

A Comparative Study of Corporate Compliance With Accounting Standards and Regulatory Financial Reporting Requirements; a Comparative Study of the Topics Addressed by SOCPA Accounting Standards, IFRSs, US GAAP and AAOIFI Accounting & Shari'a Standards, and of Standard-Setting Procedures; and a Detailed Comparison of Disclosure Requirements in SOCPA Accounting Standards and IFRSs

Executive Report

Prepared by

**The Accounting Standards Committee of
The Saudi Organization for Certified Public Accountants**

Commissioned by

The Capital Market Authority

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Introduction

The Capital Market Authority (CMA) appointed the Saudi Organization for Certified Public Accountants to undertake a comparative study of the requirements of accounting standards and of KSA publicly-traded companies' actual disclosure over the period 2003-2005. The study comprises an executive report presenting its recommendations, findings and methodology, followed by four parts. The following summarizes the objectives of each of these components

Executive Report

The objective of report is to provide an overview of the contents of the study, and to present the recommendations, findings and methodology of the study.

Part One – *A Comparative Study of Disclosure in the Financial Reports of KSA Publicly-Listed Companies for the years 2003 – 2005*

The objective of this part is to examine corporate compliance with SOCPA Accounting standards and the financial reporting requirements in CMA Listing Rules and the Companies Law in preparing the financial reports for the year ended December 31, 2005. This objective is pursued by section (Second) of this part. This part also aims to find out the actual status of disclosure by means of studying the financial statements of KSA publicly-traded companies for the years 2003-2005. This objective is pursued by sections (Third) and (Fourth) of this part.

Part Two – *A Comparative Study of the Topics Addressed by Accounting Standards and Standard-setting Procedures*

The objective of this part is to identify the topics addressed by SOCPA Accounting Standards, IFRSs, US GAAP and AAOIFI Accounting & Shari'a Standards and to compare the procedures followed in setting these standards with a view to determining where SOCPA stands in reference to the other international standards setting organizations in terms of the standards currently in existence and the means to set new standards, as well as determining if the standard-setting process followed by SOCPA needs to be improved and if additional accounting standards need to be added to the currently existing SOCPA Accounting Standards. The identification of the topics covered by the mentioned sets of financial accounting and reporting standards is covered by section (Second) of this part, while the comparison of standard-setting procedures is made in section (Third) of this part. There are seven appendices to this part as follows:

Part Three – *A Comparative Study of the Disclosure Requirements of SOCPA Accounting Standards and International Financial Reporting Standards*

This part comprises a comparative study of the disclosure requirements of SOCPA Accounting Standards and International Financial Reporting Standards. The objective of this part is to bring about the convergence of the disclosure requirements of SOCPA Accounting Standards and International Financial Reporting Standards by means of comparing these requirements and considering whether any requirements need to be

added to, omitted from, or amended in SOCPA Accounting Standards so as to achieve such convergence.

Part Four – A Comparative Study of the Requirements of SOCPA Accounting Standard on Inventories and its International Counterpart

In addition to the *Comparative Study of the Disclosure Requirements of SOCPA Accounting Standards and International Financial Reporting Standards* comprised by Part Two, a comparative study was conducted of all the requirements of *SOCPA Accounting Standard on Inventories* and *IAS 2 Inventories* as a model example to be followed in comparing the rest of SOCPA Accounting Standards and the corresponding IFRSs. The purpose of this work is to examine the usefulness of such studies in achieving convergence between SOCPA's and other sets of accounting standards. It is hoped to compare the rest of SOCPA Accounting Standards and their international equivalents in future separate comparative studies.

Each of these parts has an introduction to the part's contents, appendices, findings and recommendations.

Appendices

There are 29 appendices to this study, and because of their bulkiness, they are included separately in individual volumes. They include:

Appendices to Part One

Appendices 1-16: The detailed results of the examination of compliance with the Accounting Standards issued by SOCPA for all the publicly-listed companies and for each industry sector separately.

Appendix 17: The detailed results of the comparative study of the summaries of significant accounting policies for all the publicly-listed companies and for each industry sector separately.

Appendix 18: The detailed results of the comparative study of other explanatory notes for all the publicly-listed companies and for each industry sector separately.

Appendix 19: A comparative analysis of the summaries of significant accounting policies presented in the notes to KSA publicly-listed companies' financial statements for the years 2003-2005.

Appendices to Part Two

Appendix 20: Topics Addressed by the Sets of Financial Accounting and Reporting Standards covered by the Study

- Appendix 21: Accounting and Reporting Standards as per FASB Current Text
- Appendix 22: Accounting Standards, Interpretations and Opinions Issued by the Standard-Setters covered by the Study
- Appendix 23: SOCPA's Executive Bylaw of Standard-Setting Procedures
- Appendix 24: Due Process Handbook for the International Accounting Standards Board
- Appendix 25: FASB's Rules of Procedure
- Appendix 26: Facts about FASB

Appendices to Part Three

- Appendix 27: Comparative cataloging of the disclosure requirements of SOCPA Accounting Standards and International Financial Reporting Standards.

Appendices to Part Four

- Appendix 28: A summary of the topics and subtopics addressed by SOCPA Accounting Standard on Inventories and IAS 2 *Inventories* and the aspects of similarities and differences between them
- Appendix 29: A comparative cataloging of the paragraphs of SOCPA Accounting Standard on Inventories and IAS 2 *Inventories*

The Automated System for the Examining of Compliance with the Authoritative and Regulatory Financial Reporting Requirements

- Appendix 30: *The Automated System for the Examining of Compliance with the Authoritative and Regulatory Financial Reporting Requirements* (the "software application") is included on a CD comprising a full softcopy of the study and its appendices.

This study was prepared by the Accounting Standards Committee of SOCPA Board of Directors. The Committee is presently composed of HE Abulaziz Al-Rashid, Chairman, and the membership of Mr. Abdulmohsin Al-Faris, Mr. Muhammad Al-Shayi', Mr. As'ad Bassoudan, Mr. Jihad Al-Amry, Dr. Nabeeh Al-Jabr, Dr. Abdulrahaman Al-Maharfy, Dr. Abdulmalik Al-Heekail, Mr. Sa'ad Al-Qassim, Mr. Khalid Al-Noweissir, Dr. Abdurrahman Al-Razeen, Mr. Hamoud Al-Ajlan, and Mr. Muhammad Al-Khoweittir. The Committee formed a team to supervise the preparation of the study, comprising HE Abulaziz Al-Rashid, Mr. Abdulmohsin Al-Faris, Dr. Ahmad Al-Maghames, and Dr. Abdurrahman Al-Razeen. The supervisory team appointed Mr. Yousef Al-Mubarak project manager.

Recommendations

The next section summarizes the findings of the study. Each part of the study gives details to the findings related thereto. Based on the outcome of the three parts it was determined that the following recommendations be put forth:

1. In order to reach sound and credible results with regard to the level of compliance with the requirements of SOCPA Accounting Standards and the financial reporting-related regulatory requirements in CMA Listing Rules and the Companies Law, these requirements were disaggregated and rephrased as questions. A software application was then developed to facilitate the obtainment, extraction, classification and analysis of information, the drawing of results, and the making of comparisons, with regard to each standard, regulation and bylaw, and each company and industry sector. The study experienced the following difficulties in examining the level of compliance with the mentioned requirements:
 - a difficulty in determining the level of compliance with accounting standards based on the published financial reports (Point 1.1.1.1, Findings);
 - a difficulty in making a proof-based examination of compliance with CMA Listing rules regarding the information that should be disclosed in the Board of Directors' report (Point 1.1.2, Findings); and
 - a difficulty in making a proof-based examination of compliance with financial reporting requirements in the Companies Law (Point 1.1.3, Findings).

This is because the information contained in the financial reports does not enable a determination of a company's level of compliance with the requirements of SOCPA Accounting Standards and the financial reporting requirements in CMA Listing Rules and the Companies Law. That is, the requirement may and may not apply to the company, and the company may and may not have complied with the requirement because the requirement is not applicable to it. To make an informed judgment in this regard, the information and documents available to the company upon which the financial reports were prepared should be referred to. Such information and documents include trial balances, aggregation schedules of financial statements' amounts, reports by members of board of directors, and other documents that have relevance to the information contained in the financial reports. To avoid the financial reporting failures implied above, the study recommends that:

- 1.1 The Capital Market Authority requires the publicly-listed companies to ensure that their financial reports comply with SOCPA Accounting Standards and the financial reporting requirements in CMA Listing Rules and the Companies Law, including those regarding boards of directors' reports, and to issue an assertion confirming such compliance. In checking if the authoritative and

regulatory financial reporting requirements have been complied with, the publicly-listed companies can utilize the software application that was developed for examining compliance with these requirements and later furnished to the CMA and the publicly-listed companies;

- 1.2 Each company should engage a public accountant to examine, and attest to, the assertion issued by the company;
 - 1.3 The assertions and the related attestation reports in 1.1 and 1.2 above be submitted to the CMA and SOCPA;
 - 1.4 The information contained in the completed checklists be studied and reports be extracted similar to the methodology used in section (Second) of the present *Comparative Study of Disclosure in the Financial Reports of KSA Publicly-Listed Companies for the Years 2003-2005*;
 - 1.5 The above process be done annually and legal action be taken against those who manipulate the reports in 1.3 above; and
 - 1.6 The software application be continuously revised and updated as the standards and regulatory requirements evolve or change.
2. As indicated by the findings of the study, publicly-listed companies differ in their levels of compliance with the requirements of SOCPA Accounting Standards, and some even fail to comply with some of these requirements (Point 1.1.1.2, Findings). As a general premise, non-compliance is a symptom of audit quality rather than of the quality of the accounting standards themselves. To avoid the underlying financial reporting failures, the study recommends that:
- 2.1 The requirements of SOCPA Accounting Standards that have not been complied with to a great extent be reviewed to determine cause and take appropriate action. The requirements of SOCPA Accounting Standards may be reconsidered if they prove to be inappropriate. Or, if non-compliance proves to be a willful, unjustified act on the part of publicly-listed companies, the CMA and SOCPA, each within its own jurisdictional authority, may take legal action against the company and the public accountant who audited the company's financial statements; and
 - 2.2 Training courses and seminars be held to identify and address failures in complying with SOCPA Accounting Standards. Such courses and seminars should include case studies pointing out the ideal accounting treatments under SOCPA Accounting Standards for the purpose of increasing accountants' awareness.

3. As indicated by the findings of the study, the items and information disclosed by publicly-listed companies operating in the same industry sector differ from one company to the other as follows:
- Some publicly-listed companies did not disclose the same items disclosed by the other companies operating in the same industry sector. The items disclosed and not disclosed by each company are identified for each industry sector separately. (Point 1.2, Findings);
 - The descriptions used in the notes to the financial statements do not conform to those in SOCPA Accounting Standards (Points 1.2.1.2 and 1.2.2.1, Findings);
 - The text of the summaries of significant accounting policies disclosed by the companies operating in the same industry sector differs although they describe the same accounting policies adopted for similar items (Point 1.2.1.3, Findings).

In this regard, the study recommends that:

- 3.1 The CMA provide each publicly-listed company with a copy of the findings of study, urge the publicly-listed companies to benefit from these findings, require the publicly-listed companies to explain the reason for non-disclosure, and take appropriate action. In reporting the reasons for non-disclosure, companies should consider the provisions of paragraphs 681, 682 and 592 of the *General Presentation and Disclosure Standard*;
- 3.2 SOCPA, in coordination with the CMA, develop for guidance model financial reports, including model financial statements and board of director's (BoD's) letter, for each industry sector; and
- 3.3 The adoption of XBRL (Extensible Business Reporting Language) be considered. XBRL allows the search and retrieval of information based on key word or "tagging" and its efficiency has become evident to regulators in the USA such that XBRL is allowed to accompany the filing of annual reports with the Securities and Exchange Commission (SEC). While using XBRL in the USA is currently voluntary, there is an expectation of making it a requirement.
- 3.4 There is a need for future oriented information that identifies management's expectations, estimates, projections, and assumptions regarding the future. Thus far, accounting policies around the world have not succeeded on crystallizing the type and nature of forward looking information, although it is always noted as an important dimension of accounting. To its credit the Securities and Exchange Commission in the USA has required some of that information to be reported in the Management Discussion and Analysis (MDA), which is an integral part of the annual report which also includes the

financial statements and the independent auditor's report. In that segment, the management is required to indicate its plans for important future activities (e.g., opening new plants or signing large contracts) and to provide information about the risk facing the company. The study recommends considering the development of model forward looking information to be disclosed by publicly-listed companies as an integral part of the annual report.

- 3.5 There should be a company-rating organization which would give publicly-listed companies ratings based on their compliance with authoritative and regulatory financial reporting requirements, and periodically announce the most compliant companies.
4. The lack of rules governing and unifying the adoption of IFRSs for matters not covered by SOCPA Accounting Standards pursuant to SOCPA BoD's Decision No. 5.2.1 dated 21.10.1423H (25.12.2002G), has led to diversity in practice, as no effective dates are reestablished for the application of those standards in KSA, and no studies are conducted to check if any of the requirements thereof conflicts with any of the regulations, requirements or concepts approved in the Kingdom and resolve any such conflict before the standards are applied. The study, therefore, recommends that an exceptional action plan, including its implementation methodology, be laid and executed by SOCPA and funded by the CMA and constituents, to resolve this serious issue, as the actual practice has had material effects on the financial statements of adopting companies (Point 1.2.1.1, Findings).
5. The study includes a comparison of standard setting processes. The comparison indicates that the respective standard-setting processes of the IASB, the FASB and SOCPA are similar in their stages but are different with respect to the organizational structures, independence and funding of the standard-setters (Point 2.2, Findings). The study recommends keeping updated about the developments in the IASB's and the FASB's organizational structures and due processes. It also recommends:
 - 5.1 the administrative, financial and technical independence of the organization in charge of setting financial accounting standards. Such a board should be composed of a mix of full-time and part-time board members to be supported by full time staff, and should be given sufficient human resources and sufficient regular funding to allow it to be effective;
 - 5.2 the administrative, financial and technical independence of the organization in charge of exercising quality control over public accountants. Such a board should be composed of a mix of full-time and part-time board members to be supported by full time staff, and should be given sufficient human resources and sufficient regular funding to allow it to be effective; and

- 5.3 that SOCPA remain responsible for the other activities stated in the Public Accountants Regulations as well as participate in the activities undertaken by the organization in charge of setting financial accounting standards and that in charge of exercising quality control over public accountants.
6. The study includes an identification of the topics addressed by IFRSs, US GAAP, SOCPA Accounting Standards and AAOIFI Accounting and Shari'a Standards. It has been found that some currently effective IFRSs have no counterparts in SOCPA Accounting Standards, and, in turn, Some SOCPA Accounting Standards have no international counterparts. The study recommends that SOCPA should undertake the following:
- 6.1 Lay an exceptional action plan to consider the topics addressed in the aforementioned sets of financial accounting and reporting standards but not currently covered by any standards or agenda projects of SOCPA, and to determine the need to address such topics in standards or opinions, including the methodology of preparation by SOCPA and funding by the CMA and constituents;
- 6.2 Study the interpretations originated by the Financial Reporting Interpretations Committee (IFRIC) and the former Standing Interpretations Committee (SIC), and consider the need for issuing opinions or interpretations dealing with the issues addressed therein, especially those interpretations that have no Saudi counterparts and which Saudi publicly-listed companies have to adopt (Point 2.1.2(c), Findings);
- 6.3 Translate the authoritative pronouncements, exposure drafts and discussion papers issued by other standard-setters, especially those by the IASB, to enable and urge a wide range of interested parties to express their views on them;
- 6.4 Furnish such concerned parties as universities, corporations and public accountants with the exposure drafts and discussion papers issued by the IASB and urge them to submit their views to the IASB within the specified comment period;
- 6.5 Translate every standard it issues into English so that non-Arabic speaking readers will become acquainted with SOCPA's work and be more competent to participate in its evolvement, and that international standard setters will be able to draw upon SOCPA's literature; and
- 6.6 Consider issuing separate standards dealing with the topics jointly addressed in the *General Presentation and Disclosure Standard: Cash Flow Statements; Accounting Policies, Changes in Accounting Estimates and Errors; Events after the Balance Sheet Date; Provisions, Contingent Liabilities and*

Contingent Assets; and Non-current Assets Held for Sale and Discontinued Operations, as these topics are addressed as separate standards in IFRSs (Point 2.1.2, Findings).

7. The study includes a comparison of the disclosure requirements of SOCPA Accounting Standards and their corresponding International Financial Reporting Standards. The comparison shows that the disclosure topics in SOCPA Accounting Standards and their corresponding International Financial Reporting Standards total to 142. The study concluded that the paragraphs to 104 of these topics (73%), need no revision, that 28 of these topics (20%) should be added to SOCPA Accounting Standards, and that the paragraphs relating to 10 of these topics (7%) in SOCPA Accounting Standards should be amended. Pages 251-443 of the study provide analyses of the similarities and differences between the disclosure requirements of SOCPA Accounting Standards and the corresponding IFRSs, together with the recommendations made by the study in this regard and the reasons for these recommendations.

It is recommended that SOCPA lay an exceptional action plan to consider the disclosure requirements of that are recommended by the study to be added to, or revised in, SOCPA Accounting Standards, and to determine the need for such amendments; including the methodology of preparation by SOCPA and funding by the CMA and constituents (Point 3, Findings).

8. The study includes a comparison of all the requirements of SOCPA Accounting Standard on Inventories and IAS 2 *Inventories* which identifies the similarities and differences therebetween and the possible impact of the differences. This comparison is comprised by Part IV of the study.

The *Comparative Study of the Requirements of SOCPA Accounting Standard on Inventories and its International Counterpart* shows that SOCPA Accounting Standard on Inventories and its international counterpart cover a number of subtopics; that the guidance provided by the standards on some of these subtopics is in conformity with regard to the recognition, measurement, presentation and disclosure requirements. Additionally, it is indicated that the guidance provided by the standards on other subtopics is insignificantly different; and that the guidance provided by the standards on some other subtopics is significantly different. The study makes recommendations with respect to these differences, which SOCPA should consider to implement. This study is intended as a model example to be followed in comparing the rest of SOCPA Accounting Standards and the corresponding IFRSs, which is hoped to be done in future separate comparative studies. The study highly recommends conducting these comparisons (Point 4, Findings).

9. The study resulted in methodologies, computer programs, and data collection, documentation and analysis tools. It is hoped that these will assist the CMA and market participants in bringing about a fairer and more effective market. The

following gives details to this output of the study together with recommendations on how to benefit from it:

- 9.1 Methodologies and software tools, including the software application for the collection, documentation and analysis of data and the examination of its reliability, which have been developed and used in the study. They have been so developed for continuous use by the CMA, and they will be submitted to the CMA as part of the output of the project. The study recommends that the CMA charge an internal party with maintaining and developing these methodologies and tools, and using them to implement the other recommendations of the study.
- 9.2 Information on each publicly-listed company, from the resources made publicly available by the company, as compared to information on the other companies belonging to the same industry sector. Some of this information may not reflect the reality of the company because they are derived from the published financial reports which do not reflect some aspects of their preparation; for example, whether or not certain requirements of SOCPA Accounting Standards have been complied with (due to the nature of the published information itself as it is not necessarily reported or disclosed in the financial reports), and the extent and depth of management's understanding of the authoritative and regulatory financial reporting requirements. It is hoped that this information will serve as a corner stone for the CMA in building an integrated database and be of help to the other related parties. The study recommends that:
 - 9.2.1 The study should be made available to scholars, researchers and market participants and to interested parties generally, by offering viewing purpose-written copies on SOCPA's and the CMA's respective websites. Distribution of the study will facilitate several hoped-for effects including encouraging scholars from different backgrounds to analyze and draw conclusions from the study and hopefully provide their input. It should be noted that the information that this recommendation suggests publishing are derived from the financial reports publicly published by Saudi corporations; and
 - 9.2.2 Seminars and workshops should be organized in Riyadh, Jeddah, and Dammam inviting corporate officers, public accountants, academics and other interested parties to attend and enabling a wide range of participants to benefit from the output of study and provide their input, with the result of perfecting, and enhancing the effectiveness of, the study by incorporating suggested changes, revising areas where qualitative or quantitative information is lacking, etc.

Findings

1 *Part I: Comparative Study of Disclosure in the Financial Reports of KSA Publicly-Listed Companies for the Years 2003-2005*

This part consists of an examination of compliance with authoritative and regulatory financial reporting requirements, a comparison of the summaries of significant accounting policies and a comparison of other explanatory notes. The following is a summary of the findings relating to each of these components:

1.1 Examination of Compliance with Regulatory and Authoritative Requirements:

1.1.1 Examination of Compliance with the Requirements of SOCPA Accounting Standards:

The authoritative financial reporting requirements were rephrased as questions to examine them. The questions were answered by engaged consultants based on the 2005 financial statements of all 79 publicly-listed companies. The study resulted in a number of findings, the most significant being:

1.1.1.1 The mean of the "YES" answers to the total answers to the questions examining compliance with the requirements of SOCPA Accounting Standards for all the 79 companies, is 25%; the mean of "NO" answers is 6%; and the mean of the "NO ANSWER CAN BE REACHED ON THE BASIS OF THE INFORMATION DISCLOSED" answer is 69%. (Point 2.1, Second, Part I of the study; and Report 1-1, Appendix).

1.1.1.2 The percentages of the answers - as classified by the types indicated above - to the questions examining compliance with the requirements of SOCPA Accounting Standards, vary as follows*:

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- * It should be noted that the sectors with the most "YES" answers are not necessarily the best at compliance, and, likewise, those with the most "NO" answers are not necessarily the worst at compliance. This is because the information contained in the financial statements does not enable a determination of the level of compliance with the requirements of SOCPA Accounting Standards. That is, a requirement may and may not apply to the company, and the company may and may not have complied with the requirement because the requirement is not applicable to it. To reach an appropriate answer, the information and documents available to the company upon which the financial reports were prepared should be referred to. Such information and documents include trial balances, aggregation schedules of financial statements' balances, reports by members of board of directors, and other documents that have relevance to the information contained in the financial reports. Such documents are available to external users. To remedy this situation the study recommends that questions receiving the "NO ANSWER CAN BE REACHED ON THE BASIS OF THE INFORMATION DISCLOSED" answers be answered by the concerned companies themselves.

- (a) The Agriculture and Food Industries sector is the one with the most "YES" answers as the percentage of these answers to the total answers related to the sector is 32%, which is 7% higher than the mean; while the Tourism and Hospitality sector is the one with the least "YES" answers as the percentage of these answers to the total answers related to the sector is 15%, which is 10% lower than the mean (Point 2.2, Second, Part I of the study; and Report 1-2, Appendix 1).
- (b) The Agriculture and Food Industries sector is the one with the most "NO" answers as the percentage of these answers to the total answers related to the sector is 12%, which is 6% higher than the mean; while the Energy and Utilities sector is the one with the least "NO" answers as the percentage of these answers to the total answers related to the sector is 3%, which is 3% lower than the mean (Point 2.2, Second, Part I of the study; and Report 1-2, Appendix 1).
- (c) The Tourism and Hospitality sector is the one with the most "NO ANSWER CAN BE REACHED ON THE BASIS OF THE INFORMATION DISCLOSED" answers as the percentage of these answers to the total answers related to the sector is 80%, which is 11% higher than the mean; while the Agriculture and Food Industries sector is the one with the least "NO ANSWER CAN BE REACHED ON THE BASIS OF THE INFORMATION DISCLOSED" answers as the percentage of these answers to the total answers related to the sector is 56%, which is 13% lower than the mean (Point 2.2, Second, Part I of the study; and Report 1-2, Appendix 1).

1.1.1.3 The percentage of compliance with the requirements of SOCPA Accounting Standards ranges from 26% to 45%; the percentage of non-compliance with the requirements of SOCPA Accounting Standards ranges from 5% to 33%; and the percentage of the answers indicating that neither compliance nor non-compliance with the requirements of SOCPA Accounting Standards can be verified, ranges from 33% to 63% (Point 2.4, Second, Part I of the study; and Report 5-1, Appendix 1).

1.1.2 Examination of Compliance with CMA Listing Rules:

As per Methodology, the financial reporting-related provisions in the Listing Rules issued by the Capital Market Authority were rephrased as questions. It

was hoped this way to enable an examination of compliance with these provisions. Unfortunately this was not successful as no relation could be found between the information contained in the boards of directors' (BoD's) reports and the requirements of CMA Listing Rules.

1.1.3 Examination of Compliance with the Provisions of the Companies Law:

As per Methodology, the financial reporting-related provisions in the Companies Law were rephrased as questions to enable an examination of compliance with these provisions. However, no relation could be found between the information contained in the BoDs' reports and the requirements of the Companies Law.

1.2 Comparison of Corporate Disclosure:

The number of items for which information is disclosed in the summaries of significant accounting policies by all the companies and for all the years covered by the study ranges from 11 to 40; whereas the number of items for which information is disclosed in the other explanatory notes by all the companies and for all the years covered by the study ranges from 22 to 71. The study of the information disclosed in the notes to the 2005 financial statements in the manner detailed in the study resulted in a number of findings. These findings are divided into two groups: the first group relates to the summaries of significant accounting policies, while the second group relates to the other explanatory notes. The study separately presents each group of results in detail (Point 2, Third & Point 2, Fourth; Part I of the study). The following is a summary of the findings of this comparison:

1.2.1 Comparison of the Summaries of Significant Accounting Policies:

1.2.1.1 Instead of preparing their financial statements in accordance with SOCPA Accounting Standards, the companies operating in the Banking and Financial Services sector, as their disclosures about the basis of preparation of the financial statements indicate, prepare their financial statements in accordance with the *Accounting Standards for Financial Institutions* promulgated by the Saudi Arabian Monetary Agency and *International Financial Reporting Standards*. This is in breach of certain decisions and regulations enumerated in (Third) of the Part I of the study (Point 3.3, Third, Part I of the study).

1.2.1.2 The study shows that some of the descriptions used in the summaries of significant accounting policies do not conform to those in SOCPA Accounting Standards (Point 3.2, Third, Part I of the study).

1.2.1.3 The text of the summaries of significant accounting policies disclosed by the companies operating in the same industry sector differs although they describe same accounting policies that are adopted for similar items (Appendix 19).

1.2.2 Comparison of Other Explanatory Notes:

1.2.2.1 The study shows that some of the descriptions used in the other explanatory notes do not conform to those in SOCPA Accounting Standards (Point 2.1, Fourth, Part I of the study).

2. Part II: Comparative Study of the Topics Addressed by Accounting Standards and Standard-Setting Procedures

This part comprises a comparison of the topics addressed by financial accounting and reporting standards and a comparison of standard-setters' due processes. The following is a summary of findings relating to each of these comparisons:

2.1 Comparison of the Topics Addressed by Financial Reporting Standards:

The comparison of the topics addressed by IFRSs, US GAAP, SOCPA Accounting Standards and AAOIFI Accounting and Shari'a Standards*, resulted in a number of findings, among which are:

2.1.1 The number of topics addressed by the bodies of accounting and reporting standards covered by the study is 143, 75 of which are general topics and the other 65 are industry-specific topics. 47 topics are covered by SOCPA Accounting Standards and other surveyed sets of standards. The number of the topics covered by US GAAP and IFRSs alone is 26; by US GAAP alone, 25; IFRSs, 1; SOCPA Accounting Standards, 1; and AAOIFI Accounting and Shari'a Standards, 43 (Point 2.1, Second, Part II of the study).

2.1.2 The number of currently effective US accounting and reporting standards is 112; IFRSs, 38; AAOIFI Accounting and Shari'a Standards, 43; and SOCPA Accounting Standards, 19. It is noteworthy that six of the IASB's standards issued as separate standards, are addressed by SOCPA's the *General Presentation and Disclosure Standard*. Additionally, SOCPA is currently working on 10 projects. Taking that into account, the total number of the standards issued and under preparation by SOCPA would be 34, as follows:

- (a) Although the accounting standards issued by SOCPA are 20 in total, the *General Presentation and Disclosure Standard* covers six topics that are addressed individually by the following IFRSs: IAS 1

* As of 2007.

Presentation of Financial Statements, IAS 7 Cash Flow Statements, IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, IAS 10 Events after the Balance Sheet Date, IAS 37 Provisions, Contingent Liabilities and Contingent Assets, and IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. Taking that into account, the number of SOCPA Accounting Standards would be 25.

- (b) SOCPA is currently working on 9 standard-setting projects. Once the accounting standards involved by these projects are finalized, and the topics covered by the *General Presentation and Disclosure Standard* are dealt with in individual standards, the number of SOCPA Accounting Standards would then be 34.
- (c) In addition to the accounting and reporting standards issued by the standard-setters covered by the study, these standard-setters have issued accounting opinions and interpretations as well. The number of currently effective accounting opinions and interpretations in US GAAP is 138; interpretations originated by the IASB's International Financial Reporting Interpretations Committee (IFRIC) and the former IASC's Standing Interpretations Committee (SIC), 22; and the accounting opinions issued by SOCPA, 7.

(Point 2.2, Second, Part II of the study)

- 2.1.3 Sixteen currently effective IFRSs have direct corresponding standards issued by SOCPA (Point 2.3, Second, Part II of the study).
- 2.1.4 Thirteen currently effective IFRSs are not covered completely by SOCPA Accounting Standards, but some of the issues dealt with therein are covered by SOCPA Accounting Standards. SOCPA is currently preparing seven individual corresponding standards (Point 2.4, Second, Part II of the study).
- 2.1.5 Nine currently effective IFRSs have no corresponding SOCPA Accounting Standards. However, SOCPA is currently working on two corresponding standards (Point 2.5, Second, Part II of the study).
- 2.1.6 An accounting standard issued by SOCPA has no directly corresponding IFRS (that is, *SOCPA Accounting Standard on Administrative and Marketing Expenses*), but the issues dealt with therein are partially covered by IFRSs (Point 2.6, Second, Part II of the study).
- 2.1.7 An accounting standard issued by SOCPA has no international counterpart; that is, *SOCPA Accounting Standard on Zakat* (Point 2.7, Second, Part II of the study).

2.2 Comparison of Standard-setting Procedures

The setting up of a definite and approved framework for the standard-setting process ensures the development of high quality standards that help entities exercise appropriate control over their operations, and that enable the officers of those entities to make the right decisions to ensure the continuity of the entity and its contribution to the enhancement and consolidation of national economy. Therefore, standard-setters have been keen to establish frameworks for their respective standard-setting processes. The standard-setting process, as shown by the comparison, comprises four main stages. Section (Third) of this part of the study presents the findings made with respect to each stage. The following is a summary of these findings:

2.2.1 Setting the Agenda

SOCPA differs significantly from the IASB and the FASB in how it adds items to its project agenda. The Secretary-General of SOCPA has the authority of proposing new standards and it is up to the Accounting Standards committee of SOCPA to approve the proposed standards. The IASB, on the other hand, raises and discusses potential agenda items in the light of the comments received from other standard-setters and other interested parties, the Standards Advisory Council (SAC) and the International Financial Reporting Interpretations Committee (IFRIC) and staff research and other requests and recommendations. Similarly, the FASB receives many requests for action on various financial accounting and reporting topics from all segments of its diverse constituency, and it turns to the Financial Accounting Standards Advisory Council (FASAC) and certain internal groups, and to other external organizations and groups, for advice and information on various matters, including its agenda. The chairman of the FASB is responsible for preparing the FASB's short- and longer-range operating and project plans, including the agenda of projects and their priorities, and submits those plans to the members of the FASB for their approval (Point 2.1.1.2, Third, Part II of the study).

2.2.2 Development and Publication of an Exposure Draft

The main difference in this stage is that an exposure draft is developed in both the IASB and the FASB by full-time members, while it is developed in SOCPA by a part-time consultant and reviewed by the members of the SOCPA's Accounting Standards Committee who also serve as part-time members (Point 2.1.2.2, Third, Part II of the study).

2.2.3 Development and Publication of the Final Standard

Similarly, the main difference in this stage is that the final standard is developed in both the IASB and the FASB by full-time members, while it is developed in SOCPA by a part-time consultant and reviewed by the members of SOCPA's Accounting Standards Committee (Point 2.1.3.2, Third, Part II of the study).

2.2.4 Procedures after a Standard is Issued

There are differences between the IASB, the FASB, and SOCPA in how they amend an existing standard. Among these differences are:

1. The Accounting Standards Committee may amend an existing standard without following all the procedures adopted for setting a new standard. On the other hand, the IASB has to follow the same process as for developing a new standard when amending an existing standard, thus enabling its constituents to provide their input. The FASB amends previously issued standards in its new standards, also enabling its constituents to provide their input on the proposed amendments.
2. SOCPA does not have a committee or another group interpreting the application of its existing accounting standards.

(Point 2.1.1.2, Third, Part II of the study)

3. *Part III: Comparative Study of the Disclosure Requirements of SOCPA Accounting Standards and International Financial Reporting Standards*

The study includes a comparison of the disclosure requirements of SOCPA Accounting Standards and their corresponding International Financial Reporting Standards. The study shows that the disclosure topics in SOCPA Accounting Standards and their corresponding International Financial Reporting Standards total to 142. It was found that there are significant differences between SOCPA and IFRSs in 17% of these topics, no differences in 10% and insignificant differences in the remaining 68%. Pages 251-443 of the study provide analyses of the similarities and differences between the disclosure requirements of SOCPA Accounting Standards and the corresponding IFRSs (Point 2, First; Second, Part III of the study).

4. *Part IV: Comparative Study of the Requirements of SOCPA Accounting Standard on Inventories and its International Counterpart*

The study includes a comparison of all the requirements of SOCPA Accounting Standard on Inventories and IAS 2 *Inventories* which identifies the similarities and differences therebetween and the possible impact of the differences. This comparison is comprised by Part IV of the study.

The *Comparative Study of the Requirements of SOCPA Accounting Standard on Inventories and its International Counterpart* shows that SOCPA Accounting Standard on Inventories and its international counterpart cover a number of subtopics; that the guidance provided by the standards on some of these subtopics is in conformity, with regard to the recognition, measurement, presentation and disclosure requirements. Additionally, it is indicated that the guidance provided by the standards on other subtopics is insignificantly different; and that the guidance provided by the standards on some other subtopics is significantly different. This study is intended as a model example to be followed in comparing the rest of SOCPA Accounting Standards and the corresponding IFRSs, which is hoped to be done in future separate comparative studies. The study highly recommends conducting these comparisons.

Scope

Under the contract entered into on Jumada' II 2, 1427H (corresponding to June 28, 2006G), the Capital Market Authority (First Party) and the Saudi Organization for Certified Public Accountants (Second Party) agreed that the Second Party shall undertake the following:

1. Identify and introduce the accounting issues dealt with in existing authoritative guidance, namely SOCPA Accounting Standards, International Financial Reporting Standards (IFRSs), US GAAP, and the standards issued by the Accounting & Auditing Organization for Islamic Financial Institutions (IAAOIFI);
2. Conduct a comparative study of IASB and SOCPA's standards and standard-setting procedures, identifying any existing differences and their effects and presenting the accounting treatment under US GAAP of the items accounted for differently under IFRSs and SOCPA Accounting Standards;
3. Conduct a comparative study dealing with disclosure requirements issued by SOCPA and disclosure requirements issued by IASB, and comparing the differences there between with disclosure requirements of US GAAP;
4. Conduct a study of the de facto corporate disclosure in the Kingdom in order to identify the actual level of corporate disclosure through a study of the financial statements of 50 publicly-listed companies in various sectors for the years 2003, 2004 and 2005; and
5. Compile and submit a report of the results.

The initial study made recognizable the importance of broadening the scope of work on the project. This was studied with the concerned parties at the Capital Market Authority and it was agreed that the study will:

1. Examine the compliance of KSA publicly-listed companies with the requirements of SOCPA Accounting Standards in preparing the financial statements for the year ended December 31, 2005, and so the study covered all KSA publicly-listed companies as of the end of 2005, not just 50 publicly-listed companies. This objective is pursued by section Second of Part I of the study;
2. Identify the items disclosed by the KSA publicly-listed companies in the financial statements for the years 2003, 2004 and 2005. This objective is pursued by sections Third and Fourth of Part I of the study;
3. Identify the topics addressed by the sets of financial accounting and reporting standards covered by the study. This objective is pursued by section Second of Part II of the study;

4. Compare the standard-setting procedures followed by the standard-setting bodies covered by the study and identify the differences thereamong (if any). This objective is pursued by section Third of Part II of the study;
5. Compare the disclosure requirements of SOCPA Accounting Standards and International Financial Reporting Standards (IFRSs). This objective is pursued by Part III of the study; and
6. Submit a report explaining the accomplished work and presenting the findings and the recommendations of the study.

Methodology

The following is a summary of the methodology employed in each part of the study.

1. *Part I: Comparative Study of Disclosure in the Financial Reports of KSA Publicly-Listed Companies for the Years 2003-2005*

This part consists of an examination of compliance with authoritative and regulatory financial reporting requirements, a comparison of the summaries of significant accounting policies and a comparison of other explanatory notes. The following is a summary of methodology employed in each of these components:

1.1 Examination of Compliance with Authoritative and Regulatory Requirements:

In order to reach sound and credible results with regard to the level of compliance with SOCPA Accounting Standards and the financial reporting-related regulatory requirements, the Windows-based system (the "software application") developed by SOCPA was upgraded so that it enabled the extraction of reports on the requirements that have not been complied with for each standard, regulation and bylaw, and each company and industry sector. The following sets out the methodology employed in this study:

1.1.1 The paragraphs of SOCPA Accounting Standards and financial reporting-related regulatory requirements in the Companies Law and CMA Listing Rules were rephrased as questions. The questions were serially numbered to ensure quick and easy reference to them and the related result.

1.1.2 The software application was upgraded so that it accommodated all the questions in 1.1.1 above.

1.1.3 A group of consultants studied the financial statements of the publicly-listed companies with a view to examining the level of compliance with SOCPA Accounting Standards and the financial reporting-related regulatory requirements by determining which of the following is the appropriate answer to each of the questions whereas:

- (a) "YES", is represented by "1", meaning the requirement has been complied with;
- (b) "NO", is represented by "2", meaning the requirement has not been complied with;
- (c) "NOT APPLICABLE", is represented by "3", meaning, based on the financial statements, the requirement does not apply to the company. In other words, from the information disclosed in the financial statements and the notes thereto, it can be concluded that the requirement is not applicable to the company; and

(d) "NO ANSWER CAN BE REACHED ON THE BASIS OF THE INFORMATION DISCLOSED", is represented by "4", meaning the information contained in the financial statements does not enable a determination of whether a company has complied with the requirement. That is, the requirement may and may not apply to the company, and the company may and may not have complied with the requirement because the requirement is not applicable to it. To reach an appropriate answer, the information and documents available to the company upon which the financial reports were prepared should be referred to. Such information and documents include trial balances, aggregation schedules of financial statements' balances, reports by members of board of directors, and other documents that have relevance to the information contained in the financial reports. Such documents are normally in the custody of the company.

1.1.4 The initial results of the examination described above were extracted and sent to the publicly-listed companies for comment. The replies received (from 6 companies) were studied and some changes were consequently incorporated in the study.

1.1.5 Classification of Companies by Industry Sector:

The reports and results referred to above were classified according to the industry classification of the Capital Market Authority (CMA).

1.2 Comparison of the Summaries of Significant Accounting Policies:

1.2.1 The Comparative Analysis of the Accounting Policies Adopted by Publicly-listed Companies:

A comparative analysis of the summaries of significant accounting policies disclosed in KSA publicly-listed companies' financial reports for the year ended 31.12.2005G was conducted*. It is 840 pages in length and is divided by each industry sector into several sections. Each section identifies the accounting policies adopted by each company belonging to the industry sector the section deals with for the items reported in the company's financial statements. It also presents the same text as in the notes representing the summary of significant accounting policies with respect to each such item reported in the financial statements of the companies belonging to the same industry sector. These items are labeled as investments, depreciation and amortization, etc. The objective of this study

* SOCPA has previously conducted a comparative analysis of the accounting policies adopted by KSA publicly-listed companies. The present study was conducted in a similar manner.

is to examine the conformity between the accounting policies used by a company and those used by the other companies belonging to the same industry sector. It is also hoped to represent a comparative reference of the text of the summaries of accounting policies as disclosed for each item and element in the financial statements, classified by industry sector, to help scholars, researchers and other interested and competent parties in general, and corporate officers and public accountants in particular, choose the accounting policies that are most appropriate to the entity's particular circumstances (Appendix 19).

1.2.2 Statement of the Titles of the Accounting Policies Disclosed by the Publicly- Listed Company:

A statement of the titles of the accounting policies disclosed was compiled for each publicly-listed company and the titles were electronically linked to the related notes to the financial statements for each of the years covered by the study. The objective of this statement is to build the inputs of the statement of the accounting policies by the companies belonging to the industry sector (see 1.2.3).

1.2.3 Statement of the Titles of the Accounting Policies Disclosed by the Companies Belonging to the Same Industry Sector:

A statement of the titles of the accounting policies disclosed by the companies belonging to the same industry sector in the financial reports for the years 2003-2005, was compiled for each sector. The objective of this statement is to identify the items that are not disclosed by a company in the summary of significant accounting policies but are disclosed by the other companies belonging to the same industry sector therein, as well as to build the inputs of the statement of the titles of the accounting policies disclosed by publicly-listed companies operating in all industry sectors (see 1.2.4).

1.2.4 Statement of the Titles of the Accounting Policies Disclosed by all the Companies Operating in all Industry Sectors:

The titles from the statements in 1.2.3 were integrated into one statement covering all the industry sectors and all the years covered by the comparative study. The objective of this statement is to identify the accounting policies disclosed by all companies operating in all the industry sectors.

1.2.5 The initial results of the above-mentioned statements were extracted and sent to the publicly-listed companies for comment. The replies received

(from 6 companies) were studied and some changes were consequently incorporated in the study.

1.2.6 Statement of the Titles of the Accounting Policies Disclosed by the Companies Belonging to the Same Industry Sector, Sorted by Disclosure Percentage:

The foregoing statements were studied and separate statements were compiled with each covering one industry sector. They present the accounting policies disclosed in the industry sector sorted by disclosure percentage. The objective of this statement is to point out the items with low disclosure percentage so that companies will disclose them if such disclosures are relevant to an understanding of any of the information and amounts reported in the financial statements.

1.2.7 Classification of Companies by Industry Sector:

The accounting policies referred to above were classified according to the industry classification of the Capital Market Authority (CMA).

1.3 Comparative Study of Other Explanatory Notes:

The same methodology as in study of the summaries of significant accounting policies was employed here:

1.3.1 Preparation of a Statement of the Headings of Other Explanatory Notes Disclosed by Each Publicly-Listed Company:

A statement of the headings of the information disclosed in the other explanatory notes was compiled for each publicly-listed company and the headings were electronically linked to the related notes to the financial statements for each of the years covered by the study (2003-2005). The objective of this statement is to build the inputs of the statement of the accounting policies by the companies belonging to the same industry sector (see 1.3.2).

1.3.2 Preparation of a Statement of the Headings of Other Explanatory Notes Disclosed by the Companies Belonging to the Same Industry Sector:

A statement of the headings of other explanatory notes disclosed by the companies belonging to the same industry sector in the financial reports for the years 2003-2005, was compiled for each sector. The objective of this statement is to identify the items that are not disclosed by a company in the other explanatory notes but are disclosed by the other companies belonging to the same industry sector therein, as well as to build the inputs of the

statement of headings of other explanatory notes disclosed by the publicly-listed companies operating in all industry sectors.

1.3.3 Preparation of a Statement of the Headings of Other Explanatory Notes Disclosed by the Publicly-Listed Companies Operating in all Industry Sectors:

The headings from the statements in 1.3.2 were integrated into one statement covering all the industry sectors and all the years covered by the comparative study. The objective of this statement is to identify the other explanatory notes disclosed by all companies operating in all the industry sectors.

1.3.4 The initial results of the above-mentioned statements were extracted and sent to the publicly-listed companies for comment. The replies received (from 6 companies) were studied and some changes were consequently incorporated in the study.

2. Part II: Comparative Study of the Topics Addressed by Accounting Standards and Standard-Setting Procedures

This part consists of an identification of the topics addressed by financial accounting and reporting standards and a comparison of standard-setters' due processes. The following is a summary of methodology employed in each of these components:

2.1 Identification of the Topics Addressed by Financial Accounting and Reporting Standards:

2.1.1 Copies of *SOCPA Accounting Standards*, *International Financial Reporting Standards (IFRSs)*, *FASB Original Pronouncements (as Amended)*, *FASB Current Text*, and the *Accounting and Shari'a Standards* issued by the Accounting & Auditing Organization for Islamic Financial Institutions (AAOIFI) were obtained.

2.1.2 Lists of US Generally Accepted Accounting Principles (US GAAP), IFRS, SOCPA Accounting Standards and AAOIFI Accounting and Shari'a Standards were compiled.

2.1.3 A list of the topics of accounting and reporting standards as in *FASB Current Text* was compiled.

2.1.4 Topics and subtopics addressed by each SOCPA Accounting Standard and its corresponding IFRS were initially identified, numerated in a list and divided into three groups as follows:

Group (A): Topics addressed by both standards.

Group (B): Topics addressed in the IFRS but not covered by the standard issued by SOCPA.

Group (C): Topics addressed in the standard issued by SOCPA but not covered by the IFRS.

2.1.5 A statement of the topics (143 topics) addressed in accounting and reporting standards was compiled (Appendix 1). This statement is an integration of the topics of accounting and reporting standards in FASB Current Text, IFRSs, SOCPA Accounting Standards and AAOIFI Accounting and Shari'a Standards. It is divided into two sections: *Section I-1* lists the topics of those standards that are generally applicable to all entities and these topics are 78 in number; *Section I-2* lists the topics of specialized standards that are applicable to not-for-profit entities and entities operating in specific industries, and these topics are 65 in number. Each section contains a source reference to the related pronouncements issued by the standard-setters covered by the comparative study. It is worth mentioning that all the topics addressed by AAOIFI Accounting and Shari'a Standards are included as industry-specific topics as these standards are specific to Islamic financial institutions.

2.2 Standard-Setting Procedures:

A copy of the *Due Process Handbook for the IASB* approved by the IASCF Trustees in March 2006 was obtained, as well as copies of *FASB's Rules of Procedure as amended and restated through December 1, 2002*, *Facts about FASB* (2007) and SOCPA's *Executive Bylaw of Standard-Setting Procedures* as revised pursuant to SOCPA BoD's Decision No. 948/11 dated 19.06.1416H (corresponding to 12.11.1995G). The comparison covered the IASB's and FASB's respective due processes, and SOCPA's standard-setting procedures.

3. Part III: Comparative Study of the Disclosure Requirements of SOCPA Accounting Standards and International Financial Reporting Standards

This study covers the disclosure requirements of SOCPA Accounting Standards and the corresponding IFRSs with the exception of those of *SOCPA Accounting Standard on Zakat* and *SOCPA Accounting Standard on Income Taxes*, since Paragraph 105 *SOCPA Accounting Standard on Zakat* requires that the provision for Zakat be measured and recognized for each financial period in accordance with rules and regulation pertaining to Zakat Farida (duty) in the Kingdom of Saudi Arabia, and this standard is actually a result of the Kingdom's particular legal and economic environment; and Paragraph 105 of *SOCPA Accounting Standard on Income Taxes* requires that the provision for income tax be measured and recognized for each financial period in accordance with rules and regulations pertaining to income tax in

the Kingdom of Saudi Arabia, and such provisions are different in nature from those in accordance with which income taxes are accounted for under IFRSs.

The comparative analysis in this study is classified into several sections with each section covering the disclosure requirements in a SOCPA Accounting Standard and its international counterpart. Each section presents a comparative analysis of the similarities and differences between the requirements the disclosure requirements in the SOCPA Accounting Standard and its international counterpart together with related recommendations. The analysis is further classified based on the disclosure topics covered by the SOCPA Accounting Standard and its international counterpart.

For each SOCPA Accounting Standard and its corresponding, a comparative cataloging was made of the requirements falling within each of the disclosure topics addressed by the standards (see Appendix 27). Each table in this cataloging comprises a number of fields. The first and the second fields contain the corresponding paragraphs in the SOCPA Accounting Standard and the IFRS. The numbers of the paragraphs are indicated for reference purposes. The third field contains a comparison of the requirements made by the paragraphs. The fourth field contains the conclusion, i.e. whether there is “no difference,” there is an “insignificant difference” or there is a “significant difference” between the requirements. The fifth field contains the related recommendation; and the sixth, the reasons for the recommended action.

4. *Part IV: Comparative Study of the Requirements of SOCPA Accounting Standard on Inventories and its International Counterpart*

The comparative analysis in the *Comparative Study of the Requirements of SOCPA Accounting Standard on Inventories and its International Counterpart* is classified based on the topics covered by each standard, and the topics are categorized as follows:

Group (A): Topics addressed by both standards.

Group (B): Topics addressed in the IFRS but not covered by the standard issued by SOCPA.

Group (C): Topics addressed in the standard issued by SOCPA but not by the IFRS.

Each topic falls into subtopics under which the text of comparable paragraphs of SOCPA Accounting Standard on Inventories and IAS 2 *Inventories* is presented, analyzed and compared, with a recommendation made.

5. *General Methodology*

5.1 The study uses a descriptive analysis methodology as data was collected, classified and analyzed, and the results were extracted. Each part of the study describes the methodology employed therein.

5.2 The initial results of the *Comparative Study of Disclosure in the Financial Reports of KSA Publicly-Listed Companies for the Years 2003-2005 (Part I)*

were extracted and sent to the publicly-listed companies for comment. The replies received were studied and taken into consideration.

- 5.3 A number of external experts from diverse backgrounds were engaged to:
 - 5.3.1 Review the study findings and recommendations with a view to identifying any existing inconsistencies, incoherencies and/or irrelevances;
 - 5.3.2 Identify the information of value to users of financial statements but not required by SOCPA Accounting Standards;
 - 5.3.3 Review the questionnaires that were developed to examine compliance with the Standards and recommendations for any reasonable amendments (revisions, additions or eliminations); and
 - 5.3.4 Submit reports including all their comments on the study and suggestions, and to discuss such comments and suggestions with the supervisory team.

The comments and suggestions received from the experts were studied, and consequently discussed at a meeting attended by the Supervisory Team and the reviewing experts. The study was revised to incorporate the thoughtful and incisive comments and suggestions received.

6. *Limits and Limitations*

This study was conducted within the context of the final agreement reached between the Capital Market Authority and SOCPA. The following are the limits and limitations of the study:

- 6.1 *The Comparative Study of Disclosure in the Financial Reports of KSA Publicly-Listed Companies for the Years 2003-2005* (Part I) covers all KSA publicly-listed companies as of December 31, 2005, which are 79 in total. It is based on the financial reports of those companies, and no field surveys were conducted except that the initial results of the study were sent to the publicly-traded companies for their comments.
- 6.2 The objective of *The Comparative Study of Disclosure in the Financial Reports of KSA Publicly-Listed Companies for the Years 2003-2005* is to identify the items disclosed and not disclosed in the financial statements of publicly-traded companies. The actual reasons for non-compliance and non-disclosure can be investigated in future research as this requires additional information from surveyed companies.
- 6.3 *The Comparative Study of the Topics Addressed by Accounting Standards and Standard-Setting Procedures* (Part II) covers the topics addressed by the

standards issued by SOCPA, the International Accounting Standards Board (IASB), the Financial Accounting Standards Board (FASB) and the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI).

- 6.4 *The Comparative Study of the Topics Addressed by Accounting Standards and Standard-Setting Procedures* covers the procedures followed by the IASB, the FASB and SOCPA for developing accounting standards. It does not cover those followed by the AAOIFI because no complete copy of its due process is available.
- 6.5 The comparative study of summaries of significant accounting policies and other explanatory notes cover KSA publicly-listed companies' financial statements for the years 2003-2005.
- 6.6 The examination of compliance with the requirements of SOCPA Accounting Standards covers the KSA publicly-listed companies' financial statements for the year ended December 31st, 2005.
- 6.7 The reports extracted from the software application are exclusively related to the examination of compliance with SOCPA Accounting Standards, as compliance in the publicly-listed companies BoDs' reports with the financial reporting requirements in the Companies Law and CMA Listing Rules, could not be examined because no relation could be found between the information contained in the BoDs' reports and the requirements of the Companies Law and CMA Listing Rules.

Credits

Supervisory Team

The Accounting Standards Committee of SOCPA, pursuant to its decision No. 4/2 dated 28.03.1427H (corresponding to 26.04.2006G), formed a team to supervise and review the work of the project management. The team consists of:

- HE Abdulaziz Al-Rashid, SOCPA Accounting Standards Committee Chairman
- Mr. Abdulmohsin Al-Faris, SOCPA Accounting Standards Committee Vice-chairman
- Abdurrahman Al-Razeen, Ph.D, SOCPA Accounting Standards Committee Member
- Ahmad Al-Maghames, Ph.D, Secretary-General of SOCPA

They held a number of meetings to determine the best means in which to execute the study. It was decided to engage the services of consultants and experts having experience in conducting similar studies and possessing the required professional skills. In this regard they appointed:

Mr. Yousef Al-Mubarak, a certified public accountant, Project Manager

Participants and Review Panel Members

A number of external experts from diverse backgrounds was engaged to help prepare the study; and another number was engaged to review the study, namely the following members:

- HE Abdullah Muhammad Al-Faisal, Professor of Accounting, King Saud University; former rector of King Saud University
- Abdurrahman Ibraheem Al-Humaid, Professor of Accounting, King Saud University
- Abdullah Ali Al-Meneef, Ph.D, Chair of SOCPA Quality Control Committee
- A. Rashad Abdul-Khalik, Professor of Accountancy, University of Illinois at Urbana-Champaign; Director of the V. K. Zimmerman Center for International Education and Research in Accounting
- Awad Al-Reheely, Professor of Accounting, King Abdulaziz University
- Suleiman Al-Tewejry, Ph.D., CEO, Saudi Arabian Amiantit Company
- Fouad Ahmad Al-Mubarak, Professor of Accounting, King Faisal University
- Muhammad Abdullah Al Abbas, Associate Professor of Accounting, King Khalid University
- Khalid Salih Al-Teraify, Member of SOCPA; Member of AICPA