. a meeting was held in Kasr Al-Riyadh Hotel attended by all six experts, the three advisors and AL-Rashedfirm's officials. Continuous morning and evening sessions were held in a private conference room. The members were provided with all shorthand and recording facilities. The meetings continued for several days during which the proposals forwarded by each team were studied and specific recommendations were made. Important issues were revealed which necessitated that the Ministry of Commerce and other relevant bodies' reaction towards them be sounded out. We all felt that such a meeting would greatly affect our judgements as regards the correctness of our research approach and the suitability of our proposals.
 - (8) In a meeting hosted by the Institute of Public Administration, an overview presentation of draft recommendations was made to H.E. the Minister of Commerce, H.E. the Deputy Minister of Commerce and other concerned high ranking officials from the Ministry. His Excellency the Minister of Finance and their Excellencies the Deputy Ministers as well as their Excellencies

the Governor and Deputy Governor of SAMA attended the meeting. The Institute of Public Administration generously arranged for the meeting and the recording of its proceedings. The significance of this meeting was manifested in clarifying the relevant trends and in giving Al-Rashed firm impetus by asserting that the concerned authorities are giving due care and attention to the profession. It was useful in clarifying the importance of the issues which were the subject of elaborate study by the team members themselves. It also gave impetus to the team members, the advisors and the officials, thus confirming their interest in the project and that their efforts would be taken care of by those responsible for the project's approval and follow-up of its implementation.

- (9) Team members, the advisory group and Al-Rashed firm held further meetings in Kasr Al-Riyadh Hotel to discuss the results of their presentation to the Ministers' meeting and final conclusions from the previous days meetings and discussions were drawn. Members of each team were requested to adjust their draft recommendations as necessary and send them to the officials in Riyadh. One of the experts was commissioned to read the adjusted draft recommendations in their final form as prepared by the team members.
- (10) The final draft recommendations were sent to the officials and reviewed by the advisors. A meeting was then held at Al-Rashed firm, attended by the officials, the advisors and Dr. Sabry Heakal to discuss the final copy of the draft recommendations.
- (11) Another meeting was held at the Riyadh Hyatt Regency for several days to discuss the final copy of the draft recommendations. This meeting was attended by Al-Rashed firm's officials, the advisor and Dr. Heakal in order to discuss the results of the three team's revisions of the draft recommendations. The proceedings of this meeting were fully recorded.
- (12) Team members were then called in for further discussion with the advisors and Al-Rashed officials in Riyadh. This discussion resulted in further amendments of the final product
On 9.6.1403H, a meeting was held in Riyadh attended by the advisors, Dr. Sabry Heakal and Al-Rashed officials. All outstanding issues of the project and the amendments resulting from the previous meeting were discussed. Each advisor was assigned a certain segment of the project in order to finally ensure its adaptability to the circumstances of the Kingdom in general and the present conditions of the profession in particular, and to ensure its accuracy from the technical point of view, clarity of style and general consistency.
- (13) During the whole period and at various stages all the parts and studies were translated into Arabic. After this meeting the Arab experts were requested to review the translation of some of the final products whether previously translated or still under consideration. This being done, the study was delivered to the advisors and other experts for final review.
- (14) The Ministry of Commerce forwarded this study to the appropriate government departments and to a selected group of certified public accountants seeking their comments and advice.
- (15) Replies were studied and summarised. The study was then amended in accordance with suggestions found acceptable by the Ministry.
- (16) Ministerial Resolution No. 692, dated 28.2.1406 was finally issued approving this study which is concerned with the objectives and concepts of financial accounting and the standard of general presentation and disclosure, and is considered an official reference and guideline to all certified public accountants who are licensed to practise this profession in Saudi Arabia.