Getting it right
Adoption of IFRS in Saudi Arabia

The Kingdom of Saudi Arabia (KSA) is soon set to join 130+ countries across the globe in the application of International Financial Reporting Standards (IFRS). Today, all companies in Saudi Arabia, other than banks and insurance companies, must follow accounting standards generally accepted in KSA as issued by the Saudi Organization for Certified Public Accountants (SOCPA). Banks and insurance companies are regulated by the Saudi Arabian Monetary Authority (SAMA-the Saudi Arabian central bank) and are already required to comply with IFRS.

In an era of globalization of businesses and markets, financial information prepared and audited according to national accounting Generally Accepted Accounting Principles (GAAP) no longer satisfies the needs of users
whose decisions are more international in scope. Saudi Arabia has recognized the need to participate in the opportunities offered by globalization and consequently, SOCPA approved an IFRS Convergence Plan, called the “SOCPA Project for Transition to International Accounting & Auditing Standards.” Under this convergence plan, all listed companies are required to adopt IFRS for financial periods beginning on or after January 1, 2017, and all other entities for financial periods beginning on or after January 1, 2018. Unlisted entities may opt for an early adoption of IFRS from January 1, 2017. SOCPA is in the process of adopting IFRS for small- and medium-sized entities (SMEs) to be effective in 2018 for use by non-publicly accountable entities.

Since Saudi Arabia joined the Group of Twenty Finance Ministers and Central Bank Governors (G20) in 2009, the adoption of IFRS has been viewed as an important milestone in the country’s future economic development and has been working towards this end ever since.

The convergence of national GAAP with IFRS (Fontes et al, 2005, p. 416) promises “transparent, comparable and consistent financial information” to guide investors in making “optimal investment decisions” (Jacob and Madu, 2004, p. 357.)

Increased foreign direct investment and enhanced quality reporting, transparency and comparability are some of the key benefits that the country will enjoy from IFRS adoption. As KSA moves to reduce its dependency on oil, quality, transparent information, comparable to other preparers of IFRS reporting, will serve to attract direct foreign investment to the country.

The view that adoption of IFRS improves quality of financial information is critical to its adoption. If companies do not view the application of IFRS as beneficial to their business, then they are likely to face greater challenges in complying. As countries have over the years transitioned to IFRS, a common recurrence noted is that small businesses were slow to comply because they could not immediately see the benefits of the transition.

IFRS reporting is significantly more onerous than Saudi GAAP, in that its application will necessitate additional disclosures that will contribute to better informing the users.

The step change of moving from Saudi GAAP to IFRS comes with its challenges to corporates, practitioners and regulators alike. Some of the key challenges are the limited resource pool from which to draw upon, as well as Saudi’s unique national practices. KSA is geographically the second largest state in the Arab world after Algeria, having a population of 32.2 million

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people. Yet despite its size and population, the number of qualified Saudi accountants is a low 300. Compare that to Canada that has a similar population and has over 100,000 qualified accountants and the United Kingdom that boasts in excess of 200,000, the seriousness of the shortage is glaring and one which will need to be addressed if the adoption of IFRS and the regulation thereof by SOCPA is to achieve the desired results. The shortage of skilled accountants in Saudi Arabia is partially bridged by the numerous expatriates that have moved to the Kingdom, yet the Arabic language poses yet another challenge. All statutory financial statements prepared in accordance with Saudi GAAP are required to be filed with the relevant authority in Arabic. It is expected that this requirement will continue with the transition to IFRS. Consequently, there will be added pressure on Arabic-speaking qualified accountants to ensure that compliance with IFRS is, literally, not lost in translation.

A further challenge is the unique national practices of the country. Compliance with strict local laws and Sharia law may not always be in accordance with IFRS. Additional disclosure requirements have been added to some standards, mainly to reflect Sharia or local law. Also, going forward, SOCPA may from time to time decide to amend any IFRS requirement that contradicts Sharia or local law, also taking into consideration the level of technical and professional preparedness in the Kingdom. Adding disclosures or removing an option from a standard would not normally prevent an entity following the standards from asserting compliance with IFRS. However, amending the requirements would generally prevent an entity following the standards from asserting compliance with IFRS if the amendment has a material effect.

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Careful planning and preparation by corporates, practitioners and regulators over the next one to two years will determine the success or otherwise of the effective IFRS implementation in the Kingdom. Stakeholders should put in place adequate resources to support the sustainable implementation of IFRS. This includes setting up consultative groups to be available to respond promptly to challenges faced by users. Another critical element underlying the successful implementation of IFRS will be the assistance given to key stakeholders, including regulators, with training and dedicated required resources to interpret and apply the requirements of IFRS. It is imperative that the various stakeholders are integrally involved, because a smooth transition to IFRS cannot be achieved without their support.

The resource shortage will likely continue for some years, but it is now that the industry and policy makers need to act, in order to begin to see the fruit in the near future. Extensive education is needed in schools and universities through the targeted allocation of resources.

by Paul Manduca, Partner, Audit, Deloitte Middle East