

THE UNIVERSITY OF HULL

*THE APPLICABILITY OF A UNIFORM
ACCOUNTING SYSTEM IN THE GCC COUNTRIES*

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BY

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*In the Name of Allah,
Most Gracious, Most Merciful.*

*"O My Lord! Advance Me
in Knowledge".*

Dedicated to my father, mother, and
my beloved wife for their encouragement,
patience, and tolerance

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LIST OF ABBREVIATIONS

A.C.C.A	Associate of the Chartered Association of Certified Accountants
A.C.A	Associate of the Institute of Chartered Accountants
A.C.M.A	Associate of the Institute of Cost and Management Accountants
A.I.C.P.A	American Institute of Certified Public Accountants
ALBA	Aluminium Bahrain
ASC	Accounting Standards Committee
BA	Bachelor of Arts
BALEXCO	Bahrain Aluminium Extrusion Company
BANAGAS	Bahrain National Gas Company
BANOCO	Bahrain National Oil Company
BAPCO	Bahrain Petroleum Company
B.D	Bahraini Dinar
C.A.	Chartered Accountant
C.P.A.	Certified Public Accountant
Dh.	Dirham
EEC	European Economic Community
F.C.C.A	Fellow of the chartered Association of Certified Accountants
FASB	Financial Accounting Standards Board
F.C.A	Fellow of the Institute of Chartered Accountants in England and Wales
GAAP	Generally Accepted Accounting Principles
GAAS	Generally Accepted Auditing Standards
GAGE	General Administration of Girls' Education
GARMCO	Gulf Aluminium Rolling Mill Company

GCC	Gulf Co-operation Council
GDP	Gross Domestic Product
GIC	Gulf Investment Corporation
GNP	Gross National Product
GPIC	Gulf Petrochemical Industries Company
IAG	International Auditing Standards
IAS	International Accounting Standards
I.C.A.E.W	Institute of Chartered Accountants of England and Wales
IMF	International Monetary Fund
KAC	Kuwait Aviation Company
Km	Kilometre
MA	Master of Arts
MBA	Master of Business Administration
MB/d	Million Barrels per Day
MS	Master of Science
OPEC	Organisation of Petroleum Exporting Countries
PH.D.	Doctor of Philosophy
Q.R	Qatari Riyal
R.O	Riyal Omani
Sq.	Square
S.R	Saudi Riyal
UAE	United Arab Emirates
UEA	Unified Economic Agreement
U.K.	United Kingdom
UN	United Nation
USA	United States of America

LIST OF TABLES

	Page
 CHAPTER 2	
2.1 Land Area of the Gulf States	20
2.2 Population of the Gulf States in 1988	21
2.3 Exchange Rates	25
2.4 Average Daily Oil Production and Annual Revenues of Oil Exports in the Gulf Countries	36
2.5 GCC Gross Domestic Product, at Current Prices ...	38
2.6 Expenditure on GDP, at Current Prices	39
2.7 Structure of Output in the GCC Countries	43
2.8 Member States' Contributions in the GCC Total GDP	44
2.9 Contribution of the Manufacturing Sector to GDP in the GCC Countries	46
2.10 Nominal GDP and GDP Per Capita	48
2.11 Nominal GDP Growth Rates in the GCC Countries ...	49
2.12 Non-Oil GDP Growth Rates in the GCC Countries ...	50
2.13 GCC Countries' Inflation Rates	51
2.14 Projected Sectoral Contribution to the GDP in the Fourth Plan	58
2.15 Five-Year Plan 1980-1985	59
2.16 Balance of Payment Current Accounts of GCC States	61
2.17 Labour Forces in GCC Countries	64
2.18 Relative Market Shares of Trading Partners in the Gulf Countries' Imports	65
2.19 Distribution of Gulf Countries' Exports by Major Destinations	66
2.20 Foreign Assets of GCC Countries	69

CHAPTER 3

3.1	Number of Shareholding Companies Operating in the Gulf	78
3.2	Total Capital of Shareholding Companies in the Gulf Countries	79
3.3	The Number of Gulf Shareholding Companies with Total Equities	80
3.4	The Distribution of the Percentage of Investment in the Gulf Countries	82
3.5	The Distribution of the Percentage of the Shareholding Companies in Each GCC Country Out of the Total Investment, According to Economic Activities	83
3.6	Bahrain: Government, Gulf, and Foreign Companies' Participation in Large Industrial Projects	87
3.7	Government Participation in Public Industrial Shareholding Companies in Kuwait	89
3.8	Kuwait Shareholding Companies Listed in Kuwait Stock market	90
3.9	Bachelor of Commerce Degree Requirements in Accounting	126
3.10	Bachelor of Commerce Degree Accounting Course Requirements	127
3.11	Total Registered Students (Ist. Semester) at Kuwait University and the College of Commerce, Economic and Political Science	130
3.12	Graduates of Kuwait University	131

CHAPTER 4

4.1	Model Balance Sheet Before Allocation	189
4.2	Model Results Account	190
4.3	Fixed Assets Table	194

4.4	Financial Analysis of the Transferable Industry ..	200
4.5	Balance Sheet of the Iraqi Uniform Accounting System	206
4.6	Production, Trade, Profit, Loss and Distribution Account	209
 CHAPTER 5		
5.1	The Questionnaire Plan	222
5.2	Questionnaire I Design	223
5.3	Questionnaire II Design	224
5.4	Questionnaire III Design	225
 CHAPTER 8		
8.1	Percentage of Response to Questionnaire I	316
8.2	General Information	318
8.3	Reasons for Variation	323
8.4	Types of Accounting Standards	323
8.5	The Best Strategy(ies) to Create an Accounting System	328
8.6	The Existence of Accounting Policies	348
8.7	The Disclosure Process	352
 CHAPTER 9		
9.1	Classification of the Questionnaire	361
9.2	Percentage of Response to Questionnaire II	365
9.3	Background of Respondents from University Sample	366
9.4	The Most Appropriate Strategy for Creating an Accounting System	379
9.5	Establishing the GCC's Own Uniform System	388

CHAPTER 10

10.1	Percentage of Response to Questionnaire III	397
10.2	Respondents in the Accounting Firms (General Data I)	400
10.3	General Data II	403
10.4	Respondents, Licensed Accountants, or Managing Partners, Classified by Citizenship, Membership, and Experience in Bahrain, Kuwait and Oman	406
10.5	Training Candidates and Staff	409
10.6	The Best Strategy(ies) for Creating an Accounting System	422
10.7	Establishing the GCC's Own Uniform System	430

CHAPTER 11

11.1	The Existence of GAAP in the GCC	437
11.2	The Existence of Variation in the Accounting Principles Applied in the GCC	439
11.3	Relevance of GAAP to GCC Environment	443
11.4	The Best Strategy to Create an Accounting System to Suit the GCC Environment	443
11.5	Respondents' Contingency Table Regarding GAAP Relevance to GCC Environment ₂	446
11.6	Calculation of the Sample X Value	447
11.7	Respondents' Contingency Table Concerning the Best Strategy to Create an Accounting System to Suit GCC Needs	448
11.8	Calculation of the Sample X Value	448
11.9	Establishment of the Uniform Accounting System by the General Secretariat of the Co-operation Council	459
11.10	Type of Authoritative Body that Could be Created..	460
11.11	The Benefits of Applying the Uniform Accounting System	463

11.12	Establishing and Adopting the GCC's Own Uniform System	464
11.13	Reasons for Establishing and Adopting a GCC Uniform System	466
11.14	Reasons for Not Establishing and Adopting a GCC Uniform System	467

LIST OF FIGURES

2.1	GULF COOPERATION COUNCIL	31
11.1	RELEVANCE OF GAAP TO GCC ENVIRONMENT - COMPTROLLERS	449
11.2	RELEVANCE OF GAAP TO GCC ENVIRONMENT - UNIVERSITY MEMBERS	450
11.3	RELEVANCE OF GAAP TO GCC ENVIRONMENT - PUBLIC ACCOUNTANTS	451
11.4	RELEVANCE OF GAAP TO GCC ENVIRONMENT - SAMPLES TOTAL	452
11.5	THE BEST SOLUTION FOR GCC ENVIRONMENT - COMPTROLLERS	453
11.6	THE BEST SOLUTION FOR GCC ENVIRONMENT - UNIVERSITY MEMBERS	454
11.7	THE BEST SOLUTION FOR GCC ENVIRONMENT - PUBLIC ACCOUNTANTS	455
11.8	THE BEST SOLUTION FOR GCC ENVIRONMENT - SAMPLES TOTAL	456

TABLE OF CONTENTS

	<u>Page</u>
Acknowledgements	I
Abstract	II
List of Abbreviations	IV
List of Tables	VI
List of Figures	X

CHAPTER 1

INTRODUCTION

1.1 Nature of the Problem	1
1.2 Purpose of the Study	3
1.3 Importance and Contribution of the Study	5
1.4 Applicability of a Uniform Accounting System to GCC States	6
1.5 Research Methodology	8
1.6 Scope and Limitation of the Study	11
1.7 Organisation of the Study	12

CHAPTER 2

THE GULF CO-OPERATION COUNCIL - GCC: BACKGROUND

2.1 Introduction	17
2.2 The Gulf - Geographical, Historical and Political Background	18
2.2.1 Geography	18
2.2.2 Historical Background	19
2.2.3 Political Background	22
2.2.4 Common Currency	24
2.3 The Road to the Gulf Co-operation Council (GCC)	26

2.3.1	Objectives and Organisation	28
2.4	The GCC Economic Environment	33
2.4.1	Traditional Economy	40
2.4.2	Present Economic Structure	41
2.4.3	Economic Development and Development Plans	53
2.4.4	Balance of Payments	60
2.4.5	Labour Force	60
2.4.6	Imports and Exports	62
2.4.7	The Decline of Oil Prices and its Effect on General Domestic Expenditure	67
2.4.8	The Gulf Countries and Foreign Investment	67
2.5	The GCC's Achievements	70
2.5.1	The Unified Economic Agreement - UEA	70
2.5.2	The Gulf Investment Corporation - GIC	71
2.5.3	Other Joint Venture Projects	71
2.6	Summary and Conclusion	72

CHAPTER 3

THE GCC AND THE EXISTING ACCOUNTING AND PUBLIC SECTOR ENVIRONMENT

3.1	Introduction	74
3.2	Types of Entities in the GCC	76
3.2.1	The Public Sector Companies	85
3.2.2	Sources of Finance of Public Sector Companies	92
3.2.3	Management of the Public Sector Companies	93
3.3	The Existing Accounting Systems	94
3.3.1	Present Status of Accounting and Auditing	98
3.3.2	The Applied Generally Accepted Accounting Principles (GAAP)	102
3.3.3	The Adoption of International Accounting Standards (IAS)	104
3.4	The Information Needs of the GCC Governments	109
3.5	The Accounting Profession in the GCC	111
3.6	Development of Accounting Education in the Gulf	116

3.6.1	Historical Background	.....	116
3.6.2	The Beginning of Accounting Education	.....	117
3.6.3	University Education	.....	121
3.6.4	University Accounting Education	.....	123
3.6.4.1	Development of Accounting Education in Kuwait	.....	124
3.6.4.2	Structure and Content of Accounting Education in Kuwait	.....	125
3.6.4.3	Accounting Graduates	.....	128
3.6.4.4	Academic Staff	.....	129
3.6.4.5	Accounting Textbooks	.....	129
3.6.4.6	Teaching Methodology	.....	132
3.6.4.7	Conclusion and Recommendations to Gulf Accounting Education	.....	133
3.7	Factors that Influence the Process and Development of Accounting in GCC Countries	.....	135
3.8	Summary and Conclusion	.....	141
	Footnotes	.....	143

CHAPTER 4

LITERATURE REVIEW

4.1	Introduction	.....	144
4.2	Accounting Practices in U.K. and USA	.....	145
4.2.1	Objectives of Accounting Information in U.K. and USA and its Relevance to Developing Countries	.....	147
4.2.2	Users of Financial Information in U.K. and USA and Their Relevance to Developing Countries' Users	.....	149
4.3	Relevance of Uniformity to Developing Countries	...	151
4.3.1	Meaning of Uniformity	.....	152
4.3.2	Purposes of Having Uniformity for Developing Countries	.....	156
4.4	A Uniform Accounting System and GCC Countries	.....	157
4.4.1	Nature of a Uniform Accounting System	.....	157
4.4.2	Features that Enhance the Need for a Uniform Accounting System among the GCC Countries	.....	158
4.5	Expected Benefits of a Uniform Accounting System among GCC Countries	.....	162

4.6	A Uniform Accounting System: Arguments of Advocates and Opponents	170
4.6.1	Arguments in Favour of a Uniform Accounting Systems	170
4.6.2	Arguments Against a Uniform Accounting Systems	173
4.7	Cost of a Uniform Accounting System for the GCC Countries	177
4.8	The Experience of Two Countries with a Uniform Accounting System	181
4.8.1	The Uniform Accounting System in France	181
4.8.2	The Uniform Accounting System in Iraq	195
4.8.3	The Relevance of the French and the Iraqi Uniform Accounting System to GCC Countries	210
4.9	Summary and Conclusion	215

Chapter 5

OBJECTIVES AND METHODOLOGY OF THE STUDY

5.1	Introduction	217
5.2	The Empirical Survey	218
5.3	The Questionnaire	221
5.3.1	Design of the Questionnaires	223
5.3.2	Sample Selection and Size	225
5.3.3	Pretesting the Questionnaires	226
5.3.4	Data Collection	227
5.3.5	Subjecting the Data to Descriptive and Statistical Analysis	228
	Footnotes	230

Chapter 6

ANALYSIS OF THE EMPIRICAL INVESTIGATION BASED ON RESPONSES OF THE GCC OFFICIALS IN GCC GOVERNMENTS (PART I)

6.1	Introduction	231
6.2	Objectives and Scope	232
6.3	The Sample	233
6.4	Problems	234
6.5	The Present Accounting Systems and Their Reliability to Decision-makers	235
6.6	The Applicability of a Uniform Accounting System in the Gulf Countries	241
6.7	The Potential Approach	247
6.8	The Necessity of a GCC Uniform Accounting System among the GCC Countries	258
6.9	Summary and Conclusion	265

Chapter 7

ANALYSIS OF THE EMPIRICAL INVESTIGATION BASED ON RESPONSES OF THE OFFICIALS IN GCC GOVERNMENTS (PART II)

7.1	Introduction	268
7.2	Scope and objectives	269
7.3	Development of Public Sector Companies in Saudi Arabia and UAE	270
7.3.1	Nature of Those Companies	271
7.3.2	Managing the Public Companies	272
7.3.3	The Financing Methods	272
7.3.4	Controlling the Public Companies	273
7.3.5	Legislatural Controls and Committees	273
7.4	Development of Accounting and Auditing Standards in Saudi Arabia and UAE	274
7.4.1	Development in Saudi Arabia	274
7.4.2	Development in UAE	277

7.5	Interview Responses	278
7.6	The Present Accounting Standards and Their Relevance to Gulf Countries	279
7.7	The Best Alternative	284
7.7.1	The Applicability of a Uniform Accounting System	289
7.7.2	Possibility of Establishing a Uniform Accounting System and the Body that can Achieve it	293
7.7.3	Possible Improvements from the Application of a Uniform Accounting System	297
7.7.4	Possible Harm from the Application of a Uniform Accounting System	302
7.8	The Secretariat General to the GCC and a GCC Uniform Accounting System	307
7.9	Summary and Conclusion	311

CHAPTER 8

ANALYSIS OF THE EMPIRICAL INVESTIGATION BASED ON RESPONSES OF COMPTROLLERS (FINANCIAL MANAGERS)

8.1	Introduction	314
8.2	Objectives and Scope	314
8.3	Size of the Sample	315
8.4	Problems	316
8.5	Summary of the Respondents' Backgrounds	317
8.6	Analysis of Responses	319
8.6.1	The Existence of Generally Accepted Accounting Principles (GAAP) in the Gulf Region	320
8.6.2	Variations in the Accounting Principles Applied	322
8.6.3	The Nature and Relevance of Accounting Standards Applied	323
8.7	The Feasibility of Applying a Uniform Accounting System among the GCC States	327
8.7.1	The Function of the Uniform Accounting System	334
8.7.2	Creating a GCC-Recognised Uniform System	338

8.8	The Nature of the Accounting Environment in the GCC Countries	346
8.8.1	Information on Accounting Policies	348
8.8.2	Information on Financial Statements	350
8.9	Summary and Conclusion	355

CHAPTER 9

ANALYSIS OF THE RESPONSES OF THE STAFF MEMBERS OF UNIVERSITIES

9.1	Introduction	358
9.2	Objective and Scope	359
9.3	Design of the Questionnaire	360
9.4	Sampling	364
9.5	Analysis of the Data	364
9.5.1	General Data	366
9.5.2	Background Information	369
9.5.3	The Accounting Standards and Principles Applied and Their Relevance to the GCC	373
9.6	The Most Appropriate Strategy for Creating an Accounting System	378
9.6.1	The Predicted Role of the Uniform System	385
9.6.2	The GCC States and Their Own Uniform Accounting System	387
9.7	Summary and Conclusion	391
	Footnotes	394

CHAPTER 10

ANALYSIS OF THE RESPONSES OF THE PUBLIC ACCOUNTANTS (ACCOUNTING FIRMS)

10.1	Introduction	395
10.2	Research Objective and Scope	395
10.3	Limitations of the Research	398

10.4	Analysis of Responses	399
10.4.1	General Data I	399
10.4.2	General Data II	403
10.5	Present Status of Accounting Firms in the GCC	407
10.5.1	The Effectiveness of Accounting Firms' Staff	408
10.6	Accounting Systems/Standards Existing in the Gulf Region	411
10.6.1	GAAP and Gulf Environment	418
10.6.2	The Accounting Principles Applied in the GCC and Possible Variations	420
10.7	The Inconsistency of the Present Situation and the Best Solution	421
10.7.1	A Uniform Accounting System Within GCC States	425
10.7.2	Possibility of Applying GCC's Own Uniform System	429
10.8	Summary and Conclusion	433

CHAPTER 11

COMPARATIVE ANALYSIS OF THE THREE SAMPLES

11.1	Introduction	437
11.2	Accounting Practices in the GCC Region	437
11.2.1	Variation in Accounting Principles Applied	439
11.2.2	The Relevance of Accounting Standards Applied and Opinions on the Remedy for Present Circumstances	441
11.2.2.1	Chi-Square Test	442
11.2.2.2	The Respondents' Attitudes Towards the Relevance of GAAP and the Best Strategy for GCC Environment	443
11.3	Creating a Uniform Accounting System	458
11.4	Creating an Authoritative Body	460
11.5	The Expected Benefits of Applying a Uniform System	462

11.6	A Uniform Accounting System and Gulf States	464
11.6.1	Reasons for Establishing a Uniform System	465
11.6.2	Arguments Against Establishment of a GCC Uniform System	467
11.7	Summary and Conclusion	470

CHAPTER 12

SUMMARY, CONCLUSION AND RECOMMENDATIONS

12.1	Introduction	473
12.2	Summary	477
12.3	The Feasibility of a GCC Uniform Accounting System	481
12.4	The GCC Option	486
12.5	Conclusions and Findings	493
12.5.1	General Conclusions	494
12.5.2	Conclusions on Accounting Systems and/or Practices Operated in the Gulf, their Relevance, and the Best Alternative	504
12.6	Recommendations	509

*** Appendices:**

Appendix	A:	Gulf Petrochemical Industries Co. (Balance Sheet, Statement of Income and Retained Earnings, and Statement of Changes in Financial Position, Dec. 31, 1987)	.....517
Appendix	B:	Auditors Report of Gulf Petrochemical Industries Co. (GPIC), January 31, 1987	.....520
Appendix	C:	Questionnaire I	.....521
Appendix	D:	Questionnaire II	.....531
Appendix	E:	Questionnaire III	.....538
Appendix	F:	List of Public Sector Companies in Bahrain, Kuwait, and Oman Who Participated in Answering the Questionnaire	.....548
Appendix	G:	List of GCC Officials and Executives Interviewees form Bahrain, Kuwait, Oman, Saudi Arabia, and UAE	.....553
Appendix	H:	List of Interviewees in Bahrain and Kuwait Universities	.....559
Appendix	I:	List of Interviewees of Accounting Firms in Bahrain, Kuwait, and Oman	....561
Appendix	J:	List of Accounting Firms Involved	.....562
* Bibliography			.....563

CHAPTER 1

INTRODUCTION

1.1 Nature of the Problem

In the pursuit of economic growth, governments and others in the States making up the Gulf Cooperation Council -GCC- have come to realise the crucial importance of adequate and reliable information as a basis for sound decision-making. However, as yet, there has been comparatively little recognition of the extent to which accounting might contribute to the achievement of this objective. Little has been written on the subject, although Al-Hashim (1985, pp.1-2) indicated its importance when he stated:

"Accounting represents the major tool for control, analysis, and decision-making in every environment. Only through a proper accounting system can government determine which sector of its economy is lagging in efficiency and productivity, and it is through such an accounting system that an effective allocation of economic resources can be made at the central level".

However, the GCC states have so far had little chance to develop an accounting system which would truly reflect the local needs of the environment and reflect the interest of their nations. The accounting systems currently in operation in the GCC are largely based on the systems developed in other countries, particularly the USA and U.K., and have not been designed specifically with local needs and the local environment in the Gulf region. In this respect, Briston (1978, p.110) has drawn attention to the important role played by international accounting firms in transferring these Western models to developing

countries.

As a result, inconsistencies and deficiencies have occurred in the accounting practices and systems of developing countries. These have been highlighted by some accountants and academic researchers, not only from these countries but also from the developed countries. Some writers have focused on a particular country, while others have adopted a global perspective (Mueller, 1967, and Zeff, 1972). Samuels and Oliga (1982, p.69) argue that in case of developing countries where economic, socio-political, cultural, and contextual differences tend to be not only highly pronounced, but also in a highly dynamic and fluid state, the relevance of international accounting standards becomes highly questionable.

Therefore, it is important to emphasise that the GCC's accounting systems are at best irrelevant, and may even be positively harmful to their environment in the long run, since the environment and needs of advanced countries and those of the GCC countries are different.

Perera (1989, p.150) emphasises the importance to the development of accounting in developing countries, of the evolution of a uniform accounting system. He states:

"Accounting development based on a uniform approach has intrigued researchers in the past..... However, no serious attempt has yet been made to develop a case demonstrating that, given the circumstances prevailing in the developing countries, a system of uniform accounting may be the only viable alternative available to them".

Al-Hashim (1977, pp.128-129) highlighted the importance of having a uniform accounting system for developing countries, giving Egypt as an example. He stated:

"The Egyptian uniform system of accounts has sought to achieve the following objectives:(1) To provide the necessary accounting information for planning and control at all levels of economy. (2) To co-ordinate financial accounting with social accounting in order to facilitate the preparation of the gross national products (GNP) and other statistical data used to to analyse the economy and to control its direction. This is done through unifying terminology, standards, and so on. (3) To facilitate the tabulation and storage of data by an enterprise so that it would be easy for each enterprise to supply the information needed by administration; the information supplied by each enterprise would be reported in uniform format and in terms of a uniform treatment".

In fact, several writers have addressed the concept of a uniform accounting system and its applicability to developing countries; a uniform accounting system is now a major aim of much academic research, which attempts to assess its effectiveness and value to developing countries.

1.2 Purpose of the Study

We have already pointed out that all GCC states have accounting systems which are adopted from those in developed countries. In addition, it should be noted that the commercial companies acts in the GCC do not require compliance with any specific principles or standards, so that accountants in the Gulf region lack guidance in the

preparation of financial information. There is a need to ensure that accounting information is relevant to the GCC's needs for social and economic development planning, decision-making, and control at all levels of the economy. Enthoven (1973, p.112) emphasised the role of accounting for social and economic development:

"Accounting covers the entire administration or management of information for all socio-economic activities and conditions in the micro and macro economic sector, covering internal and external needs of various groups".

The purpose of the study, therefore, is to show that:

- 1) The diverse accounting systems currently in use which were brought from developed countries such as the U.K. and the USA, are irrelevant to the GCC environment.
- 2) European and American accounting systems do not provide the information needed by the GCC governments for planning, decision-making and control.
- 3) A GCC national uniform accounting system designed to suit the governments' needs and relevant to the GCC environment may prove to be most effective way of improving the quality of accounting information in the GCC states, thereby facilitating sound decision-making and control, with a view to enhanced socio-economic development.

1.3 Importance and Contribution of the Study

According to the GCC charter, the Gulf states seek to adopt an integrated approach to social, economic, and financial affairs. However, the present situation of accounting diversity in the Gulf region is in conflict with these objectives. This study discusses the potential of a uniform accounting system for facilitating economic development plans, control, and decision-making, while also speeding the process of integration among the six GCC states.

Five parties were actively involved in evaluating the applicability of such a system to GCC states. Government officials, planners, top ranking authorities from the Secretariat General to the GCC, economists, and officials from the Accounting and Auditing Bureaux from Bahrain, Kuwait, Oman, Saudi Arabia, and UAE indicated their views as to whether or not a uniform accounting system could meet the GCC governments' requirements for planning, control and making sound decisions, while also meeting the GCC's objectives in terms of integration and unification.

The design and implementation of a uniform accounting system applicable to the GCC environment is one which requires urgent theoretical and empirical research. This study attempts to assess the applicability of a uniform system from the viewpoints of different parties and to determine, through an examination of empirical data,

whether or not a uniform system would satisfy the GCC needs.

The study discusses the possible establishment and capability of a proposed uniform accounting system, which should prove appropriate and preferable to other accounting systems in the Gulf area. Accordingly, it considers the perceptions and opinions of the parties most concerned with the introduction of a uniform accounting system, as revealed by questionnaires. It also provides an indication of the difficulties facing the establishment of such a system.

All in all, this is an important study for the Gulf region. Its significance is derived from the fact that it aims to establish the foundation for discussion of this issue as well as the basis for similar studies in this field. Its essential contribution is in establishing a discipline for relevant studies in the Gulf area and assisting the birth of a uniform accounting system in the Gulf region.

1.4 Applicability of a Uniform Accounting System to GCC States

Accounting systems and accounting practices should provide a means of communication to the various users of accounting information, and, especially, to the government, which has the leading role in the economy in all developing countries. This concept is not defined in GCC states. General accounting and auditing principles vary from state to state, and even within each state; nor

has any code of professional ethics been developed. Accounting practices are derived from those of the USA and European countries. Furthermore, it appears that the authorities in GCC states are not aware of the potential of accounting for improving the quality of development planning, and economic decision-making at all levels. Those who are aware of this role tend to be ignorant of the idea of a uniform accounting system, and its ability to provide more relevant accounting information.

Hence, whether the type of uniform accounting system which has been applied by many countries world-wide is appropriate and relevant to the GCC environment for use by public sector companies, is a primary question to be analysed and discussed in this study. Perera (1989, p.150) discussed the relationship between government involvement and the type of accounting system needed, concluding that:

"The heavier the government's involvement in the economic affairs, the greater the need for accounting uniformity".

Accordingly, looking at the GCC economic situation and the degree of government involvement, one can recognise the expected importance of a uniform accounting system to the GCC environment. Several developed and developing countries, both with free and centrally planned economies, have established a uniform accounting system in order to encourage economic planning and control, for example, Egypt, Iraq, Russia, Belgium and France. In fact,

the success of these systems in those countries suggests that GCC states may also benefit from such a system for improving the quality and strength of planning, control, and decision-making at both micro and macro levels.

1.5 Research Methodology

A combination of library research together with extensive interviews conducted with the different parties concerned, plus the use of questionnaire technique ,were used to accomplish the purpose of this study.

The following techniques were adopted:

1) Theoretical research was undertaken to evaluate the present accounting systems in the Gulf area and their relevance and appropriateness to the GCC environment and to support the empirical investigation. Because the literature on accounting systems in the Gulf area is very limited, and a study such as the present one is to some extent revolutionary, the relevance of such accounting systems to the GCC environment will be determined from the results of this research. However, the sensitivity of the issue and importance of its outcome required a wider contribution than from available literature resources alone. In fact, the present accounting practices in the Gulf are derived mainly from the generally accepted accounting principles in the U.K. and USA. Whether or not these practices are relevant to the GCC environment, and whether an alternative such as a uniform accounting system would better suit the GCC needs and environment, may be

determined from the intensive interviews conducted and from responses to the questionnaires distributed. Of course, there are many environmental factors that may influence the identification of an accounting system to suit the GCC countries; all such factors have been taken into consideration during the analysis and will be discussed later.

2) Empirical research has been performed to achieve the main objectives of the thesis, namely, to evaluate the present accounting systems and their relevance and appropriateness to the GCC environment and accordingly, to assess the feasibility of having a uniform accounting system to provide the information needed by GCC governments for social and economic development and to attain the GCC charter objectives. In order to accomplish this task, it was decided to conduct personal interviews with those who have the authority and ability to decide and implement what they think is best for GCC governments, such as GCC officials, planners, and economists in various ministries, top authorities in Accounting and Auditing Bureaux, and top officials from the Secretariat General to the GCC. It was hoped by this means to assess their views of the sort of accounting information needed by governments, the introduction of a uniform accounting system and its relevance to the Gulf, whether such a system would meet their needs in planning, control, decision-making, and whether it would help to

expedite economic development. Furthermore, in order to obtain some detailed information regarding the acceptance of such a new system, a questionnaire survey was conducted and distributed to: Comptrollers (Financial Managers) of public sector companies, Academic Staff of GCC universities, and Public Accountants of local and international accounting firms working in the GCC region. Questions were asked concerning the nature of accounting systems in the Gulf area, the relevance of such systems to the GCC environment, and the feasibility of a uniform system for the GCC area. To fulfil the main objectives of the study, a series of questions regarding the applicability of uniformity to the GCC states was developed to ascertain the respondents' attitudes on this subject. The respondents were offered a choice of answers to facilitate the completion of the questionnaire and its prompt return. Furthermore, they were asked to specify their educational background, the extent of their knowledge of the present accounting systems in the GCC area, their relevance to the GCC environment, and their opinions of the degree of success with which a uniform accounting system relevant to the GCC nations and environment could be established.

The data collected by means of questionnaires were then statistically analysed and tested, using a chi-square technique, to test for significant variables affecting the attitudes of the respondents towards the relevance of the present diverse accounting systems and towards the

establishment of a uniform accounting system. In an attempt to provide supporting information, interviews were conducted with a number of respondents who indicated their willingness to be interviewed.

1.6 Scope and Limitation of the Study

Because the main purpose of this study is to ascertain the applicability and relevance of a uniform accounting system to GCC countries, the focus in this study is on "foreign" accounting systems used in the GCC, and their influence on and relevance to the Gulf environment, for which there are very few relevant sources of information available.

Accordingly, the lack of relevant literature has determined the scope of the study. There are few publications available dealing with accounting practices in the Gulf area and their impact on the GCC environment; moreover, the little information available was not in the English language and this problem was overcome by translation.

The study itself does not attempt to develop a new accounting system to suit GCC integration and unification, because such action needs experts in the field of uniformity and it may take years before the results can be seen. Hence, the purpose here is to develop a philosophy of accounting related to the GCC countries.

1.7 Organisation of the Study

As discussed earlier, the data obtained for this study were from three sources: the limited literature, interviews, and questionnaires. These three sources will be analysed and discussed. However, since the surveys were the primary sources of information, the presentation is designed to afford a comprehensive treatment of the results of the surveys. The views expressed in interview by GCC governments officials and by questionnaire respondents will be incorporated throughout and identified as such where included.

The thesis is divided into twelve chapters. The present chapter explains the importance of an accounting system to suit the environment of the GCC and to meet the GCC government objectives in terms of planning, control and decision-making; and additionally, to meet the objectives of the GCC charter for further unification and integration; in other words, the evolution of a uniform accounting system applicable to GCC countries. It has also outlines the present situation of accounting practices in the Gulf region, where there are many different accounting systems, especially those from the U.K. and USA, and discussed the possibility of applying a uniform accounting system as a source of reliable accounting information from public sector companies for the purpose of government planning, control, and decision-making. The purpose of the study has been clarified and the research

methodology and scope and limitations of the thesis have also been explained.

Chapter 2 presents a descriptive account of the GCC's background, covering historical, political and economic aspects. Also, the GCC objectives and what has been achieved so far are clarified.

Chapter 3 discusses the main types of enterprises, their accounting systems and the present status of the accounting profession in the Gulf area. The state of accounting education in the GCC region and how it could be improved are also discussed.

Chapter 4 presents an analysis of the relevant literature. In this chapter, the accounting features of the U.K. and USA accounting systems, which predominate in most developing countries, are discussed with emphasis on their relevance or otherwise to the environment of such countries. The objectives and users of those systems are compared with the objectives and users of accounting information in developing countries. The importance of a uniform accounting system and its relevance to developing countries are discussed. Arguments are presented regarding the features that enhance the need for a uniform accounting system in GCC countries, and the expected benefits that could be derived from the implementation of a uniform accounting system. In addition, the arguments of supporters and opposers of a uniform accounting system are considered in some detail. The cost of having a uniform accounting system among the GCC states is

considered. Finally, the experiences of two countries (one developed country, France, and one developing country, Iraq) that have adopted uniform accounting systems, and the success of these systems are discussed, to give some idea of the potential benefit to other countries.

Chapter 5 is concerned with the research methodology used in this study. It sheds light on the nature of the empirical survey performed and emphasises the sequence of tasks involved in conducting intensive interviews with various parties concerned, and in conducting the survey research, such as questionnaire design, sample selection and size, pre-testing of the questionnaire, type of data collected, classifying the responses into categories, and subjecting the data to descriptive and statistical analysis.

Chapter 6 contains a presentation, analysis, and evaluation of the empirical investigation based on the responses of the officials in GCC governments, planners, and economists in Bahrain, Kuwait and Oman. The objectives and scope, size of the sample, and problems faced during the interviews are identified, and analysis of the responses presented. The need to identify the relevance of existing accounting practices to the GCC environment is discussed, as is the feasibility of applying a uniform accounting system and its functions and suitability for the GCC states.

Chapter 7 deals with interviews with another group of GCC officials, planners, economists, officials from the Secretariat General, and officials from the Accounting and Auditing Bureaux of two other Gulf states, namely, Saudi Arabia and UAE. This chapter is a continuation of chapter 6 in assessing the opinions of the top authorities in these countries, of the nature, relevance and suitability of the existing foreign accounting systems to the GCC environment, the GCC governments' needs and requirements for healthy economic development, and the applicability of a uniform accounting system tailored to suit the GCC governments in terms of effective planning, control and decision-making.

Chapter 8 contains the views of financial managers and members of boards of directors regarding the suitability of the idea of a uniform system and whether it could be the best alternative to benefit the GCC governments, in the best interest of their countries. The relevance of the present accounting systems and their suitability to the GCC environment have been also discussed and analysed.

Chapter 9 includes the views of academic staff from Bahrain and Kuwait universities, regarding the applicability of a uniform system as an alternative to the present diverse accounting systems, to suit GCC needs for national planning and control, and help to a large extent with social and economic development.

Chapter 10 contains a presentation, analysis, and evaluation of the views of selected public accountants, on uniformity in general and on the idea of having a uniform system for the GCC region. In this chapter the attitudes of the accounting profession in the Gulf area are presented and their opposition to the idea analysed and discussed.

Chapter 11 presents a comparative analysis of the results based on the three questionnaires that were presented in chapters 8, 9 and 10. The data are analysed in more detail in order to determine the level of support for applying a uniform system. The data are tabulated according to the analysis of the study, and subjected to statistical analysis to see if there are any statistically significant differences between the groups' responses, based upon certain variables. The chi-square test is used for this purpose.

The final chapter summarises the entire study, including the conclusions reached. In addition, recommendations and suggestions are made regarding the applicability of the uniform accounting system in the GCC countries, and recommendations for further research are presented.

CHAPTER 2

THE GULF CO-OPERATION COUNCIL (GCC): BACKGROUND

2.1 Introduction

The intention of this thesis is to develop a theoretical framework for assessing the possibility of applying a uniform accounting system suited to the needs of the GCC in terms of government planning, control, and decision-making requirements via the public sector companies. However, before attempting to assess the feasibility and usefulness of a uniform accounting system in the GCC, it is necessary first to examine the diverse accounting systems currently used in the Gulf area, to gauge their relevance, and their effectiveness and helpfulness to the Gulf governments as owners, regulators, and planners of large public sector companies, which represent the economic corner-stone of GCC countries.

In order to do so, it is desirable first to identify the characteristics of the GCC environment. Therefore, the purpose of this chapter is to provide information about the GCC countries - their geographical, historical and political situation, the nature and objectives of the GCC, its economy, past and present, and its social characteristics. This chapter provides the background information necessary to full understanding of the two following chapters, which discuss the status of public sector entities, the diverse accounting systems currently applied in the GCC region, and the best way to facilitate the area's socio-economic development and growth.

Thus, this chapter is intended to provide a comprehensive picture of the GCC environment, against

which the current status of accounting and the GCC's accounting needs can be assessed.

2.2 The Gulf Geographical, Historical and Political Background

The Arabian Gulf is, like the Mediterranean, almost land-locked. The Gulf is 800 km long and 350 km across at the widest point; it is separated from the Gulf of Oman and the Indian Ocean by the Straits of Hormuz. The Gulf countries (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates -UAE) all border the Gulf. There are very close similarities among these countries. There is the common language (Arabic), a common religion (Islam), closely comparable social structures, roughly the same standards of economic development, very similar systems of government, a collective culture and a shared geography.

2.2.1 Geography

The land area of the states varies very considerably as seen from Table 2.1 and the total area is around 2,647,588 sq. km (Economic Report, 1988, p.77).

The 1988 census estimated the total population at around 18.24 million (Gulf Economic And Financial Report, 1989, pp.1-7) many of whom are expatriates coming from other Arab countries, Pakistan, India, and various western industrialised countries. The populations of the individual countries, population density, and percentage

of expatriates are shown in Table 2.2.

2.2.2 Historical Background

According to Metra Consulting Group (1976, pp.13-18) the modern history of the Gulf countries may be said to have started during the early part of the 18th century. The first Europeans to come into the Gulf were the Portuguese who established settlements and built forts around the coast, and for more than a hundred years their dominance was scarcely challenged. In 1820, the British influence dominated the Gulf area and remained unchallenged well into the 20th century (Al-Misnad, 1985, pp.8-9). The GCC countries gained their independence on the following dates:

- Bahrain: 1st September, 1971,
- Kuwait: 19th June, 1961,
- Oman: 18th November, 1970,
- Qatar: 1st September, 1971,
- Saudi Arabia: 23rd September, 1932 (from suzerainty of the Sublime-Ottoman-Porte),
- UAE: 2nd December, 1971.

Table 2.1

LAND AREA OF THE GULF STATES

Country		Area (km ²)	
Bahrain		688	
Kuwait		17,800	
Oman		300,000	
Qatar		11,400	
UAE	Abu Dhabi	67,300	
	Dubai	3,900	
	Sharjah	2,600	
	Ras Al-Khaimah	1,700	
	Fujerah	1,100	
	Ajman	300	
	Um Al-Quwain	600	
Total UAE		<u>77,700</u>	77,700
Saudi Arabia		2,240,000	
Total Gulf Countries		<u>2,647,588</u>	

Source: "Economic Report", Third Edition, General Secretariat, Saudi Arabia 1988, p.77

Table 2.2

POPULATION OF THE GULF STATES IN 1988

Country	Population (million)	Density (persons per Km 2)	% of Expatriate Population
Kuwait	1.96	110.00	60.0
Qatar	0.35	30.44	68.0
Oman	1.52	4.43	32.0
Saudi Arabia	12.46	5.80	40.0
Bahrain	0.45	683.58	33.7
UAE	1.50	19.30	65.0
Total	18.24	7.0	59.7

Source: Gulf Economic and Financial Report, "Gulf Economic Indicators", Issue No. 10, vol. 4, Bahrain, December 1989, pp. 1-7

2.2.3 Political Background

As discussed earlier, all Gulf countries were formerly British colonies, except Saudi Arabia, which gained its independence from the Ottoman Empire on 23rd September 1932. By January 1968, the British Government announced its intention of withdrawing all its forces from the Arab Gulf by the end of 1971 (Anthony, 1975, p.75).

As stated by Al-Baharna (1976, pp.25-27), an agreement was quickly drafted and agreed upon by rulers at a summit conference held in Dubai on 27th February 1968. The idea of the formation of the Federation of the (nine) Arab Emirates of the Gulf received the support of the British Government. Signed by the Rulers of Bahrain, Qatar and the seven Sheikhdoms of the UAE, the agreement sought to set up a Supreme Council which would be responsible for all international, political, defence, economic and cultural matters (Ibid., p.26). However, due to disagreement among the rulers as to the powers and structure of the federation, Bahrain and Qatar chose to go their own way by declaring their independence on 1st September 1971 (Long, 1976, pp.32-34). The rulers of the remaining seven Sheikhdoms succeeded in forming a federation which came to be known as the United Arab Emirates (Abu Dabi, Dubai, Sharjah, Ras Al-Khaimah, Fujerah, and Um Al-Quwain).

In political structure, the six Gulf countries share common characteristics. They are monarchies and these monarchs are absolute rulers who are usually from

particular families, namely Al-Khalifa in Bahrain, Al-Sabah in Kuwait, Al-Thani in Qatar, Al-Nahaian in UAE, Al-Saeed in Oman, and Al-Saud in Saudi Arabia. The ruler and the close members of his family occupy all the key positions and are heads of various departments of the government. They might, if they wish, seek out side help or advise in running the country, but the public in these States has no right of opinion or representation in these matters.

In addition to the concentration of political power in the ruling families in the Gulf States, financial power is also monopolised by them.

Before the discovery of oil, the main source of income of those rulers and their families was meagre taxation collected from owners and captains of pearl-fishing boats, pearl merchants and other trades. However, following the commercial production of oil, these rulers regarded the oil revenues as their personal property. Because of the autocratic structure of the system, no distinction was made between public expenditure and the personal purse of the ruler. Subsequently, some restraints were imposed on these rulers by the British Government who were still acting as their protectors to fix their personal allowance as a proportion of the total oil revenues (Al-Kuwari, 1978, p.158).

This political system has survived and still does so because it accords with old established tribal relations and the traditional desire of the populace for just rather

than democratic governments (Ibid., p.25). Although with the modernisation and economic development in the Gulf countries the administrative machinery has expanded considerably, its main role is to execute the policies and decisions of the ruling families.

2.2.4 Common Currency

In the past, all Gulf countries used a common currency, namely the Indian Rupee. The dinar, dirham and reyal are the present units of currency in the Gulf states. Table 2.3 shows the units and their exchange rates. All Gulf countries have linked their commercial rates to a basket of international currencies, in which the dollar has a major role.

The six member countries are moving towards a uniform exchange rate system aimed at reducing speculation in the region's currencies and facilitating capital and trade flows among member states.

Table 2.3

EXCHANGE RATES

Country	Currency	Unit	Currency Units Per:			
			American Dollar	British Pound	Deutch Mark	Yen (X 100)
Bahrain	Dinar	(B.D.)	0.373	0.647	0.218	0.268
Kuwait	Dinar	(K.D.)	0.283	0.505	0.161	0.196
Oman	Reyal	(R.O.)	0.383	0.664	0.224	0.275
Qatar	Reyal	(Q.R.)	3.623	6.275	2.115	2.599
Saudi Arabia	Reyal	(S.R.)	3.738	6.474	2.182	2.681
UAE	Dirham	(Dh.)	3.655	6.332	2.134	2.621

Source: Average Exchange Rate During July 1990



Article 22 in the Unified Economic Agreement (UEA), which will be discussed later in this chapter, states that:

"... the member countries shall co-ordinate their financial, monetary and bank policies and shall increase the co-operation among their monetary agencies and the central banks, including working towards unifying the currency to complement the expected economic integration among these countries" (Cooperation Council, UEA, 1982, p.7)

According to the Economic Report (1987, p.94) a Committee of the governors of the central banks and monetary agencies in the Gulf countries discussed suitable methods of co-ordinating policies of exchange rates in order to create a common currency. Meetings and consultations are still continuing with a view to implementing Article 22 of the Unified Economic Agreement.

2.3 The Road to the Gulf Co-operation Council (GCC)

Since ancient times, the people of the Gulf states have shared a common language, culture and religion. The creation of an identifiable Gulf community and culture has been further enhanced by the similarity of political, social and economic influences on the states of the region. Apart from Saudi Arabia which has been fully independent since the collapse of the Ottoman Empire, the entire region has been under British control.

A significant turning point in the political development of the Gulf came in 1961, when Kuwait achieved full independence: an indication of the gradual withdrawal of British authority from the region.

By the late 1960's, the British were informing the Gulf rulers of their intention to withdraw entirely from the Gulf and were urging specific measures of co-operation and association upon them (Long, 1976, pp.23-42).

Britain's withdrawal from the area in 1971 gave the newly independent states more initiative towards cohesion and thus unity (Anthony, 1975, p.75).

The creation of the Gulf Cooperation Council can be traced back to a call made in 1976 by Sheikh Jaber Al-Ahmed Al-Sabah, the Prime Minister and Crown Prince of Kuwait, for "the establishment of a Gulf union with the object of realising co-operation in all economic, political, educational and informational fields ... to serve the interests and stability of the peoples in the region" (Sandwick, 1987, pp.7-9). A joint council, comprising the prime ministers of the countries concerned, was established, with the aim of holding twice-yearly meetings to discuss matters of mutual concern.

All Gulf countries expressed unqualified support and fully endorsed the plan. Meetings and discussions continued over the next five years as the concept gradually matured.

As stated by the Ministry of Information in Qatar (1983, p.4):

"On February 4, 1981, the foreign ministers of the United Arab Emirates, Bahrain, Saudi Arabia, Oman, Qatar and Kuwait met in Riyadh (capital of Saudi Arabia) to agree on the text of the GCC's charter. The charter was signed on May 25, 1981 by the six Heads of State and the GCC formally came into being".

The GCC's highest authority consists of a Supreme Council, composed of the heads of state of the six member countries. In the Council, each country has a single, equal vote, and a unanimous vote is required to approve any substantive measure or policy. The Council lays down the guidelines of the higher policy objectives of the GCC and its approval is necessary to implement proposed executive action. The chairmanship of the Supreme Council is held for one year by each country in alphabetical order; currently (December 1989) the Chairman is Oman.

2.3.1 Objectives and Organisation

Although the charter does not clearly define the political theory of the GCC, it seems that consensus favours a confederal structure, as the General Secretariat (1983, p.34) emphasised:

"... we in the Secretariat have come to the conclusion that consensus is for a confederal structure. This conclusion is based on the fact that each country wants to retain its own characteristics, legislative power and sovereign attributes. At the same time, there is a strong desire to reconcile the retention of local, domestic characteristics within a framework that would encompass six member states, create the dynamics of the GCC and envelope the GCC approach as well as its economic and non-economic activities. In a nutshell, the goal is confederation".

Therefore, the GCC's objective is confederation, and it has its own overall objectives which are best described by quoting Article 4 of the Constitution:

1 - Promotion of co-ordination and integration between the member states in all fields with the ultimate aim of achieving their unity;

2 - Deepening and strengthening ties and existing co-operation between their peoples in various fields;

3 - Establishing similar systems in various fields; covering the following areas:

(a) economic and financial

(b) commercial, customs and communications

(c) educational and cultural

(d) social and health

(e) information and tourism

(f) legislative and administrative;

4 - Encouragement of scientific and technological progress in the fields of industry, mining, agriculture, fisheries and animal husbandry; establishment of scientific health centres; setting up joint ventures and encouraging co-operation of the private sector for the benefit of the peoples of the region.

Article 6 of the GCC Constitution states that the GCC consists of the following bodies:

1 - The Supreme Council to which shall be affiliated the Disputes Settlement Board. (This is the highest authority in the GCC and its membership consists of the Heads of State of the member countries. Its chairmanship is in rotation, according to the alphabetical order of the GCC countries. The Supreme Council holds an ordinary session once a year, though extraordinary sessions may also be held).

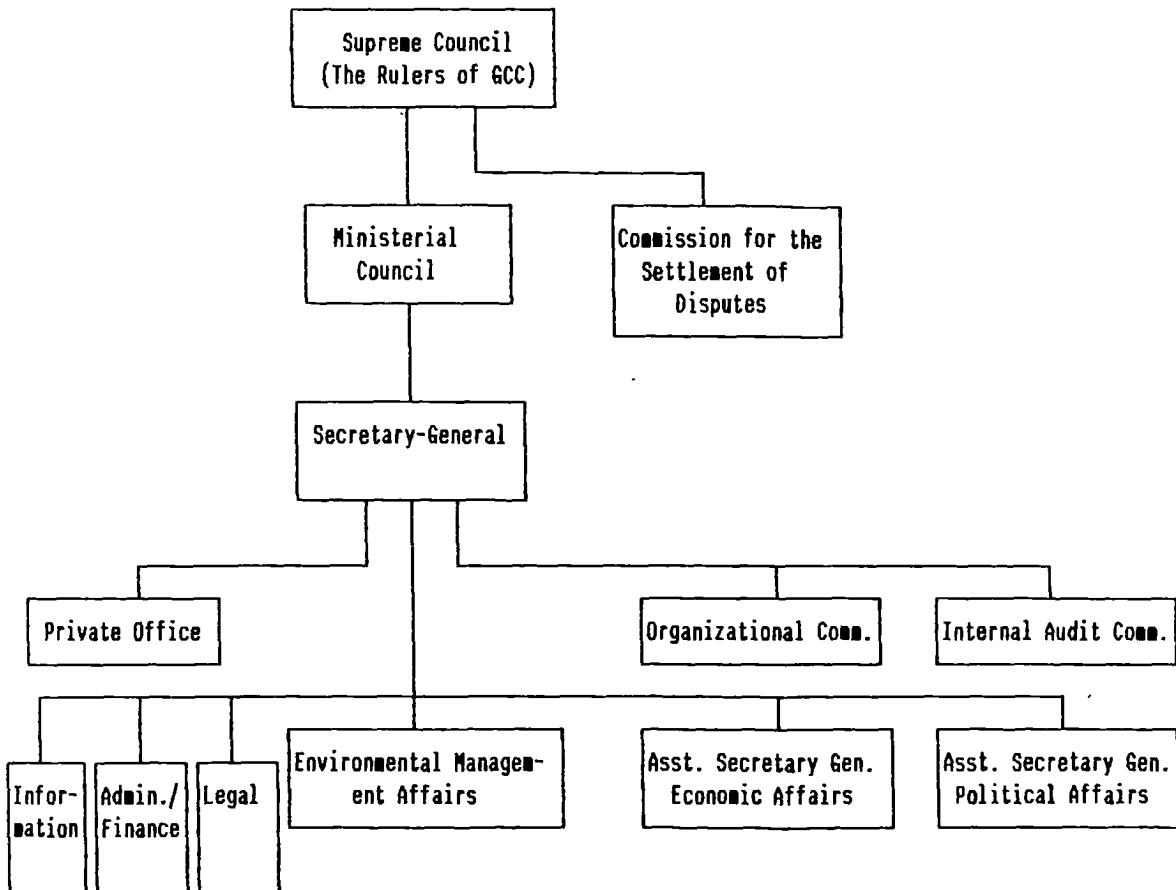
2 - The Ministerial Council (consisting of the Foreign Ministers of member countries and meeting once every three months).

3 - The General Secretariat (made up of a Secretary General, Assistants and a team of professional staff responsible for preparing the necessary studies and reports, monitoring the enforcement of resolutions and drawing up the GCC budgets and final accounts).

The structure of the GCC may be seen more clearly in Diagram 2.1 drawn up by the researcher on the basis of the GCC constitution.

Diagram 2.1

GULF COOPERATION COUNCIL



The Supreme Council has so far held ten sessions (Economic Reports, 1987, 1988, and 1989, p.75, 61, and 69).

The first was held in Abu Dhabi (UAE) in May 1981 and at this session the GCC Constitution was signed, bringing the GCC into being for the first time.

The second, in Riyadh in November 1981, resulted in the signing of the GCC Unified Economic Agreement (UEA).

Bahrain was the venue for the third session, in November 1982. Out of this session came the decision to establish the Gulf Investment Corporation (GIC) with a total capital of \$ 2.1 billion.

At the fourth session, in Qatar in November 1983, it was stated that all GCC people were considered to have equal rights in establishing and processing any economic, commercial and agricultural products.

Out of the fifth session, in Kuwait in November 1984, came the decision to give priority to common economic and commercial projects.

The sixth session, held in Oman in November 1985, was concerned with ways to apply Article 22 of the UEA, concerning financial coordination and the establishment of a common currency.

At the seventh session, in Abu-Dhabi (UAE) in November 1986, the heads of state discussed the possibility of immediate implementation of the UEA.

A review of the achievements which had already taken place was conducted at the eighth session held in Riyadh

on 26th December 1987.

The ninth session took place in Bahrain on December 1988. At this session, the GCC leaders discussed co-operation in matters of policy, particularly in military, economic, and social affairs. Particular consideration was given to the need to resolve the conflict between Iraq and Iran.

The tenth and most recent session, which took place in Oman on 21st December 1989, produced a programme for establishing a common Gulf market (Al-Quwaise, 1990, p.3).

2.4 The GCC Economic Environment

Before studying the GCC accounting systems, it is advisable to investigate the nature and scope of the economic environment in which such accounting systems are implemented.

Enthoven (1973, pp.112-113) connected the accounting function with the economy and defined it as a tool of measurement and a reporting information system, which covers both micro and macro economic activities. It is composed of various sub-systems which relate to the planning and control of economic events and conditions. These economic events and conditions are the product of the whole economic environment in any society.

Accordingly, it is essential to forecast the ability of the GCC economy to be developed and then assess how those states can pursue economic development.

Kindleberger (1965, p.8) defined the nature of economic development by stating:

"Economic development implies both more output and changes in the technical and institutional arrangements by which it is produced".

The economies of the Gulf region are sufficiently distinctive to separate them both from the third world countries as a whole and from the advanced industrial countries with which they share a similar standard of living. The first and most obvious distinction is the economy's dependence on a single product, oil. Oil plays a dominant role in all GCC countries. A second distinction in the economies of the GCC states is that the income from the exports of oil is paid directly to the governments. It is the government therefore, which has to manage this income within the domestic economy. Thirdly, the majority of the income of the GCC states is earned in foreign exchange. Fourth, the economies of the GCC states are characterised by high levels of personal income.

Nevertheless, per capita income, though an imperfect criterion, is used as a measure of development or underdevelopment. By this criterion, the Gulf states are considered developing countries. This is still the case of UAE, Qatar, and Kuwait, although their per capita incomes are amongst the highest in the world, because only a small proportion of the population actually contributes to the relatively high national income. To demonstrate this situation, if the value of oil exports in each GCC

country is divided by the number of national citizens, the resulting figure will be extremely high. Taking UAE as an example, oil revenues in 1987 were valued at \$8,665 million, while the national population was approximately 525,000, giving an average oil income per head of \$16,654.

In fact, the economies of the GCC countries are dependent on crude oil which has been discovered in abundance since the early thirties. It was first struck in Bahrain in 1932, then in Saudi Arabia (Dhahran) in 1938, and then in Kuwait in 1946. These findings were followed by the discovery of huge reserves in other areas along the Arabian Gulf coast. In Saudi Arabia, for example, the most important industry is the production of crude oil and petroleum products. According to Pike (1989, pp.1-25) Saudi Arabia is the biggest oil producer within OPEC, with 22.6 percent of the organisation's output in 1987, and is the third biggest producer in the world, with about 7.3 percent of world output in 1987. Saudi Arabia's proven reserves of oil were officially stated to be 166,600 million barrels in January 1988, allowing 90 more years of production at 1988 levels (MEED, 1990, pp.57-68).

Indeed, oil is the most important source of income to the GCC countries, and oil revenues, representing \$45,828 million, contributed about 70 percent of the total national product in 1989 (Gulf Economic and Financial Report, January 1990, pp.4-6). Table 2.4 shows the oil production and revenues of oil exports in the GCC countries for the years 1986-1990.

Table 2.4

AVERAGE DAILY OIL PRODUCTION AND ANNUAL REVENUES
OF OIL EXPORTS IN THE GCC COUNTRIES
(\$ 000,000)

Country	1986		1987		1988		1989 (*)		1990 (*)	
	Prod. (mb/d)	Rev. \$	Prod. (mb/d)	Rev. \$	Prod. (mb/d)	Rev. \$	Prod. (mb/d)	Rev. \$	Prod. (mb/d)	Rev. \$
S. Arabia	4.784	13,554	4.195	17,489	5.158	16,638	5.250	20,265	5.380	21,765
Kuwait	1.237	6,378	1.291	7,520	1.450	6,328	1.753	8,922	1.500	8,110
UAE	1.308	7,453	1.498	8,665	1.580	7,352	1.910	10,359	1.700	9,727
Oman	0.560	2,481	0.573	3,286	0.591	2,631	0.640	3,375	0.700	3,857
Qatar	0.313	1,720	0.301	2,167	0.319	1,829	0.330	2,249	0.371	2,638
Bahrain	0.042	0,550	0.042	0,656	0.043	0,558	0.043	0,658	0.043	0,690
GCC Total	8.244	32,136	7.900	39,783	9.141	35,336	9.926	45,828	9.694	46,787

(*) Projections based on an average of \$17 a barrel.

Source: Annual Reports of GCC central Banks and Monetary Agencies (December 1989).
OPEC Statistical Bulletin, November 1989.

mb/d = million barrels per day

However, experts have indicated that at recent rates of utilisation, oil in the GCC region will run out in the lifetime of the present generation, for Bahrain, Qatar and Oman; in that of its children in the case of UAE; or in that of its grandchildren in the case of Saudi Arabia and Kuwait (Kubursi, 1984, pp.43-45). Accordingly, high risk is incurred by dependence on a single product as the major source of income.

By the end of 1985, GCC gross domestic product (GDP) was estimated at about \$148,432 million, of which oil revenue represented 42 percent (see Table 2.5).

It should be noted that the increase of other sectors which contributed to the GDP in 1985 was not a result of real growth in such non-oil sectors; it was rather a result of the decline in oil production and revenue, due to the decline in oil prices. Table 2.6 shows the expenditure on GDP at current prices for most of the Gulf states.

In fact, whether the Gulf countries invest and concentrate on oil or non-oil sectors, they need decisions which must be based on reliable, accurate, relevant and up to date information, most of which should be provided by accounting systems.

Table 2.5

GCC GROSS DOMESTIC PRODUCT, AT CURRENT PRICES

(US \$ Million)

	Period	S. Arabia	Kuwait	UAE	Qatar	Oman	Bahrain	GCC
OIL	1980	75,963	18,715	19,088	5,263	3,684	1,152	123,865
	1981	106,649	14,774	18,935	5,543	4,216	1,154	151,271
	1982	98,560	9,746	15,227	4,121	4,060	1,094	132,808
	1983	59,731	10,599	11,387	2,964	3,918	1,061	89,661
	1984	44,835	11,574	12,694	2,966	4,078		76,147
	1985	36,185	9,922	11,795		4,659		62,562
NON-OIL	1980	39,343	8,834	10,537	2,567	2,299	2,760	66,340
	1981	46,490	9,400	13,553	3,119	2,995	3,363	78,920
	1982	53,758	11,557	16,589	3,476	3,508	3,456	92,343
	1983	59,464	10,982	16,126	3,503	4,014	3,552	97,642
	1984	59,491	10,640	15,418	3,400	4,737		93,685
	1985	59,164	9,844	14,492		5,371		85,870
GDP	1980	115,306	27,549	29,625	7,829	5,983	3,912	190,205
	1981	153,139	24,174	32,489	8,661	7,210	4,516	230,190
	1982	152,318	21,302	31,817	7,597	7,568	4,549	225,151
	1983	119,196	21,581	27,513	6,468	7,933	4,613	187,303
	1984	104,325	22,214	28,112	6,366	8,815		169,833
	1985	92,349	19,766	26,287		10,030		148,432

Source: The National Bank of Kuwait, "Gulf Cooperation Council in Figures", Research, Preparation & Design, Kuwait 1987

EXPENDITURE ON GDP, AT CURRENT PRICES
SAUDI ARABIA, KUWAIT, UAE, OMAN & BAHRAIN
(US \$ Million)

		Period	S.Arabia	Kuwait	UAE	Oman	Bahrain	Total
F I N A N C I A L	Total	1980	54,092	11,296	8,351	3,115	1,816	78,670
		1981	58,188	12,306	11,826	3,628	2,107	88,054
		1982	74,395	15,133	13,560	4,395	2,622	110,104
		1983	76,461	14,372	13,498	4,609	2,934	111,874
		1984	75,274	14,889	11,278	5,111		106,552
		1985	70,931	13,636	10,787			95,355
C O N S U M P T I O N	Govt.	1980	23,315	3,171	3,235		492	30,213
		1981	24,217	3,535	5,304	1,900	597	35,553
		1982	37,491	4,144	6,249	2,071	767	50,721
		1983	36,718	4,435	5,816	2,258	862	50,089
		1984	34,566	4,567	4,576	2,339		46,049
		1985	31,989	4,870	4,386			41,245
I D O N	Private	1980	30,777	8,124	5,116		1,324	45,342
		1981	33,970	8,771	6,522	1,727	1,511	52,501
		1982	36,904	10,989	7,311	2,324	1,855	59,383
		1983	39,743	9,937	7,682	3,351	2,072	61,785
		1984	40,709	10,322	6,701	2,771		60,503
		1985	38,942	8,766	6,402			54,110
Gross Fixed Capital Formation		1980	29,178	3,251	8,403	1,384	1,703	43,885
		1981	31,449	3,849	8,654	1,689	1,854	47,495
		1982	35,679	5,134	9,284	2,046	1,955	54,098
		1983	33,418	4,697	8,633	2,133	2,319	51,201
		1984	31,243	3,879	8,151	2,616		45,889
		1985	26,682	3,057	7,627			37,366
Change in Stocks		1980	-5,214	388				-4,826
		1981	1,900	319				2,219
		1982	-5,776	573				-5,203
		1983	-741	686				-55
		1984	946	743				1,689
		1985	2,138	499				2,637
Exports		1980	77,701	22,436	23,087		3,915	127,139
		1981	108,921	17,343	23,119		4,652	154,036
		1982	103,529	11,762	19,050		4,099	138,439
		1983	63,519	12,338	15,306		3,753	94,916
		1984	47,795	13,129				60,924
		1985	36,994	12,114				49,107
(Less) Imports		1980	39,784	9,822	10,216		3,661	63,483
		1981	46,551	9,644	11,110		4,338	71,642
		1982	54,768	11,300	10,939		4,408	81,054
		1983	52,468	10,512	10,706		4,085	77,771
		1984	49,905	10,426				60,331
		1985	43,092	9,539				52,631
Expenditure on GDP		1980	115,973	27,550	29,625	4,464	3,774	181,386
		1981	153,907	24,174	32,489	4,317	4,276	220,162
		1982	153,059	21,302	30,954	6,441	4,628	216,385
		1983	120,190	21,581	26,732	6,743	4,920	180,165
		1984	105,354	22,214	19,429	7,727		154,723
		1985	93,653	19,766	18,415			131,834

Source: The National Bank of Kuwait, "Gulf Cooperation Council in Figures",
Research, Preparation & Design, Kuwait 1987

The question now arises, "How have the GCC states endeavoured to achieve economic development?". This question could be discussed in relation to two historical stages:

I) Traditional economy, which reflects the Gulf countries' economic development before the discovery of oil.

II) Present economic structure, which discusses the economic development after the discovery of oil.

2.4.1 Traditional Economy

Due to the geography of the Gulf area, the primary resource of the economies before the discovery of oil was the sea. The Gulf states depended on pearl-diving, fishing and trading activities, with the pearl industry constituting the main base of the economy in the nineteenth and early twentieth centuries. Hence, prospects for economic development were very depressing; in the meanwhile, the agriculture, manufacturing, and service sectors were handicapped because most of the land in the Gulf countries is desert and almost all of the people were uneducated.

Furthermore, by the end of thirties, the pearl industry was affected by the introduction of the cultured pearl, which had been developed by the Japanese. Demand for the expensive Gulf pearl declined as a result of the production of the cheaper version. Traditional activities were abandoned, and a new economic structure, based on

oil, began.

2.4.2 Present Economic Structure

The economies of all GCC countries are largely based on the export of a single commodity, oil, the increasing revenues for which have made possible rapid economic development in the GCC states and a subsequent flourishing of economic and construction activities. The income for the export of oil is paid directly to the Gulf governments; therefore, it is the governments which have to manage this income within the domestic economy. The oil and gas sector accounted for more than 42 percent of total GDP of the GCC states collectively in 1988 (see Table 2.7). Although this high percentage reflects the excessive dominance of the oil sector, it should be noted that the contribution of this sector was even higher in the past. It accounted for more than 65 percent of the total GCC collective GDP in 1980 (Gulf Economic and Financial Report, December 1989, pp.3-8). However, when oil was discovered, the Gulf countries were lacking in terms of skilled human resources and in terms of planning administration and organisation. Accordingly, despite the oil prospects, the GCC remained sensitive to the importance of continuing foreign aid in terms of personnel and subsequent technical assistance.

The role of agriculture in the GDP of the GCC states is still relatively insignificant. The contribution of agriculture to the total GDP was 4.3% in 1988. The

services sectors, both public and private constituted around 34.3% of GDP in 1988, while the construction sector accounted for 9.7% of the region's total GDP in the same year.

Thus, Table 2.7 shows that the services sector, both public and private, contributed over 34.3 percent to the GDP in 1988, while the contribution of the construction sector accounted for about 9.7 percent. Manufacturing, including refining oil into petrochemical by-products, however, accounted for 9.6 percent of the GCC total GDP in the same year, up from four percent in 1980.

Moreover, in 1988, 58 percent of the total GDP of the GCC was generated in Saudi Arabia, an increase from 55 percent in 1980, reflecting expenditure on industrial development. The UAE contribute in 1988 was 17 percent. The 12 percent contributed by Kuwait represented a considerable decline from its 1980 level. Oman and Qatar contributed 6 percent and 4 percent respectively, while Bahrain, despite an increase over the period from 1980, contributed only three percent. The shares of the GCC member states in the total GDP during the period 1980-1988 are summarised in Table 2.8.

Table 2.7

STRUCTURE OF OUTPUT IN THE GCC COUNTRIES

1988 Sectoral Contribution to GDP

Country	Oil & Gas	Manufacturing	Construction	Agriculture	Services & Others
S. Arabia	48.6%	8.3%	12.9%	6.6%	23.6%
Kuwait	42.0%	13.7%	2.5%	0.9%	40.9%
UAE	43.4%	9.4%	9.3%	1.3%	36.6%
Qatar	52.6%	9.9%	5.9%	1.3%	30.3%
Oman	41.4%	3.7%	4.5%	3.5%	46.9%
Bahrain	62.4%	12.3%	7.5%	1.5%	16.3%
GCC Total	42.8%	9.6%	9.7%	4.3%	34.3%

Source: Various Annual Reports and Statistical Bulletins of the Central Banks in the GCC 1989

Table 2.3
 MEMBER STATE'S CONTRIBUTION IN GCC TOTAL GDP
 (Percent)

Country / Year	1980	1988
Saudi Arabia	55	58
UAE	16	17
Kuwait	21	12
Oman	3	6
Qatar	3	4
Bahrain	2	3
Total	100	100

Source: Various Annual Reports and Statistical
 Bulletins of the Central Banks in the
 GCC 1989

At present, although great efforts have been made during the past decade towards economic diversification, the economies of the GCC countries still depend on the oil sector as a major source of national income. The manufacturing sectors, however, are being expanded to be the mainstay of the economy of the Gulf region during 1990. Industrialisation has been accorded prime importance in the development strategy for the coming decade, with the public and private sector playing a pivotal role in this respect. The contribution of the manufacturing sector to the total GDP of the GCC countries has been on the rise, from around 4.8% in 1975 to 5.5% in 1981 and 9.6% in 1988, and it is expected to reach 15% in the mid 1990s (Gulf Economic and Financial Report, 1989, pp.1-7)

According to Table 2.9, the highest contribution from manufacturing is in Kuwait, where around 13.7% of the country's gross domestic product is generated in the manufacturing and refining industries, followed by Bahrain (12.3%), Qatar (9.9%), UAE (9.4%), Saudi Arabia (8.3%), and Oman (3.7%).

Table 2.9

CONTRIBUTION OF THE MANUFACTURING
SECTOR TO GDP IN THE GCC COUNTRIES,
1981-1988

Country	1981	1982	1983	1984	1985	1986	1987	1988
S. Arabia	4.9%	4.2%	5.8%	7.3%	7.8%	7.8%	7.3%	8.3%
Kuwait	5.5%	6.0%	5.0%	6.1%	4.8%	6.6%	11.8%	13.7%
UAE	3.8%	7.0%	9.0%	9.9%	9.8%	11.5%	10.0%	9.4%
Qatar	3.3%	4.7%	5.0%	6.2%	7.3%	7.9%	9.7%	9.9%
Oman	0.8%	1.2%	1.5%	1.8%	2.4%	2.4%	3.7%	3.7%
Bahrain	14.8%	14.4%	10.3%	9.8%	10.2%	8.8%	12.3%	12.3%
GCC Total	5.5%	6.3%	6.1%	6.9%	7.1%	7.5%	9.1%	9.6%

Source: Annual Reports and Statistical Bulletins from the Central Banks;
GCC Main Economic Indicators 1989, Research Institute, King
Fahd University of Petroleum & Minerals.

The value of GDP per capita in the Gulf states is estimated to have risen from about \$1,300 in 1971 to more than \$15,000 in 1988 (Gulf Economic and Financial Report, 1989, pp.1-7). Table 2.10 shows the GDP per capita in the Gulf countries. Indeed, UAE, Qatar, and Kuwait have amongst the highest per capita income in the world and Kuwait has the highest economic annual growth in terms of GNP (Central Bank of Kuwait, 1989, p.31). The nominal GDP growth rates in 1989 were generally higher in all the Gulf countries (Tables 2.11 and 2.12) reflecting firmer oil revenues and sustained upturn in domestic activities.

However, inflation in the Gulf region took an upward turn in 1989, after several years of decline, as a result of the increase in such domestic factors as money supply, government budget deficits during the years 1985-1988, rents, wages, especially of foreign skilled employees and qualified professionals, and prices of services boosting overall consumer prices. This came partly as a reflection of the turnaround in domestic economic activities and therefore was more apparent in some Gulf countries (e.g. UAE) than in others. Table 2.13 shows the GCC countries' inflation rates up to 1990 (Gulf Economic and Financial Report, 1990, p.3).

Table 2.10

NOMINAL GDP (\$ MILLION) AND GDP PER CAPITA (\$)

Country	Amount	Per Capita	Year
Saudi Arabia	72,387	5,997	1986
	73,563	5,405	1987
	76,726	6,158	1988
Kuwait	17,193	9,605	1986
	21,700	11,604	1987
	19,714	10,058	1988
UAE	22,291	15,922	1986
	24,149	16,654	1987
	23,849	15,899	1988
Oman	7,183	5,568	1986
	7,698	5,788	1987
	7,477	4,929	1988
Bahrain	3,676	8,965	1986
	3,439	7,999	1987
	3,515	7,811	1988
Qatar	5,017	16,184	1986
	5,104	15,467	1987
	5,206	14,953	1988

Source: "Gulf Economic Indicators". Gulf Economic and Financial Report, Issue No. 10 vol.4. December 1989, Bahrain, pp.1-8

Table 2.11

NOMINAL GDP GROWTH RATES IN THE GCC COUNTRIES
(% Change)

Country	1983	1984	1985	1986	1987	1988	(*) 1989	(*) 1990
Saudi Arabia	-21.5	-18.2	-12.4	-16.0	1.6	4.3	3.5	2.5
Kuwait	-1.3	4.0	-8.6	-13.8	16.5	-4.9	4.0	2.0
UAE	-8.5	-1.3	-2.4	-17.5	8.3	-1.2	9.0	4.0
Oman	4.8	11.2	13.2	-19.0	7.6	-2.9	8.0	5.0
Bahrain	1.5	0.8	-7.0	-13.8	-6.4	2.0	2.5	3.0
Qatar	-14.8	5.9	-10.4	-18.5	1.7	-2.0	2.5	3.0

(*) Estimates

Source: IMF, International Financial Statistics, January 1990 and Yearbook 1989;
Annual Reports for the GCC Central Banks and Monetary Agencies, 1983-1989

Table 2.12

NON-OIL GDP GROWTH RATES IN THE GCC COUNTRIES
(% Change)

Country	1983	1984	1985	1986	1987	1988	(*) 1989	(*) 1990
Saudi Arabia	-9.8	-12.5	-2.3	7.0	1.1	1.9	4.6	3.0
Kuwait	-10.2	-3.7	-4.5	17.6	8.3	-1.5	2.0	3.0
UAE	7.8	-9.6	-0.2	5.7	2.4	3.8	5.0	6.0
Oman	14.0	17.7	12.8	-15.2	-8.4	8.3	4.0	4.5
Bahrain	6.7	0.6	-11.9	-4.6	7.1	2.0	3.5	4.0
Qatar	0.9	6.7	-6.4	0.5	0.6	0.5	2.5	5.0

(*) Estimates

Source: IMF, International Financial Statistics, January 1990 and Yearbook 1989;
Annual Reports for the GCC Central Banks and Monetary Agencies: 1983-1989

Table 2.13

GCC COUNTRIES' INFLATION RATES
(Consumer Price Indices % Change)

Country	1983	1984	1985	1986	1987	1988	(*) 1989	(*) 1990
Saudi Arabia	-0.6	-1.2	-3.0	-3.1	-1.6	0.9	1.0	2.0
Kuwait	4.8	1.2	1.5	1.0	0.6	1.5	3.3	3.5
UAE	3.0	1.0	2.0	-1.0	5.5	5.0	6.0	6.5
Oman	-2.1	-7.9	-1.1	6.4	0.3	-0.6	3.0	4.0
Baharin	3.0	0.3	-2.6	-2.3	-1.5	-0.2	1.0	2.5
Qatar	2.8	1.1	1.9	1.6	3.6	2.0	3.0	4.0

(*) Estimates

Source: "Gulf Economic Outlook: 1990", Gulf Economic and Financial Report, Issue No. 1, vol. 5, January 1990, p.3

All in all, the GCC states as a group and individually have a number of very real limitations to prolonged economic growth, among which are the following:

1. The six GCC states are overly dependent on the export of crude oil which will run out by the beginning of the next century.

2. Given GCC geographic and economic constraints, the group still faces a somewhat chronic scarcity of human resources, both skilled and unskilled.

3. The GCC's domestic markets are rather limited and highly scattered.

4. If the GCC concentrates on international markets, it has to compete vigorously with the well-established manufacturers of industrial countries and other developing countries. It also has to enter into contractual agreements dealing with the very complicated subject of international trade, an area for which the GCC as an organisation and the member states individually do not have any acquired expertise or long-term experience.

5. Other than hydrocarbons, the GCC has very limited mineral resources and a scarcity of natural water.

6. Although most of the infrastructural facilities are in place in the Gulf region, these are established in a piecemeal manner, without co-ordinated planning. For example, the access road for a building development may

have to be dug up and re-laid several times because services are not planned at the outset, but added at intervals.

7. Industrial regulations and legislations, as well as industrial incentives, are different in nature and application in each of the GCC states.

8. Finally, the GCC countries do not have an indigenous technological base with which to encourage industrial growth and development.

2.4.3 Economic Development and Development Plans

In the past, the aim of survival in one form or another was implicit in all the Gulf people and what their rulers thought and said about development. This is what the governments and the people of the Gulf states understood by the philosophy of economic development. This is not surprising, if one considers the extreme harshness of the physical environment and recalls how a concern with physical survival, the fight for life, was of prime concern to the vast majority of the peoples of the Gulf countries in the pre-oil centuries.

Until the time of oil discovery, the Gulf countries lacked skilled human resources and mechanisms for planning, administration and organisation. Deficiencies in these areas still exist in all the GCC states, greatly

hampering economic planning. Because of inadequate statistical data, inadequate technical assistance, ill-informed planners and lack of trained staff, economic planning has been reduced to the level of simple lists of projects to serve general objectives.

However, recently, all GCC states claim to have instituted same level of central economic planning. In view of the importance of Saudi Arabia to the Gulf as a whole and the vital importance of Saudi development efforts to the other five GCC nations, it is worth considering the principles and practices of development in Saudi Arabia.

Saudi Arabia in the last fifty years, the economy of it has evolved through four major stages of development: first, an economy based on pearl diving, trade and simple commercial activities; second, an economy based on exporting crude oil; third, an economy based on refining and exporting crude oil and its products; and fourth, an economy bolstered by diversification and promotion of industry and service-type activities. The focal point in the country's policy has been the decision to use Saudi Arabia's increasing volume of oil revenues to modernise the country's agriculture, industrial and infrastructural base (Arab Banking Corporation, 1986, pp.130-136).

Moreover, it is worth mentioning that the four economic development plans covering the last twenty years (1970-75, 1975-80, 1980-85, and 1985-90) demonstrate the dynamic nature of the economy and its rapid development to

a sophisticated stage.

The fourth Five-Year Development Plan (1985-90) restated the principles of economic and social development in Saudi Arabia which were defined in the First, Second, and Third Five-Year Plans. These principles, and the values behind them, were identified by the Ministry of Planning, Fourth Development Plan (1985-90) as follows:

1. The dedication of the government to upholding Islam and to maintaining its associated cultural values;
2. The importance attached both to the social well-being and the personal fulfilment of all citizens, and to the creation of a wide range of institutions and services freely provided for these purposes; and
3. Government support for free enterprise, subject to the interests of the community at large.

The Plan document goes on to set out (and restate) the objectives of development in Saudi Arabia:

- 1) to maintain the religious values of Islam by applying, propagating and fostering God's Sharia;
- 2) to assure the defence of the religion and the country and maintain the internal security and social stability of the country;
- 3) to continue balanced economic growth by developing the country's resources, by increasing the income from oil over the long term and by conserving depletable resources, thereby improving the social well-being of all citizens and providing the economic strength to attain all the other fundamental objectives of development;

- 4) to reduce dependence on the production of crude oil as the primary source of national income;
- 5) to develop human resources through education, training and the raising of health standards; and
- 6) to complete the basic infrastructure required for the attainment of these objectives.

By and large, Saudi Arabia (see "The Middle East and North Africa 1990", 1989, pp.727-740), is making determined efforts to achieve major industrial development, financed mainly by government revenues from petroleum, under the aegis of the second, third, and fourth development plans.

However, that rapid economic development has not been accompanied by a comparably rapid development in accounting.

Tables 2.14 and 2.15 show Saudi Arabia's fourth development plan and the growth rate. The cornerstone of the industrialisation programme was the construction of refineries and processing industries to exploit the country's huge reserves of petroleum and natural gas. The major projects were carried out as joint ventures between the government and foreign companies (Saudi Consulting House, 1988, pp.13-29).

Similarly, the other GCC countries are attempting, through their planning, to use oil revenues to finance economic development and to develop new means of domestic production.

To sum up, the general aims of the development plans of all GCC states have been to build up the GCC economy and to remedy the serious problems which have affected the economic and social life of the Gulf countries. Some of the stated aims of the development plans of Gulf countries are (McLachlan, 1989, pp.39-42):

1. diversification away from oil-dependence;
2. self-sufficiency in basic commodities, especially food;
3. removal of foreign ownership of all national resources;
4. elimination of foreign labour.

In addition, the circumstances of individual countries have influenced their priorities: Kuwait aims to preserve the interests of future generations of Kuwaitis by conserving oil and investing financial resources for them abroad. An important goal for Saudi Arabia is to strengthen its Islamic traditions and to function as a centre of pilgrimage for the Muslim world. Bahrain aims to provide diverse services and to offer competitive facilities to foreign companies and banks, in the hope that it will eventually become the Middle East's financial centre.

Table 2.14

PROJECTED SECTORAL CONTRIBUTION TO THE
GDP IN THE FOURTH PLAN
Million Saudi Riyals in 1979/80 Constant Prices

Sectors	GDP		Amount
	1984/85	1989/90	Growth rate (%)
Non-Oil Economy			
Agriculture, Forestry and Fishing	7,056.3	9,442.9	6.0
Mining and Quarrying	1,795.0	2,081.0	3.0
Manufacturing: Petrochemicals	-	5,149.2	-
Others	12,511.4	20,612.0	10.5
Electricity, Gas and Water	794.7	1,014.3	5.0
Construction	40,170.6	34,852.9	(-2.8)
Trade, Hotels and Restaurants	27,069.1	30,626.2	2.5
Transport, Storage and Communications	22,177.6	28,304.9	5.0
Real Estate	12,171.0	12,171.0	-
Finance, Insurance & Bus Services	8,460.3	13,017.3	9.0
Community and Social Services	7,674.8	9,120.2	3.5
Government	30,944.2	30,944.2	-
Sub-Total (1)	170,825.0	197,336.1	2.9
Oil Economy			
Crude Oil, Gas and Refining	113,289.9	148,898.3	5.6
Total GDP (2)	284,114.9	345,898.3	4.0

Source: Ministry of Planning, Fourth Development Plan, Riyadh, Saudi Arabia

(1) Less imputed bank service charges.

(2) Excluding import duties.

Table 2.15

FIVE-YEAR PLAN 1980-85

(Proposed Expenditure in Million Riyals)

Education	101,171.0
Health and Social Services	42,405.7
Transport and Communications	143,018.1
Desalination	39,602.0
Petromin	27,684.8
Saudi Basic Industries Corpn.	25,564.0
Electricity	52,585.2
Agriculture	7,974.5
Public Works	21,204.4
Other	320,790.3
Total	782,000.0

Source: Ministry of Planning, Riyadh, Saudi Arabia

2.4.4 Balance of Payments

In 1973, the price of oil -the only GCC export of any significance, increased sharply because of the Arab/Israel war. The price continued to rise steeply throughout the period 1973-1982. During this period, therefore, the GCC's exports exceeded imports by a considerable margin, the surplus reaching \$21,209 million by the end of 1982 (Table 2.16).

However, after 1982, an oil surplus led to a decline in both the quantity of oil production and in international market oil prices. As a result, the GCC balance of payments declined from more than \$21 billion surplus in 1982 to more than \$5 billion deficit in 1986. Saudi Arabia accounted in large part for this decline, with an accumulated deficit from 1983 to 1986 inclusive of some \$60 billion.

2.4.5 Labour Force

Although the oil sector represents the most important sector for the GCC countries as far as employment is concerned, it still plays a limited role in assimilating manpower because of the nature of production operations which depend on sophisticated technological equipment. On the other hand, the investments in infrastructure development have provided increased demand for labour.

Table 2.16

Balance of Payment Current Accounts of GCC States
(\$ Million)

Period	S. Arabia	UAE	Kuwait	Qatar	Oman	Bahrain	GCC
1982	7,571	4,877	7,001	1,127	460	172	21,209
1983	(16,851)	5,287	5,257	410	359	123	(5,414)
1984	(18,402)	6,375	7,464	830	107	18	(3,608)
1985	(12,936)	4,816	6,946	549	110	611	97
1986	(11,936)	5,392	2,370	(189)	(996)	95	(5,264)

() figures in brackets indicate negative balances.

Source: "Gulf Cooperation Council in Figures 1988/1989, The National Bank of Kuwait, Kuwait, 1988

Table 2.17 shows the total labour force in each GCC state in the year 1988. In fact, the labour force of the Gulf region, like the population, is comparatively young. However, the GCC countries depend to a large extent on foreign labour because of the shortage of local manpower. In 1988, the total labour force in the GCC totalled 7.08 million. From this total, only 41 per cent were GCC nationals.

The female labour force in the GCC countries is not very significant; Bahrain has the largest proportion of women in its labour force, but that was only 17 per cent in 1988. In Kuwait it was 7.0 per cent, in Saudi Arabia 4.5 per cent, in Qatar 4.3 per cent, and in the UAE, 2.0 per cent. (Gulf Economic and Financial Report, December 1989, pp.1-7). In considering strategies for economic development, and in making comparisons with industrialised nations, it is important to note that the GCC region has this particular constraint on its ability to expand its industrial productive capacity.

2.4.6 Imports and Exports

GCC countries are highly dependent on imports of consumer goods, intermediate goods, including building materials, and capital goods. However, some reduction in dependence on imports has been achieved since the peak of \$56,262 million in 1981. By 1988, the imports had declined to to \$41,264 million (Gulf Economic and Financial Report, January 1990, pp.4-6). Japan remains the

largest single exporter to the region, capturing in 1987 around 17% of the Gulf import market, down from the 20% level attained in 1983. The main Japanese exports to the Gulf countries may be grouped into four categories: motor vehicles, home appliances, machinery and metal products. Table 2.18 shows the GCC's total imports from the world as percentages.

On the other hand, the GCC major exports are oil and gas. The total exports reached a peak of \$157,838 million in 1981, before declining by 70 per cent in 1985 to only \$48,816 million, with a further drop to \$45,828 million by 1989 (Ibid., p.5). At the aggregate level, the geographical distribution of exports from the Gulf area did not change much between 1983 and 1987. Exports to Japan, USA and the EEC countries accounted for the bulk of GCC exports, close to 70% in 1987 up from 65% in 1983. Table 2.19 shows the GCC's total exports to the world as percentages.

Table 2.17
 LABOUR FORCE IN GCC COUNTRIES
 (IN 1988)

Country	Labour Force (000)	% of Females in Labour Force	% of Expatriates in Labour Force
Saudi Arabia	4,913	4.5	72.0
Kuwait	670	7.0	81.0
UAE	640	2.0	91.2
Oman	478	5.0	53.7
Bahrain	203	17.0	55.0
Qatar	173	4.3	83.0

Source: "Gulf Economic Endicators", Gulf Economic and Financial Report, Issue No. 10, vol. 4, December 1989, Bahrain, pp.1-7

Table 2.18

RELATIVE MARKET SHARES OF TRADING PARTNERS IN GULF COUNTRIES' IMPORTS
(Percentage)

	Japan			U.S.A.			U.K.			Germany			E.E.C.			Rest of the World		
	1983	1986	1987	1983	1986	1987	1983	1986	1987	1983	1986	1987	1983	1986	1987	1983	1986	1987
Saudi Arabia	20.1	16.8	17.1	23.8	22.8	18.5	7.3	14.7	18.1	11.7	10.3	7.8	43.2	53.5	46.7	12.9	6.9	16.7
Kuwait	25.6	23.2	21.2	10.7	12.4	10.8	7.7	9.1	8.0	11.2	9.9	8.1	37.7	38.9	37.6	26.0	25.5	30.4
UAE	16.4	16.2	15.7	10.4	8.4	9.2	10.4	14.6	12.2	7.3	8.4	9.7	34.8	42.2	43.1	38.4	33.2	32.0
Qatar	16.0	13.6	12.6	12.4	6.3	6.6	16.7	16.5	15.5	8.2	8.7	7.8	40.9	45.6	43.0	30.7	34.5	37.8
Oman	19.8	12.7	14.9	7.4	7.7	11.2	19.7	28.3	25.6	7.7	8.1	11.8	38.4	51.9	52.5	34.4	27.7	21.4
Bahrain	11.5	5.6	4.5	4.7	9.9	9.7	9.7	9.7	8.0	5.7	6.7	6.7	26.5	25.9	25.4	57.3	58.6	60.4
Total GCC	19.7	16.6	17.3	18.2	14.8	13.2	8.7	14.4	15.6	10.4	9.4	8.4	40.1	40.3	43.5	22.0	28.3	26.0

Source: INF, Direction of Trade Statistics, Yearbook 1987 and Monthly Reports February 1988, March 1988 and April 1988;
INF, International Financial Services, March 1988 and September 1988.

Table 2.19

**DISTRIBUTION OF GULF COUNTRIES' EXPORTS BY MAJOR DESTINATIONS
(Percentages)**

	Japan			U.S.A.			U.K.			Germany			E.E.C.			Rest of the World		
	1983	1986	1987	1983	1986	1987	1983	1986	1987	1983	1986	1987	1983	1986	1987	1983	1986	1987
Saudi Arabia	34.0	26.4	31.5	8.4	20.2	21.1	2.7	2.9	2.2	3.1	3.9	2.3	26.9	40.0	31.3	30.7	13.4	16.1
Kuwait	12.1	16.2	21.6	1.2	4.3	6.8	1.1	1.2	1.3	2.2	2.1	1.4	23.9	28.7	32.5	62.8	50.8	30.1
UAE	50.6	58.6	45.1	3.5	3.8	6.0	2.8	1.0	1.2	2.7	0.4	2.1	22.6	6.1	10.1	23.3	31.5	38.8
Qatar	46.7	54.2	39.6	0.3	3.4	0.2	0.4	1.9	1.0	4.2	0.1	1.2	22.9	16.6	11.1	30.1	25.8	49.1
Oman	47.3	56.6	47.1	8.8	1.5	1.7	3.0	4.1	2.3	1.2	0.2	0.2	15.8	5.0	8.7	28.1	36.9	42.5
Bahrain	13.3	12.5	13.0	0.8	3.7	3.0	1.2	1.1	3.3	0.1	1.2	0.3	3.9	4.2	6.2	82.0	79.6	77.8
Total GCC	34.7	34.8	33.5	5.9	11.1	12.7	2.4	2.1	1.8	2.8	2.3	1.9	24.2	25.3	23.2	35.2	28.8	30.6

Source: IMF, Direction of Trade Statistics Yearbook 1987 and Monthly Reports of January, March, April, May and June 1988.

2.4.7 The Decline of Oil Prices and its Effects on General Domestic Expenditure

Because of the oil glut, for the past five years the income of the GCC countries has steadily declined. For instance, the total revenue from oil exports in the GCC states fell from \$157,838 million in 1981 to \$46,787 million in 1990. The fall in oil prices and the consequent fall in GCC total revenues led to a deficit in the states' budgets and a decrease in the trade balance surplus. For this reason, the GCC governments decreased public expenditure to \$131.2 billion in 1988 as against \$181.4 billion in 1980, in current price terms (Gulf Economic and Financial Report, December 1989, pp.1-7).

2.4.8 The Gulf Countries and Foreign Investment

Since the establishment of the GCC, the Gulf governments have been encouraging both public and private sectors to build on the region's infrastructural base and to move into more sophisticated services.

According to the Bank of England Quarterly Bulletins (November 1989 and December 1985), OPEC countries accumulated foreign assets estimated at around \$466 billion by mid 1989. The GCC countries alone are believed to account for around 75% of this amount or \$350 billion (Table 2.20). It is estimated that the private sector's investments constitute around \$150 billion of the reported overseas assets, leaving a balance of \$200 billion accrued by the public sectors. As per table 2.20, close to 35% of

GCC foreign assets (\$122 billion) were invested in the EC countries, 14.5% (\$50.5 billion) in the US, 15.9% (\$55.6 billion) in other OECD countries, mainly Japan, Canada and the Far East, 12.8% (\$44.6 billion) placed with less developed countries, mainly in the Arab region and 7.8% (\$27 billion) in liquid foreign reserves and gold with IMF and other the World Bank.

In other words, a large proportion (87%) of the Gulf states' foreign investment has been in developed rather than developing countries. Experts attribute this to the search for credit-worthiness, well organised financial markets, high technology and good management. Al-Bablawi (1984, p.142) considered whether it is possible for the Gulf countries to invest their surplus in developing countries, and reached the conclusion that, even if the Gulf states are interested in investing their savings in the developing countries, the odds against secure and successful investment in these countries are enormous. Not only do they suffer the drawbacks of inadequate infrastructure and shortage of skilled manpower but there is also inefficient management and political instability.

Table 2.20

FOREIGN ASSETS OF GCC COUNTRIES
(\$ Billion)

	1983 Distribution (%)		1989 (1st Half) Distribution (%)	
EC	86.0	28.1	121.8	35.0
Domestic Currency				
Bank Deposits	(6.8)	(2.2)	(13.4)	(3.8)
Euro-Currency Bank				
Deposits	(48.3)	(15.7)	(50.1)	(14.4)
Government Paper	(17.0)	(5.6)	(16.0)	(4.6)
Other Investments (*)	(13.9)	(4.6)	(42.3)	(12.2)
U.S.A	64.6	21.1	50.5	14.5
Bank Deposits	13.3	(4.3)	14.6	(4.2)
Government Paper	26.0	(8.5)	20.0	(5.7)
Other Investments (*)	25.3	(8.3)	15.8	(4.5)
Other OECD Countries	51.7	16.9	55.6	15.9
Bank Deposits	22.7	(7.4)	29.5	(8.4)
Governments Paper	17.4	(5.7)	15.6	(4.5)
Other Investments (*)	11.6	(3.8)	10.5	(3.0)
Offshore Centres Bank				
Deposits	27.5	8.9	40.2	11.2
Placements with Less				
Developed Countries	43.5	14.2	44.6	12.8
Credit to Non-Banks	5.8	1.9	9.7	2.8
IMF and World Bank	27.1	8.9	27.0	7.8
Total	306.2	100.2	349.4	100.0

(*) Other investments include corporate bonds and stocks, real estate and other direct investments.

Source: Bank of England Quarterly Bulletins: November 1989 and December 1985.

2.5 The GCC's Achievements

Since the establishment of the GCC in 1981, there have been many specialised committees created in order to discuss technical details of co-operation and co-ordination in all aspects of economics, commerce, finance, industry, politics, defence, oil and energy, housing, construction, ports and harbours, transport, communications, media, information, medicine and sport.

2.5.1 The Unified Economic Agreement (UEA)

In the same month that the GCC Charter was signed, the Council's Unified Economic Agreement was announced. The Agreement has been described as the backbone of the GCC and its activities, the basic foundation on which all the rest of the GCC's co-operative and integrative endeavours are built. According to Bishara, A. - Secretary General of the GCC (1984, pp.3-10):

"... the greatest achievement so far lies in the economic field with the signing of the Unified Economic Agreement in June 1981 and the subsequent implementation of its first stage in March 1983. In time, this will lead to the establishment of an Arab Gulf Common Market with free trade existing between member states and nationals having the right to move, work and reside anywhere throughout the region while enjoying equal rights of ownership, inheritance, movement of capital and the freedom to exercise their chosen economic activity. The Agreement stipulates integration in commerce, oil, industry and technology with special arrangements being made for the ready transfer of new technology and the implementation of common training programmes in technical, vocational and professional fields. Member states are

already seeking to co-ordinate and integrate their financial, monetary and banking practices and extend cooperation between their respective monetary agencies and central banks. A common currency is being pursued to further enhance economic integration".

The Agreement specifies in detail the Charter's objectives and sets out specific terms for the co-ordination and unification of economic, fiscal, monetary, industrial and trade policies of the GCC member states. The ultimate aim of the Agreement is to provide a vehicle for the integration of the economies of the individual six member states into one large, regional economy (The Unified Economic Agreement, 1987, pp.1-8).

2.5.2 The Gulf Investment Corporation (GIC)

Another area of achievement was the creation in 1983, of the Gulf Investment Corporation (GIC) with a capital of \$2.1 billion, later increased to \$3 billion, as the GCC's main vehicle for financing joint ventures set up by member states and as the investment agency for the GCC countries.

The main objectives of the GIC are to discover, study, promote and participate in economically feasible projects in almost all sectors (Arab Banker, July/August 1986, pp.21-30).

2.5.3 Other Joint Venture Projects

Long before the emergence of the GCC, the member states had entered into joint projects. The Gulf states

were anxious to find economic activities in which they could all cooperate; for example, the participation of Bahrain, UAE, Qatar, and Oman in Gulf Air was perhaps the most striking example. In addition, the Gulf countries have various industrial, commercial and financial joint ventures such as the United Arab Shipping Company, Gulf International Bank, Gulf Ports Union, Gulf Organisation for Industrial Consulting, and Gulf News Agency. Thus, major steps towards economic cooperation were achieved well before the GCC's Unified Economic Agreement was implemented in 1983.

However, this tendency increased with the formation of the Council, which opened new possibilities for the GCC region. Several manufacturing and agricultural projects have been, or are in the process of being established. These projects include a petrochemical company, a steel company, a cement company, a tyre plant, a poultry plant and the production and marketing of agricultural seeds. In the areas of transportation and communications, a Gulf coastal transport company and a land transport company have been established. In the area of finance, a joint venture company for reinsurance has been created by the existing national insurance companies.

2.6 Summary and Conclusion

This chapter has discussed the characteristics of the GCC environment showing that the GCC is a group of Third World countries with a relatively small population and

largely relying on a single commodity, namely oil.

Most of the GCC countries were under British rule and independence was granted only as recently as 1961 to Kuwait, followed by other states in the early seventies.

Accordingly, the GCC formally came into being in May 25th, 1981. The basic objective of the GCC is to emphasise unification and integration in all fields among the GCC members. Economically, the development plans of the GCC states are prepared centrally and the mixed economy is currently the only economic system.

In conclusion, the GCC states are still developing countries, and they will stay so for a long time. Despite the high revenues from oil and the billions of dollars of wealth, the GCC still needs a lot of time to meet its objectives. One of the main objectives is to establish similar systems in the field of economic and financial affairs. This can not be achieved without comprehensive study of the foreign accounting systems currently operated in the Gulf area, to assess their relevance and applicability to the area. The next chapter will explain the types of economic entities in the Gulf countries, their accounting systems, the status of the accounting profession, accounting education, and the factors that influence the process and development of accounting in the GCC region.

CHAPTER 3

THE GCC AND THE EXISTING ACCOUNTING AND PUBLIC SECTOR ENVIRONMENT

3.1 Introduction

Despite the growing awareness of the GCC governments of the importance to economic development of accounting information, none of the GCC states have an independent body responsible for regulating financial reporting, and the GCC laws and regulations have barely touched upon the area of the organisation of accounting information. If the GCC is to achieve its ultimate goal of co-ordination and integration, there is a need for legislation throughout the GCC to organise the reporting of accounting information in such a way as to facilitate the compilation of national accounts, measurement of economic development, development planning and performance evaluation.

Many researchers have argued that implementation of a uniform accounting system, would aid governments in developing countries in achieving their goals of economic development and control.

Briston and El-Ashker (1985, p.135) discussed the role of the Egyptian uniform accounting system by emphasising its importance to the government, in terms of the provision of information for the purpose of economic planning and control, stating:

"One of the main objectives which the Egyptian accounting system has been seeking and has succeeded in achieving is the collection, tabulation, and storing of data by companies in order to provide governmental bodies with required information. It has been shown in practice that various kinds of information at different degrees of detail can be easily collected at the state level within a comparatively short time".

Consequently, many developing countries have in recent decades shown greater interest in establishing accounting systems to aid their economic development policies (especially national economic planning and fiscal policies) and to bring about an overall improvement in accounting practices at the micro and macro levels.

The Gulf region, as discussed in chapter two, is now heading towards greater cooperation, co-ordination and integration among its member states, particularly in industry. That is endorsed by the shared economic resources (oil), shared language and cultural and social traditions, and similar political and legal systems, all of which have contributed towards unifying the region into the GCC.

The member countries of the GCC are acted upon by very similar environmental forces. They also share a concerted economic development effort (via the UEA), the desire to control and supervise scarce economic resources (via a number of meetings of Finance, Industry, and Planning Ministers), and the demand for effective accounting information to aid government decision-making. For these reasons, the researcher believe the GCC governments might need an accounting framework which takes into consideration the economic needs of the Gulf countries for planning, implementation, control and performance evaluation.

The intention of this chapter, therefore, is to discuss the types of public entities in the Gulf region,

their size, their numbers, and their sources of finance. It will also emphasise the type of information the government needs, as a controller and as the sole or major participator in important economic companies in the public sector. In addition, the type of accounting standards used in such companies and their relevance or otherwise will be highlighted; the status of the existing accounting profession, accounting education, and finally the factors that influence the process and development of accounting in GCC states will be focused upon and discussed.

3.2 Types of Entities in the GCC

The economic activity which takes place within GCC countries may conveniently be divided into two major categories: the public sector and the private sector. The public sector may be further sub-divided into the governmental area, where in each GCC state, the government disburses revenues derived from oil, the state-owned industry sector, and the semi-government area, where the government participates in the equity capital of the company.

There are many "closed" public sector companies, whose entire capital is owned by the GCC governments or in which the government has more than 51 percent of the total capital and the other 49 percent belongs to one or more foreign company(ies). These companies are fully controlled by GCC governments, which often do not make public details

about the total investments of such companies. Their main activities concentrate on oil production, refining, petrochemicals, aviation, transportation, fertilisers, etc. The Directory of Shareholding Companies in the Gulf Region (1988, pp.15-20) gave the number of registered shareholding companies in all GCC states in which the government was a major participant in the equity capital, as 169, as shown in table 3.1. The total authorised capital of those companies was around \$22 billion, distributed among various activities, as shown in table 3.2. Furthermore, there are 42 Gulf public companies in the Gulf region, the capital of which is owned entirely by GCC citizens. The total authorised capital of these Gulf companies is approximately \$7 billion (see table 3.3). There are 16 companies located in the UAE and the same number based in Bahrain. Saudi Arabia holds 49 percent of the total investment in these companies, although only three of the companies operate in Saudi Arabia (see table 3.3).

Table 3.1

NUMBER OF SHAREHOLDING COMPANIES OPERATING IN THE GULF
IN WHICH THE GOVERNMENT WAS A MAJOR SHAREHOLDER

COUNTRY/ ACTIVITY	AGRICULTURE	MANUFACTURING	COMMERCIAL	FINANCIAL	SERVICES & OTHERS	TOTAL
UAE	2	8	3	11	13	37
BAHRAIN	-	3	2	9	9	23
SAUDI ARABIA	6	12	-	9	15	42
OMAN	3	11	1	5	4	24
QATAR	-	2	-	4	4	10
KUWAIT	3	7	-	9	14	33
TOTAL	14	43	6	47	59	169

Source: General Secretariate, Directory of Shareholding Companies in the Gulf 1988

Table 3.2

TOTAL CAPITAL OF SHAREHOLDING COMPANIES IN THE GULF COUNTRIES
IN WHICH THE GOVERNMENT WAS A MAJOR SHAREHOLDER
(\$ Million)

COUNTRY/ ACTIVITY	AGRICULTURE	MANUFACTURING	COMMERCIAL	FINANCIAL	SERVICES & OTHERS	TOTAL
UAE	79,00	729,00	78,18	1507,55	460,56	2854,29
BAHRAIN	-	456,38	37,23	1600,05	323,87	2417,53
SAUDI ARABIA	559,44	4684,62	-	531,47	7515,93	13291,46
OMAN	4,64	351,24	5,80	127,54	31,88	521,10
QATAR	-	21,31	-	108,93	66,76	197,00
KUWAIT	190,06	307,89	-	1086,10	1138,06	2722,11
TOTAL	833,14	6550,44	121,21	4961,64	9537,06	22003,49

Source: General Secretariate, Directory of Shareholding Companies in the Gulf 1988

Table 3.3

THE NUMBER OF GULF SHAREHOLDING COMPANIES WITH
TOTAL EQUITIES

COUNTRY	NUMBER OF COMPANIES	CAPITAL (\$ Million)
UAE	16	1440,05
BAHRAIN	16	2059,74
SAUDI ARABIA	3	3403,49
OMAN	6	61,16
QATAR	-	-
KUWAIT	1	100,00
TOTAL	42	7064,44

Source: General Secretariate, Directory of Shareholding Companies in the Gulf 1988

Table 3.4 shows the distribution of investment of all shareholding companies by percentage in each GCC state and finally table 3.5 represents the distribution by percentage of the shareholding companies in each GCC country, out of the total investment of the aforementioned companies, according to their economic activities. From the previous tables (table 3.2, 3.4, and 3.5) it seems that the services and manufacturing sector are the dominant sectors in the Gulf area.

The private sector, on the other hand, consists of businesses run to maximise profit, most of them large family businesses, or owned by private individuals. According to the Gulf Directory (1987/1988, pp.1-845) the total number of such private "registered" establishments in the Gulf area reached 135,355 most of which are individuals, small companies with limited liabilities, partnership companies, simple commandite companies, and foreign companies.

However, although private sector entities vastly outnumber public entities, it is the public companies which contribute most to the economy and are the major employers, for they are generally much bigger economic entities than those in the private sector.

Table 3.4

THE DISTRIBUTION OF THE PERCENTAGE OF INVESTMENT
IN THE GULF COUNTRIES

COUNTRY/ ACTIVITY	AGRICULTURE	MANUFACTURING	COMMERCIAL	FINANCIAL	SERVICES & OTHERS
UAE	2,8	25,5	2,7	52,8	16,2
BAHRAIN	-	18,9	1,5	66,2	13,4
SAUDI ARABIA	4,3	35,2	-	4,0	56,5
OMAN	0,9	67,4	1,1	24,5	6,1
QATAR	-	10,8	-	55,3	33,9
KUWAIT	0,7	11,3	-	39,9	41,8

Source: General Secretariate, Directory of Shareholding Companies in the Gulf 1988

Table 3.5

THE DISTRIBUTION OF THE PERCENTAGE OF THE SHAREHOLDING
COMPANIES IN EACH GCC COUNTRY OUT OF TOTAL INVESTMENT
OF THE AFOREMENTIONED COMPANIES ACCORDING TO THE
ECONOMIC ACTIVITIES

COUNTRY/ ACTIVITY	AGRICULTURE	MANUFACTURING	COMMERCIAL	FINANCIAL	SERVICES & OTHERS	TOTAL
UAE	9,5	11,1	64,5	30,4	4,8	13,0
BAHRAIN	-	7,0	30,7	32,2	3,4	11,0
SAUDI ARABIA	67,0	71,5	-	10,7	8,8	60,4
OMAN	0,6	5,4	4,8	2,6	0,3	2,4
QATAR	-	0,3	-	2,2	0,7	0,9
KUWAIT	22,8	4,7	-	21,9	11,9	12,3
TOTAL	3,8	29,8	0,6	22,5	43,3	100

Source: General Secretariate, Directory of Shareholding Companies in the Gulf 1988

In general, although there are still a considerable number of family and private individual businesses run on a sole trader basis, the commercial companies law of GCC countries (see Commercial Companies Law: Decree Law No 28 of 1975 Bahrain; Law No 15 of 1960 Kuwait; Law No 4 of 1974 Oman; Law No 3 of 1961 Qatar; Royal Decree No M/6 of 1385 AH Saudi Arabia; Federal Law No 8 of 1984 UAE) permits the following types of business entities:

- General Partnership
- Simple Limited Partnership
- Partnership Limited by Shares
- Limited Liability Company
- Joint Stock Company
- Joint Venture
- Exempt Company.

However, not all GCC states permit the same range of businesses. Kuwait does not recognise the category of partnership limited by shares, and Qatar provides only for joint stock companies and co-operative companies. Some states recognise additional categories, for example UAE makes a distinction between public and private joint stock companies. Bahrain is unique in having a special category of offshore exempt companies (Ministerial Resolution No 25 of 1977).

Thus, enterprises in the GCC fall into three categories: the public sector companies, whose capital is supplied wholly or in part by the government, Gulf shareholding public companies, and private sector

companies, including commercial companies and commercial agencies.

3.2.1 The Public Sector Companies

The Gulf states operate a mixed economy, in which the governments are directly involved in economic activities through various public sector companies, and have a more indirect influence on the private sector, which is in general, expected to operate in harmony with government policies. Many large public sector companies, owned by GCC governments, have been established in various spheres of industry. In addition, the GCC governments own the majority share in many companies formed jointly with foreign parties. Most larger manufacturing companies are in the public sector, including those of oil production and refining, petrochemicals, aluminium, etc.. Thus, all GCC governments depend to a large extent for their revenues on the public sector companies. They therefore need extensive accounting information, supplied by the accounting systems of public sector companies, as a basis for successful economic decision-making.

Taking Saudi Arabia as an example, public companies may be classified in two categories: The public corporations and state-owned companies. According to ASOSAI (1988, pp.163-170), there are about 30 public corporations established by special legislation or decree of the Chairman of the Board of Ministers. The operating

rules and procedures for the finance, management, audit, personnel and other activities of the corporations are detailed by these enabling authorities. The administrative and financial independence of public corporations varies according to the nature and importance of their activities. Moreover, there are about 65 other public companies in the form of government-owned or controlled companies established under the relevant companies legislation (Ibid., p.163).

Indeed, in all GCC states, the government has played a major role in the financing of large-scale industries. In addition to the companies related to oil production and refining, gas manufacturing, fertilisers, iron and steel and cement industries, of which the government owns 100 per cent of the equity capital, the Gulf governments participate in the capital of other large-scale industries. Tables 3.6 and 3.7 reveal the government participation in major public sector heavy industries in Bahrain and Kuwait (see note 1, p.143).

Table 3.6

**Bahrain: Government, Gulf, and Foreign Companies
Participation in Large Industrial Projects
(Millions of BD and Percentages)**

(BD: Bahraini Dinars)

Company	Capital	Shareholders	Percentage Share
Aluminium Bahrain (ALBA)	25.00	Government of Bahrain	57.9
		Government of Saudi Arabia	20.0
		Kaiser Aluminium	17.0
		Breton Investments	5.1
Bahrain Atomisers International	32.00	Government of Bahrain	51.0
		Breton Investments	49.0
Gulf Aluminium Rolling Mill (GARMCO)	22.37	Government of Bahrain	20.0
		Government of Saudi Arabia	20.0
		Government of Iraq	20.0
		Government of Kuwait	20.0
		Government of Oman	10.0
		Government of Qatar	10.0
Gulf Petrochemical Industries (GPIC)	60.25	Government of Bahrain	33.3
		Government of Saudi Arabia	33.3
		Government of Kuwait	33.3

Source: "Bahrain Facts and Figures", Ministry of Development and Industry, Bahrain 1988, pp.45-51

Although the government of Bahrain has participated in many other projects with various percentages, table 3.6 shows some of the main projects in which the government has played a major financing role. The government participates in the equity capital of large oil, aluminium, and petrochemical companies. Many of these projects are joint-ventures, some with other GCC governments and some with foreign private companies (see note 2, p.143).

Accordingly, the government holds the largest share in ALBA (57.9%), Bahrain Atomisers International (51%), and has total ownership of BALEXCO, BANOCO, and BANAGAS. In GARMCO and GPIC the capital share of government is 20% and 33.3% respectively.

The Kuwaiti government participates in and finances more large scale projects because of the size, population, wealth, etc. of the country (see table 3.7). Although the government of Kuwait owns 100 percent of a number of public sector companies in the fields of oil, petrochemicals, flour and transportation (e.g. Kuwait Oil Tanker, Kuwait National Petroleum Co., Kuwait Flour Mills Co., Kuwait Transportation Co., Petrochemical Industrial Co., etc.), on average, the share of the government in the paid-up capital of seventeen major public industrial shareholding companies in 1985 was 55.1%, as table 3.7 shows.

Table 3.7

**Government Participation in Public Industrial
Shareholding Companies in Kuwait (1985)**
(In millions of KD)

Company	Paid-up Capital	Government Share (percentage)	Government Participation
The National Industries	24.3	59.2	14.4
Kuwait Metal Pipes Industries	15.2	16.6	2.5
Kuwait Cement	25.6	34.6	8.9
Refrigeration Industry and Cold Storage	6.4	66.6	4.3
Gulf Cable and Electrical Industries	5.6	35.8	2.0
Kuwait Shipbuilding and Repair Yard	25.1	45.3	11.4
Kuwait Pharmaceutical Industries	5.5	54.9	3.0
Contracting and Marine Services	7.5	45.0	3.4
Kuwait Fisheries	18.4	73.9	13.6
National Automobile Trading and Manufacturing	6.2	72.5	4.5
Ships Manufacturing	17.1	61.4	10.5
Untied Poultry	9.4	39.4	3.7
Health Appliances	6.9	59.4	4.1
Freezers Manufacturing	5.6	35.7	2.0
Kuwait Tyres	9.6	19.8	1.9
Kuwait International Petroleum Investment	109.9	70.1	77.1
Kuwait Investment	30.0	45.0	13.5
TOTAL	328.3	55.1	180.8

Source: Compiled from data published by Kuwait Stock Exchange, 1987
Also see, 1987/88 Annual Report of the National Bank of Kuwait

Table 3.8

Kuwait Shareholding Companies Listed in Kuwait
Stock Market in 1985 (1)
(In '000' KD)

Sector	Capital	Government Participation (%)	Government Share
Banks	287,512	24.56	70,613
Investment	149,165	71.05	105,982
Insurance	39,111	35.63	13,935
Industry	238,919	55.10	131,644
Real Estate	155,307	33.87	52,602
Services	130,674	39.88	52,112
Food	80,297	50.61	40,638
TOTAL	1,080,985	43.25	467,526

(1) Kuwait closed companies are not included

Source: Ministry of Finance in Kuwait, "Guide to Kuwait Investment", March 1987
Also see "Kuwait in Figures" issued by National Bank of Kuwait (SAK), 1986/1987

The above table shows the extent of the Kuwaiti government's participation in economic activities through its sizeable public sector investments.

All in all, although there are no statistics on the total investment of public sector companies in all GCC states, because manufacturing statistics in the GCC region are scarce, being considered confidential, it is clear that the public sector companies in the Gulf area

are very significant in terms of the GCC's basic economy.

To sum up, the following are the three major dimensions of the public sector and joint-venture companies in Kuwait which might be taken as representative of other GCC countries (Douban, 1986, p.6):

- 1) They occupy a large place in the national economy and the state budget.
- 2) They play a big role in industrial activity, especially in production, value added, and gross fixed capital formation.
- 3) The majority of government investment plans are made through the public sector companies.

However, although the public sector companies represent a high proportion of economic activity in all GCC countries, there are many problems in the structure and administration of most of those companies:

- 1) A number of companies are maintaining losses because of their inability to meet their production targets.
- 2) There is a lack of consistency in policy as a result of frequent changes in the membership of the board of directors.
- 3) There is a lack of qualified and experienced personnel, and a high labour turnover.
- 4) Managers have insufficient authority over their employees.
- 5) There is inadequate reporting between companies and government.
- 6) Information flows between departments are defective.

7) The responsibilities and authorities of different departments are not clear.

These factors contribute to the inability of the government to exercise adequate control over these important companies.

3.2.2 Sources of Finance of Public Sector Companies

There is no single form of finance for GCC public sector companies; financing could range from total dependency on the government (especially those 100 per cent owned by government), to total self-financing (those companies in which the government participates from between 5 to less than 51 per cent). In fact, the initial investment capital is provided from the government as a launching grant. Thereafter, the company may receive annual grants for operating and development expenditure depending on the nature of the company and its activities. Government owned companies are generally expected to generate their own income and operate profitably, are allowed to raise loans on domestic and foreign markets and, in a number of cases, offer equity participation to government and private sector agencies.

By and large, the financial structure of most GCC public sector companies can take various shapes, depending on their activities, nature, objectives, and the environment in which they operate. For example, in terms of financial objectives, many public sector companies may be classified into two groups:

- A) companies which make profits and operate just like any private sector company;
- B) companies which provide services and goods to the public at cost or at subsidised prices.

Therefore, the task of the GCC governments is to ensure that the methods of financing are appropriate to the characteristics of the public sector company, consistent with the objectives set by the government and in accordance with the economic needs of the country.

3.2.3 Management of the Public Sector Companies

All public sector companies in the Gulf are managed by Boards of Directors formed by the government. In most GCC states, company laws provides that such boards shall consist of not less than three and not more than twelve members. Membership of the board is normally for three years, but is renewable. The board of directors is responsible for managing the company, running its operations, setting its general policies, and setting up the administrative and financial systems necessary for operations and control. However, the quality of management of many public sector companies is inadequate. Personal relations and family ties, rather than skills and experience, play a major part in the selection of Board members. As a result, the majority of companies are poorly managed, inefficient, unprofitable and far from achieving their objectives. Moreover, the lack of an adequate framework for public control over such companies leaves

much lea-way for corruption.

3.3 The Existing Accounting Systems

Almost all the accounting systems currently operated in the Gulf region, whether by public or private sector companies, tend to be based upon, or adopted from, those of the country of their senior accounting employees, most of whom are foreign nationals. Therefore, the GCC's accounting systems, like those of many other developing countries, were imported from industrialised nations, particularly the U.K. and USA, and are mainly oriented towards external auditing and external financial reporting. In this context, Briston and Russell (1984, p.12) pointed to the inappropriateness of the accounting systems of developed nations for developing countries, stating:

".. there is very little point in encouraging developing countries, whose major economic entities are public enterprises and subsidiaries of multinational companies and in which the government wishes to play a positive role in the planning and control of the economy, to adopt an accounting system which evolved in the context of laissez-faire economy and which places the needs of private sector shareholders above those of the government".

In fact, the implementation of such accounting systems, as pointed out by Shuaib (1985, p.16) may be attributed to the weakness of GCC law, in the sense that no accounting principles or auditing standards and no code of professional ethics have been developed thus far in the

GCC. The Ministry of Commerce in Saudi Arabia issued some accounting and auditing standards by decree No. 692 dated November 11, 1985. However, those standards are more or less translation of other countries' accounting and auditing standards such are those in USA; moreover, they have the status of guidelines and are not binding.

Indeed, at present in all GCC states, the published accounts of the public sector companies are inadequate for government planning and control and for rational decision-making. That could be attributed to the weakness of the present GCC commercial laws which impose very limited information requirements, such as requiring businesses to prepare a balance sheet and profit and loss account at least once a year (Commercial Companies Law in Bahrain 1975, Kuwait 1960, Oman 1974, Qatar 1961, Saudi Arabia 1385 AH, and UAE 1984). Because of such vague requirements, most preparers of financial statements in the GCC do not disclose adequate accounting information. Even when information is disclosed, the quality and quantity is variable, due to the absence of a statutory requirement on the disclosure of all the accounting policies used in the preparation of such financial statements.

Generally, however, the annual reports of these companies comprise the following statements and reports, as Douban (1986, p.11) pointed out:

- 1) The Board's (or chairman's) reports.
- 2) The Auditor's Report.

- 3) The Profit and Loss Account.
- 4) The Retained Profit Statement (Appropriation Statement).
- 5) The Balance Sheet.

The above statements and reports are the main statements and reports provided in the annual reports of all GCC states. Some notes on financial statements are usually provided (though they do not provide detailed information as to the definition of terminologies used or the basis of valuation). Although a few companies provide additional statements, e.g. Funds Statements or Statement of Changes in Financial Position, the majority of public sector financial reports do not do so. Taking Bahrain as an example of GCC countries, Appendix A shows an example of the published Balance Sheet, Statement of Income and Retained Earnings, and Statement of Changes in Financial Position of the Gulf Petrochemical Industries Company, whose capital was provided in equal shares by the governments of Bahrain, Kuwait and Saudi Arabia. Looking at what information is provided in the annual report of the company, one can conclude that there is an absence of much data which could help the owner governments and other interested parties in their decision-making. Douban (1986, pp.11-12) draws attention to examples of these missing data:

- * Purchase of imported goods.
- * Total interest expenses (or imputed interest on invested capital).

- * Sales of goods and services to non-residents (exports).
- * Total depreciation charges or assumed depreciation on property owned by companies.
- * Domestic investment.
- * Business transfer payments.
- * External investment.
- * Increase in physical inventories.
- * Physical assets at current cost.
- * Intermediate goods.
- * Detailed transactions in financial assets and liabilities, divided between national and overseas.
- * Capitalised profits.
- * Value added and its components.

With such major deficiencies in information provision, it appears that financial reports provided in the Gulf area need many improvements if they are to provide the governments with the information they need to ensure operational efficiency and personnel effectiveness.

By and large, there is no specific accounting system to be followed in all GCC countries and for the selection of a better accounting system, the GCC countries appear to have two major approaches from which to choose.

The first is to follow the present diversified accounting system which is largely irrelevant to the needs of the Gulf environment.

The second is to develop a uniform accounting system which conforms with government regulations, economic and

political factors, and social and cultural factors. The implementation of a uniform accounting system may increase the usefulness of statements for the government as owner, regulator, and controller of a large segment of public enterprises, and for the management of the company, as a sound basis for decision-making and performance evaluation. Briston and Russell, and Enthoven have all agreed that enterprises in developing countries should adopt some kind of uniformity, which would facilitate the process of using micro accounting data for macro accounting purposes. (Briston and Russell, 1984, pp.21-22; Enthoven, 1973, p.236). Perhaps the leading examples of this approach are the French uniform accounting system (Le Plan Comptable General) and the Iraqi uniform accounting system (these will be discussed in chapter 4).

3.3.1 Present Status of Accounting and Auditing

In many developed and developing countries, accounting practices and auditing practices tend to be strongly influenced by each country's companies acts or some other legal and tax decrees enacted by the local legislations to organise both public and private sector entities. However, in Gulf countries those specific accounting and auditing practices (e.g. nature of accounting standards) do not exist and therefore, most of those practices are derived from those used in the Western countries, and do not reflect the needs of regional GCC environment.

Haskins and Sells (1984, p.2) indicated the present accounting situation, stating:

"As yet, there is no all-embracing commercial legislation in any country in the GCC, although the types of entity that are acceptable for the conduct of business have been prescribed by decree. Those entities that have shareholders are required, in one or two states, to file their annual accounts with appropriate government departments but there is no general acceptance of accounting policies or standards that should be adopted, and only limited recognition of the importance of an audit".

The commercial companies law which governs both public and private sector companies in the GCC states the following regarding the role of the auditor: "Auditors should audit the accounts in accordance of generally accepted accounting principles, and generally accepted auditing standards" (Commercial Companies law: Bahrain 1975, Kuwait 1960, Oman 1974, Qatar 1961, Saudi Arabia 1385 AH, UAE 1984). However, neither the laws nor the governmental agencies provide a list of specific accounting or auditing standards which could be regarded as acceptable. Hence, the choice of accounting standards and techniques is left entirely to the discretion of the company's board of directors and auditors.

Hassan (1985, pp.75-76) conducted a survey of a sample of the corporate reports of limited companies in the public and private sector to determine which accounting principles are adopted in Kuwait and subsequently in the GCC countries. The following are his

main findings:

1. The annual reports of the sample of the companies comprise the following statements and reports:

- (a) The Chairman's (or Board's) report,
- (b) The auditors' report,
- (c) The profit and loss account,
- (d) The retained profit statement (appropriation statement), and
- (e) The balance sheet.

2. With regard to the disclosure of "accounting policies" and "notes on accounts", practice is quite diverse among companies in terms of coverage, detail and content.

3. None of the companies disclosed or prepared the following statements: value added, employment report, money exchanges with government, transactions in foreign currencies, future prospects and or corporate objectivities.

4. None of the companies provided any financial ratios such as earnings per share or return on capital employed.

5. None of the reports disclosed information concerning the impact of inflation, or the disclosed figures even as supplementary statements.

6. Only three companies produced annual reports in two languages, Arabic and English; the remainder provided them only in Arabic.

7. Regarding the auditors' report, the most prevalent statements in the corporate reports are the balance sheet and the profit and loss account. The additional

information, given either as footnotes or notes on the accounts, varied from one company to another.

To find out more about the disclosure of financial statements, the author of the present work examined the annual reports of twenty five companies, most of them in the industrial sector, during the period 1987 to 1988, from two GCC countries (Bahrain and Kuwait). Considerable diversity was found in the format of the statements; the accounting information disclosed was incomplete because of the consolidation of the data; and they contained accounting terms which would be very difficult for users to understand. Moreover, most of the financial statements comprised lists of aggregated figures, with a very little detail or explanation about their components, and in the absence of legal or professional requirements, little additional explanation was provided. Few of the companies whose financial statements were examined, disclosed information concerning short and long term investment evaluation, though some financial statements disclosed inventory evaluation and depreciation methods.

To sum up, the financial statements of most public sector companies represent a list of aggregated figures related to past events, with very limited use for the future. Accordingly, they do not provide sufficient information for users of which GCC governments constitute a major group.

Thus, the current status of accounting and auditing practices in the GCC is that there is no comprehensive

and authoritative set of accounting and auditing standards for use in all GCC states. There are a few ministerial regulations that contain some standards, adopted from the IASC such as the standards of disclosure of accounting policies; yet they are far from complete.

Finally, in order to remedy the present situation, the GCC countries need to improve their accounting and reporting systems; they should consider the feasibility and usefulness of improving the published accounts at the micro level and providing linkage with national accounts (macro level) to facilitate government objectives in planning, control, and decision-making.

3.3.2 The Applied Generally Accepted Accounting Principles (GAAP)

As has been discussed, because of the weakness of companies and accounting law in all GCC states, enterprises in both the public and private sectors claim the adoption of GAAP, and accounting firms claim that their auditing procedure is in compliance with generally accepted auditing standards. However, the nature and relevance of such principles to the GCC environment are still unclarified. Gaa (1961, p.47) and Anthony (1963, p.100) expressed doubts about the possibility of having generally accepted accounting principles now or in the foreseeable future, since experience suggests that a generally recognised authoritative and co-ordinated structure body of generally accepted accounting principles does not exist.

Indeed, in Gulf countries, there are no official

pronouncements on generally accepted accounting principles, accounting standards, auditing standards, or professional ethics. Auditors in the GCC use the phrases, "generally accepted accounting principles" and "generally accepted auditing standards", in accordance with all GCC commercial laws, which state that auditing should be carried out in accordance with acceptable auditing standards; still, neither the law nor the government provides a list of accounting and auditing standards which could be regarded as acceptable. In reality, the choice of accounting principles, standards, and techniques is left entirely to the discretion of the management and auditors of the company.

This freedom of managements of companies to choose among various accounting principles and methods, may permit the abuse of that discretion for dishonest purposes. Thus, it is the responsibility of governments to establish legislation to protect against management misuse of the authority entrusted to it.

Similarly, when accounting firms in the Gulf region, whether local or international, perform audits of private or public sector companies, they habitually refer to GAAP without identifying the meaning and nature of these principles, or by whom they are accepted. (Appendix "B" is an example of an auditor's report). The absence of legislation or professional regulation means that auditing firms can apply whatever procedures and policies they wish and still claim to fall within the GAAP.

Governments in the GCC states are thus impeded in this tasks of planning and control. The remedy to this situation is to require companies to adhere to a specific accounting system, so that governments will be provided with uniform, reliable and accurate information, on which they can base their planning and control decisions.

3.3.3 The Adoption of International Accounting Standards (IAS)

Although there are some accountants and research academics who admit that the U.K. and USA accounting systems may not be relevant to the needs of developing countries, many argue that all developing countries should adopt the IAS issued by the International Accounting Standards Committee. For example May (1986, p.70) urged accountants in developing countries to adopt IAS. Hampton (1980, pp.17-18) emphasises the need to eliminate unnecessary differences in accounting principles and practices and suggests that the IAS are the best solution.

Accordingly, it has been argued that the GCC countries should consider the adoption of IAS, as being more relevant than the U.K. or USA standards. Haskins and Sells (1984, p.55) discussed the Kuwait environment and recommended the IAS, stating:

"Enterprises in Kuwait should consider carefully the selection of the accounting policies which best suit their business and organisation structure. Once selected, these policies should be applied on a consistent

basis. Any departure from these policies should be disclosed. In fact, there should be greater compliance with IASC standards which, in our opinion, are more relevant to Kuwait than either U.K. or USA standards".

However, this argument is flawed because the IAS are established to provide some degree of harmonisation between the accounting practices of multinational companies which operate in the developing countries, of which the GCC are a group. Many of those companies are American or British and comply with the accounting requirements of their own countries. For this reason, the adoption of the IAS will be little more than adoption of American and British standards, which are again irrelevant to the GCC environment because of cultural, socio-economic and political differences. Duban (1988, p.16) argued that the IAS have been designed to serve the needs of the industrialised world, and may not necessarily be best for the needs of developing countries. Moreover, Zeff (1986, p.21) suggested that:

"Each country's cultural, political, and economic setting is unique, and experience from other countries can not be sensibly transported without being sensitive to environmental differences".

Furthermore, Samuels and Oliga (1982, pp.69-88) emphasised the different environment of developing countries by stating:

".. where economic, socio-political, cultural, and contextual differences between countries, nations, or societies exist, the problem of appropriate accounting standards will assume a

different conceptual meaning as well as contextual significance , in the case of developing countries where such differences tend to be not only highly pronounced, but also in a highly dynamic and fluid state, the relevance of international accounting standards becomes even more questionable".

Accordingly, the IAS are unsuitable and perhaps even harmful in the case of GCC countries, because of their different cultural, economic, educational, political and professional environment.

Nevertheless, many companies, especially multinationals, as well as accounting firms, are adopting the IAS in the absence of any other rulings in the Gulf area, because they believe that this will facilitate international business and international investment; however, this fails to consider the needs of the local government or the local people.

It is therefore suggested that accounting in GCC states should be developed in a manner relevant to the Gulf environment in which it exists. However, the following are some disadvantages to the application of IAS in the Gulf area:

- 1) All companies in the Gulf, whether in the public or private sectors, use different accounting methods and different accounting policies which would cause figures reported under IAS to be misleading.
- 2) Even if the reports are adjusted to reflect common accounting problems, the significance of reported items varies depending on the cultural and legal environment of the Gulf countries.

3) IAS themselves do not deal with particular standards in the same depth as do the standards-setting bodies of certain developed countries.

4) All IAS are based on experiences totally different from those of the GCC countries.

5) IAS are concerned only with the problems of corporate reporting and of auditing annual statements.

In addition to the above obstacles, there are further disadvantages of applying IAS in general:

1. Unlike scientific principles which transcend national and time boundaries, IAS are very much affected by the circumstances of the time and place of their development. Accordingly, standards which are compatible with the circumstances and requirements of one country may not be compatible with the circumstances and requirements of another country. The Chairman of FASB (1983, p.99), for example, has agreed that:

"International accounting standards are a very attractive goal. But anything of an international nature involves some mechanism to bring it about, and very few things get done on an international level".

2. Each country in the world has its local regulations which govern the issue of financial statements and the practices followed in the auditing of financial information. Nevertheless, the IAS promulgated by IASC do not override the local regulations.

3. IAS have recently been set without prior explicit definitions of objectives, limitations and fundamental

concepts. Therefore, there is no assurance that those standards will be consistent with each other.

4. The participation of developing countries in the International Accounting Standards Committee is extremely limited (Daley and Mueller, 1982, pp.48-49) although recently Jordan has joined the IASC board and is represented by two Kuwaitis. Therefore, IAS are not necessarily relevant to their economic environment.

5. It has not been proven that the users of financial statements in all countries need similar information.

Kirk (1983, p.100) comments on this point by saying:

"Supra-national standards setting is just not a reality. Differences in the purposes and users of financial reporting from one country to another are profound. These differences can complicate the possibility of international standards. Until we have some common understanding of what the objective of financial reporting is, it will be very difficult to get meaningful international standards".

6. Decisions made by committees are always of a political nature. Such political decisions usually reflect the views of the majority or of the most powerful group. Similarly, the setting of accounting standards is also a product of political action (Solomons, 1978, pp.67-72). Accordingly, the influence of the developed countries such as USA and U.K. has had a considerable influence on the direction taken in the IASC activities. Thus, it is easy to spread the Western accounting standards, which by and large are not suitable to the governmental requirements of most developing countries simply because they are based on

totally different circumstances.

Thus, the adoption of IAS is not relevant to the GCC states because governments in the GCC need different information from those in the western world; IAS are not particularly relevant to their needs, nor have the Gulf nations the sophisticated audience for which such standards were designed. Governments in the GCC region, because of the importance and size of the public sector, need information to facilitate the functions of planning and control and not to facilitate international business or investment.

3.4 The Information Needs of the GCC Governments

It has been argued that current accounting practices in the Gulf area do not serve the GCC governments in their tasks of planning and control, since accounting information is concentrated on the external financial reports and ignores the information which would help the government to prepare successful socio-economic development plans, exercise control, and take rational decisions. This prospective information must be relevant to the GCC environment and relevant to economic and social decision-making at micro and macro levels.

In fact, the governments in the GCC need information through accounting reports which could improve the comparability of accounting figures both in and outside the company. They need public sector companies to produce reports that are readily available for use for

national accounting and these reports must be relevant, reliable, and aggregatable. In return, the companies could be able to use national accounting reports for their own planning, for they would provide cost data which would enable them to take better decisions and to control the operations of their companies.

Accordingly, the GCC governments are probably looking for accounting information which will reflect their environment and help to enhance future development; therefore, a unique accounting system which is really able to meet those local needs and is related to their cultural, political, and religious environment is required, taking into consideration the comparatively low level of education, the need for economic development, the centralised economy, the low level of existing management training in the Gulf area, and the weakness of the accounting profession in all GCC states.

The following chapter (chapter 4) discusses the possibility for GCC countries to adopt a uniform accounting system which might meet their accounting information needs at the micro and macro level, while chapters 6, 7, 8, 9, 10 and 11 discuss, in relation to the results of an empirical investigation, the feasibility and desirability of having a uniform accounting system in GCC countries.

Indeed, it could be argued that the adoption of a uniform system is almost to be expected, since most existing environmental factors which will be discussed

later in this chapter are in favour of a uniform system.

3.5 The Accounting Profession in the GCC

The accounting profession in all the GCC states is poor and is mainly concerned with external financial reporting and external auditing. There are no definite rules or accepted principles or standards; this lack of a definitive set of generally accepted accounting principles or standards in the Gulf area, has led to diversity in the measuring procedures that are used by individual accountants in the Gulf countries to prepare financial information. Linowes (1969, p.18) states:

"Yet most developing countries do not have a generally accepted body of accounting rules The generally accepted accounting principles of the United States are noted in voluntarily action by individual accountants".

Shuaib (1985, p.87) supports this statement with respect to the situation in the Gulf, giving Kuwait as an example when he states:

"The accounting profession in Kuwait is still without a uniform body of generally accepted auditing standards and has no statement of generally accepted accounting principles. Moreover, no code of professional ethics has been developed. Kuwait accounting practice is derived from the practices of the United States and Europe. So far nothing has been done to develop accounting principles and auditing standards and procedures suitable to the environment of the State of Kuwait".

As a result of this situation, there is a high probability that many deficiencies have appeared in

accounting performance in the Gulf countries, for example such as:

I) Similar transactions are reported differently or inconsistently.

II) Comparability, which is an essential objective of financial statements, is not achieved from financial statements prepared according to diverse accounting principles. Enthoven (1980, p.76) pointed out the negative effects of inconsistent reporting of transactions and the inability to compare financial statements, in his discussion of factors influencing accounting in the Third World countries. He states:

"....Accounting generally lacks consistency and relevance in both its practice and theory, which makes it hard to compare financial statements, pin-point capital needs, construct effective budgets, measure efficiency, prepare feasibility studies, etc. Financial statements may reflect inadequately the various components, and their presentation may be delayed for years".

III) Variation occurs in users' interpretations of the financial information (Shuaib, 1981, p.323).

IV) Chances of manipulation are increased.

V) Society loses faith in accounting information.

On the other hand, the present situation is also dangerous from the point of view of management. Buckley (1969, p.86) discussed the shortcomings of financial audit from a management viewpoint:

"It fails to measure progress towards enterprise objectives; it fails to account for non-fiscal essential of management; its basis of valuation is historical rather than current; it is untimely for many management decisions; it is oriented towards the past rather than the future; it fails in comparative analysis, i.e. in evaluating the effectiveness of the client's plans, procedures and operations versus those of competitors; it fails in integrative analysis, that is in evaluating the efficiency of functional interaction within the firm and it fails in interpretive analysis, for example, in relating fiscal data to current decisions".

Briston (1985, p.30) has challenged the independence of the external auditor, because the auditor will report on the activities of the same management who have appointed him and who will pay him.

In fact, the external auditing function is based on an accountability concept designed for the capitalism of the nineteenth century (Ibid., p.31). It has been argued that audit of this kind is no longer serves the needs, even of developed countries, since it has a strong bias towards private sector financial reporting, while its relevance to management accounting is limited and national and government accounting are almost completely ignored. Its basic function is simply to provide historical information for shareholders and potential investors in the capital market. This function is of questionable relevance in the GCC countries, where there are no developed capital markets and most resource allocation is in the hands of the governments.

Moreover, the governments in the GCC do not consider accounting as important for planning and control because

of its concentration on financial aspects and it does not contribute to national accounting. For example, in Saudi Arabia -with the largest revenue and expenditure in the Gulf- the Ministry of Planning produces extensive and detailed development plans in terms of infrastructure, education, health, etc. In just a four-year period (1985 - 1988) the government's capital expenditure amounted to \$108 billion (Gulf Economic and Financial Report, December 1990, p.3). However, accounting as a tool for social and economic development has not been explicitly included in any of the development plans. Accordingly, accounting is not recognised, there is no accredited professional society of accountants in any GCC state and public recognition of accountancy as a profession is very low. Research in the field of accounting is very limited and no professional journal or magazine is published in these countries.

Furthermore, the accounting profession has been dominated by foreign influence. A large number of licensed accountants in the Gulf region were, and still are, non-GCC auditors. In fact although there are more than 65 accounting firms permitted to practice the profession in Kuwait, Oman and Bahrain, natives of the GCC accounted for only 19 percent and the rest are foreigners (Records of Ministry of Commerce in Oman, December 1987, Kuwait, June 1988, Bahrain 1989).

All in all, the accounting profession in the GCC has been left without an effective and reliable set of

regulations, nor is there proper supervision to enhance the reliability of the work of auditors. While the authority to prescribe accounting and auditing rules rests in the hands of the Ministry of Finance in each GCC state, together with the power to supervise such activities, most of these Ministries in the Gulf region have exercised no initiative at all in that regard. Although it is difficult to specify what impact the non-existence of such effective regulation has had on the economic and financial development process, the importance of accounting and reporting regulations in the economic development process in any nation is well established and accepted by the international accounting community (Miller, 1987, p.37). This fact is neglected in GCC states. Accordingly, to enhance the Gulf social and economic development, the accounting profession should be controlled by the government via specific rules and regulations relevant to GCC environment, and in the meanwhile, the accounting profession should expand its role to include internal audit, efficiency audit, educating the public and the authorities about the role of accounting in socio-economic development, educating its members, co-operating with accounting education in the Gulf Universities and other public sector authorities.

3.6 Development of Accounting Education in the Gulf

It is widely recognised that accounting education is a very important tool for a country's economic development and control. However, this accounting education has to train accountants to provide relevant, adequate, and accurate information, which is related to the country's environment in general and to its socio-economic and political affairs in specific.

The next section highlights the nature of education, accounting education in the Gulf region in the past and present, and assesses whether or not it serves the real needs of the GCC economies.

3.6.1 Historical Background

Before modern schooling was introduced, children in all GCC countries received their early education in "Al-Kuttab" referring to both the education itself and the place of education, the traditional Arab school. Education in Al-Kuttab was co-educational. There was no specified period of study; the time spent in education depended upon the the child's speed in memorising Al-Quran.

The first modern Western-style schools are said to have originated in the year 1919 in Bahrain when the first boys' school was inaugurated by public undertaking and support (Hashim, 1987, p.10). But according to Al-Rumaihi (1976, p.128), the year 1921 can be considered as a more reasonable date for the commencement of a modern system of education. Al-Rumaihi's viewpoint was based upon

impeccable historical sources (Al-Rumaihi, 1976, p.128 for details). As mentioned by Al-Hamar (1969, p.7), the curriculum of the school was partly religious, but also covered on other subjects such as the Arabic language, arithmetic, basic geography and history.

However according to other researchers (Al-Shaikh, 1985, Al-Sulaiti, 1979) the modern education did not start until the early 1950's with the advent of the export of oil on a large scale. The consequent huge revenues allowed education in all countries to be free from kindergarten right through to university level and it was made compulsory between the ages of six and fourteen.

3.6.2 The Beginning of Accounting Education

According to the Economic Report (1988, p.79) the number of students in the Gulf countries at all different educational levels was 2.7 million for the academic year 1985/86, and the number of teachers for the same year was 174,000. The average number of students in each class was 16, and the total number of schools at all levels was 12,346. At university level, there were 129,300 students of whom 75.8 per cent studied in Saudi Arabian universities.

Since this study is concerned with accounting education, the following gives a brief idea of commercial studies in each country:

In Bahrain, according to Al-Rumaihi (1984, p.5) commercial secondary education was founded in response to

the need of the commercial sector for the economy and that of government departments. In 1953-54 Manama Secondary School started some courses in commercial studies as a stream within the secondary school programme. The duration of the study was for two years and it aims was to graduate students to assess the local commercial community. In 1966-67, the period of the study was extended to three years (Ministry of Education, 1972,p.4). In 1970-71, and for the first time in Bahrain, a commercial section for girls was established in two girls' secondary schools in Manama and Muharraq (Ministry of Education, 1983, p.15).

In 1968, the Gulf Polytechnic was established (Jain, 1986, p.44). The Business and Management Department offers a two year diploma and a four year degree course in commerce, accounting and business administration. Most of the faculty members do not have Ph.D. degrees, and some have only professional accounting qualifications.

In Kuwait, commercial studies for males were first offered in 1963-64 with the aim of providing the local commercial market with bookkeepers and secretaries to serve in both public and private sectors (Ministry of Education, 1975, pp.12-13). The duration of study was four years and the curriculum included some general subjects such as bookkeeping and accountancy, commercial and financial mathematics, and typewriting and correspondence in the Arabic and English languages. At the end of those four years, the student is awarded the school certificate. However, the establishment of the Institute

for Business Studies in 1975 up-graded commercial studies to post-secondary school. The Institute offers two-year courses leading to the award of a diploma. In 1967, the College of Commerce, Economic and Political Sciences was established with an average study of four years, at the end of which the graduate is awarded the BA degree.

In Qatar, the first commercial secondary school opened in 1966 (Ministry of Education, 1966/67, p.122). The main task of this school was to graduate graduates for commercial and clerical jobs such as bookkeepers, clerks, typists, and secretaries. The school is exclusively for males and no commercial education, as yet, is available for females.

In Oman, the first formal education began in 1970. Until that time, there were only three primary schools, strictly for males. At that time, only 909 students were enrolled, in a population of 1.5 million (Husen and Postlethwaite, 1985, p.3657). By 1985-86, the number of schools had risen to 408, of which 177 were primary schools, 210 preparatory schools and 21 secondary schools. The total number of students was 122,106, of whom 41,896 were female. The total number of teachers in those schools was 6,744, of whom 2,159 were female (Sultanate of Oman Development Council, 1987, pp.101-106). In 1982, a commercial secondary school was opened offering general subjects such as Islamic studies, Arabic and English Language, and specialised subjects such as accountancy, book-keeping, financial and commercial mathematics.

However, as in Qatar, the school is exclusively for boys, and there is no commercial education available for girls.

In the UAE, the educational system was still very underdeveloped until 1971. There were only 60 schools before that date and education was based on the Quran. The first formal school was opened in Sharjah in 1953 (Ministry of Education, 1978, pp.120-125). In the academic year 1985/86, the total number of schools was 322 (of which 57 were private schools) with 4,524 classes, 124,019 students (of which 56,423 were female) and 9,611 teachers (including 5,211 female) (Ministry of Education, 1987, pp.79-82).

In 1976/77, commercial studies were formally introduced as part of the secondary education for boys. The curriculum in commercial studies consisted of general cultural subjects, including religious education, Arabic, English Language, and a basic knowledge of accounting, book-keeping and commercial and financial mathematics. No girls are admitted into commercial studies courses.

In Saudi Arabia, until the mid 1950's, education consisted primarily of the teaching of Muslim doctrine and memorisation of the Quran. Education of girls was practically non-existent and took place, if at all, in the home (Knauerhase, 1975, p.215).

According to the Ministry of Education Data Centre (1987), the Saudi schools (in the school year 1986/87) had a total enrolment of 1,753,612 students. Of these

students, nearly 56.9 percent (987,563 males) were at schools operated by the Ministry of Education; nearly 32.5 per cent were at the General Administration of Girls' Education (GAGE) schools (564,074 females); almost 5.8 per cent (85,565 males and 15,100 females) were at schools run by other government organisations and almost 4.7 per cent (51,391 males and 30,182 females) were attending private schools (Ministry of Education, 1987, pp.179-183). In addition, there were almost 73,000 teachers who worked for the Ministry of Education and GAGE in 1986/87, almost 60 per cent of whom were Saudi nationals.

Technical education in commercial studies started on an extremely limited scale and in the 1960's it was extremely elementary. By the end of 1988 more than five commercial schools for boys had been established at secondary level. However, no commercial education whatsoever is available for females.

At the university level, there are seven universities in Saudi Arabia, of which three (King Abdul Aziz University, King Saud University and King Fahad University for Petroleum and Minerals) offer a Bachelor's degree in Accounting.

3.6.3 University Education

The development of university education in the Gulf states has differed considerably from that of secondary school education, which was almost non-existent until the early 1960s in the Gulf region. In fact before the

development and during the early period of secondary school education, the number of Gulf nationals engaged in university education in countries abroad was too small to raise any serious concern. However, the expansion of secondary education in the Gulf, which rapidly increased the total number of secondary school graduates and hence of students who wanted to enrol in university education, led to the establishment of a special department at the Ministry of Education to arrange student admissions and finance, to maintain records of students going to universities abroad, and also to look into the possibility of providing higher education in home institutions and of opening national universities (Al-Misnad, 1985, pp.242-260).

The late 1970's witnessed the development of higher education in the Gulf area. By late 1986 there were thirteen universities in the Gulf, seven of them in Saudi Arabia, two in Bahrain and one in each of the other Gulf states as follows:

- Kuwait University (Kuwait)
- Bahrain University (Bahrain)
- Arabian Gulf University (Bahrain)
- Qatar University (Qatar)
- Qaboos University (Oman)
- Emirates University (UAE)
- King Saud University (Riyadh, Saudi Arabia)
- King Abdul-Azeez University (Jiddah, Saudi Arabia)
- King Faisal University (Dammam, Saudi Arabia)

- King Fahad University for Petroleum and Minerals
(Dammam, Saudi Arabia)
- Imam Muhammad Ibn Saud Islamic University (Riyadh,
Saudi Arabia)
- Islamic University (Madinah, Saudi Arabia)
- Um-Al-Qoora University (Mecca, Saudi Arabia).

3.6.4 University Accounting Education

Before 1967, most GCC countries (Bahrain, Kuwait, Qatar, and Saudi Arabia) had only secondary school of commercial education. Students could receive the school's certificate in commercial studies. The objective of these commercial schools was to prepare students for clerical, commercial and book-keeping jobs.

Kuwait was the first GCC state to introduce accounting education at university level, in 1967, when the College of Commerce, Economic and Political Science of Kuwait University was established.

The most influential factors upon accounting education at present in the three GCC states which have university accounting education (Bahrain, Kuwait, and Saudi Arabia) are the structure and content of the accounting courses, academic staff, and accounting text books. Kuwait is taken as an example to represent the other GCC countries.

3.6.4.1 Development of Accounting Education in Kuwait

Over the last twenty three years (from 1967 to 1990) there has been a gradual change in the perception and appreciation of the role of the accountant and the nature of accountancy in Kuwait, beginning with the establishment by the university of Kuwait of its College of Commerce, Economic and Political Science, which consists of six departments as follows (see General Under Graduate Catalogue, 1987/89, p.149):

1. Accounting and Auditing;
2. Business Administration;
3. Economics;
4. Insurance and Statistics;
5. Political Science; and
6. Public Administration.

The broad objectives of the College, as Shuaib (1985, pp.215-217) specified are:

1. To prepare highly qualified graduates to serve the government and private sectors;
2. To offer interested students of other colleges courses which might usefully supplement their fields of specialisation;
3. To provide opportunities to orient the academic activity towards real issues and contemporary problems of Kuwaiti society; and
4. To contribute to the knowledge and better understanding of business subjects in Kuwait, the Arabian Gulf region in particular, and the Arab region in general.

3.6.4.2 Structure and Content of Accounting Education in Kuwait

Before 1973, the accounting courses taken by students were mostly British-oriented. Table 3.9 lists the courses that had to be completed before award of the BA degree in Accounting. During the four-years of study, the student had to complete 29 courses, of which 11 were accounting courses and the rest were a mixture of law, finance, economics, etc. The programme, by and large, was designed to prepare students to serve the private sectors rather than public sectors.

In 1973-74 a new system based on the American model was established. This system is more flexible than the previous one, allowing a certain degree of freedom of choice among a wide variety of alternative courses. The student in this system has to obtain 120 credits (see table 3.10) in order to be awarded the BSc. degree in Accounting.

Even now, the vast majority of these courses are designed to prepare the student for preparing, auditing and analysing financial statements for the purpose of private sector external reporting. To this extent, there is little difference between the two systems, since both of them emphasise financial accounting, with most of the subjects related to external reporting and external auditing, while management accounting, public sector accounting, economic accounting, internal auditing and control are given little attention.

Table 3.9

**BACHELOR OF COMMERCE DEGREE REQUIREMENTS
IN ACCOUNTING**

	Weekly hours	
	Lectures applied (Lab.)	
First Year		
Financial Accounting	3	2
Principles of Organisation and Admn.	3	1
Principles of Economics	3	1
Principles of Obligations (Law)	2	-
Pure and Financial Mathematics	3	-
European Language (English or French)	3	-
Islamic Culture	1	-
	-----	-----
Total hours	18	4
Second Year		
Financial Accounting	2	2
Production Admin. Marketing	2	-
Economics (Money, Banking and International Economic Relations)	2	1
Commercial Law	2	-
Statistics	3	1
Library Management in English	2	1
Islamic Culture	2	-
	-----	-----
Total hours	17	5
Third Year		
Accounting Systems	2	1
Personnel Management	2	-
Public Finance and Taxation	2	-
Commercial Law	2	-
Insurance	2	1
Cost Accounting	2	1
Principles of Auditing	2	-
Public Administration	2	-
Finance	2	1
	-----	-----
Total hours	18	4
Fourth Year		
Accounting Section		
Financial and Admn. Accounting	2	1
Accounting of Financial Institutions	2	1
Mechanical Accounting	2	1
Auditing	2	1
Cost Accounting	2	1
Government and National Accounting	2	1
	-----	-----
Total hours	12	6

Source: Prospectus of Kuwait University 1971/72: Kuwait:
Al-Rissala Printing Press, 1971, pp.174-178

Table 3.10

**BACHELOR OF COMMERCE DEGREE
ACCOUNTING COURSE REQUIREMENTS**

1. University requirements (30 credits)

A. Compulsory courses (21 credits)

101	Arabic Language	3
102	Arabic Language	3
101	English Language	3
102	English Language	3
103	English Language	3
104	English Language	3
102	History of Arab Islamic Civilisation	3

B. Elective courses (9 credits)

Three courses from the following:

101	Methods of Scientific Research	3
101	Principles of Statistics (Compulsory)	3
101	Introduction to Sociology	3
101	Psychology	3
102	Introduction to Logic	3
102	Islamic Culture	3
103	Government and Politics of Kuwait	3
105	Human Rights	3
106	Constitutional System in Kuwait	3
151	Statistical Mathematics (1)	3

C. 190	Arabic Language (for foreigners only)	3
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2. Common courses (33 credits)

101	Principles of Management	3
201	Principles of Marketing	3
213	Business Finance	3
101	Accounting Principles I	3
102	Accounting Principles II	3
202	Corporate Accounting I	3
101	Principles of Economics	3
102	Principles of Economics	3
203	Money and Banking or	3
301	Economic Development	3
101	Law	3
172	Mathematics of Finance	3

B. Elective courses (15 credits)

Five courses from the following,
two of which must be at the
400 level:

205	Special Topics in Accounting	3
303	Accounting for Government and Non-Profit Units	3
304	Accounting Systems	3
305	Accounting for Financial Institutions	3
306	Cost Accounting	3
309	Information Systems	3
401	Auditing	3
402	Accounting Theory	3
412	National and International Accounting	3
430	Seminar in Accounting	3

4. Compulsory courses (18 credits)

A. Compulsory courses (9 credits)

201	Commercial Law	3
131	Introduction to Computers or equivalent course with the agreement of the department	3
285	Accounting Principles (in English)	3

B. Elective courses (9 credits)

Three courses form the
following:

173	Insurance Principles	3
202	Production Management I	3
211	Statistics for the Social Studies or	3
212	Statistics for Business	3
205	Special Topics in Accounting	3
305	Accounting for Financial Institutions	3

Table 3.10 cont.

3. Major (27 credits)		5. Elective courses (12 credits)
A. Compulsory courses (12 credits)		The student selects four courses given in the University (each 3 credits)
204	Principles of Cost Accounting	3
206	Corporate Accounting II	3
301	Principles of Auditing	3
302	Managerial Accounting	3
		6. Total number of credits required for graduation: 120

Source: General Undergraduate Catalogue, Kuwait University, 1987/89, pp.163-165

3.6.4.3 Accounting Graduates

In those GCC states which offer a BA or BSc. degree in accounting, comparatively few students graduate in that field. The relative lack of popularity of accounting may be due to the misconception, mentioned earlier, as to the meaning of accounting. It is thought by many to be synonymous with bookkeeping, and so suffers from a lack of status.

Tables 3.11 and 3.12 show the total registered students at Kuwait University and the number of graduates in accounting.

A mere 758 students graduating in accounting during a period of five years (1984-1989) or an annual average of 152 students (most of them Kuwaiti and other GCC students) is less than acceptable for countries like Kuwait and other GCC states which have a population of about eighteen

million and which are in the midst of the process of development.

3.6.4.4 Academic Staff

Although there are a few GCC nationals who have a Ph.D. degree in accounting, most of the accounting teachers in Kuwait and Saudi Arabia are foreigners (not GCC nationals); however, in Bahrain University all of them are foreigners, very few have a Ph.D. degree and some have only professional accounting qualifications (University of Bahrain, 1988/89, p.7).

For this reason, the governments in the GCC countries have a new policy of sending their most talented students abroad (especially to U.K. and USA) for completion of their higher degrees (whether or not this policy is appropriate, will be discussed in chapter 4).

3.6.4.5 Accounting Textbooks

Most of the textbooks used in the Gulf universities are Arabic books translated from English. Nonetheless, the translation process has caused a lot of confusion for the students and for the instructors in some cases. Shuaib (1985, p.220) emphasis this fact by stating:

"The lack of proper accounting textbooks is an additional problem facing Kuwait university. Over the years, several American textbooks have been translated, with some modification, into Arabic. The translation process, however, led to a number of problems which reduce the usefulness of these textbooks. This is primarily due to differences in the use of terminology and idiomatic expression in Arabic from country to country".

Table 3.11

Total Registered Students (1st semester) at Kuwait University and the College of Commerce, Economic and Political Science

Years	University registered	College of Comm., Econo., and Political Scien., enrollment		Total
		Accounting major registered	Other major registered	
84/85	17,147	560	1,573	2,133
85/86	18,187	591	1,583	2,174
86/87	17,414	614	1,707	2,321
87/88	15,652	643	1,586	2,229
88/89	14,106	653	1,459	2,112

Source: Ministry of Planning, Central Statistic Office, Annual Statistical Abstract, XXVI, 1989, and the Registration Department, Kuwait University.

Table 3.12
Graduates of Kuwait University

Years	Total university graduates	College of Comm., Econo., and Political Scien., graduates		
		Accounting	Other major	Total
84/85	1,773	104	282	386
85/86	2,071	122	288	410
86/87	2,682	170	358	528
87/88	2,911	182	477	659
88/89	2,976	180	369	549
Total	12,413	758	1,774	2,532

Source: Ministry of Planning, Central Statistical Office, Annual Statistical Abstracts, XXVI, 1989, and the Registration Department, Kuwait University.

Nevertheless, the Gulf universities are still using these textbooks, which by and large are those used in the British and American universities where most of the teachers were educated. The books were written to serve the Western environment, where the accounting function tends to concentrate on external reporting and financial accounting. Therefore, very little emphasis has been given to those aspects needed by the GCC (e.g. public sector accounting or macro accounting) which really reflect the Gulf environment.

All in all, translation will not help to solve the present complex situation; instead all textbooks should be issued and written by GCC authors so that they are relevant to the GCC environment and take government requirements into consideration.

3.6.4.6 Teaching Methods

Teaching of accounting in all GCC universities is dependent on textbook assignments and lectures combined with some explanation on the blackboard. Teaching methods in the Gulf area still put too much emphasis on preparing students for class examinations through memorisation and not enough on developing critical analysis, reasoning, and reflective thinking.

GCC authorities in the education field should adopt more appropriate teaching techniques and approaches to suit the GCC economic environment and to help the students to develop powers of creative and original thinking, which

will enable them to cope with the challenges they face after graduation.

3.6.4.7 Conclusion and Recommendations to Gulf Accounting Education

It has been shown that accounting education in the GCC states has either British or American oriented in terms of text books, curriculum, and methods of evaluation, while the majority of teachers are foreigners. Undoubtedly, the real needs of accounting education and training in GCC states nowadays differ significantly from the content of British or American accounting education, which teaching staff in Kuwait, for example, have rushed to introduce into the classroom, and on which they have built the syllabus for accounting education. As a result, the GCC accounting curriculum is biased towards financial reporting and external reporting, with more than eighty percent of the programme devoted to those subjects.

However, the American Accounting Association (1986, p.30) for example, at its 70th annual meeting in 1985, recommended a revolutionary change in the American approach to accounting education. Their recommendation was as follows:

"There is reason to think that the foundation of accounting education should be shifted from the preparation of financial statements base to the more inclusive base of an information development system, of which financial statement preparation is only one system".

The committee (Ibid., p.30) recommended the following changes which are closely relevant to GCC accounting education:

I) To orient accounting education towards a comprehensive economic information development and distribution function. The orientation should be so structured that it fosters a systems approach to the organisation of information for decision making of various types at different levels.

II) To expand the scope of the application of the enlarged content of the accounting discipline into parts of the organisation - marketing, finance, personnel, projects and programmes - towards the objective of developing an integral comprehensive information system for the entire organisation.

III) To teach students by more active methods of teaching; for example, independent study, case material, better evaluation methods, and discrimination of relevant and non-relevant knowledge.

If these changes are seen as important for American accounting education, they are even more crucial in the GCC context.

Furthermore, the researcher would like to emphasise the fact that what is good for the West, is not necessarily good for the GCC states. Accordingly, the Gulf countries need an accounting function which does not emphasise one side of accounting alone (e.g. preparing financial statements for the purpose of external

reporting), but also gives due emphasis to accounting related to the public sector (e.g. government accounting, management accounting, and public sector accounting). Many graduates joining the government sector departments face considerable difficulties in applying their accounting knowledge to their job requirements. Hence, the Gulf countries need an accounting curriculum (supported by appropriate textbooks and teaching methods) which will allow the vast majority of graduates in accounting to serve in both public and private sectors. Thus, accounting education needs to be considerably modified to suit the GCC environment. There is a need to extend, support, and subsidise any accounting research that might lead to the achievement of social goals, provide relevant information at both micro and macro levels, and serve the GCC economic environment in general. Finally, seminars could be held to discuss the major difficulties and problems that may face the implementation of any relevant research or reduce the quality of accounting that may serve the GCC environment.

3.7 Factors That Influence the Process and Development of Accounting in GCC Countries

As explained earlier, the GCC states do not have generally accepted accounting rules. Moreover, there is no accounting legislation that controls and specifies the general accounting information needed by each GCC government. Furthermore, the accounting profession itself is too weak to play a major role in promoting and

developing the GCC's economy; instead, it concentrates on external financial reporting and ignores the role of accounting in social and economic life.

However, the role of accounting in any society far outweighs the external reporting function. Belkaoui (1984, p.7) clarified the comprehensive role of accounting in social and economic matters when he stated:

"Socio-economic accounting results from the application of accounting in social sciences; it refers to the ordering, measuring, analysis and disclosure of the social and economic consequences of governmental and entrepreneurial behaviour. It includes these activities at the macro and micro level. At the micro level its purpose is the measurement and reporting of the impact of organisational behaviour of firms on their environment. At the macro level its purpose is the measurement and disclosure of the economic and social performance of the nation. At the micro level socio-economic accounting includes, therefore, financial and managerial social accounting and reporting and social auditing. At the macro level socio-economic accounting includes, therefore, social measurement, social accounting and reporting and the role of accounting in economic development.

Accordingly, the GCC countries must encourage the provision of accounting information which is related to their social and economic development and consequently relevant to the GCC environment as a whole. However, there are some environmental factors that affect the development of accounting in the GCC countries:

1) Local Social and Cultural Relation

Many economists have emphasised the significance of the social structure and social relationship for economic

development. The tribe was historically, and continues to be, the most important social group in the Gulf societies. The large extended family (e.g. grandfather, father, children, and grandchildren), is still widespread throughout the region, and a strong bond usually exist between family members. Al-Rumaihi (1980, pp.57-60), discussing the social structure of the Gulf countries, concluded that the influence of personal family ties is still considered more important than the country's law and rules which, therefore, may not necessarily be totally observed. These social ties are felt especially in business transactions, such as obtaining government contracts, influencing market prices and securing personal bank support. In such circumstances, it is doubtful whether accounting could play any effective role in the decision process without government intervention by means of legislation.

2) Professional Association

There are two professional association in the Gulf countries, one in Bahrain, namely, "The Bahrain Society of accountants and Auditors", which became inactive in 1978 for political reasons; the other in Kuwait, namely "The Society of Accountants and Auditors", which was established in 1973, with the broad aims of improving the professional, educational, and cultural background of its members and improving professional practice in general. However, in the absence of rules and regulation from the Ministry of Finance and failure to give clear authority to

the Society, it has become very weak and does not at present have any supervision or regulatory influence upon accountancy in Kuwait.

3) Lack of Proper and Effective Education

As stated earlier, there is a shortage of qualified educators in accounting in the GCC countries. few of the accounting teachers at GCC universities have a doctorate, and some have only a professional accounting qualification. Moreover, there is also a lack of good up-to-date text books in Arabic (even though the Arabic language is a compulsory subject by law). Problems of language have therefore impeded the spread of modern accounting thought. Hence, the absence of proper and effective education and knowledge of accounting and its importance to the society is yet another factor which blocks the development of accounting in the Gulf countries.

4) The Existence of Foreign Companies

A significant result of the existence in the Gulf countries of foreign companies, which have imported their own accounting principles and practices, has been the application of accounting rules and philosophies which are not related to the GCC environment.

The influence of the U.K. and the USA, in particular, has been further enhanced by such factors as the growth of accounting firms, the exchange of staff and western education sources and international conferences. All these foreign factors affect the accounting development in

the region, either directly or indirectly.

5) The Existence of Foreign Management

The discovery of oil in the GCC states, and later, the sharp increase in oil prices (1973-1983) transformed the Gulf states from underdeveloped and poor nations into leading countries in terms of growth in per capita income. This stimulated the flow of immigrants to the region, with new skills and viewpoints.

It is not surprising that those immigrants (many of whom were managers and consultants) tend to perpetuate the accounting methods used in their own countries.

6) Absence of Taxes

There is no direct taxation in the GCC countries except for the taxes imposed on foreign companies and on the oil companies that are directly engaged in extracting and refining petroleum products. Indirect taxation exists in the form of customs duties which are generally treated as part of the cost of goods and services and given no special mention in the financial statements. Saudi Arabia is the only state which imposes a religious levy or Zakat. This applies to 100 percent Saudi or GCC companies or individuals, and is calculated at 2.5 percent of the company or citizen's net worth less certain fixed assets. Payment of Zakat is not regulated by law in any of the other Gulf states.

In general the absence of direct taxation in the Gulf states could be considered as an impediment to the development of accounting.

7) Absence of Adequate Financial Legislation

Except for some forms of disclosure (e.g. balance sheet, profit and loss account, and profit dividend account) compulsory for all public shareholding companies in the Gulf region, little accounting information is provided. Accordingly, there is a need to establish adequate legislation to organise the reporting of accounting information which will facilitate the compilation of national accounts, measurement of economic development, developing planning and performance evaluation. In all GCC states, there is no independent body responsible for organising financial reporting, and the government laws and legislation of each GCC country have only touched upon the area of the organisation of accounting information (Commercial Companies Law: Decree Law No. 28 of 1975 in Bahrain; Law No. 15 of 1960 in Kuwait; Law No. 4 of 1974 in Oman; Law No. 3 of 1961 in Qatar; Royal Decree No. M/6 of 1385 AH in Saudi Arabia; Federal Law No. 8 of 1984 in UAE).

8) The Influence of Islam

Although other religions are found in the Gulf, Islam predominates. According to the Quran, Islam permits trade, but prohibits usury. Thus, the concept of gain and profit is acceptable in Islamic rules, but the concept of mere interest, whether simple or compound, is forbidden, regardless of the nature of the agreement between any two parties. According to the Quran, interest is distinguished from gains on trade:

"Those who devour usury will not stand except as stands one whom the Evil One by his touch has driven to madness. That is because they say: 'Trade is like usury', but Allah hath permitted trade and forbidden usury. Those who, after receiving direction from their Lord, desist, shall be pardoned for the past; their case is for Allah [to judge]; but those who repeat [the offence] are companions of the fire: They will abide therein [for ever]. Allah will deprive usury of all blessing, but will give increase for deeds of charity for He loves not creatures ungrateful and wicked" (Holy Quran, Chapter (I), vv.275-280).

It is therefore quite clear that interest, in Islam is banned. This factor could present a major obstacle to the development of accounting in the Gulf, as it makes very difficult, effective financial integration between the Western and Islamic systems.

3.8 Summary and Conclusion

This chapter has described the types of entities in the GCC with special reference to the public sector companies which are a main concern of this thesis. The existence of foreign accounting systems and various borrowed accounting standards and their inappropriateness to the Gulf region have also been discussed. We have seen that the present accounting systems provide the Gulf governments with totally insufficient accounting information for the purpose of enhancing future development.

The nature and status of the accounting profession in the Gulf region has been indicated, and it has been

argued that the role of the accounting profession should go beyond external reporting and external auditing.

It has been argued that the present accounting education in all Gulf Universities is highly influenced by British and American accounting education in terms of traditional accounting text books and teaching methodologies which may not be of great help to the GCC environment. Finally, the environmental factors that might affect the development of accounting in all GCC countries have been highlighted.

All in all, then, there is a need for these problems to be addressed by urgent action, with emphasis on the replacement of irrelevant accounting systems by an accounting system which is strongly oriented towards the public sector companies as well as towards economic decisions. This will be discussed in detail in the following chapter.

Footnotes

- 1) The researcher will concentrate on three Gulf countries as a sample for his empirical investigation: Bahrain, Kuwait, and Oman. However, due to strict rules of confidentiality, the researcher was unable to obtain statistics relating to the public sector size and government participation in total capital, although it is acknowledged that the Omani government participates in terms of capital in a large portion of the public sector companies.

- 2) Besides the public sector totally owned companies, the government of Bahrain owns some companies in joint venture with foreign parties; Bahrain owns 51 per cent or more of the share capital of those companies which are based in Bahrain.

CHAPTER 4

LITERATURE REVIEW

4.1 Introduction

The usefulness of accounting information depends in general on its relevance to decisions to be taken by its users. Therefore, it is necessary to determine the objectives and identify the users of the accounting information. Accounting is not only concerned with the operations of a company or organisation, but covers provision of the information needed by all socio-economic entities.

There is thus a great need for a close examination of accounting in developing countries, the present accounting practices, and the nature of existing accounting systems and their relevance to those developing countries; this requires awareness and understanding of the nature of their environments.

In fact, accounting literature in respect of developing countries is relatively limited. Except for the work of a few accounting researchers such as Briston, Enthoven, and Samuels, little has been written about their real needs. Furthermore, most of those who have written on the subject, apart from those mentioned above, have limited their research to the accounting profession and enterprise accounting, particularly external financial reporting, and have generally recommended the adoption of the U.K. and USA accounting system. However, there has been a general failure to appreciate the specific accounting information needs of the developing countries.

This chapter is an attempt to review the relevant literature on the nature of the accounting systems used in developing countries and their relevance to their environment in order to find out the best solution to the problems which have occurred as a result of applying the advanced countries' accounting systems in developing countries.

4.2 Accounting Practices in U.K. and USA

The developing countries, which constitute the majority in the world in both numbers and population, still follow either the British or the American accounting practices and policies.

Basically, the American and British economic systems are mixed in nature and have a large number of strong private sector enterprises. Therefore, accounting as a profession is strong and has considerable responsibilities. Both countries have been very active in exporting accounting expertise to their trading partners and colonies. Scott (1970, p.93) emphasises this point:

"British accounting influence has followed British interests in Africa, the Middle East, and in many parts of South-east Asia. British accounting certainly had more influence throughout the world prior to World War II than did the accounting of any other nations".

He adds (Ibid., p.111):

"Not to be discounted, however, is the influence of United States accounting on the newly emerging nations. American-based international auditing firms, for example,

often implant United States accounting and auditing principles in countries where no principles previously existed. Also, various international development agencies, even if not American, prescribe project accounting in developing nations which is strikingly similar to United States accounting.

All GCC states (except Saudi Arabia) have been under U.K. influence and were formerly part of the British Empire. Thus, the British government in the past has significantly shaped the GCC accounting practices and procedures. However, more recently, the American influence has become widespread and can be seen through the multinational companies, international accounting and auditing firms, and in accounting education in the GCC area.

In fact, many researchers have assumed that accounting as practised in the U.K. and USA represents the goal towards which developing countries should aim. Indeed, a great number of developing countries have followed this view in their accounting development, although the U.K. and USA accounting systems are hardly geared to their current needs (Briston, 1978, p. 107).

Nevertheless, before determining whether or not the U.K. and USA accounting policies and systems are suitable to developing countries, it is necessary to analyse the objectives of accounting information in the U.K. and USA, its relevance to developing countries, and the users the information is primarily intended to serve.

4.2.1 Objectives of Accounting Information in U.K. and USA and its Relevance to Developing Countries

It is clear that private sector enterprises dominate the economic system in the U.K. and USA. As a result, external financial reporting in the U.K. and the USA has a long history as the major focus of accounting. Hence, the dominant position of auditors in shaping accounting principles and standards in many countries has served to strengthen the function of external reporting. It is suggested that "The accountant has been engulfed by the auditor (i.e. the external auditor) and the surviving profession is an auditing profession" (Boland, 1982, p.124).

The accounting information disclosed mainly takes the form of a balance sheet and an income statement. Extra information may be given as notes to the financial reports. Assets are valued in most cases at historical cost and depreciation is calculated on that basis, while inventory is generally calculated at the lower of cost and net realisable value.

In general, the objectives of these accounts are to:

- 1) present the condition of the enterprise's performance and earning potential;
- 2) reflect what is called a "true and fair view" of financial position and profits;
- 3) provide the necessary information for current and potential investors; and
- 4) comply with Companies Acts in the country.

The American Institute of Certified Public Accountants indicates that the basic objective of external reporting is to provide information useful for making economic decisions. They specify as an example the need to protect shareholders' investment. Still, many researchers in accounting argue that external financial reporting is not understood by shareholders and even if it is understood, is of little use to them (Briston, 1981, p.62).

Accordingly, the emphasis on external financial reporting, as Scott (1970, p.87) mentioned, has meant that many accountants become public auditors, whose concern centres almost exclusively on auditing and financial reporting problems. In this case, the independence of such public auditors becomes questionable, since the majority of them are appointed and their fees are determined by the management of the companies on which they are required to exercise judgement. Therefore, a number of researchers have agreed that public auditors may lack independence (Boland, 1982; Briloff, 1981; and Davison, 1977). Briston (1981, p.59) emphasised that accounting is geared to satisfy the convenience of auditors, while Gambling (1982, p.86) declared that both the U.K. and USA accounting systems provide the worst of all worlds. Thus, external financial reporting might not be suitable for its own environment in the advanced countries, still less for that of a developing country.

This conclusion is supported by the fact that the public sector in these economies is greater than the private sector, and government involvement in economic activities is considerable.

Accordingly, developing countries must look to accounting systems other than those of U.K. and USA, which were designed for a different environment and are largely irrelevant to the society of the developing countries.

4.2.2 Users of Financial Information in U.K. and USA and Their Relevance to Developing Countries Users

The prime users of financial statements in developed countries are the shareholders and potential investors. Nevertheless, there are other users of these statements, such as creditors, business contact group (suppliers), employees, analysts, government, the public (tax-payers, rate-payers, and customers), etc. (The Accounting Standards Steering Committee, 1975, pp.15-19, and FASB, 1980, Statement No. 4).

Thus, one can classify the users of financial statements into two categories: internal and external. The former includes management who need information in order to achieve the goals of the company, and employees, who are concerned with the prospect of continuing employment. The external users include creditors, analysts, and government, who need to determine the profitability and financial position of the company.

By contrast, the primary users of financial information in all developing countries is the government, because the private sector is relatively small and has little power if compared with large public sector companies on which the whole economy in developing countries depends. It could be said that the U.K. and USA external financial reporting recognises the needs of the government as a user of such information, but only for tax purposes and for compliance with Companies Acts. In consequence, the U.K./USA system is not suited to developing countries where the government normally has the main role in controlling the economy.

Hence, accounting systems of a different nature adopted in other countries may have greater potential for developing countries. Accordingly, the rest of this chapter is devoted to discussion of an alternative system, namely uniform accounting. It will be argued that such a system would suit the developing countries' environment better than the irrelevant U.K. and USA accounting systems. The French accounting system was chosen because France is a developed country and has a successful accounting system which has served the French economy well; the Iraqi accounting system was chosen because Iraq is a neighbouring country to the GCC and it has a similar socio-economic environment.

4.3 Relevance of Uniformity to Developing Countries

Accounting can be defined as the process of providing information regarding the financial activities of a business enterprise in order to enable users of this information to make decisions about the enterprise (Mallalah, 1984, p.1). This focuses on only one part of the accounting environment, i.e. external reporting and its use by shareholders, creditors, and investors, ignoring other aspects related to each country's overall environment. Any attempt to improve the quality of accounting in a developing country needs to consider not just the micro level, but also the requirements of government for accounting information and the role of accounting in the country's economic development process (Needles, 1976, p.121; Mirghani, 1982, pp.57-67).

Enthoven (1973, pp.112-122) pointed out that accounting should provide the necessary information for effective evaluation and decisions about activities and the allocation of resources and subsequent communication of the results of such evaluation and decisions to decision-makers at both micro and macro accounting levels. This view of the role of accounting is so comprehensive as to suggest that Enthoven is advocating uniformity (Briston, 1978, p.106).

Enthoven's view of the role of accounting and his advocacy of uniformity is applicable to developed and developing countries. Indeed, it can easily be argued that uniformity is suitable to a developed (e.g. France) or

developing economy (e.g. Iraq), a centrally or non-centrally planned economy, and to micro or macro accounting.

However, the researcher's concern is uniformity and its role in the integration and unity of the Gulf countries. Accordingly, the discussion will be in the context of developing countries in general and in the Gulf countries in particular.

4.3.1 Meaning of Uniformity

The term "uniformity" has broad significance in the field of accounting; there is no generally agreed definition of it and various researchers have given different definitions from different viewpoints.

Samuels and Piper (1985, pp.56-57) distinguish between uniformity, standardisation and harmonisation as follows:

"Uniformity - is a condition in which everything is regular, homogeneous or unvarying. It implies sameness, and in this context means that all accounting principles and practices are the same.

Standardisation - are attempts to introduce uniformity in accounting methods. The model that is to be used for measurement being the authorised version.

Harmonisation - is that attempt to bring together different systems. It is a process of blending and combining various practices into an orderly structure, which produces "synergistic result". It first involves examining and comparing the different accounting systems in order to note points of agreement and disagreement, and then working towards bringing these different systems

together. Those who believe that uniformity is desirable, would as a first step, need to compare the different systems, then they would need to persuade others that some measure of agreement would be advantageous. They would then work towards harmonisation, attempting over time to remove differences. They would be working towards the acceptance of some authorised model, a set of standards, which when achieved, would result in uniformity. The steps in the process would therefore according to the normal usage of the words appear to be: comparison > move towards harmonisation > producing agreed standards > uniformity. It is possible of course to stop at any point in this process".

Thus, harmonisation, standardisation and uniformity are not synonymous, but are points on a continuum.

Enthoven (1973, p.223) believed it was possible to implement uniformity at various levels of standardisation. Thus, he considered that the existence of standards and principles in reporting is itself a kind of "uniformity". To this extent the American and British style of accounting is "uniform". Another level would be a unified method of accounting classification (charts of accounts), such as the German and Swedish charts of accounts. Finally, he considered that uniformity may be applied to the whole system of accounting, which includes the principles, standards, chart of accounts, procedures, policies, methods and reporting, i.e. a uniform accounting system. Examples of uniformity in this sense would be the Russian, French, Egyptian, and Iraqi systems.

In contrast, some researchers have argued that uniformity can be characterised with reference to its importance in application. For example, Merino and Coe

(1978, pp.62-63) specified four levels of uniformity: First, a powerful uniformity which gives the details of every single transaction; this would be complete rigidity. Second, deliberate-powerful uniformity which allows general uniformity, some rules governing the application of accounting principles and subsequent implementation of every principle for definite situations, deviation only being permitted when applying uniformity is totally impossible. Third, there is deliberate-weak uniformity which allows only a limited number of accounting forms and procedure. In this case, economic and technological factors will determine which forms and procedures are suitable. The fourth type, weak uniformity, allows a limited number of accounting forms and procedures, but management has the upper hand in deciding which forms and procedures are suitable.

However, Merino and Coe applied their discussion of uniformity to external financial reporting only and not to the whole field of accounting.

Al-Hashim (1973, p.24) follows a different approach by attributing uniformity to different purposes, leading to the concept of "purposive uniformity". He claimed:

"The concept of purposive uniformity is a system of accounting control in which the interpretation of economic events and the prescription for accounting methods and reports are purposive users' needs".

In addition, Al-Hashim (1977, p.127) assumed that uniformity could be achieved by government by using a

uniform format of reporting; he stated:

"Financial and reporting statements are the devices used to express actual and planned operations and to inform the central government of the operations of enterprise in the country. For these statements to be as useful as possible to a central government, a certain degree of uniformity is therefore needed".

Mueller (1965, pp.851-873) classified uniformity according to the approach by which it is established. He defined these approaches:

1) The economic approach, where the starting point is the needs of the national economy, which will determine the characteristics of the uniform system, where accounting technical matters come second. This approach was adopted by Germany and Egypt.

2) The business approach, where the starting point is consensus on the uniformity area of application; for example, a uniform accounting system for an industry will be based on the procedures which already apply in that industry.

3) The academic approach, where determination of uniformity is based on analytical, general and theoretical factors.

To sum up, these researchers viewed uniformity in different ways according to their own environments. However, they failed to consider that uniformity must have a methodological approach through which objectivity and rationality in the adoption of accounting methods can be accomplished, and none have given a satisfactorily

comprehensive explanation of uniformity.

An inclusive definition of uniformity would imply the application of similar accounting techniques, procedures, methods, and principles to all accounting fields and levels of the economy and to all levels of entities at which the application of uniform accounting methods and procedures is possible. In this case, uniformity at the national level could be attained and the idea itself will help the government to eliminate unnecessary subjectivity in the choice of accounting methods. Even if full application of uniformity is unattainable, it could be applied at the sectoral level or the industry level.

4.3.2 Purposes of Having Uniformity for Developing Countries

Developing countries need an accounting system which facilitates comparison of accounting figures of different types of companies to enhance the effectiveness of planning and decision-making. The adoption of comprehensive uniformity would assist national planning, ease the process of control over the whole economy, and would provide comparable accounting figures. Accordingly, national planners would find it easier to evaluate different entities, to choose the best alternatives, and to assess the performance of different enterprises in reaching development objectives.

In addition, many developing countries have many companies with outside shareholders. In such cases

uniformity may benefit the shareholders, since accounting data could be obtained at a lower cost (May and Sundem, 1976, p.750). This is because different companies will use a limited number of accounting methods, which would make it easier for shareholders to understand the accounting procedures used.

All in all, the reasons for choosing uniformity among developing countries can be summarised as follows: At the micro-level, it would provide a clear framework by which to measure the efficiency of management, ease comparability among financial statements and eliminate the management interference in the company's choice of accounting methods. At the macro-level it would achieve comparability in all respects among various companies for aggregation purposes. It would also facilitate effective national planning, decision-making and control. Thus, uniformity would truly meet the needs of the main user, the government in developing countries, in contrast to the U.K. and USA accounting systems which concentrate on financial reporting to shareholders and creditors.

4.4 A Uniform Accounting System and GCC Countries

This section examines the theoretical suitability of the uniform system of accounting for GCC countries.

4.4.1 Nature of a Uniform Accounting System

A uniform accounting system is a comprehensive system of accounting that contains uniformity in its

identification, terminology, collection, measurement and processing of data, summarisation and reporting of data, and finally, the display of necessary accounts, tables, and information required.

Such a uniform accounting system has been implemented by a number of developed countries such as France and USSR, and also in developing countries like Egypt and Iraq, which have applied the system on a public sector basis. A uniform accounting system could be applied in all economic units (nationally) or in a specific segment of the economy (sectorally). Furthermore, the system might be either flexible or rigid in its implementation; voluntarily adopted or enforced by the government.

4.4.2 Features that Enhance the Need for a Uniform Accounting System among the GCC Countries

In order to make sure that a uniform accounting system is the best alternative for the GCC countries then there are some environmental factors that must be discussed to make sure that the uniform accounting system will achieve its objectives. In fact, several accounting researchers have identified a set of conditions under which a uniform accounting system could be desirable, acceptable, and appreciated, for example Perera (1989, pp.141-157) and Al-Hashim and Garner (1973, pp.62-72) who suggested twelve postulates which favour the adoption of a uniform accounting system in any country. However, it is argued that, given the circumstances below, a uniform

accounting system is the only viable alternative available to GCC countries.

1. Centralisation of the Economy

In almost all developing countries the involvement of the government in the economy is apparent. This is certainly the case in the GCC countries, where government interference in almost all economic aspects is extensive. In fact in all GCC states, particularly the largest, Saudi Arabia, Kuwait, and UAE, there is a Ministry of Planning with special responsibility for directing the economy. The economic development plans are prepared centrally by the experts at those Ministries and approved by the Cabinet Ministers. Such regulation of the economy requires information generated through a single system among all enterprises in the economy; a uniform accounting system could meet this basic requirement for regulating, planning and control.

2. State of Accounting Education

In America and Britain, the level of education is such as to enable accountants are to exercise informed judgement in accounting matters. However, most developing countries are deficient in accounting education and training (Chandler and Holzer, 1984, pp.61-62). It is doubtful, therefore, that accountants in the GCC could exercise discretion with equal competence. Accounting education in the Gulf countries has been discussed in

chapter 3. At this point it is sufficient to state that accounting education in all Gulf countries is comparatively new and at a relatively low level. We have already seen that it is generally American oriented, with very little relevance to the GCC environment. Moreover, GCC states have a serious shortage of skilled accountants. These factors make the implementation of a uniform accounting system desirable.

3. Level of Professionalism

Accounting in the GCC is not recognised as a profession, unlike the situation in the U.K. and USA where, recognition attracts well-educated recruits. The status of GCC accounting profession was discussed in chapter 3, where it was shown that accounting as a profession barely exists. Although Bahrain and Kuwait have Accounting Societies, their actual work in accounting development in the Gulf is negligible. Few companies act to define the role of the profession which is generally regarded as being to conduct compliance audits of financial accounting figures with no concern for their social or economic relevance. Few professional accountants in the GCC states have a university degree in accounting. Thus, the accounting profession in the GCC countries serve merely a mechanical function and are unable to play significant role in GCC society.

4. Training of Management

Seiler (1966, p.654) emphasised the role of trained management by stating:

"There are two elements which, above all else, provide the key to economic development; these are entrepreneurship and trained management".

However, in most GCC states, appointment to the board of directors of a public sector company owes less to qualifications or managerial skills, than to membership of one of the influential families. This has had a detrimental effect on the running and results of several such companies. A uniform accounting system could provide information needed for managing and planning in a manner readily understandable, even by managers who lack relevant training.

5. Degree of the Accountant's Sophistication and a Uniform Accounting System

As explained earlier, the status and quality of the accounting profession in the GCC are very low. This may be attributable to the education of GCC accountants, which is still based on classroom lectures and written examination, tending to produce very traditional and limited accountants. Therefore, the majority of graduate accountants lack the ability to make sound independent judgement among a suitable alternative accounting system suit the GCC environment.

6. The Interest of People and Society

Hofstede (1983, p.80) argues that the degree of individualism in a country is statistically related to that country's wealth. This would mean that, unlike those in the advanced countries, the people in the GCC countries tend to identify their own interest with that of their society; in other words, since the standard of living of most people in the GCC depends on the government, the Gulf population identify their own interests with the interest of their governments. This factor would be likely to enhance the acceptability of a uniform accounting system in the Gulf region.

4.5 Expected Benefits of a Uniform Accounting System among GCC States

All GCC countries are facing a lot of difficulties and problems in maintaining the objectives of their fifth development plans and consequently lacking a proper decision-making or handled a good planning and control process. One of the main problems, which it could be the critical one, is the diversity in accounting systems used in the micro level of which by all means prevented the accurate, reliable, and relevance data reached the GCC governments (e.g. GCC officials, Planners, Economists in the Ministries of Planning, Finance, Commerce, and Industry). Most of the financial reports reached the GCC governments contains lump sum figures, ambiguous terminologies, unreliable data, and un-relevance

information.

The accounting information needed, in general, by developed countries is not the same information needed by GCC countries. The GCC states need information to strengthen their development planning and control, to know what is going on in the micro organisations, need information concerning efficiency and effectiveness of the management in those companies or organisations, efficiency and effectiveness in using the governments economic resources, rather than information relevant to the status of its shares on the market, as provided by American and Western oriented financial reporting.

Accordingly, Samuels (1984) argues that:

"The crucial problems currently facing the Third World ... are not the problems confronting in the industrialised world. .. it would therefore, be unreasonable to expect that accounting information that services the interests of the industrialised world would be equally relevant to the crucial problems of the Third World".

According to the above view, the accounting information suits the environment of the developed countries is not necessarily suited the environment of the GCC states.

In fact what the GCC states is looking for is a linkage between the accounting information from the micro level to the macro level and let the top authorities in the governments of the GCC build a sound developments plans. Therefore, accounting and planning must be considered as two complementary techniques in the Gulf

region. The main purpose of the planning in case of GCC countries is to allocate efficiently the GCC's scarce economic resources and to know how it was used. Mirghani (1982, pp.57-67) emphasised the role of the linkage between the micro level and the macro level to have an efficient development planning help the developing countries when he stated:

"In developing countries, the development of accounting should be viewed as equivalent to the development of part of the infrastructure necessary for achieving economic development. It is, therefore, imperative that specific frameworks for the development of accounting, a long certain dimensions, need to be established so that the ultimate objectives of providing reliable information support for the economic development process can be reached. One important dimension requiring a specific framework is the linkage between micro accounting and macro accounting for the sake of effective developmental planning".

However, the above arguments has not been yet considered in GCC countries. Many accountants, directors, and even boards of directors in many public sector companies in the Gulf area do not appreciate the importance of accounting, the significance of uniformity in accounting for sectoral, regional and national accounting needs, and the importance consequences of finding away for a linkage between micro accounting and macro accounting for better planning, control, and decision-making. The accounting systems that is in current use in those companies are those of the Western developed countries which are biased towards external reporting and

external auditing, leaving a side many needed items by GCC governments for macro purposes of which the financial reporting of the micro level, in all public sector companies, does not disclose.

Therefore, many missing needed information by GCC officials, planners, and economists such as value added statements, how much investment the company do invest outside and inside the country, details about the imported and exported commodities, total interest expenses, physical assets at current cost, capitalised and non-capitalised profits ... etc. of which could have been useful in compiling national income accounts, knowing the input-output tables on sectoral basis, and knowing the flow of funds statements of all public sector companies on regional basis, instead of estimating process that has been taken place in all Gulf countries.

Hence, having considered the importance of micro accounts for the benefits of GCC governments for their future planning and control and therefore for the construction of overall national accounting, a consequence of this is that the quality, reliability, accuracy, and timely of macro accounts depends, to a large extent, upon the quality, reliability, accuracy and relevance of the micro accounts. Still, in this case the accounting systems used in public sector companies in the Gulf region has to be relevance to GCC environment and has to be established on uniform basis.

As discussed in chapter 3 , the public sector companies represent the heart of GCC economy. Therefore, the GCC government needs to have information come on a uniform basis in order to build the overall national accounting because one of the function of national accounting is to provide aggregate accounts for the whole of industry, region or economy. For such aggregation to be useful for the GCC states, the data calculated must be built on uniform basis; in order to do so, for aggregation accounts, is to divide the GCC economy into different sectors, each of which should include a number of companies which are sufficiently similar to make aggregation of their activities meaningful. Ruggles (1970, p.2) emphasised this point when he stated:

"The transaction data must be organised and presented so that the behaviour and interaction of the major parts of the system will be revealed and the structural changes taking place in the system can be understood".

According to the above argument, aggregation information drawn from economic companies which are not the same in their fields may harm rather than benefit the information base of the national accounting. The GCC states should understand this fact when they prepare their national accounting figures and try to think for some alternatives of which a uniform accounting system among the GCC states will no doubt be one of the most important solution to the existing problems of the unreliability of basis statistics data to the GCC environment. This fact is

not for GCC states but is common factor in almost all developing countries as Jaffe (1972, p.313) emphasis:

"Statistics for developing countries often are misunderstood and misinterpreted because the published data do not distinguish between the economically modern and traditional sectors".

Therefore, for national accounting to meet their objectives in providing the GCC governments with relevance, reliable, and realistic information for the purpose of planning and control, they must be build on reliable basis statistical data which can be provided by a comprehensive uniform accounting system link the micro accounting with macro accounting. Hence, the important of macro accounting in the GCC states is highly dependent on the improvement of micro accounting. Therefore, it is generally accepted that the macro accounting system is designed to integrate the individual accounts of micro companies of the economy into one comprehensive account. In order for such integration to be possible, it is necessary that the individual accounts of the micro companies are prepared on unified base, with the objective of providing information for purpose of aggregation at the macro accounting level. A GCC uniform accounting system should be designed using the concept of uniformity in order to improve the scope and the quality of macro accounting information of which it would have a great effect on GCC government decision-making and their development planning and control.

All in all, a GCC uniform accounting system could be benefited from as follows:

1. It would help the GCC governments in finding a mean of linkage between micro and macro level information.
2. It will ease the transfer of information from micro level to top authority in the Gulf government with smooth access.
3. Building up the national accounting function will be an easy job using the GCC uniform accounting system instead of present suffering from several conceptual and practical deficiencies, particularly the aggregation problem and poor reliability of basis information.
4. It will give the planners in the GCC states a comparability access required at the national level because unless the accounting figures are comparable, it will be very difficult for GCC planners to choose, for example, between investment alternatives or to undertake cost benefit analysis which is the core of economic development planning.
5. On sectoral and regional level, it would be able to generate accounting figures from various public sector companies in the GCC countries which are easy to consolidate and integrate, for figures based on a unified basis of measurement and valuation can be more easily aggregated.
6. For GCC governments, it will help statisticians as well as the compilers of national accounting to provide reliable, relevant, and accurate information that could be

benefited from for future planning and control.

7. At sectoral level also, it would be needed to compare the performance of different sectors and to aggregate the accounting figures of each sector so that it is possible to measure the priority of different sectors in allocating capital.

8. It would ease the job of the GCC officials in GCC governments in putting accurate, reliable, timely, and relevant plans that suit the GCC environment and leave behind the estimation phenomenon which could lead to great variances between what is estimated and actual figures.

9. On GCC regional level, it will bring about an overall improvement in accounting practices at the micro and macro level. All those companies in the same field industries in the GCC countries will benefit by having a comparable, uniform, and timely accounting information for their future operations because the GCC uniform system would include additional disclosure of accounting information either in the main body of financial statements or a supplementary statements.

By and large, in order to benefit the GCC officials, planners, and economists in the GCC governments with better economic information for better planning, control, and decision-making, a comprehensive uniform accounting system must be established in the Gulf region. Development planning among GCC states require a high level of information on the economy and their major sectors. The macro accounting system in the Gulf region should be

considered as one of the main sources of such information and the feedback to the national planners among the GCC countries regarding the progress being made in achieving development objectives.

The effectiveness of the information provided by the macro accounting system in the formulation of the national plans is affected by its reliability, timely, and accuracy of micro accounting system of which there is a clear need for the GCC states for a linkage between the two levels. This linkage could be achieved by applying a GCC uniform accounting system which has definite ability to benefit the GCC governments and supply their needs and requirements.

4.6 A Uniform Accounting System: Arguments of Advocators and Opponents

This section assesses the advantages and disadvantages of establishing a uniform accounting system to suit the needs of the developing countries' environment.

4.6.1 Arguments in Favour of a Uniform Accounting Systems

The supporters of a uniform accounting system argue that such a system is much better in many ways than the flexible accounting systems (e.g. U.K. and USA) which exist in many developing countries. They depend on the following arguments:

- 1) A uniform accounting system can provide the government

with the data necessary for comparison among different companies and enterprises in various fields of the economy, and at various economic levels. Furthermore, the national planners will find it difficult to plan without comparable information on which to evaluate various entities and sectors to see where deficiencies exist. Flexible accounting systems make this comparison impossible because every company has its own accounting system and consequently its own accounting methods and procedures.

Moreover, a uniform accounting system would provide comparable results when examining the financial statements of different companies so that shareholders and potential investors could make decisions whether to invest in one company or another.

Enthoven (1973, p.236) argued that a uniform accounting system facilitates comparability in: (I) Structural analyses of enterprises; (II) Efficiency measurements and evaluation activities; (III) Ex-ante and ex-post investment appraisals and related economic decisions.

In addition, this comparability could also help the management of the company, which needs a uniform accounting system to facilitate comparability between periods and between companies in the same industry.

2) A uniform accounting system facilitates consolidation and integration between different entities in the country by generating accounting figures on a uniform basis. This

would assist in the preparation of the national accounts.

3) A uniform system strengthens the basic needs of better economic development and control in terms of relevant, reliable, comparable and current information which is paramount for every economic development plans in any country. Thus, at the sectoral stage uniform information is needed to compare the performance of different sectors and to aggregate the accounting figures of each sector so that it is possible to measure the priority of different sectors in allocating capital. The same could be said at the macro stage which such information is needed so that national accounting segments can be prepared.

4) A uniform accounting system would enhance the development of a unique accounting theory. If accounting concepts, measurements, and policies are unified, concern with accounting will be mostly related to purely theoretical matters and less time will be devoted to operational and practised matters (Mueller, 1965, p.868).

5) A uniform accounting system facilitates the preparation of fiscal, administrative and economic development policies and plans. Indeed, the USSR, with a huge centrally-planned and controlled economy, uses a uniform accounting system, which is concerned with budget setting and subsequent control and supervision. However, a uniform accounting system can provide valuable information for national policy-making and for enterprises in a free market economy, as France has shown.

6) A uniform accounting system would remedy the lack of education and training of personnel in developing countries since a taught uniform system would facilitate and ease the transfer of accounting employees from one company to another (Enthoven, 1973, p.237).

7) A uniform accounting system needs fewer highly qualified accountants than do diversified systems, which rely upon the judgement of highly-qualified auditors.

8) There are numerous other advantages, which include its ability to make the task of internal and external auditors less demanding, its ability to ease the understanding of accounting terminology rules and charts, and its ability to ease the adoption of computerised accounting.

4.6.2 Arguments Against a Uniform Accounting Systems

The opponents of a uniform accounting system argue that it has the following disadvantages which would harm the accounting profession and accounting practice in general:

1) Accounting is a reflection of economic reality which can only be achieved through diverse accounting practices and procedures, rather than through comparability resulting from uniformity which, it is argued, distorts reality (Brown, 1966, pp.38-44; Peloubet, 1961, pp.35-46). Thus, they conclude that diverse accounting practices would better reflect economic reality, which can only be achieved through flexibility in accounting practices

rather than artificial comparability. Moreover, it has also been argued by some other opponents that the comparability achieved by a uniform system is illusory, since it treats similarly what is actually different and that consistency rather than uniformity should be sought (McCosh, 1967, p.700). Mueller (1965, p.870) one of the opponents of uniformity also argued that comparability provided by a uniform accounting system is unreal, for such financial data are usually generated by various businesses which are different in nature.

All in all, opponents of uniformity conclude that a uniform system is not a wise solution to accounting problems in developing countries because economic development cannot be attained through strict rules and regulations which might lead to bureaucracy and hence to insensitivity to practical problems.

However, there is little evidence that a diverse approach makes inter-firm comparison any more effective.

2) Many opponents argue that by applying a uniform system the role of the profession will be weakened. This argument contains some truth in the case of developed countries such as U.K. and USA where the accounting profession is dominant and most accounting standards in both countries are set by organisations sponsored, either wholly or jointly, by professional accounting bodies (e.g. FASB and ASC). However, in the case of developing countries, the accounting profession is already weak and relatively small, and there is ample evidence to suggest that in many

developing countries the profession is weak and it is not in apposition to effectively regulate accounting and financial reporting, whereas there are other countries without any recognised professional organisation (AAA, 1976a; 1976b). Accordingly, the intervention of the government via a uniform accounting system is more likely to safeguard their interest.

3) Opponents of uniformity have argued that a uniform system will hamper the development of a dynamic accounting theory and prevent the evolution of new ideas (Enthoven, 1973, p.238; Brown, 1966, p.44).

This assumption depends on how tightly the system of uniformity is to be planned and adhered to. There is no reason why it should not be flexible and changed whenever necessary.

4) Many opponents argue that the management in any company should feel free to choose from among various accounting systems, those which ultimately achieve the company objectives and maximise the owner's wealth. In other words, imposing a uniform system will prevent and restrain the prudent and professional intelligence of an honest management.

However, Moonitz (1974, p.61) has pointed out that the freedom of management may cast doubts upon management's reliability in preparing appropriate financial statements. Management do not always act in the best interest of shareholders or owners of the enterprise; in contrast, some managements' intention is to gain tax

advantages and to improve relations with investors, employees and creditors (Belkaoui, 1984, p.528)

Therefore, management may prefer their own interest above that of others. Giving permission to management to choose upon different accounting methods and procedures will certainly increase this tendency.

By contrast, a uniform system with its comprehensive system of accounting (i.e. management accounting, financial accounting, cost accounting, computerised accounting, etc.) will protect the interests of government shareholders.

In any case, it could be argued that in developing countries most managements of companies are not qualified enough to choose from various accounting methods and procedures; they do not even know the differences between accounting alternatives.

5) Other opponents to uniformity argue that its preparation will cost a lot of money, while considerable expense will be incurred in adhering to the system, especially by small and medium companies. Mueller (1967, p.113) and Grady, (1965, p.34) argued that a comprehensive uniform system with detailed procedures for all accounting methods, principles, elements of cost to be used in fixed assets, elements of cost to be used in valuing inventories and how to determine market values, classifications and policies to be used, etc., would be very costly.

That this argument is not justified is shown by the success with which France applied a comprehensive uniform system adopted by more than 90% of all French firms (McKinneley, 1970, p.220); this suggests that uniformity could be achieved widely, without an undue burden on the companies concerned.

Actually, establishing a uniform system for the whole economy for industrial, sectoral, or national levels may well reduce the cost of implementation, due to easier computerisation and lower training costs.

To sum up, uniform accounting systems have been adopted and implemented by many countries in the world, both developed and developing countries (e.g. France, Belgium, USSR, Iraq, Egypt, Tunisia, Morocco, Peru, Algeria, etc.). This implies that a uniform accounting system can suit different environments. It is applicable in free economies like France and Belgium and centrally planned economies like Iraq and Egypt.

4.7 Cost of a Uniform Accounting System for the GCC Countries

As has been discussed in chapter 3, the governments of the GCC countries own many public sector companies. They have the total ownership of many companies in fields of strategic importance, such as petroleum, petrochemicals, refining, aluminium, flour mills, steel, etc. Accordingly, in order to maintain, supervise, and control this huge investment, the GCC governments have to

have a control device among those companies. Such a device is a comprehensive uniform accounting system which would have the ability to provide the GCC states with up to date, reliable and relevant information for the purpose of planning, control and decision-making.

The present accounting systems in the Gulf region do not furnish the GCC governments with the necessary information to build healthy economic development plans because they are biased towards financial reporting and give little attention to other areas of accounting, from which the governments in the GCC could benefit.

It has been argued by some researchers (e.g. Grady, 1965, p.34 and Mueller, 1967, p.113) that a uniform accounting system which would specify in full accounting principles, items to be debited and credited to each account, inventory valuation methods and procedures, how cost elements should be included in inventories and market values determined, how costs should be included in fixed assets, including direct costs and overheads, how to allocate costs among departments, products and periods; and the general classification and policy to be implemented, would be very costly, and difficult to implement.

However, this argument is not justified. Many developing countries, such as Egypt and Iraq, have applied the uniform system successfully, although their wealth is less than that of GCC countries. In fact, the experience of other countries, whether developed or developing,

suggests that a uniform system does not involve such a high cost and implementation is not difficult, costly or impossible to be achieved. For example, McKinneley (1970, p.220) emphasises the fact that a high percentage of French organisations (90 percent of French firms), irrespective of their size, have voluntarily adopted the uniform accounting system and suggests that it is no more costly than diversity.

Moreover, Enthoven (1973, p.302) adds support to this view, stating that the French uniform system has been received by many French firms "fairly favourably".

One may question, which is more costly a separate accounting system for each organisation in the GCC countries, given that in each GCC country there are thousands of public and private organisations, or a single accounting system to suit the GCC environment, helping the government in controlling the economy, and enabling the planners, GCC officials, and economists to take proper decisions? Of course, one single uniform accounting system that would be suitable for implementation at industrial, sectoral, national, and/or regional (GCC) levels would save on the costs of those foreign accounting systems and minimise the number of accounting systems to be implemented. The GCC states are well able to pay for the construction of the uniform system, including any necessary expertise.

Moreover, all GCC countries are suffering from a shortage of local professional accountants. Therefore, the

present accounting systems are expensive in the GCC environment, since the GCC governments have to spend a lot of money on training. In contrast, a uniform accounting system, would mean less money need to be spent on training skilled GCC professionals, less time will be spent on training, and the training programmes themselves will be less expensive because trainees could be trained towards one computerised accounting system instead of a vast number of foreign accounting systems which need numerous skilled and professional accountants. Hence, a uniform accounting system with its specific instruction, could be maintained and implemented throughout the GCC region with comparatively little cost and effort.

Furthermore, the GCC governments paying considerable sums of money annually, as auditing fees, for the external auditors who audits the government companies. These costs could be minimised by applying a uniform accounting system. Certainly, the audit fees would be less than those in the case of diversity accounting systems. The present flexible accounting situation with its diversity of accounting systems among the GCC countries will definitely cost a lot of money, whether in monitoring management choice or in action to alleviate costs caused by management's freedom of choice among alternatives. Throughout the GCC states, the lack of the necessary, reliable and accurate information is definitely harming the GCC countries' development planning and control and the cost of controlling and monitoring GCC public sector

companies is tremendous in terms of money, effort, time, and resources.

By and large, in GCC countries, the cost of existing accounting systems operating in the Gulf region is far greater than that of the proposed uniform system, which would cost less and be a good tool for the GCC governments for their planning and control of the huge portion of the GCC economy which they own.

4.8 The Experience of Two Countries with a Uniform System

The remaining sections of this chapter will deal with the main features of the French and Iraqi uniform accounting systems and the relevance and potential value of such a system to the developing countries.

4.8.1 The Uniform Accounting System in France

According to Most (1984, p.295), France is one of the ten most industrialised nations in the world. It has a free enterprise economy and its per capita income and GNP considerably exceed those of many European countries.

The accounting system in France is based on a mandatory national accounting plan, in which accounting reports and information are produced in a standardised format to facilitate the compilation of statistics and their comparison. Furthermore, according to Most (1973, p.129), the plan is vital for supplying data in a practicable manner regarding all segments of the economy and has contributed heavily to French economic

achievements. It has even been suggested that the plan was the major factor in facilitating economic planning and in the reconstruction of the French economy after the Second World War.

Most (1971, p.15) expresses his satisfaction with the plan by stating:

"France presents us with a good example of the use of accounting for economic development .. we can only point to the fact that there has been, and still is, a widely held belief on the part of competent officials that accounting does have a significant part to play in the economic development of the modern state."

Furthermore, Enthoven (1973, p.226) clarifies the benefits which flowed from the adoption of the plan as follows:

"Not only has the system proved extremely useful for social accounting and public administration (including taxation), but it has been also of great benefit: (a) for macro and micro economic planning; (b) to industries and industrial associations in making the necessary economic analysis and forecasts; (c) for structural analysis and in measuring and comparing productivity; (d) it furthermore tends to enhance the efficient administration of enterprises. It also should be mentioned that the French accounting plan has been trying to correct deficient accounting practices."

By and large, many of these benefits were largely restricted to the area of financial accounting; accordingly, the plan was revised several times, most recently in 1989. The plan was made obligatory in 1982 in order to take into account all requirements of the Forth

Directive. Its main features are that it is strongly oriented towards macro-accounting needs, it is highly codified and prescribed in detail and it is largely intended to provide uniformity in financial reporting for national economic purposes.

Accordingly, there is central planning in France. However, the central planning is not compulsory for private sector. That is, although central planning embraces private sector companies in broad terms, the plan is not forced upon the private sector. However, acceptance by the private sector is encouraged in two ways:

I) Representatives from the employers' organisations are included in many committees set up at the preparatory level (Cazes, 1969, p.25).

II) Incentives in terms of interest subsidies, allowances, and tax relief are given to the private sector to secure their compliance with the plan (Waelbroeck, 1969, p.50).

The government is the main user of the accounting information provided by the plan in its capacities as economic regulator, controller, tax collector, and provider of state capital. Indeed, the tradition of national economic planning in France was the main reason behind the establishment of the French uniform accounting system. Accordingly, Oldham (1987, p.145) and Lafferty (1975, p.12) specified the stated objectives of the plan as follows:

- 1) to propose more reliable national and fiscal policies;
- 2) to assist in eliminating fiscal inequalities;
- 3) to minimise social misunderstanding by informing the public of the true distribution of national wealth;
- 4) to provide data for the study of market trends;
- 5) to improve healthy competition;
- 6) to aid in the development of fairer taxation;
- 7) to provide shareholders, suppliers and bankers with an opportunity to exercise their judgement more satisfactorily;
- 8) to aid governmental authorities in exercising control;
- 9) to provide a clear and prompt view of financial results;
- 10) to permit analysis and comparison of manufacturing results.

The French plan is divided into three main parts as follows:

- I) The first part contains general accounting principles and description for the organisation of accounts.
- II) The second part focuses on financial accounting.
- III) The third part deals with cost accounting.

According to Fortin (1986, pp.449-450), the accounting principles are clearly stated in the revised plan to make them easy in application, and consist of the following:

- A) Presentation of a true and fair view of the firm's financial position through financial statements.

- B) The principle of conservatism which leads to recognition of losses when probable and gains when realised.
- C) The principle of regularity.
- D) The principle of veracity of information contained in financial statements.
- E) The requirement that attributes be measurable.
- F) Promptness in the production of accounting information.
- G) Production through financial statements of an adequate, faithful, clear, precise and complete description of the firm.
- H) The observance of consistency in the application of principles and procedures.
- I) The organisation of accounting in such a way as to make it possible to collect elementary transactions, register them chronologically and keep original documents.

The first part also includes a section on terminology which is common to both financial and cost accounting; thereby enhancing its utilisation. This section also includes rules on general price level accounting and replacement cost accounting, should these be applied. Historical cost is the basic valuation method, through the EEC fourth directive allows the use of alternative methods.

Ultimately this part includes the chart of accounts which is classified into ten homogeneous classes, which assist in the preparation of national accounts and traditional accounts. Certainly, the 1979 plan is a

compromise between the requirements of the fourth directive and the objective of revising the 1957 plan. The EEC fourth directive aims to provide shareholders and creditors with comprehensive data on a company's financial position and to impose equivalent minimum legal requirements on firms concerning the level of disclosure required. The objective of revising the 1957 plan was to improve financial statements for both managerial and social accounting purposes.

The general framework of the charts of accounts within which the system operates may be summarised as follows: There are ten classes of accounts, numbered from one to ten. Classes one to five are for the financial position accounts, assets and liabilities. Classes six, seven, and eight are for the operation accounts, costs and revenues. Presentation of classes one to eight in statement form gives rise to the general account. Class nine is reserved for the operating analysis accounts. Account 90, with its subdivisions, is used for such contra accounts as are necessary, and accounts 91 to 99 are for the cost of sales and revenue analysis accounts.

The second part of the plan is devoted to financial accounting. It includes valuation rules and rules for determination of income, details on the functioning of accounts and three sets of financial statements for three different accounting systems (Oldham, 1987, p.146):

- 1) A system of abridged final accounts for small businesses.

2) The basic, or normal, system applicable to medium or large organisations.

3) A developed system incorporating the integration of management and financial records from which can be compiled a detailed trading account, figures for value added and statement of source and application of funds. However, the basic system is not a complete set of annual accounts; rather it represents guidelines on how to progress from the a bridged system to the basic system and the same thing applies to the developed system (De Kerviler, 1980, p.3). In other words, the basic and developed system are intended to provide greater detail by breaking down the data available in the abridged system. Table 4.1 shows the Balance Sheet and table 4.2 shows a Model Results Account.

Valuation rules are based on historical cost. A notable feature of the plan is that all capitalised expenses are transferred to balance sheet accounts (financial position accounts) through a revenue account (Ac. No.79) except for the cost of self-construction of fixed assets which is transferred through revenue account No. 73 (fixed assets production). These procedures have been adopted to record all expenditures of the period in the expense account, thereby providing national accountants with accurate information on flows of the period.

Also included within the financial section of the plan are three sets of financial statements (abridged, basic and developed). The abridged statements are simple and can be drawn from any accounting system. The basic statements correspond to those required by the fourth directive and the developed statements are the most complete set, since they include a statement of changes in financial position, present a schedule for the computation of significant figures in the income statement, and provide a breakdown of debts and current assets between those linked to operations and others.

Table 4.1
Model Balance Sheet Before Allocation (The Abridged System)

Assets	Accounting Period M			Accounting Period M - 1 Net	Liabilities	Accounting Period M	Accounting Period M - 1
	Gross	Depreciation Charged and Provision (to be Deducted)	Net				
Fixed Assets: Intangible Fixed Assets --- Goodwill --- Other Intangible Fixed Assets Tangible Fixed Assets Financial Assets (A) <div style="text-align: right;">TOTAL I</div>					Capital and Reserves: Capital Revaluation Adjustment --- Legal Reserve --- Compulsory Reserve --- Other Reserves Amount Carried Forward (Credit Balance or Debit Balance) Net Result of the Accounting Period (Surplus or Loss) Compulsory Provisions <div style="text-align: right;">TOTAL I</div>		
Current Assets: (B) Stock and Work in Progress Payments in advance and on Account on Trading Orders Debtors: (C) --- Customers and Related Accounts --- Other Debtors Marketable Securites Cash at Bank and at Hand Prepayments and Accrued Income <div style="text-align: right;">TOTAL II</div>	X	X	X	X	Provisions for Risk and Expenses <div style="text-align: right;">TOTAL II</div>	X	X
<div style="text-align: right;">TOTAL II</div>	X	X	X	X	Creditors (D) --- Borrowing and Similar Debts --- Payments Received in Advance and on Account on Orders in Progress --- Suppliers and Related Accounts --- Other Creditors Income Received in Advance (E) <div style="text-align: right;">TOTAL III</div>		
<div style="text-align: right;">GRAND TOTAL (I + II)</div>	XXX	XXX	XXX	XXX	<div style="text-align: right;">GRAND TOTAL (I + II + III)</div>	XXX	XXX

(A) Of which at less than one year.
 (B) Of which at more than one year.
 (C) Of which at more than one year.

(D) Of which at more than one year.
 (E) Of which at less than one year.

Source: De Kerviler, 1980, p.154

Table 4.2
Model Results Account (Abridged System)

Charges (Exclusive of Taxes)	Accounting Period N	Accounting Period N - 1	Income (Exclusive of Taxes)	Accounting Period N	Accounting Period N - 1
Operating Charges:			Operating Income (E)		
Purchase of Merchandise, Raw Materials and Consumables (A)			Sales of Merchandise (F)		
Stock Variation (+ or -) (B)			Production Sold (F)		
Other External Charges			Production in Stock(+ or -)(G)		
Duties, Taxes and Similar Payments			Operating Grants		
Staff Costs			Other Income (H)		
Allocations to Depreciation Charges and Provisions			Interest and Other Similar Income (Financial Income) (I)		
Other Operating Charges (C)					
Interest and Similar Charges (Financial Charges)					
TOTAL OPERATING CHARGES (I)	X	X	TOTAL OPERATING INCOME (I)	X	X
Exceptional Charges (II)	X	X	Exceptional Income (II)	X	X
Taxes on Profits (III)	X	X			
TOTAL OF CHARGES (I+II+III)	X	X	TOTAL INCOME (I + II)	X	X
CREDIT BALANCE: Profit (D)	X	X	DEBIT BALANCE: Loss (J)	X	X
GRAND TOTAL	XX	XX	GRAND TOTAL	XX	XX

- (A) Including Custom Duties.
 (B) Opening Stock Less Closing Stock
 (C) Including Charges Relating to Previous
 Accounting Periods.
 (D) Taking into Account an Exceptional
 Result Before Tax of

- (E) Including Income Relating to Previous Year.
 (F) Including Provisions for Services.
 (G) Closing Stock Less Opening Stock.
 (H) (I) Including Depreciation and Provisions
 Written Back.
 (J) Taking into Account an Exceptional result
 Before Tax of

Source: De Kerviler, 1980, p.155

Unlike the U.K./USA balance sheets, which are classified according to liquidity/maturity, the French balance sheet is classified according to the income agent involved in the transaction.

The Results Account (see table 4.2) in the French plan is divided into four levels of analysis:

I) Results of Operations; II) Financial Results;
III) Exceptional Results; and IV) Net Income.

This account can be broken down to provide various useful sub-totals for economic, financial and national income analysis. These sub-totals are:

1. The commercial margin, which indicates the gross profit realised on goods purchased for sale.
2. Production, which represents the result of productive activity.
3. Value added, which measures the productive contribution of the entity to the national economy.
4. The gross surplus from operations, which has a great impact on the appraisal of the entity, for it represents the amount generated by the entity's activities which is available for distribution to shareholders and which can be invested to maintain or increase the entity's productive capacity.
5. The results of operations before financial revenues and charges, which allows an appreciation of current results independent of financial operation and consequently independently of financial structure.

6. The exceptional results.

7. Net income.

Most of the above classifications are based on the national accounts classification. Other classifications of financial statements are adopted to promote harmonisation within EEC countries. For example, revenues from certain activities, royalties on intangible assets and revenue generated by fixed assets not used for normal activities are classified within miscellaneous revenues. Another example is the exclusion of subsidies from production. Furthermore, wages of casual labour have been classified as external charges, as in national accounting, instead of being classified with regular employees' wages, as would be the case in managerial accounting, thereby increasing value added.

The authors of the plan, aware of the controversial nature of the above classifications as far as enterprise accounting is concerned, presented these accounts separately in the results accounts of the developed system. Thus analysts and management can reclassify these items as they wish in their analysis of the entity's results.

According to Fortin (1986, p.475) the nature of the classification of French financial statements suggests that the financial character of an item prevails over its other characteristics for classification purposes.

In addition to the above two main statements, the 1989 plan includes a statement of changes in financial

position. This statement is optional, since it is included within the developed set of financial statements. It shows the financial sources and uses for the period, the impact of all transactions entered into, the working capital and cash position.

Furthermore, the plan includes a note on financial statements providing detailed information about fixed assets (see table 4.3), depreciation, provisions, maturity dates of receivables and debits, results of the firm over the previous five years, etc. (De Kerviler, 1980, pp.149-156).

The 1979 plan includes a section on cost accounting. This section is divided into five parts as follows:

- I) General provisions;
- II) A description of the network analysis;
- III) The nomenclature of accounts;
- V) Details of accounting procedures; and
- VI) Depreciation for various cost methods.

In general, it seems that the plan has achieved its objectives in providing a new framework for the accounting function, thereby increasing its usefulness. Enthoven (1973, p.303) evaluated the success of the plan by stating:

"Contrary to the opinion of some authors, we think that the Uniform Accounting Plan and its analytical aspects may bring accounting capability and use of accounting to a higher level and promote a more independent accounting profession with its own standards and codes".

Table 4.3

Fixed Assets Table (Abridged System)

Items	Situations and Movements			
	Gross value at the end of the previous accounting period	Additions	Deductions	Gross value at the end of the accounting period
Intangible Fixed Assets				
Tangible Fixed Assets				
Financial Fixed Assets				
TOTAL				

Source: De Kerviler, 1980, p.156

4.8.2 The Uniform Accounting System in Iraq

Since 1968, the Iraqi government has adopted a centrally-planned socialist economy as its route to economic development. This is reflected in the size of the public sector, which dominates the economy in Iraq. The objective set for that sector is to increase production. Although these are not primarily profit-seeking enterprises, a small percentage of profit is also desirable. In line with the many planning requirements, economic organisations provide information to the central government through the ministries.

Information is required not only for tax purposes and for financial reporting, but also for planning, control, and decision-making at the public enterprise, sectoral, and economy levels. Accordingly, a uniform accounting system was designed to meet these new needs.

Uniformity in accounting in Iraq has passed through three stages:

I) The Trade State Organisation (T.S.O) uniform accounting system which was an attempt to facilitate planning and control of the state organisation and its affiliated enterprises. This was limited to financial accounting, setting up a uniform chart of accounts, unifying bookkeeping procedures, annual reports, inventory valuation, and assets depreciation. It was operated from 1970 up to 1981 when the national uniform accounting system was applied by all ministries.

II) The State Organisation for Textile and Spinning Industries (S.O.T.S.I) uniform accounting system which was established in 1971. This uniform system was different from the first in its details and procedures, focusing on the linkage of micro accounting with social accounting and the provision of information needed for planning and control at all organisational levels. The system concentrated on financial accounting and applied only to the textile industry.

III) The national uniform accounting system which was introduced by the Ministry of Planning in 1981 to all state enterprises. The aim was to unify all accounting practices in the country by providing uniform accounting terminology, and to improve communication between the economic units and the national planners, as well as other government organisations.

The government established the national uniform accounting system to help it exercise control over the operations of public sector companies on which the whole Iraqi economy depends.

By and large, the uniform accounting system in Iraq was founded to serve its environment, which created a need for uniformity. However, uniformity did not emerge directly as a complete written system, but has been an evolutionary process represented by developmental stages. (Al-Abdulla, 1985, p.335).

The Iraqi uniform accounting system was based on the Egyptian system, and the committee of experts which

prepared the system, was led by M.A. Shadi, an Egyptian scholar, who had played a similar role in the setting up of the Egyptian system. Not surprisingly, therefore, there are many similarities between the two systems.

However, as The Financial Control Court (1985, pp.11-13) specified, the main objectives of the Iraqi uniform accounting system are as follows:

1. To provide the Iraqi government with the necessary accurate information for rational decisions.
2. To provide basic information, and analytical tools for planning, implementation and control at all levels.
3. To provide means to supervise plans and determine whether government resources have been utilised in a proper manner.
4. To link the financial accounts (micro accounts) with national accounts.
5. To provide means to supervise and control operations on the basis of the financial plan.
6. To facilitate the collection, classification and storage of accounting information.

Furthermore, it could be argued that the Iraqi uniform accounting system is more comprehensive than the Egyptian uniform system, because the Iraqi system was set up sixteen years after that of Egypt, and as The Financial Control Court (1985, pp.10-11) indicated, the Iraqi uniform system took into consideration all the difficulties posed by the Egyptian system during its sixteen years of operation. Furthermore, it was able to

take advantage of the advances in computerised accounting, cost accounting, and budgeting since 1966.

Therefore, the Iraqi uniform accounting system plays an important role in the economic development process of Iraq. It is flexible, so that it can stimulate and accelerate the economic development of the Iraqi environment by collecting, processing, evaluating, and reporting accounting and non-accounting information for the purpose of economic, hierarchial decision-making.

Moreover, the importance of the Iraqi uniform accounting system comes from its simplicity. Mueller (1967, p.90) indicated the general advantages of simplicity in a uniform accounting system, in terms of:

"recording and classifying financial data, manipulating the data towards financial reports and, finally, understanding and interpreting financial reports".

Indeed, these are made very simple by the Iraqi system, especially with regard to comparing accounting statements between different companies and among different sectors.

Furthermore, the Financial Control Court (1985, p.21) specified some detailed characteristics of the Iraqi uniform accounting system as follows:

A) Classification of accounts in such a way as to serve the needs of traditional financial accounts, cost accounts, national accounts, etc. and to provide information which is needed for the purposes of planning and control.

B) The adoption of accrual accounting for all public enterprises.

C) The adoption of decimal numbering and the logical classification of charts of accounts in order to computerise the system.

D) The classification of opposite twin accounts within balance sheet accounts.

E) The differentiation between current activities and capital activities and between normal activities and exceptional activities.

F) The separation of cost accounts into distinct sections.

G) Differentiation between the accounting treatment of public ownership and entity ownership for the purpose of fixed capital.

H) The classification of fixed assets in a general way according to their nature and use.

Based on the above characteristics, it can be assumed that the Iraqi uniform accounting system is able to connect the micro accounts with the macro accounts and to assist to a large extent in the process of compiling national accounts. Table 4.4 represents a summary of the financial analysis that the Iraqi uniform accounting system can provide as necessary information for future planning and decision-making.

Table 4.4
Financial Analysis of the Transferable Industry (aggregate)

No.	Details	Amount I.D.
1	Paid-in Capital	
2	Retained Profit	
3	Invested Accumulated Depreciation	
4	Ownership Right = (1 + 2 - 3)	
5	Long-run Appropriations	
6	Long-run Loans	
7	Available Capital = (4 + 5 + 6)	
8	Current Liabilities	
9	Grand Total of Liabilities Side + (7 + 8)	
10	Gross Total Fixed Assets (Inclusive of Fixed Assets Under Construction)	
11	Accumulated Depreciation	
12	Net Fixed Assets = (10 - 11)	
13	Inventory at the end of the period a) Physical Requirements b) Work-in-Process c) Finished Inventory d) Goods Purchased for Sale e) Others	
14	Current Assets	
15	Assets Readily Convertible to Cash	
16	Working Capital = (13 + 14 + 15)	
17	Net Working Capital = (16 - 8)	
18	Other Assets	
19	Used Capital = (12 + 17 + 18)	
20	Grand Total of the Assets Side = (12 + 16 + 18)	
21	Grand Total of Previous Year Fixed Assets Side	
22	Additions to Fixed Assets = (10 - 21)	
23	Inventory at the Beginning of the Period a) Physical Requirements b) Work-in-Process c) Finished Inventory d) Goods Purchase for Sale e) Others	
24	Net Sales (Revenues from Ordinary Activities)	
25	Production Value at Market Prices = (24 + 23c)	
26	Sales of Goods Purchased for Sale	
27	Other Revenues	
28	Cost of Goods Purchased for Sale	
29	Total Production Valued at Market Prices = (25 + 26 + 27 - 28)	
30	Intermediate Consumption	
31	Gross Value Added at Market Prices = (29 - 30)	
32	Indirect Taxes	
33	Subsidies	
34	Gross Value Added Cost = (31 - 32 + 33)	
35	Annual Depreciation	
36	Net Value Added at Cost = (34 - 35)	
37	Net Current Transfers	
38	Income of Factories of Production a) Net Profit or Loss i) Retained Profit ii) Treasury Share (Ordinary and Capital Budgets) iii) Workers Share b) Salaries and Wages c) Net Paid Interest d) Precautionary Reserves	
39	Net Value Added at Market Prices (31 - 35)	
40	Workers Compensation = (38aiii, i.e. Workers Share + 38b, i.e. Salaries and Wages)	
41	Operating Surplus	

Source: Al-Abdullah, 1985, pp.301-302

In fact, although the development of uniformity in Iraq passed through three stages, as has been discussed, the chart of accounts has remained very flexible to harmonise with any modifications in the system. To illustrate, the Iraqi chart of accounts is divided into six levels as follows:

- 1) The first level contains four groups: assets, liabilities, expenses, and revenues. Five additional groups are also included: the cost centre of production, marketing, administrative financial and capital operations. Each main group is given a one-digit code number (1-9) respectively. However, the official flow chart of accounts shows only the first four accounts.
- 2) The second level is a sub-division of each of the main groups in the first level. Each of the main groups is divided into 9 accounts. Each account is given a two-digit code number; for example "fixed assets" is given code 11.
- 3) The third level specifies that each account in the second level can be sub-divided into nine accounts, with each given a three-digit code. For example, "machines and tools" is given code 113.
- 4) The fourth level specifies that each account in the third level is sub-divided into nine accounts with each given a four-digit code. Thus, "capital machines and tools" is given code 1131.
- 5) The fifth level specifies that each account in the fourth level can be sub-divided into nine accounts with each given a five-digit code. Thus, "imported capital

machines and tools" is given code 11312.

6) The sixth level specifies that each account in the fifth level can be sub-divided into nine accounts with each given a six-digit code. Thus, the "purchasing price of imported capital machines and tools" is given code 113121, shipment expense is given code 113122, increase expense is given code 113123, tariff is given code 113124, etc.

Thus, there are 4 accounts at the first level, 36 at the second (4×9); 324 at the third ($4 \times 9 \times 9$); 2916 at the fourth ($4 \times 9 \times 9 \times 9$); 26244 at the fifth ($4 \times 9 \times 9 \times 9 \times 9$); and 236196 at the sixth ($4 \times 9 \times 9 \times 9 \times 9 \times 9$). For the first two levels all the available code numbers are utilised by the system; however, from the third level downwards there are numbers left vacant which may be utilised by an entity if it wishes.

In general, the sub-division accounts have been given code numbers to facilitate computerisation and to allow trainees to grasp numbers instead of very lengthy names of accounts.

Accordingly, the chart of accounts has certain advantages which could be defined as follows:

1. The chart is flexible because since some sub-accounts are unfilled, it is possible to add one or more accounts or sub-accounts to the chart.

2. The coding system has abbreviated the names of accounts, making it easier to remember the code than the full name of an account.

3. It distinguishes between current and capital expenses and revenues. Therefore, it is possible to distinguish between operating profit and deficit, which is a useful indicator for performance evaluation.

4. It classifies each entity's transactions with other entities accounting to each entity's sector. For example, Account Nos. 141 (long term loans to others), 142 (short term loans), 151 (long term investments) and 164 (notes receivable) are classified according to sector as follows: social, co-operative, mixed, private, and foreign. This classification facilitates measurement of the relationship between various sectors and the calculation of each sector's contribution to the national product or income, when compiling national accounts.

5. The chart includes accounts Nos.32 and 33 for physical and services requirements respectively, to account for those goods and services which were provided by other producing entities. In effect these represent intermediate consumption. This facilitates the calculation of national product, for which this type of consumption must be distinguished.

6. Account No.12 (projects under construction) represents current capital formation. In effect, it is an accumulation of all current capital expenditures. This account has the advantage of enabling the planners to decide whether this formation is equal to, above or below

the capacity needed to maintain the present level of capital goods.

The Iraqi uniform accounting system also has a complementary group of balance sheet, final accounts, and other analysis statements in order to provide information needed by the internal and external users of the group. It includes information relevant to the requirements of the management, control, follow-up and national accounts. The analysis statements are included to guide the entity according to its needs and circumstances. The entity could add or remove any information to or from these statements according to its needs.

Although there are more than 30 final statements and accounts (e.g. the balance sheet, production, trading, profit and loss, and their distribution account, profit and loss account for commitments and unfinished contracts, current operations statement, gross value added statement, value added distribution statement, etc.), the researcher will concentrate on two types of them; that is the balance sheet and the production, trade, profit, loss and distribution account.

With reference to the balance sheet, the assets side of the balance sheet starts from the least liquid assets and ends with the most liquid assets, with current and non-current assets shown under separate headings. The liability side of the balance sheet is also organised according to period of obligation. A full form of the balance sheet is shown in table 4.5. Assets are shown by

their book value only, while their historical costs and their accumulated depreciation are shown separately in an analysis statement of fixed assets and depreciation. Initial formation cost is shown within deferred current expenses, which includes six further types of deferred expenses, all of which are shown in the deferred current expenses statement. The balance sheet also shows projects under construction separately from other fixed assets, to facilitate the calculation of fixed capital formation and capital expenditure in the national accounts. In general, there are eleven analysis statements for items included in the balance sheet.

The other account (Production, Trade, Profit, Loss and Distribution Account) is divided into six stages as shown in table 4.6. The first shows revenues from current activities (i.e. revenue from produced goods, commercial goods bought for resale, revenues from services, revenues from producing for others, costs of self-produced assets). The second shows surplus or deficit of current activities (i.e. revenues from current activities - costs of current activities (net)). The third shows surplus or deficit of production and trade activities or gross profit. The fourth shows surplus or deficit of current operations. The fifth shows the surplus or deficit (net). The sixth shows distribution of surplus according to the prevailing regulations.

Table 4.5
Balance Sheet in (Assets side)

Analysis No.	Chart of Accounts Code	Name of Account	Current Year I.D.	Last Year I.D.
	1	Assets		
		Fixed assets:		
1	11	Fixed assets at book value	XXX	XXX
2	118	Deferred current expense	XXX	XXX
3	12	Projects under construction	XXX	XXX
4	141	Long term loans (given)	XXX	XXX
5	151	Long term investments	XXX	XXX
		Current Assets:		
6	13	Inventory (Cost)	XXX	XXX
6	138	Credit letters for purchase of materials (Its amount I.D.)	XXX	XXX
4	142	Short term loans (given)	XXX	XXX
5	152	Short term financial Investments	XXX	XXX
7	16	Accounts receivable	XXX	XXX
8	18	Cash	XXX	XXX
		Assets total	XXX	XXX
			XXX	XXX

Table 4.5 Continued

Balance Sheet in (Liabilities side)

Analysis No.	Chart of Accounts Code	Name of Account	Current Year I.D.	Last Year I.D.
	2	Finance Sources		
		Long term finance sources:		
	21	Paid in Capital (Normal Capital I.D.)	XXX	XXX
9	22	Reserves	XXX	XXX
10	23	Long term provisions	XXX	XXX
4	241	Long term loans (received)	XXX	XXX
			XXX	XXX
		Short term finance sources:		
10	24	Short term provisions	XXX	XXX
4	242	Short term loans (received)	XXX	XXX
	25	Bank loans	XXX	XXX
	26	Accounts payable	XXX	XXX
		Finance source total	XXX	XXX
19		Twin accounts	XXXXX	XXXXX

Source: Al-Najjar, 1978, pp.46-47

Table 4.6

Production, Trade, Profit, Loss and Distribution Account in

Analysis Statement No.	Chart of Accounts Code	Name of Account	Current Year I.D.	Last Year I.D.
16	41-45	Revenues from Current Activities	XXX	XXX
		Subtract:		
17	5	Production Cost	XXX	XXX
17	6	Production Services Cost	XXX	XXX
		Change in Unfinished Product Inventory at Cost Minus - Revenues from scrap Sales	XXX XXX	XXX XXX
		Production Cost (Net)	XXX	XXX
	35	Purchases of Goods for Sale	XXX	XXX
		Changes in Finished Product Inventory	XXX	XXX
		Changes in Goods for Sale Inventory	XXX	XXX
		Cost of Current Activities (Net)	XXX	XXX
		Surplus or (Deficit) Current Activities	XXX	XXX
17	7	Minus-Marketing Expenses	XXX	XXX
		Surplus (Deficit) of Production and Trade	XXX	XXX
	46	Interest and Rent of Land (Credit)	XXX	XXX
	44	Subsidies	XXX	XXX
17	8	Deduct Administrative and Finance Expenses	XXX	XXX
		Surplus (Deficit) of Operations	XXX	XXX

Table 4.6

(Continued)

Analysis Statement No.	Chart of Accounts Code	Name of Account	Current Year I.D.	Last Year I.D.
	48	Add - Transferable Revenues	XXX	XXX
	49	Other Revenues	XXX	XXX
			XXX	XXX
15	38	Deduct - Transferable Expenses	XXX	XXX
15	39	Other Expenses	XXX	XXX
			XXX	XXX
		Surplus (Deficit)	XXX	XXX
		Surplus Distributed as Follows: (Accounting to Prevailing Regulations Percentage)	XXX	XXX

Source: Al-Najjar, 1978, pp.51-52

4.8.3 The Relevance of the French and the Iraqi Uniform Accounting Systems to GCC Countries

In order to stimulate an accounting system suited to the environment of the GCC states, it is desirable to investigate to what extent a uniform accounting system adopted from another country might be appropriate to the GCC environment, for the GCC can not afford to wait for many years before improving the quality of its accounting information.

We have already suggested that the U.K. and the USA accounting systems are no longer entirely appropriate even to their own environment, and are still less so for GCC countries. Therefore, the adoption of a uniform accounting system would seem to be the most important step towards improving the utility of accounting information to GCC governments and therefore improving the linkage between accounting and its environment in GCC states; the implementation of a uniform accounting system is intended to provide accounting information which is relevant to national planning and control, to link micro entity accounts to national accounts, and to facilitate the collection, classification and storage of accounting information. Evidence from the literature suggests that such systems have achieved considerable success in meeting their objectives, each within its own environment. These environments include a developed free market economy (France) and a developing centrally planned economy (Iraq). Certainly, there are differences between these

environments and accordingly they differ in their degree of similarity to the GCC environment.

The French uniform accounting system is designed to provide vital information for supplying data in a practicable manner regarding all segments of the economy and has contributed strongly to French economic achievements. Many researchers argue that for developing countries, the French practice of adopting and implementing a uniform system to serve both macro and micro economic needs, seems worthwhile (Enthoven, 1973, p.303; Al-Hashim, 1973, p.28; McKinneley, 1970, p.220).

However, economic planning in France is operated by the government through the control of the capital market via the policies of the Bank of France. Thus, Most (1982, p.265) describes the French planning approach as follows:

"France aims principally at the planning of money flows rather than the production of goods and services: the state influences the choices of its subjects by increasing and decreasing their command over the means of payment, and not by directly allocating land, labour, and capital to specific output objectives."

Accordingly, the French uniform accounting system does not provide a link between planning and action. The relationship between central planning and action is very weak, because France has a capitalist economy. Thus, central planning in France does not apply to the private sector, unlike the GCC countries, which have adopted an economic planning system based on overall development plans (five-year plans).

Moreover, although the French uniform accounting system has been adopted by some developing countries such as Tunisia, Morocco and Algeria, considerable modifications has been made in order to suit their economic environment.

Nevertheless, as Bartholomew (1979, p.48) indicated, France has enjoyed economic achievements in terms of high income per capita. In this respect it is like the GCC countries. Hence, it could be suggested that the French uniform accounting system would be a more or less useful model for a new accounting system for the economic environment of the GCC states.

However, any system adopted by the GCC would need effective linkage between the microaccounting and macroaccounting systems, where the information disseminated in the former becomes part of the information required by the latter. This would imply a request to those who are responsible for the preparation and presentation of financial accounts of companies, to publish information relevant not only for shareholders and other interested groups, but also for the government for future planning and control.

Al-Abdullah (1985, p.172) emphasised that a unique feature of the French uniform system is its advanced social reporting. Law No.77-69 of July 1977 requires all companies with 300 employees or more to prepare a social report sheet on a yearly basis, showing information for the latest two years, on employment, wages, health and

safety conditions, other working conditions, training, industrial relations and other relevant within factors. Such a statement would serve the needs of GCC governments and contain valuable information for their future planning, control and decision-making.

However, to maximise benefits from the French system, the GCC countries would also need to take into consideration its weaknesses in cost, budgeting, and control functions, and try to strengthen them to suit the GCC environment. They could also develop a more flexible chart of accounts via the computer facilities, to suit the needs of all GCC states.

All in all, the French system is oriented towards a developed and developing small free market; in contrast, the GCC economy is a developing and centrally-planned economy requiring a heavier emphasis on planning, control, performance evaluation and the decision-making process. Accordingly, the French plan could provide a useful starting point for a developing mixed economy like that of the GCC, as it contains many elements and concepts which would certainly be of benefit to the GCC environment, though some modifications should be introduced to tailor it more precisely to the GCC environment.

The other uniform accounting system which was discussed is the Iraqi system. This system is felt to be more suitable to GCC environment than the French uniform system, since it provides relevant information to its own

environment, which is similar to that of the GCC.

Nonetheless, it also may need some modification to suit the GCC environment. Though Iraq has a somewhat different environment, as a socialist country, it is in many ways similar to that of the GCC, for the GCC states and Iraq are developing countries, have similar economic conditions, the same culture, centrally planned and controlled Arabic and Islamic environments.

Iraq has an economic planning system covering all sectors of the economy, and in particular, mandatory for all government organisations and other agencies, in which case the accounting reports and information are produced on a uniform basis.

Moreover, the Iraqi system incorporates budgets as well as financial accounts, so that the relationship between planning and control is strong.

Accordingly, the Iraqi system provides information relevant to its own environment for the purpose of planning and control. Moreover, the Iraqi system provides information on a sectoral basis, including transactions within each sector and between sectors with regard to production, saving, investment, income and expenditure. Moreover, detailed information about imports, exports, foreign currency, imputed items and actual results compared to plans are also provided.

Finally, in many ways the GCC economic environment has more in common with that of Iraq than of France: both the GCC and Iraq are able to benefit from oil revenues to

secure their capital needs; at the same time, both suffer from a shortage of skilled manpower, a problem which does not occur in France.

Based on the above arguments, it is felt that it would be appropriate for the GCC countries to utilise a uniform accounting system based on that of Iraq, or a combination of the French and Iraqi uniform systems, but with modification to tailor it more exactly to the needs of the GCC environment.

4.9 Summary and Conclusion

It has been argued by some researchers that the bias of the British and American accounting systems towards external financial reporting for shareholders, investors, and creditors, makes them unsuited to the environment of developing countries, which need more focus on public sector needs and economic development planning.

In contrast, however, a uniform accounting system could be established to serve both private and public sector users. Its objectives range from macro economic planning and control to the financial analysis of micro level units. A comprehensive uniform accounting system could cover uniform principles, standards, concepts, terminologies, charts of accounts, and financial statements. Accordingly, the system could be very simple or very sophisticated; and could be applied in any environment.

The GCC governments will benefit a lot in case of implementing it, and it will be the main tool for their economic developments plans, control, and decision-making.

Furthermore, the cost of establishing and implementing it, is not that high if it compared with existing vast numbers of foreign accounting systems operating in the GCC area. It has been discussed that it will save money, time, and effort.

The arguments of those who support the uniform system far outweigh those of its opposers. In particular, it is very useful for developing countries which have a centrally planned economy.

Unlike the concept of accounting diversity (e.g. U.K./USA) the uniform system is not restricted to the needs of a single sector. Indeed, the experience of some countries such as France and Iraq has shown that it is very useful in providing the information needed for macro and micro economic and development planning and control.

Accordingly, it could be concluded that a uniform accounting system is more effective than accounting diversity, not only for developing countries but also for developed countries.

CHAPTER 5

OBJECTIVES AND METHODOLOGY OF THE STUDY

5.1 Introduction

A major objective of this study is to develop a theoretical framework for applying a uniform accounting system and to compare it with the existing accounting systems in the GCC countries.

Different writers have defined a uniform accounting system from different points of view. However, Enthoven has provided a comprehensive definition of such a system, arguing that a uniform accounting system should incorporate all accounting variables, all levels of the economy and all levels of organisation. He added that a uniform accounting system which incorporates those elements can cover the entire administration of information for all socio-economic activities in the micro and macro economic sectors, covering the internal and external needs of the various user groups (Enthoven, 1973, pp.112-113).

As yet, GCC states do not have to follow a specific accounting system, and therefore there is no national or regional set of accounting principles in the area (see note 1, p.230). The GCC governments' interference in economic affairs is apparent, but has not been matched by progress towards uniformity in accounting. The absence of regulation and accounting legislation has led to a decrease in society's faith in the financial information that is presented by companies, and has caused audit reports to be called into question.

The various accounting systems in the Gulf area are mainly concerned with financial reporting and external auditing, while other areas of accounting have been ignored or given little attention. Therefore the second objective of this work is to determine whether the current accounting systems and practice in the region are useful for the main objective of GCC governments: economic and social development. Finally, the study is an attempt towards a uniform philosophy which truly reflects the needs and circumstances of GCC societies.

A literature review on the possibility of applying a uniform accounting system to a developing nation was undertaken to establish the foundation of this study. This theoretical work supports the empirical research and is used to evaluate the applicability of the uniform system to the environment of the Arab Gulf states.

5.2 The Empirical Survey:

The general objective of the survey is to examine the possibility of applying the uniform accounting system and its suitability to the GCC environment. It is felt that existing accounting practices in the Gulf area are not relevant to the GCC environment and subsequently not achieving article 4 of the GCC charter (see note 2, p.230). Data have been collected and analysed to test this theory.

There are a few common types of empirical research as Abdel-Khalik and Ajinkya (1979, pp.44-45) indicated:

- * Survey research;
- * Laboratory experiments;
- * Field experiments; and
- * Field studies.

The survey research method will be used in this study, since it allows for the collection of large amounts of information about the existing accounting systems used in the GCC countries and it will give an indication of the practicability of adopting and applying the uniform system.

Because of the lack of literature on the existing accounting systems and on the development of accounting practices in the Gulf area, the decision was made to collect the necessary data through three main streams. First, extensive interviews have been held with GCC officials, planners and economists and those who are responsible for public sector companies such as the Ministries of Development and Industries, Finance and National Economy, Planning, and Commerce in Bahrain, Kuwait, Oman, Saudi Arabia, and UAE. In addition, comprehensive interviews have been held with Auditing and Accounting Bureaux in Kuwait, UAE, and Saudi Arabia. Second, many interviews have been conducted with officials in the General Secretariat of the Gulf Cooperation Council to ascertain their opinions and recommendations on the topic, the possibility of its success, and how it could be achieved. Third, mailed questionnaires have been sent to three concerned groups; public sector companies, academic university staff, and accounting firms with extensive

subsequent interviews. These are the most practical methods of data collection. The researcher chose randomly three Gulf countries for his questionnaires, namely, Bahrain, Kuwait, and Oman. Considerable importance was attached to the mailed questionnaires, for the following reasons:

- 1- It is possible to obtain information from a greater number of respondents.
- 2- Cost is minimised.
- 3- It is possible to cover a wider area.
- 4- They require less skill to conduct.
- 5- They allow privacy to the respondents.

Bachrack and Scoble (1967, p.266) support the above advantages by stating:

"It is our belief that a properly administered mailed questionnaire can be as efficient as, and cheaper than, use of the personal interview".

On the other hand there could be some disadvantages in the use of mailed questionnaires, such as failure of participants to respond. The researcher overcame this problem by delivering questionnaires in person, especially in his home country, Bahrain and by making personal visits to Kuwait and Oman.

All in all, the questionnaire was designed to achieve the following objectives:

- A- To solicit officials' and professionals' opinions regarding the possibility of applying the uniform system.
- B- To make a survey of the accounting systems currently used in the Gulf area.
- C- To identify the relevance of the existing accounting systems to the GCC environment.

In addition, personal interviews were conducted. The interview sample was composed of:

- 1) Financial managers of selected companies.
- 2) University staff members in the Departments of Accounting.
- 3) Chartered accountants in accounting firms.

These interviews sought to achieve the following:

- A. To discuss the present accounting systems in the Gulf, their relevance to the GCC environment, and possible ways of improving them.
- B. To gain an understanding of the views of the main parties.
- C. To obtain important information that was too confidential to be given in the questionnaire. It was thought that the personal contact would encourage the interviewees to reveal some significant information.

5.3 The Questionnaire

For the purpose of gathering information regarding the main theme of the study, three questionnaires were developed based upon a review of related accounting

literature. Approximately six months were spent in the preparation and pretesting of the questionnaires.

Table 5.1 outlines the questionnaire plan, while Appendices C, D, and E contain an English translation of the questionnaires. Originally in Arabic, the documents were translated into English to collect the necessary information from non-Arabic-speaking subjects. Furthermore, copies are attached of letters from the Dean and the researcher to various participants.

Table: 5.1 THE QUESTIONNAIRE PLAN

Quest. No.	Title	No. of Parts	No. of Questions
I	Comptrollers of Public Sectors Companies (Information about the Accounting System)	3	32
II	Members of Universities of Bahrain and Kuwait	3	25
III	Accounting Firms	3	32

The questionnaires and related data are analysed and discussed in detail in chapters 8, 9, and 10. Results obtained from the three questionnaires are compared with each other in chapter 11 in order to reach conclusions. Similarities and differences between the results of the three approaches are discussed and reasons for the differences specified. Recommendations and suggestions are then given at the end of the thesis.

5.3.1 Design of the Questionnaires:

The first questionnaire was sent to Comptrollers of public sector companies, as seen in Table 5.2. This questionnaire was divided into three parts. The first concentrated on information related to the background of the respondents. The second part was designed to obtain the opinions of the participants regarding the feasibility of applying the uniform system, while the third part was designed to obtain information on existing accounting practices in the GCC.

QUESTIONNAIRE I

COMPTROLLERS (FINANCIAL MANAGERS) OF PUBLIC SECTOR COMPANIES

Table: 5.2 The Questionnaire Design

Part No.	Caption	No. of Questions	Question Numbers
1	General Data and Specific Opinions	11	1-11
2	Feasibility of Applying the Uniform Accounting System	8	12-19
3	Existing Accounting Practices	13	20-32

The second questionnaire (see Table 5.3) was sent to members of the Accounting and Business Departments of universities. The first part sought information related to

members' experience and qualifications; the second part was drafted to obtain background information regarding the existing accounting systems and their relevance to the GCC environment; the third part was designed to obtain opinions regarding the applicability of the uniform system.

QUESTIONNAIRE II

THE MEMBERS OF UNIVERSITIES OF BAHRAIN AND KUWAIT

Table: 5.3 The Questionnaire Design

Part No.	Caption	No. of Questions	Question Numbers
1	General Data	6	1-6
2	Background Information	10	7-16
3	Applicability of the Uniform Accounting System	8	17-25

The third questionnaire dealt with the accounting firms operating in the Gulf region (see Table 5.4). The content of this questionnaire was also divided into three parts. The first part dealt with respondents' personal background information; the second part concentrated on information about the status of accounting systems in the area; the third part was designed to measure opinions and reactions concerning the possibility of implementing the uniform system.

QUESTIONNAIRE III

ACCOUNTING FIRMS

Table: 5.4 The Questionnaire Design

Part No.	Caption	No. of Questions	Question Numbers
1	General Data	16	1-16
2	Present Status of Accounting Systems in the GCC	7	17-23
3	Feasibility of Implementing the Uniform Accounting System	8	24-32

The results and findings of the three questionnaires will be discussed in detail in the coming chapters.

5.3.2. Sample Selection and Size:

Since the GCC countries have a natural affinity, sharing close proximity, and a common language, economy, religion etc., the researcher chose three countries (Bahrain, Kuwait, and Oman) to provide the sample across which the questionnaires were distributed.

As there is very little literature on the subject of accounting systems practised in the area, the researcher depended on data gathered by questionnaires distributed to three groups: Comptrollers, University staff, and Public Accountants in accounting firms, supplemented by extensive interviews with those who agreed to participate in this way. Comptrollers represent the comptrollers or

financial managers in 120 companies selected at random from the companies list in the Ministry of Commerce (see details in chapter 8). The second group sampled was the academics, university staff in the departments of Accounting and Business at Bahrain and Kuwait Universities (in Oman -Qaboos University- there is no Accounting or Business department, see chapter 9). The third group represented the accounting firms registered in the Registry of Auditors and Accountants kept by the Ministry of Finance in Bahrain, Kuwait, and Oman (see chapter 10).

5.3.3 Pretesting the Questionnaires

During the designing of the questionnaires, it was found that the idea of "uniformity" could be misunderstood, for many accountants in practice do not distinguish between uniformity and other similar terms such as standardisation and/or harmonisation. For this reason, after the development of the questionnaires, they were pre-tested in order to eliminate the effects of biases and any misunderstanding of the questions. Therefore, informal interviews with randomly chosen subjects were conducted. The pre-test did not become a part of the actual survey results.

5.3.4 Data Collection

After the pre-test, the final questionnaires were mailed in the case of Kuwait and Oman, and personally delivered in the case of Bahrain, to the sample of 120 companies, 35 university staff, and 30 accounting firms on September 5, 1988. Each person was sent a large envelope containing a covering letter, the questionnaire, and a self-addressed envelope for returning the questionnaire. In addition, a letter from the Dean of the Business and Management College in Bahrain was enclosed to encourage respondents to cooperate with the study. The response to the initial mailing was 51 questionnaires or 27.6% of the total questionnaires sent.

On the 1st of October, a second mailing was made to those participants who had not responded. An additional copy of the questionnaire and a covering letter were mailed together with the return envelope. The second mailing resulted in 59 questionnaires. In an attempt to check for non-response bias, a trip to Kuwait and Oman for interview purposes was made, and at the same time, 50 participants were selected at random from those who had yet to respond. Twenty-six participants returned the questionnaires which were used to check for non-response bias. All in all, the total number of returned questionnaires was 136 out of 185, representing 73.5% of the total distributed.

5.3.5 Subjecting the Data to Descriptive and Statistical Analysis

Since the major objective of the study, as mentioned earlier, is to develop a theoretical framework for applying a uniform accounting system to suit the GCC environment, the data collected were analysed on the basis of suitability of such a system to the GCC needs and its capacity to maintain the GCC charter in general integration and unification of the GCC members in all fields. Therefore, the researcher adopted both descriptive and statistical approaches to collect and test the information regarding the present status of accounting in the GCC countries and the possibility of substituting these various systems with a single, uniform system appropriate for GCC needs and goals.

Analysis also sought to indicate whether there are significant differences in the views of the samples, and to find reasons for them. Differences may relate to the different nature of each respondent group, lack of understanding of the nature and effectiveness of the uniform system, some specific difficulty in applying the system, or any other reason.

To sum up, the uniform accounting system is evaluated in terms of the extent of its application and its relevance to the GCC environment. Thus, one basic statistical method is employed in this survey to analyse the collected data, that is the Chi-Square (χ^2) test was used to test the attitudes of the

three samples regarding the uniform system's application and relevance (details in chapter 11).

Footnotes

- 1) The Ministry of Commerce in Saudi Arabia issued in 1986 its first sets of auditing standards and accounting objectives and concepts. However, these closely resemble those of the U.K. and the USA (Saudi Arabia, Ministry of Commerce, Resolution No. 692, 1986)

- 2) Article 4 of the GCC charter specifies the basic objectives of the Cooperation Council. Objective No. 3 states: "Formulating similar regulation in various fields (economic, finance, commerce,etc.)". Six broad fields are specified for integration, with economic and financial affairs heading the list.

CHAPTER 6

*ANALYSIS OF THE EMPIRICAL INVESTIGATION BASED ON
RESPONSES OF THE OFFICIALS IN GCC GOVERNMENTS
(PART I)*

6.1 INTRODUCTION

The aim of this chapter is to study, investigate, and analyse the points of view of GCC officials in Bahrain, Kuwait, and Oman, towards the possibility of applying a uniform accounting system to meet the needs of the GCC government and facilitate economic development. The GCC governments, at present, need extensive accounting information which should be supplied by the accounting systems of public sector companies, of which the governments in the GCC have a large portion in their capitals, in order to successfully to carry out the function of planning and control. Furthermore, this information is needed to make successful economic decisions at micro and macro levels. However, as has been discussed in the literature, the present accounting systems applied in the Gulf area are biased in favour of private sector needs rather than public sector needs and towards external reporting rather than internal decision-making.

Accordingly, this bias suggests that planners and decision-makers at the macro levels are misinformed, and hence their plans and economic decisions could be ill-conceived and misleading. Evidence of the present unsatisfactory nature of accounting information is presented by investigating the GCC officials opinions on present domestic problems, relevance of present accounting systems and practices, the best alternative system, and a GCC uniform accounting system.

6.2 Objectives and Scope

Most of the third world countries are trying to introduce some kind of model or formula on accounting so as to achieve optimal success in social and economic development planning, micro and macro decision-making, and planning and control at both micro and macro levels. This theme has not been yet given any consideration in GCC society and most of the GCC officials do not realise the important role of accounting in development planning and in the economic environment in general.

Therefore, the major obstacle to effective development planning and control in GCC states is the lack of accounting information, which could have a number of adverse effects on GCC economic society as a whole. Those adverse effects could be summarised as:

1. Selection of a development model would be made on no realistic basis.
2. Lack of information could lead to the selection of a development model that covers certain parts of the economy, not because of their importance for future development, but because information about them was available.
3. Lack of information concerning the interdependencies of the major economic sectors could lead to an internally inconsistent development plan.

Therefore, the main objective of this chapter is to investigate whether the present accounting systems at

micro level do provide the GCC officials with relevant accounting information needed at the macro level, and if not, what type of information is needed and whether a uniform accounting system would be of greater value to the GCC environment than the present flexible model.

6.3 The Sample

The decision was made to conduct in-depth interviews with some GCC officials in the various ministries concerned with public sector companies (e.g. Ministry of Finance, Ministry of Industry and Development, Ministry of Commerce, and Accounting and Auditing Bureau). The researcher selected three GCC countries randomly to represent the other GCC states, namely, Kuwait, Bahrain, and Oman.

The primary goal of sampling is to select a sample which reflects the point of view of the whole society. Random sampling may be the most common method of obtaining a representative sample. However, the researcher, in order to strengthen his findings decided to visit two other GCC countries, namely, Saudi Arabia and UAE and had extensive interviews with planners, economics, authoritative people in the General Secretariat to the GCC, and with authorities in Accounting and Auditing Bureaux (details in chapter 7).

The main reason for those interviews was to gauge the opinions, comments, and recommendations of top-ranking people in the GCC states' governments and to see how they

might react to the idea of applying a uniform accounting system, the possibility of success, and the possible advantages for real economic development and growth.

6.4 Problems

There were no significant problems faced by the researcher during his interviews with GCC officials, except for a few Omani officials who showed some reluctance at first. However, when the researcher assured them that these interviews would be confidential and would be used for academic purposes only, they then gave their responses, though with some unwillingness to have their names revealed.

Moreover, unlike Kuwait, Bahrain and Oman have no Accounting or Auditing Bureau, responsible for supervising, auditing, and controlling the public sector companies. However, there are big separate departments in Bahrain and Oman related to the Ministry of Finance and Ministry of Commerce, which are responsible of public and private sector companies. Therefore, the researcher made great efforts to seek out and meet the appropriate government officials in those countries, to see the information they collect at present, its type, the information they would like to collect, and the actual information needed to be collected from the various public and private sector companies, to facilitate economic planning, control and decision-making. In addition, their opinions were sought regarding willingness

to apply the uniform accounting system, interest in it, and finally the benefit that could be derived from obtaining and implementing the uniform system to provide the information being sought.

6.5 The Present Accounting Systems and Their Reliability to Decision-makers

As yet, most of the GCC governments do not seem to be aware of the importance of accounting and its effect on the economy; furthermore, they seem unaware of the importance of organising accounting in such a way as to provide the data required for facilitating planning, control, macro decisions and policies.

Accordingly, many accounting problems are found in the GCC society (e.g. bribes, abuse of responsibility, corruption, ..etc.) which have not been satisfactorily tackled due to the absence of an effective legal approach to solve such accounting problems in general and to set standards in particular.

Thus, the solving of accounting problems and the setting of standards have become the responsibilities of the foreign professional accounting firms which have the legal right to establish accounting systems for public and private sector companies if they wish. In this case, the accounting systems of the public sector companies have been mainly oriented towards two elements: external auditing and external financial reporting. The main reason for such orientation is, of course, to secure maximum

rewards. As a result, areas of probably greater importance to decision-making and control, such as internal auditing and cost control and planning, have been neglected by those accounting firms.

Furthermore, the information that is required for planning, control, and decision-making at the macro level is not attainable; failure to collect such information could lead to sub-optimal planning and decision-making, as a result of which economic development plans in GCC states may be prevented from achieving their objectives.

Mohammad Al-Muthaf, Financial Consultant at the Ministry of Finance in Kuwait summarised the present situation of accounting practices thus:

".. in fact when we give our opinion regarding the future outlook of the state economy, we are supposed to have a high level of accounting information that must be received from the state organisations. However, in practice, we do not receive relevant and/or reliable accounting data (the reliability of accounting information plays a vital role in maintaining a healthy and orderly economy), hence, we give our estimation of the present market situation and the final decision of the government is taken on the basis of political decision rather than consultation or unreliable facts from the present economy. Establishment of a new accounting system which should connect state organisations with the national accounts in the government may provide the government with precise information to take the proper action or decision."

The above point of view reflects the current situation of accounting, not only in Kuwait, but in all GCC states, as has been indicated by the interviewee.

A major reason for not using the accounting as a basic tool in decisions could be the fact that accounting practices in the Gulf, especially those related to public sector companies, have been highly influenced by the accounting practices of developed countries, where most financial information is biased towards external reporting and external auditing, leaving no room for government to evaluate the exact performance of companies in order to obtain a clear picture of the future outlook of the state economy. Therefore, it may be understood that in the present accounting situation, the relevance of the accounting practices of most public sector companies to social or national accounting in each GCC state is unsatisfactory.

Furthermore, according to Al-Muthaf, most of the decision-making in GCC countries has been taken on the basis of political decision rather than real figures that come from uniformly based accounting information. This is because the accounting systems of public sector companies have no concern with government interest, but concentrate on complying with companies acts which more or less focus on forms of financial reporting only.

Accordingly, the governments of the Gulf states have no way to sustain economic development, due to poor linkage between micro accounting in the accounting systems of public companies and macro accounting in the form of the national accounts. It is thus suggested that all public sector companies in the Gulf region should adopt an

accounting system which would provide the GCC governments with adequate information for better planning, control and decision-making.

In the meanwhile, one of the senior economic analysts and planner in the Ministry of Industry and Development in Bahrain, Al-Mahmood, J., commented on the present situation of accounting:

" .. the accounting firms laugh at us as users of audited financial information who do not know the input and output of this accounting information. When we see profit we will write a good recommendation to our superior about the excellent condition of a company. However, in fact, the situation may be very bad."

This reflects the present accounting situation, not only in Bahrain, but in GCC as whole.

To conform the above statement, the researcher examined many annual reports of public sector companies and discovered that most of them use the expression "GAAP" which in fact has no precise meaning, since an almost endless series of possibilities for dealing with economic events is available to the accountant and permissible and acceptable to the external auditors, under the broad umbrella of GAAP; thus, the statement "conforming to GAAP" does not have a uniform meaning and with GAAP, a company can, subject to the approval of the external auditors (not always difficult to obtain in competitive world), change its accounting policies and principles from time to time, with the result that consistency can not be

guaranteed.

Therefore, the fact that a particular company maintains a profit is not the only indicator that it is an asset to the government. Al-Mahmood, J., during the interview, admitted that the government needs information on which to evaluate the effectiveness and efficiency of the company's management and board of directors, the performance of the company as a whole and its value to the economy, the company's skill in utilising government financial resources, the efficiency of its output, its implementation of overall government policy, and whether it enhanced national prestige.

The government can not evaluate those elements on the basis of the financial external reporting of the public sector companies at present, as those companies use a variety of accounting policies and methods which prevent the ideal use of their information.

Another top rank executive, Abdul-Nabi Mansor, Manager of the Economic Department at the Ministry of Industry and Development in Bahrain, asserted:

"The present accounting practices in Bahrain do not serve as a basis for economic decision making to the government or to the community in general. They have been adopted to serve a third party and that is international trade and business. For this reason, I recommend the idea of establishing GCC accounting standards or having our own accounting principles to serve GCC needs and environment and to get rid of all foreign accounting systems which in my belief do not serve our economic development."

Moreover, a government official at the Ministry of Finance and Economy in Oman, Al-Khusaibi, M., Assistant Minister commented on the issue of relevance by stating:

".. no doubt the existing accounting standards have some advantages; however, we have to establish our own accounting standards. Oman has adopted , temporarily, the IAS; however, those standards are not obligatory and in fact they are based on English style. Therefore, the present accounting standards are Western standards which do not fit with our objectives within the GCC. You must consider that what is good for the U.K. is not necessarily good for us, despite what we have learned in school; we have a different environment and we must advocate the idea of being independent."

The above points of view represent another criticism that economic development will not be possible unless the GCC countries produce their own standards which are really relevant to their traditional environment and produce accounting practices and principles to serve the needs of the Gulf governments for planning, control, and decision-making. Despite the temporary adoption of the IAS in Oman, the Omani officials do not favour it for Oman, let alone the GCC as a whole, and felt that GCC accounting standards would be preferable.

Establishing GCC accounting standards should not be too difficult at present, as all kinds of experts are available, whether from the GCC experts, neighbouring Arab countries or developed and developing countries outside the Gulf region. From the interviews, it seems to the researcher that the GCC states need new accounting practices which should be related to the GCC environment,

to cover not only the micro economic sector but also to strengthen the macro economic activities, so as to facilitate the functions of planning and control of economic events and conditions. Therefore, the proposed GCC accounting practices must concern themselves, not only with micro accounting events, but also with government administration and national economic accounts. In this case, a unique accounting system (e.g. a GCC uniform accounting system) could have the ability to deal with the information needed for all socio-economic activities in the micro and macro sectors, while meeting the internal and external needs of various parties concerned.

6.6 The Applicability of a Uniform Accounting System in the Gulf Countries

As has been discussed in the literature, environmental factors such as the economic system of the GCC states, their level of development, their educational advancement and the uses of accounting information, play a very important role in encouraging or hindering the implementation of a GCC uniform accounting system.

In the meanwhile, the diversity in accounting practices, standards, policies, procedures, tabulation, measurement and reporting in all public and private sector companies leave the government of the GCC states handicapped to perform their regular role in planning, control and making rational decisions; moreover, diversity makes any reliable comparison between the financial

statements of any companies almost impossible. Thus, an efficient allocation of scarce resources by GCC public officials will be less likely, and national accounts compiled on the basis of those financial statements will be unreliable, for any aggregation of figures provided by those statements will be misleading.

The researcher asked two questions to some authoritative people in the GCC governments (two of them were under-secretaries) in order to judge the effectiveness of the accounting information provided by the various companies in the public sector to the GCC governments. Those two questions were, "What sort of information you do collect from the public sector companies?" and "What sort of information do you need or would you like to collect from the public sector companies?"

The following responses represent the views of various government officials regarding the above issue:

".. at present we have the annual reports which reflect the financial situation of the company. This is what we collect from the public sector companies. In fact, the government appoints the board of directors of all companies and they are supposed to supervise and control the various activities of the company. We wish to know the efficiency of the management in directing the company rather than learning its ordinary financial status." (Al-Mahmood, S., Economic Analyst, Ministry of Development and Industry, Bahrain).

".. all accounting information (fiscal information) can be obtained by a call from the ministry, plus the quarterly report that we receive regularly. However, we need some sort of information that comes in a uniform basis for the purpose of evaluation, because as you know, most of the financial statements received are based largely on the use of conventional accounting principles and methods used in the U.K. or USA. Receiving comparable data will help a lot in making proper decisions and in achieving sustained growth." (Al-Hamar, E., Under-secretary of Financial Affairs, Ministry of Finance, Bahrain).

".. we in this ministry (Ministry of Finance) distribute a uniform format among the public sector companies to collect some information for statistical purposes only. It has nothing to do with state economic planning. The government cannot count on such information because we do not have a department to consolidate and translate the various reports which come from different companies. In summary, most reports deal with financial aspects rather than measuring the effectiveness of the company. The ministry needs information about labour, consumer production, and about the operating status of all productive departments." (Al-Muthaf, M., Financial Consultant, Ministry of Finance, Kuwait).

".. all that we collect is the financial reports which in fact provide little to measure the strengths or the weaknesses of the company. As planners, we do not employ any techniques such as input-output analysis, because the required information is not available. We would like to have accurate, up-to-date, uniform information for the purposes of planning and evaluation." (Al-Meer, R., Under-secretary for Economic Affairs, Ministry of Finance, Bahrain).

".. in fact what we do receive is the balance sheet and income statement which represent the most important items in the financial report. In general, the assets side of the balance sheet includes: fixed assets, current assets, deferred charges and contra accounts. The liability side often contains: owners equity, reserves, earnings, liabilities, provisions

and contra accounts. The income statements contain all revenue on one side and on the other side, general and administrative expenses, depreciation and provision. This sort of information has been audited by an external auditor and that means all inside information is correct. Nevertheless, we would like to know more about the present and the future status of the company, the expected sales and production, the efficiency of the workers and supervisors, even the effectiveness of the top management. All these things are required to be received on time for many purposes. Even though we receive some of them as per request from the under-secretary, still, what we receive is not adequate." (Al-Majed, E., Director of Economic Department, Ministry of Finance, Bahrain).

From the above comments, it may be understood that the current accounting systems in various public sector companies do not have the ability to provide the governments with the information needed for planning and control. However, the researcher, from the interviews, obtained the following findings as to the current situation:

I) Most of the GCC officials who are responsible for controlling, supervising and taking decisions among the public sector companies received annual reports as a tool of the company performance, but few of them received quarterly reports in addition. The reports vary depending on the accounting system of the entity concerned, which make the future planning and control even more difficult. The problems of diversity in accounting practices among the public sector companies could be solved by adopting a unified set of standards (e.g. GCC standards), principles, policies, procedures, classifications and reporting

methods. All of this could be done by establishing a GCC uniform accounting system which would have the ability to satisfy the needs of Gulf governments.

II) Some officials confessed that the annual reports they received and the state accounts (e.g. national accounts) are inconsistent; there is no agreement between micro accounting and macro accounting regarding the definitions, measurements base, unit of measurement and the basis of accounting of the input data necessary for obtaining information on certain economic criteria that could be needed to evaluate the GCCs' economic performance or to monitor the progress of development plans.

III) Most of the GCC officials are sure that, in present circumstances comparability between micro accounting data and macro accounting purposes is unattainable.

IV) One top authority (Under-secretary) acknowledged the fact that nobody is aware of the important role of accounting in terms of facilitating sound government decision-making and he criticised accountants at micro levels for failure to realise that the accounting measurements which they are using could have a great impact upon decision-making at the state level.

V) Some of the GCC officials admitted the lack of consistency in the annual reports and demanded information on a uniform basis. In fact the problem of consistency in accounting rules, policies,

measurements, collection and reporting methods between accounting periods in the public sector companies could be solved by adopting a GCC uniform accounting system.

VI) One of the GCC officials asked about the benefits that could be derived from accounting practices, and especially GAAP, to provide the government, with the necessary information. The researcher felt that the problems of external reporting based on GAAP could be left, at least for the time being, for the private sector, where the accounting information is only used by investors, shareholders, creditors, and owners. The Gulf states, as most of the interviewees indicated, need information for better economic planning and control, information about managerial and national accounting, and information about the performance of public companies, which the present GAAP can not provide and are completely neglected in the annual reports. Thus, a GCC uniform accounting system, incorporating a proper cost system, could help the GCC governments to obtain satisfactory and detailed information about the condition of the public sector cost accounts, such as input-output tables, cost analysis, cost allocation, ration analysis, future projections, capital budgeting, cost benefit analysis, and performance evaluation as a whole.

VII) One interviewee wanted an accounting system to provide information in a coherent, systematic, up-to-date and comprehensive manner, that would reflect the condition

of the GCC economy. The researcher could assert that at present, with diversity in practices, this is too difficult to achieve. However, a GCC uniform system of accounting could provide government with reliable information through various national accounts, including national income accounts, balance of payments accounts, and the national balance sheet. The success of those accounts in providing the required coherent, systematic, and up-to-date information covering the whole GCC economy is dependent on the degree of success of the GCC uniform system and its implementation.

6.7 The Potential Approach

From the interviews, it is evident that the GCC governments need information other than that pointed in the financial reports. However, the link between micro and macro levels is very weak. Nevertheless, it has been felt and understood that the technical framework of macro accounting is similar to that of micro accounting. Accordingly, the need for a uniform accounting system is more urgently felt at the national level, for construction of all elements of the national accounts is dependent on the availability, reliability, and uniformity of the data provided by micro accounts.

Hence, the researcher asked whether a GCC uniform accounting system could satisfy the GCC officials in terms of having the needed information and whether they would recommended such a system.

Ebraheem Al-Hamar, under-secretary to financial affairs, Ministry of Finance, Bahrain, commented on the idea thus:

"To apply a uniform system suited to the various companies in the public sector, I think we should revise all the present accounting systems. The importance of applying a uniform accounting system in the GCC from my own personal view is a must, because we need to have some information concerning the efficiency and effectiveness of the use of economic resources rather than information reflecting the status of shares on the stock market. Moreover, applying a uniform accounting system will ease the comparability factor among the GCC companies. Furthermore, it will concentrate the expertise required to apply and monitor the systems to one set of expertise rather than scattered expertise which is ultimately rather expensive; and finally, if we have one system and we know all the pro and cons of it, all the advantages of it, all the circumstances of it, it would definitely make our job easier for the purpose of decision-making and control."

Rashied Al-Meer, Under-Secretary to Economic Affairs at Ministry of Finance in Bahrain, affirmed:

"Yes, I quite agree with you that it is very important to have a uniform accounting system to organise the information, either financial or management information, to come up with uniform data for the purpose of evaluating, supervising, planning and control. This would make our job in the ministry more efficient and we could also immediately know if there is any weakness in the performance of the company and take the necessary action; furthermore, we could make the needed comparison among companies either in the field or in the same industrial sector here in Bahrain or in other GCC countries."

From the above points of view, it seems to the researcher that a GCC uniform accounting system in

required for GCC governments, for the following purposes:

1. To measure the efficiency and effectiveness of the management in using government resources. The adoption of the uniform system will give a basic tool to learn how management works with government resources, how it invests those resources, and its efficiency in controlling the operation of the company. The uniform system has the ability to limit the manoeuvring of the management in terms of selecting the accounting policies to achieve objectives desired by them. The governments at present doubt managements' reliability in preparing the accounting reports, since they can use whatever accounting policies they wish, to place themselves in a good light and to convince the government of their efficiency, whereas the reality might be very different.

2. To reflect the exact position of a company rather than showing the price of shares in the market, for companies where the government owns a percentage of the capital and the rest is in the hands of shareholders. In fact at present, if the company maintains a profit, the shares will go up and vice versa. Although the GCC states participate heavily in the total equity of many public sector companies, the boards of directors of those companies have full authority to rule the company and can change the accounting practices from time to time to present a favourable image of the company's financial situation and of their efficiency in operating the

company. Furthermore, in many cases, the boards of directors authorise the management of the company to use certain accounting methods for reasons other than good accounting practices. Moreover, the reliability of external auditors is questionable, since they fear they will lose their clients if they are too strict in their approach and show the government and the public, management abuse of company resources.

3. To ease comparability among the GCC countries. In fact, a uniform accountant system will have the ability to solve government and management problems. For the government on national basis, it is very difficult to the GCC officials to plan and control the whole economy without the availability of comparable accounting figures. A national plan among the GCC states is necessary, to firstly, to accelerate the process of carrying out new investments and secondly, to specify targets of development for all public sector companies. In fact, the data available on the second aim will lead to decisions in connection with the first. On the management side, the management of each company needs comparable accounting figures of various companies for inter-firm comparison, in order to improve efficiency, able to detect operational or structural shortcomings and discover weaknesses in company policies and performance.

4. To minimise the cost of many experts in the field of accounting practices and accounting systems. In fact, a

uniform accounting system will substantially decrease the financial burden of the GCC governments in terms of dealing with one set of professionals rather than with scattered experts. At present, the government of the GCC has to deal with many foreign experts who have different backgrounds, and demand high salaries. Each has his own point of view in establishing an accounting system for each public sector company. Thus, the government has to expend large sums of money to satisfy those experts. However, a GCC uniform accounting system would reduce effectively the cost of running many accounting systems of accounting in the Gulf region, replacing them with a single, comprehensive, efficient system which could reduce expenditure. Moreover, the GCC states have an acute shortage of skilled accountants; therefore, a uniform accounting system on a national, sectoral, or industrial basis, however detailed, may well cost less than establishing an accounting system for each public sector company, given that the GCC economy contains many public companies and that there are heavy costs in training skilled accountants. A GCC uniform accounting system requires skilled accountants, but their number would be less, since only one complete system and its variants would be used.

All in all, it has been admitted by some GCC officials that a uniform accounting system would simplify their task and make decision-making and control easier.

Moreover, a GCC uniform accounting system is really needed for the GCC economy as a whole, because at the companies level, such a system would improve similarity of accounting figures both in and outside the company. Not only would accounting information of a company be readily available for use for national accounting, but it would also be relevant, reliable and aggregatable. In return, companies would be able to use national accounting figures and information for their own planning and their management could be provided with cost data which would enable it to take better decisions and to control effectively the operations of the company.

Anwer Abdulla, Director of Finance and Administrative Affairs at the Ministry of Planning in Kuwait, supported the idea of applying the system by declaring:

"All the concerned parties in the governments of the GCC should design an accounting system that best meets the needs of the GCC governments and population and at the same time matches with the objectives of each country. If the uniform system can meet this target then it will be accepted. However, designing systems to conform to others in the world is totally irrelevant and inconvenient."

The above points of view revealed once again that present diverse accounting systems are not appreciated and there is a need for an accounting system that could meet the GCC governments' targets such as better economic planning and control; while also meeting the needs of the public (e.g. shareholders) for uniform financial reports for the purpose of investing and generating profits.

The need of the GCC governments is obvious from their overall constitution (e.g. unity and integration in all fields among the countries). This objective can not be attained without a GCC uniform accounting system that could generate accounting information related to Gulf social and economic development planning, to meet the desire for unity and integration among Gulf states. In fact, most sizeable public sector companies in GCC states are owned by government in GCC states, and accounting information for economic decision-making depends upon who owns the key economic companies. Thus, there is a need for accounting information which facilitates planning and control over the growth of the economy, and this could be achieved through a GCC uniform accounting system.

Moreover, shareholders' objectives could be met through the GCC uniform system. The shareholders could have uniform accounting data presented in such a way as to help them make proper decisions, more readily than does the present diverse accounting information received from various companies. In fact, diversity tends to prevent comparability, hinder realistic performance evaluation among companies, and render accounting data non-manageable and non-comprehensible even by sophisticated knowledgeable shareholders.

In fact, the present situation of accounting diversity in the region and the lack of regulation and legislation in accountancy, is not acceptable to provide a valid basis for effective decision-making or planning for

the future, either for the governments or for the shareholders.

Finally, a uniform accounting system could meet the objectives of each GCC state because it is an accounting system which has the ability to integrate micro and macro accounting records for the purpose of planning and control at GCC level as well as on each country level and which could provide information of true economic value, on a unified basis.

Faress Al-Wakian, President of the Accounting and Auditing Bureau in Kuwait gave the following opinion of the uniform accounting system:

"In fact the Audit Bureau was established in 1964 as an independent commission organisationally attached to the National Assembly (Kuwait legislative body) to achieve effective control over public funds. The Bureau control includes the accounts of the ministries and the companies in which the state hold a share of not less than 50 per cent of the capital. However, we control and audit one side of the accounting function, that is the financial accounts only of the various companies and we face a lot of problems in our job as Audit Bureau because of the different accounting systems that are used in those companies; in addition, we refer to hundreds of mistakes in the companies' accounts but the managements do not listen and the authorities at the Ministry of Finance do not co-operate; let alone private auditing firms, for such companies do not refer to these mistakes and try to avoid it because they have been appointed by the board of directors of such companies and they fear that their auditing contract will not be renewed and they will lose the advantages of high auditing fees. I personally support the concept of having a uniform accounting system to be applied among the public sector companies. This will give us easy access to audit the companies' account more efficiently,

limit the role of private accounting firms in case of public sector companies and ministries, and we can meet our objectives in providing the government with accurate and reliable data."

Moreover, Abdulla Al-Mudires, Director of Auditing, Kuwait Audit Bureau, Kuwait, made the following remarks:

".. I think a high level of co-ordination is needed between accounting systems in the various sectors so as to provide the planners in the government with a coherent language for accurate planning and control. In order to do so, this requires that all accounting systems have the same basis (i.e. a uniform system) which looks towards the long term and is geared towards the written objectives of the GCC charter and to maintaining consistent economic development."

The above points of view reflect the way that Accounting and Auditing Bureaux in the Gulf operate and the problems they face. In many of its annual reports, the Auditing Bureau in Kuwait has complained about the fact that most managements in the Kuwait public sector companies ignore the recommendations in the audit report and also that the Kuwait authority does not act in accordance with its recommendations. This is because the managements of companies and the government authorities place unlimited trust on the external reporting of the external auditors and they think, at least for the time being, that the reports of the external auditor are more accurate than those of the Auditing Bureau.

As a matter of fact, all public sector companies in Kuwait or in the Gulf region are subject to external audit by an accounting firm usually appointed by the Ministry of

Finance in each GCC state. However, the Accounting and Auditing Bureaux in the Gulf (there are three Accounting and Auditing Bureaux in the Gulf: one in Kuwait, one in Saudi Arabia, and one in UAE; the other Gulf countries have an independent auditing department related to the Ministry of Finance) have the right to audit the public sector financial records through their own staff. In fact, all public sector companies in the Gulf are subject to audit by the Auditing or Accounting Bureaux staff or by the auditors in Ministry of Finance, even though most GCC states suffer from a severe shortage of staff, so that in some cases they leave everything to the external auditor.

Nevertheless, the researcher, from the interviews with Al-Wakian and Al-Mudires, discovered that some external auditors are delay in submitting their audit reports, which in most cases, are submitted after the annual meeting of the general assembly and also that their reports are widely divergent in form and substance. Moreover, it has been noticed that the final statements are not oriented towards macro decision-making which makes the usefulness of the external audit very questionable for GCC governments, especially as most of the public sector companies, as has been seen in case of Kuwait, are reluctant to implement the Auditing Bureau recommendations, and private auditing firms do not cooperate with the Bureau's reports of mistakes.

The appointment of an external auditor by the board of directors of public companies, which should reflect the government interest, is a mistake, the consequences of which must be borne by all GCC states. It has been proven that the external auditors' reports still suffer from short-comings due to the fact that they are only concerned with the audit of financial accounts and make no reference to management performance or to the effectiveness and efficiency of the company's operations. They are only concerned to audit the financial statements of the company and express their opinion on the accuracy of the figures presented in those statements. No opinion is expressed on the efficiency or effectiveness of the operations of their clients, nor are management advisory services offered. Gulf countries need information on the effective use of their economic resources, rather than information relevant to the status of shares on a very limited stock market, as provided by Western oriented financial statements.

However, the most important thing for external auditor is to maximise his profit and try not to lose his client. Therefore, the independence of the external auditor is highly suspect because family ties and friendship connections are very important factors in appointing the external auditor in all Gulf states.

By and large, the best solution for the Gulf countries with strong public sector companies is to adopt a comprehensive uniform accounting system. Abdulla Al-Mudires, the director of Auditing at Kuwait Auditing

Bureau, Kuwait, cited the following advantages of applying a uniform system:

".. The uniform system in this case can play an important role in all economic aspects. For example, it can play an important role in guiding project appraisal towards the fulfilment of designated objectives and thus acceleration of economic development. I personally visited Iraq and studied the uniform system briefly, and was fully convinced that this system can do a lot for the economic development of GCC countries. I recommend the government to apply it and once the uniform system is designed, the government task is merely to decide whether or not the system is accepted."

The above comments emphasise the use of the accounting system to produce accounting information with a decision-making orientation and which would lead the orientation towards efficiency in internal auditing instead of financial regularity auditing.

6.8 The Necessity of a GCC Uniform Accounting System among GCC Countries

As has been noticed from the interviews, most of the interviewees accept the fact that current accounting systems operated in the Gulf region which are based on Western systems are unlikely to satisfy the Gulf governments' information requirements. The implementation of accounting standards alone will not help in terms of making sound decisions. Thus, the governments of Gulf countries need information other than the regular annual reports. They need accounting information which is based on an integrated body of accounting practices, showing

whether or not government resources have been properly utilised, the efficiency of the company's operations, efficiency of the management, and other financial information about the Gulf states' economic activities and resources. Such accounting information has to be relevant to GCC officials in terms of economic planning and control at both micro and macro levels.

The only accounting system that could provide the necessary information for the GCC's sizeable public sector companies is a GCC uniform accounting system which would have the ability to improve the status of accounting and development planning and control in GCC countries.

From the interviews, it may be concluded that a uniform system is more capable of providing such information, which is indeed relevant to GCC officials in terms of planning, control, and performance evaluation.

Taleb Al-Yakthan, Under-secretary at the Ministry of Commerce and Industry in Oman, gave his point of view on implementing a uniform system by arguing that there is:

"∴ no question that the suggested uniform accounting system could be applied easily in the GCC countries with the existence of new technology, that is computers. The computers could participate in encouraging the process of establishing such a system, since many companies in the Gulf countries are using computer facilities in their operations. I can conclude, we have in the GCC some objectives which we need some guidance to achieve. The application of a uniform system in the public sector to start with, may ease the job of achieving the desired objectives."

Ebraheem Al-Hamar, Under-secretary of Financial Affairs at the Ministry of Finance in Bahrain explained the conditions on which a uniform system might be accepted, thus:

".. The suggested uniform accounting system could be adopted by the government if it offers the following conditions:

* It must be comprehensive so that it can solve almost all the expected accounting problems.

* It must provide the government with all the information needed for future planning and control.

* It must play a significant role towards the fulfilment of designated GCC objectives.

* It must enhance the unity among GCC countries and help in the making of comparative economic studies among the public sector companies in the Gulf region. Meanwhile, at the micro level, it should facilitate regulation of the layout and presentation of annual accounts.

* Finally, it should be flexible and easy to use and to handle.

So once the system meets the above basic requirements then, of course, the government will look at it favourably and would implement it."

The conditions mentioned by the above interviewees could be met through a proper comprehensive GCC uniform accounting system. The main objective of the expected GCC uniform system is to smooth the process of planning, control and decision-making, by alleviating most of the problems caused by the diversity of accounting practices, thereby improving the reliability and consistency of accounting data for GCC officials, for proper control and integration of micro and macro accounting.

Moreover, as the interviewees mentioned, the governments of the GCC need information for future

planning and control and it needs a uniform system to fulfil the designated GCC objectives. The function of planning and control have not been, and still cannot be achieved, with the present diversity of accounting systems. In contrast, the GCC uniform accounting system would have the ability to meet that target at micro and macro levels.

Therefore, the expected uniform system would have the ability to generate accounting information and accounting figures which are easy to consolidate and integrate from the micro level to serve macro accounting, which is basically the product of the aggregate of micro accounting data. Thus, national income accounts, national balance sheets, value added statements, and flow of funds statements are simply the product of the aggregation of figures from the profit and loss accounts, balance sheets, and source and uses of funds, and value added statements of the company. A GCC uniform accounting system can provide the GCC governments with companies' accounting figures that can be added together to serve planning and control.

Therefore, it is evident that the first purpose served by a GCC uniform system is to facilitate planning and control by GCC officials, by supplying significant statistics based on uniform and known definitions. At present, most of the GCC countries suffer from a shortage of qualified accountants and statisticians, as well as a lack of co-operation among various companies. Thus, most

government statistics are based on estimation rather than actual figures. A GCC uniform system will fulfil the GCC objectives, at least by helping the statisticians and compilers of national accounts to provide reliable, relevant, timely and current information, capable of being easily gathered and processed and be used properly.

Salem Al-Shenfary, Consultant at the Ministry of Finance and Economy in Oman, gave his views of the suggested uniform accounting system as follows:

".. at present, we do not have specific information about what is going on in the public sector companies, especially the big ones. Commercial Companies Acts do not provide us as government with accurate information. All we have is yearly reports plus a few other reports which in fact do not reflect the exact position of those companies. These reports do not have the necessary information to rely on as far as future planning for the state is concerned. However, the government, for its economic purposes, needs to have a lot of accounting information that must be provided by the accounting system of those companies. If what we seek for (the uniform system) will facilitate the process of receiving the uniform information needed, ease the planning process for various companies, allocating and controlling the public sector resources, then I'll absolutely support the new system not, only in Oman but also for all the GCC states, in order to reach the desired unity."

Meanwhile, Rashed Al-Meer, Under-secretary of Economic Affairs at the Ministry of Finance in Bahrain, foresaw the important role of the uniform system, indicating:

".. As yet, there is no all-embracing commercial legislation in any country in the GCC; for this reason, the uniform accounting system may facilitate comparability among different enterprises and that could give the government the upper hand in allocating their resources and, therefore, achieving optimum planning for a brighter future. In addition, the uniform system may facilitate the evaluation and follow-up of the performance of each company. In conclusion, the government would like to learn the strengths and weaknesses of each company by adopting such a system."

The above comment reveals the weak status of laws and legislation on accounting in Gulf countries. Most of them place the responsibility on the management of the company to prepare the financial statements (e.g. balance sheet and profit and loss accounts) once a year; the balance sheet should represent the final position of the company on a specific date, while the profit and loss account should state the income during the financial period. By and large, one can say that the GCC Companies Acts have barely touched upon the area of the organisation of accounting information, leaving aside the most important issues such as type of accounting information required, to whom it should be presented, the content and details of such accounting reports and methods and policies that should be followed.

Therefore, due to the simplicity of those laws and regulations, the majority of accounting matters have not been standardised or even considered.

As a result, foreign companies, accounting firms, and accountants have been left free to practice their own

countries accounting rules and standards, which in time influenced the evolution of accounting in the Gulf countries.

Indeed, the suggested GCC uniform system will build the whole structure of the GCC laws and regulations by giving every single detail required to facilitate the process of planning and control and making rational decisions. It would ease comparability by producing highly comparable information between companies at micro level and between sectors at the macro level, as one of its main tasks.

In fact, the whole Gulf society needs to see comparable accounting data. It is required not only by governments and GCC officials, but also by investors, creditors, and analysts, and by the management of the company.

In the meanwhile, allocation of government resources under the present foreign accounting systems, is inefficient. For example, the profit and loss accounts of two similar companies could be prepared on two different bases with GAAP, making comparability between the income of the companies meaningless. Hence, the management of any company can manipulate the accounting reports, while still complying with GAAP, to indicate to the government their efficiency and honesty in handling government resources.

Finally, it has been admitted by all interviewees that due to the Western influence on many aspects of life and economic environment, there is a wide gap between the accounting information needs of the Gulf environment and the accounting information provided by accounting in Gulf countries. The present emphasis is on private sector accounting regulation needs, whereas government needs and requirements for economic development are largely ignored, as all the regulations and laws are concerned with financial accounting and external reporting. Thus a comprehensive GCC uniform system could solve the problems and it facilitate the evaluation of performance of each company in each Gulf country, informing the government of the strength and weaknesses of each company.

6.9 Summary and Conclusion

This chapter attempted to investigate the attitude of officials in various GCC governments toward the idea of applying a uniform accounting system to help the governments in planning and control and at the same time meet the GCC's objectives of unity and integration.

From the findings presented in this chapter, it is concluded that there is a tendency towards accepting the idea of a uniform system. When it was explained to the GCC officials that an alternative to American and British accounting exists, and that uniform accounting systems have been successfully adopted in both developing and developed countries, both in capitalist and centrally-

planned economies, most of them expressed their enthusiasm for the idea. However, effort is needed to establish such a system.

Whether the responsibility for developing the uniform accounting system is given to the GCC governments or to the General Secretariat of the GCC, the uniform accounting system must be properly explained to the interested parties. Marketing the uniform system may be regarded as a political process; accounting policy-makers should provide a favourable environment within which interested parties could be persuaded to accept the new system, and any resistance to change lessened.

In the case of GCC countries, it is expected that there will be considerable interest in establishing a uniform system which suits the Gulf area. This can be judged by the positive responses and views of the parties concerned. A carefully planned process of deliberation about establishing a uniform system seems an important prerequisite in order to ensure agreement on the proposed system. This could be achieved through:

- 1) conducting additional intensive research before drafting the uniform system;
- 2) better communication with interested parties;
- 3) intensive study of the responses to exposure drafts of the proposed system;
- 4) careful representation of all interested parties;

5) following-up the established or adopted uniform system by researching its economic and social impact, and detecting any problems in its implementation.

In order to conform the acceptance or rejection of the idea of a uniform system the researcher visited two other Gulf countries, that is Saudi Arabia and UAE which in many ways represent the corner-stone of the Gulf countries. The researcher held in-depth interviews in those countries with GCC officials, planners, economists, officials in the Secretariat General to the GCC, and with authorities in the Accounting and Auditing Bureaux. Details of these discussions will be presented in the following chapter.

CHAPTER 7

*ANALYSIS OF THE EMPIRICAL INVESTIGATION BASED ON
RESPONSES OF THE OFFICIALS IN GCC GOVERNMENTS
(PART II)*

7.1 INTRODUCTION

A central focus of this thesis is to ascertain the feasibility of applying a uniform accounting system among the GCC states.

Accordingly, the purpose of this chapter is to present in-depth the opinions of the GCC officials, planners, and economists in two other GCC countries, that is Saudi Arabia and UAE, regarding the importance, relevance and applicability of establishing a GCC uniform accounting system to suit the GCC governments, requirements for economic development planning and control and meet the GCC objectives in terms of unity and integration. Furthermore, the researcher held extensive interviews with officials in the General Secretariat to the GCC in Saudi Arabia, to obtain their response to the idea and consider their valuable opinions.

Thus, the intention here is to show whether or not the GCC officials in those two countries are willing to apply the uniform system, really want to apply it, are able and prepared to make available finance for it and will make full use of it, as well as the expected results from applying it.

Moreover, we shall state their opinions and evaluation of the current accounting systems and their relevance to the GCC environment, in addition to the assessment of the GCC officials of the future correlation between a GCC uniform accounting system and desired governments objectives.

7.2 Scope and Objectives

The main method of research adopted in this chapter and assumed to be appropriate is the interview. Comprehensive interviews were held in two countries which represent the corner-stone of the GCC, that is Saudi Arabia and UAE. These interviews were conducted with GCC officials, planners, economists, authoritative people in both Accounting and Auditing Bureaux, and with high ranking officials in Secretariat General to the GCC.

The principle objectives of the interviews referred to in this chapter were:

1. To find out whether there is a correspondence of opinion between the interviewees in chapter 6 and those in this chapter.
2. To seek their perceptions, comments, and evaluation of the possibility of applying a uniform accounting system.
3. To assess and project attitudes, estimations, and GCC governmental commitment to advancing the formulation of the expected GCC uniform system.

As has been mentioned, the researcher depended heavily on extended interviews with those officials, together with personal observations. These interviews made the researcher aware of widely-held views and preconceptions of a large number of GCC executives.

However, before discussing and analysing the interviews, the researcher would like to give a brief idea about the development of public sector companies and the

development of accounting and auditing standards in Saudi Arabia and UAE.

7.3 Development of Public Sector Companies in Saudi Arabia and UAE

The advent of public companies in Saudi Arabia and UAE has been a relatively recent development. In both countries the new form of organisation for government operation was the product of the unprecedented prosperity associated with oil production and marketing since early 1970. This bright economy highlighted the need for economic and social planning, control and decision-making and for the restructuring of the economy from a consumers market to an industrial base producing capital goods.

Accordingly, public companies in both countries have become important instruments for governments and for Gulf nation-building to carry out entrepreneurial functions associated with economic and social development.

Hence, the governments in those countries have adopted the strategy of establishing companies for industrial, commercial, agricultural, and financial activities. All these development activities required large amounts of capital which could be provided only by the government through the public sector companies.

Therefore, the public sector companies in Saudi Arabia and UAE countries, have assumed a major role of the State in accelerating economic development and maintaining political stability. In both countries, public companies

were developed for political, economic and social reasons. The government had to fuel the engines of growth in the economy and had to provide the vehicles for achieving this purpose.

7.3.1 Nature of Those Companies

As has been discussed in the literature, the public sector companies differ from other companies in the Gulf region, in as much as the government and/or public corporations hold the majority or all of their shares. Where equity in a company is held jointly by government, public and private interest, it is generally referred to as a "mixed company" or "joint venture" company. Where the government participates fully in capital, the company is generally referred to as a "government company" or "state company".

There are no accurate figures for the number of public companies in the UAE, because individual Emirates have remained in control of major areas of economic activities and every Emirate has its own public sector companies. Saudi Arabia has about 37 public companies established by decrees of the Chairman of the Board of Ministers and more than 60 other public companies in the form of government owned or controlled companies established under special companies legislation (Al-Shareef, M., Deputy Minister of Finance and Accounts at the Ministry of Finance and National Economies, in Saudi Arabia).

7.3.2 Managing the Public Companies

All public companies in Saudi Arabia and UAE are managed by a board of directors. The chairman of the board of directors, who could be a Minister, and members appointed by the board of ministers, are responsible for policy matters. In addition, the board of management, which is appointed by the board of directors, is responsible for the day-to-day operations and functions of the company.

The Ministry concerned appoints representatives to the boards of directors of government-owned companies, while the other members are elected by the shareholders at the annual general assembly. However, when there is majority ownership by the government, the Minister concerned has to be the chairman of the board of directors.

7.3.3 The Financing Methods

These vary from company to company. Some public companies in Saudi Arabia and UAE are able to meet operation costs from their own revenues, but others are totally dependent on government subsidies. Because of the public interest aspects of these companies, the government controls rates, fees and product prices.

Moreover, subsidies are given to public companies to cover operational deficits but, where the government controls prices, the grants given could be to cover

operating losses or guarantee a specified net income.

According to the companies law in both countries, public companies are not allowed to borrow on open market but there is no such restriction for government-owned companies. Such companies may borrow money, but the government does not provide guarantees.

Another form of financing public companies is through equity participation in the company. Accordingly, the government may invest in a company in order to establish a national industry or to support industries.

7.3.4 Controlling the Public Companies

As has been discussed, the responsible Minister may be the chairman of the board of directors of a public company, especially the largest ones and those which represent the key industries such as oil, petrochemicals, aluminium, steel, and refining. If the Minister is the chairman of the board of directors of a government-owned company, the company will be directly controlled by him. Where the Minister is not the chairman of the board, officials from the Ministry are appointed as members of the board and derive their authority from the Minister.

7.3.5 Legislatural Controls and Committees

Unlike the Council of Ministers in Saudi Arabia, which is a legislative body and, at the same time, responsible for executive and administrative matters, the UAE Council of Ministers has left each individual council

in each Emirate to decide the appropriate way to control the public companies. However, both Councils of Ministers have the right to review the budget of all types of public companies.

There are no parliamentary committees in Saudi Arabia or in UAE (unlike Kuwait). Instead, the Accounting and Auditing Bureaux in both countries present their reports to the Council of Ministers to inform them about the current situation, so the proper action can be taken.

7.4 Development of Accounting and Auditing Standards in Saudi Arabia and UAE

Accounting and Auditing standards in all GCC countries are weak because they are not relevant to Gulf environment. Transferring standards of other countries to Gulf countries without reviewing them and determining what is suitable and what is not, dooms those standards to be rejection by the Gulf society and governments. Accordingly, national or regional GCC standards are demanded to serve the growing economy of all GCC states.

7.4.1 Development in Saudi Arabia

Like all GCC states, the accounting profession in Saudi Arabia is poor and its in its early growth. Up to now, there is no professional society of accountants and the public recognition of accounting as a profession is low. Moreover, research in the field of accounting is limited, with no professional journal or magazine on accounting published in the country.

However, only recently, King Abdul-Aziz University established a society in the university called the "Saudi Accounting Association". Its main purpose is to be concerned with academic affairs and it has nothing to do with developing and/or elevating the accounting and auditing standards of the profession or the professionals operating in Saudi Arabia.

Still, there is the Chartered Accountant Act which dealt with the accounting profession. However, this act was enacted to satisfy certain legal requirements and not professional requirements; therefore, it is virtually void of auditing standards, ethical standards, or a code of professional conduct.

Eventually, only recently, the Ministry of Commerce appointed Al-Rashed Accounting Firm, a leading Saudi National Accounting Firm, to study the present accounting situation in the country and come up with general ideas for possible improvements. Al-Rashed studied carefully the present accounting situation and legislation, and concluded that no generally accepted accounting or auditing standards exist in the country. Therefore, he conducted a comparative study of three countries (USA, West Germany, and Tunisia) to benefit from their experience. USA and West Germany were chosen because they are developed countries, and Tunisia as a developing country. He evaluated the standards in those countries and reached the conclusion that if such standards are found consistent with objectives and fundamentals concepts in

Saudi Arabia, they will be adopted; and if not they are to be rejected and Saudi standards developed to meet the countries' requirements. Finally, he recommended with the following:

- * Financial accounting objectives,
- * Financial accounting concepts,
- * Standards for presentation and disclosure,
- * Auditing standards.

The Ministry of Commerce endorsed these developments and issued Directive No. 692 dated 28/2/1406 H. (corresponding to 11/11/1985) to be used by all concerned parties as a guide.

The researcher, however, would like to emphasise, on the basis of his interviews, that those accounting and auditing standards are to be taken only as a guide and as be recommendations by the Ministry of Commerce; they are not binding. Meanwhile, the General Auditing Bureau has adopted the auditing standards to be used by its financial auditors when they conduct audits of government financial affairs; the Bureau has recommended the use of these standards by the external auditors who audit the accounts of public companies as well as private companies which receive subsidies from the government.

It is noticeable that most of the accounting and auditing standards adopted were merely translations of accounting and auditing standards established in other countries, particularly the United States, where the economic and political environment is, in many ways,

different from that in Saudi Arabia. For example, the contribution of the private sector to the economy in the United States is far greater than that of the private sector in Saudi Arabia; in contrast, the Saudi government's public sector investments far outweighs the private sector. Therefore, it seems to the researcher that the study that has been issued by Al-Rashed and recommended by the Ministry of Commerce is biased towards the small private sector enterprises and their investors, shareholders, and creditors, and ignores the huge government investment in the public sector companies, which is totally different and needs different criteria and measurement than those related to the private sector.

7.4.2 Development in UAE

As is the case in Saudi Arabia, the accounting profession in UAE is not represented by any national professional organisation, nor is it regulated to any great extent, except as regards licensing.

No governmental or professional organisation currently exists in the Emirates to monitor and/or evaluate the activities and present accounting and auditing standards applied. At present, the American accounting standards, the British accounting standards, and the IAS are the most widely applied. All accountants and auditors must be registered in accordance with the provisions of Federal Law No. 9 of 1975, which regulates the profession.

However, the government does not monitor the standards of accounting required or standards of auditing applied by the companies; consequently, each company is responsible for the maintenance of its own standards. Therefore, all public and private companies are able to set their own accounting standards, within a broad framework of professional acceptability. The form of the financial statements of public companies, however, has to be approved by the Ministry of Economy and Commerce.

7.5 Interview Responses

The researcher was astonished by the strength of the responses of officials interviewed in Saudi Arabia and UAE. They answered the researcher's critical questions with full confidence and showed reasonable familiarity with various fields, especially the economic situation and ways of developing it, their needs as decision-makers, the kind of information they seek from the public sector companies, how they would like to see the present situation changed, and whether or not a unique uniform accounting system to suit the environment of the GCC could help the GCC countries' economic and social environment.

Moreover, they expressed their desire to have more information than the regular financial reports that they receive from the companies, in specific periods of time. They were keen to discuss factors that influenced the evolution of accounting in Gulf countries, such as the nature and deficiencies of current legislation, national

accounting and what needs to be received from companies in the public and private sectors to improve it, and finally, their view of the GCC as the only environment in the world that really needs an accounting system for potential improvements other than those from the developed countries.

The researcher's analysis of the interviewees' responses convinced him of the real need of Gulf countries for reliable and relevant information, in order to construct successful economic development plans, to exercise effective control over the huge resources invested, and to take rational decisions on economic resources. These could be achieved through a suggested unique accounting system which, if implemented, would alleviate the problems of inadequate or unreliable information for the GCC countries' development planning, control, and decision-making.

7.6 The Present Accounting Standards and their Relevance to Gulf Countries

It has been believed that standards should be established to guide the process of financial accounting and auditing in every environment. However, an acceptable methodology designed to produce relevant standards should involve the definition of objectives of financial accounting or auditing prior to the establishment or adaptation of those standards. This does not exist in Gulf states. Most of them have applied standards that are

totally unacceptable to the environment of the Gulf region. Therefore, it is essential that any study aiming at the adoption of accounting standards or application of an accounting system should investigate the economic environment in where the accounting standards are to be implemented. Acceptability of those standards by those who need to comply with them is very important in the accounting field.

Mohammad A. Al-Shareef, Deputy Minister for Finance and Accounts, Ministry of Finance and National Economy in Saudi Arabia, questioned the relevance of the present accounting standards in the region by stating:

"... saying that many or several present accounting standards are not relevant to our region in one way or another is fact. However, let me tell you that we must do something as a government regarding this situation. That could be achieved by some standards which at least give the government the upper hand to take care of its own assets. But again this would require a lot of input from local professional people, who I think should not just pay us lip service but must actually work. Paying lip service, and saying we are doing fine, will not improve our work."

The above comment confirmed that the professions' present status is incompatible with the important role it should play in developing and using accounting standards to be relevant to the GCC environment and to guide in a real way the preparation and presentation of financial information for users, especially the government for its role as owner and controller of a large portion of the economic environment.

At present, most of the users of accounting financial information are reluctant to rely on the financial statements of any public or private sector company, since they can not depend on their accuracy and consistency, because of the variety of accounting standards used, and the way in which those financial statements are prepared.

Al-Shareef argued that something must be done by the government to control the situation. The researcher would like to assert that the governments in all GCC states should consider issuing GCC financial accounting standards which would determine the methods of measuring the effects of operations, events and circumstances on the financial position of a company, the results of its operations, and how best to communicate these results to the users. However, because of lack of regulation and legislation in GCC states, the present accounting situation is not acceptable to either the government or other users such as shareholders, creditors, and investors.

Taking Saudi Arabia as an example of the GCC states, and looking at the proposed accounting objectives and concepts issued by the Ministry of Commerce, one concludes that accounting as a relevant measurement tool and as an effective communication devise for economic activity does not fully recognised in Saudi Arabia country. It is apparent from reviewing many financial statements of public and private sector companies and from the examination of Saudi legislation that the real

significance of accounting information is not grasped adequately. At present, although the Ministry of Commerce has issued some accounting and auditing standards, accounting practice still suffers from a lack of supportive regulation, coherent standards, adequate accounting systems, and sufficient qualified accountants. The actual practices of accounting, reporting, and auditing still vary from company to company. For example, the Saudi Acts contain no rigorous requirements regarding the form and content of financial statements. Furthermore, the measurement and communication standards that are implicitly or explicitly contained in the examined laws are few and limited in nature, falling under the category of rules rather than standards.

From the above, it can be seen that the laws, legislation, and regulations of companies do not include express provisions on financial accounting standards.

Ali Younus, Chief Executive of the Economic Department and Public Companies Affairs at the Ministry of Planning in UAE, gave his opinion of the relevance of foreign standards by stating:

"The present accounting standards in the UAE or in the Gulf countries as a whole, are those of the United States and Western Europe. Unfortunately, those standards do not suit our culture, religion, customs, or our economic environment, since we are less developed than them. Therefore, you and other professionals from the Gulf should seek some alternatives so that, to meet the demand of our governments in terms of more economic unity among the Gulf countries, more control of our scarce resources, and more effective roles in every respect for the GCC government."

Mohammad Al-Zabi, Director of the General Administrative Sector in the Accounting Bureau in UAE emphasised the reason for the present accounting situation by stating:

"... why do we not have our own accounting and auditing practices? Because there is a complete lack of appreciation of the profession of accountancy in the Gulf region, especially on the GCC government side. To many people, for example, accounting is synonymous with typing and bookkeeping. The governments in all GCC states do not recognise the profession and its linkage with the economic situation. They treat accountants like any other low level employment. For this reason, we are still stuck with developed countries' accounting and auditing standards, although you must notice that some of them are definitely not applicable to our GCC territory."

Moreover, Abdulla Al-Mulla, Economic Advisor at the Secretariat General of the GCC in Saudi Arabia, defined the problems of the present situation by stating:

"... the current accounting standards are not adequate for our Gulf society. There are a lot of problems of inadequate financial management and inadequate financial regulations. These problems are not solely due to weakness in practices of accounting but they have certainly been a contributory factor. The weaknesses, all of which are interrelated, can briefly be summarised as follows:

- 1- There is a shortage of qualified GCC accountants.
- 2- Lack of commitment to promote continuous professional education, which has become more important because of the revolution in information technology.
- 3- Lack of an adequate discipline to enable young GCC citizens to train and qualify in directly relevant subjects.
- 4- Lack of an appropriate national accounting and auditing standards.

5- Lack of an appropriate active vehicle such as a recognised professional accounting society to consider the above problems on the scale required and in a uniform and consistent manner in the Gulf."

The above comments reflect the critical situation in the Gulf region where, because of the absence of an effective legal approach to accounting problems in general and standards setting in particular, the process of standards setting has become the responsibility of the professional accounting bodies in developed countries. Their standards, in the above interviewees' understanding, are inconvenient and irrelevant to the GCC environment. The issue and adoption of accounting standards concerned solely with external reporting, and failure to reduce the diversity in accounting methods, has resulted in abuse of the situation, and accounting scandals are widespread among the Gulf countries.

By and large, it seems to the researcher that there is general agreement on the irrelevance of existing foreign accounting standards applied in the Gulf region and GCC standards to the GCC environment are required to remedy the present unacceptable situation.

7.7 The Best Alternative

As discussed earlier, a great deal of variation exists in the accounting principles and/or standards applied, because of the adoption of Western accounting systems. This could be attributed to weak government observation, control, and also to lack of understanding of

the nature of the GCC requirements.

Mohammad Joudah, Financial Controller at the Ministry of Finance and Industry in UAE gave his reaction against the current accounting systems in the region by stating:

"Many UAE financial executives who replace top foreign management have accepted the management and accounting information supplied to their specifications without question. Those expatriates brought to us their countries' accounting systems without modifying them to our local needs. Now is the time to examine those systems critically and try to create our own system of accounting that shows our identity as one Gulf nation and one unified government."

Accordingly, the researcher asked some vital questions regarding the present inconvenient reporting system from the micro units to the macro levels, present lack of any sort of uniformity in these reports, ambiguous information, and the poor decisions that could result from this messy situation. The question arises, what could be done to remedy the situation?

The researcher explained to the GCC officials that they have two choices: They could go ahead with the present diversified accounting systems in the public sector companies, i.e. adopting an accounting system which allows greater freedom of choice among different accounting methods and procedures; this, in effect, means adopting the present Western accounting systems with their differences and deficiencies to the GCC governments in terms of planning and decision-making. Alternatively, they could develop a uniform accounting system, i.e. a

adopt an accounting system in which accounting methods and procedures are established on a uniform basis, and under which the choice of accounting methods or procedures is restricted. The leading examples of this approach are the Iraqi uniform accounting system and the French uniform accounting system.

Ahmed Al-Mansor, Deputy Minister for Economic Affairs, Ministry of Planning, UAE, expressed his support for a uniform accounting system when he stated:

"The government, because of absence of specific rules and regulations, is known to be facing a lot of difficulties in terms of accurate planning. As a result, suggesting a uniform accounting system that has the power in making the process of integration of the different branches of accounting, external reporting, management accounting, social accounting, balance of payments accounting etc. would no doubt be a good idea and I would give you full support if we could make it a real thing and let the government benefit from suitable planning and decision-making".

Ahmed Al-Hakami, Deputy Minister for Sectors Planning, Ministry of Planning, Saudi Arabia, emphasised the value of having a complete accounting system to suit the current economic situation, by declaring:

"We need to have an accounting system to match the GCC's remarkable economic environment and set aside those related to foreign systems. For example, for best planning in Saudi Arabia, I agree with you that a comprehensive accounting system that satisfies the nature of government companies may help the government to play a positive role in governing and supervising the wealthy economic environment and controlling to some extent the mess of the present economic situation. Having done that, we can declare a complete economic development".

Mohammad Mufti, Deputy Minister for Administration and Financial Affairs, Ministry of Planning in Saudi Arabia, clearly criticised the current availability of information, declaring:

"To be frank with you, we here in the Ministry (Ministry of Planning) are supposed to exercise some kind of control over information, particularly that from government or semi-government companies. However, because of lack of instant feedback from such companies, we can not control the needed information for the purpose of planning and that could be ascribed to the different accounting systems used at present, which by and large were adopted from outside foreign countries. The suggestion of a uniform accounting system to satisfy the objectives of the government in getting what they need on time, or at least speeding the information required, will not be rejected."

Rayhan Mubarak, Manager of Planning Department, Ministry of Planning in UAE gave his valuable opinion by stating:

"...we have a lot of economic resources but for these resources to be useful they must be planned and have a good honest management if we want a successful economic growth or development in UAE. At present, because of foreign accounting practices, the function of planning needs a lot of modification and I can say it is not adequate. I think we have to have accounting practices (systems) or any national or regional discipline which could supply the government (Ministry of Planning) with the necessary accounting information needed for making its various decisions and carrying out effective economic and financial control."

According to the above interviews, it seems to the researcher that the function of planning in Saudi Arabia

and in UAE, which represent the corner-stone of the GCC countries, is not built on accurate methods and procedures because of lack of information received from the micro level. Indeed, development planning requires a high level of information on the economy and its major sectors. The macro accounting levels could be considered one of the main sources of such information and of feedback to the GCC national planners regarding the progress being made in achieving development planning and control objectives. The effectiveness of the information provided by the national accounting to the planners in the formulation of the national plans is affected by the reliability and accuracy of micro accounting, which depends, in turn, on the reliability, relevance, and accuracy of its accounting systems. Thus, there is a clear need, as indicated by the interviewees, to adopt a uniform accounting system which will have the ability to link micro accounting with macro accounting needs, by its unique uniform information and will provide the GCC officials with the required information to be used to enhance economic development.

In fact, all of the GCC states need to appreciate the importance of the accounting systems used at the micro level for the construction of their national accounting system. A GCC uniform accounting system could improve the public sector accounting and reporting system and has the ability to create a linkage between micro and macro accounting which really would enable the GCC planners to construct more accurate and reliable national accounting

statistics. On such basis, a sound national plans among the GCC states could be drawn, effective government policies could be formulated, rational decisions could be taken, and effective control of government resources could be attainable.

7.7.1 The Applicability of a Uniform Accounting System

The researcher sought the points of view of top authoritative people in the government of Saudi Arabia, UAE, and some officials in the General Secretariat to the GCC, in order to see whether their points of view are parallel to those of GCC officials in other GCC countries (e.g. Bahrain, Kuwait, and Oman).

Majed Al-Khazraji, President of the UAE Accounting Bureau, UAE, gave his opinion regarding the applicability of the uniform accounting system to GCC states by asserting:

"... we (the GCC citizens) must follow instructions and rules that come from the central government in general. Accordingly, the government in each GCC state, could play a major role in the development of the country. If the uniform accounting system has the ability to advance the Gulf countries; to give more reliable and constant needed information for the purpose of planning and control; to enhance government supervision instead of impede administration; to keep the government informed of any necessary details of information on the spot then why should we not take it and benefit from it?"

The above interviewee raised some questions as to whether a uniform accounting system could meet certain needs. The researcher, however, would like to assert that

one of the main objectives of the uniform accounting system is to supply data required by national planners in the government and by management for the purpose of planning and control. Hence, the new system will help both the government of the GCC to receive exactly what they want for successful development plans and for management by providing them with complete, reliable, and accurate data on other companies in the same fields. Moreover, the Accounting and Auditing Bureaux in the Gulf will benefit from such a system when they know that further main objectives of the uniform accounting system are to measure the effectiveness of company management and evaluate performance, i.e. operation output and best way of using the government resources, of all public sector companies.

On the other hand, Abdul-Aziz Abu-Haimed, Deputy of State Minister and President of General Auditing Bureau in Saudi Arabia, welcomed the idea of a uniform system, but wondered what reaction it would receive:

"The government of Saudi Arabia issued some auditing standards with the assistance of one local accounting firm; these standards are more or less adopted and modified from foreign developed countries and translated into Arabic to meet the government requirements. However, the Bureau believes that at present, there is an urgent need to codify those auditing standards because there are no standards which are generally accepted in the Kingdom. The Bureau requires the board of directors of the public companies to submit their balance sheet, the board's report and all other documents to be audited by the Bureau. In my opinion, there is a lot of misleading information in those reports but it is really difficult to prove that, since every company has its own accounting standards and systems

that it can manoeuvre from. Establishing a uniform accounting system, although it might be difficult to measure the different reactions to it, seems a good idea, at least to know what exactly is going on in those firms."

The researcher agreed that there will be some reluctance from various parties that are now benefiting from the existing diversified accounting system. However, it should be noticed that this new system will benefit the government in the first place in providing the information needed not only for devising and implementing development plans but also to control such problems as corruption, embezzlement and misuse of authority. Thus, there is no cause to reject it if the government is willing to use it and take the advantages from applying it. Those who might still be reluctant to apply it, in the researcher's point of view, have two choices- either to implement it or to resign and let others do it.

Rashed Al-Fulaity, Director of the Statistics Department in the Ministry of Planning, UAE, gave his reaction to the present situation by stating:

".. All of us know that the accounting function is almost the same in all countries. Yet, the accounting systems among different economies often vary. In UAE and thereafter the other GCC countries, the diversity of accounting systems could be attributed to the regulations governing the content and format of accounts and accounting methods. The Ministry of Planning, because of this situation, gains little of importance concerning the economic activities at the micro-level. In my belief, adopting a uniform accounting system could lead to a great return from the micro-level entities and would benefit the government when preparing the macro-level accounts."

In the same belief, Abdulla Al-Thubaib, Assistant Minister for Public companies and Establishments, Auditing Bureau, Saudi Arabia, criticised the present situation and the defects of present systems by announcing:

".. I think what we receive as financial reports and subsequent data from the public sector entities are too little, very condensed, very complicated, and uninformative. The received reports do not tell us the exact details of operation of the entity nor do they tell us the efficiency of management and in which direction they are moving. Having a uniform accounting system could be a useful idea to remove much confusion that exists in many companies, particularly those in the industrial field."

The above viewpoints express the GCC countries difficulty in evolving an accounting system which truly reflects the needs and circumstances of their own environment. The existing systems are largely extension of those in the developed countries which, as Al-Fulaity explained, do not help the Ministry of Planning to obtain relevant data from the micro level, or, as Al-Thubaib highlighted, information from the company that can help in evaluating the performance of the company in terms of effectiveness of operation and the performance of management in terms of efficiency. Thus, a uniform accounting system that will help to improve the situation appears desirable.

7.7.2 Possibility of Establishing a Uniform Accounting System and the Body that can Achieve It

From the previous comments, it seems that there is a tendency to accept the idea of applying uniform accounting. However, some interviewees feared that the implementation of one system may not be an easy job and it would need a body of professionals, which at present does not exist, to establish it, evaluate it, and give their recommendations on it.

Abbas Arafat, Director of Documents and Library Affairs, Ministry of Planning, Saudi Arabia, had the following suggestions to make: .

".. Applying a uniform accounting system is not such an easy task as you imagine. It needs a co-operative effort from both governments and those in charge in companies (boards of directors). Once it has been clarified, and people are shown the reason behind it, shown the advantages that could be generated by applying it, and gain the confidence that this system will solve the government's problems, then the process of implementation will no longer be difficult."

Abdulla Al-Ghaith, Assistant Professor at Institute of Public Administration, Saudi Arabia, indicated his view of the way to formulate the uniform system by stating:

".. Before nominating the responsible body for establishing the system, you need to discuss this with top management in each public company and with the related ministry in the Gulf countries. Thereafter, responsibility for the process of establishing the uniform accounting system could be given to the Secretariat General to the GCC, which would see the best way to apply it."

In addition, Abbas Zaher, Manager of Planning Administration at Auditing Bureau in Saudi Arabia expressed his view of the expected body in charge:

".. The Saudi Government finally realises the need of auditing standards as a first step to controlling the present situation. Accounting standards are established, although there are no serious attempts to enforce them. However, establishing a body of professionals which can study the economic environment of the GCC and come up with acceptable auditing and accounting standards on which a uniform accounting system could be based, would be an excellent idea and would meet the long term objectives of all GCC countries."

From the previous interviews, it could be understood that five main points concerned the interviewees:

1. Establishing a uniform accounting system to suit all public sector companies in the GCC states will not be easy and will cost a lot of money.
2. It needs mutual cooperation between the government and between the boards of directors, which at present is weak.
3. A professional body, whether from the public or from the private sector, is needed. This is not easy, because of the shortage of GCC professionals.
4. The issue of having a uniform accounting system has to be reviewed with the managements of the public sector companies.
5. Ultimately, the responsibility for the establishment has to be handled by the Secretariat General to the GCC.

In order to clarify the preceding points and enquiries, the researcher would like to emphasise the following:

1) Diversity of accounting systems in different companies in each GCC country is expensive, in terms of the fees paid to foreign professionals and the cost of training accountants to handle all the many possibilities that exist. In comparison, after the initial outlay, which could be shared by the GCC governments, a uniform system would save money as it would need less sophisticated accountants to handle it.

2) The government has the complete authority to assign the board of directors for its own companies and have the leading role in most other public sector companies, either by having more than 51 percent of the total capital or by vital subsidies from the government, without which companies may face bankruptcy. Accordingly, any GCC government can give its own instructions to the board of directors and to the management to do whatever is best for the government. Establishing a uniform accounting system would be for the benefit of the government.

3) Of course the establishment of the uniform accounting system needs a professional body to handle it and whether this body comes from the public sector or private sector or from both, this matter should be left to the governments in the GCC to see what is best for their economy; however, selecting professionals from the public sector would smooth the job because they know the exact

needs of the government better than those in the private sector, who are more or less exclusively concerned with private shareholders, investors, and creditors. The present few GCC professionals could participate in any potential committee that the government might formulate.

4) The management in each public sector company should follow the instructions of the government in applying what is best for the government and should not be left alone to do whatever they like without direct government control. In most GCC countries, the management of public sector companies is not very skilled in choosing suitable accounting policies and procedures to run the company. Most of them have been appointed because of their position in the society, the relationship to the ruling family and their family's ethnic roots. Therefore, it is not wise to the government to give the management of the company total freedom to apply whatsoever accounting policies they wish, because management may tend to put its own interest above the specified objectives of the company; in other words, the manipulation of the company resources is to be expected.

5) Since there is a central body which represents all GCC countries, that is the Secretariat General to the GCC, it is a good idea to authorise the General Secretary to take the initiative to make a careful theoretical study of the proposed system and then choose the best representative body to establish it and contribute suggestions.

All in all, the researcher acknowledges that establishing a uniform accounting system to suit the environment of the GCC countries is not an easy assignment. It will need a lot of effort, time and money. However, in the long run it will be an excellent tool for the governments to achieve their objectives and to enhance their control and supervision, and it will lead ultimately to total effective control and effective communication, which will facilitate planning and decision-making.

7.7.3 Possible Improvements from the Application of a Uniform Accounting System

As has been indicated by some interviewees, applying the GCC uniform accounting system, might give some relief to the governments in such issues as reliable, timely, and accurate five-year development plans; effective control based on uniform reports from various sectors; relevant data on which to base rational decisions. The main objective would be a large-scale macro accounting system, integrating the individual accounts of the public sector companies as micro units of the GCC economy into one comprehensive account on a GCC regional basis. In order for such integration to be possible, it is necessary that all public sector accounts are prepared on a unified basis, with the objective of providing information for the purpose of aggregation at the macro accounting level.

Khalid Jorah, First Auditor, Accounting Bureau, UAE, specified the possible improvements that could come from the new uniform accounting system by announcing:

".. I can tell you now that this new system (the uniform system) will relieve the government by benefiting the Accounting Bureau. For example, the present auditing control, although it takes years now, is still less than worthwhile in many respects. Those aspects I would like to keep confidential. But let me tell you, if we can control the financial reports via this system then our reports to the federal government will improve in many ways such as timely, reliable and efficient reports. Moreover, I feel that our auditors could carry on their duties along clear guidelines, again for accurate reports. Finally, it is worth mentioning that the cabinet could have the necessary information for the purpose of economic planning and decision-making . By and large, our work would be improved and we could meet the government objectives."

The above interviewee foresaw improvements in terms of:

1. Better control over financial reports in a way that the federal government may benefit from the new system by receiving better information.
2. Specific guidelines that a uniform system could provide, to improve the accuracy of reports.
3. Enhanced status of accounting.

Ausama Al-Rubeeia, Director of Budget, Ministry of Finance and National Economy, Saudi Arabia, gave his view of the possible improvements from a uniform system by declaring:

".. A uniform accounting system enforced by the government could do a lot in terms of accounting disclosure. At present there is a big lack of disclosure in financial reports; the company does not necessarily disclose all of its accounting policies. Even if it does, it is too brief to give any useful information for the purpose of preparing a good plan in the future. The government could minimise our job dramatically by adopting this new system so as to improve the quality of the work."

The above view connected the improvement with better decisions. At present, many public sector companies, especially the joint venture companies in which a foreign company shares the capital with the government, disclose little information, so benefit to the government is minimal. Most of those companies follow the same accounting policies, standards, and procedures as those applied in their home country. Indeed, applying a uniform accounting system will increase the disclosure policy so that the government will realise their objectives in receiving the necessary data.

Another point of view regarding the possible improvement was stated by Ahmed Khorri, First Controller, Accounting Bureau, UAE, who explained his attitude regarding the possible improvement of a uniform system by stating:

".. Let me inform you that the proposed GCC uniform accounting system is desirable and it could be a first-class view. However, if we talk about one accounting system, there is no more vital element than the question about standards, whether they are UAE standards or GCC ones. This is an area where in the GCC I feel aspirations have more or less out-paced achievement. There have been aspirations, many good intentions, many attempts, but very few arrivals."

This interviewee insisted on building standards as a first step towards the possible improvements in the Gulf region and he indicated that most of the Gulf officials express good intentions, but when it comes to reality, little has been done. Nevertheless, the researcher would like to affirm that by having a uniform accounting system, the accounting and auditing standards will be unified under the GCC environment and no doubt they will be one of the main structures of the GCC system once the approval of GCC governments is obtained, but it is not the final target of the expected uniform system. The GCC uniform accounting system is a comprehensive system of which uniform standards and principles are just one of the objectives.

Furthermore, Mohammad Al-Sharhan, Manager of Insurance at Ministry of Economy and Trade, UAE, revealed the current situation and his view on the possible improvements:

"The Ministry of Economy and Trade does not get reports from the state companies and it does not get reports from private individuals and it does not get reports from state closed companies. The Ministry of Finance and Industry presumably does get them. As far as exempt companies and public joint stock companies are concerned, we do get information and we do maintain statistics on them but even so, the information is not 100 percent complete. If there was a state uniform system applicable to all sectors in the UAE and especially the production companies, I can assure you it would benefit the government in many ways. At least, it would be much better than the existing situation."

The above views revealed the weak regulation in general, where one of the biggest ministries in UAE, which is assumed to keep records of companies in the state, does not receive any type of reports from state companies, private individuals or state closed companies. If we leave aside the private individuals, since their contribution to the economy is relatively small, still the state companies (government companies) of which the government owns the whole capital, and the state closed companies, of which the government has more than 51 percent of the capital, the rest being held by a foreign company, are considered the heart of the state economy. Thus, not receiving any sort of information will really prevent this Ministry from practising any sort of supervision, which ultimately will harm the state economic development and prevent control.

In contrast, applying a uniform accounting system will emphasise the rules, regulation, and legislations that come from the Ministry of Economy and Trade in the UAE to those companies, so it will receive proper information about the economic condition and performance of companies. It will thereby be able to share with the Ministry of Finance, which is responsible for the operations of public sector companies, in supervising and controlling the overall economic situation.

7.7.4 Possible Harm from the Application of a Uniform Accounting System in the GCC

The researcher, during his interviews with GCC officials and those connected with public sector companies, did not face any resistance to the idea of having a uniform accounting system, once they knew that this system would assist the government to meet its objectives. Only minor problems were raised, related to the establishment process, the body that has the right to establish it, the cost of running it, and the party that should follow it up and take care of it. However, the researcher held some interviews with big private sector companies to assess their view of the applicability of the system and whether they would support or reject it. The following are their comments:

".. Let me tell you, in GCC countries we seek to have adequate and reliable financial statements by choosing among alternatives. Therefore, forget about a uniform accounting system and ask the government to adopt acknowledged accounting standards. A uniform system will not be accepted because of its tight instruction." (Al-Rashed, A., Trading and Contracting Co., Saudi Arabia).

".. Yes, you can get comparability among different companies in the GCC countries by encouraging the governments to issue acts regarding the nature of accounting and auditing standards required. Yet, a uniform system is unlikely to be adhered to and you, in this case, will destroy the government's confidence in the private sector" (Jameel, T., Al-Mashareq Co., Saudi Arabia).

".. I believe it would be very difficult to plan and control the whole economy in the country through one accounting system. It is absolutely unattainable. In my opinion, try to find another solution to serve the government but not a single system which will harm our business with other countries in the world." (Tawfeeq, N., Saudi Conduit Coating Co., Saudi Arabia).

".. A uniform accounting system for the purpose of better decision-making and control is a very helpful tool for the planners in the government. However, did you consider how much cost and time it might take the Gulf countries to establish such a system? Another criticism: the operations of each enterprise are different from those of others. How can you manage to have a uniform cost system if you have for example a steel company, food company, Gas company and so on? Could a single system handle this complicated situation? I doubt it." (Waleed, B., Saudi Electric Supply Co., Saudi Arabia).

".. The diversity of accounting systems in the Gulf region is a healthy phenomenon. It allows the management of the entity to choose among alternatives to meet the objectives in the establishment or company. Therefore, the government should press for very important requirement, that is to have a well-trained management to do the job and to feed the government with the necessary accounting information. Your proposal of having a uniform accounting system will not help the management to perform its flexible duty and it may harm the accounting profession in the region." (Abdulla, M., Golden Crown Foam Manufacturing Co., UAE).

".. In the case of the GCC environment, you need the accounting function to reflect the economic reality which can only be achieved through the current diverse accounting practices and procedures in the region. A uniform system could damage the present flexible situation and allow the government in the region to deepen its interference in our business affairs and that is totally inconvenient." (Al-Mohsen, K., Al-Emirates Foodstuff Establishment, UAE).

".. Why do we not look to have a harmonisation of accounting practices rather than the existing diversity of accounting practices, or as you suggest, a uniform accounting system for various businesses? No hesitation, diversity in accounting practices will not help the society of the Gulf environment nor will the uniform system, since it will separate us from the advanced world." (Zubaire, A., Adam Trading Centre, UAE).

The above arguments reflect the following things:

- 1) Fear that the possible new accounting system may be forced on the private sector, in which case they would lose all the advantages that they gain at present. Nonetheless, the researcher would like it to be understood that the expected uniform accounting system would be applied to the public sector companies, where the government is the sole or majority shareholders and needs some assistance to control them. Moreover, if private individuals have shares in one of the public sector companies, they will benefit from applying it, since the accounting data will disclose more details and will be easy to understand for possible evaluation and comparison.
- 2) Some argued that comparability could be attained by issuing new acts and regulation. This is not true. For example, in Saudi Arabia, the government adopted certain accounting and auditing standards, but did not gain comparability. In fact, comparability among different companies in the Gulf region could be attained only by adopting a comprehensive uniform accounting system, one aspect of which would be financial statements providing

adequate and reliable information on which to choose the best alternative for investment.

Therefore, the private sector investors will benefit from the application of the uniform system, by gaining comparable statements in order to facilitate decisions on investment. In contrast, merely having new acts regarding the accounting practices in one country will not bind the other GCC countries; even GCC-wide acts on accounting and auditing standards, would not give the government overall comparability in terms of evaluation of management performance and meaningful effective planning and control.

3) Some interviewees felt that a single accounting system to suit the GCC countries is not feasible. This assumption is also false. France, for example, has applied a uniform accounting system. Its accounting is aimed at various segments of society, including national planners, shareholders, management of various industries, and society at large, due to the existence of social reporting procedures. Iraq is another country where the government uses a uniform accounting system to aid its central planning and controls the huge economic industry through it.

4) It has been suggested that it will cost too much money to establish. On the contrary, as has been discussed, the GCC uniform accounting system will not be so expensive as the existing thousands of accounting systems. The GCC governments are able to finance it and keep the benefits

of applying it to protect their interests from massive corruption, deception and fraud that the present accounting systems allow.

5) Its is too difficult to have one single system to deal with different types of companies. This is not so, because the expected comprehensive uniform accounting system will have an overall chart of accounts which specifies the classification categories either for all economic companies or by specific sectors and industries on a domestic scale in each GCC country or on a regional scale for the Gulf countries as a whole.

6) Diversity of accounting is better than one uniform accounting system. This is true, perhaps, for Western developed countries where the private sectors dominate the economy; still, in the case of GCC countries, the public sector companies to a large extent run the whole economy and it has been seen from the interviews with the GCC officials that, because of this diversification in the accounting systems, the functions of planning, control, and decision-making are impeded. Hence, the concept of diversity is totally irrelevant since the GCC states have an environment different from that in developed countries where diversity and flexibility in accounting are the norm.

7) One interviewee suggested harmonisation rather than a uniform accounting system. This would not help the government in terms of economic development, planning and control. Harmonisation deals with external financial

reporting and with finding a common base of accounting and auditing standards. The GCC governments need more information than just financial data. They need to have information assessing the efficiency of those who are responsible of the public companies and from which to secure essential data for the compilation of national accounts. This would enable the governments in the GCC states to assess the extent to which public and joint-venture companies contribute to the balance of payments and will enable them to measure, rather than simply estimate or impute the flow of payments between the public sector in general and the foreign sector, in a given period.

In general, it was expected to find such rejection of the idea of uniformity among these interviews, but the interviews were held to obtain first-hand evidence of their views, which could be incorporated in the findings to be passed to the government for future consideration.

7.8 The Secretariat General to the GCC and a GCC Uniform Accounting System

The Secretariat General to the GCC represents all Gulf governments and nations. One of the main tasks for the GCC in Riyadh, in Saudi Arabia, is to find common ground and have integrated policies for economic, political, cultural and social activities. For this reason, the researcher interviewed high ranking GCC officials in the Secretariat to gauge their reaction to

the proposal of having a uniform accounting system to help with economic development planning and control.

In this case the researcher assumed that the GCC should take the first initiative to participate in the process of the establishment, if the idea is accepted by the Supreme Council of the GCC.

Abdulla Al-Quwaise, Assistant General Secretary for Economic Affairs in the GCC and Deputy Minister in Ministry of Finance and National Economy in Saudi Arabia, reacted favourably to the possibility of the GCC Secretariat General establishing a uniform accounting system in the Gulf. He declared:

"We seek to support any means of integration among the Gulf countries and especially those related to economic and financial matters. Going back to the charter, it calls for closer relations and stronger links, and indicates a desire to develop, extend and enhance economic and financial ties on a solid foundation and in the best interests of the governments and people. A uniform accounting system could succeed among the Gulf countries if it would benefit the GCC governments in terms of facilitating accurate supervision and control of their own companies. We can prepare for it very well. The Secretariat General could help by financing the project and providing it with local and foreign experts to meet the most salient points of the economic and political declarations, with the emphasis on integration in all economic fields."

Moreover, Saleh Al-Samaeil, General Manager for Administration and Finance in the Secretariat General in the GCC added the following important statement:

".. the Secretariat General has supported many researches and studies in accounting and finance which call for harmonisation of accounting standards within the GCC countries and nationally. Your project is a unique one. And in my view, the Secretariat General could help to some extent to participate in this study since it is in parallel with the GCC's broad objectives."

The above testimony reflects reasonable willingness on the part of the higher authorities in the GCC to adopt the idea of establishing a uniform system among the GCC states which could serve the interest of the GCC governments and at the same time integrate their economic and financial goals.

Indeed, Al-Quwaise, gave an excellent indication when he suggested that the Secretariat would support the establishment of the system financially and with experts from other countries. This reflects real good will from the Secretariat General and its enthusiasm to adopt the idea and work for its success, given that it will serve the aims of the GCC in terms of benefiting the GCC governments and contributing to integration of economic affairs among the Gulf countries.

In the meanwhile, Abdulla Al-Audan, Assistant General Manager for Administration and Finance, Secretariat General to GCC, Saudi Arabia, highlighted a major role that could be desired from a uniform system when he said:

"..In Gulf countries, there is a tendency towards uniformity to a large extent in many fields. As regards tackling the economy, the GCC governments need to know what is going on in their countries. By applying a uniform system the GCC charter objectives could be

achieved. Furthermore, the calculation of the GDP in each GCC state and for the Gulf in general could be calculated more precisely. Of course there are many ways to calculate it, but one of the major sources of accurate information could be attained through the uniform information obtained from the uniform system."

Fisal Al-Buhairan, Financial Advisor, Secretariat General to the GCC in Saudi Arabia stated his view of the possibility of having the uniform accounting system:

"To establish a uniform accounting system which will definitely help the GCC governments in their future planning, you have to have a body of professionals. This body could be formulated by the Secretariat General if we get the green light from the Heads of States via the General Secretariat. Nonetheless, we need the support and co-ordination from the present few GCC professionals and that could be done simply by exempting them temporarily from their jobs and letting them join the Secretariat General for the necessary discussion and exchange of views."

The above arguments ascertain two facts:

1. A uniform accounting system could improve the calculation of the GDP and could tackle the economy as a whole by providing the necessary information to the GCC officials, i.e. to the Ministry of Planning which should exercise control over information. To fulfil the planning and control function, a uniform system is practically necessary to help achieving the ministry target. In contrast, the existing variety of alternatives accounting systems certainly leads accounting in different companies to report financial information from several bases, since by changing the accounting methods used in

calculating the reported results, an accountant can change the reported amount of several types of financial data; therefore, misleading information to the Ministry of Planning and to the Ministry of Finance is expected and the only alternative tool is a uniform accounting system which has the ability to prevent such manipulation.

2. The Secretariat General could help in the formulation of the body of professionals required to establish the system. In this case the governments in the GCC will save time and effort and will ultimately gain complete uniform accounting system which meets their overall objectives.

All in all, on the basis of the previous encouraging remarks, it seems to the researcher, that the idea of having the uniform system is feasible not only in theory, but also in practice and GCC integration can become more realistic. This is the best solution to provide the relevant, reliable and accurate information needed for the construction of better development planning and other economic analysis and policy. It would be a system which aims to meet the needs of the government and those who are have an interest in receiving uniform information for better decisions.

7.9 Summary and Conclusions

The researcher in this chapter tried to measure the attitudes of two other GCC countries, that is Saudi Arabia and UAE, towards the idea of establishing and applying a uniform accounting system to help the GCC governments in

their development planning, control, and decision-making. It was desired to see whether or not there was any variation from the points of view cited in chapter 6, derived from GCC officials from Bahrain, Kuwait, and Oman.

The researcher concluded in this chapter that the GCC officials in Saudi Arabia and UAE need the uniform accounting system, as do GCC officials in other GCC states, for development plans, for control and performance evaluation, for efficiency in auditing procedures in order to provide the governments with timely, relevant, reliable, and accurate information and to improve the effectiveness of management and the wise allocation of government resources.

Furthermore, the Secretariat General to the GCC showed its willingness to give support financially and practically, by providing the necessary experts to discuss the issue and come up with final proposals. Other matters, such as consultation with GCC governments, the number of professionals required and those who have the experience in this field, will be handled by the Secretariat General.

All in all, the tendency to support a uniform accounting system as the best alternative to the present various accounting systems and as the best provider of the needed information for the GCC governments, is evident.

In the next chapters (chapters 8, 9, and 10) the researcher, assesses the attitudes of three groups of

professionals, namely, the financial managers, public and chartered accountants, and academics, towards the idea of having a uniform accounting system applicable to the environment of the GCC states. Chapter 11 will present an analytical comparison of the three groups, and chapter 12 will make final conclusions and recommendations.

CHAPTER 8

ANALYSIS OF THE EMPIRICAL INVESTIGATION BASED ON RESPONSES OF COMPTROLLERS (FINANCIAL MANAGERS)

8.1 Introduction

This chapter will study and analyse the orientation of the present accounting systems in public sector companies and determine the attitudes of financial managers and directors in various companies towards the idea of applying a uniform accounting system suited to public sector companies in all GCC states. Most of the larger manufacturing companies are in the public sector, including oil production and refining, the cement, petrochemicals, steel and aluminium industries, and light industry. Private sector manufacturing usually involves small- to medium-sized activities.

The researcher has depended heavily on data gathered by a questionnaire distributed to 120 companies in Bahrain, Kuwait, and Oman, to which 87 responses were received. Data used in writing this chapter were also obtained from numerous interviews with some of the concerned respondents.

8.2 Objectives and Scope

Government companies often constitute an important element in government operations, and the government even has a major share in many public sector companies. However, the accounting systems in these companies are deficient because accounting systems in the Gulf region are largely financially oriented, to comply with companies law, which lays down regulations for professional accounting and auditing in each GCC state.

Ultimately, the information that governments in the GCC states can obtain from such accounting systems is often poor, unreliable, and untimely, and therefore not economically useful.

The field work in this chapter is intended to examine the nature of the existing accounting systems in the Gulf area, their relevance to the environment as a whole, and particularly their usefulness to governments for planning and control.

8.3 Size of the Sample

In order to make a reliable assessment of the feasibility of applying a uniform accounting system appropriate to the GCC countries, the researcher randomly selected two GCC states in addition to his home country to represent the GCC as a whole. The three countries were Bahrain, Kuwait, and Oman.

As the questionnaire indicates, the populations of interest in this study are : comptrollers and financial managers of public sector companies, public accountants in accounting and auditing firms, and academics in Bahrain and Kuwait universities (Oman does not have a Business or Accounting faculty). In this chapter, the researcher will discuss the first population group.

Table 8.1 shows the number of copies of the questionnaire that were distributed, the number received, and the final response rate. The total number of copies distributed was 120, and the total number of responses

received was 87, as follows:

- * From Bahrain 38 (95% response rate)
- * From Kuwait 32 (80% response rate)
- * From Oman 17 (42% response rate)

The overall response rate was 72%.

QUESTIONNAIRE I

Comptrollers of Selected Basic Companies
in Public Sectors in Bahrain, Kuwait and Oman

"Percentage of Response"

Table 8.1

DISTRIBUTED.....	120	Copies
RECEIVED.....	87	Copies
RESPONSE RATE.....	87/120 = 72%	

Country	No. of copies distributed	No. of replies received	Percentage
Bahrain	40	38	95%
Kuwait	40	32	80%
Oman	40	17	42%

8.4 Problems

The researcher, during his empirical survey, encountered a major problem when most of the Omani respondents to the questionnaire refused to grant the researcher interviews, giving unconvincing excuses such as: "We have already answered the questionnaire in full";

"We do not have permission to do that"; "We have no time for such interviews"; "We see no need to be interviewed".

The researcher, in order to know the exact reason, investigated further and reached the conclusion that it is not easy to held interviews with public sector companies unless one is an Omani citizen and has permission from the ministry concerned In addition, the researcher encountered some minor problems, which were generally expected. A major difficulty raised by several Comptrollers in various companies in relation to completion of the questionnaire was that of lack of familiarity with the meaning of "a uniform accounting system". This was dealt with by an explanatory introduction attached to the questionnaire. In addition, many interviews were granted with financial managers in various companies for explanatory purposes and to obtain their views of the feasibility of applying a uniform system among the GCC countries.

Moreover, some executives lacked knowledge of the nature of the accounting system currently employed in their companies.

8.5 Summary of the Respondents' Backgrounds

General information was obtained regarding the name of the company, its main activities, duration of business, the location of the head office of the company, and its form of organisation. This is summarised in table 8.2.

Table 8.2

1] Name of Company:	See Appendix (F)	
2] Company's Activities:		
a) Manufacturing	[47%]	f) Construction [3%]
b) Investment	[6%]	g) Services [16%]
c) Trade	[18%]	h) Impt. & Expt. [2%]
d) Marketing	[5%]	i) Others [3%]
e) Finance	[0%]	
3] Duration of Business:		
a) Less than 5 years	[6%]	
b) Between 5 and 10 years	[21%]	
c) Between 10 and 20 years	[49%]	
d) Over 20 years	[24%]	
4] Country of Residence:	Bahrain [44%]	Kuwait [37%]
	Oman [19%]	
5] Form of Organisation:		
a) Public sector body	[41%]	
b) Public ltd. liab. co.	[50%]	
c) Others	[09%]	

From the previous table, it appears that manufacturing companies dominate the GCC economies, oil, aluminium, gas, and petrochemicals representing the main sources of income for the region.

The table shows that almost 47% of the sample were companies of this type, whereas there were no finance companies, these being outside the scope of this study since their nature, operation and activities are concerned with purely financial matters and they have their own rules and laws, being regulated by central banks in the GCC area. The largest group of companies (49%) had been established between ten and twenty years, which might lead

one to expect considerable experience in the accounting practices applied. Almost 50% of the sample were public limited liability companies. The government participates in the total capital by percentages ranging from 5 to 50%, which should give the government the opportunity to enhance its supervision and control (which is at present very weak) and to protect its interest. However, although about 41% of the companies were public sector bodies (more than 51% owned by government), the function of planning and control is very weak. This could be attributed to the failure of GCC governments to issue the laws and regulations necessary to compel companies to submit their reports on time.

8.6 Analysis of Responses

Within an average period of fifteen days from posting the questionnaire to the three countries (Bahrain, Kuwait, and Oman), responses started to be received. In the meanwhile, continuous follow-up was implemented to overcome any possible delay in replying, as well as to ensure the relevance of the responses. Appointments were also arranged to visit and conduct interviews in the big public companies (i.e. those in which the government participates with 51% or more of the total capital) to examine their reaction towards the present accounting systems, their nature, their relevance to GCC environment, and their usefulness to the government in terms of planning, decision-making, and control. Moreover, their

reactions to the idea of applying a uniform accounting system in the Gulf area were sought. The total number of interviews was 24, of which 14 were conducted in Bahrain, 10 in Kuwait, and none in Oman because, as has been explained, of some political problems. Appendix G shows the name, position, company, and the country of each interviewee.

8.6.1 The Existence of Generally Accepted Accounting Principles (GAAP) in the Gulf Region

It was notable that 63% of the financial managers believe that GAAP do exist in the Gulf, while only 23% believe that they do not exist. Most respondents attributed the absence of GAAP to the lack of statutory regulations.

6) The existence of GAAP in the Gulf region

a) Yes [63%] b) No [23%] c) To some extent [14%]

7) Reasons for non-existence of GAAP..

- * Because there is no statutory accounting regulation.
- * Because there is as yet no legislation to enforce codified accounting principles.

In fact, examination of the Companies Acts of Bahrain, Kuwait and Oman revealed that they contain no rigorous requirements regarding the form and content of financial statements. Furthermore, none of the acts examined attempt to define the scope, function, and objectives of accounting.

A statement made by the financial manager of Kuwait Petrochemical Industries Company (Autaibi, A.) endorsed the above conclusion:

".. in Kuwait or in the GCC in general, there is nothing called GAAP or known accounting practice, we apply whatever we think is appropriate. Most companies are playing in presentation of their financial statements, they do it in the way they wish."

Another financial chief executive of Gulf Air Company, Noor, M., in Bahrain indicated:

"Although the Council countries, to some extent, are free countries, there is no taxation system to govern the accounting profession. You can establish whatever accounting system you like, debits and credits and your books will balance. I admit that there is a lack of adequate regulation and a lack of accounting and auditing information. I can say the role of accounting information for the users of this information is very limited because of very poorly designed accounting systems."

However, one of the interviewees, Abu-Khader, M., Secretary General of Arab Federation of Chemical Fertiliser Co. in Kuwait, accepted the existence of GAAP by stating:

".. We apply GAAP because these are the only accounting principles which exist in the Gulf region. The nature of those principles, their origin, and their relevance to the Gulf nations and governments, still needs to be solved. I know that most of those GAAP belong to developed countries and they are appropriate for their economic environment where a large private sector and well developed capital market exist".

In fact, the above statements represent the existing accounting situation in the GCC states, where there is nothing specific to be followed and in this case the management of most companies has a large freedom of choice among accounting methods, principles and standards, to an extent that casts doubts upon management's reliability in preparing appropriate financial statements, since there is a widely held belief that the management's use of specific accounting methods is not made to reflect reality but to achieve specific objectives desired by management. Therefore, strong government intervention is essential to remedy such undue flexibility in accounting practices, to protect their interests and to protect investors, creditors, shareholders, and the public from irresponsible practices.

8.6.2 Variations in the Accounting Principles Applied

In order to obtain information regarding the existing disorganised accounting practices in the GCC, respondents were asked to state whether there are variations in the accounting principles applied in their home country or in the GCC in general. Ideally, there should be no differences in accounting principles applied; however, due to the differences in accounting systems and/or accounting standards applied in almost all public sector companies, more than 25% do believe in the existence of variations and 24% think that to some extent there are variations in

the accounting principles applied.

For this reason, as seen in table 8.3, the researcher enquired about the reasons for these variations. The most common explanation given was insufficient regulations (32%) followed by lack of an authoritative body (29%), and foreign education (20%). The impact of foreign companies and owners' indifference and ignorance figured as subsidiary reasons..

Table 8.3

8] Possibility of variations in the acct. principles applied		
a) Yes [25%]	b) No [51%]	c) To some extent [24%]
9] Reasons for variation		
a) Non-existence of authoritative body		[29%]
b) Insufficient regulations		[32%]
c) Owners' indifference and ignorance		[06%]
d) Foreign education		[20%]
e) Foreign companies		[9%]
f) Others		[4%]

8.6.3 The Nature and Relevance of Accounting Standards Applied

The types of accounting standards applied and their relevance to the GCC environment were investigated in questions 10 and 11 as shown in table 8.4.

Table 8.4

10] Sort of acct. standards applied in the GCC	
a) International Accounting Standards	[62%]
b) American Accounting Standards	[11%]
c) Canadian Accounting Standards	[0%]
d) British Accounting Standards	[26%]
e) Others	[1%]

Table 8.4 cont.

11] Relevance of acct. standards applied in the GCC	
a) All of them are relevant	[11%]
b) Some of them are not relevant	[44%]
c) None of them are relevant	[45%]
d) Other comments	[0%]

Although the majority of respondents (62%) declared that IAS are applied, there is no statutory law in any of the GCC states requiring adherence to such standards. Where they have been applied, it has been on a voluntary basis and some financial executives think that they are really a compromise between the many different standards found in the GCC. However, some financial managers argued that IAS is a very loose term, that standards are being set without prior explicit definitions of objectives, limitation and fundamental concepts, and they wondered who checks whether IAS, American Standards, or U.K. Standards are applied. Accordingly, there is no assurance that those standards will be consistent with each other, let alone relevant to the GCC environment, where the public sector dominates the economic environment.

The financial manager of Aluminium of Bahrain Co., Al-Nuaimi, A., rejected the idea of applying the IAS or any foreign standards, stating:

".. IAS or any foreign standards are not generally compatible with our local environment here in Bahrain or in broad terms in the GCC, that is, the language, law, government priorities, social concepts, and economic goals. The IAS may be appropriate to international organisations which seek pure profit but they are far from suited to the

Gulf countries requirements."

Regarding the relevance of the various accounting standards to the GCC (question 11), only 11% of the respondents said that all of the accounting standards are relevant, while 45% stated that none of them are relevant to GCC needs, and new national or regional accounting standards should be developed. The advocates of establishing GCC standards argued that many problems expose the dangers of applying a variety of standards.

The Board Member of Kuwait Chemical Manufacturing Co., Al-Fassam, K., stated his opinion regarding the IAS and their relevance:

".. If we say we apply the IAS; the IAS themselves have not been able to make any significant impact upon accounting practices of GCC countries. What we have is so many foreign standards without intervention from the government to decide which is the best for our country. Thus, I admit that at present there are problems which impede the ability of the GCC governments to obtain reliable accounting information for decision-making; and the best solution is to start issuing our own standards."

Rashed Fakhrow, General Manager of Finance and Administration Affairs in Bahrain National Oil Co. (BANOCO) stated:

".. all European or American standards are irrelevant to the GCC environment, simply because our culture, education level, language, and the existing political and economic situation are different."

Another large group (44%) of respondents agreed that there are several accounting standards which are not relevant to the GCC environment. They gave some examples of IAS such as Accounting for Taxes on Income, Accounting for Property, and Accounting for the Effects of Changes in Foreign Exchange Rates.

Abdul-Hussain Mirza, General Manager of Accounting and Finance, at Bahrain Petroleum Co. (BAPCO) stated:

"..for political and historical reasons, I think most companies in Bahrain or in the Gulf have applied British accounting standards. This type of standard does not meet our needs in the Gulf area. The time has come to change; we wish to establish our own accounting and auditing standards that suit our needs and our long-term objectives."

By and large, most foreign accounting standards are produced to satisfy the countries of origin, that is the developed countries, and although some of the IAS represent a good effort to address problems faced by GCC states, they do not now and will not in the near future represent a complete set of standards. Therefore, whether or not the IAS and other foreign standards will suit the circumstances and requirements of the GCC states may be open to question.

According to the above arguments, it seems that there is general agreement on the irrelevance of existing foreign accounting standards applied in the Gulf region and GCC standards suited to the GCC environment are demanded.

8.7 The Feasibility of Applying a Uniform Accounting System in the GCC States

In view of the weakness of control exercised by the governments in the GCC states, there have been various accounting systems applied by different companies in the public sector. This diversity of accounting systems has made, and continues to make, the process of planning and decision-making very weak. No doubt the accounting systems of developed countries offer some valuable knowledge to the GCC as developing countries; however, it would be a great mistake to assume that the accounting systems of the advanced countries are beneficial for the environment of countries in the Gulf region, and that the adoption of such systems is the solution for our accounting problems.

Questions 12 to 19 represented the main part of the questionnaire in which the researcher sought to assess the likelihood of a uniform accounting system being accepted as a substitute for the existing diverse accounting systems, thus satisfying the needs of governments for planning, control, and decision making.

One of the main questions (question 12), concerned the way to find the best plan for developing an accounting system to suit public sector companies in the GCC countries. Table 8.5 represents the opinions of financial managers in the various companies on this subject.

Table 8.5

12] The Best Strategy(ies) to Create an Accounting System

- | | |
|---|--------|
| a) Creating a uniform accounting system | [56%] |
| b) Creating an authoritative body | [25%] |
| c) Regulation by governmental units | [17%] |
| d) Others | [2%] |

13] Establishment of a uniform accounting system
by the General Secretariat of the GCC

- a) Agree [84%] b) Disagree [11%] c) Do not know [5%]

14] Type of authoritative body required

- | | |
|---------------------------|--------|
| a) Academic professionals | [3%] |
| b) Political parties | [4%] |
| c) Public sector bodies | [64%] |
| d) Private sector bodies | [17%] |
| e) Others | [12%] |
-

Examination of the responses reveals that the majority of respondents (56%) believe that the installation of a uniform accounting system will be the best remedy for the existing diversified accounting systems. The respondents in this case indicate that the present diverse accounting systems are not to the benefit of the GCC government if they seek the best strategy to evaluate the performance of all public companies in order to have a better information for micro-and macro decision-making. The diversity of such accounting systems exists because GCC Companies Acts only require the company to prepare profit and loss accounts and balance sheets as a means of external reporting; these statements should be audited by external auditor and submitted to their

respective ministries (e.g. Ministry of Finance, Ministry of Industry, and Ministry of Commerce); however, evidence suggests that those financial statements are far from bringing benefits, because most of them are lists of total figures related to past events, which give very little detail or explanation about their components and are of very limited use for the future. Therefore, those reports could be misleading to economic decision-makers and to the job of the planners in GCC governments; thus, indeed the best solution is to have a uniform accounting system which will provide better information for GCC countries in terms of planning and control.

The second option was the idea of creating an authoritative body, chosen by 25% of respondents. Question 14 asked what type of authoritative body was desired. 64% of those wishing for an administrative body believe that a group of public sector concerns should get together to lay the foundation of a system (or specific systems) to meet the needs of the GCC public sector environment. The third option was regulation by government units (17%). Very few respondents (2%), some of whom held a foreign qualification (C.A. or C.P.A.) supported the idea of flexibility to adopt whatever system was desired, without any control or supervision from government.

All in all, the fact that 56% of financial managers believed that the creation of a uniform system would suit the GCC public sector environment, is a hopeful sign for the acceptance and application of such a system.

Nevertheless, the researcher conducted extensive interviews with financial managers, directors, and members of the boards of directors of several companies and the following are the main findings:

1. There might be some reluctance towards the idea of applying the system in the short term and this could be attributed to people getting used to their own accounting system which they would not want to change.

2. The managements in some companies fear competition. They suggest that competitors in the same field might misuse other companies' confidential figures to their own benefit.

3. There is a general need for some correspondence between the financial information that comes from different companies in the GCC countries. This will help very much in their evaluations.

4. One board member lacked awareness of the important role of accounting information provided by various companies in the public sector to the government. He described the importance of accountancy to the bookkeepers and their debit and credit financial transactions. On the other hand, another board member (who has some experience in several accounting fields) emphasised the fact that the adoption of a uniform accounting system within GCC states must not be isolated from environmental factors such as the pressure that may come from the GCC professionals

educated in the U.K. or USA, the multinational companies, the international accounting firms which have been working in the GCC countries for a long time, and the legal requirements in the commercial companies laws.

5. One board member insisted that GCC accounting standards should first be established, leading to a general uniform accounting system.

6. Most of those interviewed expressed their interest in the idea of applying a uniform system, but they argued that it will take a long time to implement.

7. On the other hand, in order to obtain a different view of the situation, the researcher interviewed some board of directors and financial managers of private sector companies in the Gulf region to gauge their reaction towards the possibility of applying a uniform accounting system to GCC states. Although they were very hostile towards the idea of uniformity in general, the following are their remarks:

".. It is extremely hard to devise one relevant uniform accounting system applicable to all industries and manage all types of accounting systems. Your proposal is theoretical rather than practical." (Al-Akeel, J., Trading and Mechanical Services Co., Bahrain).

".. The system will be absolutely rigid in favour of the governments' interest and it will ignore the interests of people in the GCC by putting a limit to their movement in trade. Therefore, the rigidity in measurement rules and other procedures may impede the required flexibility which we are applying now."

(Jaber, E., Al-Abraq Trading Co., Kuwait).

".. The uniform system means that you will have one system for all companies in different types of sectors. This action must lead to lack of realism in dealing with the others in the world." (Al-Bader, K., Commercial and Technology Co., Kuwait).

".. All accountants have to have the freedom to make judgements regarding various events in different circumstances. Implementing the uniform system will lead the government to control the thinking and activities of accountants. You should take a wider view of the case rather than taking a quick decision which might lead to a lot of unexpected problems." (Al-Amar, T., Gulf Development Trading Co., Kuwait).

".. The question that may come to mind is, if you apply the uniform system, could that cope with the changes in accounting rules and methods which occur regularly? I doubt that the uniform system can harmonise with the diverse methods and procedures that happen every year all over the world." (Kamal, B., Bahrain Garment Manufacturing Co., Bahrain).

".. I know that there is a lack of an authoritative and generally recognised body of accounting in Bahrain, but why should we go with a uniform system, that will not help us at all in our business? Why do we not stick with American GAAP or International Standards for instance and that could serve the government in one way or another." (Moustafa, M., Arabian Electrical Industry Co., Bahrain)

The arguments and hostility reflected above were expected by the researcher, since all the private sector companies in the GCC seek to maximise their profit by any means. The uniform accounting system would put them under direct control and supervision from the central government and would not enable them to manipulate or carry out

illegal operations. In conclusion, the uniform accounting system could help the governments in the GCC in many respects, but would not be welcomed by the private sector companies, which thrive on the present uncontrolled flexible situation.

Regarding the authority to implement the accounting system (question 13), the majority of respondents (84%) said that the General Secretariat is the only body which has the power to establish the system and some respondents emphasised the fact that it should obtain authority for the implementation from the Supreme Council.

The Managing Director of Gulf Aluminium Rolling Mill Co., Ahmed, K., in Bahrain commented:

"Since we have the GCC, he should be the responsible party of all activities related to the Gulf nations or Gulf governments. Therefore, establishing such a system will be his responsibility and the way it should be, should be left to him because he knows what suits the Gulf countries."

However, the General Manager of Gulf Acid Industry Co., Jamsheer, A., also in Bahrain, had a different viewpoint when he stated:

"The establishment of a uniform accounting system or issuing any kind of standards, is the duty of governments in each GCC state and the GCC could be the co-ordinator with the governments. We have to think of the information needed by the government and therefore give a high priority to that information in designing any accounting system."

From the above different arguments, the researcher can be sure that the General Secretariat to the GCC can

play a crucial role in implementing the idea of having a GCC uniform accounting system; however, it needs the support of the Gulf governments to provide experts in this field, in addition to some professionals, academicians, and representatives from the governments in order to participate in designing the new system.

8.7.1 The Function of the Uniform Accounting System

It is reasonable to argue that the development process in the GCC countries poses a great demand for an efficient, effective, and comprehensive accounting system in order to serve both macro and micro economic objectives.

In connection with the above theory, 72% of respondents (question 15) believe that the application of a uniform system will give the GCC states reliable information which is economically meaningful, realistic, and useful for government planning and control, and economic control of public expenditure, while at the same time satisfying the users of accounting information. Only 2% of respondents feared that such a system may mislead governments by giving irrelevant data because of differences in companies' activities.

15] The Predicted Role of the Uniform System

a) Governmental planning and control	[8%]
b) Economic control of public expenditure	[6%]
c) Satisfying the users of accounting information	[12%]
d) A, b, and c	[72%]
e) Other	[2%]

The Managing Director of National Textile Co., in Kuwait, Al-Wazzan, M., commented on the predicted role of a uniform system by declaring:

".. Most people think that if you stick with a Western style or model of accounting, you are on the right path. Moreover, it is often incorrectly assumed that, for example, industrialisation along the lines of developed countries such as America, preferably with the latest techniques, is the road towards economic development. This is not totally true. In fact the course the Gulf countries should follow towards economic development, must be assessed in each case, depending on their natural, human technical and financial resources. Accordingly, I think a uniform accounting system may in one way or another help the GCC states to tighten their supervision and control on the economy, to achieve real progress in economic development."

The Board Member of Arab Shipbuilding and Repair Yard Co., in Bahrain, Al-Gosaibi, F., stated his view by declaring:

".. In my judgement, the profession of accounting in the Gulf area is poorly organised and accounting and auditing practices are not adequate. For this reason, we have adopted other accounting and auditing practices which more or less help the private sector entities rather than giving the government real help in terms of planning and control. There is no doubt that the present accounting information produced by most entities tends to be diverse and ambiguous in many aspects. I advise the government to choose the accounting practices which tend to have an impact on the whole economy and which themselves should be more carefully evaluated in relation to the GCC environment and the whole GCC economic structure. By doing so, it is easy to create a uniform accounting system which should satisfy the various users of accounting information."

The Managing Director of National Automotive Trading Co., in Kuwait, Al-Bassam, S., specified his view when he stated:

".. The demand for establishing a uniform system could be essential for all countries in the GCC if the GCC governments are serious about controlling the messy economic situation. Deception and corruption are obvious in some Gulf countries. I am saying that because some high authoritative people misuse their position in the public companies and become rich within few months and all of us have read what has happened in some companies. I admit that having this new system could give the governments in the GCC the lead in controlling their economic assets and planning well for brighter future."

The above arguments emphasise the necessity of implementing a proper uniform accounting system that may emphasise the role of the government in terms of proper planning, control, and decision-making. That is because the present situation does not serve the GCC governments by any means. The present situation shows clearly that accounting practices serve neither the government needs at macro level, nor the purposes of managerial accounting and performance evaluation at the micro level; nor are they relevant to national accounting.

By and large, the GCC states are suffering from a lack of the reliable accounting data needed to develop their economy. Hence, the main purpose of the uniform system is to impose the reliability and consistency of accounting information for the purpose of decision making, planning and control.

On the other hand, a few financial managers in some national and regional companies were less favourably disposed towards a uniform system. For example, one of them indicated that such systems have only been applied in communist and/or socialist countries, and that the GCC countries do not belong to this category. Another manager stated that any system in the world, if it is to be accepted by people or government, must be flexible, lucid, logical, clear and simple to maintain; he feared these criteria would not be met by the suggested system, which by and large would be rigid, difficult to implement and very complicated.

We have already seen that those who are against the idea of applying the system have considerable interest in the private sector companies and private trade. Therefore, they fear that their independence might be restricted. They have a feeling that the uniform accounting system will eliminate the need and scope for the use of their professional judgement in various business activities.

Nevertheless, several other directors, and financial managers saw that a uniform system may be of great help in providing the governments with unified accounting procedures for the purpose of economic development.

8.7.2 Creating a GCC-Recognised Uniform Accounting System

Since tremendous efforts have been, and continue to be made towards integration and unification of various activities in the GCC, the researcher felt that there was sufficient likelihood of a new accounting system being accepted, to ask a question on the idea of establishing a uniform accounting system specific and unique to the GCC, designed to fit the local environment (question 16).

A great number of respondents (82%) supported the above suggestion, indicating that they conceive of the GCC as one unit and, in order to sustain that unit, the GCC states need to have an effective accounting information system that could link various activities into one efficient system that has the ability to remove the existing differences.

The Chief Executive of Midal Cables Co., in Bahrain, Ali, M., specified how differences in accounting system do exist among countries and that the alternative is to have your own accounting system, when he stated:

".. There is no doubt that accounting function is similar in all countries. However, every country has to implement accounting according to its socio-economic environment. Thus, the accounting systems among different countries with different economies often vary. Such diversity of accounting systems could be attributed to the differences in the stage of economic development or the active role of the accounting profession. In our case (Gulf countries), we have to select an accounting system which really reflects our own socio-economic needs. Let us search and ask ourselves: Is there an accounting system in other developed or developing countries which

is acceptable to our economic environment, cultural and social environment, political environment ..etc.? If there is, OK go ahead and adopt it. Otherwise you'd better develop your own (GCC) accounting system based on your socio-economic environment."

The Board Member of Arabian Light Metals Co., in Kuwait, Naki, M., clarifying his view in the expected basic role of a GCC own uniform system, said:

".. Let me tell you this, the governments in Gulf countries, if they agree to implement a uniform system, will accept it because they are keen to evaluate the government companies operations and to measure the effectiveness and efficiency of those companies in using the government's financial support."

The General Manager of Bahrain Aluminium Extrusion Co., Shirawi, A., stated his view on this matter by declaring:

".. We as a nation of Gulf countries, have to devise our own standards of accounting, our own auditing standards by and large, our own regional accounting system rather than depending for ever on other nations' standards. The benefits that could emerge from such action will help both the Gulf government and the people in terms of referring to one set of specific accounting practices."

From the above arguments, it seems that the idea of a GCC recognised uniform accounting system is feasible. It may take time to be established and enforced but since there is the willingness to accept it, everything could be dealt with in order to reach the target.

On the other hand, only 13% of respondents rejected the idea of establishing a GCC uniform system. In response

to question 17 they gave some reasons for this rejection; 67% of them gave "shortage of professionals" as a major obstacle to the process.

In fact, shortage of professionals is not a valid reason since the uniform accounting system could be designed with cooperation from public, private and professional accountants, social accountants, and government administrators, and with technical assistance from local, foreign, and international agencies. Moreover, the GCC governments could bring in expatriates from neighbouring countries such as Iraq or Egypt, where uniform accounting systems have been applied.

16] Establishing The GCC's Own Uniform System

a) Yes [82%] b) No [13%] c) Do not Know [5%]

17] Obstacles confronting the process

a) Conflicts in professional viewpoints.	[22%]
b) Harm to the profession.	[0%]
c) Difficulty in governing different companies	[0%]
d) Shortage of professionals	[67%]
e) Satisfaction with present situation	[11%]
f) Other	[0%]

18) The advantages of establishing a GCC uniform system

a) Facilitating comparability	[53%]
b) Better definition of what a "true and fair view" is	[8%]
c) Provision of handy rules	[6%]
d) Elimination of conflict in reporting	[29%]
e) Other	[4%]

The researcher also asked those favourable to the idea of a GCC system, what were the possible advantages of establishing a GCC uniform system (question 18).

The majority of respondents (53%), were confident that the new system will facilitate comparability among companies in the GCC. Therefore, it will give governments access to knowledge regarding lack of efficiency among the various companies and it will enhance the process of economic development in all GCC states.

Redh Farage, Financial Manager of Arab Ship Repair Yard Co. (ASRY), in Bahrain, gave his opinion of the possible advantages of establishing a uniform accounting system as follows:

".. We have more than one set of companies in the GCC countries that produce the same products; in this case a uniform accounting system will definitely be applicable because then we can compare the unit cost among different companies. For example, in the case of production of "Methanol" by GPIC in Bahrain and SABIC in Saudi Arabia, in fact, we can benefit from the experience of other people; provided we have the same system operated in GPIC and SABIC, then it is easy to compare, because the cost allocation is the same, and the basis of operating is the same."

Another important advantage has been stated by the Financial Executive of Kuwait Aviation Co., Al-Hooti, A., Kuwait, who declared:

".. Assuming that the government applies the uniform system, the government would then have the opportunities to notice where efficiency is lacking and so many other things will come up out of this system. Furthermore, the government can monitor the subsidies that it gives to support many public organisations; whether they are reasonable or not, and at the same time whether they have been used in the right manner."

Noorddin Noorddin, Board Member of Bahrain Telecommunication Co., specify his own view of expected benefit by stating:

".. The main reason of establishing a uniform system, in my opinion, is to provide the government with comparable accounting information which is now difficult to get. The present statistical departments and institutions are facing a lot of difficulties in translating and interpreting the mass of diverse accounting information which leaves the process of reporting to the government even worse. It is evident that the main user of all public sector information is the government, in order to know the performance of such companies."

On the basis of the encouraging views expressed in interviews with many responsible people at different levels of various companies, the researcher would draw attention to the support for a uniform system, by summarising supporters' opinions as follows:

- 1) It can play an important role in the economic development process in all GCC countries.
- 2) It will confront the problems caused by the adoption of diverse accounting systems.
- 3) It can stimulate and accelerate the rate of growth in each GCC state by collecting, processing, evaluating and reporting accounting and non-accounting information for the purpose of economic decision making.
- 4) It will facilitate meaningful comparisons among companies in various Gulf states.

5) It will aid management decision-making: managers will know that everything has been computed in accordance with one mechanism, and therefore, they will not have to worry about inconsistency.

6) It will improve planning within the GCC governments and also provide linkage between the micro and macro levels of accounting.

7) It will help the governments to obtain reliable information for purposes of decision-making.

8) It will enhance the role of the government in controlling the governmental and quasi-governmental organisations.

9) It will help in making satisfactory economic comparisons among various companies.

10) It will make the task of accounting much easier, and will require fewer highly qualified staff.

In contrast, there are those who rejected the idea as a principle or to be discussed. Most of those who rejected the uniform system are in the private sector field.

The views of those who reject the idea of applying a uniform system may be summarised as follows:

1] It may contradict the IAS or other standards applied outside the GCC countries.

2] It needs considerable manpower which at present is in

short supply; moreover, it will be difficult to implement the system.

3] It involves a lot of bureaucracy and much waste of time.

4] The GCC states do not have enough professionals to design a uniform system, nor enough accountants to implement the process.

5] In the GCC states, there are many industries (e.g. oil, aluminium, petrochemical, steel, etc.); it will not be possible to impose a uniform system suited to all these types of industries.

6] The system may cost a lot of money and require considerable effort, which can be avoided by leaving things as they are.

7] The accounting profession gives the accountants freedom of judgement in various transactions; application of a uniform system will prevent them from exercising their professional discretion.

8] The uniform system will remove the existing flexibility and allow the government to impose rigid rules which may harm the profession.

9] Some political problems may arise from applying a uniform system, especially from comparing different production costs and selling prices.

Looking at the opinions of both sides, the researcher would like to clarify these arguments. The fears of those who oppose the new system are not entirely without foundation; however, the effectiveness of such a system in providing the necessary accounting information for the officials in the GCC governments, planners, and economists will justify the system. If implemented, it would prove itself by its reliability and accuracy in providing the necessary information for the purposes of planning, control and decision making. Accordingly, the validity of the uniform system will depend largely on the efficiency with which it is implemented, and on the care with which it is designed.

In view of the above argument, question 19 asked which body should be responsible for issuing and enforcing the uniform system. The majority of respondents (71%) feel that the system should be established by an independent professional group of accountants, but enforced by the General Secretariat of the GCC.

19] Alternatives for Establishing the Uniform System

a) Est.& enf. by General Secretariat to the GCC	[11%]
b) Est.& enf. by an independent private organisation	[2%]
c) Est.& enf. by an independent professional body of accts.	[16%]
d) Est. by an independent professionals body of accts., but enforced by the General Secretariat to the GCC	[71%]
e) Other arrangements	[0%]

Nevertheless, in the interviews, some financial managers and executives emphasised that the leader (or any board member) of each industry should participate in the process of establishing the uniform system (e.g. the leader in aluminium production must know exactly what is the correct procedure to maximise profit and to reach the required objectives through the uniform system). The second step is the implementation, which has to be conducted by the General Secretariat.

Other financial managers and executives argue that the General Secretariat should establish a committee of all members concerned in the Gulf states, including representatives from the various GCC countries; not only from the accounting profession but also auditors, lawyers, government representatives and economic analysts. This committee should oversee the whole process of implementation of the uniform system. This body would not be responsible for enforcing the system; however, they would set the system, they would regulate it and finally, they would oversee the process of implementation. Enforcement should be through the local government in the form of regulations, ministerial decree, or some form of law.

8.8 The Nature of the Accounting Environment in the GCC Countries

As has been indicated, there are no rules, regulations or guidelines as to the accounting procedures companies should apply. Furthermore, the absence of an

accurate tax system means there is no constraint on the companies' accounting. Thus, public sector companies apply whatever methods they choose.

Part three of this questionnaire was designed to verify this fact. A number of questions (questions 20 to 31) were asked of respondents in order to analyse the diverse accounting systems at present applied in the various companies and to reach a final recommendation on the best remedy to handle the problem.

In order to investigate the reasons for the existing variety of accounting systems, the researcher asked in question 20, "Does the firm have any form of permanent relationship with foreign companies?" Not surprisingly, more than 49% of the public sector companies have ties, of one kind or another, with foreign companies. Thus, question 21 was asked to investigate the potential influence of the foreign companies' accounting system. 71% of respondents indicated that they were influenced by the foreign collaborator's system.

20] Affiliation with a foreign company

a) Yes [49%] b) No [51%]

21] Influence on acct. system

a) Yes [71%] b) No [29%]

Therefore, it is not surprising to find that the present accounting systems (most of which have been

adopted from the U.K. or USA) in the GCC countries do not reflect the Gulf environment.

8.8.1 Information on Accounting Policies

Table 8.6 explains the present situation regarding the existence of accounting policies.

Table 8.6

THE EXISTENCE OF ACCT. POLICIES			
22] Clear acct. policies			
a) Yes	[96%]	b) No	[4%]
23] Written acct. policies			
a) Yes	[61%]	b) No	[39%]
24] Parties setting the acct. policies			
a) Owner	[7%]	b) Comptroller	[33%]
c) Auditor	[34%]	d) Other	[26%]
25 & 26] Changes and frequency of changes in acct. policies			
*	[60%]	of companies did not reply.	
*	[40%]	did reply as follows :	
50%		said "whenever the situation demands"	
37%		said "rarely to very rarely"	
13%		specify a period of time (e.g. every 5 years)	
27] Disclosure of acct. policies to direct users			
a) Yes	[96%]	b) No	[4%]
28] Disclosure of <u>changes</u> of acct. policies to direct users			
a) Yes	[75%]	b) No	[25%]

Question 22 asked whether the company has clear accounting policies; 96% of respondents believed that their companies had clear accounting policies. However, only 61% of the companies in the sample have written accounting policies (question 23). One interviewee indicated that accounting policy might be changed without a justifiable reason.

Question 24 asked who sets the accounting policies. Not surprisingly, 34% and 33% of respondents attributed the setting of accounting policies to the auditors and/or comptrollers respectively. Establishment of an accounting policy by an external auditor (accounting firm) means that the company will be dependent to a large extent on that particular accounting firm. For this reason, it has been found that each company has its own "borrowed" accounting system, based on the American or British accounting system depending upon the nationality of the accounting firm concerned. One financial manager interviewed admitted:

".. We in this company have an accounting system based on the British system. Since I'm a British professional, the accounting system of this company has to be British."

Another two questions asked about the changes and frequency of changes in the accounting policies adopted (questions 25 & 26). Normally, this type of question is avoided by respondents, and it is not surprising that blank responses were received from about 60% of the

sample to these questions. The other respondents (40%) gave short answers such as "frequently", "rarely", "whenever the situation demands", and a very few of them described the frequency of change in terms of a specific period.

Since the previous questions revealed that some sorts of accounting policy are applied among the various companies in the GCC, questions 27 and 28 of the questionnaire asked whether or not those policies are disclosed to the direct users (e.g. government, banks, etc.). Although the majority of respondents (96%) disclosed their accounting policies to the direct users (question 27), 4% of them did not, claiming that their accounting policies are extremely confidential and very few people in the government know them.

Regarding disclosure of changes in accounting policies to direct users (question 28), 75% of respondents claimed to make such disclosure while 25% did not. Failure to do so has been attributed to the deficiency in the commercial companies law (followed by all companies in the state) and also to lack of regulations and government legislation.

8.8.2 Information on Financial Statements

The most important financial statements in the GCC countries are the balance sheet and the profit and loss account, which are provided in the annual reports. Both of them are presented in account form .

Since the government in each GCC state requires the public sector companies (especially the closed companies) to submit their financial statements to the Ministry of Finance for the purposes of evaluation and control, the researcher asked the many semi-governmental companies three questions (question 29, 30, and 31) to determine the percentage of public limited companies and shareholders companies complying with the commercial laws, and to discover which items are disclosed.

The majority of respondents (61%) in question 29, disclose their companies' financial statements in the newspaper (only publicly-owned companies are legally required to publish their financial statements in the local newspapers).

29] The disclosure of financial st. in newspapers

a) Yes [61%]

b) No [39%]

Disclosure of significant financial information (question 30) to the government and other direct users of financial statements, specifically bankers, varies. Public limited companies and shareholding companies tend to disclose some financial information to direct users of financial statements; however, the following table (Table 8.7) indicates the pattern of disclosure.

Table 8.7

30] The disclosure of items to direct users

Item	<u>Yes</u>	<u>No</u>	<u>NA</u>
a) Sales	93%	1%	6%
b) Depreciation	99%	1%	0%
c) Interest revenue	82%	7%	11%
d) Stocks earnings	60%	4%	36%
e) Interest exp.	76%	9%	15%
f) Extraordinary items	84%	2%	14%
g) Net profits	95%	2%	3%

Although disclosure deals with financial aspects only, many items are not disclosed for one reason or another. Answers to question 31 revealed that items such as transfer of money abroad or salaries of foreign employees are not disclosed. Still, some notes on financial statements (55%) and some figures for the preceding period (43%) are usually provided (though no detailed information is given as to the definition of terms used or the bases of valuation).

31] Items disclose in financial st.

a) Notes to financial statements	[55%]
b) Figures for the preceding period	[43%]
c) Imported raw materials	[2%]
d) Transfers of money abroad	[0%]
e) Salaries of foreign employees	[0%]
f) Others	[0%]

The researcher interviewed several financial managers to discuss the level of disclosure in financial reporting, and also examined the annual reports of various public

sector companies, reaching the following findings:

- 1] There is no detailed disclosure of accounting policies.
- 2] There is no historical summary of debts or long term loans.
- 3] There is no reporting on flow of funds.
- 4] There is no classification of basic purchases (i.e. internal and external purchases).
- 5] There is no disclosure of information regarding segments of business (segment reporting).
- 6] There are no consolidated financial statements.
- 7] There are no employment statistics in the report.
- 8] The profit and loss account gives figures in total, without sub-classifications.
- 9] There are no details of expenses (i.e. fixed and variable expenses).
- 10] There are no details of the companies' revenues (e.g. investment in other companies).
- 11] Earnings per share are not revealed in the profit and loss account.
- 12] Interim reports are not provided.

Therefore, the financial reports on which the

governments in the Gulf states depend (in fact the only reports available to the government for the purpose of evaluation) do not help the planners or those responsible for decision-making to act properly.

In contrast, a uniform accounting system would permit the governments in the GCC countries to:

- 1] Make the process of evaluation among the companies in different sectors more efficient.
- 2] Ascertain exactly the optimal uses of government resources.
- 3] Clarify the extent of each company's participation in economic activities, as shown by its operating profit during the accounting period, according to the value added concept.
- 4] Make the process of price control on products and/or services more effective.
- 5] Link micro accounting with macro accounting.
- 6] Monitor government subsidies and ensure that they are spent appropriately.
- 7] Ease the study of companies' financial positions, especially where the government has guaranteed a minimum level of profit for the shareholders.
- 8] Make the process of comparison among companies in the GCC more reliable.

9] Provide the necessary consistent and reliable accounting information to make successful economic decisions at the micro and macro levels.

8.9 Summary and Conclusion

Although the GCC has already taken many steps in the economic and political areas to integrate economic policies and to adopt uniform foreign policies, many other steps are still needed to help achieve GCC objectives.

The governments in the GCC now participate more extensively and more directly in their economies than they did in the past. In fact, economic development and stability are currently major objectives of the GCC countries. However, the present accounting practices in the region do not provide the tools for effective economic development.

The accounting systems in all public sector companies are still dated and undeveloped. Accounting practices, regulations, and generally accepted accounting principles and/or standards are not sufficiently developed to meet government needs, the requirements of the GCC environment, or the needs of users of accounting data.

Insufficient regulations, lack of an authoritative body, and foreign influence are the main reasons for the diversity in accounting standards used by practitioners.

It appears that the main source of accounting information in the Gulf is the annual report of the

company. At present, the reports do not provide sufficient information because very few companies provide detailed analysis of the figures, information on their accounting policies, and notes on the accounts. Comparability and reliability are difficult to achieve, since no specific accounting system is followed.

Therefore, the strategy favoured by most of those who interviewed, was the establishment of a uniform accounting system suited to the GCC environment, which would replace the present impractical situation.

The above argument is supported by 56% of financial managers and some members of board of directors in public companies who believe that the installation of a uniform accounting system will be the best remedy for the existing diversified accounting systems and would suit the GCC overall environment.

Accordingly, it is desirable that a proper accounting system be established, to allocate effectively the GCC's economic resources, and to provide impetus for planning, controlling, and decision-making. This is confirmed by the responses generated by the questionnaire and the points of view of various concerned parties given in this chapter.

However, it has been noted that the interviewees in the private sector totally rejected the idea of having the uniform system and that was attributed to their feeling that this new system would handicap them in terms of profit maximisation and manipulation in companies reports

or operations.

All in all, comparing the current accounting practices and the picture presented by the participants, one can conclude that a uniform accounting system is an essential factor to enhance unity and integration among the GCC countries. The findings in this chapter are only a start towards establishing a uniform system.

In addition, the viewpoints of university members who have the theoretical background and public accountants who have the experience and practical background in the GCC environment, are also important to this study, to make possible valid conclusions. These aspects of the study will be discussed in the following chapters.

CHAPTER 9

ANALYSIS OF THE RESPONSES OF THE STAFF MEMBERS OF UNIVERSITIES

9.1 Introduction

The researcher, in order to evaluate the likelihood of acceptance of a uniform accounting system and its relevance to the GCC environment, distributed questionnaires to the academic staff at Bahrain and Kuwait universities (Oman has no Accounting or Business College). Extensive interviews were held with the staff members to consolidate the views thus obtained. Appendix H gives a list of interviewees in Bahrain and Kuwait universities.

It is necessary to point out that the views of some interviewees (the total number of interviewees was 23) may have been influenced by their education. Most had been educated in capitalist countries, while comparatively few studied within a socialist context. Each group tended to take a different view of the feasibility of a uniform accounting system, though some Arab and GCC academic staff who graduated from U.K. or USA universities took a broader view in the interest of the GCC countries as a whole.

In Bahrain University, there is no Bahraini professor at the Business College; on the other hand, there are four Kuwaiti accounting teachers at the Faculty of Commerce in Kuwait University. The Kuwaiti teachers are full-time professors and have doctorate degrees in accounting. In the Business College at Bahrain University, all academic staff are foreigners from nine countries (except for three young Bahrainis who in 1988 gained the MBA degree in the USA). Most have professional accounting qualifications in

addition to Certified Public Accountant and Chartered Accountant status, and possess a wide range of experience as accounting teachers and practitioners.

9.2 Objective and Scope

Although most accounting teachers in secondary schools in the GCC countries have little opportunity to upgrade and update their knowledge, teachers in GCC universities are experts in their field, and are skilled teachers.

However, a tremendous gap exists between academic accounting education, which is very theoretical, and practice.

The variety of accounting systems applied in the GCC region does not enable the universities to provide courses suited to the GCC environment. The majority of courses in accounting are based on the American system, which gives the graduate a very narrow view of accounting, with the focus on financial accounting. Companies which apply the American system welcome these graduates; however, the majority of companies require employees to take some courses in the company's training centre or outside private accounting institutes to give them specific knowledge of the particular system in use in the company.

In view of the above problems, a uniform accounting system would have the following advantages:

- 1) It will develop the understanding of accounting students, who will be given various courses concerning the

concepts of the uniform system. This will especially benefit those who intend to work in the public sector.

2) The companies in the public sector will have no difficulty in recruiting suitably trained graduates, thus saving time, effort, and training costs.

3) The governments in each GCC state may benefit also by having graduates who will understand more clearly the needs of the various ministries.

9.3 Design of the Questionnaire

The information required was gathered from the sample by means of a questionnaire (see chapter 5), which was designed to take only about ten minutes to complete. Additionally, selective sampling procedures and follow up were implemented to overcome any possible delay in replying as well as to ensure the relevance of the responses.

The questions were classified according to the type of information they reveal as follows: (Table (9.1) represents the classification of the questionnaire to the sample).

1) General Data

The first six questions were related to the educational level, place of education, sex, nationality and the experience of the staff, and their present employer.

2) Background information

Three questions were asked to assess the respondents' accounting backgrounds. Questions 7 and 8 measure their reading and contribution to accounting periodicals and journals. Question 9 asked the respondent's background in the accounting system of his home country, and that of the country in which he works, in the case of foreign staff.

3) The nature of the accounting system

Question 10 continued from question 9, for those who have some idea of the various accounting systems practised in the Gulf region, and gave five options for the respondents to choose from.

Table 9.1 CLASSIFICATION OF THE QUESTIONNAIRE

NO.	INFORMATION TYPE	NO. OF QUESTIONS	SEQUENCE
1	General Data	6	1 - 6
2	Background Information	3	7 - 9
3	The Nature of the Existing Accounting System	1	10
4	The Existence of GAAP	2	11 - 12
5	Nature of Accounting Standards Applied	2	13 - 14
6	Possible Variation in Accounting Principles Applied	2	15 - 16
7	Feasibility of Applying a Uniform Accounting System	8	17 - 24

4) The existence of GAAP

Respondents' initial responses on the current status of GAAP in the GCC countries were gained from their replies to questions 11 and 12.

5) Nature of accounting standards applied

Questions 13 and 14 were very significant, since they sought more detailed information on the sort of accounting standards applied, and their relevance to the GCC. Respondents were asked to state their views regarding the relevance of the existing accounting standards to the GCC region. This would also indicate the possible relevance of a uniform accounting system to help in upgrading the sort of information needed for economic development. Five options were given in question 13 to specify the type of accounting standards applied, while four options were designed to see the relevance of such standards to the GCC.

6) Possible variation in accounting principles applied

Those who claim that there are variations in the accounting principles applied in GCC states, were asked to indicate possible reasons for such diversity (questions 15 and 16).

7) Feasibility of applying a uniform accounting system

The last eight questions (17 - 24) were planned to evaluate the respondents' opinions of the best strategy for creating an accounting system to suit the needs of the GCC states. Questions 17, 18, and 19 asked the views of the sample regarding the best solution to the existing complicated situation.

Responses to question 20 serve two purposes: first, they act as a check against previous questions, with reference to the possibility of establishment of a uniform accounting system; second, they provide vital information about the sort of information the uniform system could provide. In the event of favourable responses to question 20, questions 21, 23, and 24 sought to determine the advantages the uniform system could afford, and at the same time, who has the ability to promote such a system.

Those who might reject the idea of establishing such a system, were asked in question 22 to specify the reasons behind the rejection. Although five possible reasons were suggested by the researcher, respondents were invited to indicate other possible reasons.

The last question (question 25) asked whether the respondents were willing to complete another questionnaire or to grant interviews.

At the end of the questionnaire, space was left for the participants to make suggestions, offer criticisms, and elaborate their opinions of the questionnaire or of

the subject under investigation in general.

A covering letter accompanied the questionnaire, explaining the researcher's status, and the aims and scope of the research. A confidentiality statement was furnished to the respondents, who were then asked for their full co-operation in replying to the questionnaire.

9.4 Sampling

As discussed in chapter 5, the sample of respondents included representatives from public sector companies, academic staff in accounting departments of universities, and public accountants from accounting firms.

This chapter investigates members of the universities population. According to the latest information available (December 1988) relating to the staff in the accounting departments of Bahrain and Kuwait Universities, GCC citizens represent only 25% of the total staff; the rest are expatriates.

Although a random sample might be the most common method of obtaining information, the researcher interviewed most of the sample (23 out of 28 respondents) in order to reach a solid basis for a meaningful conclusion.

9.5 Analysis of the data

As discussed earlier, a questionnaire was distributed to all staff members in accounting departments of the universities of Bahrain and Kuwait. Table 9.2 shows the

number of copies distributed, received, and the overall percentage of responses.

Questionnaire II

ACADEMIC STAFF OF BAHRAIN AND KUWAIT UNIVERSITIES

"Percentage of Response"

Table 9.2

DISTRIBUTED.....	35	Copies
RECEIVED.....	28	Copies
RESPONSE RATE.....	28/35 = 80%	

Country	No. of copies distributed	No. of copies received
Bahrain	15	15
Kuwait	20	13
Total	35	28

The researcher followed up all the copies distributed in the College of Business and Management at Bahrain University; arrangements were also made to visit the Faculty of Commerce at Kuwait University to collect responses received from the staff members in Kuwait. The total number of responses received from Bahrain University was 15 (100% response rate), and there were 13 responses from Kuwait University (65% response rate). Thus, the average response obtained was 80%, which gives a reliable indicator on which to base conclusions.

9.5.1 General data

In order to gain some knowledge of the environment of the respondents, questions 1 to 6 were designed to obtain personal details and information on education and work experience. Table 9.3 summarises the respondents' backgrounds.

Table 9.3

Background of Respondents from University Sample

GENERAL DATA

=====

1] Educational level :

a) High school	[0%]	b) Bachelor	[4%]
c) Master	[18%]	d) Doctoral	[57%]
e) Other	[21%]		

2] Educational institution :

a) GCC countries	[0%]
b) Arab countries	[7%]
c) Foreign countries	[93%]

3] Sex :

a) Male	[93%]	b) Female	[7%]
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4] Citizenship :

Kuwait	[14%]	Pakistan	[7%]	Sudan	[4%]
Bahrain	[10%]	U.S.A.	[7%]	Turkey	[7%]
Egypt	[29%]	Lebanon	[4%]	India	[4%]
U.K.	[10%]	Canada	[4%]		

Table 9.3 (continued)

5] Years of experience :	
a) Inside GCC countries	[34%]
b) Outside GCC countries	[66%]
6] Employer :	
a) Bahrain University	[54%]
b) Kuwait University	[46%]

From the percentages in the table, the following conclusions may be drawn:

- 1) 57% of the respondents were Ph.D. holders (including all staff at the Kuwait faculty). This indicates a high level of experience and suggests that the staff may be able to offer sound theoretical views on the main objective of the study. The second highest percentage (21%) represents those who have other qualifications and membership of various institutions such as C.A., C.P.A., A.C.C.A, A.C.A, I.C.A.E.W, A.C.M.A, etc. In fact, GCC countries tend to place too much emphasis on the production of doctoral, certified, chartered, or qualified accountants only, and if a person does not reach that high level of qualification, he is labelled a "failure", whereas he might in fact be very competent in practice.
- 2) Most of the academic staff were educated abroad, mostly in the U.K. or the USA (93%), while only 7% of the respondents had been educated in Egypt.

3) The majority of respondents (93%) were male and only 7% were female teachers (one Kuwaiti Ph.D. holder and the others Bahraini MBA holders), suggesting that in the GCC, accounting and business are still very much masculine interests. (1)

4) There are a number of foreign staff in both universities, reflecting the shortage of GCC graduates in the field of accounting and business. Nevertheless, there are 7 GCC staff, of whom 4 are Kuwaiti Ph.D. holders and three are Bahraini MBA holders. 29% of the sample were from Egypt, where a uniform accounting system is already implemented. This provided valuable insights for the research.

5) The staff had considerable experience in GCC countries (34%) and outside the GCC (66%), which could be drawn on in evaluating the reliability of the present accounting systems and their relevance to the GCC nations.

6) Of the 20 staff members in the Faculty of Commerce at Kuwait University, only 13 (65%) responded to the questionnaire. The rest gave a variety of reasons for not returning the questionnaire. However, all the staff in Bahrain University (15 members) returned the questionnaire, answered in full.

9.5.2 Background information

Respondents were asked to indicate the accounting periodicals and journals they read, or to which they have contributed. Although the majority of them (96%) had updated their knowledge by reading a variety of accounting periodicals (question 7), only 11% of them had had any articles or papers published in recognised journals (question 8). In fact, as regards the availability of publications on accounting, there are several English and American publications; however, there are few scholarly publications originally written in Arabic. Translations from other languages, too, are surprisingly few.

7) Reading accounting periodicals ...

a) Yes [96%] b) No [4%]

8) Publication in accounting journals...

a) Yes [11%] b) No [89%]

An interesting point emerged during an interview with a foreign academic in Bahrain. He said:

"... the absence of incentives to write or to publish is the main obstacle which prevents the member from doing so; having fixed contractual allowances and regular increments (whether you work hard or not) ... the lack of communication with other parties ... whatever you say will be accepted. All these phenomena make the staff members very unproductive."

That statement reflects the attitude of some accounting teachers in a specific GCC country and may be generalised to other GCC countries, since the conditions are similar. Accordingly, little time is generally spent on preparing lectures, guiding students, and doing research.

Nevertheless, there are those who have written and had published, articles and text books on various aspects of accounting and other related areas.(2)

The respondents' familiarity with the existing accounting systems in the GCC states, and the type of system found, were investigated in question 9 and 10.

9] Familiarity with the existing accounting system

a) Yes [75%] b) No [7%] c) To some extent [18%]

10] Nature of the existing acct. system

a) Uniform accounting system	[0%]
b) American accounting system	[26%]
c) British accounting system	[21%]
d) Others	[0%]
e) No specific system	[53%]

It is observed from the responses to question 9 that the majority of respondents (75%) had a general knowledge of the various accounting practices in the Gulf region, though 7% had no idea at all of the systems currently in use.

Regarding the nature of the existing accounting systems in the GCC area (question 10), more than 53% of

the respondents admitted that there was no specific system to be applied in the region.

Al-Muthaf, J. admitted the complexity of the present situation by stating:

"... all existing accounting systems in the Gulf lack consistency and relevance in both practice and theory. This situation makes it difficult to appraise any enterprise and at the same time, compare financial statements, measure efficiency, or prepare suitable feasibility studies in various organisations in the state."

A. Raheem, H. from the College of Business and Management at Bahrain University, explained the variety of accounting systems in the area as follows:

"... although the GCC countries share many common characteristics, they are not a homogeneous group in terms of their adopted accounting system. Those who are affiliated with British enterprises apply the British accounting system in their organisations, those who are in line with American interests follow the American system, and so forth. GCC countries must seek their own domestic system, to enhance their independence."

Sharkas, W. pointed out the weakness of current accounting systems in providing the necessary information to interested parties, claiming:

"... in most developed countries, accounting began as a requirement established by a legal or political power. However, in the GCC states accounting has been given no consideration among the national priorities. For this reason, every sector, company, firm,...etc. has its own policies and its own accounting procedures which are by and large geared towards its own priorities."

These statements are representative of many which indicate the difficulty created by the variety of accounting systems applied, which at present prevent GCC governments from reaching their desired objective of unity.

In order to understand more fully the current accounting systems, questions 11 and 12 were asked to verify whether GAAP exist in the region. 57% of respondents believed they do, while only 4% thought not, while 39% felt that they are applied to a limited extent. Jackson, B. lecturer in College of Business and Management and at the same time a senior public accountant at one of the eight major firms, argued as follows:

"There is a conceptual problem there. We were regionally going by American Standards (GAAP); in some cases however we have issued financial statements which conform to the U.K. or to the European Standards and then again we say "generally accepted accounting standards" because they are accepted in their home country where the financial statements will be used."

On the other hand, those who denied the existence of GAAP (question 12), attributed this to the lack of awareness and legislation. In fact, the freedom of management to choose standards without any control or supervision from the government or any authorised body, increases the possibility of fraud, misleading information, and mismanagement. Unfortunately, this is generally the case in all GCC countries.

11] Existence of GAAP in the GCC

a) Yes [57%] b) No [4%] c) To some extent [39%]

12] Reasons for absence of GAAP

* Lack of awareness and appreciation for their application.

* Lack of appropriate legislation.

9.5.3 The Accounting Standards and Principles Applied and Their Relevance to the GCC

This section considers the nature of the accounting standards applied in the region, and examines opinions about their relevance from the point of view of academic staff. The results of the survey show that 41% of respondents (question 13) believe that international accounting standards are the standards most commonly applied in the GCC countries.

13] Accounting standards applied ...

a) International Accounting Standards	[41%]
b) American Accounting Standards	[25%]
c) Canadian Accounting Standards	[0%]
d) British Accounting Standards	[34%]
e) Others	[0%]

14] Relevance of accounting standards to the GCC

a) All of them are relevant	[14%]
b) Some of them are not relevant	[55%]
c) None of them are relevant	[27%]
d) Other comments	[4%]

Saleemi, R., from the College of Business, Bahrain University, said:

"To the best of my knowledge and experience in the Gulf, most GCC companies apply the IAS because they contain several advantages: firstly, they are not strict, that means they are very flexible so that you can get the basis then you can improve on it. Secondly, they are internationally accepted, which helps in marketing products. Thirdly, in terms of disclosure, we can say most companies prefer to simplify their financial statements by using such standards. Fourthly, they are very easily understood by others in the society. Fifthly, they are well-written, well-researched, and well-thought-out. However, the relevance of such standards is still questionable since they do not reflect the socio-economic conditions of GCC nations."

Another member of staff (Bucheeri, A., from the College of Bus. and Mgt., Bahrain University) declared:

"To be honest with you, we as professionals prefer to adopt the IAS for two main reasons: 1) Life will be easier if the national and international companies adopt the IAS. However, if each state has its own standards, Western expatriates will have less freedom to move around because they will have to learn the terms under which they are working. 2) The professionals also like rather more freedom of discretion and prefer the IAS to be used because IAS represent a low bench-mark that they can achieve without much effort and thought. To be frank with you, we are afraid of something more specific."

The above arguments showed clearly why some of the staff interviewed argued strongly that IAS need no modification. To this, the researcher would argue that if it is worth applying standards in the GCC, then it is worth making the effort to create standards specifically

designed for that environment.

Another academic, Shuaib, A. from the Faculty of Commerce at Kuwait University, emphasised the importance of IAS to national or regional companies, but suggested that they be used as a basis for GCC standards. He stated:

"... the IAS are acceptable, but the GCC countries should produce their own GCC standards (e.g. based on IAS). The GCC standards could be a little tighter than IAS. Therefore, the Ministry of Commerce in all GCC states could take the IAS as a basis, but that does not mean automatically accepting that IAS are the standards to be applied. If there is government willingness to create GCC standards, then we should create our own standards to serve the different interested parties in the region."

Although this statement could be acceptable from the point of view of shareholders, investors, etc., and the private sector in general, it would not serve the GCC governments and state enterprises for their planning, control, and decision-making. They need a control system for supervising public sector companies as a whole, one which does not focus on financial reporting or financial accounting to the exclusion of other aspects.

A third interviewee, Sharif, T. from the College of Bus. and Mgt., Bahrain University, completely dismissed the idea that IAS could be relevant to the Gulf environment:

"... the 24 IAS known in the Gulf region are very weak in many areas so that they cannot survive within the environment of the GCC. The authorities in the Gulf should look to an alternative suited to their aim of becoming one nation."

Al-Muthaf, J. (Kuwait University) expressed his opinion regarding accounting standards in the GCC, saying:

"... in fact, up to now, what has been applied is basically diversification between American and British accounting standards. If you look closely at IAS, you will find that they are very similar to American standards."

It is evident that a variety of standards are applied which are not appropriate to the environment of the GCC countries (question 14). Companies in the area adopt whichever standards they prefer, irrespective of their suitability to the environment. This may be attributed to the failure of GCC commercial companies law to specify the required standards. In answer to question 14, on the relevance of the existing standards to the GCC environment, 55% of respondents agreed that some of the accounting standards applied are relevant but that some of them are totally irrelevant. Furthermore, 27% (mostly Arab or GCC citizens) denied any relevance of the existing standards to the GCC environment, while only 14% felt that all available standards are relevant to the GCC environment.

Finally, the researcher would like to draw attention to the fact that recently, the Saudi Arabian government, in order to clarify the complicated situation, has issued some standards which are very similar to USA standards (in fact it has been noted that the government translated American standards, making some minor modification to

avoid conflict with Islamic law). In addition, Kuwait issued three standards in 1987 which do not differ greatly from IAS, but these do not carry government authority. In other words, auditors are not required to comply with a recognised set of accounting standards that could benefit the GCC societies.

The next two questions (questions 15 and 16) required participants to indicate whether there is diversity in the accounting principles applied, and to specify the reasons for this. The researcher included these two questions because of previous experience of the variety of accounting standards applied.

15] Possibility of diversity in the accounting principles applied

a) Yes [46%] b) No [29%] c) To some extent [25%]

16] Reasons for diversity:

a) Absence of authoritative body	[32%]
b) Insufficient regulations	[32%]
c) Owners' indifference and ignorance	[10%]
d) Foreign education	[13%]
e) Foreign companies	[13%]
f) Other	[0%]

Not surprisingly, 46% of respondents conceded that there are differences in the accounting principles applied, though 25% did not give a clear-cut answer (question 15). On the other hand, 29% denied any diversity in the accounting principles applied in the GCC countries.

For those who admitted the existence of diversity, question 16 asked the reasons for this. Two main reasons were equally blamed for accounting diversity: Absence of an authoritative body (32%), and insufficient regulations (32%). Other reasons were foreign education (13%), foreign companies (13%), and the ignorance or indifference of owners (10%). All in all, complexity, diversity, and discrepancy come from the ambivalence of the governments in the GCC.

9.6 The Most Appropriate Strategy for Creating an Accounting System

As discussed earlier, there are a variety of accounting standards/systems applied in the GCC region which are not, by and large, relevant to the GCC environment. To find a solution to this complex position, part three of the questionnaire was designed to assess the feasibility and desirability of a uniform accounting system designed to suit the public sector companies and to provide the governments in the GCC with reliable accounting information for planning, control, and decision-making. Three important questions (question 17, 18, and 19) shown in Table 9.4 dealt with this issue.

Table 9.4

-
- 17] The best strategy(ies) for creating an accounting system to suit the public sector companies in the GCC
- a) Creating a uniform accounting system [53%]
 - b) Establishing an authoritative body [32%]
 - c) Regulation by governmental units [11%]
 - d) Others [4%]
- 18] Should a uniform system be established by the General Secretariat of the GCC?
- a) Yes [67%] b) No [20%] c) Do not know [13%]
- 19] Type of authoritative body
- a) Academic Professionals [21%]
 - b) Political groups [3%]
 - c) Public sector bodies [19%]
 - d) Private sector bodies [16%]
 - e) Others [41%]
-

The majority of the respondents (53%) in question 17 supported the creation of a uniform accounting system throughout the GCC states, while 67% of these agreed (question 18) that this should be established by the General Secretariat to the GCC. 20% of the supporters of such a system felt that the General Secretariat was not the best body to establish it, and preferred a group of all parties concerned to do the work.

Tonger, J., had the following to say with reference to the party authorised to set up the uniform accounting system:

"... I think the government in each GCC country is responsible for such establishment because the only reason for wanting a uniform system is that it will provide useful information to the government that the government requires for planning, monitoring or whatever; so unless the government wants it, unless the government will sponsor it, unless the government is going to use the results of it, then there is no point in having it. If the government wants the system, then it is worth investing time and effort in designing what is required. However, a uniform system for the GCC as a whole, will have to be done through the General Secretariat."

Most of those who argued against the uniformity idea supported the alternative of establishing an authoritative body. To assess what type of authoritative body is required, the researcher asked question 19, to which the respondents favouring such a body variously felt that it should be drawn from: academic professionals, political groups, public authorities, or private bodies (public accountants, professionals, economic analysts, etc.) 41% of respondents favoured a mixed body.

One interviewee suggested:

"Professionals could be members of the desired group; the public sector and the people in the Ministry of Planning, Ministry of Commerce, and Ministry of Finance who are in charge of the planning functions and know the output and input of their country's economic situation are the main group who should be in charge of finding the best solution."

Another member supported the establishment of an authoritative group:

"The GCC countries should create a body of those who are very close to the subject. That of course depends on the willingness of the six countries to give up a little piece of autonomy to somebody that they will trust to act on behalf of all of them. Whether this body is set up by the General Secretariat of the GCC or not, it would need somebody at a top level to set up the committee, presumably representing all the six states, and representing accountants who are accepted within the six countries."

The points of view cited above show that understanding of the GCC environment is a very critical issue. Al-Muthahki, J. (Bahrain University) took a broad view when she indicated:

"A uniform system may improve the quality of information that is available for government use; also, the public sector would be benefited in that it would make the company keep better records which would then make it possible for accountants to prepare the accounts rather more cheaply than perhaps has been done up to now."

Shuaib, A. agreed that:

"To provide the information needed for the development planning and control process in Kuwait, the government must establish a comprehensive information system (which could be a uniform accounting system) for the storage and retrieval of financial, managerial, economic and technical data related to the planning and control process. This system would enable the government to monitor the plan, exercise co-ordination and control, and measure performance. Also, it would provide information needed for the decision-making process."

Al-Adeli, Y. (Kuwait University) suggested that seminars could have an important role to play in finding the optimum solution to the problem:

"In order to serve the acceptance of the uniform system, the university could sponsor seminars or symposia to be attended by various concerned directors in the public sector companies, authoritative people from government, civil lawyers to see the legal aspects, analysts, ...etc. to explore the implication of a uniform accounting system and its application to the region. Such a process could open debate and discussion among different groups so that ultimately the community could reach a conclusion as to whether or not the uniform system is applicable."

Akram, M. (Bahrain University) stated:

"The demands for relevant accounting data have increased with the multiplication of GCC economic goals. The effectiveness, however, of the present GCC accounting system to deliver the information needed is very complicated. Having a uniform system may facilitate the provision of the necessary information, which is greatly determined by the structure of the potential uniform system, and the work by which accounting rules and procedures are implemented."

Najjar, G. (Dean of College of Business and Management at Bahrain University) added a very important point when he said:

"An effective uniform system may provide comparable and reliable information for policy makers in economic sectors in GCC states to make optimal decisions. Also, a uniform system may serve national accounting and may improve the national accounts. In my personal opinion, it is appropriate for the government in terms of economic advance, in particular, the normative concept of it is very desirable in the GCC countries. However, a uniform system should be accomplished by continuing review and evaluation; meanwhile, it should retain the flexibility necessary to respond to economic changes."

On the other hand, those who argued against the creation of a uniform system, supported the idea of establishing an authoritative body to represent all interested parties, including the government. Sharkas, W. (Kuwait University) argued:

"... the suggested uniform system may generally satisfy the information needed by Ministry of Planning or Ministry of Finance; however, it may not be comprehensive enough to meet at the same time the diverse information needs of shareholders or management in particular. For this reason, the creation of an independent body (with power from the government) may ease the present situation and come up with remedies to satisfy the different parties in the Gulf area."

The same point of view was made by another interviewee from Kuwait University, when he pointed out:

"... a uniform system cannot serve management at the enterprise level. Decision-making at the enterprise level requires that relevant information be provided on the alternative choices being considered. Information like marginal cost or opportunity cost or other relevant cost information is generally not available to Egyptian public sector companies. Therefore, when you think of adopting a uniform system, you should look at the interest of the management of various companies as well as the government interest."

As far as the desired accounting information is concerned, Tony, K. disagreed with the idea of establishing a uniform system. Instead, he commented:

"... the governments in the GCC, for the purpose of planning, need to design a special format. At the end of the year, companies would prepare it and present it to the Ministry of Planning in each GCC country. That

format could be different from the regular financial statements; however, if the governments in the GCC change the whole system used by the companies, those companies become like governmental agencies which at present are not efficient."

Shirazy, A. (Kuwait University) pointed out five potential problems that may arise if the GCC governments were to apply a uniform system:

"... yes, by applying the uniform system the following problems will occur: first of all, it will be inflexible. Second, it will be an application of rules similar to the governmental accounting rules. Third, it will restrict the innovation of the professionals and practitioners. Fourth, it will give a bigger role to the government agencies to interfere any time they like. Fifth, the work in all public sector companies will become routine work. For these reasons I am not in favour of it."

The most vehement rejecter of the idea of applying the system was A. Kareem, R. (Kuwait University) who stated:

"... in fact, I would go for standards that would guide the profession in accounting, but I would not go for a uniform system because each company has its own accounting system and therefore what the government wants is financial reporting in such a way that it can understand the principles underlying the reporting. However, uniform systems have failed in many parts of the world."

The researcher pointed out to this interviewee that a uniform system has been implemented in Egypt and Iraq for many years, including in the public sector. He replied:

"That does not necessarily mean it is a good system. To be frank with you, one of the major defects in Egypt is the uniform system."

Looking at the above arguments, the researcher would like to clarify the following:

1) Any government needs a uniform system to clarify accounting principles or standards, so it can make the necessary comparison between companies in the same field; but, in particular, it would help governments in the GCC to further economic development. In other words, it would help the governments to draw up frame work for planning, control, and decision-making.

2) The uniform system has been applied in Egypt since 1966. If it is not helpful, why should the government continue to apply it?

3) Any defect may be not in the system itself, but in those who are handling the system.

4) To see the success of the uniform system in Egypt, the total number of public sector companies has increased to 472 companies (3), and the industrial sector alone will produce 15 billion Egyptian pounds in the year 89/90; this represents a 10% increase in production over the financial year 88/89.(4)

9.6.1 The Predicted Role of the Uniform System

The views of respondents regarding the potential application of a uniform accounting system were expressed

in question 20:

20 | **The Predicted role of the uniform system**

a) Governmental planning and control	[42%]
b) Economic control of public expenditure	[25%]
c) Satisfying the users of acct. information	[13%]
d) A,b, and c	[20%]
e) Other	[0%]

Governmental planning and control (42%) was the category most respondents thought would benefit from adopting the uniform system, followed by economic control of public expenditure (25%). These results represent the opinions both of those who supported the uniform system and those who were against the idea, because the question added the proviso "... if applied in the GCC countries".

One of the interviewees, Al-Alawi, A., from the College of Business and Management at Bahrain University, gave his opinion regarding the expected role of a uniform system:

"From my limited experience of the nature of GCC countries, I believe they must develop a better economic information system if they want to become more developed nations. That could be done through a comprehensive accounting system rather than diverse systems which fail to satisfy the parties concerned if they want to succeed in combating the growing administrative complexity of their rapid economy. Therefore, the state's participation in establishing such an accounting system is considered an important vehicle for the implementation of development plans."

Al-Mahmood, H. clarified his opinion on the predicted role of the uniform system by stating:

"The public sector in all GCC countries is a proportion of the economy. Therefore, I think that, in view of the growing size of the public sector, the government needs to have an accounting system which has the ability to provide it with the type of accounting and economic data needed for its goals. Furthermore, the system should provide the board of directors with all the data needed to run the company more effectively."

Thus, there is general agreement on the predicted role of the uniform accounting system and its ability to assist the GCC governments in bringing the present chaotic situation under control and planning for a brighter future.

9.6.2 The GCC States and Their Own Uniform Accounting System

Resuming the attempt to evaluate the possibility of applying a uniform accounting system (part III of the questionnaire), this section is intended to focus more attention on the possible establishment of a GCC uniform system and on who might have the ability and power to establish and enforce such a system. In addition, it highlights the possible benefits and possible harm that a uniform system might bring. These responses are summarised in table 9.5.

Table 9.5

21]	Establishing GCC Own Uniform System	
	a) Yes [57%]	b) No [28%] c) Do not know [15%]
22]	Alternatives in Establishing the Uniform System	
	a) Est. & enf. by General Secretariat to the GCC	[9%]
	b) Est. & enf. by an independent private organisation	[5%]
	c) Est. & enf. by an independent professional body of accountants	[13%]
	d) Est. by an independent professional body of accountants, but enf. by the General Secretariat	[37%]
	e) Other arrangements	[36%]
23]	Advantages of Establishing GCC Uniform System	
	a) Facilitate comparability	[33%]
	b) Better definition of a "true and fair view"	[9%]
	c) Provision of handy rules	[12%]
	d) Elimination of conflict in financial presentation	[16%]
	e) Other	[30%]
24]	Obstacles Confronting the Process	
	a) Conflicts of professionals opinions	[0%]
	b) Harmful to the profession	[49%]
	c) Difficulty in governing different companies	[9%]
	d) Shortage of professionals	[6%]
	e) Satisfaction with present situation	[27%]
	f) Other	[9%]

Question 21 "... your opinion of establishing and adopting a GCC uniform system", was planned to serve as an introduction to the subsequent questions. The majority of respondents (57%) considered the establishment of a GCC uniform system to be essential for achieving the desired objectives of unity and integration, whereas 28% rejected it and 15% had no clear opinion.

Although more than half of the sample were not GCC citizens, their positive responses (57%) reflect the general feeling and give a fair indication of the unanimity among GCC governments in most aspects of life. It was not surprising to find that only 28% of rejected the idea, and this could be attributed to their hostile attitude towards any perception of uniformity.

Question 22 confirmed the results from question 21 and it seems that a uniform system would be readily accepted if established by independent accounting professionals and enforced by the General Secretariat of the GCC, the choice of 37% of respondents. Almost as many would accept such a system, but would prefer the composition of the establishing body to be broader, including, for example, representatives from various GCC Ministries (Ministry of Planning, Ministry of Commerce, Ministry of Finance, etc.), directors from public and private sectors, analysts, and specialists in the field from abroad.

However, it is worth mentioning that one Kuwaiti staff member (A. Rahim, A.) commented on the enforcing authority stating:

"... no matter who has the authority or the ability to establish or to guide the uniform system, the most important thing is the effectiveness in handling such a system, because the expected uniform system will be an effective instrument in the socio-economic process, particularly in the dynamic process of economic growth and development in the GCC countries."

The question of whether the selected uniform system would have advantages, and, if so, what these might be, was addressed in question 23. About a third of respondents said it would "facilitate comparability", while another third believed it would bring "other advantages". Of these, most respondents suggested that government would receive the most advantage, in being able to control state companies, ensure that subsidies are appropriately directed, receive uniform reports from various enterprises, and improve their planning for the benefit of the economy.

In fact, those who argue that uniformity will facilitate the comparability process believe that through comparability the governments in the GCC will obtain useful economic data from various companies, industries, and regions, and for the GCC as a whole, to use as a basis for creating and enforcing laws.

Although there are many advantages in applying a uniform system, especially from the government point of view, the researcher asked in question 24 whether there might be disadvantages. Of those who opposed uniformity, 49% attributed their opposition to the belief that the application of a uniform system will harm the profession. They mentioned several reasons, such as: it would involve rigid rules and procedures that would make financial statements less comparable; it would infringe the basic rights and freedoms of management, and it would prevent progress and desirable changes.

The views of the opponents of uniformity are reflected in the words of one interviewee, who stated:

"... you must bear in mind that accounting practices and procedures are changing frequently throughout the world and on a state basis, development planning is a continuous process; in the meanwhile, there are a lot of obstacles in the GCC countries' economic development. Hence, the suggested uniform system will not have the power to monitor the present situation."

The researcher would concede that there are indeed several obstacles to the GCC countries' economic development; however, it is argued that the uniform system would be the best remedy to overcome such obstacles, since recently the role of accounting in economic development appears to have been recognised by GCC leaders. In addition, the uniform system goes beyond financial reporting and its interpretation of past transactions to facilitate government decision-making; it will assist in controlling the direction and diversification of the GCC economy, and helping to maintain the social and cultural values of GCC societies.

9.7 Summary and conclusion

This chapter investigated the attitude of the academic group (academic staff at Bahrain and Kuwait Universities) towards the feasibility of applying a uniform accounting system to serve the governments in all GCC states. A questionnaire was designed to analyse the perceptions of the accounting teachers in both

universities towards the possible introduction of a uniform accounting system in the GCC region. The sample represented the entire accounting department staff in both Colleges, and the survey was conducted with the full co-operation of Bahrain and Kuwait Universities. Various aspects of the possible acceptance of the uniform system were investigated under three parts as laid out in the questionnaire.

From the various interviews, it is apparent that accounting plays a recognised and vital role in the GCC economic environment. However, although GCC countries seek rapid economic development, their development efforts are stifled by inappropriate accounting systems, inadequate, largely uncoordinated, and having little relevance to the needs of their governments and societies.

One of the main findings in this chapter is that the accounting in the GCC states should be developed in a manner relevant to the needs and objectives of the GCC societies. Any effort in this respect should be based on adequate consideration of the socio-economic, legal, and political environment. Since these environments are similar in all GCC countries, there is considerable scope for the application of a uniform accounting system which would help the governments in the GCC bring about the desired unity and integration.

Indeed, there is a clear need for a uniform accounting system in the GCC states, in view of the importance of accounting information for national

development planning and control. Most of the respondents felt that the idea of implementing a uniform system would initially meet with resistance from most state companies, but if the governments were determined to apply it, the companies would find ways and means to achieve the necessary changes.

An important finding from the interviews is that accountants are quite capable of making the changes which would be necessitated by a uniform accounting system. However, it seems that many accountants are more concerned with the problems to themselves than with the benefit to the government.

There is considerable agreement that the significant impact of a uniform accounting system would lie in its ability to meet the basic requirements of economic decision-making, namely, that comparisons of interrelated economic events in the process of economic analysis, planning, and control could be made on the same basis.

FOOTNOTES

- 1) There are several female teachers (MS, MA, and even Ph.D. holders) in various fields like Engineering, Arts, Science, etc.
- 2) See for example, Dr. Shuaib A. Shuaib who has written several articles on accounting education and financial reporting in Kuwait; also, Dr. Jasim Al-Muthaf who recently published a text book on principles of accounting. Furthermore, Dr. Wajdy Sharkas (an Egyptian) has written some articles on the status of accounting in developing countries and a study of the Supreme Audit Bureau in Kuwait. Dr. Sadik Al-Bassam has written a number of articles on the economic and societal aspects of accounting in Kuwait.
- 3) Al-Ahram International Newspaper, 26th August, 1989, P.3 (in Arabic).
- 4) Al-Ahram International Newspaper, 17th August, 1989, P.1 (in Arabic)

CHAPTER 10

ANALYSIS OF THE RESPONSES OF THE PUBLIC ACCOUNTANTS (ACCOUNTING FIRMS)

10.1 Introduction

By and large, the profession in the GCC states can be divided into two tiers: first, the local partners of the big accounting firms, which are trying to apply or to introduce the IAS plus the Generally Accepted Accounting and Auditing Principles and Standards (GAAP & GAAS) for auditing, working papers, etc.; second, the local firms which are now starting to cooperate with the international firms. These apply various accounting standards. Both types of firm, because of the absence of laws and regulations, do not adhere to any specific systems or standards. The reasons for this are various: relationships with clients, size of the client firms, fear of losing clients, the need to compete in the market, etc.

The aim of this chapter is to study and analyse the points of view of the public accountants regarding the idea of applying a uniform accounting system to suit the public sector companies in the GCC countries. It then examines the results of the survey conducted through a questionnaire distributed among the accounting firms in Bahrain, Kuwait, and Oman.

10.2 Research Objectives and Scope

Many users of accounting information suffer from the lack of adequate information and the high probability of misunderstanding the content and nature of such information. This could be attributed to the variety of accounting systems applied in the GCC countries. For this

reason, many studies have been undertaken with the aim of providing a common basis for all users, as well as yielding reasonably accurate data, relatively simple and easy to understand.

However, the present status of accounting firms in the Gulf region and the absence of accurate laws and legislation, have created a difficult situation in which the users of audited accounting information, especially the GCC governments, cannot place great reliance on that information.

The decision to survey the opinions of public accountants in the accounting firms in Bahrain, Kuwait, and Oman was based on several factors:

- 1) One of the main objectives of this survey has been to study and evaluate the reaction of different concerned parties, of which the accounting firms are one, about the idea of applying a uniform accounting system to suit the public sector environment in all GCC states.

- 2) Accounting firms constitute a large portion of the public accounting profession in the Gulf. Therefore, a greater knowledge of the suitability of a uniform system could be derived from their opinions.

- 3) The establishment of a uniform accounting system may (as several professionals indicated) harm most of the accounting firms in the area, in terms of earnings.

Names of licensed accounting firms were obtained from the Ministries of Finance in the three GCC countries. The lists detailed 37, 11, and 16 accounting firms permitted to practise in Kuwait, Oman, and Bahrain respectively. The researcher chose 30 accounting firms at random. Table 10.1 shows the percentage of responses.

Questionnaire III

ACCOUNTING FIRMS

Table : 10.1 "Percentage of Response"

DISTRIBUTED	.....	30 Copies
RECEIVED	.....	21 Copies
RESPONSE RATE	.....	21/30 = 70%
<hr/>		
Country	No. of copies distributed	No. of copies received
Bahrain	10	10
Kuwait	10	5
Oman	10	6
<hr/>		
Total	30	21
<hr/>		

The table shows that 30 questionnaires were distributed among the three countries, to which 21 replies were received (70% of the sample); the remaining 9 copies were followed up intensively, but without any response.

The questionnaires received were analysed and classified, and conclusions drawn regarding the professionals' opinions of uniformity.

10.3 Limitations of the Research

Based on the responses received, it was recognised that accounting firms in the sample rely significantly on non-GCC auditors. As a percentage of total accountants employed of the firms, natives of the GCC accounted for only 19% of the sample (as will be seen in table 10.2).

In addition, the survey was confined to chief accountants or any senior officials in the sample who were available at a certain time, and according to specific issues under examination.

Thus, the findings in this chapter could be affected in one way or another by the following: first, the information collected may be biased by respondents' personal attitudes. Second, the interviews may reflect the interviewees' opinions rather than fact. Third, since many interviewees were foreigners, it is not easy to measure their understanding of, and interaction with, the local environment. Fourth, some accountants may have been afraid to speak freely because the subject under examination concerned government attitudes and actions.

However, the researcher made every effort to set the interviewees at ease and assure them of the confidentiality of responses and the fact that the purpose of this study is primarily an academic one, and it will be

examined in an overseas university.

In addition, some limitations remain open for further discussion. First, it is acknowledged that in postal questionnaires, answers may be suggested by the researcher as options or by the wording of the questions themselves. Nonetheless, in all cases respondents were encouraged to add items of their own if the alternatives provided did not exactly reflect their opinions. Second, observations obtained from this survey are not generalised to all accounting firms in the sample; hence, future research is required to examine the perceptions of a larger number of local and international accounting firms with respect to these findings.

10.4 Analysis of Responses

As has been explained, most information was gathered by means of a questionnaire distributed among a random sample of accounting firms, from which the total number of responses received was 21, representing a 70% response rate.

10.4.1 General Data I

The type of information obtained in regard to the main background of the respondents such as name of respondents, sex, their citizenship, name of the firm, and occupation is summarised in table 10.2.

Table 10.2

Respondents in the Accounting Firms

GENERAL DATA I
=====

- 1) Name of respondent : See Appendix (I)
- 2) Sex :
- | | | | |
|---------|--------|-----------|-------|
| a) Male | [100%] | b) Female | [0%] |
|---------|--------|-----------|-------|
- 3) Citizenship :
- | | | | | | |
|-----------|-------|----------|-------|-----------|-------|
| British | [43%] | Iraqi | [5%] | Indian | [14%] |
| Bahraini | [14%] | Egyptian | [5%] | Pakistani | [5%] |
| Jordanian | [9%] | Kuwaiti | [5%] | | |
- 4) Name of the firm : See Appendix J
- 5) Occupation :
- | | | | |
|------------------|-------|-------------------|-------|
| C.A. | [66%] | Public Accountant | [5%] |
| Managing Partner | [9%] | Professor | [5%] |
| Audit Manager | [5%] | General Manager | [5%] |
| Auditor | [5%] | | |

From the above table, the researcher classified the questions as follows:

1) Name of the respondent

Although a few respondents preferred not to give their names for one reason or another (especially the interviewees from Oman), Appendix I shows the names of

respondents who gave permission for their names to be mentioned in the thesis and who permitted an interview. From the appendix, the total number of interviewees were 14 and it appears that interviewees from Bahrain were most willing to give their names, perhaps because of the nationality of the researcher; on the other hand, several foreign interviewees were very cautious in their responses and were unwilling to give their names.

2) Sex

All the sample were male (100%) which reflects the unfavourable attitude towards accounting as a profession for women in these countries. Chief accountants in various accounting firms were asked why there were no female auditors. The answers, by and large, were the same: "It is a tough and unhappy job which sometimes takes from 8 to 12 hours continuous work and for GCC women, that is unacceptable".

3). Citizenship

81% of respondents were foreign accountants. A large number of licensed accountants were British (43% of the sample). However, only 19% of the licensed accountants were from the GCC: three from Bahrain (14%) and only one from Kuwait (5%).

The GCC licensed accountants received their education in the U.K. and obtained C.A. qualifications. Most of them are teaching in their home universities on a

part-time basis; they are also advisors consulted or directly involved in drafting commercial companies laws that influence the practice of accounting in Bahrain and Kuwait.

4) Name of the firm

Appendix J shows the names of all the accounting firms which responded to the questionnaire. Ten responses out of ten were received from accounting firms in Bahrain, five out of ten from Kuwait, and six out of ten from Oman. The researcher sent two reminders to those firms in Kuwait and Oman which did not respond, without success.

5) Profession

Although the questionnaires sent were addressed to the "Chief Accountant", a variety of occupations were stated by respondents; these positions included the following:

PROFESSION	NO. OF RESPONSE
Chartered Accountant	14
Managing Partner	2
Public Accountant	1
Professor	1
General Manager	1
Audit Manager	1
Auditor	1
TOTAL	21

10.4.2 General Data II

In the light of the information gathered from the questionnaire, it is useful to describe the characteristics of the respondents in order to understand the background of the sample. Table 10.3 shows the personal data of respondents in percentages (questions 6, 7, and 8), the length of time the firm had been in operation, and forms of organisation, in percentage terms (questions 9 and 10).

With reference to question 6, it seems that the majority of respondents had finished their college studies and held a bachelor degree (52%). The second highest percentage (33%) were those who had various qualifications such as C.A., C.P.A., etc. However, only one respondent (5%) had a Ph.d. degree; this may indicate that those with such a qualification might prefer an academic career, rather than to continue in practice.

Table 10.3

GENERAL DATA II =====

6] Educational level :

a) High school	[0%]	d) Doctoral	[5%]
b) Bachelor degree	[52%]	e) Other	[33%]
c) Master degree	[10%]		

7] Educational institution :

a) GCC countries	[0%]
b) Arab countries	[19%]
c) Foreign countries	[81%]

Table 10.3 cont.

8] Years of experience :	
a) Inside GCC countries	[54%]
b) Outside GCC countries	[46%]
9] Commencement of business :	
a) Less than 5 years	[0%]
b) Between 5 and 10 years	[19%]
c) Between 10 and 20 years	[52%]
d) Over 20 years	[29%]
10] Form of organisation :	
a) Public sector body	[0%]
b) Public ltd. liab. co.	[0%]
c) Private ltd. liab. co.	[0%]
d) Partnership	[90%]
e) Individual proprietorship	[10%]
f) Other	[0%]

Question 7, dealing with the educational institution, indicated that 81% of respondents had obtained their qualification from abroad (usually in the U.K.), while only 19% of the sample had obtained their degrees or certificates from neighbouring Arab countries (mainly Egypt).

With regard to years of experience (question 8), 54% of total years of experience among the sample were spent inside the GCC states. In other words, most of the accountants had spent more years working in one of the GCC countries than in the outside world; 46% of total experience was gained outside GCC countries. This point is vital for understanding the nature of the accounting systems involved and their relevance to the GCC environment.

Questions 9 and 10 were designed to discover the length of time the firm had operated in the GCC market, and the type of organisation . 52% of the sample in question 9 had been in operation for 10 to 20 years. This could be attributed to the stability of the foreign profession (because of the absence of local legislation) throughout the GCC. Regarding the formal structure of responding accounting firms (question 10), it appears that partnerships constitute the majority of accounting firms in the GCC region (90%). In fact, recently in Bahrain and Kuwait, most local accounting firms merged with international accounting firms to gain the necessary credibility and at the same time meet the increasing competition in the Gulf market. Few of the accountants practised through sole proprietorship (10%). Within these overall percentages, the local accounting firms could be described as partnerships, mostly associated with international accounting firms.

Table 10.4 presents a detailed classification of the accounting firms and their staff. In fact, the varied backgrounds of accounting professionals contributes greatly to the diversity of both accounting principles and practices as well as auditing standards and procedures. Central to the accounting background of these accountants, however, were the accounting thoughts and practice, the auditing standards and procedures, and the professional ethics which had been developed in European countries over many years.

Table 10.4

Respondents, Licensed Accountants, or Managing Partners, Classified by Citizenship, Membership, and experience in Bahrain, Kuwait and Oman

Classification	C I T I Z E N S H I P									
	B	B	J	I	E	K	I	P	T	P
	R	A	O	R	G	U	N	A	O	E
	I	H	R	A	Y	W	D	K	T	R
	T	R	D	Q	P	A	I	I	A	C
	I	A	A	I	T	I	A	S	L	E
	S	I	N		A	T	N	T		N
	H	N	I		I	I		A		T
										[%]
Number	9	3	2	1	1	1	3	1	21	100%
Education (1)										
High school									0	0%
Bachelor's degree	5	3	2	1	1	1	2	1	16	76%
Master's degree	1						1		2	10%
Ph.D.						1			1	5%
Other (2)	7								7	33%
Professional Title										
A.C.A (3)	5	1				1	2	1	10	48%
F.C.A (4)	3		1				1		5	24%
F.C.C.A. (5)	1								1	5%
Chartered in Egypt				1					1	5%
Experience (6)										
[A] Inside GCC countries										
3-5 years in public acct.	2		1	1	1	1			6	28%
6-10 years in public acct.	4			1			2	1	8	38%
11-15 years in public acct.	2	2	1						5	24%
Over 15 years in public acct.	1	1							2	10%
[B] Outside GCC countries										
3-5 years in public acct.	3		1						4	19%
6-10 years in public acct.	3			1	1	1			6	29%
11-15 years in public acct.	1		1			1			3	14%
Over 15 years in public acct.	2					1	1		4	19%

(1) In case of education, the percentage of the respondents with various degrees exceeds 100 percent because some of them have more than one degree.

(2) All other degrees represent C.A. from U.K.

(3) A.C.A : Associate of the Institute of Chartered Accountants in England and Wales.

(4) F.C.A : Fellow of the Institute of Chartered Accountants in England and Wales.

(5) F.C.C.A : Fellow of the Chartered Association of Certified Accountants.

(6) Respondents from Bahrain and Kuwait had experience only in GCC countries.

10.5 Present Status of Accounting Firms in the GCC

Question 11 dealt with the best plan for establishing requirements for licensing accountants. The majority of respondents (42%) supported the present situation, which of course gives them the freedom to work as they wish. Many public accountants work as advisors on a part-time basis to various private organisations. This is against the law, however, because licensing for public accountants is granted to those who are in independent practice. Therefore, public accountants are not allowed to engage in commercial activities or in any work which is inconsistent with their professional status and responsibilities.

11] The Best Arrangement for Establishing Licensing Requirements

a) The existing arrangements	[42%]
b) Licensing set by professional accts.	[29%]
c) Licensing set by professional accts. under the supervision of the Ministry of Commerce	[24%]
d) Licensing set by a professional body formed as a separate Government agency	[5%]
e) Other	[0%]

At present, accounting firms in Bahrain and Oman are not subject to any professional supervision from any governmental department or professional organisation. In Kuwait, however, following the Al-Manakh crisis,

accounting firms have been subjected to some supervision from the government. On the other hand, as in Bahrain and Oman, they retain considerable autonomy concerning auditing standards and the quality of their work. In the case of the international firms, in general, the auditing and other standards are normally as prescribed by their head offices.

Therefore, the present status of accounting firms in the GCC states has serious implications for the future of accounting practices in the Gulf area, because what has been applied abroad is not necessarily suited to the GCC needs and environment. Unlike scientific principles, which transcend national and time boundaries, imported accounting systems are very much affected by the circumstances of the time and place of their development. Accounting systems which are compatible with the circumstances and requirements of another country may not be compatible with the circumstances and requirements of GCC countries. Transplanting the accounting systems of another country without reviewing their efficiency and compatibility with the circumstances and requirements of any GCC state would doom those systems to failure.

10.5.1 The Effectiveness of Accounting Firms' Staff

Table 10.5 shows the result of the investigation regarding the efficiency of new applicants and staff in the various accounting firms in the sample. Questions 12, 13, 14, 15, and 16 were designed to measure the capability

of the accounting firms' staff to update their knowledge of new trends in the field of accounting.

Table 10.5

Training Candidates and Staff

12] Training candidates

a) Yes [90%] b) No [10%]

13] No. of trainees

a) National trainees [43%]
b) Foreign trainees [57%]

14] Reasons for not training

a) Technical and human resources [0%]
b) Financial resources [0%]
c) No candidates [100%]
d) Other reasons [0%]

15] Staff training

a) Yes [100%] b) No [0%]

16] Location

a) In the firm by our instructors [50%]
b) In the firm by instructors from outside [10%]
c) In other firms in my country [2%]
d) In other firms in the GCC countries [7%]
e) In professional org. of acct. abroad [21%]
f) In colleges and universities [10%]

The most obvious finding in the above table is that the majority of respondents in question 12 did undertake training (90%); the 10% who did not train candidates gave the reason as absence of candidates (question 14). As regards commercial laws, in order to work in an accounting firm it is necessary to have a university degree in accounting (BA degree) as was mentioned when discussing

the requirements and conditions for registration of accountants. Subsequently, it is necessary to undertake a period of professional training (the average training period ranges from 3 to 12 months) in one of the accounting firms, simply because what is studied in the university differs in various respects from actual practice. This supports the idea discussed in chapter 7, that all university graduates need to be trained inside or outside the organisation which the candidate joins.

The nationality of trainees was considered in question 13; 57% of trainees were non-GCC citizens. This indicates that GCC nationals in accounting are relatively few; accounting firms are considered unattractive in terms of earning capacity, prestige, working hours, etc. Hence, for better economic development, the GCC governments need to take action to improve the relevance and status of accounting, and to provide motivation to professionals from their countries.

Question 15 was asked in order to measure the ability of accounting firms' staff to up-date their knowledge. 100% of respondents claimed to offer staff training facilities and most of them (50%) said their staff were trained inside the organisation by staff professionals (question 16).

10.6 Accounting Systems/Standards Existing in the Gulf Region

Among the inquiries intended to examine the present status of the accounting systems applied in the GCC states and their relevance to the GCC environment, questions 17, 18, and 19 were asked.

The Present Status of the Accounting Systems and their relevance to the GCC

17] Type of accounting system applied in the country

- | | |
|-------------------------------|-------|
| a) Uniform accounting system | [0%] |
| b) American accounting system | [12%] |
| c) British accounting system | [20%] |
| d) No specific system | [68%] |
| e) Other | [0%] |

18] Sort of accounting standards in the country

- | | |
|---------------------------------------|-------|
| a) International Accounting Standards | [65%] |
| b) American Accounting Standards | [14%] |
| c) Canadian Accounting Standards | [0%] |
| d) British Accounting Standards | [11%] |
| e) Other | [10%] |

19] Relevance of accounting standards to the GCC

- | | |
|----------------------------------|-------|
| a) All of them are relevant | [33%] |
| b) Some of them are not relevant | [57%] |
| c) None of them are relevant | [0%] |
| d) Other comments | [10%] |

With reference to the type of accounting system applied in the Gulf region (question 17), the majority of respondents (68%) agreed that there is no specific system to be applied in all GCC states. This finding supported the idea that at present, accounting policies and procedures vary widely from company to company, even within each GCC country, let alone across the Gulf region

as a whole.

For this reason, although the Gulf governments are now aiming for greater integration, cooperation, co-ordination, and unification among their members and internal systems, particularly in trade and industry, this target will be difficult to achieve unless the GCC governments adopt a uniform accounting system to connect the vital public sector industry and provide the GCC authorities with necessary and reliable information for better control and decision-making. The present variety of accounting systems does not serve the interest of GCC governments, but those of the private sector. Shuaib, A., a partner at the Kuwait Auditing Office pointed out:

".. We know that present accounting practices in the Gulf help to a large extent the private sector needs; however, the GCC governments, for planning and control, need to have an independent department whose main duty is to supervise the companies' accounts and provide the government with uniform reports about all the activities in such public sector companies".

In response to the enquiry as to the sort of accounting standards applied in the GCC countries (question 18), 65% of respondents claimed to apply IAS, 14% of the sample said that GAAP are the standards most used and 11% said that the U.K. standards are the most popular standards applied in the region. Further to investigating these findings, the following replies were elicited:

".. There are no statutory regulations as to what accounting standards to apply. Many of the smaller firms do not apply a specific standard; however, most international accounting firms apply the IAS, IAG (International Auditing Standards), or GAAP and GAAS. Many of the companies which are subsidiaries of American companies prefer GAAP and GAAS, where as U.K.-based companies want IAS and IAG because these are closer to the SSAPs which are applied in the U.K." (Mala, G., Peat Marwick).

".. The main problem in Bahrain and other GCC countries, is that we do not have any recognised standards up to now. We as an international accounting firm apply the IAS because we feel that IAS are the most relevant standards to be applied in the Gulf states, because they have been adopted by so many countries and they do not involve themselves with the intricacies within the particular country." (Nicholy, K., KPMG Fakhro).

".. We apply in general the GAAP or IAS when we audit a company, either in the private or in the public sector; we have to make sure that all our reports are in accordance with GAAP or IAS (it depends from company to company). However, there is nothing directly applicable to Kuwait or Qatar or any GCC state; even in the IAS, there are some standards which are not applicable to our environment. Hence, we have to pick and choose what to apply in each case independently." (Abdulla, K., Price Waterhouse).

".. To be honest with you, we still have a long way to go. The reason for that is the absence of government law; there is no law for auditing in Oman, there is no regulation, and no standards, although the government supports the adoption of IAS. If you compare our situation with Europe, you will find that Europe has a body that regulates these standards, issues them, up-dates them, and makes sure they are followed. However, the situation in most GCC states varies. It is up to individual firms to apply what they like, what they can live with or cannot live with. Most of the international accounting firms,

especially the big eight, more or less follow the IAS or GAAP." (Towmas, P., Arthur Andersen & Co.).

".. All accounting firms in the six GCC states apply different types of accounting standards. The international firms backed by head offices overseas apply the IAS. In fact, they apply the international standards in both accounting and auditing. If we have any problem, we can call the head office and they will give us the proper instruction." (Mansor, B. Saba & Co.).

".. In most GCC states, the commercial companies law is very weak and vague so that you can do anything you like. The Ministry of Commerce in these countries has some rules but they are not codified and this is what the accounting firms face when we come as accountants to specific advice; when a company asks you for some advice, you will say, "That's what the laws say" but it is not the case. This is because of the absence of certain rules which can be adhered to. Actually, nobody is interested in setting them down and establishing them. For this reason, we apply what we think is appropriate." (Salman, A., Deloitte Haskins & Sells).

The above statements clearly indicate two main points: first, in the GCC states, accounting firms can do whatsoever they like, without any interference from local government. Second, the 65% of respondents who agreed to the application of IAS do not distinguish between public and private sector organisations.

However, foreign standards as such are not necessarily relevant to the public sector environment, which is why question 19 was asked. In this question, although 33% of respondents supported strongly the relevance of present accounting standards to the GCC

environment, the majority of them (57%) agreed that there are some standards which are not relevant to the Gulf region.

Abdulla, K., manager at Price Waterhouse, gave his views regarding the relevance of present accounting standards to the Gulf environment, stating:

".. Despite their impressive public image, GAAP, U.K. standards, and even IAS have not been very effective as proper standards for the Gulf environment. I'm saying that because several international studies have shown that foreign standards have very little impact on the accounting practices of many countries. Therefore any country which followed a particular method prior to the promulgation of IAS continued to follow the same practices after the issuance of such IAS".

However, the majority of the interviewees look to the IAS as the sole solution to the current diversity of accounting standards and feel that the government could benefit from these standards in one way or another. In the meanwhile, most public accountants were completely opposed to the application of a uniform system and the following are some of their responses:

".. Adopting a uniform system will impede international business in a way you cannot imagine; however, the existence of national differences in accounting practices seems to be a good indicator for international trade. Therefore, it would be advantageous for the government not to go with uniformity, but instead to go with IAS". (Balasubramaniam, G., KPMG Fakhro).

".. For the GCC countries, the most suitable standards are the IAS and GAAP. There is no need to apply a uniform system which ultimately will damage flexibility and harm accountancy experiments in many ways, such as eliminating the role of independence, being a tool in government hands, eliminating initiative, encouragement, and even the bright thinking of the profession". (Salin, P., Talal Abu-Ghazaleh & Co.).

".. To be frank with you, the GCC states have very little chance of having an accounting system which can reflect the needs of GCC governments. This is because of the existence of multinational firms and multinational companies which demand the freedom to choose the standards which are more convenient, otherwise, they simply withdraw from the country. Therefore, we can work with IAS and other standards but eliminate those which do not suit the GCC circumstances". (Al-Radhi, A., Jawad Habib & Co.).

".. The IAS will automatically improve the local accounting practices of the GCC nations. The quality of disclosure practices will not be relatively low as is the case now. It will give the GCC financial sector international acceptance around the world. But establishing what you are searching for (a uniform system) will have much less practical significance, because the possibility of it failing internationally is very high". (Christoforou, N., KPMG Fakhro).

".. If you apply the uniform system you will forget the domestic needs and domestic users, which can be catered for even with an international approach.". (Sadanan, H., Price Waterhouse).

".. Let me tell you that I believe that there is a strong economic case for adopting IAS as a basis for our professional work and that we should be encouraging GCC governments to give serious consideration to this. As a matter of fact, the IAS, which are soundly set according to the highest international levels, form a benchmark for GCC national standards setting". (Salman, A., Deloitte Haskins & Sells).

The above views again confirm the notion that the accountants have based their views on their past experience and previous dealings with various companies in the private and public sectors, clearly reflected in accountants' perceptions. However, one respondent had a different attitude towards the IAS and GCC countries. Akbery, K., senior accountant at Arthur Young Bader Al Bazie & Co., stated:

"I think the accounting principles and practices developed in Europe and USA are those appropriate for industrialised countries in which a private sector and a well-developed capital market are dominant. However, the situation is different in the GCC countries. Most of the industries belong to the state. Thus, looking for an alternative to link the government enterprises with the central government will be the best solution to overcome the lack of appropriate information".

All in all, the accounting policies and procedures used by most of the public sector companies in the GCC countries tend to be based on those of the country of their senior financial employees or professional accountant advisors. In the view of most of the public accountants, the adoption of IAS will be preferable; however, is this view based on self-interest, and the desire to avoid the imposition of more relevant standards?

10.6.1 GAAP and Gulf Environment

Two very important questions (21 and 22) of the questionnaire were to reveal respondents' perceptions of the use of GAAP in GCC states and their effect on auditing procedures in the area.

20] Use of GAAP

a) Yes [52%] b) No [10%] c) To some ext. [38%]

21] Reasons for non-use

* No legislation, no professional organisation, and mixture of foreigners.

* No formal regulations exist.

52% of respondents to question 20 supported the idea that GAAP do exist in the Gulf region; 38% of respondents replied that they were used "to some extent", and only 10% denied their use. Although the majority (52%) accepted the use of GAAP, some interviewees questioned the exact meaning of such a general term.

Salman, A. (Deloitte Haskins & Sells), gave his opinion of the term as follows:

"It is a vague term. In the USA the FASB issue some certain guidelines, so if you audit a company in the States you have to refer to GAAP. However in the U.K., they are very specific and you have to say, "in accordance with approved auditing standards". Outside America, it is a meaningless phrase and we sometimes refer to it when the situation demands".

Mansor, B. (SABA & Co.) commented on the phrase by stating:

"There is a conceptual problem there. We regionally go by American standards (GAAP); however, if the financial statements are addressed to any country in Europe, we again refer to "Generally Accepted Standards", which means the standards accepted in that country. In fact, when we issue the reports we are really looking for the sophisticated reader who can understand the reports".

Al-Hazeem, J. (Arthur Andersen & Co.) gave his impression of the current accounting situation in the Gulf by declaring:

".. We apply GAAP because we are part of the international organisation and we are not a local entity. Whatever is applicable to our offices around the world is applicable to us as long as it does not conflict with the local law".

By and large, there is no legislation as to what constitutes "Generally Accepted Accounting Standards" although the phrase is used in all GCC countries. Therefore, those who deny the use of GAAP (10%), attribute this to the absence of specific rules and regulations, the absence of a professional organisation (in Bahrain and Kuwait), and the fact that accountants come from different countries with different backgrounds.

10.6.2 The Accounting Principles Applied in the GCC and Possible Variations

Regarding the accounting principles applied in the GCC states, respondents expressed their satisfaction with the present situation (doing whatever they like without supervision from the government side). Still, the researcher asked questions 22 and 23 to measure the potential diversity of application in accounting practices in the Gulf region.

22] Possibility of diversity in the accounting principles applied

a) Yes [48%] b) No [10%] c) To some extent [42%]

23] Reasons for diversity

a) Lack of authoritative body	[27%]
b) Insufficient regulations	[30%]
c) Owners' indifference and ignorance	[11%]
d) Foreign education	[14%]
e) Foreign companies	[9%]
e) Other	[9%]

48% of respondents in question 22 agreed that there is a lack of harmony in the accounting principles applied in the GCC area, which could be attributed to several reasons. The researcher asked about these in question 23, and the results obtained were as follows: 30% of replies said that the diversity arose from weakness in company law, 27% attributed it to the lack of an authoritative regulatory group, 14% put the blame on foreign education as reflected in the English and American text books used in the GCC universities, 11% said that it arose from the

ignorance of those who direct or own the different enterprises, and only 9% attributed it to the existence of foreign companies which apply the standards that belong to their home countries, which in many cases contradict other standards in the area.

Indeed, the problem is not only the existence of different accounting principles/standards, but also the lack of a formal accounting body which would be responsible for establishing the accounting principles and standards which really suit the needs of GCC environment and at the same time give the government the necessary role in control, supervision, and decision-making. Nevertheless, the present complex situation exists because most GCC governments do not interfere or are not sufficiently active enough in organising the profession and give very little consideration to the importance of accounting in economic life.

10.7 The Inconsistency of the Present Situation and the Best Solution

In order to identify a desirable solution to the current confused condition, at least from the point of view of the government vis-a-vis the public sector companies, the researcher asked several relevant questions of the public accountants. Table 10.6 summarises their replies.

Table 10.6

24|	The Best Strategy(ies) for Creating an Accounting System to Suit the Public Sector in the GCC	
	a) Creating a uniform accounting system	[0%]
	b) Creating an authoritative body	[77%]
	c) Regulation by governmental units	[23%]
	d) Others	[0%]
25|	Establishing the uniform system by General Secretariat	
	a) Agree [0%] b) Disagree [0%] c) Do not know [0%]	
26|	Type of authoritative body required	
	a) Academic professionals	[13%]
	b) Political concerns	[0%]
	c) Public sector bodies	[45%]
	d) Private sector bodies	[42%]
	e) Others	[0%]

Generally, the need for and the possibility of a solution to this situation was accepted. The majority of respondents (77%) in question 24 declared their favourable attitude towards establishing an authoritative body, which would be recognised by the government.

Abdulla, K. (Price Waterhouse) declared his feelings towards having an authoritative body:

".. Admission to the profession is a legal matter in all GCC states. Describing oneself as a public accountant requires a licence from the Ministry of Commerce, which could be issued after meeting certain educational and experience requirements, as stated in the law. Thus, why do we not have an a credited body that could issue rules for the profession and put some standards to organise the private and financial sectors and in the meanwhile issue other appropriate standards to suit the GCC people, which all the concerned parties should adhere to? By doing this, we will give the government a very big help in controlling the economy and at the same time knowing the broad lines for taking decisions".

Salin, P. (Talal Abu-Ghazaleh & Co.) expressed his attitude towards having a recognised accredited body by stating:

".. By having an accredited body, we can work together to establish standards which will be related to the GCC nation. It is not such a difficult task, because setting standards means no more than finding out the current practices with regard to some accounting issues and giving those practices the appropriate governmental approval. Consequently, if different accounting standards are in use, the most widespread of them will be selected for approval. Therefore, it is an easy job if we find support and acknowledgement from the government".

Looking at the above statements, it seems that public accountants are united in seeking the issuance of standards. They are able to work to issue standards to suit their needs as professionals in auditing and to ease their work. Still, the government interest is neglected. This may be seen from responses to question 26, which asked respondents to define the sort of authoritative body required. None of the respondents suggested the involvement of any political body, which would of course, represent the government interest. This means that all accountants in the sample reject any attempt by the government to supervise or at least participate in the proposed body.

In fact, in all GCC states there is governmental involvement in economic activities through various public sector companies. Even private sector companies, in general, are required to satisfy the government that

they are functioning in harmony with government policies. Under such conditions, the government as a regulator of the economy becomes an important user of accounting reports. Therefore, government involvement in economic activities will be efficient only if it is well informed of the implementation and results of its decisions; this cannot happen in the present situation where the main concern of the majority of public accountants in creating a body to issue accounting standards, would be to serve the interests of the financial and private sectors rather than these of the government.

Moreover, the current standards cannot be expected to be of any assistance to the government since they are based on a totally different environment.

All in all, the idea of creating an authoritative body of professionals to set the necessary accounting standards will not serve the GCC governments' goal of control private enterprises, simply because, as has been discussed in the previous chapters, most GCC government officials need a comprehensive plan which is capable of accumulating all accounting-related information to act as the main data base to be used in planning, control, and decision-making at various levels. Hence, the design of an accounting system to suit the needs of GCC governments will be more useful than the idea of creating a group which will serve only one set of the users. A major problem is the piecemeal nature of the evolution of accounting standards. They build on an existing portfolio

of practices and so are unsuitable for a country with little or no body of indigenous accounting rules.

10.7.1 A Uniform Accounting System within GCC States

It has been argued that any suggested accounting standards\system must consider the needs of the government, since government involvement in economic activity is widespread.

Therefore, question 27 was asked to measure the accountants' opinions of the expected role of a uniform system if implemented in GCC countries.

27] The anticipated role of the uniform system

a) Governmental planning and control	[72%]
b) Economic control of public expenditure	[10%]
c) Satisfying the users of acct. information	[0%]
d) a,b,and c	[0%]
e) Other	[18%]

Over 70% of public accountant respondents identified the role of a uniform accounting system in planning and control, though most of them rejected the idea of applying it (see question 24).

The following public accountants' points of view may clarify their opposition:

".. You can have uniformity in disclosure. Yet you cannot have uniformity in the accounting systems which differ for each establishment Each company or firm should have its own type of internal coding structure, the trial balance, the management reports, according to their needs and, of course, each firm has its own needs which differ from others. In fact, the government may enforce an accounting system for all companies under their control; however, such action may harm the long-run production and results of every company."
(Akbery, K., Bader Al Bazie & Co.).

".. I agree with you that having a uniform system will ease the job of the government in exercising very strict supervision and control over the state companies, but, in general, the government's main need is for statistical information to compute the GNP, knowing whether the company is in a good condition in terms of finance and profit, knowing the details of manpower, finance activities, etc. That could be obtained by distributing a uniform format to be filled and ultimately having uniform formats for financial statements if needed. Thus, I think there is no need at all to impose a uniform system." (Balasubramaniam, G., KPMG Fakhro).

".. The potential uniform accounting system could be desirable to the central government, however, it will not serve the main users of accounting information -the public. Those users need to have some sort of uniform standards that could help in comparing and evaluating companies." (Al-Radhi, A., Jawad Habib & Co.).

".. Implementing one accounting system and following specific accounting and auditing standards is difficult and costly. In GCC countries, you have the existence of highly complex economic entities; in this case having a uniform accounting system, rather than diversity in accounting systems, will be impossible. In fact, the government can issue laws and regulate the profession and subsequently have the necessary information. In general, the present situation of flexibility is more convenient to all GCC citizens." (Salman, A., Deloitte Haskins & Sells).

".. The first point which comes to mind is that there are various industries which require different types of accounting systems. How can you make uniformity between Aluminium Co. and Poultry Co.? You must make a distinction at the point of industry. The second point is that there is no perfect accounting system; there are good ones and there are bad ones. What can you do if you discover that what you implement and enforce is a very bad system?" (Towmas, P., Arthur Andersen and Co.).

All in all, from the interviews that the researcher conducted and from the responses obtained from question 27, we can conclude the following:

I) Most public accountants (72%) accepted the benefits that could be obtained by the government for planning and control, by applying a uniform accounting system, but they were against its implementation because they thought it might restrict the profession. Furthermore, they were afraid of losing their clients.

".. Applying a uniform accounting system in the public sector only is feasible since it may help the government to plan for the future and do the necessary budgeting. I am saying that because there is no competition among the state companies, therefore, there is no need to have one accounting system, except for a particular type of industry. For example, if you are in the oil industry, the government owns all of the companies in that field; in this case they can apply a uniform system among all such companies because there is no real sense of competition, but problems come from the private sector." (Mala, G. Peat Marwick).

II) The majority of accountants were concerned with the image of the company and also the users of financial statements, such as shareholders and bankers. However, they gave very little consideration to the government interest.

".. It is true that we as accountants prefer to deal with different parties in society and help to reach an agreement. However, dealing with a governmental unit takes a lot of time to get them to understand the situation: for example, bringing in bright ideas to improve the present governmental accounting system is not allowed, since it may cost money or need modification to the system." (Mansor, B. Saba and Co.).

III) Almost all the accountants interviewed preferred to work without government supervision and they wished the government not to impose a uniform system for the following reasons:

a) The interference of government will make their job very limited.

b) The profession will experience difficulty in keeping up with world developments.

c) The nature of accounting and auditing work will be very boring and routine.

d) Many foreign public accountants may leave the GCC countries if such a system is implemented.

However, although some of these arguments may make sense if a uniform accounting system were applied in the private sector, the researcher would like to emphasise the fact that the main objective of having a uniform system is to help the GCC governments to estimate more accurately their various resources (revenues from oil, revenues from foreign assets, revenues from local production, etc.) and at the same time to practice the real planning and control function, and carry out proper budgeting. Moreover, it would assist the government to evaluate the effectiveness and efficiency of the management boards in all public sector companies, in terms of achieving desired national or social goals.

Indeed, considering the many advantages of applying a uniform system, the GCC states would at least be assured of an acceptable minimum standard of accounting.

Nevertheless, those who support the creation of an authoritative body, which has the right to issue standards to suit all GCC sectors, do consider the fact that when preparers of financial statements are given virtually complete freedom to choose from a wide range of accounting methods, several problems arise that affect the reliability of the financial statements. For example, there is a lack of comparability -which the GCC governments wish to achieve- between the financial statements of different companies due to the adoption of various methods by different managements to account for transactions that are similar in substance. In addition, lack of comparability could also be traced to differences in the degree of detail given by various managements about a particular transaction in the financial statement. All of this can be attributed to the poorly designed GCC accounting systems which produce inappropriate forms, procedures, and records.

10.7.2 Possibility of Applying GCC's Own Uniform System

The final questions (28, 29, 30, and 31) examined respondents' attitudes towards the idea of creating the GCC's own uniform accounting system and whether it would be advantageous or otherwise to GCC countries.

However, before analysing the results obtained, it should be emphasised that, due to the sensitivity of the subject under examination, together with the unique status of the respondents -most of them were foreigners and

professionals- actual replies in terms of the GCC interest were not achieved.

The questionnaires were addressed to chief accountants or accountants in equivalent positions. Presumably, these accountants would put the interest of GCC governments and nations in the first place. Still, the results received were very disappointing. Table 10.7 shows the responses obtained.

Table 10.7

28]	Establishing GCC's Own Uniform System	
	a) Yes [0%]	b) No [71%] c) Do not Know [15%]
29]	Obstacles confronting the process	
	a) Conflicts in regard to the profession	[0%]
	b) Harmful to the profession	[22%]
	c) Difficulty in governing different companies	[45%]
	d) Shortage of professionals	[0%]
	e) Satisfaction with present situation	[33%]
	f) Other	[0%]
30)	The advantages of establishing a GCC uniform system	
	a) Facilitate comparability	[0%]
	b) Better definition of what is a "true and fair view"	[0%]
	c) Provision of handy rules	[0%]
	d) Eliminate conflict in the financial representation	[0%]
	e) Other	[0%]
31]	Alternatives for establishing a uniform system	
	a) Est. & enf. by General Secretariat	[0%]
	b) Est. & enf. independent private organisation	[0%]
	c) Est. & enf. by an independent professional accountants	[0%]
	d) Est. by an independent professional body of accountants, but enf. by General Secretariat	[0%]
	e) Other arrangements	[0%]

Regarding the possibility of creating a GCC uniform accounting system, the majority of accountants (71%) were against the idea, 15% did not know, and 14% left the question blank. Nevertheless, nobody said "Yes" to the question.

This could support the idea that those who got their qualifications from U.K., USA, and even India and Pakistan, will tend to support and encourage the adoption of systems from the countries where they graduated. To support this conclusion, the following are some of the accountants' opinions:

".. Do not think of applying a uniform system; instead, try to convince the officials to adopt the IAS which would give the GCC countries credibility in their accounting reports, particularly when presented in the international environment. But, adopting a uniform system will isolate the Gulf society and give no world-wide creditability to their accounts" (Christoforou, N., KPMG Fakhro).

".. Why should we suggest or recommend a uniform system? You have better than that, the British and American standards, which will serve the GCC people and put them with the advanced nations. Moreover, you have the IAS now to suit the developing countries and they are sufficiently flexible to accommodate the GCC environment" (Salman, A., Deloitte Haskins & Sells).

".. By establishing a uniform system, the GCC governments will waste their resources; however, they can benefit from the available practices and save time, effort, and money required to formulate their own accounting system or GCC standards" (Al-Hazeem, J., Arthur Andersen & Co.).

Several other statements obtained from the interviewees similarly agreed that applying a uniform system is not a good idea in the GCC region.

This could be deduced from question 29, to which 15% of accountants said that, since there were different companies working in different fields, it seemed very difficult to have a uniform accounting system. 33% were satisfied with the present situation and they described it as a "flexibility environment". 22% felt that a GCC uniform system would harm the profession and limit the role of the accountant.

Questions 30 and 31 were left blank, which emphasise their opposition to the idea as an alternative to the existing situation.

The researcher, however, believes that in the first place, all accounting firms are working in the GCC countries to maximise their profits. Applying a uniform system will make those firms lose many of their clients. In the second place, as a result of applying a uniform system, new laws and regulations may be made, which will decrease their freedom to choose what they want, when they audit. Thirdly, there will be direct supervision by the GCC governments over the nature of the work provided by each accounting firm working in the Gulf area.

10.8 Summary and Conclusion

The purpose of this chapter was to present an analysis and evaluation of the responses received from the public accountants in various local and international accounting firms in three of the GCC states. Questionnaires were sent to 30 randomly chosen firms in Bahrain, Kuwait, and Oman and personal interviews were conducted to discuss the present situation of the accounting practices in the GCC, the relevance of such practices to the GCC environment, the possible alternative, and respondents' views regarding the idea of applying a uniform accounting system to satisfy the GCC governments and help in supervising and controlling the essential public sector companies, as well as facilitating planning and decision-making.

It was expected that not all the accounting firms would be willing to participate in the subject of the uniform accounting system which is of little relevance to their usual professional services. In addition, few of them give the subject of the thesis a priority over other areas of interest.

By and large, the following are the main findings based on the responses and interviews:

- 1) Although the GCC governments are the most important users of financial information (especially those related to the public sector), at present, the diverse accounting systems applied inhibit the capability of the governments

to obtain reliable accounting information for decision-making. In fact, what suits the public (as the main concern of accounting firms) does not necessarily suit the government. In this case, it is imperative that high priority be given to the information needed by the GCC governments; the uniform system could be of great help in providing the information needed for decision-making, planning and control.

2) The wide acceptance and application of IAS will spread and emphasise the U.K. and USA accounting standards.

3) Non-GCC accountants are dominant in the GCC countries. This could suggest that what they apply and adopt is irrelevant to the GCC environment.

4) Most of the interviewees did not personally accept the idea of a uniform system. The following are some of their fears:

I) They might lose their freedom to select the practices they think are appropriate.

II) Applying a uniform system will decrease their profitability margin sharply.

III) They might be under the direct control and supervision of the government.

IV) The uniform system will be very rigid and it will not be compatible with technological advances.

V) The uniform system may halt the economic development process in the Gulf region.

VI) The present accounting systems in the GCC countries have worked satisfactorily for a long time; hence, it seems that what we have is the best systems to serve the GCC environment.

VII) The requirements of a modern state, including the participation of a powerful private sector in economic activities, will create a discrepancy between what is applied in the private sector and what is going to be applied in the public sector.

In addition, the following opinions were expressed:

I) We would like to be a unified GCC nation in all aspects; however, applying a uniform accounting system is not a proper concept in terms of professional aspects.

II) A uniform system may slightly assist the advancement of GCC states; but having full freedom of practice will do a lot in terms of advancement for the government and for the GCC people.

III) A uniform system is not the right solution for the GCC governments; what they need is confidence in their own human resources.

5) Many accounting firms have reported the use of and reliance on GAAP and GAAS in the conduct of an audit. In contrast, they apply whatever serves their interest. In addition, the absence of a GCC national code increases the

gap between what they are saying and the actual audit work.

Admitted the establishment of a uniform accounting system will limit the need for accounting firms as external auditors, for, with its explicit rules of measurement, collection, and reporting, it would reduce the need for accounting to certify that the company had applied GAAP and that it was consistent from year to year in its application of the accounting standards and procedures. Instead, the need would be for an expert to assess whether a company has utilised its scarce economic resources efficiently and effectively. Therefore, it is believed that a staff of independent internal auditors could perform such a task in a more efficient way than any external auditor could do.

CHAPTER 11

COMPARATIVE ANALYSIS OF THE THREE SAMPLES

11.1 Introduction

The objective of this chapter is to make a comparative analysis of the opinions of the three samples which were discussed in chapters 8, 9, and 10, to draw a realistic conclusion to the main theme of this thesis. To this end, the chi-square test for independence was employed to analyse the data.

11.2 Accounting Practices in the GCC Region

The performance of regular accounting and auditing procedures requires the existence of accounting principles in some form. However, this situation is confused in the GCC states. Many different standards and principles are applied, since there are no rules and legislation on this matter. Therefore, there was a need to establish whether there are some generally accepted accounting principles in the Gulf area, and if so, by whom they are accepted, the nature of such principles, and the nature of the environment. Table 11.1 represents the views of the three samples on the existence of GAAP in the Gulf.

Table 11.1
The Existence of GAAP in the GCC

<u>Group</u>	<u>% Yes</u>	<u>% No</u>	<u>% To some extent</u>	<u>% Total</u>
Financial Managers	63	23	14	100
Academics	57	4	39	100
Public accountants	52	10	38	100
Average	57.4	12.3	30.3	100

An average 57.4% of all respondents admitted the existence of GAAP but, as shown by the interviews, they differed in their interpretation of what is meant by GAAP with reference to the GCC environment. For this reason, any attempts by the governments in GCC states to control the current situation by having a uniform feedback from all public sector companies in the area for future planning and decision-making, will be useless since the accounting systems differ from one company to another.

To solve this problem, the researcher suggests the implementation of a GCC uniform accounting system tailored to suit the Gulf environment. All successful economic and accounting development in the GCC depends on the reliability and relevance of such a system, on which accurate decisions could be based. Moreover, establishing such a uniform system would give accountants a greater role than the timely reporting and interpretation of past events; they would facilitate the decision-making of governments in the Gulf region and play an important part in the process of planning and control.

In general, officials in GCC governments and other high ranking authorities, as has been seen during the interviews in chapter 6 and 7, would prefer to see such a system introduced, so they could obtain the accounting data which they need to assist in supervising and controlling the direction and diversification of their economies and take appropriate decisions.

11.2.1 Variation in Accounting Principles Applied

Since there are no specific accounting principles applied in the Gulf area, no definite rules and legislation, and no limit to the accounting methods applied, variation in the accounting principles applied in the GCC states is inevitable. This could be concluded from table 11.2.

Table 11.2

The Existence of Variation in the Accounting Principles Applied in the GCC

<u>Group</u>	<u>% Yes</u>	<u>% No</u>	<u>% To some extent</u>	<u>% Total</u>
Financial Managers	25	51	24	100
Academics	46	29	25	100
Public accountants	48	10	42	100
Average	39.7	30.0	30.3	100

Table 11.2 (continued)

Reason	<u>Reasons for Variance</u>			
	<u>% Fin. Man.</u>	<u>% Acad.</u>	<u>% Public Accountants</u>	<u>% Average</u>
Lack of authoritative body	29	32	27	29.3
Insufficient regulation	32	32	30	31.3
Owners' indifference and ignorance	06	10	11	9.0
Foreign education	20	13	14	15.7
Foreign companies	09	13	09	10.3
Other	04	00	09	4.4
<u>% Total</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>

An average of 39.7% of the three samples agreed that there are some variations in the accounting principles applied, and a further 30% said that variation existed to some extent.

The reasons for variation differ; however, those most commonly indicated by the three samples were: insufficient regulations (31.3%) and lack of an authoritative body (29.3%). This reflects the inability of GCC governments to handle the present confusion of accounting practices. Consequently, the application of a uniform accounting system would to a large extent help the governments to standardise accounting practices, specify the accounting principles and standards to be applied, and define the scope, function, and objectives of

accounting in the Gulf area. The absence of legislation of this kind invites the variations in accounting principles and allows undue flexibility in accounting practices.

11.2.2 The Relevance of Accounting Standards Applied and Opinions on the Remedy for Present Circumstances

This section continues to discuss the data collected from the questionnaire survey using two steps: First, data obtained from the survey is examined in more detail so as to explain the extent to which the current accounting systems operating in the Gulf region are relevant to GCC environment and if it is not what is the best strategy to create an accounting system to suit the GCC needs. A number of variables are used to explain the respondents' feedback to the above enquires. Results are presented in the tables 11.3 to 11.8 and are shown graphically (Figures 1 to 8) enabling the reader to visualise differences in respondents' attitude. Second, the results are analysed statistically to determine the relationship between the major variable used and the responses. Reasons for significant differences between the responses are explained. Before starting on the above steps, the chi-square technique, used in the study, is presented and computed from the formula:

$$\text{Sample } X^2 = E \frac{(f_o - f_e)^2}{f_e}$$

11.2.2.1 Chi-Square Test

According to Leftwich (1990, p.38) the chi-square test is an exact test that aggregates significance levels for coefficients in various studies, provided those studies are independent. This test gives greater weight to studies with higher degrees of freedom.

However, the chi-square test was used because it makes no assumptions about the population from which the sample is drawn. Rossi, Wright, and Anderson (1981, p.549) emphasise the suitability of the chi-square significance test for survey analysis as follows:

"Theory of chi-square significance tests for the sampling designs and modelling techniques is most often used in survey analysis".

2

The computed X^2 Value, which is determined by the chi-square test, is computed with the critical X^2 Value, that is determined from percentiles of the X^2 distribution table (see Hald, 1972, table V) with the proper degree of freedom and at 0.05 level of significance to determine whether to accept or reject the stated hypothesis. A significance level of 0.05 is chosen because it is the conventional value in social science. Chou (1975, p.269) states:

"As to whether the risk should be 0.05 or 0.01 or some other value, classical statisticians provide no definite answers, since they argue that this is mainly a management decision and not the prerogative of the statistician".

11.2.2.2 The Respondents' Attitude Towards the Relevance of GAAP and the Best Strategy for GCC Environment

Respondent replies have been studied and analysed in detail (see chapters 8, 9, and 10) and comparative results are presented in tables 11.3 and 11.4.

Table 11.3

**Relevance of GAAP to GCC Environment
(as a percentage)**

	All of them are Relevant	Some of them are Relevant	None of them are relevant	Total
Comptrollers	11	44	45	100
University Members	15	56	29	100
Public Accountants	38	62	00	100
Average	21	54	25	100

Table 11.4

**The Best Strategy to Create an Accounting System
Suit the GCC Environment
(as a percentage)**

	Creating a Uniform Accounting System	Creating an Auth- oritative Body	Regulation by Government	Total
Comptrollers	56	27	17	100
University Members	53	34	13	100
Public Accountants	00	77	23	100
Average	37	45	18	100

The analysis attempts to explore and explain the three groups' attitudes toward two main issues: First, the relevance of GAAP to GCC environment (Table 11.3); second, the best strategy to create an accounting system to suit the GCC needs (Table 11.4). A particular problem is that each respondent is capable of interpreting the meaning of relevance and stating the best solution differently depending on his own background.

In the tables that follow, the responses of each group are presented individually for each option. They are analysed according to:

I) Whether the current GAAP are fully relevant, some of them are relevant, or none of them are relevant to the GCC environment (Table 11.5).

II) Whether the best strategy to create an accounting system is to establish a uniform accounting system, creating an authoritative body, or having better regulation by the government (Table 11.7).

Three main variables (occupation, level of education, and nationality variables) are tested in an attempt to explain the respondents' attitudes toward GAAP and its relevance to the GCC environment and towards the enquiry about the best solution. These variables are reported in terms of hypotheses to be tested for significant differences between the study groups' responses. However, for the purpose of this study, only one variable relating to occupation has been selected. The hypotheses are reported through contingency tables that contain observed

frequencies (f_o) and expected frequencies (f_e). The chi-square test is used to compare the expected and observed frequencies to determine whether or not the expected frequencies fit the data.

Thus, a hypothesis is examined to ascertain the effect of occupation on the respondent answer by the three study groups. The null hypothesis (H_o) states that occupation does not affect the respondent's reply in deciding the relevance and choosing the best strategy for an accounting system to suit the GCC needs as stated below:

- 1) H_o : There are no significant differences between the respondents' answers based upon occupation.

The alternative hypothesis states that occupation affects the respondents' replies in deciding the relevance of GAAP to GCC environment and in deciding what is the best strategy to create an accounting system suit the GCC needs as follows:

- 2) H_a : There are significant differences between the respondents' answers based upon occupation.

- 3) Decision Rule₂: For table 11.6 and 11.8 reject the H_o if the computed χ^2 value is greater than or equal to the critical $\chi^2_{0.05,4} = 9.488$

- 4) Result₂: Table 11.6 and 11.8 indicates that the computed χ^2 value for the responses of the three groups is greater than 9.488. Thus, the null hypothesis is rejected (the

alternative hypothesis is accepted) for the respondents' selection. This indicates that occupation affects the process of determination of GAAP and its relevance to GCC environment and in deciding what is the best remedy. In order to explain the reasons for these significant differences it appears that the academics have replied to the question from a different standpoint than the other two groups. Their replies are based on which sort of standards\principles they think should be relevant to GCC environment and which accounting system they think should be applied. On the other hand, the financial managers and public accountants have replied to the question, according to their experience, from the viewpoint of GAAP relevance and the best solution.

Table 11.5

Respondents' Contingency Table Regarding GAAP Relevance to GCC Environment

Row Category	Column Category						Row Total
	All of them are Relevant		Some of them are Relevant		None of them are Relevant		
Comptrollers	10	13.4	38	41.6	39	32.0	87
University Members	4	4.3	15	13.4	9	10.3	28
Public Accountants	7	3.3	12	10.0	2	7.7	21
Column Total	21		65		50		136

* None of the public accountants said that none of the standards are relevant; however, this comes because of the combined adjustment row of "others" alternative.

Table 11.6

2
Calculation of the Sample X value

f_o	f_e	$f_o - f_e$	$(f_o - f_e)^2$	$\frac{(f_o - f_e)^2}{f_e}$	
10	13.4	- 3.4	11.56	0.8627	
38	41.6	- 3.6	12.96	0.3115	
39	32.0	7.0	49.00	1.5313	
4	4.3	- 0.3	0.09	0.0209	
15	13.4	1.6	2.56	0.1910	
9	10.3	- 1.3	1.69	0.1641	
7	3.3	3.7	13.69	4.1485	
12	10.0	2.0	4.00	0.4000	
2	7.7	- 5.7	32.49	4.2195	
			2	11.8495	
Sample X				=	11.8495

Table 11.7

**Respondents Contingency Table Concerning the Best Strategy
to Create an Accounting System to Suit GCC Needs**

Row Category	Column Category						Row Total
	Creating a Uniform Accounting System		Creating an Auth- oritative Body		Regulation by Government		
Comptrollers	49	40.9	22	30.1	16	16.0	87
University Members	15	23.1	9	9.7	4	5.1	28
Public Accountants	-	-	16	7.2	5	3.9	21
Column Total	64		47		25		136

Table 11.8

2
Calculation of the Sample X Value

f_o	f_e	$f_o - f_e$	$(f_o - f_e)^2$	$\frac{(f_o - f_e)^2}{f_e}$
49	40.9	8.1	65.61	1.6042
22	30.1	- 8.1	65.61	2.1797
16	16.0	0.0	0.0	0.0000
15	23.1	- 8.1	65.61	2.8403
9	9.7	- 0.7	0.49	0.0505
4	5.1	- 1.1	1.21	0.2373
16	7.2	8.8	77.44	10.7556
5	3.9	1.1	1.21	0.3103
			2	Sample X = 17.9779

RELEVANCE OF GAAP TO GCC ENVIRONMENT
COMPTROLLERS

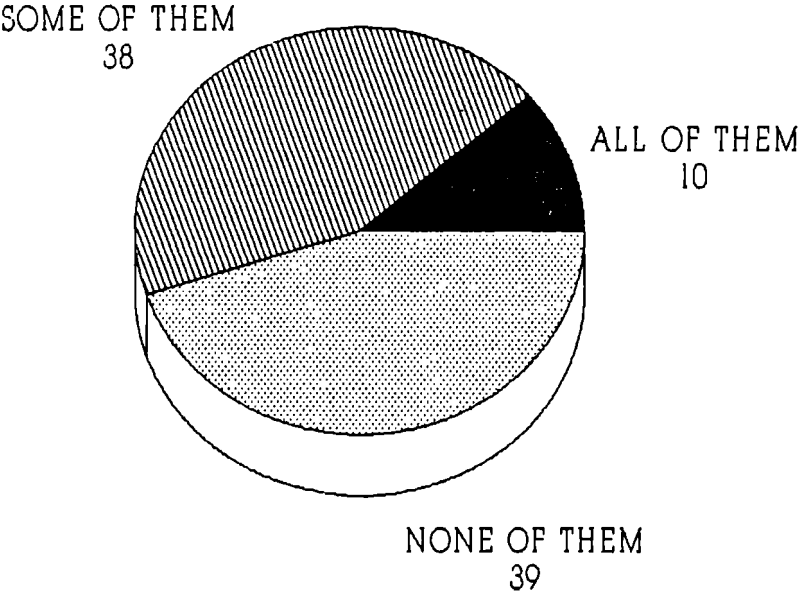


FIGURE 11.1

RELEVANCE OF GAAP TO GCC ENVIRONMENT
UNIVERSITY MEMBERS

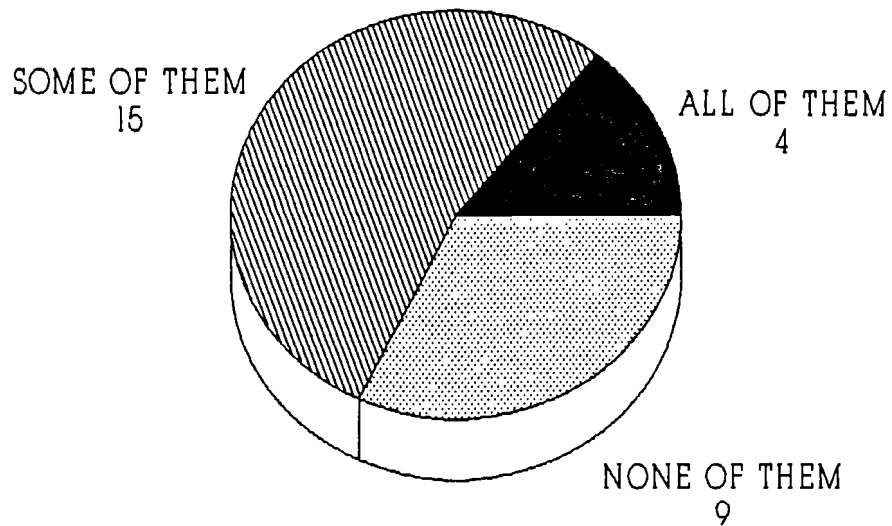


FIGURE 11.2

RELEVANCE OF GAAP TO GCC ENVIRONMENT
PUBLIC ACCOUNTANTS

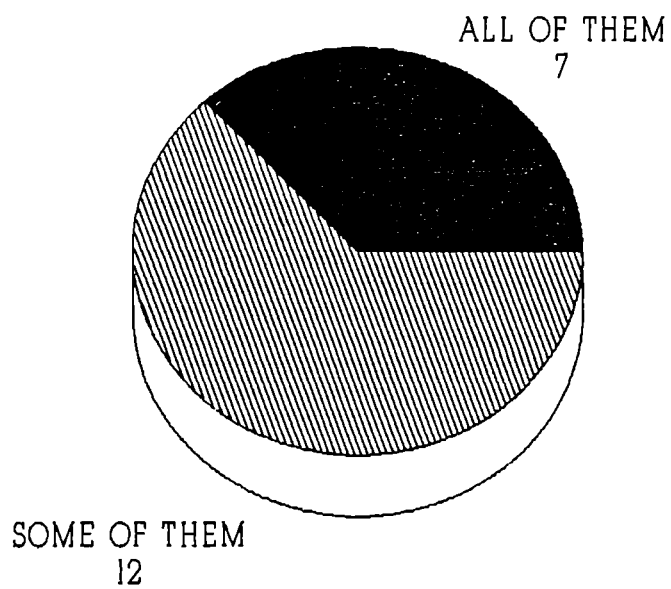


FIGURE 11.3

RELEVANCE OF GAAP TO GCC ENVIRONMENT

SAMPLES TOTAL

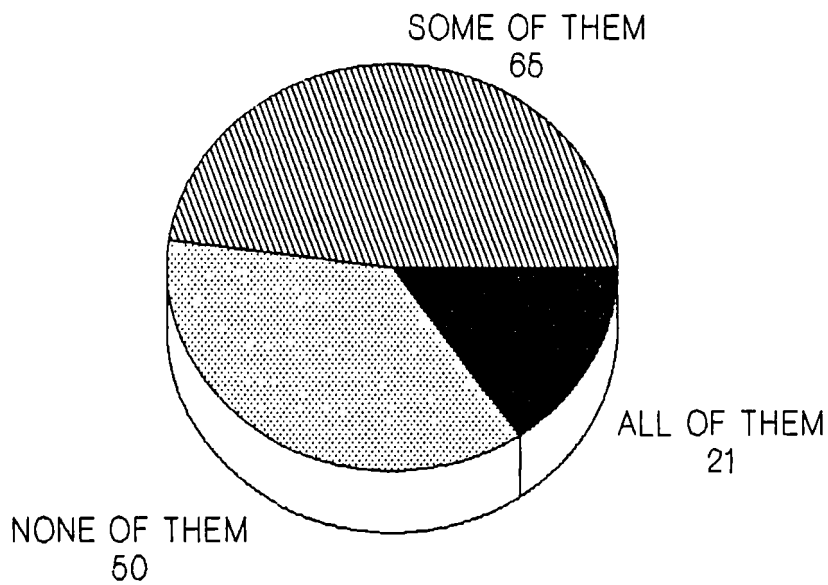


FIGURE 11.4

THE BEST SOLUTION TO GCC ENVIRONMENT
COMPTROLLERS

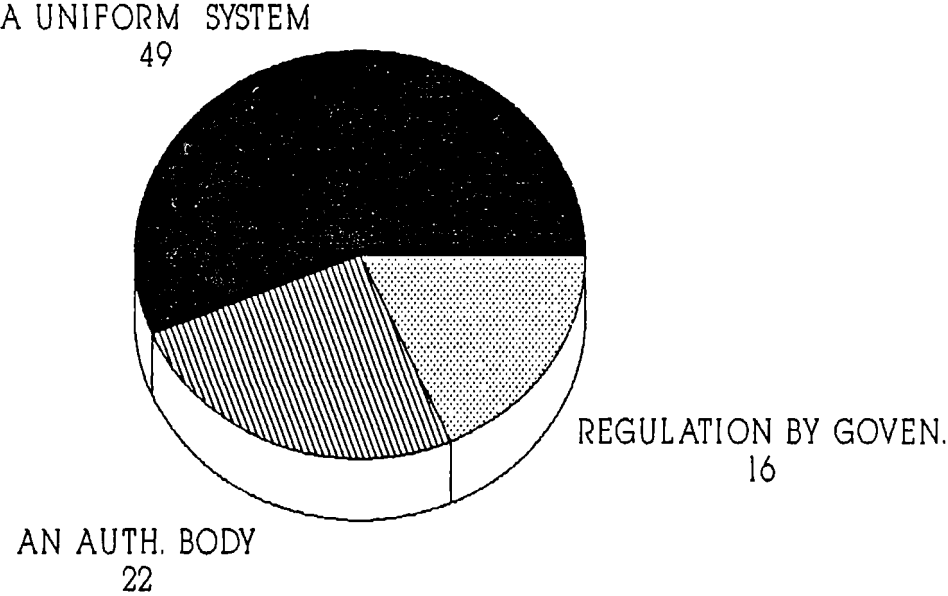


FIGURE 11.5

THE BEST SOLUTION TO GCC ENVIRONMENT

UNIVERSITY MEMBERS

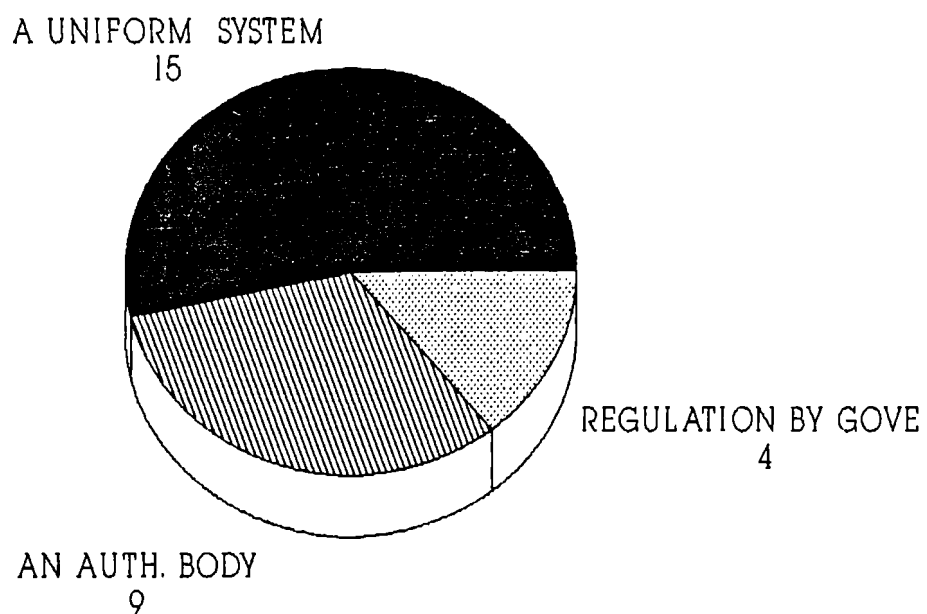


FIGURE 11.6

THE BEST SOLUTION TO GCC ENVIRONMENT PUBLIC ACCOUNTANTS

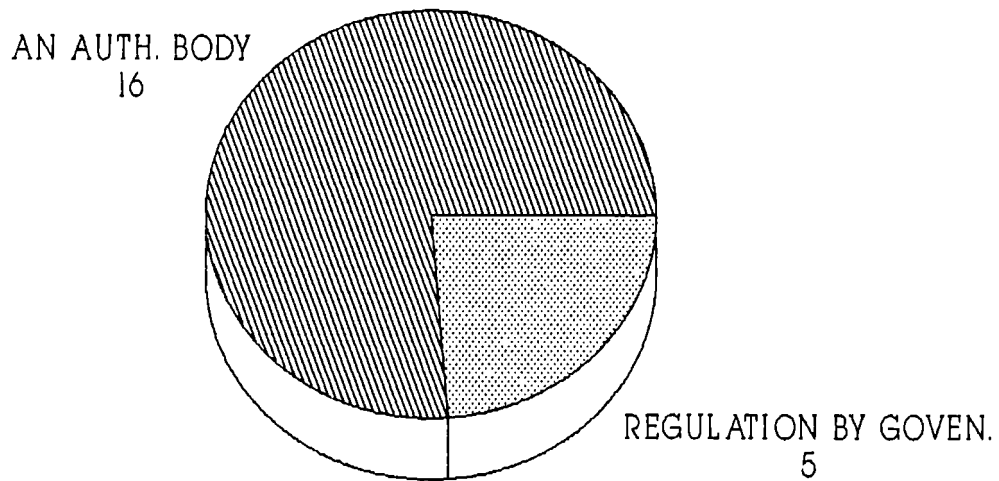


FIGURE 11.7

THE BEST SOLUTION TO GCC ENVIRONMENT
SAMPLES TOTAL

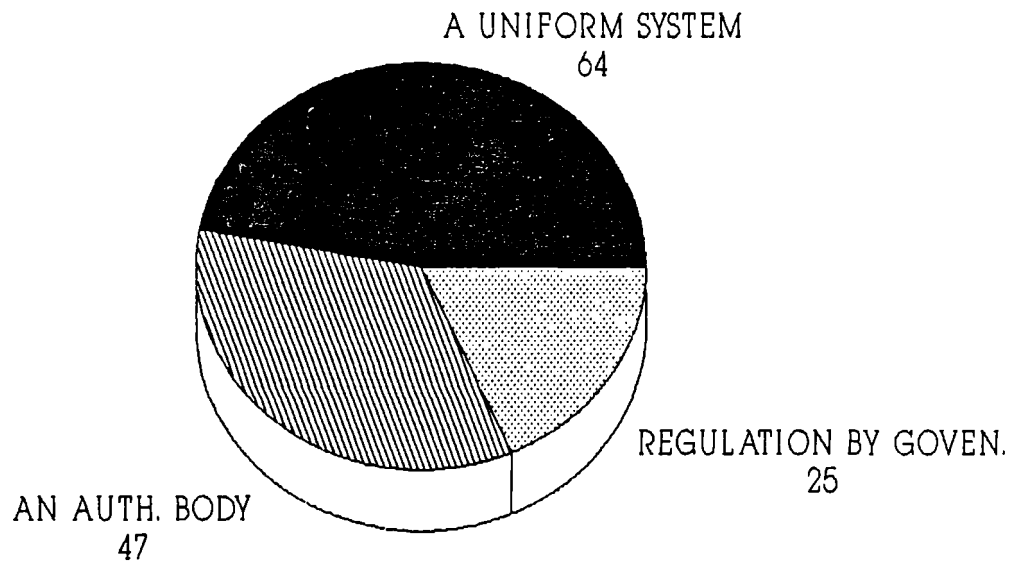


FIGURE 11.8

All in all, by looking to table 11.3, it could be argued that the majority of respondents argued that there are many standards applied in the Gulf region but they are not relevant to GCC environment. Accordingly, although the largest group of respondents (64 out of 136 respondents, representing 47% of the total in table 11.7) supported the strategy of creating a uniform accounting system, this group contained comptrollers and university members only. None of the public accountants favoured the creation of a uniform system. Thus, two extremes can be observed: 56% of comptrollers support the idea of a uniform system, while no public accountants favoured it. There are several explanations for these conflicting viewpoints.

1) 85% of the sample of comptrollers were GCC citizens who obtained their bachelor degrees from neighbouring countries, while only 14% of the public accountants were GCC citizens, and their education was in Europe or America.

2) The comptrollers felt the necessity of being one nation, and reflecting this in a uniform system; in addition, they felt it would provide the tools for operating and managing their companies more effectively. On the other hand, the public accountants were less concerned with the GCC entity, than with their profits.

3) Most of the comptrollers were very interested in the topic of the research, tried to understand the whole idea, and tried to co-operate as much as possible. However, the public accountants were very suspicious of uniformity and

tried to persuade the researcher to leave aside the whole issue and think instead of more "advanced" techniques such as IAS or U.K. standards.

4) Several comptrollers and most GCC officials were critical of the function of public accountants, in that they tend to be concerned only with the auditing of financial accounts. They mentioned the need to evaluate the performance of the board of directors and management in general. On the other hand, public accountants prefer not to involve themselves with management efficiency because, as some of them admitted, they fear that this would lead to loss of clients.

5) Some of the public accountants were against the idea of establishing a uniform accounting system and some even claimed that they would refuse to conduct any audit work for public companies if a uniform system were implemented. They attributed their attitude to the potential decrease in audit fees.

11.3 Creating a Uniform Accounting System

Those who supported the idea of creating a uniform accounting system (56% of comptrollers and 53% of university members), were asked whether they would prefer the General Secretariat of the GCC countries to establish and adopt such a system. 75.5% of the two groups, as shown in table 11.9 would prefer the General Secretariat to establish and head the uniform system.

Table 11.9

Establishment of the Uniform Accounting System by the
General Secretariat of the Co-operation Council

Group	% <u>Yes</u>	% <u>No</u>	% <u>Do not know</u>	% <u>Total</u>
Comptrollers	84	11	05	100
University members	67	20	13	100
* Public accountants	-	-	-	-
Average	75.5	15.5	9.0	100

* Public Accountants did not answer the question.

As a matter of fact, the primary function of the Secretariat General under the GCC charter is to "Prepare studies related to cooperation and co-ordination, and integrated plans and programmes for member states' common action".

In contrast, some supporters suggested that the Secretariat General should invite a group of experts in the field of uniformity to prepare a draft plan of action for implementing a uniform system in the Gulf area. Another group suggested adoption of the Iraqi uniform system with some modification to suit the GCC environment. On the other hand, 15.5% of those who favoured a uniform system rejected the role of the Secretariat General and suggested that a group of GCC professionals should establish the uniform system.

11.4 Creating an Authoritative Body

Those who were against the idea of a uniform system supported the second alternative of creating an authoritative body which should have the power to establish or adopt accounting standards to suit the GCC commercial public sector companies, given the need for the world-wide international trade. As was seen from table 11.4, 27% of comptrollers, 34% of university members, and 77% of public accountants, would prefer to have an independent authoritative group to discuss what would suit GCC public sector companies. Table 11.10 shows the type of authoritative body these respondents hoped to see.

Table 11.10

Type of Authoritative Body that Could be Created

<u>Form</u>	<u>% Comptrollers</u>	<u>% University Members</u>	<u>% Public Accountants</u>	<u>% Average</u>
Academic professionals	03	21	13	12.3
Political concerns	04	03	00	02.3
Public sector bodies	64	19	45	42.7
Private sector bodies	17	16	42	25.0
Other	12	41	00	17.7
<u>% Total</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>

From the above table, it seems that there was general resistance to the idea of political concerns or government officials being involved as members of the suggested authoritative body. This indicates that those who reject the creation of a uniform system do not want government interference in the accounting profession - although the accounting profession in all GCC states is controlled by the government in the sense that it issues licenses to accountants. Instead, they would prefer professionals in the GCC public sector (average of 42.7% in table 11.10) to participate with some other groups, such as professionals from the private sector (average of 25%), and academic professionals (average of 12.3%).

In fact, from interviews and from the questionnaire results, one can conclude the following:

- 1) Most non-GCC citizens working in the Gulf area reject the idea of uniformity because of the domination of the accounting firms in the GCC states by foreigners who constitute the majority of licensed accountants in the area.

- 2) The registered public accountants would like permission from the government to issue what standards they think are suitable to the GCC environment without the formation of a professional body, which might be regarded as a political activity that might encourage government interference.

3) Most of those who support the creation of an authoritative body do not wish to see government interference in the nature of the accounting systems applied by public or private sector companies; instead they would prefer to adopt auditing and accounting standards that are accepted internationally.

4) The British and American influence in the GCC area is very high because of the presence of international accounting firms and the large percentage of foreign professionals; hence, the profession in the GCC countries has been influenced to a great extent, especially in the area of ethics, by the profession in the U.K. and USA.

11.5 The Expected Benefits of Applying a Uniform System

The suggested uniform system would be imposed on government enterprises or those with significant government participation in their equity; thus, it is expected that the new system would serve an important role that the existing accounting systems cannot play; for example, by easing the job of planning and control and allowing greater accuracy in decision-making. Table 11.11 shows the expected role of a uniform system.

Table 11.11

The Benefits of Applying the Uniform Accounting System

Role	% <u>Comptrollers</u>	% <u>University</u> <u>Members</u>	% <u>Public</u> <u>Accountants</u>	% <u>Average</u>
Governmental planning & control	08	42	72	40.7
Economic control of public exp.	06	25	10	13.7
Satisfying the users of acct. information	12	13	00	08.3
All of the above	72	20	00	30.7
Other	02	00	18	06.6
% Total	100	100	100	100

The table shows that 40.7% of total respondents agreed that government planning and control is the greatest advantage to derived from a uniform system. However, 30.7% of respondents declared that all of the activities in the table would benefit from the uniform accounting system.

The researcher added "... if implemented" to the question, in order to obtain responses from public accountants and to some extent from foreign university staff. Consequently, 72% of public accountants admitted the expected role of planning and control, and 45% of university members gave the same opinion.

By and large, one can conclude that all of the three samples admitted the primary roles for a uniform system in

facilitating the function of planning and control, controlling public expenditure, and satisfying the needs not only of the government but also of all the potential users of accounting information.

11.6 A Uniform Accounting System and Gulf States

The researcher then measured the opinions of the three groups regarding the possibility of creating a GCC uniform accounting system. Table 11.12 shows their views.

Table 11.12

Establishing and Adopting the GCC'S Own Uniform System

<u>Group</u>	<u>% Yes</u>	<u>% No</u>	<u>% Do not know</u>	<u>% Total</u>
Comptrollers	82	13	5	100
University members	57	28	15	100
Public accountants	00	71	15	086

*** 14% of respondents left this question un-answered**

Although the public accountants did not accept the idea of a GCC uniform accounting system, 82% of comptrollers and 57% of university members supported the concept partly because of their understanding of the nature of the GCC and partly because of their concern for the public and government interest. In contrast, public accountants were largely motivated by their own interest in terms of maximising profits. This was reflected in the fact that 71% of respondents rejected the whole issue,

while 14% left the question unanswered, suggesting that they were not happy with the topic.

11.6.1 Reasons for Establishing a Uniform System

Those who supported the idea of having a GCC uniform accounting system were asked to specify their reasons for accepting such system. Table 11.13 illustrates some of these reasons.

It can be seen that public accountants ignored this question, for obvious reasons. An average of 43% of the other respondents (comptrollers and university members) said that a uniform system would facilitate comparability between GCC companies; 22.5% of them suggested that it would eliminate the current contradictions in financial reporting between GCC public sector companies, even between companies which produce the same products. Moreover, an average of 17% of comptrollers and university members gave other possible reasons for having the system, such as analysing the strength and weaknesses of a company's operations, management, resources, etc., and dispelling the fears of shareholders that the authority given to the board of directors might be misused.

Finally, 9.0% and 8.5% of them felt that it would provide useful rules to eliminate manipulation by management and to make audited reports more understandable and meaningful, and helping to produce more accurate measurement, and to enable correction of performance to make sure that the company's objectives are achieved.

Table 11.13

Reasons for Establishing and Adopting the GCC Uniform System

Reason	% Compts.	% University % Public(1)		% Average
		Members	Accts.	
Facilitate comparability	53	33	-	43.0
Better definition of a "true and fair view"	08	09	-	08.5
Provision of handy rules	06	12	-	09.0
Eliminate the conflict in financial representation	29	16	-	22.5
Other	04	30	-	17.0
<hr/>				
% Total	100	100	00	100

(1) All of the sample left the question blank.

11.6.2 Arguments Against the Establishment of a GCC Uniform System

The opponents of a GCC uniform accounting system were asked to reveal the exact reasons for their opposition. Table 11.14 shows these reasons.

Table 11.14

Reasons for Not Establishing and Adopting a GCC Uniform System

<u>Reasons</u>	<u>% Compts.</u>	<u>% University Members</u>	<u>% Public Accts.</u>	<u>% Average</u>
Conflicts in professional judgement	22	00	00	07.3
Harmful to the profession	00	49	22	23.7
Difficulty in governing different companies	00	09	45	18.0
Shortage of professionals	67	06	00	24.3
Satisfied with present situation	11	27	33	23.7
Other	00	09	00	03.0
<u>% Total</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>

As shown in table 11.12, 71% of public accountants, 28% of university members, and 13% of comptrollers opposed the idea of establishing a GCC uniform system. In

other words, an average of 37.5% of all respondents in the three samples rejected the idea of uniformity. They attributed their rejection to the following reasons:

1) 22% of the opposing comptrollers felt that a uniform system would conflict with the idea of professional judgement, i.e. that every accountant has the right "according to the profession" to think and judge for himself about accounting matters and to apply different methods of accounting if necessary to reach the final desired objectives.

In fact, this view is not justified, for if the government were to allow every single accountant to use whatever methods he wishes, then the accounting profession would become meaningless. Public sector companies are the mainstay of the GCC economy; hence, every misjudgement by an accountant might lead to action which might have unfavourable consequences to the GCC economy. However, a uniform accounting system would reduce this possibility and impose rules over the profession. However, such regulation would not prevent the accountant from using his professional judgement within the bounds of GCC requirements.

2) 49% of the opposing university members and 22% of the opposing public accountants gave as their reason that it would harm the profession. They argued that the system would cause stagnation of accounting thought by applying one fixed method; it would not allow new ideas or

experiments with different techniques in preparing or auditing accounts; and it would limit the international recognition of GCC accounting practices.

In fact, the application of the system would not cause accounting stagnation, but would clarify accounting practices. It should be remembered that the profession in general is the product of social and economic changes in the Western world and USA; thus the profession in GCC states is the product of the British and American influence upon accounting. Hence, applying a uniform system to suit the GCC environment would serve the vital needs of governments for national planning and control and would protect government and public interest. In addition, it would allow accountants to create new ideas and methods to develop the system and consequently, improve economic development in the region and obtain world-wide recognition.

3) 45% of the opposing public accountants and 9% of the opposing university members argued that the uniform system would not take account of the needs of different economic fields and different companies.

Indeed, the first stage of applying the system may not attempt to cover all economic enterprises with one system; instead, companies may be classified into groups according to type of activities and placed under the supervision of the state agency. The establishment of such a state agency is an important step in implementing the system, as it would ensure flexibility and innovation to

keep up with economic changes.

4) 67% of the opposing comptrollers and 6% of the opposing university members referred to the shortage of professionals.

In fact, GCC professionals are very few; however, shortage of accountants is not an important issue since the GCC states could employ experts from neighbouring countries such as Iraq or Egypt, which have already applied uniform systems. Furthermore, the foreign professionals currently working in the country could be employed to serve the system; at the same time they could train GCC nationals in operating and handling the new system. Finally, because, of its uniformity the system does not need such a high proportion of full professionals.

5) 33% of the opposing public accountants, 27% of the opposing university members, and 11% of the opposing comptrollers said that they are satisfied with the present situation and do not wish any change.

11.7 Summary and Conclusion

With the increasing size, diversity, and complexity of the GCC economy and the increasing importance of the economic role of the GCC governments, the responsibility placed on GCC officials is greater today than ever before. The GCC governments thus need to take serious steps to remedy the present confused accounting situation,

especially, in respect of the public sector companies on which the whole GCC economy relies.

For this reason, the comparative information accumulated in this chapter is the main focus of the survey. Its main objective is to show the possible implications of a uniform system and whether such a system is relevant to the GCC and should thus be established.

At present, the accounting information that reaches government does not provide sufficient information to facilitate proper decision-making, planning and control. Few public sector companies provide information regarding the analysis of their reported figures, their accounting policies, or notes to the accounts. Hence, comparability and reliability are difficult to achieve, especially as different accounting systems are applied by each company.

In conclusion, although an average of 37.3% of total sample were against the idea of uniformity within GCC states, the majority of respondents supported the idea since it would assist in developing the GCC economy and at the same time discourage undesirable manipulation. In other words, they expect the uniform system to facilitate national planning and control and, at the same time, to enable the GCC governments to monitor the operations of public sector companies and evaluate the effectiveness of management in utilising their resources. In addition, a uniform accounting system designed to suit

the GCC environment would serve the GCC government in terms of measuring the contribution of public companies to the national income and to the net regional product.

CHAPTER 12

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

12.1 Introduction

With only parochial differences of a minor nature, the systems and forms of the governments of the six GCC members are alike in style, principle, and circumstance. Throughout the GCC, one finds an easy familiarity in the uniformity of the governments and the application of government rule. A common language, political system, economic environment, religion and culture may be the bricks of the GCC edifice; the coincidence of similar governmental rule is the cement that binds them together.

However, ever since the establishment of the GCC, the GCC states have been under pressure from the European and the American accounting systems in terms of accounting decision-making policy at all levels in the Gulf area. This could be attributed to the Western influence on accounting education in the GCC universities, the presence of local and international accounting firms which apply the practices of their home-countries, and the application of foreign accounting systems in both public and private sector companies.

The GCC countries have an environment which is totally different from those in developed countries; the GCC states as developing countries are not pure capitalist countries, nor socialist developing countries, but somewhere between; in a sense, the governments of the GCC operate a mixed economy. The governments in all GCC states are to some extent directly involved in economic activities through various public sector companies which

need accounting information based on an integrated body of accounting practices, showing both the financial and managerial costs and benefits generated by the GCC countries' economic activities and resources. This information should be relevant to social and economic planning and control, micro and macro decision-making and planning control at both micro and macro levels.

At present, however, the degree of uniformity at micro accounting level is very weak, while linkage between micro accounting level and macro accounting does not exist. Accordingly, the researcher would assert that:

I) In the Gulf region, there is no comparability between micro accounting data for macro accounting purposes. That is because there is no agreement between micro accounting and macro accounting regarding the definitions, measurement base, unit of measurement and the basis of accounting of input data necessary for obtaining information on certain economic observations that could be needed to evaluate the Gulf countries' economic performance.

II) There is no awareness by the GCC officials, and to some extent, planners and economists, about the great impact of the accounting measurements used in micro level, and their impact on decisions at the macro level.

By and large, the needed accounting information should be in a form which will improve the function of planning, decision-making, and control, and which facilitates comparability among different companies,

inside companies, and at the national level.

In fact, the current foreign accounting systems are not able to provide the governments in the GCC with the necessary information for the purposes of performance evaluation, planning, control, and decision-making. The present foreign accounting systems serve neither the needs of the governments nor those of outside users. In general, GCC public sector companies adopt a diverse approach in accounting systems (e.g. diversity in standards, policies, principles, procedures, etc.). This diversity makes any reliable comparison between the financial statements of the companies almost impossible. Hence, an effective allocation of scarce resources by government authorities in the Gulf will be less likely, and national accounts compiled on the basis of those financial statements will be unreliable. Thus, a unified set of principles, standards, policies, procedures, classification and reporting (a complete uniform accounting system) could solve the problems.

The Gulf governments need information beyond the regular external financial reports, which by and large do not meet their needs in terms of building successful economic development plans, exercising control, and taking rational decisions. That was discovered through two long visits to five member states in the Gulf, namely, Bahrain, Kuwait, Oman, UAE, and Saudi Arabia, in order to collect general data on the Gulf environment and its needs, and the feasibility of improvement. Most of the data were

collected through in-depth interviews with GCC governments officials, economists, planners, officials in the Secretariat General to the GCC, officials in the Accounting and Auditing Bureaux, professional accountants, academicians in universities, members of boards of directors, and financial managers of both public and private sectors. Other data were collected by means of three questionnaires which were distributed to investigate the nature of present accounting systems, their relevance to GCC countries, and what is the best alternative to satisfy the governments in terms of necessary information.

It emerged from extensive interviews and the questionnaires that the accounting system that could satisfy the GCC governments needed information would be the uniform approach, rather than the current flexible approach. The uniform approach could provide the necessary information by making some regulations in terms of external financial reporting, in order to facilitate comparability among the financial statements and eliminate managerial discretion over the choice of accounting principles, standards and methods. Moreover, it has the ability to provide the data required by the national planners for their economic development plans, and by managements or organisations for the purposes of planning and control. In addition, it has the ability to measure the effectiveness and performance of management of different companies through its comprehensive general guidelines. Thus, this thesis argues that accounting

information could be improved through a GCC comprehensive uniform accounting system.

The subject under examination is important enough at any time, but is of particular importance now for two reasons: First, the GCC charter suggests a uniform approach to social, economic, and financial affairs, which may lead to complete economic and financial integration. Secondly, the GCC governments are becoming more close to one another; thus uniform accounting information is a step not only towards integration and unification, but also towards economic planning, control, and decision-making.

12.2 Summary

The first objective of this thesis was to develop a theoretical framework for applying a uniform accounting system which might improve the provision of accounting information to meet the requirements of the GCC governments. Several variables were selected and their effects on the application of a uniform system examined. The second objective was to evaluate the current accounting systems and practice in the GCC region, their relevance to the GCC environment, and accordingly their usefulness for the prime objective of GCC governments: economic and social development. The thesis was also an attempt towards a uniform philosophy which truly reflects the needs and circumstances of GCC societies.

Therefore, to achieve the above objectives, it was decided to examine the GCC environment in terms of geography, historical and political environment, Western accounting influence, the accounting profession in the Gulf area, and the orientation of accounting education in the area. Also, an attempt has been made to identify the types of accounting systems found in practice and the relevance of the information they reveal to the GCC authorities.

The researcher concentrated on public sector companies because of their importance to GCC governments, given that they include basic industries and supply a major portion of state revenue. To be relevant, information from these companies needs to be on a uniform basis to reflect economic reality, to be relevant to economic decision-making and to assist planning, control, and supervision. Ways of improving the accounting system in GCC states were also discussed. The relevance of U.K. and USA accounting systems and a uniform accounting system approach to the needs of the GCC environment were examined in order to suggest an appropriate approach and other necessary improvements to enhance the relevance of accounting information.

In order to accomplish the objectives of the thesis, the following research was undertaken:

- 1) The empirical portion of the study investigated the types of accounting systems currently used in the Gulf area, their relevance to the GCC environment, the value to

the GCC governments gain of accounting reports, and finally whether a uniform accounting system would be of greater value to GCC governments than the present diverse accounting systems.

Personal interviews were conducted with several GCC officials, planners, economists, members of boards of directors, financial managers, academicians, and accounting practitioners.

The interviews aimed to achieve the following objectives:

I) To discuss the present accounting systems in the Gulf area, their relevance to the GCC environment and possible alternatives.

II) To seek the most desirable, applicable solution to the present situation.

III) To determine the feasibility of having a uniform accounting system to suit GCC requirements.

IV) To gain an understanding of the reactions of the main parties involved.

V) To obtain information that might have been considered confidential or too sensitive to reveal in answer to a questionnaire.

2) In addition to the interviews, the researcher used questionnaires which were sent to three groups particularly concerned with accounting in the Gulf region: the financial managers of public sector companies, academic staff of accounting and management colleges, and public accountants in the accounting firms. Each

questionnaire consisted of three parts. The first part included questions on the participants' background, their familiarity with existing accounting standards and their opinions on the relevance of those standards to the GCC environment. The second part concerned the present status of accounting systems and accounting practices in the Gulf region, while the third part sought respondents' views on the feasibility of applying a uniform accounting system in the Gulf region.

The respondents were offered choices of answers to all questions. Some questionnaires were delivered and some were mailed to the three samples. The advantages and disadvantages of mailed questionnaires are presented in chapter 5. In order to overcome the problem of non-response, the method of personal delivery was used. The data collected from these questionnaires were analysed and subjected to descriptive and statistical analysis in order to reach sound conclusions.

3) A more theoretical study was undertaken to evaluate the relevance of a uniform accounting system to the GCC environment and provide support for the empirical portion of the thesis. The theoretical research included an examination of the literature relating to the following subjects:

A] The users and objectives of accounting information in the industrial developed countries such as U.K. and USA, and the relevance of such information to GCC countries.

B] The relevance of a uniform accounting system to GCC

countries and the nature and features of such a system.

C] The expected benefits from the application of a uniform accounting system.

D] Arguments for and against a uniform accounting system.

E] The potential cost that could be incurred because of implementation.

F] The experience of two countries, one developed (France) and one under-developed (Iraq) with uniform accounting systems and the light this sheds on the relevance of such a system to the GCC states.

12.3 The Feasibility of a GCC Uniform Accounting System

During the interviews with political and economic authorities, the researcher discovered that most of those authorities in the GCC countries, were ignorant of the role that accounting can play in the economic development plans and control, and in making many political and economic decisions. Only recently had they become aware of the importance of accounting and its role in the Gulf countries economy. However, the authorities who are aware of the important role of accounting in the economic and political environment and in decision-making, have little knowledge of uniformity and uniform accounting systems. They think that the American and British accounting systems are the only accounting systems in existence.

Nevertheless, the researcher, during his two visits to the Gulf region, explained to those interviewed the idea of uniformity and the important role of a uniform

accounting system in the Gulf environment, and pointed out that it has been adopted by many developing and developed countries. The interviewees then expressed their enthusiasm to know more about it and its possible implementation.

The researcher expected a new system to play a vital role in macro development planning throughout the GCC countries, in order to help the GCC governments to forecast correctly their national accounting and control their economic activities more effectively. That means the expected system should establish a base for common understanding between micro accounting and macro accounting, which could solve many of the Gulf countries' national accounting problems. For example, it must help in solving the aggregation of accounts of the various companies to construct national accounts. In this case, the micro accounts would be relevant, reliable and aggregatable to help in building sound national or sectorial accounts; in return, the company would be able to use national accounting figures for their own planning. Besides, it should have the power to facilitate effective governmental control over the public sector companies in terms of measuring the effectiveness of management in utilising government resources.

Moreover, the researcher would emphasise the following objectives and requirements of a possible GCC uniform accounting system:

A) It should be compulsory for all public sector companies, i.e. totally government-owned companies and those with government majority in total equity.

B) Because of massive rejection from the private sector level of the idea of a uniform accounting system, the private sector companies would have a choice whether or not to apply it. Those who apply it, might be given some form of incentive, while those who refuse to apply it, should be required to fill certain uniform formats for government purposes.

C) The new GCC uniform system would be basically built on:

1. One uniform chart of accounts.
2. Uniform principles, standards, concepts, definitions, rules and bases of accounting.
3. Uniform accounts and financial statements.
4. Uniform planning budgets.

D) It should have the power to provide the basic data and the analytical tools for planning, implementation, and control at various levels.

E) It should have the power to integrate the micro units' accounts with macro accounts, i.e. national accounts.

F) It should facilitate collection, classification, and storage of accounting data.

G) The GCC uniform accounting system must be flexible so that it can provide the GCC governments with reliable information when required, and deal easily with the outside world.

Finally, the GCC uniform accounting system, and its preparation and implementation, should be under the supervision of the General Secretariat to the GCC, which should have the power to assign the necessary committees (e.g. policy making committee, administration committee, enforcement committee, etc.) to implement it with the coordination of Accounting and Auditing Bureaux in the Gulf. In this case, all these Bureaux should be given the following criteria as the main tools of government in controlling what has been planned and taking decisions as necessary:

I) The role of those Bureaux must be extended beyond the regular auditing function of financial accounts. They must have the access to evaluate and appraise the managerial efficiency in managing the company; they must audit and control all the operations of the company and send their reports to the highest authority in the state without any intervention from the management or board of directors; and they must enjoy the full confidence of the government.

II) All Auditing and Accounting Bureaux must recognise that they are independent commissions which must be attached to the highest authority in any GCC country, that is the Emir or the King. In this case, we can guarantee the independence of accounting reports and information.

III) All the employees and managements in those Bureaux must have the proper qualifications and experience in auditing and control. Moreover, in-service training should be undertaken from time to time to ensure efficiency in

the work. In addition, it is important to select competent directors to participate with the aforementioned committees in the General Secretariat, to guarantee the effectiveness of the work.

IV) Qualitative specialists (e.g. engineers, statisticians, analysts, etc.) should be selected to join the Bureaux, which would benefit from their specialisation and experience in some areas where the accountants and auditors lack information; this would improve the quality of auditing and control reports.

V) All the Accounting and Auditing Bureaux must issue at least four copies of accounting reports and information, of which are should be sent to each of the following parties:

1. A copy to the highest authority (i.e. the Emir or the King) to let him know exactly what is going on in the public sector companies and obtain his reaction to those whose performance is not up to standard.

2. A copy to the Cabinet or to the concerned minister for information, increasing the likelihood that appropriate action will be taken.

3. A copy to the company, which should respond in writing to the Accounting Bureau and orally during the General Assembly, on all mistakes that have occurred and any enquiries that might be raised.

4. A copy to be kept "confidential" in the Bureau for future reference (e.g. to follow-up whether or not a particular company has taken the action required of it).

12.4 The GCC Option

In the researcher's opinion, some countries which already have a uniform accounting system (e.g. France and Iraq) may have environmental factors similar to those in the GCC countries. The uniform accounting systems of France and Iraq were discussed in chapter four and it was concluded that the GCC states may benefit from using one of these systems, or a combination of both, in the short term. In summary, each of them is intended to provide accounting information which is relevant to national planning and control; therefore, to enhance planning, implementation, control, and performance evaluation. It has also been argued that both of them to some extent have the ability to link micro entities accounts to national accounts and to facilitate the collection, classification and storage of accounting information. Evidence from the literature suggests that they are successful to a certain degree in meeting the above objectives, each within its own environment. These environments include a developed free market economy (France) and a developing centrally planned economy (Iraq).

Certainly, there are differences between these environments and accordingly they differ in their degree of similarity to GCC environment.

Although the French uniform accounting system is successful and relevant as far as the French environment is concerned, and some elements and concepts of the system

could be of benefit to the GCC environment, it is unlikely that the system as it stands would be appropriate for the Gulf states. That is because all Gulf countries have more or less mixed economies, whereas France has a pure capitalist economy which exercises less control on imports and exports, foreign currency, saving, investment, income and expenditure, etc.

Moreover, the French uniform accounting system, as discussed in the literature, has a weak relationship between planning and action, because the plan does not make provision for the differing circumstances and environment of different companies. The main objective of the French system is to help in setting the national plan and fiscal policies. Cost accounting, budgeting and control functions are given very little consideration. In effect, the French uniform accounting system only provides suggestions on how to construct budgets at the micro level.

In addition, the national economic plan in France is a plan for the public sector and it is not binding for the private sector. The fulfilment of the plan is ensured as far as possible by indirect instrument of government policy. Unlike the GCC countries where the development plan is mandatory for all sectors, France economic planning as far as the private sector is concerned is merely a forecast for the future. In general, the French uniform system is oriented towards a developed free market and there is doubt about its suitability for the Gulf

states, where the government in each GCC country is in a strong position to spread its influence over every single organisation in the economy if it required.

By and large, as it has been mentioned, while some elements and concepts of the French uniform system would certainly be of benefit to the GCC environment, it is unlikely that the system could be utilised without considerable modifications.

On the other hand, the researcher feels that the Iraqi uniform accounting system could be more suitable to the GCC environment than the French system. The Iraqi economy, culture, language, and to some extent social environment are more or less similar to those of the GCC.

Moreover, both societies, Iraq and GCC states, have adopted an economic planning system based on overall development plans; in other words, a comprehensive socio-economic planning system covering all sectors of the economy has been used.

Therefore, it could be argued that the economic environment is the most important issue. Both societies are oil-rich, which can secure their capital needs to support economic development planning. Iraq and GCC countries, however, suffer from shortage of skilled manpower, which could impede the process of development.

Moreover, the fulfilment of the Iraqi uniform system is ensured as far as possible by direct and indirect instruments of government policy. This is like the situation in the GCC countries, where the development

plans are controlled directly and indirectly by some concerned ministries (e.g. Ministries of Planning, Finance, Industry and Development, Commerce, etc.) and Accounting and Auditing Bureaux.

Also, in Iraq, like the Gulf countries, central planning is not binding on the private sector. As evidence, apart from financial statements, there are no other accounting returns provided by the Iraqi system for control over companies' operations.

Accordingly, the above evidence suggests that the Iraqi uniform accounting system is more suited to the environment of the GCC countries as a short term solution to the deficiency of the GCC accounting systems.

The GCC countries could benefit from the Iraqi uniform system in that it would provide a reliable information system, link micro and macro accounts, provide information needed for the Gulf officials for national planning and control, facilitate the process of performance evaluation, and facilitate the tasks of planners, economists and officials in Accounting and Auditing Bureaux.

Thus, there are many elements and concepts of the Iraqi economic and accounting systems which would certainly be of benefit to the GCC environment and it is likely that the Iraqi system could be utilised with some little modification to suit the GCC environment.

Therefore, it is felt that it would be more appropriate for the GCC countries to utilise the Iraqi uniform accounting system than the French uniform system. Such utilisation is certainly required in the short term and it could be even prove to be appropriate, with some modification to suit the GCC environment, in the long term.

Nevertheless, there could be some difficulties in the process of implementation. These could be summarised as follows:

(1) Some of the GCC officials have an idea that the uniform accounting system suits communist and socialist countries rather than a mixed economy. Still, it could be pointed out that uniform systems are implemented in capitalist countries like France and Belgium.

(2) The new system may face strong rejection from those who benefit from the current position in the Gulf area (flexible systems). However, the new system aims primarily to serve the Gulf governments, rather than those who are taking advantage of the present flexible systems.

(3) The private sector companies, which also strongly reject the idea of a uniform system, may try to put pressure on the GCC governments not to implement the new system. This rejection can be understood because of the present freedom with regard to operations and the publication of the accounts. However, this arises from the weakness of all GCC companies' regulations and acts, since most of them are vague, imprecise, and lacking in detail,

with considerable scope for interpretation.

(4) Accordingly, the present GCC companies accounting acts create further problems, because they are more concerned with form than with substance and with regulatory rather than with economic facts, thereby creating confusion rather than giving guidance. Nevertheless, this problem could be overcome by issuing new regulations and companies acts to suit the new situation.

(5) Certain Islamic principles could represent a basic impediment to the implementation process, especially in Saudi Arabia. However, this is a matter of theory rather than practice; almost all economic entities in the Gulf deal with usury, including those in Saudi Arabia. Therefore, implementation of a uniform system need not be rejected in practice, and could be dealt with like any other accounting system.

(6) The GCC national experts in accounting and auditing are few, which could be another obstacle to implementation. However, the Gulf states could hire foreign experts to establish the GCC uniform system with the advice of GCC national experts as to how to tailor it to suit the needs of the GCC environment.

(7) The international and national accounting firms will also oppose the idea and accordingly the implementation. We saw in chapter ten, that all those interviewed were against the execution of the system. The reason was obvious. They do not want to lose their clients and their

huge profits from auditing public and private sector companies. Fortunately, however, the accounting profession in the GCC states is neither well organised nor strong enough to resist the establishment and implementation of the GCC uniform system.

(8) The inadequacy of accounting manpower in the GCC states, both in number and ability, is another factor that could hinder implementation. However, as a short term solution, the Gulf governments could hire foreign accountants, especially from countries where uniform systems are applied. Later on, a body of GCC accountants should be established to implement and revise the system as required.

(9) Those who graduated from American and British universities might present another difficulty in the implementation process. In fact, some of them were very surprised to learn that France and Iraq actually apply a uniform accounting systems. However, this problem could be overcome by holding seminars, lectures, conferences, and symposia around the Gulf region, explaining the relevance of such a system to developed and developing countries, both Arabic and non-Arabic countries, and in both capitalist and centrally-planned economies. Moreover, the syllabus of accounting courses in the GCC universities should be changed to meet the new trend. For example, emphasis should be shifted from historical cost to current value accounting, and from financial and regulatory audit to value for money audit. Other changes in emphasis should

be made from external to internal audit, from enterprise accounting to national and government accounting, and from financial accounting to cost and managerial accounting. Students should be educated in the accounting information needs of public sector economies, rather than concentrating on the private sector.

12.5 Conclusions and Findings

In general, any accounting system should be related to the historical, socio-economic, and political environment of the country; this has not happened in the GCC area since British and American accounting are believed by many to be as good for the GCC environment as for the U.K. and USA.

However, since the conclusion derived from chapter three is that the accounting systems currently used by public sector companies do not provide the GCC governments with sufficient information for the purposes of planning, control, and taking decisions; and from chapter four that the U.K. and USA accounting systems are largely irrelevant for GCC states, then a different approach to accounting, such as the uniformity concept, may be of benefit in the GCC. Thus, chapters six, seven, eight, nine, ten and eleven discussed with reference to the empirical investigation, the feasibility of applying a uniform accounting system among the Gulf countries.

The conclusions reached are summarised in this chapter according to the two research methods used: the

empirical and the theoretical. The following are the overall conclusions and findings derived from the study:

12.5.1 General Conclusions

(1) Most of the GCC officials, planners, and economists in Bahrain, Kuwait, Oman, Saudi Arabia, and UAE welcomed the idea of having a GCC uniform accounting system which could be implemented among the GCC states and they showed their willingness and enthusiasm to support implementation of such a system. They admitted the irrelevance of the accounting systems presently used in the Gulf area; the inadequacy of the information received, un-reliability and delay in information required in every sector of the economy, which forces the GCC planners to forecast rather than build their plans on the basis of sound information.

(2) Hence, the uniform accounting system would be appreciated by GCC governments because of its ability to produce uniform data for the purpose of evaluation, supervision, control and planning. However, it should retain the flexibility necessary to respond to economic changes.

(3) Implementing the uniform system will simplify the job of those ministries that deal with public sector companies.

(4) Some GCC officials, when interviewed, admitted the ability of a uniform accounting system to meet the GCC's written objectives and to maintain consistent economic

development.

(5) Some reluctance to change to the uniform system is expected in the short term, because people are used to their own accounting systems.

(6) Most of the interviewees favoured a GCC uniform accounting system established to suit the GCC environment, because neither the current diversified accounting systems, nor any system based on the U.K. or USA accounting systems, would satisfy the information needs of the GCC governments.

(7) Most of the GCC authorities in Accounting and Auditing Bureaux showed their enthusiasm towards the idea of adopting a uniform accounting system which will facilitate their job in supervising and controlling the public sector companies. The present flexibility, without guidance from the governments, renders the Accounting and Auditing Bureaux in the GCC states unable to control the present situation or to handle proper and reliable information for the GCC officials, on which to base proper and reliable planning and decisions.

(8) The GCC officials in General Secretariat showed their support orally during the interviews and in practice by offering to finance the project if it could come up with accurate and comprehensive accounting information to benefit the GCC government.

(9) Some GCC officials agreed to the idea of having one accounting system but they expressed the fear that such a system may take a long time to establish and implement,

which GCC states can ill-afford. However, it has been suggested that the Iraqi uniform accounting system would help to a large extent in meeting the need for accounting information in the short term.

(10) On the other hand, most private sector authorities rejected the idea of having a uniform accounting system and gave some reasons which reflect the present benefits to them from the present messy situation.

(11) The professional accountants in the accounting firms also rejected the idea and gave some other alternatives which more or less reflected the financial aspects of accounting and gave very little consideration to management, cost and national accounting. It has been suggested that this reaction may be attributable to reluctance to sacrifice the huge profits derived from the auditing fees gained from auditing public and private sector entities.

(12) The academicians in universities took a neutral stance; however, they indicated their preparedness to accept whatever will benefit the government, and to offer courses that could benefit the GCC societies in general, if so requested by the government.

(13) It was indicated from the literature and extensive interviews that the benefits of applying a uniform accounting system far outweigh those of the present, un-satisfactory, flexible situation.

(14) The cost of implementation, which has been discussed with reference to the literature and was also

raised in the interviews, would be far less than that of the existing various accounting systems. In every single entity, it is necessary to pay for the accounting system implemented, but in the case of a uniform accounting system, the GCC governments would pay only once and the system would suit hundreds of organisations throughout the GCC region.

(15) It was found that the GCC states have a huge investment in the public sector companies, and most of the public sector companies (47%) are engaged in manufacturing activities. They encompass the major industries of the Gulf, such as petrochemicals, refining, aluminium, etc. and represent one of the main sources of income for the Gulf region.

(16) 49% of the companies have been operational for 10 to 20 years, 24% for over 20 years, 21% between 5 and 10 years, and only 6% for less than 5 years.

(17) About 50% are public limited liability companies in which the government participates to a greater or lesser extent in their capital.

(18) Most of the financial managers of GCC public sector companies are GCC citizens.

(19) Many of them have few formal qualifications but a long period of experience. Others have Bachelor's degrees from neighbouring countries, where education is to a large extent Western oriented.

(20) The majority of respondents and interviewees acknowledge that there is no specific accounting system

that is followed in the GCC countries.

(21) The commercial companies law in the Gulf area , with which all companies must comply, is very vague and generalised.

(22) As a result, the role of accounting information is very limited and many companies manipulate their methods of financial reporting to give the most favourable results. On the other hand, this situation makes the function of evaluation, planning and control for the GCC governments too complicated and at present prevents them from reaching their desired objectives.

(23) The financial reporting of almost all public sector companies is undertaken to comply with regulations, rather than to reflect economic facts.

(24) The level of disclosure in financial reporting was discussed in chapter 8. It was found that disclosure is insufficient to satisfy the information requirements of the governments.

(25) This is because the objectives of financial reporting in the Gulf region are the same as those in the U.K. and USA; thus they do not provide useful information for government for economic decision-making, planning, and control.

(26) The main users of the financial reporting in the U.K. and USA are the shareholders and potential investors; however, the main users in GCC countries are the governments, which benefit little from current financial reports.

(27) GCC countries have become increasingly dependent on the activities of public sector companies during the past two decades, because these companies represent the foundations of the GCC economies and their revenues.

(28) However, most of the GCC officials, planners, economists, and many boards of directors in GCC states ignore the important role of accounting at all levels, especially as related to planning, control, and decision-making.

(29) As respondents acknowledged, in most GCC countries there are no specific regulations or guidelines as to the accounting procedures companies should apply. What has been applied is a diverse range of accounting systems, usually derived from U.K. or USA parent companies, which lack consistency or relevance.

(30) The absence of an accurate tax system encourages public sector companies to apply whatever accounting system and methods they choose, as there are no constraints on their accounting. Such regulations as do exist are vague and imprecise.

(31) Most public sector companies, especially those with government participation of 51% and over, have been incurring serious losses for several years. This could be attributed to misleading information resulting from the diversity of accounting systems.

(32) More than 49% of public sector companies have ties, of one kind or another, with foreign companies. Thus, it could be assumed that the accounting system currently

applied in those public companies do not reflect the Gulf environment.

(33) Although the majority (96%) of public sector companies claimed that their companies have clear accounting policies, only 61% of them have written accounting policies.

(34) Accounting policies are sometimes changed without good reason.

(35) Most respondents in public sector companies attributed the setting of accounting policies to the internal auditors and/or comptrollers. The rest attributed this to the accounting firms.

(36) Thus, the accounting systems in those companies are less satisfactory than those in the private sector companies, of which the accounting system have been set to maximise the profit and accordingly it is tightly controlled and supervised.

(37) Another result is that many boards of directors and some financial managers do not know what kind of accounting system their companies have.

(38) Most of the public sector companies disclose little useful information to users (mainly the government); the annual report is the main source of information.

(39) The present accounting practices in the GCC do not serve as a basis for economic decision-making for the government. They have been adopted to serve international trade and private businesses. Thus, there is a need to establish GCC accounting standards relevant to the

environment.

(40) The academic staff come from various countries, developed and developing; however, GCC nationals are rare.

(41) Most academics in Kuwait and Bahrain universities have Ph.D. degrees (57%), 21% have other professional qualifications, 18% have a Master's degree, and 4% have just a Bachelor's degree with many years of experience in education; most of those degrees come from developed countries such as U.K. and USA (93%).

(42) The GCC citizens with a Ph.D. represent a low proportion of the total numbers; yet any staff member who does not reach that level of education, is labelled "failure".

(43) Most of the staff members are "unproductive" because of the absence of incentives to write or to publish. Thus, little time is generally spent on preparing lectures, guiding students, or conducting research.

(44) About 75% of the academic staff who responded to the questionnaire claimed a general knowledge of the various accounting practices existing in the GCC region.

(45) The profession is largely male dominated in all GCC states. Most of the accounting staff read accounting periodicals (96%), yet very few (11%) have had any papers published in recognised journals.

(46) Most of the public accountants are non-GCC citizens and come from various countries (e.g. 43% from U.K., 14% from India, 9% from Jordan, 15% from other countries such as Iraq, Egypt, Pakistan, etc.). Only 19% are GCC

citizens.

(47) 52% of the accounting professionals hold only a Bachelor's degree, 33% hold a professional qualification such as CA and CPA, 10% have a Master's degree, and only 5% hold a Ph.D. degree in accounting.

(48) About 54% of the public accountants have experience inside the GCC countries and 46% outside the Gulf region.

(49) Accounting standards and procedures applied in the GCC states are those selected by local or international accounting firms and can be traced to the educational background of the staff members of those firms.

(50) Although there are two accounting associations in the GCC countries (one in Bahrain and one in Kuwait), the accounting profession is very weak because neither of the associations is active and accounting legislation is absent in the Gulf area.

(51) The work of accounting firms is largely confined to routine traditional financial and regulatory audit.

(52) Foreign accounting firms are active in the GCC region, both in terms of business conducted and profit earned.

(53) Most of the accounting firms (52%) have been in business within the GCC for between 10 and 20 years and some of them (29%) have operated for over 20 years in the Gulf.

(54) About 90% of the local accounting firms are in partnership with international accounting firms.

(55) Most public accountants favour the current situation as regards licensing requirements for public accountants, because they benefit by the lack of specific regulations.

(56) Most of the trained candidates (57%) are non-GCC citizens because accounting firms in the Gulf area are considered unattractive employment for GCC nationals in terms of earning capacity, prestige, and working hours.

(57) There is a great shortage of qualified GCC professionals in accounting, because people prefer to study more recognised fields of learning than accounting.

(58) Most GCC states have no active professional associations.

(59) Many local and international accounting firms apply IAS because they feel that these are the most relevant standards to be applied in the Gulf region. However, this is not true since, as argued in chapter 3, the IAS are a continuation of U.K. and USA standards, and their disadvantages outweigh their advantages.

(60) There are weaknesses in accounting education in all GCC countries, this being part of a general weakness in education.

(61) Most GCC education systems are biased in favour of the U.K. and USA systems, with very little consideration given to the GCC environment.

(62) As a result, textbooks and teaching in accounting tend to concentrate on financial accounting and external reporting, which serve the needs of private sector shareholders rather than public sector and government

interests.

(63) Most graduate students have to take some practical courses to obtain employment, which in most cases is a book-keeping job with little opportunity for analytical work.

(64) Details of the development of accounting education in GCC states, with conclusions and recommendations, were discussed in chapter 3.

12.5.2 Conclusions on Accounting Systems and/or Practices Operated in the Gulf, their Relevance, and the Best Alternative

(1) About 63% of financial managers, 57% of academics, and 52% of public accountants believe that GAAP do exist in the Gulf area; yet they do not know the nature of these principles and to which country they belong. Since commercial companies law does not specify or define the scope, function, and objectives of accounting, terms are vague.

(2) Many accounting firms refer to GAAP if the financial statements are related to an American or pro-American company; on the other hand, if the financial statements are addressed to any other country in Europe, they refer to "Generally Accepted Accounting Standards".

(3) Another group of public accountants specified that they are a part of an international organisation and accordingly, they follow the practices applied in their offices around the world.

- (4) Some interviewees acknowledge that several companies are manipulating their financial reports.
- (5) The auditing function in most GCC public sector companies is very weak, and mainly restricted to internal audit and internal control, because the audit function is directed only to the management.
- (6) About 25% of financial managers, 46% of academics, and 48% of public accountants believe that there is variation in the accounting principles applied. Reasons given for such variation were varied and contradictory.
- (7) As a result, the real significance of accounting information in financial statements is not adequately understood.
- (8) Most of the participants claim that IAS are the accounting standards most commonly applied in the GCC; however, this is not true since there is no statutory law which requires adherence to these standards. They have only been applied on a voluntary basis.
- (9) As a result, what some participants think are IAS, are actually a range of diverse accounting standards. On the other hand, some respondents argued that IAS is a very loose term and they wondered who checks whether IAS, American, or U.K. standards are applied.
- (10) Accordingly, most of the participants (44% of financial managers, 55% of academics, and 57% of public accountants) suggest that some IAS are

relevant and others are not. However, some said that national or regional (GCC) standards should be established, while at the other extreme, there are those who argued that all IAS are relevant to the GCC and that there is no need to change.

(11) From the discussion in chapters 3 and 4, it is suggested that the IAS, American, and British standards do not reflect the socio-economic, cultural, and political conditions of GCC governments and nations.

(12) To find a solution to the present complex position, the GCC countries need an accounting system which will provide information relevant to its environment and satisfy the needs of government for proper information for planning and performance evaluation, control and supervision, and decision-making at various levels.

(13) It is suggested that a uniform accounting system would remove this undue flexibility and enable GCC governments to obtain relevant and reliable information. Most company managers and academics interviewed favoured the idea of having a uniform accounting system, as discussed in chapters 8 and 9.

(14) In contrast, almost all public accountants completely rejected the idea. Their reasons for rejection were discussed and analysed in chapter 10.

(15) Most respondents suggested that the General Secretariat to the GCC should be responsible for the

establishment of a uniform system to meet the needs of the GCC governments and environment, and to suit the public sector companies.

(16) Some of the interviewees declared that the GCC governments should be responsible for its establishment because the only reason for wanting a uniform system is to provide useful information for them. Thus, unless the government wants it, will sponsor it, and will use the resulting information, there is no point in having it. In fact, as explained in chapters 3, 4, 6 and 7, the GCC governments would be the main users of a uniform system.

(17) It was suggested that seminars and symposia be held to discuss the implementation of the system and its application in the GCC.

(18) Some GCC officials declared that an advantage of a uniform system would be its usefulness as a tool for obtaining information concerning the efficiency and effectiveness of management in public sector companies and the use of government economic resources, rather than merely information reflecting the financial status of the company.

(19) Many respondents and interviewees admitted that the uniform accounting system would facilitate the comparability which is at present lacking.

(20) Another group suggested that a uniform system may cost less than foreign accounting systems and their associated expertise.

(21) Another group felt that a uniform system would give governments a full picture of the operations and efficiency of the companies.

(22) Finally, some groups suggested that the use of computer facilities in applying the uniform accounting system would enhance the role of government in supervision and control.

All in all, as explained in chapter 4, the experiences of France and Iraq with the uniform accounting system are very encouraging to GCC countries. Nevertheless, as explained earlier in this chapter, the Iraqi experience in uniformity is more appropriate to the economic environment of the GCC countries than the French system.

Accordingly, it is strongly recommended that GCC states should establish a uniform accounting system which should be based on the Iraqi uniform accounting system which has the ability to meet the requirements of GCC governments, facilitating planning, control, comparability, decision-making, evaluation of public sector entities, and supervision. It would develop standards which are relevant to the environment of the GCC, and satisfy the users of financial information at all levels. It would also serve the aims stated in the GCC charter (i.e. unity and integration).

12.6 Recommendations

Based upon the preceding findings and conclusions, and in order to maximise the benefits of the expected uniform accounting system to accounting in the region, some recommendations for the GCC governments are suggested:

1. There is an urgent need to establish a comprehensive uniform accounting system which must suit the GCC environment and provide the government information needed to develop the economy.
2. An ad hoc committees (e.g. policy making committee, administration committee, enforcement committee, etc.) should be established for this purpose.
3. Each committee should include members who should represent various users, groups, and technical experts.
4. The General Secretariat to the GCC should be responsible for such committees and it should be under his control and supervision.
5. A linkage between the General Secretariat to the GCC and Accounting and Auditing Bureaux in the GCC has to be found. Moreover, extended authority must be given to those Bureaux to perform their duties free from outside or inside interference or control, except from the Emir or the King.

6. The new system should include the following:
- (A) It should be established on a general framework which can suit the GCC environment, meet the needs of GCC governments, and attain the published objectives of the GCC charter.
 - (B) It should provide the GCC governments with the data required at all economic levels (e.g. value added and its components data, total external and domestic investment data, detailed transactions of national income and its subsequent accounts data, etc.) in terms of details, timeliness, and reliability to allow good planning, control and efficient decision-making.
 - (C) It should provide information for comparison among different companies and enterprises in various sectors of the economy, to aid all users: government, managers and shareholders.
 - (D) It should have some flexibility to facilitate consolidation and integration among different entities.
 - (E) It should include a regional chart of accounts (for all GCC countries) as well as national and sectoral charts of accounts in each state.
 - (F) It should incorporate the outline of fiscal, administrative, and economic development policies and plans and related micro and macro information needs.

7. It is recommended that all public sector companies should comply with the new system instead of using their present foreign accounting systems.
8. The General Secretariat should establish another ad hoc committee to create new comprehensive and specific accounting legislation or regulations to be adopted by all GCC countries.
9. The new regulations and laws should take into consideration the nature of the GCC environment, and all local cultural, socio-economic, religious, and political variables.
10. It is recommended that courses in uniform accounting be taught in all GCC commercial schools, to prepare the students for deeper analysis when they reach university level.
11. All GCC universities should teach the new uniform accounting system in sufficient depth, so that graduates can enter employment without the need of training, and will be able to move easily from one job to another.
12. A "Continuing Education Programme", should be established in universities, to allow people in employment to return to university on a part time basis to learn about the uniform accounting system.
13. All GCC universities which offer a Bachelor degree in accounting should place more emphasis on teaching accounting methods that reflect the socio-economic

- environment. In other words, they should adjust accounting education towards comprehensive economic information development.
14. Students need to be encouraged to develop the appropriate skills of critical analysis so that when they graduate, they will have a clear understanding of the accounting field.
 15. Accounting teachers, whether in commercial high schools or in universities, should prepare themselves to create, study, and teach courses in accounting which are related to the GCC environment and cease teaching that is oriented towards U.K. and USA accounting.
 16. Accounting research discussing the GCC environment should be encouraged and supported by the GCC government and universities.
 17. Because of the weakness of the accounting profession in all GCC countries, new rules and regulations should be created by the government to control the present situation and to protect the government and people interest.
 18. All GCC states should establish an "Auditing Bureau" or "Accounting Bureau" such as exists in Kuwait, Saudi Arabia and UAE. However, the new GCC Bureaux must be given local government support, wider authority, and wider responsibilities.

19. Internal and external auditing should be carried out by these Bureaux, so that they can assign the necessary accounting professionals to public sector companies.
20. A uniform auditing programme should be carried out by these Bureaux to enhance the role of evaluation and supervision.
21. Students at university level should take some practical courses in the new audit Bureaux for the purpose of training and gaining experience.
22. The auditing function should be extended beyond financial and compliance audit to encompass the performance of the company as a whole.
23. The GCC government should appoint people with experience in accounting fields onto boards of directors.
24. All public sector companies should use computer facilities linked to the new audit Bureaux.
25. The experience of other countries in the uniform accounting system field should be assimilated, to benefit from their experience of such systems.
26. Because of some similar economic environment, the experience of the Iraqi uniform system seems to be a rational first step for the GCC uniform accounting system. This could be achieved by establishing a working parties consisting of a number of experts (both GCC and foreign) on the information and

environmental needs of GCC states and on uniform accounting systems; in particular, it should contain representatives from Iraq, which has adopted the uniform system. Such a committees should be based in the headquarters of the General Secretariat in Riyadh in Saudi Arabia under the General Secretary's supervision and under the umbrella of the GCC Uniform Accounting System Committees.

27. Like the Iraqi uniform system, the GCC uniform system could be compulsory for the public sector companies and adoption should be voluntary for the private sector. However, the GCC uniform system might embrace private sector companies in broad terms and might be accepted by the private sector if the GCC governments were to include some representatives from the private sector on the preparatory committees. At the same time, the GCC governments could give incentives in the form of interest, subsidies and allowances to private sector companies, to encourage their compliance with the uniform system.

If such a system were agreed upon, the GCC uniform system would provide the governments in the Gulf region with information concerning the economy and efficiency of the public sector operations; at the same time, it could provide reliable and comparable data between two or more companies, or between two or more periods of time for the same company, and at both micro and macro levels.

Furthermore, it should facilitate national planning in the GCC; without comparable accounting figures, it is very difficult for GCC national planners to choose between investment alternatives or to undertake cost-benefit analysis, which is the core of the project stage in any economic development planning. Also, it is worth mentioning that the GCC uniform system should help in the determination of fiscal policies, as GCC governments could, for example, assess the extent to which the public sector companies have contributed to the balance of payment and measure the flow of payments between the various economic sectors in the Gulf region within a given period. Finally, it should increase the quality of disclosure in financial reporting, where uniform data are needed for gross national product and national income accounts in each GCC state.

Hence, the GCC uniform system is expected to provide the Gulf governments with information that might assist in eliminating fiscal inequalities, minimise social misunderstanding by informing the public of the true distribution of national wealth, facilitate the study of market trends, which assists in improving healthy competition, and provide information which will aid GCC authorities in exercising control over the public sector, which occupies a predominant place in the national economy and state budget, plays a leading role in the

industrial activity, particularly in production, and through which the majority of investment plans are made.

28. Execution of the above recommendations needs the GCC governments to take steps to educate accounting academicians and others at all levels concerning the concepts, nature, establishment, implementation and revision of the uniform accounting system. Lectures, seminars, literature and visits to countries which already apply the system would be good steps to start with. Outside help from individuals and institutions experienced in the accounting information needs of developing countries may help in constructing accounting programmes relevant to the GCC needs and facilitating the smooth implementation of the system.

29. The improvement of the GCC uniform accounting system will require further research which should be undertaken to obtain users' opinions on the new system.

30. It is recommended that the research methodology of this study could be used by other researchers to investigate the relevance and use of the uniform accounting system in other developing countries.

However, the above recommendations are not exhaustive, and further investigation on possible detailed research topics is needed if the GCC countries are to obtain maximum benefit.

APPENDICES

Appendix A

(Reprinted exactly from the original)

GULF PETROCHEMICAL INDUSTRIES CO.
Bahrain

Balance Sheet December 31, 1986

	1986 (BD-000's)	1985 (BD-000's)
ASSETS		
Current assets:		
Cash and due from banks	1,773	1,095
Deposits	28,331	40,123
Trade receivables (Note 2)	6,096	5,815
Inventories (Note 3)	5,054	4,885
Prepaid expenses and other receivables	1,592	3,153
	-----	-----
Total current assets	42,846	55,071
Property, plant and equipment, net (Note 4)	126,942	139,609
Pre-operating costs (Note 5)	4,756	5,819
	-----	-----
	174,544	200,499
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	2,862	2,273
Accrued liabilities	6,160	16,758
Current portion of long-term debt (Note 6)	15,060	6,947
	-----	-----
Total current liabilities	24,082	25,978
Long-term debt (Note 6)	86,778	100,902
Commitments and contingencies (Note 7)		
Shareholders' equity (Note 6):		
Share capital: 60 million authorised, issued and fully paid shares of BD 1 per share	60,000	60,000
Reserves (Note 8)	2,724	2,724
Retained earnings	960	10,895
	-----	-----
Total shareholders' equity	63,684	73,619
	-----	-----
	174,544	200,499
	=====	=====

STATEMENT OF INCOME AND RETAINED EARNINGS

For the year ended December 31, 1986

	1986 (BD-000's)	1985 (BD-000's)
Revenue		
Product sales	19,420	-
Interest	2,646	4,524
Other	137	-
	22,203	4,524
Less:		
Operating costs	16,722	1,072
	5,481	3,452
Less:		
Financial charges	9,186	-
Depreciation and amortisation	6,230	102
	(9,935)	3,350
Net (loss) income		
Retained earnings at beginning of year	10,895	8,215
Transfer to reserves	-	(670)
	960	10,895
Retained earnings at end of year	960	10,895

STATEMENT OF CHANGES IN FINANCIAL POSITION

For the year ended December 31, 1986

	1986 (BD-000's)	1985 (BD-000's)
Sources of funds:		
Net (loss) income	(9,935)	3,350
Depreciation and amortisation	6,230	102
	-----	-----
Funds provided from operations	(3,705)	3,452
	-----	-----
Uses of funds:		
Increase (decrease) in working capital	8,898	(329)
Decrease (increase) in debt	6,011	(23,058)
Additions to property, plant and equipment, net	586	34,377
Cancellation and reversal of minor original construction projects	(8,086)	-
	-----	-----
	7,409	10,990
	-----	-----
Decrease in cash and time deposits	(11,114)	(7,538)
	=====	=====
Details of increase (decrease) in working capital:		
Increase (decrease) in receivables and prepaid expenses	(1,280)	4,072
Increase inventories	169	4,885
(Increase) decrease in accounts payable and accrued liabilities	10,009	(9,286)
	-----	-----
	8,898	(329)
	=====	=====

Appendix B

Auditors Report (Reprinted exactly from the original)

The Shareholders

Gulf Petrochemical Industries Co. (BSC)

We have examined the accompanying balance sheet of Gulf Petrochemical Industries Co. (BSC) at December 31, 1986 and the related statements of income and retained earnings and changes in financial position for the year then ended. Our examinations were made in accordance with generally accepted auditing standards and accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We obtained all the information and explanations which we required for the purposes of our examinations.

In our opinion, the statements mentioned above present fairly the financial position of Gulf Petrochemical Industries Co. (BSC) at December 31, 1986 and the results of operations and changes in financial positions for the year ended, in conformity with the accounting policies set out in Not 1 applied on a consistent basis during the period.

In our opinion, Gulf Petrochemical Industries Co. (BSC) has maintained proper accounting records and has undertaken physical counts of inventories in an appropriate manner. We also confirm that the accounting information given in the report of the Board of Directors is in accordance with the books and records and that we are not aware of any contravention by Gulf Petrochemical Industries Co. (BSC) of its Articles of Association or of Companies' Law during the year reported on that would materially affect its activities or its financial position.

Bader Al-Bazie & Co.
January 31, 1987

Appendix C



UNIVERSITY OF BAHRAIN

College of Business and Management

جامعة البحرين

كلية ادارة الاعمال

Office of the Dean

مكتب العميد

التاريخ

٥ سبتمبر ١٩٨٨م

السيد المحترم /

تحية طيبة وبعد،،،

يقوم السيد /خالد عبدالله عتيق المبتعث من الكلية للحصول على شهادة الدكتوراه في المحاسبة بدراسة حول ايجاد نظام محاسبي موحد لجميع دول مجلس التعاون .

تهدف هذه الدراسة في المقام الاول الى جمع المعلومات اللازمة لاتمام رسالة الدكتوراه . كما تسهم كذلك في دراسة وتحليل مختلف النظم المحاسبية القائمة .

ان تعاونكم مع الباحث وتسهيل مهمته سيكون موضع تقدير وشكر الكلية نظرا لاهمية الموضوع المطروح من وجهة اكاديميه وكذلك بالنسبة للمجتمع الخليجي .

وتفضلوا بقبول فائق التقدير والاحترام..

د . جورج خليل نجار
عميد كلية ادارة الاعمال

بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ

UNIVERSITY OF BAHRAIN

College of Business and Management



جامعة البحرين

كلية إدارة الأعمال

Ref.: الرقم :
Date: 5 September 1988 التاريخ :

Dear Sir:

I am a lecturer at the University of Bahrain and currently a doctoral programme researcher at the University of Hull, UK. This study is part of my Ph.D. dissertation in accounting. It is an effort to contribute toward developing a framework for a uniform accounting system* applicable for the GCC countries. Therefore, your cooperation and assistance in completing and returning the attached questionnaire will be of great significance to the success of this research.

I am obviously aware of the value and importance of your time; and have tried my best to keep questions short, clear, and specific. I assure you that any information given will be kept strictly confidential and will only be used for the purposes of this research. Most questions can be answered with a tick (✓) in the appropriate box. At the end of the questionnaire, a blank sheet of paper is provided for those who wish to make any general comments or remarks which would be very much welcomed by the researcher.

If you have any queries on the administration of the survey, please contact Mr. Khalid Ateeq (Tel: 681117/688308). A stamped envelope is provided for returning the completed questionnaire.

Your cooperation will be very much appreciated.

Yours sincerely

Khalid A. Ateeq
(Ph.D. Candidate)

○

* A uniform accounting system is one which not only incorporates a uniform chart of accounts for external reporting purposes, but which also:

- i) incorporates definitions and measurements which are of use to the government for economic management purposes.
 - ii) lays down various codes classifications which must be used by an enterprise in its internal accounting records.
-
-
-
-
-

QUESTIONNAIRE I

Comptrollers (Financial managers) of Public
Sector Companies - Information about the
Accounting System

PART (I): General Data and Specific Opinions

1. Name of the Company:.....

(If your firm is one of a group of companies, please answer on the basis of the group, if you think this is more useful).

2. In what kind of business is your company engaged (Company's activities)?

- | | |
|--|--|
| <input type="checkbox"/> Manufacturing | <input type="checkbox"/> Finance |
| <input type="checkbox"/> Investment | <input type="checkbox"/> Construction |
| <input type="checkbox"/> Trade | <input type="checkbox"/> Services |
| <input type="checkbox"/> Marketing | <input type="checkbox"/> Imports and Exports |
| <input type="checkbox"/> Others: | |

3. Number of years in operation:

- a. Less than 5 years.
- b. Between 5 and 10 years.
- c. Between 10 and 20 years.
- d. Over 20 years.

4. Country of residence:

5. Form of Organisation:

- a. Public sector body
- b. Public ltd. liability co.
- c. Others

6. Do you think Generally Accepted Accounting Principles (GAAP) exist in your country?

- a. () Yes b. () NO c. () To some extent

7. If the answer is NO, why do you think GAAP do not exist?

.....
.....
.....
.....

8. Is there any variance in the accounting principles applied in your country?

- a. () Yes b. () No c. () To some extent

9. If the answer is YES, or TO SOME EXTENT, what sort of reasons could cause the variation in applying the accounting principles in your country?

- a. () Non - existence of authoritative body.
b. () Insufficient regulations.
c. () Owner's indifference and ignorance.
d. () Foreign education.
e. () Foreign companies.
f. () Others:

10. What sort of accounting standards do you have in your firm?

- a. () International Accounting Standards
b. () American Accounting Standards
c. () Canadian Accounting Standards
d. () British Accounting Standards
e. () Others (please specify):

11. Do you think that the existing accounting standards are relevant to the environment of your country or to the GCC countries in general?

a. () I think that all existing accounting standards are relevant to my country and consequently relevant to the GCC.

b. () I think some of them are not relevant and need to be modified in order to be come relevant to country and to the GCC countries in general.

c. () I think none of them are relevant to my country's environment and consequently to the GCC environment and new national or regional accounting principles should be developed.

d. () Other comments:
.....
.....
.....

PART (II): The Feasibility of Applying the Uniform Accounting System

12. What do you think is the best strategy(ies) to create an accounting system for the GCC countries?
- a. Creating a uniform accounting system.
 - b. Creating an authoritative body.
 - c. Regulation by governmental units.
 - d. Others (please specify):
13. If the answer is (a), do you agree on the proposition that the General Secretariat of Cooperation Council which represents the GCC governments, should control the adoption of such a uniform system?
- a. Agree
 - b. Disagree
 - c. Do not know
14. If the answer to question 12 is (b), what type of authoritative body will be created?
- a. A group of professionals in academic affairs.
 - b. A group of political concerns.
 - c. A group of professionals from the public sector.
 - d. A group of professionals from the private sector.
 - e. Others (please specify):
.....
15. The GCC countries are moving towards establishing similar systems in various fields (economic, financial, commercial fields etc.), do you expect a uniform accounting system (if applied in the GCC) to play a significant part in:
- a. Governmental planning and control.
 - b. Economic control of public expenditure.
 - c. Satisfying the users of accounting information.
 - d. A, b, and c.
 - e. Other (please specify):

16. Since the GCC countries are moving rapidly towards the integration and unification of their various systems, do you think that the GCC countries should establish and adopt their own uniform accounting system?

- a. Yes b. No c. Do not know

17. If your answer to question 16 is NO, why do you think that the GCC countries should not establish their own uniform accounting system?

a. Because I believe that the essence of a profession is that each member is willing to think and judge for himself about matters of principles.

b. Because it is my opinion that establishing a uniform accounting system will harm accountants experimentation and professional judgement.

c. Because I believe it is impossible to frame a set of rules which could govern different companies with different economic conditions.

d. Because establishing a uniform accounting system in the GCC countries at the present time would be improper due to the fact that we do not yet have a sufficient number (quality) of professionals who can undertake this important task properly, neither do we have a professional body of accountants who can organise the efforts of those professionals.

e. Because I believe that the present situation regarding the accounting systems in the GCC is satisfactory and I do not see any need for a change.

f. Other reasons (please specify):
.....
.....
.....
.....

18. If your answer to question 16 is YES, why do you think that the GCC countries should establish and adopt their own uniform accounting system?

a. () Because the establishment and use of a uniform accounting system is very useful for reasons of comparability between reports of various companies.

b. () Because the establishment and use of a uniform accounting system makes a very practical contribution to defining a "true and fair view".

c. () Because the establishment of a uniform accounting system provides the accountants in the GCC countries with handy rules that greatly help them in carrying out their daily work more efficiently and easily.

d. () Because the current practice of applying a variety of accounting systems in the GCC countries might lead to the occurrence of some financial misrepresentation.

e. () Other (please specify):
.....

19. If you think that the GCC countries should establish and adopt their own uniform accounting system, which of the following alternatives do you believe would be adequate for establishing such a system in the Gulf?

a. () An accounting system established and enforced by the General Secretariat to the GCC.

b. () An accounting system established and enforced by independent private organisation.

c. () An accounting system established and enforced by an independent professional body of accountants.

d. () An accounting system established by an independent professional body of accountants, but enforced by the General Secretariat to the GCC.

e. () Other arrangements (please specify):
.....
.....

32. Would you be willing, if necessary, to complete another questionnaire or to grant an interview?

a. Yes

b. No

If YES, at what address may I write to you?

.....
.....
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.....
.....

Appendix D

9. Do you have any idea about the existing accounting system in your country (the country that you are teaching in)?
- a. Yes b. No c. To some extent
10. What kind of accounting system do you have in your country (the country that you are teaching in)?
- a. Uniform accounting system
- b. American system
- c. British system
- d. Other (please specify):
- e. No specific system
11. Do you think Generally Accepted Accounting Principles (GAAP) exist in your country?
- a. Yes b. NO c. To some extent
12. If the answer is NO, why do you think GAAP do not exist?
-
-
-
-
13. What sort of accounting standards do you have in your firm?
- a. International Accounting Standards
- b. American Accounting Standards
- c. Canadian Accounting Standards
- d. British Accounting Standards
- e. Others (please specify):

14. Do you think that the existing accounting standards are relevant to the environment of your country or to the GCC countries in general?

a. () I think that all existing accounting standards are relevant to my country and consequently relevant to the GCC.

b. () I think some of them are not relevant and need to be modified in order to be come relevant to country and to the GCC countries in general.

c. () I think none of them are relevant to my country's environment and consequently to the GCC environment, and new national or regional accounting principles should be developed.

d. () Other comments:
.....
.....
.....

15. Is there any variation in the accounting principles applied in your country?

a. () Yes b. () No c. () To some extent

16. If the answer is YES, or TO SOME EXTENT, what sort of reasons could cause the variation in applying the accounting principles in your country?

a. () Non - existence of authoritative body.

b. () Insufficient regulations.

c. () Owner's indifference and ignorance.

d. () Foreign education.

e. () Foreign companies.

f. () Others:

PART (III): The Feasibility of Applying the Uniform Accounting System

17. What do you think is the best strategy(ies) to create an accounting system suit the public sector companies in the GCC countries?
- a. Creating a uniform accounting system.
 - b. Creating an authoritative body.
 - c. Regulation by governmental units.
 - d. Others (please specify):
18. If the answer is (a), do you agree on the proposition that the General Secretariat of Cooperation Council which represents the GCC governments, should control the adoption of such a uniform system?
- a. Agree
 - b. Disagree
 - c. Do not know
19. If the answer to question 17 is (b), what type of authoritative body will be created?
- a. A group of professionals in academic affairs.
 - b. A group of political concerns.
 - c. A group of professionals from the public sector.
 - d. A group of professionals from the private sector.
 - e. Others (please specify):
.....
20. The GCC countries are moving towards establishing similar systems in various fields (economic, financial, commercial fields etc.), do you expect a uniform accounting system (if applied in the GCC) to play a significant part in:
- a. Governmental planning and control.
 - b. Economic control of public expenditure.
 - c. Satisfying the users of accounting information.
 - d. A, b, and c.
 - e. Other (please specify):

21. Since the GCC countries are moving rapidly towards the integration and unification of their various systems, do you think that the GCC countries should establish and adopt their own uniform accounting system?

- a. () Yes b. () No c. () Do not know

22. If you think that the GCC countries should establish and adopt their own uniform accounting system, which of the following alternatives do you believe would be adequate for establishing such a system in the Gulf?

a. () An accounting system established and enforced by the General Secretariat to the GCC.

b. () An accounting system established and enforced by independent private organisation.

c. () An accounting system established and enforced by an independent professional body of accountants.

d. () An accounting system established by an independent professional body of accountants, but enforced by the General Secretariat to the GCC.

e. () Other arrangements (please specify):
.....
.....

23. If your answer to question 21 is YES, why do you think that the GCC countries should establish and adopt their own uniform accounting system?

a. () Because the establishment and use of a uniform accounting system is very useful for reasons of comparability between reports of various companies.

b. () Because the establishment and use of a uniform accounting system makes a very practical contribution to defining what a "true and fair view" is.

c. () Because the establishment of a uniform accounting system provides the accountants in the GCC countries with handy rules that greatly help them in carrying out their daily work more efficiently and easily.

d. () Because the current practice of applying a variety of accounting systems in the GCC countries might lead to the occurrence of some financial misrepresentation.

e. () Other (please specify):
.....

24. If your answer to question 21 is NO, why do you think that the GCC countries should not establish their own uniform accounting system?

a. () Because I believe that the essence of a profession is that each member is willing to think and judge for himself about matters of principles.

b. () Because it is my opinion that establishing a uniform accounting system will harm accountants experimentation and professional judgement.

c. () Because I believe it is impossible to frame a set of rules which could govern different companies with different economic conditions.

d. () Because establishing a uniform accounting system in the GCC countries at the present time would be improper due to the fact that we do not yet have a sufficient number (quality) of professionals who can undertake this important task properly, neither do we have a professional body of accountants who can organise the efforts of those professionals.

e. () Because I believe that the present situation regarding the accounting systems in the GCC is satisfactory and I do not see any need for a change.

f. () Other reasons (please specify):
.....
.....

25) Would you be willing, if necessary, to complete another questionnaire or to grant an interview?

a. () Yes

b. () No

If YES, at what address may I write to you?

.....
.....
.....

Appendix E

QUESTIONNAIRE III

Accounting Firms

PART (I): GENERAL DATA

1. Name and address (optional):
.....
.....
2. Male Female
3. Citizenship:
4. Name of Firm:
5. Occupation:
6. What is your educational level?
 - a. High school b. Bachelor degree c. Master
 - d. Doctoral e. Other
7. Where were you educated?
 - a. GCC countries: specify
 - b. Arab countries: specify
 - c. Foreign countries: specify
8. Number of years of experience:
Inside GCC countries: years
Outside GCC countries: years

9. Number of years in operation:

- a. () Less than 5 years.
- b. () Between 5 and 10 years.
- c. () Between 10 and 20 years.
- d. () Over 20 years.

10. Form of Organisation:

- a. () Public sector body
- b. () Public ltd. liability co.
- c. () Private ltd. liability co.
- d. () Partnership
- e. () Individual proprietorship
- f. () Others

11. In your opinion, which of the following would be the best arrangement for establishing licensing requirements in your country (the country that you are working in) and for GCC countries in general?

- a. () The existing arrangements (situation).
- b. () Licensing requirements that are set out and handled by a professional body which would be formed as an independent and private body.
- c. () Licensing requirements that are set out and handled by a professional body which should be formed as an independent private body which operates under the supervision of the Ministry of Commerce.
- d. () Licensing requirements that are set out and handled by a professional body (Board) which should be formed as a separate Government agency.
- e. () Other (please specify):
.....
.....

PART (II): The present status of accounting systems and accounting practices in the GCC countries

17. What kind of accounting system do you have in your country (the country that you are auditing in)?
- a. Uniform accounting system
 - b. American system
 - c. British system
 - d. No specific system
 - e. Other (please specify):
18. Do you think Generally Accepted Accounting Principles (GAAP) exist in your country?
- a. Yes
 - b. No
 - c. To some extent
19. If the answer is NO, why do you think GAAP do not exist?
-
-
-
-
20. What sort of accounting standards do you have in your firm?
- a. International Accounting Standards
 - b. American Accounting Standards
 - c. Canadian Accounting Standards
 - d. British Accounting Standards
 - e. Others (please specify):

21. Is there any variation in the accounting principles applied in your country?

- a. Yes
- b. No
- c. To some extent

22. If the answer is YES, or TO SOME EXTENT, what sort of reasons could cause the variation in applying the accounting principles in your country?

- a. Non - existence of authoritative body.
- b. Insufficient regulations.
- c. Owner's indifference and ignorance.
- d. Foreign education.
- e. Foreign companies.
- f. Others:

23. Do you think that the existing accounting standards are relevant to the environment of your country or to the GCC countries in general?

- a. I think that all existing accounting standards are relevant to my country and consequently relevant to the GCC.
- b. I think some of them are not relevant and need to be modified in order to be come relevant to country and to the GCC countries in general.
- c. I think none of them are relevant to my country's environment and consequently to the GCC environment, and new national or regional accounting principles should be developed.
- d. Other comments:
.....
.....
.....

PART (III): The Feasibility of Implementing the Uniform System

24. What do you think is the best strategy(ies) to create an accounting system for the GCC countries?
- a. Creating a uniform accounting system.
 - b. Creating an authoritative body.
 - c. Regulation by governmental units.
 - d. Others (please specify):
25. If the answer is (a), do you agree on the proposition that the General Secretariat of Cooperation Council which represents the GCC governments, should control the adoption of such a uniform system?
- a. Agree
 - b. Disagree
 - c. Do not know
26. If the answer to question 24 is (b), what type of authoritative body will be created?
- a. A group of professionals in academic affairs.
 - b. A group of political concerns.
 - c. A group of professionals from the public sector.
 - d. A group of professionals from the private sector.
 - e. Others (please specify):
.....
27. The GCC countries are moving towards establishing similar systems in various fields (economic, financial, commercial fields etc.), do you expect a uniform accounting system (if applied in the GCC) to play a significant part in:
- a. Governmental planning and control.
 - b. Economic control of public expenditure.
 - c. Satisfying the users of accounting information.
 - d. A, b, and c.
 - e. Other (please specify):

28. Since the GCC countries are moving rapidly towards the integration and unification of their various systems, do you think that the GCC countries should establish and adopt their own uniform accounting system?

- a. () Yes b. () No c. () Do not know

29. If your answer to question 28 is NO, why do you think that the GCC countries should not establish their own uniform accounting system?

a. () Because I believe that the essence of a profession is that each member is willing to think and judge for himself about matters of principles.

b. () Because it is my opinion that establishing a uniform accounting system will harm accountants' experimentation and professional judgement.

c. () Because I believe it is impossible to frame a set of rules which could govern different companies with different economic conditions.

d. () Because establishing a uniform accounting system in the GCC countries at the present time would be improper due to the fact that we do not yet have a sufficient number (quality) of professionals who can undertake this important task properly, neither do we have a professional body of accountants who can organise the efforts of those professionals.

e. () Because I believe that the present situation regarding the accounting systems in the GCC is satisfactory and I do not see any need for a change.

f. () Other reasons (please specify):

.....

.....

.....

30. If your answer to question 28 is YES, why do you think that the GCC countries should establish and adopt their own uniform accounting system?

a. () Because the establishment and use of a uniform accounting system is very useful for reasons of comparability between reports of various companies.

b. () Because the establishment and use of a uniform accounting system makes a very practical contribution to defining a "true and fair view".

c. () Because the establishment of a uniform accounting system provides the accountants in the GCC countries with handy rules that greatly help them in carrying out their daily work more efficiently and easily.

d. () Because the current practice of applying a variety of accounting systems in the GCC countries might lead to the occurrence of some financial misrepresentation.

e. () Other (please specify):
.....

31. If you think that the GCC countries should establish and adopt their own uniform accounting system, which of the following alternatives do you believe would be adequate for establishing such a system in the Gulf?

a. () An accounting system established and enforced by the General Secretariat to the GCC.

b. () An accounting system established and enforced by independent private organisation.

c. () An accounting system established and enforced by an independent professional body of accountants.

d. () An accounting system established by an independent professional body of accountants, but enforced by the General Secretariat to the GCC.

e. () Other arrangements (please specify):
.....
.....

32. Would you be willing, if necessary, to complete another questionnaire or to grant an interview?

a. Yes

b. No

If YES, at what address may I write to you?

.....
.....
.....
.....

Appendix F

LIST OF PUBLIC COMPANIES IN BAHRAIN

Which Returned the Questionnaire

No.	Name of the Company	Company's Activities
1	Arab Engineering System & Controls Co.	Trade
2	Arab Iron & Steel Co. (AISCO)	Manufacturing
3	Arab Shipbuilding & Repair Yard Co.	Services
4	Associated Technical & Engineering Co.	Trade
5	Bahrain Airport Services (BAS)	Services
6	Bahrain Aluminium Extrusion Co. (BALEXCO)	Trade
7	Bahrain Aviation Fuelling Co. (BAFCO)	Services
8	Bahrain Atomisers International	Manufacturing
9	Bahrain Commercial Facilities Co.	Trade
10	Bahrain Fibre-Glass Co.	Manufacturing
11	Bahrain Flour Mills Co.	"
12	Bahrain Light Industries Co. (BLICO)	"
13	Bahrain Maritime & Mercantile Int. Co.	Services
14	Bahrain Medical & Industrial Gas Co.	Manufacturing
15	Bahrain-New Zealand Cold Storage Co.	Trade
16	Bahrain-Saudi Aluminium Marketing Co.	Marketing
17	Bahrain Ship Repairing & Engineering Co.	Services
18	Bahrain Slipway Co. (BASCO)	"
19	Bahrain Technical & Trading Co.	Trade
20	Bahrain Telecommunication Co. (BATELCO)	Services
21	Bahrain Tourism Co.	"
22	Bahrain Trading & Services Co.	Trade/Ser.
23	Consolidated Contractors Bahrain Co.	Construction

No.	Name of the Company	Company's Activities
24	Delmon Gulf Construction Co.	Construction
25	Delmon Poultry Co.	Manufacturing
26	Gulf Acids Industries Co. (GAICO)	"
27	Gulf Air Co.	Services
28	Gulf Aluminium Rolling Mill Co. (GARMCO)	Manufacturing
29	Gulf Investment Corporation	Investment
30	Gulf Petrochemicals Industries Co. (GPIC)	Manufacturing
31	Midal Cables Co.	"
32	National Company for Commerce & Industry	Trade
33	National Imports and Exports Co.	Impt. & Expt.
34	Oil Well Maintenance Services Co.	Services
35	The Bahrain National Gas Co. (BANGCO)	Manufacturing
36	The Bahrain National Oil Co. (BANOCO)	"
37	The Bahrain Petroleum Co. (BAPCO)	"
38	Universal Enterprises Co.	Trade

LIST OF PUBLIC COMPANIES IN KUWAIT

Which Returned the Questionnaire

No.	Name of the Company	Company's Activities
1	Arab Federation of Chemical Fertiliser Co.	Manufacturing
2	Arabian Light Metals Co.	"
3	Commercial Facilities Co.	Investment
4	Gulf Cable & Electrical Industries Co.	Manufacturing
5	Kuwait Airways Corporation	Services
6	Kuwait Asbestos & Plastic Industries Co.	Manufacturing
7	Kuwait Aviation Fuelling Co.	Services
8	Kuwait Chemical Manufacturing Co.	Manufacturing
9	Kuwait Dairy Co.	Marketing
10	Kuwait Flour Mills Co.	Manufacturing
11	Kuwait Foreign Petroleum Exploration Co.	Petrol. Exp.
12	Kuwait Foreign Trading & Contracting Co.	Trade
13	Kuwait International Investment Co.	Investment
14	Kuwait Investment Projects Co.	"
15	Kuwait National Petroleum Co.	Manufacturing
16	Kuwait Oil Co.	"
17	Kuwait Oil Tanker Co.	Services
18	Kuwait Oxygen & Acetylene Co.	Marketing
19	Kuwait Petroleum Corporation	Manufacturing
20	Kuwait Public Transport Co.	services
21	Kuwait Real Estate Co.	Investment
22	Kuwait United Poultry Co.	Manufacturing
23	Kuwait Wood Industries Co.	"

No.	Name of the Company	Company's Activities
24	Middle East Development Co. (MEDCO)	Trade
25	National Automotive Trading Co.	"
26	National Industries Co.	Manufacturing
27	National Textiles Co.	"
28	Pan-Arab Consulting Engineers	Consultation
29	Petrochemicals Industries Co.	Manufacturing
30	The National Industries Co.	"
31	United Arab Shipping Co.	"
32	United Fisheries of Kuwait	Trade

LIST OF PUBLIC COMPANIES IN OMAN
Which Returned the Questionnaire

No.	Name of the Company	Company's Activities
1	Al-Arab Nails Co.	Manufacturing
2	Construction Materials Industries Co.	Construction
3	National Gas Co.	Manufacturing
4	National Mineral Water Co.	Trade
5	Oman Aluminium Co.	Manufacturing
6	Oman Bitumen Co.	"
7	Oman Cables Industry Co.	"
8	Oman Cement Co.	"
9	Oman Mechanical Services Co.	Trade
10	Oman Refinery Co.	Manufacturing
11	Oman Sun Farms Co.	"
12	Oman Terrazzo Co.	"
13	Oman Tiles & Marble Manufacturing Co.	"
14	Oriental Group of Companies	Trade
15	Petroleum Development Oman	Manufacturing
16	Poly Product Factory	Trade
17	STCO Radiator Manufacturing Factory	Manufacturing

Appendix G

LIST OF GCC OFFICIALS INTERVIEWEES FROM BAHRAIN, KUWAIT, AND OMAN

No.	Name	Position	Ministry	Country
1	Abdulla, A.	Director of Fin. & Admn. Affairs	Ministry of Planning	Kuwait
2	Al-Hamar, E.	Under-secretary of Financial Affairs	Ministry of Finance	Bahrain
3	Al-Khusaibi, M.	Assistant Minister	Ministry of Finance and Economy	Oman
4	Al-Mahmood, J.	Economic Analyst	Ministry of Develop. and Industry	Bahrain
5	Al-Majed, E.	Director of Economic Dept.	Ministry of Finance	Bahrain
6	Al-Meer, R.	Under-secretary for Economic Affairs	Ministry of Finance	Bahrain
7	Al-Mudires, A.	Director of Auditing	Kuwait Auditing Bureau	Kuwait
8	Al-Muthaf, M.	Financial Consultant	Ministry of Finance	Kuwait
9	Al-Shenfary, S.	Consultant	Ministry of Finance and Economy	Oman
10	Al-Wakian, F.	President	Kuwait Auditing Bureau	Kuwait
11	Al-Yakhthan, T.	Under-secretary	Ministry of Commerce and Industry	Oman
12	Mansor, A.	Manager of Economic Dept.	Ministry of Develop. and Industry	Bahrain

LIST OF GCC OFICIALS INTERVIEWEES FROM SAUDI ARABIA AND UAE

No.	Name	Position	Ministry	Country
1	Abu-Haimed, A.	Deputy of State Minister and President of Auditing Bureau	Auditing Bureau	Saudi A.
2	Al-Audan, A.	Assistant General Manager for Admn. and Finance	Secretary General to the GCC	Saudi A.
3	Al-Buhairan, F.	Financial Advisor	Secretary General to the GCC	Saudi A.
4	Al-Fulaity, R.	Director of Statistics Dept.	Ministry of Planning	UAE
5	Al-Ghaith, A.	Assistant Prof.	Institute of Public Admn.	Saudi A.
6	Al-Hakami, A.	Deputy Minister for Sectors Planning	Ministry of Planning	Saudi A.
7	Al-Khazraji, M.	President	Accounting Bureau	UAE
8	Al-Mansor, A.	Deputy Minister for Economic Affairs	Ministry of Planning	UAE
9	Al-Mulla, A.	Economic Advisor	Secretary General to the GCC	Saudi A.
10	Al-Quwaise, A.	Assistant General Secretary for Economic Affairs	Secretary General to the GCC	Saudi A.
11	Al-Rubeeia, A.	Director of Budget	Ministry of Finance & National Economy	Saudi A.
12	Al-Samaeil, S.	General Manager for Admn. & Finance	Secretary General to the GCC	Saudi A.

No.	Name	Position	Ministry	Country
13	Al-Shareef, M.	Deputy Minister for Finance & Accounts	Ministry of Finance & National Economy	Saudi A.
14	Al-Sharhan, M.	Manager of Insurance	Ministry of Economy and Trade	UAE
15	Al-Thubaib, A.	Assistant Minister for Public Companies and Establishments	Auditing Bureau	Saudi A.
16	Al-Zabi, M.	Director of General Admn. Sectors	Accounting Bureau	UAE
17	Arafat, A.	Director of Documents & Library Affairs	Ministry of Planning	Saudi A.
18	Jorlah, K.	First Auditor	Accounting Bureau	UAE
19	Joudah, M.	Financial Controller	Ministry of Finance and Industry	UAE
20	Khori, A.	First Controller	Accounting Bureau	UAE
21	Mubarak, R.	Manager of Planning Department	Ministry of Planning	UAE
22	Mufti, M.	Deputy Minister for Admn. & Fin. Affairs	Ministry of Planning	Saudi A.
23	Younus, A.	Chief Executive of Economic Dept.	Ministry of Planning	UAE
24	Zaher, A.	Manager of Planning Admn.	Auditing Bureau	Saudi A.

LIST OF GCC EXECUTIVE INTERVIEWEES
FROM PUBLIC AND PRIVATE SECTOR COMPANIES

No.	Name	Position	Company	Country
1	Abdulla, M.	Financial Manager	Golden Crown Foam Manufacturing Co.	UAE
2	Abu-Khader, M.	Secretary General	Arab Federation of Chemical Fert. Co.	Kuwait
3	Ahmed, K.	Managing Director	Gulf Aluminium Rolling Mill Co.	Bahrain
4	Al-Akeel, J.	Board Member	Trading & Mechanical Services Co.	Bahrain
5	Al-Amar, T.	Financial Manager	Gulf Development Trading Co.	Kuwait
6	Al-Bader, K.	Board Member	Commercial and Technology Co.	Kuwait
7	Al-Bassam, S.	Managing Director	National Automotive Trading Co.	Kuwait
8	Al-Fassam, K.	Board Member	Kuwait Chemical Manufacturing Co.	Kuwait
9	Al-Gosaibi, F.	Board Member	Arab Shipbuilding & Repair Yard Co.	Bahrain
10	Al-Hooti, A.	Financial Executive	Kuwait Aviation Co.	Kuwait
11	Ali, M.	Chief Executive	Midal Cables Co.	Bahrain
12	Al-Mohsen, K.	General Manager	Al-Emirates Foodstuff Establishment	UAE
13	Al-Nuaimi, A.	Financial Manager	Aluminium Bahrain Co.	Bahrain

No.	Name	Position	Company	Country
14	Al-Rashed, A.	General Manager	Trading and Contracting Co.	Saudi A.
15	Al-Wazzan, M.	Managing Director	National Textiles Co.	Kuwait
16	Autaiibi, A.	Financial Manager	Kuwait Petrochemical Industries Co.	Kuwait
17	Fakhrow, R.	General Manager for Finance and Admn.	Bahrain National Oil Co.	Bahrain
18	Farage, R.	Financial Manager	Arab Ship Repair Yard Co.	Bahrain
19	Jaber, E.	Board Member	Al-Abraq Trading Co.	Kuwait
20	Jameel, T.	Board Member	Al-Mashareq Co.	Saudi A.
21	Jamsheer, A.	General Manager	Gulf Acid Industry Co.	Bahrain
22	Kamal, B.	Financial Manager	Bahrain Garment Manufacturing Co.	Bahrain
23	Mirza, A.	General Manager for Accounting & Finance	Bahrain Petroleum Co.	Bahrain
24	Moustafa, M.	Financial Manager	Arabian Electrical Industry Co.	Bahrain
25	Naki, M.	Board Member	Arabian Light Metals	Kuwait
26	Noor, M.	Chief Executive	Gulf Air	Bahrain
27	Noorddin, N.	Board Member	Bahrain Telecommunication Co.	Bahrain

No.	Name	Position	Company	Country
28	Shirawi, A.	General Manager	Bahrain Aluminium Extrusion Co.	Bahrain
29	Tawfeeq, N.	Board Member	Saudi Conduit Coating Co.	Saudi A.
30	Waleed, B.	Financial Manager	Saudi Electric Co.	Saudi A.
31	Zubaire, A.	Board Member	Adam Trading Centre	UAE

Appendix H

LIST OF THE INTERVIEWEES IN BAHRAIN UNIVERSITY

NO.	NAME	POSITION
1.	Akram, M.	Assistant Professor
2.	Al-Alawi, A.	Lecturer
3.	Al-Mahmood, H.	Lecturer
4.	Al-Muthahki, J.	Lecturer
5.	Al-Raheem, H.	Lecturer
6.	Bucheeri, A.	Senior Lecturer
7.	Ebrahim, G.	Senior Lecturer
8.	Goodwin, K.	Senior Lecturer
9.	Jackson, B.	Lecturer
10.	Najjar, G.	Assistant Professor
11.	Saleemi, R.	Senior Lecturer
12.	Searle, D.	Senior Lecturer
13.	Sharif, T.	Assistant Professor
14.	Tony, K.	Lecturer
15.	Tonger, J.	Associate Professor

LIST OF THE INTERVIEWEES IN KUWAIT UNIVERSITY

NO.	NAME	POSITION
1.	Al-Adeli, Y.	Associate Professor
2.	Al-Bassam, S.	Assistant Professor
3.	Al-Muthaf, J.	Assistant Professor
4.	A. Kareem, R.	Associate Professor
5.	A. Raheem, A.	Assistant Professor
6.	Sharkas, W.	Associate Professor
7.	Shirazi, A.	Professor
8.	Shuaib, A.	Professor

Appendix I

Appendix J

LIST OF THE ACCOUNTING FIRMS INVOLVED

NO.	FIRMS' NAME	COUNTRY
1.	Arthur Andersen & Co.	Oman
2.	Arthur Young Bader Al-Bazie & Co.	Bahrain
3.	Arthur Young Bader Al-Bazie & Co.	Kuwait
4.	Bahrain Business Centre	Bahrain
5.	Deloitte Haskins & Sells	Bahrain
6.	Deloitte Haskins & Sells	Oman
7.	Ernst & Whinny	Bahrain
8.	Ernst & Whinny	Kuwait
9.	Ernst & Whinny	Oman
10.	Jawad Habib & Co.	Bahrain
11.	KPMG Fakhro	Bahrain
12.	Kuwait Auditing Office	Kuwait
13.	Nawar & Co.	kuwait
14.	Peat Marwick Mitchell & Co.	Bahrain
15.	Peat Marwick Mitchell & Co.	Oman
16.	Price Waterhouse	Bahrain
17.	Price waterhouse	Oman
18.	Saba & Co.	Bahrain
19.	Saba & Co.	Oman
20.	Talal Abu-Ghazaleh & Co.	Bahrain
21.	Talal abu-Ghazaleh & Co.	Kuwait

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