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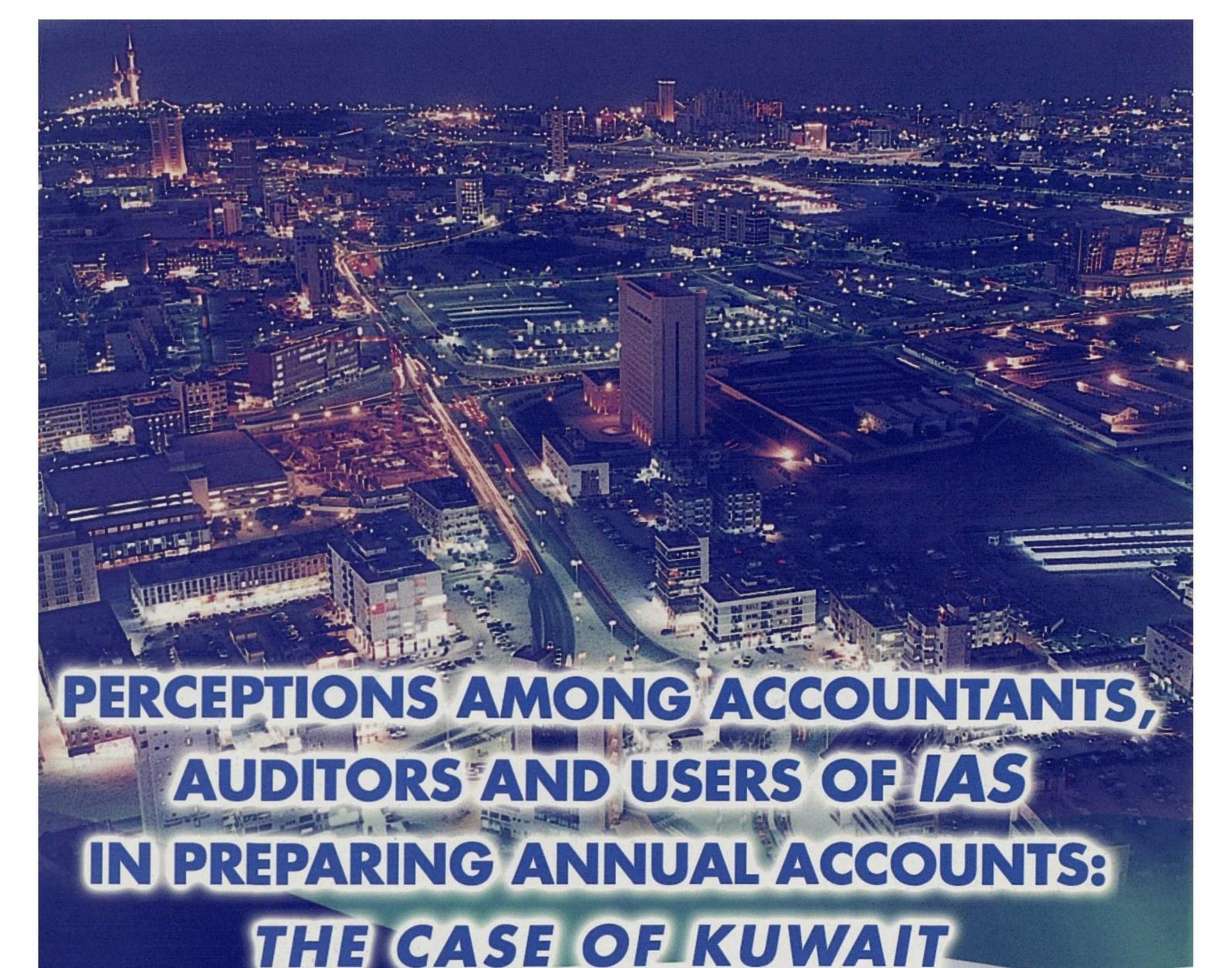
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**PERCEPTIONS AMONG ACCOUNTANTS,
AUDITORS AND USERS OF IAS
IN PREPARING ANNUAL ACCOUNTS:
THE CASE OF KUWAIT**





**City University
Business School**
London

**PERCEPTIONS AMONG ACCOUNTANTS,
AUDITORS AND USERS OF IAS
IN PREPARING ANNUAL
ACCOUNTS:**

THE CASE OF KUWAIT

BY

AMTHAL MOUSA AL-BANNAY

A Thesis Presented to the Faculty of

City University Business School

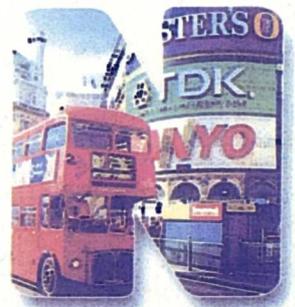
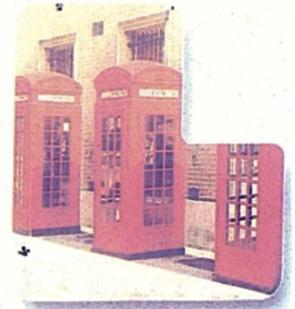
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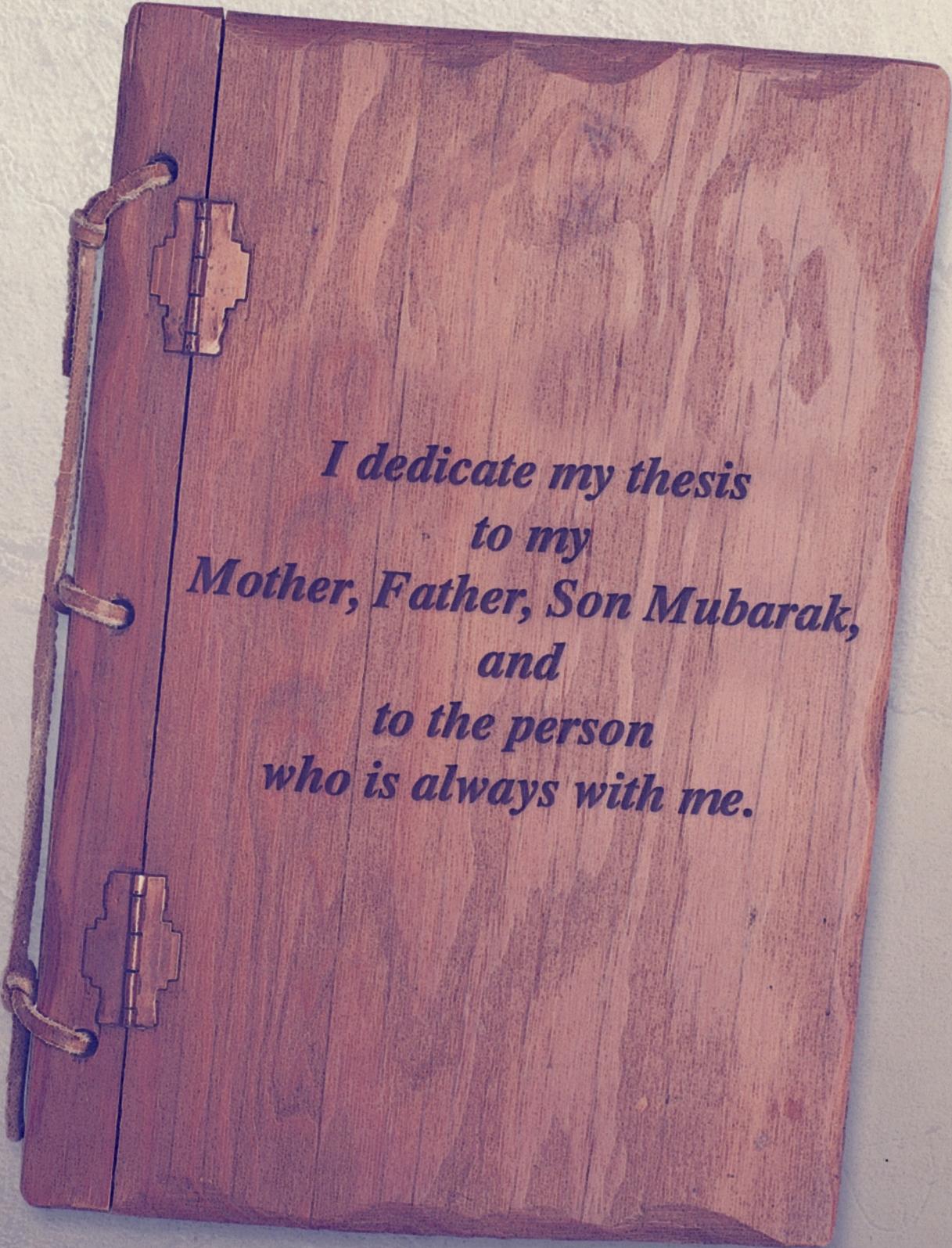
Requirements for the Degree

DOCTOR OF PHILOSOPHY

April 2002

VOLUME I



The image shows the front cover of a book bound in dark reddish-brown wood. The cover has a vertical crease down the center, and the spine on the left is bound with two visible leather straps and metal clasps. The text is engraved in a dark, serif font. The background is a light-colored, textured surface.

*I dedicate my thesis
to my
Mother, Father, Son Mubarak,
and
to the person
who is always with me.*

Thank you

Thank you

Thank you

Thank you

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Amthal AL-Bannay

April 2002

Thank you

Thank you

Thank you

Thank you

ABSTRACT

Modern business has made it necessary for the International Accounting Standards to be developed, so that we can achieve harmonisation. Accounting has been transmitted in accounting practices from one country to another, generating a specific international accounting system that exhibits both similarities and differences with local accounting practices.

The adoption of IAS to the Kuwaiti environment started in 1990. This puts Kuwait among the countries, which implemented IAS at its early stage.

This study focuses primarily on measuring accountants', auditors', and external users' attitudes towards using IAS in Kuwait and its consequent difficulties.

Specifically, the study aimed to investigate five different dimensions related to the use of IAS by companies listed on the Kuwait Stock Exchange (K.S.E.) from different perspectives, including:

- (i) Familiarity and knowledge of IAS
- (ii) Implementation of IAS in Kuwait and its consequent difficulties
- (iii) Advantages of applying IAS
- (iv) Changes in the accounting information
- (v) Suitability of IAS to the Kuwaiti environment

A survey study was conducted through questionnaires and interviews with accountants, auditors and external users. Statistical analysis techniques were utilised to reach decisions regarding different propositions regarding professionals and users attitudes towards the five dimensions under investigation. From the analysis, we found that the study revealed that accountants/auditors of all ages are positive towards the familiarity and knowledge of IAS. Moreover, their perception to IAS is improving over time by practice. Experience is a key to fully understanding and acknowledging the Standards. Younger professionals are not fully aware of IAS yet; however, providing regular training courses would improve their knowledge. It appears that professionals have more problems with measurements than disclosure. Overall, professionals and external users indicated that they have benefited from IAS in many dimensions including both effectiveness of measurements and effectiveness of disclosure. In addition, there was perfect agreement between accountants and auditors, as well as external users, that the role of IAS is bringing harmonisation to accounting.

An aerial night photograph of a city, likely Dubai, showing a dense urban landscape with illuminated buildings and roads. In the foreground, a large, ornate building with a central entrance and two framed UAE flags on either side is visible. The text is overlaid on the image.

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CHAPTER 1

Overview of the Study



CHAPTER 1 : OVERVIEW OF THE STUDY

1.1. INTRODUCTION

International accounting is important today because of the past development of accounting, which is really international in character (Evans, Taylor, and Holzmann (1988), and Walsh (2000)). Accounting has been transmitted from one country to another, generating, in the process, specific national accounting systems that exhibit both similarities and differences and once it reaches a country, it becomes part of that nation itself. This international tradition has led gradually to the growth of international accounting as an important sub-discipline in the field and practice of accounting.

The realities of modern business have made it a necessity for international accounting to be developed as a fully-fledged area of practice and inquiry and since 1972 harmonisation of accounting standards has received increasing attention. In 1972 new organisations were created and became active in solving international accounting problems. At the Tenth International Congress of Accountants, held in Sydney, Australia, in 1972, major steps were taken to create two new organisations that could effectively deal with the problems of international accounting diversity. These resulted in the setting up of the International Accounting Standards Committee (IASC) in 1976 and the International Federation of Accountants (IFAC) in 1977. During this period, the common market countries (EEC) began the process of harmonising their national accounting rules through the issuance of EEC Directives, with the first directive finally approved in 1978. Also, U.N Contribution in this matter goes back to 1976, with the creation of a U.N. Commission on the Transitional Corporation. Thus, since 1972 until now definite steps were taken by new organisations to resolve the problems associated with national diversity, in accounting practices, and the growing power of Multinational enterprises. However, a large list of possible causes of international differences can be found in the writings of previous researchers (Choi and Mueller (1992), and Radebaugh and Gray (1997)). Other researchers have studied whether perceived differences in accounting practices correlate with perceived causal factors (Doupnik and Salter (1995)).

In reality, however, each nation still has its own accounting regulations, and this tends to mirror certain elements in that nation. A country's economic, legal, and political systems, stage of technological development or sophistication, culture and tradition, and various other socio-economic factors, will all influence the development of the current status of accounting principles in that nation. Thus, it most likely that, because of the environmental factors, no two systems of accounting can look alike. Several factors that seem linked to the differences in accounting system are: external environment and culture; legal systems; providers of finance; taxation; the profession; inflation; theory; and accidents (Nobes and Parker (2000)).

However, as accounting has been defined (by the American Accounting Association (1966)) as the "process of identifying, measuring and communicating economic information to permit informed judgements and decisions by users of the information", for the accounting information to be useful to economic decision-making, it must have two main qualities: comparability and relevancy. For

comparability to exist, the principles used by firms should be similar, thus, facilitating comparison between two or more economic entities.

As previously indicated, from an international standpoint, between one nation to another, there is also diversity in the accounting principles, and each country has its own unique financial reporting systems. This has been called a problem, as international diversity in national accounting principles has the potential to diminish the international flow of investment capital and, thus, economic development; and the efficient international allocation of resources will be stymied as well. Given the growth of multinational activities, and especially capital markets development, comparability of accounting principles has a high priority (Dunning (1992)).

The pressure for using international accounting standards comes from those who regulate, prepare and use financial statements. Investors and financial analysts need to be able to understand the financial statements of foreign companies whose shares they might wish to buy. They like to be sure that statements from different countries are reliable and comparable, or at least to be clear about the nature and magnitude of differences. They also need confidence in the soundness of the auditing (Nobes and Parker (2000)).

Increasingly, multinational enterprises respect the international consensus, regardless of the requirement of their home country, because of their need to provide information to an international audience. Also, those countries, which allow enterprises to follow different accounting principles in their practices, nowadays prefer the adoption of the IAS to avoid divergences in their financial reports. However, (Evans, Taylor and Holzmann (1988)) support the idea:

"Within this broad category, the most important perceived problem was that the lack of international accounting standards greatly diminishing the utility of financial statements to users in countries other than the country on whose accounting standards the statements were based".

In brief, the question then becomes, whether following the international accounting standards to an appropriate system of accounting, will facilitate equity market development in world-wide nations and in developing countries in particular? While many accounting systems have been proposed for such phenomena, IAS is currently the most prominent solution advocated (Larson (1991), Roussey (1992) and Cooper and Lybrand (1991)).

As far as international accounting standards and their role in equity market development are concerned, there are four major issues affecting the effectiveness of equity markets: (1) the impact of transition from public to private enterprise ownership on the development and expansion of securities markets; (2) the importance of accounting and reporting criteria and standards in a newly developed securities market; (3) the need for public education to build confidence in a free market economy; and (4) the potential to link to international capital markets. However, it is evident that the expansion of securities markets is recognised

by several countries as a major element in economic growth, but, international accounting education is a necessary prerequisite for their success.

The nature of the accounting system in Kuwait will vary according to the relative influence of the Kuwaiti environmental factors and such system will, in turn, tend to reinforce established patterns of behaviour. It is important to investigate factors influencing the development of the Kuwaiti accounting system and information disclosure practices of corporations in Kuwait. These factors are, mainly, economic, social, political and cultural.

As far as the accounting profession in Kuwait is concerned, the main troubles stem from trying to please everybody with general purpose financial statements, which are usually aimed at every conceivable user, from the most sophisticated to the least informed. Another problem is the absence of accounting standards as well as the interference of management in the preparation of financial statements. However, deficiencies in general rely on the absence of uniformity and standardisation of accounting principles.

1.2. DISCUSSION OF THE PROBLEM

The research problem can be divided into two sub-problems:

- (i) The lack of acceptance of international accounting standards (IAS) among world-nations. This means there is an obstacle for the application of IAS and reporting practices in nations all over the world. Accounting rules and reporting practices have evolved differently in different corporations as well as in different countries. Standard setting bodies in each country prescribe only minimum requirements to provide consistency within a country or an enterprise. They concentrate in their discussions on the overwhelming theoretical argument that the International Accounting Standards Committee (IASC) is not a viable proposition because there is no logically overt reason for its creation (Geotz (1991)). However, the IASC realises that there is a problem of recognition, acceptance, observance, and compliance of its standards through developing countries, and even through its member countries. The literature points to the unfortunate fact that the efforts of the IASC have not been reflected in the world-wide application of accounting practices and financial reporting (Weber (1992), Wolk and Heaston (1992)). The adoption of IAS, by developing countries with a negligible number of the sort of public companies or private shareholders which have given rise to the financial reporting practices contained in IAS, has been described as the least natural of all options available to these countries (Nobes and Parker (1995)).

However, the discussion concerning this sub-problem will cover, in general, the acceptance of IAS among world-nations, and investigate whether the adoption of IAS is useful or harmful to a country's development. It has been mentioned by AL-Hageri (1992) in his discussion of the standardisation of accounting practices in the developing countries, it is increasingly recognised that what is desirable for the developed countries from an accounting perspective is not necessarily the most desirable for the needs of the developing countries. Therefore, the transfer of accounting

practices and techniques from other nations, without consideration of their appropriateness to local needs, is unlikely to be useful.

- (ii) Several nations have active new securities markets. In some of these nations the market index doubled in a single fiscal year. However, most of the unusual gyrations in the burgeoning stock markets are due to: lack of appropriate government rules and oversight; insufficient disclosure of accounting and financial information about listed companies; and inadequate public education regarding the international accounting standards. To overcome this shortage of information, these nations need to follow the IAS which are absolutely essential for the long-term prosperity and survival of the newly established securities markets. (Larson & Larson (2001)).

Stock Exchange and regulatory authorities allow foreign and domestic companies to present financial statements in accordance with IAS. As Knorr (1996) suggests international companies want to use IAS for cross-border listings as soon as possible.

For accounting researchers, the question becomes one of trying to determine the most appropriate system of accounting that brings harmonisation to the accounting system. Since many individuals and international organisations have addressed this question, it needs to be investigated. Many accounting systems have been proposed, but the adoption of IAS is currently the most popular and prominent solution advocated (Roussey (1992)). In June 2000, the European Commission announced a proposal to require all listed companies in the European Union to use IAS for their consolidated financial statements by 2005.

Despite there being few details at the time, the proposals attracted widespread support from both UK businesses and the accounting profession. A survey of 700 European chief financial officers conducted by Price-Waterhouse Coopers, in November 2000, highlighted this support: 65% of UK finance directors surveyed, supported making IAS mandatory for listed companies. This, despite the costs that conversion will involve. In effect, UK finance directors are saying that the benefits of IAS in terms of international comparability outweigh the costs (Holgate (2001)).

1.3. RESEARCH METHODOLOGY

Since Kuwait established its stock market in 1984, the volume of transactions and equity prices has dramatically changed.

The adoption of IAS to the Kuwaiti environment started in 1990. This puts Kuwait among the countries which implemented IAS at an early stage. This study focuses primarily on measuring accountants', auditors' and external users' attitudes towards using the IAS in Kuwait, and any consequent difficulties. Moreover, the study tries to answer the question of whether the implementation of IAS to the Kuwaiti environment has brought, to any degree, harmonisation to its accounting system.

Specifically, the study aims to investigate five different dimensions, related to the use of IAS by companies listed on the Kuwait Stock Exchange from different viewpoints (accountant, auditors and external users).

The five dimensions are:

1. Familiarity and knowledge of IAS.
2. Implementation of IAS in Kuwait and any consequent difficulties.
3. Advantage of applying IAS.
4. Changes in the quality of accounting information.
5. Suitability of IAS to the Kuwaiti environment.

A survey study through structured questionnaires directed to accountants, auditors, and external users, has been conducted to investigate several sets of hypotheses to address the five dimensions previously stated.

The questionnaires included several questions to gain some indication regarding the harmonisation of the accounting system in Kuwait after the implementation of IAS.

Statistical analysis techniques are utilised to provide summary measures, descriptive statistics to assess the degree of perceptions, compliance, familiarity and difficulties facing practitioners.

Moreover, inference procedures were conducted to test and justify the set of statistical hypotheses presented in the following section.

1.3.1. Research Hypotheses

The study will test the following hypotheses; all of which were developed to include the relevant factors associated with the listed companies on the Kuwait Stock Exchange.

Research Hypotheses Related to Accountants and Auditors

First hypothesis asserts that there are no significant differences between levels of demographical variable levels and the attitudes of professional accountants/auditors to the familiarity and knowledge of IAS.

This hypothesis provides an indication of the attitudes of professional accountants/auditors towards the familiarity and knowledge of IAS.

The following set of sub-hypotheses characterises the above hypothesis in more detail.

- H.1.1.** There are no significant differences between levels of demographical variables and the attitudes of accountants/auditors regarding their knowledge rating of IAS.
- H.1.2.** There are no significant differences between levels of demographical variables and the attitudes of accountants/auditors regarding distinct sources of knowledge of IAS.
- H.1.3.** There are no significant differences between levels of demographical variables and the attitudes of accountants/auditors regarding the companies/firms stipulation of IAS for recruits.

Second hypothesis affirms that there are no significant differences between professional accountants/auditors in appreciating implementing and using IAS in preparing/auditing annual accounts.

This hypothesis claims that professional accountants/auditors will appreciate using IAS in Kuwait. This indicates the ease of implementing IAS in preparing/auditing annual accounts.

However, the following set of hypotheses sheds light on the above hypothesis in more detail.

- H.2.1.** There are no significant differences between accountants'/auditors' demographical variable levels of experience with using IAS.
- H.2.2.** There are no significant differences between accountants'/auditors' demographical levels and their first and current perception of using IAS.

Third hypothesis claims that professional accountants/auditors have no difficulties in applying IAS/auditing reports prepared according to IAS.

This hypothesis affirms that, in applying IAS in Kuwait, professional accountants/auditors will not face great difficulties of measurement and disclosure. This indicates the ease of implementing IAS in preparing/auditing annual reports.

Specifically, the following set of sub-hypotheses characterises the above hypothesis in more detail.

- H.3.1.** There are no significant differences between accountants'/auditors' demographical variable levels regarding the difficulties of measurements.

H.3.2. There are no significant differences between accountants'/auditors' demographical variable levels regarding the difficulties of disclosure.

Fourth hypothesis asserts that professional accountants/auditors have a positive attitude towards applying IAS.

This hypothesis provides an indication about the perception of professional accountants/auditors to IAS and their positive attitude towards gaining benefits by applying /using IAS.

In specific terms, the following sub-hypotheses characterises the above hypothesis.

H.4.1. There is no significant difference between accountants'/auditors' demographical variable levels in rating their benefits regarding IAS.

H.4.2. There is no significant difference between accountants'/auditors' demographical variable levels and their rating of issues of quality of accounting information.

Officially, the IASC cannot force anyone to follow its standards. Compliance is totally voluntary. However, increasing support for the IASC holds many implications for businesses. Many countries demand that all corporations working within their jurisdictions must file reports in compliance with the IASC (Moore (2000)), Larson and Larson (2001)).

Fifth hypothesis asserts that the majority of professional accountants in Kuwait comply with IAS in order to achieve harmony in the use of accounting standards and practices employed in preparing annual accounts.

Sixth hypothesis claims that professional accountants/auditors have a positive attitude towards achieving harmony of accounting and reporting practices by applying IAS or towards accounts and reports, which have been harmonised by using IAS.

The hypothesis provides an indication about the perception of professional accountants/auditors to IAS and their positive attitudes towards achieving harmony of accounting through implementing IAS/auditing companies accounts, which have been harmonised using IAS in Kuwait (the effect of demographic variables in such perception have been investigated).

A survey study through two questionnaires directed to accountants and auditors have been conducted to test the above set of hypotheses in Kuwait.

Research Hypotheses Related to External Users

Seventh hypothesis declares that there is no significant difference between external users' age groups/jobs (brokers, financial analysts, and investment companies) regarding the issues of IAS benefits.

Eighth hypothesis claims that there is no significant difference between different external users' demographic variables levels, regarding their reliance on accounting information.

This hypothesis indicates the importance of the reliance of accounting information provided through using accounts, which have been harmonised using IAS.

The following set of sub-hypotheses explain the above hypothesis in more detail.

H.8.1. There is no significant difference between external users age groups regarding their reliance on accounting information.

H.8.2. There is no significant difference between different groups of external users regarding their reliance on accounting information.

Ninth hypothesis asserts that there is no significant difference between external users' age groups/jobs (brokers, financial analysts, and investment companies), regarding their attitude towards the implementation of IAS on decision-making.

This hypothesis claims that external users will appreciate using accounting information resulting from using accounts, which have been harmonised by using IAS.

Tenth hypothesis maintains that there is no significant difference between different external users' demographical variable levels, regarding their attitude towards the impact of applying IAS on decision-making.

The following set of sub-hypotheses sheds light on the above hypothesis in more detail.

H.10.1. There is no significant difference between the different age group of external users, regarding their attitude towards the impact of applying IAS on decision-making.

H.10.2. There is no significant difference between different types of external users, regarding their attitude towards the impact of applying IAS on decision-making.

Eleventh hypothesis argues that there is no significant difference between external users' demographical variable levels, regarding the difficulties of using IAS.

The following set of sub-hypotheses explain the above hypothesis in more detail.

H.11.1. There is no significant difference between external users' age groups in rating their difficulties in using IAS.

H.11.2. There is no significant difference between different types of external users (broker, financial analysts, and investment companies), in rating their difficulties in using IAS.

Twelfth hypothesis declares that external users have a positive attitude towards the quality/quantity of accounting information resulting from using accounts, which have been harmonised by applying IAS.

This hypothesis indicates the importance of the quality and the amount of information, resulting from applying IAS, which is available to the external users in order to be able to reach rational decisions.

There is no doubt that the harmony of quality and quantity of accounting information, minimises the risk for the decision-maker.

A survey study through a questionnaire directed at external users (brokers, financial analysts and investment companies) was conducted to test the above set of hypotheses regarding the harmonisation by using IAS in Kuwait.

Obstacles of equity market face most countries, but in different ways. Questions arise as to the role of accounting in the equity market, and the appropriate accounting system to be used in the context of a variety of local needs and cultural values. It is perhaps easy to assume that accounting may be viewed rather as a social artefact, dependent on the specific historical antecedents of each country. On the other hand, given that an inappropriate or inadequate accounting system is likely to impede the equity market, then questions arise such as what is the most appropriate accounting system. What impact should the accounting system employed have upon the success of equity market programmes? With the increasing harmonisation and increasingly more uniform standards suggested by the IASC, there appears to be a growing consensus of the appropriateness of IAS with its emphasis on equity market development.

As far as Kuwait is concerned, the issue of harmonisation, as a result of implementing IAS and its impact on equity market, has been a priority in the government's programme in recent years. Thus, it is essential to investigate the degree of acceptance of IAS by practitioners and users of such accounting standards in Kuwait.

1.4. IMPORTANCE OF THE STUDY

The IAS have now been in existence for a little over thirty years and a study evaluating their acceptance should not only contribute to the international accounting literature, but should be of importance to the IASC itself. There is, therefore, an urgent need for research to find out how international accounting standards and the roles they play developed, and their inter-relationship to other financial frameworks in different countries. Also, there is a need to explore beneath the assumed roles that are conventionally attributed to accounting, in order to understand how accounting is a universal language.

A number of possible benefits from using the IAS could be prescribed. They generally fall into one of three categories:

- (i) Increased comparability of financial data across countries. Several studies (Gray (1980), Evans et al (1982), Thomas (1983), McKinnon and Janell (1984), Samuels and Piper (1985), Rivera (1989), IASC (1989)) have concluded that market forces are insufficient in producing adequate accounting information, concerning multinational enterprises. If that is the case, using IAS could lead to improved allocation of global financial resources.
- (ii) More readily available accounting standards for those who need to develop their standards (developing countries). A second result of using the IAS is the development of accounting rules accessible for adoption by a nation in the preparation of financial accounting reporting standards.
- (iii) Cost saving. The use of IAS in accounting/auditing practice should lessen the burden of financial accounting, thus reducing accountants'/auditors' time and effort, and costs.

Another benefit from this research is the discussion of accounting legislative development in Kuwait. However, these laws and regulations do not provide a comprehensive framework for the development of adequate financial reporting. As a result of this deficiency, certain abuses appeared in the market, such as misuse or non-use of financial information. However, in spite of deficiencies in these regulations, some benefits were achieved, such as the standardisation of disclosure requirement, an improved quality of accounting information, and responsiveness to market needs. These benefits represent advantages achieved by the Kuwait Stock Exchange. More analysis and discussion will be presented in Chapter 8.

1.5. OBJECTIVES OF THE STUDY

The objectives of this study are to investigate and identify the reasons for the problem facing the widespread promulgation of IAS. Specifically the study will make an in-depth examination of the:

- (i) Degree of familiarity and knowledge of IAS among Kuwaiti practitioners.
- (ii) Extent of acceptance, observance of, and compliance with, the IAS.
- (iii) Difficulties facing practitioners when implementing IAS in the Kuwaiti environment.
- (iv) Advantages of implementing IAS to the Kuwaiti environment.
- (v) Contribution of the implementation of IAS made in changing the quality of accounting.
- (vi) Harmony of IAS which has been brought into the accounting system in Kuwait.

1.6. SCOPE AND LIMITATION OF THE STUDY

It is normal for any research study to have a limit on the number of issues that can be investigated and the extent and manner in which these issues may be evaluated. These limitations result not only from scarcity of resources, such as time and funds available to the researcher, but also from logistical problems associated with an excessively large study.

More specifically, this study is limited to the investigation of overall observation regarding:

- (i) The need and possibility of achieving worldwide acceptance of IAS.
- (ii) Difficulties faced by accountants, auditors, and external users, when applying and using the information produced using IAS.

However, the empirical survey tests the hypotheses, which are going to be derived from the literature, review and theory on one side, and from practices and empirical investigations on the other side.

The above observations have further limitations regarding their scope of investigation. The sample will include company's (70) listed on the Kuwait Stock Exchange, (see Supplement (1.1)). It also limits the investigation of some of the IAS, such as disclosure standards.

However, data on accounting, stock exchange, capital markets of Kuwait, will be available from several primary sources:

1. Kuwait Stock Exchange.
2. Users of financial statements (investors, creditors, brokers, financial analysts and investment companies).
3. Companies annual accounts.

4. Auditors reports.
5. Ministries of Finance, and Commerce and Industry.
6. Financial managers of companies which will be chosen for empirical study.

Although the research is descriptive in nature, it is also exploratory in its attempt to gain specific insights into the relationship between financial statements, characteristics and environmental variables. Hypotheses are put forward which emerge from the theory and the research framework. Empirical study will be conducted, in a way that permits the testing of these hypotheses, on the methodology for collecting data on the variables within the research framework of the Kuwait Stock Exchange, on the interview's questionnaire to evaluate the accounting system in Kuwait, and on the statistical analysis of the data attempts to test the validity of the underlying hypotheses.

1.7. FRAMEWORK OF THE STUDY

The first part of the study will concentrate on the need for, and the developing of, international accounting standards; however, the conditions for this of IAS, as well as the resulting dimensions, will be explained in this part. In addition, international pressure for accounting change will be discussed.

The purpose of the second part is to examine and analyse financial reporting standards and regulations in Kuwait.

This analysis aims to: (i) highlight the important implications of these regulations on the evolutionary process of setting accounting standards in Kuwait; (ii) provide some insight into the reporting environment in Kuwait; and (iii) analyse the accounting regulations in Kuwait. Furthermore, this chapter identifies the basic input for the upgrading of these regulations in Kuwait.

In addition, we will discuss the legislative development of the Kuwait Stock Exchange and its organisational structure.

The last part is the empirical study. The purpose of this part is to investigate professionals' attitudes towards implementation of IAS to Kuwaiti environments. A survey study will be conducted to measure professionals' responses to several dimensions, including the familiarity and knowledge of Kuwaiti professionals of IAS, sources of IAS knowledge, consequent difficulties of applying such a newly adopted accounting system in companies listed on K.S.E., benefits achieved by applying IAS, as well as the reliability and relevance of the information produced by applying IAS to the Kuwaiti companies.

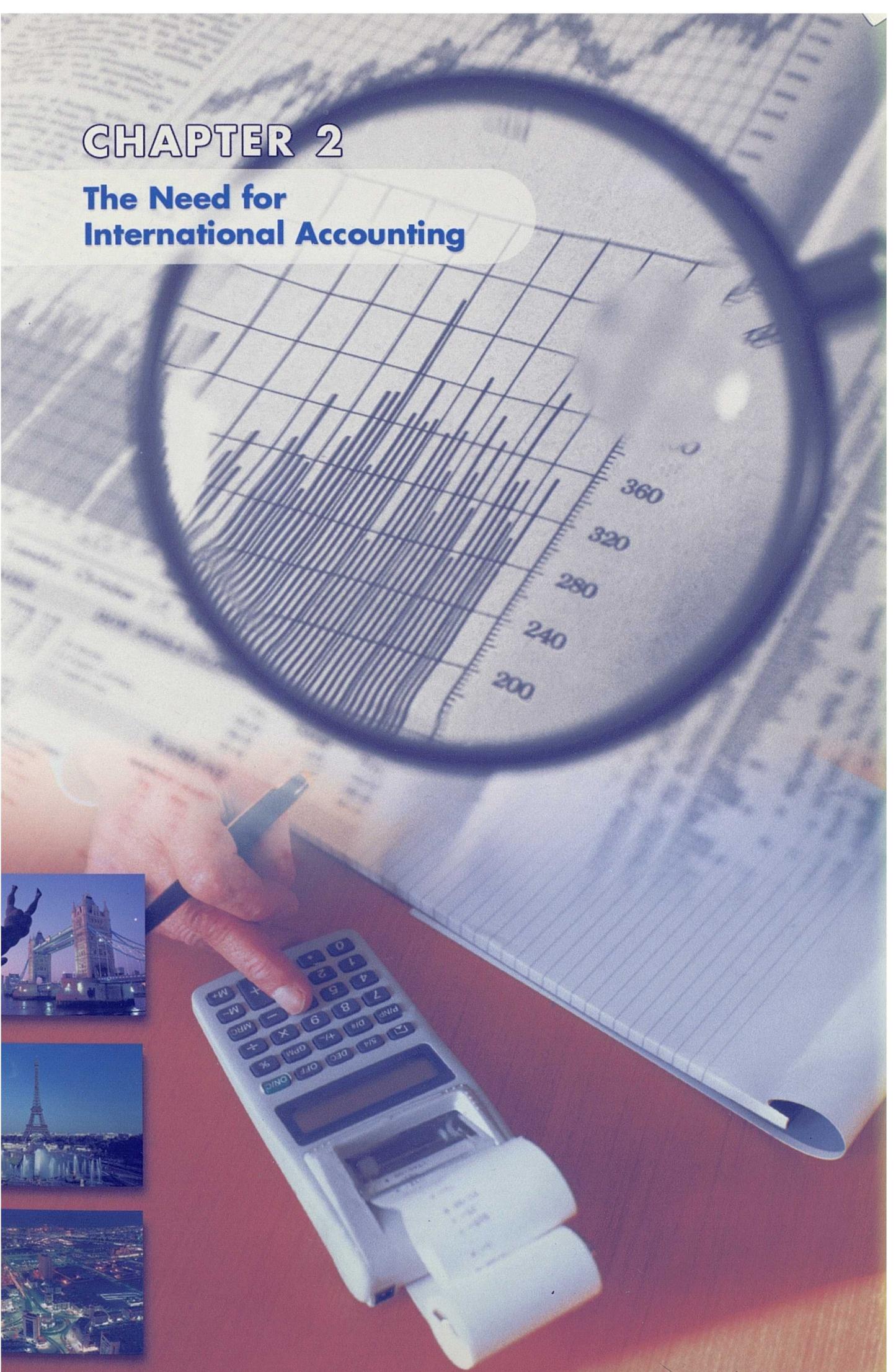
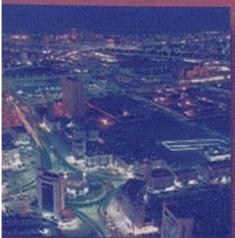
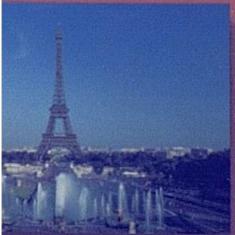
**Supplement (1.1)
The Listed Companies on the Kuwait Stock Exchange
(sample size)**

*Non-Kuwaiti Companies	Food Sector	Service Companies	Industrial Companies	Real Estate Companies	Insurance Companies	Investment Companies	Banks
Bahrain International Bank	Livestock Transport and Trading Co.	Kuwait National Cinema Co.	The National Industries Co.	Kuwait Real Estate Co.	Kuwaiti Insurance Company	Kuwait Investment Company	National Bank of Kuwait
Arabian General Investment Corporation	United Fisheries of Kuwait	Kuwait Hotels Co.	Kuwait Metal Pipe Industries Co.	United Realty Co.	Gulf Insurance Company	Commercial Facilities Company	Gulf Bank of Kuwait
Shajrah Cement & Industrial Development	Kuwait United Poultry Co.	The Public Warehousing Co.	Kuwait Cement Co.	National Real Estate Co.	Al-Ahleia Insurance Company	International Financial Advisors	Commercial Bank of Kuwait
Gulf Cement Co.	Kuwait Foods Co. (Americana)	Kuwait Commercial Markets Complexes Co.	Refrigeration Industries Co.	Saihiyah Real Estate Co.	Warba Insurance Company	National Investments Company	Al-Ahli Bank of Kuwait
Unim Al-Qalwain Cement Industries Co.		Mobile Telephone Systems Co.	Gulf Cable & Electrical Industries Co.	Pearl of Kuwait Real Estate Co.		Kuwait Investment Projects Co.	Bank of Kuwait and the Middle East
Fujairah Cement Industries Co.		Kuwait Computer Co.	Kuwait Shipbuilding & Repairyard Co.	Tamdeen Real Estate Co.		Coast Investment & Development Co.	Kuwait Real Estate Bank
Ras Al-Khaimah For White Cement		Kuwait Educational Services Co.	Contracting & Marine Services Co.	International Investment Projects Co.		Al-Ahleia Investment Co.	Burgan Bank
Arab Insurance Group		Independent Petroleum Group	Portland Cement Co.	Ajjal Real Estate Entertainment Co.		The International Investor Co.	Kuwait Finance House
United Gulf Bank		National Cleaning Co.	Shuaiba Paper Products Co.	Al-Massaleh Real Estate Co.		Securities House	
		Sultan Centre Food Co.	Kuwait Metal Collecting & Shredding Co.	Arab Real Estate Co.		Industrials Investments Company	
		Al-Arabi Group Holding Co.	Kuwait Foundry Co.			Securities Group Co.	
			Aerated Concrete Industries Co.		International Murabaha Company	Kuwait Financial Centre	Aref Investment Group
	Hilal Cement Co.	Boubyan Petrochemicals Co.	Gulf Glass Manufacturing Co.		International Investment Group	Investment Dar Co.	Kuwait & Middle East FIN. INV. Co.

*This sector is not included in the sample size

CHAPTER 2

The Need for International Accounting



CHAPTER 2 : THE NEED FOR INTERNATIONAL ACCOUNTING

2.1. INTRODUCTION

The world is now in a new era of international trade (moving towards trading blocks) and interdependence of national economies. This trend was accelerated in the last decade by a great increase in the rate of international investment, capital flows and the activities of oil-producing countries, which collected and recycled huge sums of money. This money was reinvested in firms, in industrial countries and in multinational enterprises in other countries, and was used to purchase goods and services from these firms to help in the growth and development of oil-producing countries.

It has been known since early history, that accounting is the language of business, and has been a vehicle for its facilitation both nationally and internationally. During the fourteenth and fifteenth centuries the Italians attempted to expand international business; and in the eighteenth, and nineteenth centuries European countries attempted to spread their power all over the world (colonisation), until the increasing world trade of the twentieth century. Accounting has therefore been transmitted from one country to another, generating (in the process) specific national accounting systems that have exhibited both similarities and differences. This international tradition led gradually to the growth of international accounting as an important sub-discipline of the field and practice of accounting. The realities of multinational business have made it necessary for international accounting to develop as a fully-fledged area of practice and inquiry. The conditions for this growth of international accounting and the main forces that are driving the field of accounting into ever-growing international dimensions are explained in detail in this chapter.

2.2. MULTINATIONAL ENTERPRISES (PARTNERSHIPS)

Partnerships are forming between companies from different countries, willing to forget their nationalities, in order to share and develop the profit opportunities of a world market, through the reduction of the impact of fluctuating currencies around the world, and avoiding protectionism and government-imposed obstacles, such as tariffs, import limits and regulations.

These partnerships and trading blocks have emerged with new economic powers. The key words arising from this new global economy are competitiveness and survival.

A multinational corporation is defined in a number of ways - by its scale of foreign operations, world-wide distribution of assets, nationality of owners, supplies of capital and employees, and sources of profit.

Lindert and Pugel (1996) give a definition of multinational firms (corporation) as follows:

“A firm that owns and controls enterprises in more than one country is a multinational firm. In multinational firms the parent company is based in the home country (the source country for direct foreign investment). The parent company has one or more foreign affiliates (subsidiaries or branches) in one or more host countries”.

Shapiro (1999) defines multinational corporations (MNC's) along similar lines.

“A multinational corporation (MNC) is a company engaged in producing and selling goods or services in more than one country. It ordinarily consists of a parent company located in the home country and at least five or six foreign subsidiaries, typically with a high degree of strategic interaction among the units”.

Some MNC's have more than 100 foreign subsidiaries scattered around the world. The Unified Nations estimate that at least 35,000 companies around the world can be classified as multinational (Shapiro (1999)).

One of the most significant international economic developments of the post-war period is the proliferation of multinational corporations (MNC's). Salvatore (2001) define MNC's as follows:

“The multinational corporations (MNC's) are firms that own, control, or manage production facilities in several countries”.

2.3. THE ROLE OF THE MULTINATIONAL CORPORATION

There is every indication that multinational corporations are here to stay. Whichever way one judges the social worth of this form of business organisation, it has grown to enormous size and survived various severe political and legal attacks. The MNC transfers technology all over the world, raises capital where it is cheapest, often produces where costs are lowest, and develop markets where people will buy its products and services. However, a great deal of international trade is conducted by the multinational corporation.

Today, MNC's account for about 25% of world output, and intrafirm trade (i.e. trade among the parent firm and its foreign affiliates) is estimated to be about one-third of total world trade in manufacturing (Salvatore (2001)).

No doubt, the basic reason for the existence of MNC's is the competitive advantage of a global network of production and distribution. This competitive advantage arises in part from substantial - and horizontal - integration with foreign affiliates. In other words, the prime transmitter of competitor force in this global economy is the multinational corporation. What differentiates the multinational

enterprise from other firms engaged in international businesses is the global co-ordination allocation of resources by a single centralised management.

Multinational corporations make decisions about market-entry strategy, ownership of foreign operations, production, marketing, and financial activities, with an eye to what is best for the corporation as a whole. The true multinational corporation emphasises group performance rather than performance of its individual parts.

MNC's are also in a much better position, to control or change, to their advantage, the environment in which they operate, than are purely national firms. For example, in determining where to set up a plant to produce a component, an MNC can and usually does "shop around" for the low-wage nation that offers the most incentives in the form of tax holidays, subsidies, and other tax and trade benefits. The sheer size of most MNC's in relation to most host nations also means the MNC's are in a better position, than purely national firms, to influence the policies of local governments and to extract benefits. Furthermore, MNC's can buy up promising local firms to avoid future competition and are in a much better position, than purely domestic firms, to engage in other practices that restrict local trade and, thus, increase their profits; and, through greater diversification, also face lower risks and generally earn higher profits than purely national firms (Shapiro (1999)).

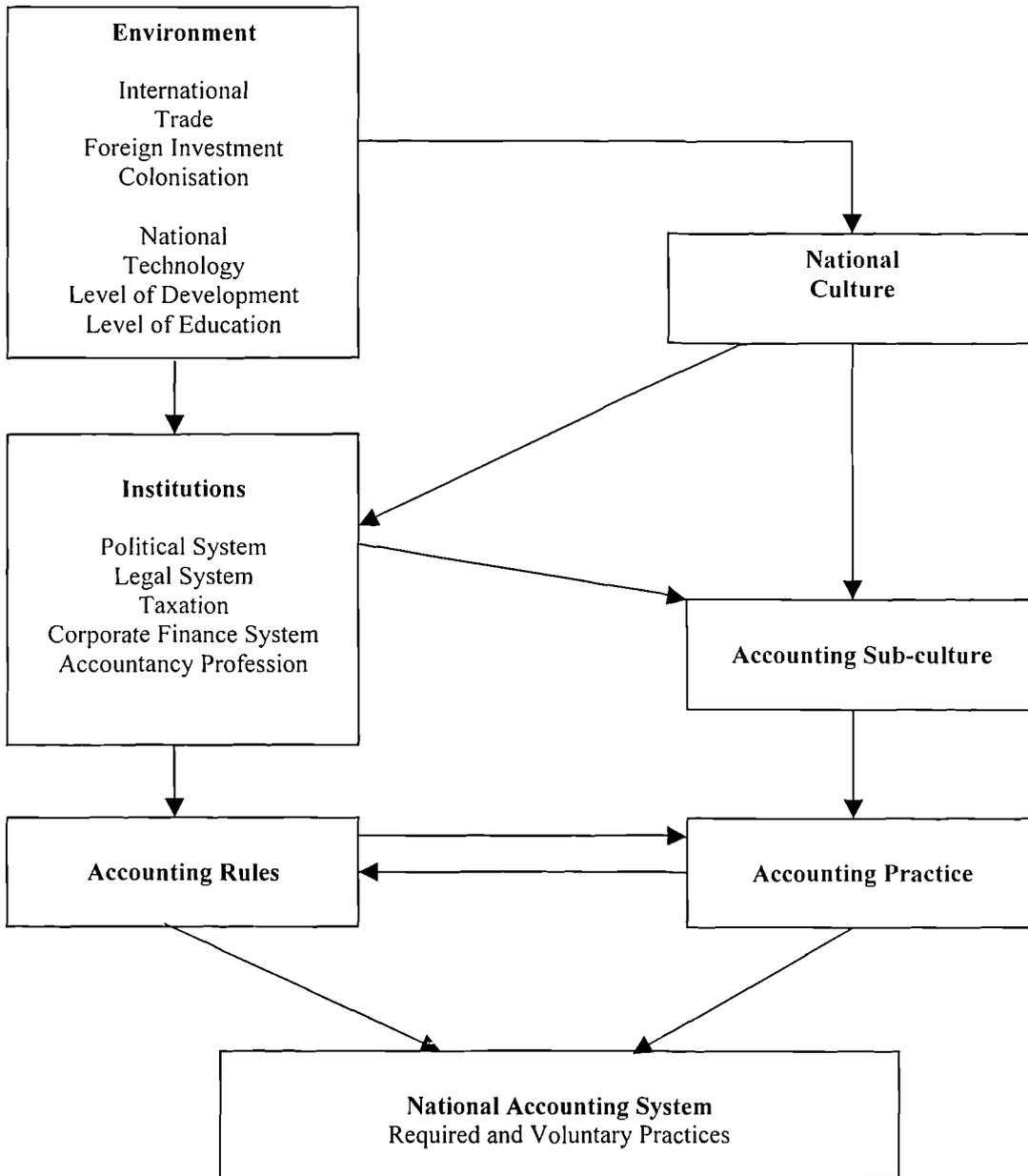
In the final analysis, it is a combination of all or most of these factors that give MNC's their competitive advantage vis-à-vis purely national firms and explains the proliferation and great importance of MNC's today. That is, to say that, by vertical and horizontal integration with foreign affiliates, by taking advantage of economies of scale, and by being in a better position than purely national firms to control the environment in which they operate, MNC's have grown to become the most prominent form of private international economic organisation in existence today.

2.4. THE ENVIRONMENTAL FACTORS THAT SHAPE FINANCIAL REPORTING

An impression of complexity of the process that leads to the creation of a country's accounting system is given in Exhibit (2.1). The financial reporting of enterprises is determined by a country's accounting rules and by the practice of accountants in applying, interpreting and, sometimes, ignoring the rules. The rules are set by institutions such as the political system, the legal system and the accountancy professions, with some influence from accounting practices. In their turn, the institutions are influenced by the national "culture" and the environment. Accounting practice is influenced by accounting rules and by accounting sub-culture. However, environmental analysis can be a vital tool in explaining and understanding differences in the way in which business operates in different countries. In addition, the rationality of any behaviour should be judged in terms of its own culture context, and not from that of an outside one. In other words, we cannot judge the rationality of behaviour in a country using the customs and values of another country or vica versa (Flower and Ebbers (2002)).

Exhibit (2.1)

The Interplay of the Environment, Institutions and Culture



Source : Flower and Ebbers (2002).

2.5. THE NEED FOR INTERNATIONAL ACCOUNTING STANDARDS

As we know accounting is a product of its environment; therefore, the new environmental factors of (1) the global economy, (2) the multinational corporation, and (3) transfer of investment abroad, have created an environment in which business transactions, their product, measurement and disclosure, take new and distinctive forms. Benefits of foreign direct investments are development in income from foreign operations as well as in the growing number of countries in which they have operations. These firms face a whole new series of accounting problems: they are subject to the financial accounting standards and tax laws in each of those countries; their foreign managers have different philosophies of management. (Nobes and Parker (2000)).

However, these issues associated with international trade and investment call for a specific accounting sub-discipline – that is, international accounting. The definition of international accounting is subject to constant changes to adapt to different contexts, requirement and expectations. In 1971 Professors Thomas R. Weirich, Clarence G. Avery, and Henry R. Anderson distinguished among three approaches: (1) a universal system, (2) a comparative system, and (3) accounting practices of foreign subsidiaries and parent companies system. They named and defined the definitional approaches, respectively as follows:

"World accounting. In the framework of this concept, international accounting is considered to be a universal system that could be adopted in all countries. A world-wide set of generally accepted accounting principals (GAAP), such as the set maintained in the United States, would be established. Practices and principles would be developed which were applicable to all countries. This concept would be the ultimate goal of an international accounting system.

International Accounting. A second major concept of the international accounting involves a descriptive and informative approach. Under this concept, international accounting included all varieties of principles, methods, and standards of accounting of all countries. this concept included a set of generally accepted accounting principles established for each country, thereby requiring the accountant to be multiple principle conscious when studying international accountancy.... no universal or perfect set of principals would be expected to be established. A collection of all principles, methods and standards of all countries would be considered as the international accounting system. These variations result because of differing geographic, social, economic, political and legal influences.

Accounting for foreign subsidiaries. The third major concept that may be applied to "International accounting" refers to the accounting practices of a parent company and a foreign subsidiary. A reference to a particular country or domicile is needed under the concept for effective international financial reporting. The accountant is concerned mainly with the translation and adjustment of the subsidiaries financial statement. Different accounting problems arise and different accounting principles are to be followed depending upon which country is used as a reference for translation and adjustment purposes."

Another definition of international accounting is introduced as follows (Choi and Mueller (1992)) :

"International accounting extends general - purposes, nationally oriented accounting in its broadest sense to : (1) International comparative analysis (2) Accounting measurement and reporting issues unique to multinational business transactions and the business from the multinational enterprise. (3) Accounting needs of international financial markets and (4) Harmonisation of world-wide accounting and financial reporting diversity via political, organisation, professional and standard - setting activities".

From the practical point of view, companies normally produce financial statements according to the accounting principles of their own country. While many countries have sophisticated reporting guidelines, others do not. A further complication, is that significant differences can be found even between countries having highly developed principles. For example, in Germany profits from long-term contracts are normally recognised at the point of completion, whereas in the U.S.A. and U.K the percentage of completion method is generally preferred.

If national economic, legal, social, and political systems differ significantly, uniform international accounting standards might obscure rather than enlighten. Standards setting itself would be a difficult task, since it could not succeed without great compromise. However, effective enforcement of any standard work is all but impossible in the absence of a powerful enforcement mechanism, e.g. unequivocal multilateral enforcement treaties put into effect world-wide.

The need for international accounting standards is particularly necessary on the part of international corporation that is obliged to satisfy many different requirements simultaneously in each country in which they operate. However, one can observe that accounting measurement rules and accounting standards are presently not in accordance with the needs and desire of world-wide enterprises. Therefore, the international business world expects international accounting standards.

Thus, there are potentially many situations that may require some understating of international accounting and the world's economies become increasingly independent, the frequency and importance of these occasions will also increase. What is more, there will be a greater need for public accountants to provide international accounting services to companies with international operations. Almost all users of financial statements will also need to know something about international accounting in order to understand the financial reports of these companies. In sum, virtually everyone who prepares, deals with, or uses financial statements of companies with international operations will need to know more and more about international accounting; hence, the importance of international accounting (Radebough and Gray (1993)).

There is a strong and growing belief that the development of global standards is the way to go with the globalisation of capital markets, the need to provide better information to investors, and the need for

international benchmarks (Picking 1996). Recently, the European Commission announced a proposal requiring all listed companies in the European Union to use International Accounting Standards (IAS) for consolidated financial statements by 2005 (Holgate (2001)). On the other hand, companies around the world are entering the U.S. market in pursuit of finance, and are faced with the challenge of disclosing their operations in a way that compares to the reporting practices of U.S – based companies: so the less they fuss about their accounting system and the better and closer that international standards are to the U.S., the greater the likelihood they will be allowed on to the U.S. Stock Exchange.

2.6. INTERNATIONAL ACCOUNTING STANDARDS AND HARMONISATION

There is no doubt that there are major differences in the financial reporting practices between companies in different countries. Such differences led to great complications for those preparing, consolidating, auditing and interpreting financial statements. For these reasons and more several organisations around the world are concerned with attempting to harmonise or standardise their accounting. On the other hand market force also contribute to harmonisation. Nobes and Parker (2000) defines harmonisation as “the process of increasing the capability of accounting practices by setting bounds to their degree of variation.” We should emphasise that standardisation appears to imply a more rigid and narrow set of rules and this is a major difference between the two.

There are several reasons that emerge for harmonisation. Among them: global trade where products of accounting in one country are used in other countries; the pressure on those who are regulated, in the preparation and use financial statements, like investors and financial analysts who need to understand financial statements of foreign countries; confidence in the soundness of auditing is also a matter of concern. Companies which plan to enter the international market are also in favour of IAS in order to act on a global scale. The Stock Exchange or its regulators may demand clear and understandable financial statements. Of course, the advantages of harmonisation will also be of much importance to multinational companies. If an account is done, based on a unified set of rules, it would be much simpler.

Preparing comparable international information for the appraisal of the performance of subsidiaries in different countries would be much easier.

Investment appraisal, performance evaluation, and other decision-making uses of management accounting information would undoubtedly benefit from harmonisation. It would also be much easier for multinational companies to move or transfer staff from one country to another. Appraisal of foreign companies for a potential take-over would be facilitated.

Harmonisation will overcome the difficulties of preparation and consolidation, and auditing of multinational companies’ financial statements. Tax authorities all over the world would find it much easier if accounts were made by a unified/harmonised set of rules.

2.7. PROBLEMS FACING HARMONISATION

There are several problems facing harmonisation, (Nobes and Parker (2000)) they are:

- Big differences between accounting practices of different countries.
- Nationalisation, which may create an unwillingness to accept companies that wish to change accounting practices of other countries.
- Economic consequences of different countries using different standards could lead to a de-harmonisation.

2.8. SUMMARY AND CONCLUSION

In this Chapter we discussed several points related to the need for international accounting in general. We bring up the environmental factors, which are constant to the multinational enterprises (partnerships), the role of the multinational corporation, and transfer of investment abroad. Also, we talk about the need for IAS, and to rise to the international accounting standards and harmonisation. Finally, we describe the problems, which are facing harmonisation.

In brief, the rapid growth of the global economy, in terms of the increasing volume of trade and investment, intensified the need for the harmonisation of the accounting standards. Gray (1988), identified several international forces that justify the harmonisation of international accounting. These are: economic, political, and cultural, and include: (1) international economic and political interdependence, (2) foreign direct investments and multinational corporate strategy, (3) international financial markets, (4) rapid technology changes, (5) the growth of business and financial services, and (6) international regulatory organisations.

Over the past few years, attempts to harmonise accounting standards have been made by many bodies, including: (a) the International Accounting Standards Committee (IASC), (b) the Organisation for Economic Co-operation and Development (OECD), (c) the European Union (EU), and (d) the International Organisation of Securities Commissioners (IOSC). However, the IASC is considered the most active international body with responsibility to promulgate international accounting standards. IAS are now accepted in some form or another in numerous Stock Exchanges, including those in London, Germany, Hong Kong, Singapore, and Switzerland (Larson, (1991)). The International Accounting Standards Committee (IASC) receives widespread support for its effort to harmonise international accounting standards and is considered the most effective body in this.

CHAPTER 3

Dimensions of International Accounting



CHAPTER 3 : DIMENSIONS OF INTERNATIONAL ACCOUNTING

3.1. INTRODUCTION

From previous experience with accounting, one can say that it is basically an information system that provides economic information to decision-makers. This information is financial in character (measured in monetary units) and is based primarily on an analysis of the effect of transactions on a particular economic entity - a firm. Accounting is descriptive in nature and utilitarian in purpose. It records the economic effect of transactions and reports this information to those who use it in their decision-making.

Accounting as a profession is very specialised, but it is usually organised in two main categories: financial, and managerial. Financial accounting provides financial information to decision-making groups outside the firm: stockholders, financial analysts, regulators, and the general public. Managerial accounting offers financial information to the firm's management to help them plan, control and make decisions about the allocation of the firm's resources. As far as international accounting is concerned, it includes both financial and managerial accounting, and it deals with the operations of international firms. Although international accounting might sound mysterious and exotic, it is a well-established area of speciality within accounting and has several dimensions.

3.2. THE FIELD OF INTERNATIONAL ACCOUNTING

The study of international accounting involves two major areas: descriptive (comparative accounting that examines how and why accounting principles differ from country to country); and pragmatic (accounting for operational problems and issues encountered by individuals and firms in international business; multinational enterprises). The first area is truly fundamental to the understanding of the nature and uses of accounting. It is oriented towards financial accounting in particular. However, although some description is necessary when studying accounting in different countries, the important issues are the forces and conditions, which create international differences. The scale of international differences in financial reporting is very large, which suggests that there is certainly something to study. Diversity in reporting regimes results from an evolutionary processes that reflect each jurisdiction, cultural, political, legal, and economic differences (Zarzeski (1996) and Hegarty (1997)).

Obviously, multinational corporations encounter many problems that require special attention. These technical accounting problems in financial, managerial, taxes and auditing, can be classified into the following: import/export transactions; financial statements; information systems; budgets and performance evaluation; audits; taxes.

The above obstacles and relevant issues create special accounting problems that have a bearing on the conduct, measurement and disclosure of foreign operations. No doubt, using international accounting standards in preparing the financial reporting for the multinational companies would solve the accounting problems related to the foreign operations. In detail, there is a global quest for international

harmonisation of corporate reporting practices by international investors for cross-national comparability of financial statements, the need for a common front on accounting and disclosure practices which transnational enterprises with cross-boarder listing should adopt, and the desire to reduce the risk of market failure (Dunning (1993), Wallace (1996)).

3.3. INTERNATIONAL PRESSURE FOR ACCOUNTING CHANGE

There are several international factors which have the power of influence internationally for change and development of accounting values and systems internationally. These international forces include: growing global economy; multinational corporation strategies; political interdependence; increase in foreign stock listing; the rapid growth of international financial markets; and the activities of international regularity organisations. In particular, multinational corporations encounter a diversity in accounting standards that should be followed in their financial statements. Thus, multinational corporations need to be sensitive to the requirements of comparative international accounting, standardised international accounting, politicised international accounting, and operational international accounting (Choi and Mueller (1992)).

Another potential impact of forces for change, arises from growing international inter-dependencies and from concerns to harmonise the regulatory framework of international economic and financial relationships. Although there are several distinctions between East and West, and between North and South, one can notice dramatic changes occurring at the national level, giving rise to economic changes that are restructuring the landscape of international business and accounting. Furthermore, the growing world-wide trend towards deregulation of markets and privatisation of public sector corporations, in many developing countries, has opened up new opportunities for international investment and international joint ventures/alliances (Nobes and Parker (1991), Picking (1996)).

Let us consider briefly some of the pressures for accounting change arising from developing international financial markets, increasing foreign stock listing and growing in foreign direct investment. From the globalisation point of view there has been concern to harmonise differences in tax regimes, exchange controls, restrictions on foreign investments, obstacles against foreign stock listing, and accounting and disclosure requirements, which still provide difficulties to the globalisation of securities market.

The influence of the above mentioned globalisation process and deregulation requirements has been extensive, both on the financial industry itself and on the size of financial investment flows. As competition increased between banks and other financial institutions, global investment portfolios rose markedly over the last decade (Turner (1991)). Increasingly, the products of accounting in one country are used in various other countries, this makes national accounting standards internationally desirable. The pressure for using international accounting comes mainly from those who regulate, prepare and use financial statements.

Investors and financial analysts need to be able to understand the financial statements of foreign companies whose shares they might wish to buy. They would like to be sure that statements from different countries are reliable and comparable, or at least to be clear about the nature and magnitude of the differences. They also need confidence in the soundness of external/statutory auditing.

For this reason, various intergovernmental transnational bodies are interested, among other things, in protecting investors within their spheres of influence. In cases when an investor of foreign shares is quoted on the domestic stock exchange, that stock exchange or its regulator may demand financial statements that are consistent with domestic practices. In addition, those companies that wish to issue new shares more widely than on their domestic markets will see the advantages of standardised practices on the promotion of their issues. The capital market effects of international accounting differences are examined in detail by (Choi and Levich (1990)).

Again accounting standards for the multinational enterprise are a priority among international pressures for accounting change. However, as far as whether there should be specific standards for international enterprises, there are international constitutions which demand specific information for the international financial reports. No doubt, the existence of an international investor group from different countries has created various unique reporting audiences of interest. This is because accounting principles, as users of financial statements understand them, differ from country to country.

However, various issues need to be resolved, for example: defining user information needs; transfer pricing and its impact, foreign currency transactions and the translation of foreign currency financial statements; accounting for groups and the consolidation of financial statements; accounting for inflation; foreign exchange risk management; consolidation of enterprise accounts; international taxation; transfer pricing; performance evaluation; and information control system; and the accounting profession and the international organisations, with a substantial research effort, should co-operate to develop general accounting standards.

These pressures will also be felt by companies that do not operate multinationally. However, for multinationals the advantages of using international accounting standards would be much simplified if statements from all round the world were prepared on the same basis. Similarly, the task of preparing comparable internal information for the appraisal of the performance of subsidiaries in different countries would be made much easier. Many aspects of investment appraisal, performance evaluation, and other decision-making uses and management accounting information would also benefit from using international accounting. The appraisal of foreign companies for potential take-overs would be greatly facilitated. Multinational companies would also find it easier to transfer accounting staff from one country to another. However, these simplifications have increased because the relationship between multinational enterprises and host countries have become less differential and more pragmatic in recent years.

Because of differences in the measurement of profit in different countries, the tax authorities throughout the world have had their work greatly complicated when dealing with foreign incomes. However, it has to be said that tax authorities have caused many of the differences, for example, the influence of tax on European accounting.

Governments in developing countries might find it easier to understand and control the operations of multinationals if financial reporting was harmonised, particularly as this would imply greater disclosure in some cases. International credit grantors such as the World Bank must also face the differences of comparisons. Other organisations that would benefit from greater international comparability of company information are labour unions that face multinational employers. All these groups might benefit from using international accounting.

Nobody can forget the role of international accounting firms in developing and changing the national GAAP of each country towards the international accounting standards. Many of the clients of these firms have at least one foreign subsidiary or branch. The preparation, consolidation and auditing of these companies' financial statements would become less onerous if accounting practices were nationalised. Also, the accounting firms would benefit from the added mobility of staff.

Various organisations have made efforts in the standards-setting arena and in the development of international accounting. These organisations include the Accounting International Study Group (AISG), the International Accounting Standards Committee (IASC), the European Committee (EC), The United Nations (UN), The International Federation of Accounting (IFA), and the Union of European Accounting (UEA).

In a study by Bavisk and Wyman (1984), it is revealed that the following six firms occupy a substantial portion of the market all over the world.

- | | |
|-------------------------|-----------------------|
| 1. Arthur Anderson & Co | 2. Coopers & Lybrand* |
| 3. Deloitte & Touche | 4. Ernst and Young |
| 5. KPMG Peat Marwick | 6. Price Waterhouse* |

The dominance of these six large accounting firms derived from their common characteristics, which are:

- 1) Common bases of reporting that satisfy accounting requirements of both the host nation and the parent company.
- 2) Common auditing standards that give the international accounting firm the capacity to apply similar standards and methods of auditing for international operations.

* Merged as one firm as PWC

- 3) Imposing their own auditing standards on the foreign professionals, when they have to assume responsibility of all subsidiary companies included in the consolidation. However, these specific instructions and requirements have to be followed, especially when the auditors of parent companies have relied on the work of foreign auditors.
- 4) Developing international finance through the reliability they give to the lenders. International financial institutions and funds, provided that borrowers' financial statements are audited by international firms. However, they prefer only international accounting firms because of their reputations, known standards of work, and previous experience with the requirement of international lenders.

Most notably, from the above discussions of the international pressures for accounting change towards international accounting, is that the dynamic nature of accounting in its global context is that existing material traditions and practices will be changed in the years ahead, as new problems are identified and the pressure for international utilisation increases.

3.4. RECENT ISSUES CONCERNING INTERNATIONAL ACCOUNTING PRACTICE AND DEVELOPMENTAL STAGE OF IASC

3.4.1. Recent International Reporting Practice

As the business world shrinks, and the number of international transactions grow, most of international businesses recognise that they must adapt to a global environment. Within this context, understanding the increasing rigour IAS is becoming a necessary skill for those who are interested in preparing international reports. Therefore, one can argue that internationally accepted accounting standards should be adopted by all countries, in the preparation of their financial statements. This implies that the harmonisation of accounting standards is a worthwhile project to study for the achievement of a complete international standardisation of accounting standards.

However, there are several reports (Wallace (1996)):

- (1) Economic self-interest and other incentives of accounting bodies and Member countries of the IASC.
- (2) The desire by international investors to enhance comparability between the reports of different jurisdictions over investment flows in international marketing and enhancement of the operating efficiency of international markets.
- (3) Economies of scale and scope in standard setting.
- (4) Decreased cost of capital due to removal or reductions in premiums associated with the risk of not fully understanding the financial report of an entity, reporting under a different accounting regime (Collett, Godgrey and Hrasky (2001)).

- (5) Lower reporting costs achieved by obviating the need for an entity to produce two or more sets of financial reports, to satisfy differing rules or other regulations (AASB (1994)).

A major benefit claimed for international accounting harmonisation is that enhanced comparability between the reports of different jurisdictions will facilitate investment flows in international markets and enhance their operating efficiency. However, there are presently relatively few entities following these standards (Spencer (1998)). In 1998, only eight countries had adopted IAS in their entirety; none of those are significant in terms of world market capitalisation (Croatia, Cyprus, Latvia, Malta, Oman, Pakistan, Trinidad, and Tobago). Importantly, national regulator countries with major capital markets, including the U.S., the UK, and Japan, are not prepared to accept IAS as replacements for their own standards, nor are they prepared to base their national accounting standards on IAS (Sutton (1997)), although they accept the IASC core set of standards.

Sir Bryan Carsberg, Secretary-General of the IASC says: "This is a win-win situation for everyone, with both multinationals and investors benefiting". Cross-border investors, for instance, when they look at accounts, don't really know how to interpret them because different rules are being utilised. If you had one set of standards for regulators and it would be easier to keep control of this. Tremendous benefits will accrue to multinational corporations as well."

Carsberg explains, "Take the case of a giant like Heffman-La Roche, which operates in 100 different countries. The company has to comply with the national; GAAP of each of these countries, someone converting into a common language that can be understood by shareholders wherever they are. The company has said it could save SF 100 million annually if it were able to go to one accounting standard." (Quinn, (2000)).

Recently in 1998, IASC issued a discussion paper entitled "Shaping IASC for the future". Responding to the IASC, Edmund I. Jenkins, Chairman of the Financial Accounting Standards Board, commented that achieving the good of global standards and one set of global goal financial reporting standards is based on three principles:

- (1) First and of fundamental importance – all involved in global financial reporting must have a mission or objective.
- (2) A process for developing reporting standards that is accepted and trusted by all constituents.
- (3) Development standards that achieve high quality.

Until 1999, the International Accounting Standard Committee, issued core standards that brought some promise to harmonisation. Core standards consider accruals for restructuring,

amortisation of intangibles, financial instruments, interim reporting, pensions, segment reporting and valuating of assets. The International Accounting Standards Committee issued a paper on accounting and reporting by enterprises in the extractive industries, which was considered the first step in a project to develop standards for mining and petroleum production companies.

In the Year 2000, the International Accounting Standards Committee (IASC) issued two guidance documents on implementing IAS, as a financial instrument. Issues addressed in the implementation guidance included applying IAS to financial reinsurance contracts, credit derivatives, financial guarantee contracts, and commodity contracts, defining derivatives and originated loans, accounting for embedded derivatives, “regular way” transactions, transfer of financial assets and portions of financial assets (such as securitisation), and transaction costs; fair value measurement considerations; applying the effective interest method; classifying financial assets as hold to maturity; complement issues; hedge accounting issues (such as hedge components); disclosure about financial instruments, applying the transition requirements in IAS, and the interaction between IAS 39 and other IAS 21 which discusses the effect of changes in foreign exchange rate.

During the past year, actions taken by the U.S. Securities & Exchange Commission (SEC), the European Commission of the European Union (EU), and the International Organisation of Securities Commission (IOSCO), contributed significantly to the acceptance and prestige of the IASC. The SEC involvement has been a key factor and even before issuing its concept release, had decided to accept, without reconciliation, cash flow statements filed with them – by corporations outside the United States – that were prepared in accordance with IASC standards (IAS 7). The SEC also allows foreign firms to file using parts of IAS 21; The Effects of Changes in Foreign Exchange Rates, IAS 22; Business Combinations; and IAS 29, Financial Reporting in Hyper Inflationary Economics (Larson and Larson (2001)).

IOSCO announced that it would be recommending that its members allow multinational firms to use IASC standards – supplemented, where necessary, by reconciliation, disclosure, and interpretation – to address outstanding substantive issues at a country or regional level. Based on Montreal, IOSCO is an influential international organisation composed of more than 100 securities commissions and similar government agencies. Although this decision by IOSCO does not force the SEC to use IASC standards in the United States it provides further support for its acceptance of the standards.

In May 2000, the International Organisation of Security Commissions (IOSCO), at its annual meeting in Sydney, completed its assessment of the IASC’s accounting standards, recommending that its members allow their multinational issuers to use all of the standards, with reconciliation, disclosure, and interpretation taken into account when necessary. “We

look forward to working with the restructured IASC as it continues to develop standards to address the information needs of capital markets participants,” Michael Prada, Chair of IOSCO’s Technical Committee, said in Sydney (IOSCO (2000)).

The EU announced that it had adopted a new strategy for future financial reporting in Europe and declared that adoption of IAS standards represented the way to move forward. The Commission of the European Communities intends to require all listed EU companies to prepare consolidated accounts using IAS, beginning no later than 2005. However, it acknowledges that IAS could be inappropriate and possibly invalid for the preparation of individual accounts, given various national regulatory and taxation requirements. Furthermore, the EU sees the need for an endorsement mechanism to oversee the use of IAS, so that only endorsed standards are used (Commission of the European Communities (2000)).

Furthermore, the European Community has been influential in efforts to harmonise the requirements for the admission of securities to listing and the content of prospectuses. In addition, the International Co-ordinating Committee of Financial Analysts Commissions (IOSCO) are seeking to promote the internationalisation and integration of securities markets on a global basis.

“The IASC has been around for long time,” says Trish O’Malley, Chair of the Canadian Accounting Standards Board of Toronto. “The impetus for what’s happening today, however, is demand driven rather than supply pushed.” This is the market finally insisting that having different accounting standards is getting in the way of efficiency. It is saying, we want to reduce the cost of capital globally, and that is why people are turning to IASC and why it has found a fair level of support (Quinn (2000)).

T. Danaher, Assistant Controller at The General Electric Co., believes that U.S. corporate interest will grow as soon as the new IASC kicks into action, issuing proposed standards. “At the end of the day, you can make a pretty compelling case that they need to care” he says. “We will not see cost savings like European and other foreign companies will. But there are other major ways in which we should benefit. For instance, we should be getting better information for the financial statements of companies we want to acquire. In addition, the allocation of capital between U.S. and foreign companies should be more rational. If the companies that large institutional investors are following international model’s similar to U.S. GAAP and GAAP of many individual countries”.

In a survey of 300 global companies and their financial statements for a study called “The International Accounting Standards 1999,” the researcher found that adherence to IASC standards varied widely. “There is considerable variety in the approaches adopted by survey companies to compliance with IAS and the levels of compliance,” the report says, “There are

companies which comply fully. There are also many which specify exceptions from full compliance or which use IAS for only some items. And even among the companies which claim full compliance, there are material omissions or other non-compliances.” Many of the companies in our survey were following IAS voluntarily because they wanted to make their financial statements understandable to the international capital markets. “The survey indicates that there are improvements in two ways,” the report says, “One, more companies are following international accounting standards. Two, you’re seeing more companies moving up from partial to full compliance.” (Quinn (2000)).

It is possible that these concerns about the quality of IAS may need to be modified in the future. The IASC was recently restructured and now has a mandate to develop a set of high-quality, understandable, and enforceable global accounting standards. It remains to be seen whether the constraints and difficulties that have impeded the development of IAS to date can be overcome.

In discussions the future of IASC standards, opinions are mixed on whether or not the SEC will accept IASC standards in the U.S. Some observers predict that a compromise will emerge, whereby the SEC will accept IASC standards, but will require some additional disclosures or reconciliations to U.S., GAAP. A discussion is expected within one or two years (Larson and Larson (2001)). Regardless of the SEC’s decision, staying current on developments related to IASC standards is essential, especially in multinational organisations. External auditors around the world will need to be fully aware of the potential impact these standards may have on their companies and on their work.

In fact, an extraordinary amount of work remains to be done before a single standard is in place that covers all the areas of concern to securities regulators, accounting rule promulgators, and multinationals around the globe. When a Board is in place, it may find itself still wrestling with some highly contentious issues related to financial instruments and business combinations. The new Board will have to consider which of these issues it wants to tackle first.

3.4.2. Development of IAS

In the pursuit of international harmonisation of accounting, IASC started as an organisation interested in the promotion of the accounting cultures of those countries it perceives as exhibiting economic and political influence in the world. The aim of IASC is to formulate and publish, in the public interest, accounting standards to be observed in the presentation of financial statements and to promote that world-wide acceptance (IASC (1992)); and it started by propagating a menu of accounting cultures which reflected the policies, norms and procedures prescribed by its founder member countries (Australia, Canada, France, Germany, Japan, Mexico, the Netherlands, and the United States of America). Countries who became

members were those who shared the perspectives of one or more members of the dominant group and were willing to adapt fully to the values and accounting practices of the dominant group. In its early years, IASC built an international (if narrowly defined) consensus that was resistant to change and was probably reluctant to consider alternative models (Wallace (1996)).

At the second stage (1977-1980), IASC began to respond to criticisms about its inadequacies (such as the dominance of its board membership by developed Western countries). As a result, IASC included on its Board a couple of members from developing countries that were users of its standards. This was, however, done without disturbing its traditional culture and without creating “too many waves,” so as not to upset the favourable attitudes and behaviour of its founder Board member countries.

At the start of the proactive stage (1981-1987), IASC resolved the potential conflict between it and International Federation of Accounting (IFAC), founded in 1977, through a mutual commitments accord it signed with that body in 1981. The accord brought all members of IASC into IFAC the “parent body” of IASC. In return, the accord gave IASC complete autonomy over the development, promotion of world-wide acceptance and observance of IAS. IASC Board membership was increased from 11 to 13 countries, plus up to four non-accounting organisations with an interest in financial reporting (IASC Insight, 1993).

The next stage (1988-1995) in IASC life was the redefinition of its goals. The redefinition arose from the request of IOSCO that IASC should raise the quality and scope of its standards to a sufficiently high level that can either (1) be used by cross-border listed firms for preparing accounts to be filled with foreign stock exchange or (2) be preferred to the GAAP of the foreign country in which a firm is listed, as a reference point against which accounts prepared on the basis of a national GAAP might be reconciled. During this period, IASC decided to re-examine all its standards in order to reduce the many options in them. This task, described as "The Comparability and Improvements Project," was completed in November 1993.

The next stage (1996 – to date) IASC start to question its practice of allowing the practices in a few of its Board-member countries to dominate its menu of accounting standards and the ways in which such a perspective might limit its success. It seeks to explore the potential benefits that might accrue from a diverse multicultural focus. At this final stage, IASC became a truly multicultural organisation, which recognises that its own self-interest is served by the inclusion and nurturing of cultural diversity, and by the use of that diversity to enrich its creative powers and to produce better quality standards.

The IASC has, until now, issued approximately 40 IAS and addresses "core" accounting topics. Although official IASC standards are developed in England, the IASC has worked to make them widely accessible. Official translations are now available in German, French, Russian, Polish and Romanian.

For this stage, one can say that although a good deal has been done in the field of international accounting standards, there are still outstanding differences regarding variety of standards that should be resolved within a few years. There are also a number of outstanding concerns - financial instruments that need more study. There are also the issues of merger accounting, intangibles, post employee benefits, pensions, income taxes.

To conclude, it is worth noting that the IASC Board has to be geographically diverse. Twelve of the 14 members of the board will be full time. To achieve a "balance of perspectives and experience," IASC has mandated that at least five members shall be auditors, at least three shall have a background in the preparation of financial statements, at least three shall have a background as users of financial statements, and at least one shall have an academic background. In addition, seven of the IASC Board Members are expected to have direct liaison responsibility with one or more national standard setters. A simple majority of voting members is required to approve new IASC accounting standards (Larson and Larson (2001)). The Board of Trustees held its first meeting in New York City in June 2000. At the meeting, Sir David Tweedie, Chairman of the United Kingdom's Accounting Standards Board, was named Chairman of the new IASC Board.

3.5. INTERNATIONAL ACCOUNTING AND STOCK MARKETS' DEVELOPMENT

Technological innovation coupled with the deregulation of national capital markets, and increasing globalisation of the world economy, have created a positive climate for the increasing integration of the world's capital markets. This phenomenon which has been described as "globalisation" or "internationalisation" has meant that companies are no longer limited in their fund raising and investment activities to the home countries. Similarly, investors search around the world for the best portfolio. Furthermore, the increasing trend of multinationality of companies raised serious questions as to the adequacy and suitability of ethnocentric accounting guidelines, as conflicting standards of national reporting pose additional problems and costs for both multinational corporations and information users.

The world witnessed a significant expansion of financial markets and, more specifically, of stock markets, at a world level. Capital flows circulated with greater fluidity from one country to another by way of the transactions which were executed both in the markets for goods and in the financial markets. This has meant that companies can now seek finance in international markets and it is of interest for them to be quoted on the stock markets of other countries, which requires that they produce financial information for these markets.

The focusing on globalisation of capital markets has increased interest in the information needs of international investors and the desirability of internationalised (harmonised) accounting and financial reporting standards (Wyatt and Yospe (1993), Roussey (1992)). Many academic researchers, business leaders and international organisations advocate the harmonisation of accounting standards and the use of IAS as facilitators of the expansion of world equity markets, and promoters of economic growth (Wyatt (1991)).

In the last decade, there has been tremendous growth in the international capital markets. This growth is bringing a number of issues to the forefront. One issue is the diversity of accounting disclosure requirements and practices in different countries which is a source of concern for many different groups. For investors, in the absence of comparable disclosure by companies in different countries, analysing foreign financial statements is difficult. In a study conducted by Choi and Levich (1990), half of the institutional investors surveyed for the study reported that the lack of comparable disclosure practices in different countries hindered their capital market decisions. For companies seeking to raise capital in foreign countries, complying with foreign disclosure and report requirements may be an arduous and costly process (Saudagaran and Biddle (1992)).

Investors believe that accounting is an important part in the successful development of equity markets. They also believe that the accounting infrastructure is a “crucial element” for the development of equity markets. Accurate accounting information and reliable financial reporting are prerequisites and aids for the development of equity markets because investors require solid accounting information (Schweikart (1994)); and therefore, many researchers stress in their models its importance by prescribing the particular form that accounting information should take. However, others, including the International Organisation of Securities Commission (IOSCO), and the International Federation of Accounting (IFAC), suggest that the form of accounting should be the IAS (Damont (1992), Guy (1992), Kawakita (1991), and Shiratori (1991)). Nevertheless, the globalisation of equity markets has caused the role of accounting to receive increased attention. Beyond the theoretical outlines, there is growing discussion of the relationship of accounting and equity markets development in the international accounting literature. The literature (Ndubizu (1992)) on accounting and equity markets development is found in several different areas. In spite of intuitive support for applying IAS as an aid to equity markets development there are not enough studies that discuss the relationship between equity market development, and the adoption of IAS which might help to answer to the question: “how relevant are International Accounting Standards in promoting the development of stock markets?”.

3.6. SUMMARY AND CONCLUSION

There are many parties interested in international accounting practices, these include: shareholders; stock exchanges; multinational companies; accounting firms; trade unions; and revenue authorities. The scope for using international accounting is great because the international variations in practice are

very large. The fundamental causes of differences remain and these are backed up by nationalistic inertia. At present, the lack of an international enforcement agency is crucial.

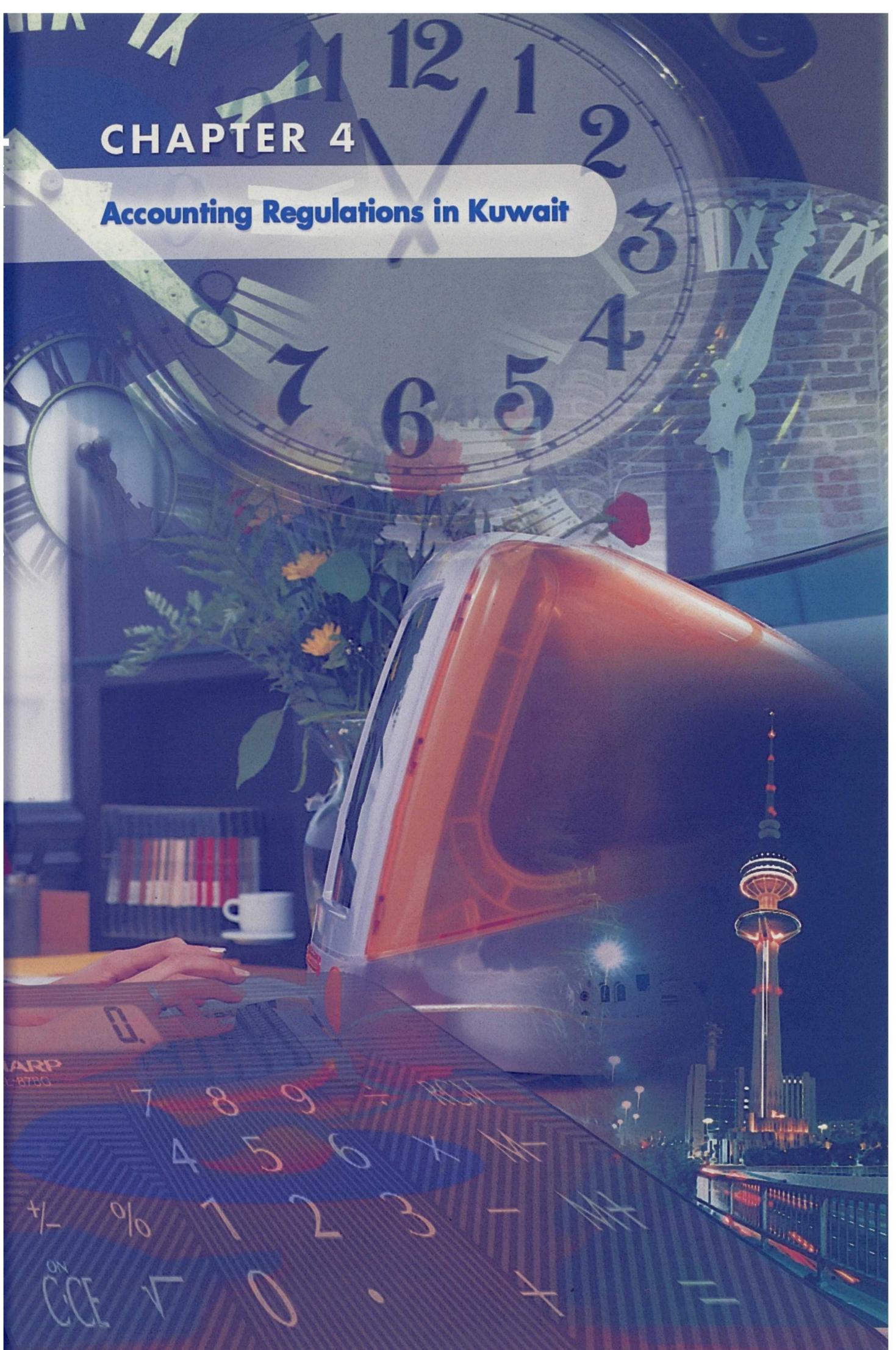
However, a number of bodies are working for international accounting rules and disclosure, notably the IASC, which has published a substantial list of international standards. These standards have been heavily influenced by practices in the United Kingdom and the United States, although this influence has been decreasing. Progress by the IAS in some areas of the world is difficult because of underdeveloped accountancy profession or because the rules for financial reporting are made by governments. IASC has to become more involved in dialogue and negotiation with its wider membership. It should develop formal procedures for resolving disagreement and ensuring adoption of its standards across the world.

There are other bodies concerned with using IAS on a world-wide or regional basis. However, the most powerful source of change towards regional harmonisation among leading countries is the E.U. Harmonisation of accounting is one of many aims of its Commission and its overall objective to remove economic barriers of international accounting within the E.U. is being achieved through directives and regulations.

Therefore, as a result of that effort, the concept of IAS has to be a reality, especially in multinational operations, where it has a great impact on financial operations. All finance professionals need to be aware of recent issues regarding the IASC standards and their global acceptance. In brief, international accounting and its effect on the stock market development is discussed.

CHAPTER 4

Accounting Regulations in Kuwait



CHAPTER 4 : ACCOUNTING REGULATIONS IN KUWAIT

4.1. INTRODUCTION

With the recent changes in economic and commercial activities in Kuwait, such as the formation of corporations and the separation of management and ownership, there has emerged a demand for better accounting information to assist in formulating its policies and in directing its operations. Furthermore, since investors, creditors and government agencies, are interested in the financial positions and the results of operations of enterprises in Kuwait, regulation is usually required not only to protect the investors, the employees, and the public, but also to protect the honest businessperson from a dishonest competitor.

The purpose of this chapter is to examine the need for legislative support for the accounting profession, legal aspects for accounting, stock market resolutions, the development of accounting standards, and analysis of the accounting regulations in Kuwait. To accomplish this objective, the relevant literature is reviewed. Specifically, it will provide a general analysis of accounting regulations in Kuwait, then will survey some of the specific laws that relate to accounting practice. The survey will provide background information on the development of accounting regulation and the evolution of accounting standards, in Kuwait.

4.2. THE NEED FOR LEGISLATIVE SUPPORT TO THE ACCOUNTING PROFESSION IN KUWAIT

The companies laws and securities laws in Kuwait have been instrumental in the development of its financial reporting. These laws specify the responsibility of companies to provide regular financial reports and establish the legal authority of the government agencies responsible for enforcement. It has to be decided whether a macroeconomic approach or microeconomic approach should be adopted in specifying financial reportings requirement and Kuwait has adopted a macroeconomic approach because it believes in stronger and more visible government participation in economic affairs; however, because of private sector-led recent economic development in Kuwait, it is expected there will soon be transformation towards a microeconomic approach.

It is insufficient that companies laws and securities laws specify financial reporting requirements of companies. Government agencies must also be given explicit authority to enforce legislation, by formulating detailed administrative guidelines. The Registrar of Companies in Kuwait is empowered, under companies law, to prescribe rules indicating how companies should file their annual reports. Without this authority, it would be difficult to improve the quality of domestic financial reporting.

Kuwait's experience reveals two prerequisites for active participation of professional accounting bodies and its Stock Exchange, in setting and enforcing financial reporting regulations. First, a government's overall policy with respect to regulating financial reporting should encourage entrepreneurial initiative within the private sector, by allowing a significant degree of flexibility in companies' financial reporting practices. Thus, companies are allowed to select their own accounting policies, subject to the reporting rules specified

in legislation, administrative pronouncement, and the accounting standards developed by IAS. The second prerequisite is that there must be well organised private sector bodies capable of formulating and implementing financial reporting rules. Without these private sector bodies, government is unable to delegate effective responsibility for standards-setting.

In general, a number of factors contributed to the deficiency of information evident in Kuwaiti accounting. First, the failure of law in Kuwait to require measures to be taken by companies to remove this deficiency; second, the absence of a strong accounting profession; third, the existence of broad 'Generally Accepted Accounting Principles'; four, and somewhat related to the first factor, the discretion and freedom enjoyed by management; and finally, the lack of adequate research or efficient academic training in Kuwait, which could upgrade the accounting standard setting process (AL-Hajeri (1992)). However, the picture changed after the adoption of IAS in 1990, although compliance and implementation of IAS is still difficult (Mostafa (1994), Abdul Rahim et al (1997), Mostafa and Abdul Rahim (1998), and Abdul Rahim et al (1999)).

.3. LEGAL ASPECTS OF ACCOUNTING IN KUWAIT

In the late 1950s the expansion of business led to an increase in the size of corporations. Owners became separated from management, and the details of operations became more intricate. It became necessary to ensure that someone could attest to the credibility of financial data.

Kuwaiti businessmen became much more aware of the value of the information made available by a good accounting system. Furthermore, the government realised the importance of accounting for the economy as a whole. Thus, numerous laws were introduced to regulate the accounting profession of which some of the most significant are:

- . The Law of Accounting Profession Regulation
- . *The Law of Commercial Companies*
- . The Law of Commerce
- . The Tax Law, and
- . Laws Pertaining to the Regulation of Securities Trading

The focal point of this chapter is an analysis of laws relating to reporting disclosure regulations in Kuwait. All the issues relating to these laws cannot be discussed in detail, but this chapter will broadly sketch the most significant points that affect financial reporting.

4.3.1. The Law of Accounting Profession Regulation

The first government law to regulate the accounting profession was introduced in 1962. This gave the Ministry of Finance and Economy the authority to issue licenses to professional accountants. In 1965 this authority was transferred to the Ministry of Commerce and Industry. This law (Law No.6) contains 29 articles. Articles 1 and 2 require that any person who wants to

engage in the practice of account auditing shall record his/her name in the Register of Auditors kept by the Ministry of Commerce and Industry. The qualification and requirements are:

1. A bachelor's degree in business or its equivalent, and the subjects of study should include accounting.
2. Membership in one of the institutions or societies approved by the Ministry of Commerce and Industry, or practical accounting experience in three-successive years. Experience gained before the enactment of this law is also accepted from such areas as public accounting, public or private company work, government departments or teaching.
3. Kuwaiti citizenship. Although the Minister of Commerce and Industry has the authority to license a non-Kuwaiti to practice accounting and auditing for a period of five years, which is renewable for another five years.
4. Good moral character.
5. Not less than 25 years of age.

It is assumed in Kuwait, that any holder of a college degree in business, with adequate practical experience, is competent and is therefore eligible for a public accountants' licence; while in many other countries (e.g. the U.K. and the U.S.) he/she must prove his/her competence by passing a professional examination.

Article 4 stipulates that the auditor shall not practice any profession or occupation that is in conflict with the accounting profession. The licensed accountant should not obtain work in auditing by solicitation or means considered to be demeaning to the prestige of the accounting profession. In auditing the records of a company, the auditor shall not be :

- . a partner or administrator of the company
- . a partner or employee of any referred to above, or
- . a relative, to the fourth degree, of the person in charge of managing or in charge of the accounts of the company.

Articles 6 and 7 deal with the information which appears in the application and the supporting documents to accompany the application. Within one month of the date of submission of the application, the decision shall be issued (article 8). If the application is refused on the grounds that the applicant committed a crime, then he/she shall not be allowed to file a new application until he/she is rehabilitated. A three-year waiting period is required if the reason for refusal of the application is lack of good moral character. If the reason for the refusal is the non-fulfilment of other requirements in Article 3, then a new application can be submitted when these requirements have been met.

Article 11 specifies the information to be recorded in the Register of Auditors. After the acceptance of the application, the auditors shall take an oath to practice his/her profession honestly

and faithfully, not to hide his/her findings from the proper authorities, and to keep all information about his/her clients' affairs confidential, after which a Certificate of Registration will be issued.

The auditor shall put his/her registration number on all correspondence, certificates, and auditing reports that he/she signs (article 13). Every auditor recorded in the Register of Auditors shall notify the Ministry of Commerce and Industry of the location of his/her office within 30 days. Any change of location should be reported within 15 days (article 14).

Article 15 states that the auditor "... shall carry out his/her work in the audit of the accounts of companies or individuals in accordance with acceptable audit standards and shall prepare the statement of accounts, the closing accounts and budget schemes.". Furthermore, Article 16 states that an investigation may take place in "... the case of any auditor charged with the violation of the provisions of this law or the acceptable principles of his/her profession ...". Articles 15 and 16 mention acceptable accounting and auditing principles, but do not specify what they are. There are no official pronouncements on accounting principles, auditing standards, or professional ethics encompassed in the law.

4.3.2. The Law of Commercial Companies

Other significant legislation which has had an effect on accounting in Kuwait is Law No.15 of 1960 - the Law of Commercial Companies. Every corporation is required to appoint an auditor. Under this law the auditor must be a registered accountant appointed at the annual meeting of the company. The auditor shall not accept any work in conflict with the audit of the corporation, such as membership on the board of directors, or any management, administrative or advisory office. The auditor has the right to examine all the books of the company and request any information deemed necessary. If he/she does not have access to the information needed, then he/she must report this to the board of directors at the annual meeting.

The auditor shall be entitled to attend the general meeting and give his/her opinion on every matter connected with the examination. The auditor shall include in his/her report, the following information:

- All the information and explanations which, to the best of his/her knowledge and belief, are necessary for the purposes of this examination.
- Financial statements (balance sheets and the profit and loss accounts) which present a true and fair view. They must be prepared in accordance with the Commercial Companies Law and the company's by-laws.
- A statement that the company has proper books of account.
- A statement that inventory has been taken according to the generally accepted principles.

- Whether the information in the report of the Board of Directors is in agreement with the information in the company's books.
- Whether any violation of the Commercial Company's Law or of the Company's by-laws was committed during the year, which would affect the company's activities or its financial position.

The auditor of the company is responsible for ascertaining that the information in his/her reports is correct, because he/she is considered by the law, an agent of the shareholders, who have the right to question any report. Article 166 states that each year the company has to retain a percentage of its gross profit equal to the depreciation of its assets. This percentage is determined by the board of directors or the by-laws of the company and may not be distributed to the shareholders, but shall be used for the replacement and repairing of assets.

Article 167 states “that each year 10 percent of net profit is designated as a statutory reserve, unless the by-law of the corporation determines a higher percentage. This reserve shall not be distributed as dividends of up to 5 percent in years in which the profits of the company do not permit the distribution of this percentage.”

Article 168 states that the general assembly, by the recommendation of the board of directors, could pass a resolution to establish a percentage of net profit as an optional (voluntary) reserve. The general assembly has the power to determine the uses of the reserve. Article 169 deals with the obligations of the labour laws, whereby the company has to retain part of its profits to meet these obligations.

4.3.3. Law of Commerce

Article 29 of the Commercial Law No.2 of 1961, states that the merchant is obliged to keep the commercial books required according to the nature and importance of his/her commerce and to ensure that they represent an exact statement of his/her financial position, and to produce a statement of the debts connected with his/her business. He/she is bound in all cases to keep two books: the daily journal and the inventory book, which must be kept for ten years from the date of their closure. However, individuals who carry on simple trade or minor commerce, and merchants whose capital is less than KD3750 are exempt from this requirement.

The books must be bound with numbered pages and each sheet, bearing the stamp of the Ministry of Commerce and Industry (MCI). Within two months of the end of the financial year, or if commercial activities are suspended, the merchant must present them to the Ministry of Commerce and Industry (MCI) to write therein that they are completed. This must be done in the merchant's presence.

Nowadays, most of the companies have a computer-based system to prepare or produce their financial statements, such as balance sheets, profit and loss accounts etc. However, in spite of this, the Ministry of Commerce and Industry (MCI) force the companies to keep these books (the daily journal and the inventory book), because no computer software is available to meet the law.

A true copy of all correspondence, telegrams, invoices and other documents relating to the business, must be kept by the merchant for 5 years.

In a court case, books and commercial papers may be used as evidence for or against the owner.

4.3.4. Tax Laws

Decree No.3 of 1955, Article 3, states the deductions that can be taken in the computation of income in the taxable period. These are:

- The cost to the taxpayer of goods sold or services rendered by the taxpayer.
- Any expenses which accrue against or are paid by the taxpayer in carrying on his/her business.
- A reasonable amount in each taxable period for the exhaustion depreciation, and obsolescence of certain assets. The percentage to be used for depreciation is stated.
- Any losses accrued and not compensated for by insurance or otherwise.
- An amount for amortisation of direct expenses incurred in prospective operations connected with exploration.

Article 5 deals with the accounting period. The taxpayer should keep records on the basis of a "Christian calendar year" unless the government gives him/her permission to use a different base. In any case, the period should not exceed one and a half years.

Article 6 states that the income shall be computed in accordance with the method of commercial accounting regularly employed by the taxpayer in keeping his/her records. If the taxpayer uses a method that does not reflect his/her income, then the "accrual method of commercial accounting" shall be used as the method under which items of income and items of expenses are taken into account in the taxable period in which they occur.

If any business sustains a loss in a taxable period, the taxpayer can carry this loss forward against the income of the first subsequent taxable period (Article 7). The taxpayer shall enter in his/her accounts all items of income and deductions. He/she shall file a declaration on the basis of the records which are correct and fairly reflect his/her income. If a public accountant agrees that the records correctly assess the taxpayers income, then the declaration shall (in the absence of proof

to the contrary established by the government) be accepted as correct and the income tax in such declaration considered to be finally determined (Article 9).

These are most of the articles in income tax laws that deal with accounting matters directly.

4.3.5. Laws Regulating Securities Trading

The government realising the importance of the stock market to the economy as a whole, issued Law No.27 in 1962, the purpose of which was to regulate the securities of companies established outside the country. Subsequently, the number of Kuwaiti corporations increased steadily during the 1960s, leading the government to recognise the need for a law to regulate the securities of domestic corporations. This led to the enactment of Law No.32 of 1970.

Article 1 states that no one shall offer securities to the public unless he/she has a licence from the Minister of Commerce and Industry. This licence shall normally only be granted to a bank in Kuwait for securities of Kuwaiti companies offered to the public; although if the securities are not offered to the public, the permission could still be granted to a bank in Kuwait, or a Kuwaiti merchant agent undertaking activities relating to trading in securities of companies established in or outside Kuwait (Article 2).

The Minister of Commerce and Industry issued the decree necessary to regulate trading in securities until a law establishing a stock exchange was promulgated. The Minister, who consulted the "Financial Consulting Committee" for advice, was the chairman of this committee whose members included: two representatives of the Ministry of Commerce - one from the Ministry of Finance, one from the Central Bank of Kuwait; and five Kuwaiti nationals with specialised experience (Articles 3 and 11). Article 4 required the applicant for the licence to present a certain document when the securities were listed on a foreign stock exchange.

Article 5 states that all foreign companies licenced to operate in Kuwait should be audited by chartered accountants, and registered with the Ministry of Commerce and Industry. The auditor should give a report to the Ministry of Commerce at least each 6 months. In some cases, the Ministry can appoint an auditor to audit the company's books when necessary, in which case, the company has to pay the auditor's fees.

Article 7 states that the company shall make a report each month, with the following information:

- . Monthly volume of transactions;
- . Record of company securities traded during the month; and
- . Lowest and highest sales and purchase prices.

It is prohibited to trade in foreign stocks except through authorised offices or, through salesmen licenced by a recognised stock exchange and registered with the Ministry of Commerce and

Industry. Moreover, it is prohibited to trade securities on credit except within the limits established by the Ministry (articles 8 and 9). The law established penalties to be applied in case of violations (articles 12 and 13). Decree 10, issued in 1971 by the Minister of Commerce and Industry, required the companies and Insurance Departments in the Ministry to prepare statistics on the volume and prices of securities traded and the profits of the corporations with securities in the market. In addition, ministerial decision No.52/1974 was issued prohibiting any forward buying and selling of stocks.

Decree No.3 of 1975 was issued to amend Law No.15 of 1960. It requires promoters to scrutinise subscription applications before the allotment of shares, in order to avoid subscription by fictitious or repeated names, and does not allow shareholders to dispose of their stocks before a balance sheet for at least the first 12 months is issued. Moreover, the decree determined the minimum share price to be KD1.

.4. STOCK MARKET RESOLUTIONS IN KUWAIT

In November 1976, the Ministry of Commerce and Industry issued a number of organisational procedures for trading in shares of Kuwaiti shareholding companies, and a committee on securities was established to organise dealings in securities.

A number of resolutions and regulations was issued concerning the stock market in 1977. In April the Kuwait Stock Exchange was opened and, in the same month, a resolution was issued to regulate forward market dealings in stocks and to make these transactions subject to the Ministry's supervision, thus repealing the ministerial decision issued in 1974.

The stagnation in the market in 1977 was caused by many factors such as public expectations and forward market dealings, and the government issued a resolution in August 1977 suspending establishment of new share holding companies, taking measures to restore confidence and to reactivate the market.

Another resolution was issued in December 1977 whereby the government could purchase any quantity of shares at the price prescribed by it. This resolution continued in effect until April 1978. Then the government issued a resolution permitting the shareholding companies to reduce the share nominal value to one dinar.

In general, the laws and resolutions issued by the government can be viewed as providing basic assistance to improve financial reporting practices in Kuwait. When a problem arose, the government would consider it and recommend measures to be taken to solve it. While this approach helped to improve reporting disclosure, it did not establish a general framework and did not provide a comprehensive treatment for the development of adequate financial reporting. It is thus concluded that the deficiencies in these laws are:

- (1) They did not treat reporting disclosure in a comprehensive manner.
- (2) They resulted in accountants and the business community not developing or prescribing reporting principles to solve the problems as they arose.
- (3) They were not supported by experience and adequate research to be used as a basis for formulating and evaluating any further proposed new laws and changes.

4.5. DEVELOPMENT OF ACCOUNTING STANDARDS IN KUWAIT

Accounting provides many useful services throughout society. Therefore, the advancement of accounting is intimately related to the general economic growth of a country. In this respect, Kuwait is not different from other countries. With the change in economic and commercial activities, the formation of companies and the separation of management and ownership, the need for accounting services has emerged. Before presenting the accounting standards this section will address briefly the following: accounting profession and auditing standards.

4.5.1. Accounting Profession

The accounting profession in Kuwait is still in its infancy. The first law to regulate accounting was issued in 1962. Law No.6 of 1962 enacted to regulate the accounting profession, amended by Law No.3 of 1965 and, finally, amended by Law No.5 of 1981. The authority for licencing professionals rested with the Ministry of Commerce and Industry. Article 12 states that “the auditor shall carry out his/her work according to the generally acceptable auditing and accounting standards and professional ethics which will be specified by the technical committee.”. On June 28, 1981 a Permanent Technical Committee (PTC) was formed to establish accounting principles.

Accountants are aware of the need for a professional organisation; this awareness led to the establishment of a local Accounting Society in 1973. This society is not as active as it should be, but it is expected that it will become more active in improving and developing accounting thought and practice. For the time being, improvement in the accounting profession can be attained by the development of codes or standards of professional conduct designed to raise the level and quality of professional services.

Laws relating to accounting regulations had had some effect on accounting, and increased the volume of accounting services for both companies and accountants in Kuwait. The laws have forced the maintenance of better records; but, on the other hand, the rigid controls built into the provisions of the various laws have contributed to the slowdown in the development of accounting practices in Kuwait.

In 1986, a resolution was issued related to the professional ethics, which stipulated a code of professional ethics, consisting of five parts: general rules, independent technical standards, confidentiality of information, fees, and professional behaviour.

The main areas of professional practice rendered by the profession in Kuwait presently are mainly in the areas of auditing, taxation and management consulting. Consulting services include subjects such as system design, reengineering corporate finance, privatisation, training etc.

The law attempts to raise the level of the profession by increasing the length of required experience and requires a professional examination which has not been stipulated by the superseded law. The examination is administrated by the Ministry of Commerce and Industry in collaboration with the accounting department of Kuwait University. This examination is a prerequisite for the registration in the Ministry of Commerce and Industry (MCI).

Accountants in Kuwait have made some progress in their climb towards professional status but they are far from reaching a desirable level. Generally speaking, the continued professional development of Accounting depends on the ability of accountants to identify their profession as a distinct activity that provides essential services to society. In their efforts to improve their profession, accountants made some progress toward the establishment of an accounting organisation in 1973. However, this organisation has not been very active in establishing accounting standards and procedures for the country.

Structural changes in business and the economic growth of Kuwait call for a well-educated work force. This requires changes in the educational system to make the content of courses more oriented to local Kuwaitian conditions and needs. The government can play a big role in encouraging accountants to develop and improve accounting and auditing standards, but help is needed from foreign accountants to speed up the development of these standards.

It has been recognised that if a professional group desires to maintain public respect and its ability to provide useful services to society, it must continue to expand its specialised body of knowledge through research and application of new techniques and procedures. The continuing growth in new knowledge must be accompanied by a programme of continuing growth for the members of the profession. Through this growth, a profession can continue to meet any new problems that arise and retain the public respect necessary for the effective use of its knowledge.

4.5.2. Accounting and Auditing Standards

Accounting and auditing standards are interrelated. Auditing standards are a guide to the auditors on forming opinions about how well a set of financial statements conforms to generally accepted accounting principles (Mueller, Gernon, and Meek (1987)).

Auditing in general, is a systematic process of objectively obtaining and evaluating evidence regarding assertion about economic actions and events, to ascertain the degree of correspondence between those assertions and established criteria, and communicating the results to interested

users. The auditor communicates to the users the standards and procedures followed in reaching his/her opinion.

The audits in Kuwait are conducted by registered accountants as required under the commercial law and the Kuwait Stock Exchange. So far there is no defined set of generally accepted auditing standards. This results in heterogeneous auditing practices and the quality of audit services which exist. The absence of defined audit standards make it more difficult for the auditor to prove that he/she has done all a prudent and diligent auditor can do, under the given circumstances, in accordance with recognised auditing standards.

On the other hand, there are a number of practising accountants in Kuwait who are members and partners of public accounting firms and have worked abroad for many years. Moreover, many firms in Kuwait are associated or affiliated with the big five. This results in the creation of two classes of accounting firms. On the one extreme, there are some local firms which are associated with one of the big five performing audits using concepts of generally accepted auditing standards and, on the other hand, firms that certify financial statements without doing effective auditing.

Supplement (4.1) summarises essential information related to the audit practices in Kuwait (Needles (1985), and Shuaib (1985)). It is worth noting that this essential information which related to the audit practices in Kuwait is still valid now. The first part of Supplement (4.1) shows the title of the auditors, the source of authority, licensing procedures, and training. The second part summarises the basic characteristics of the attest function. It shows the companies required to be audited, the objective and purpose of audit and auditing standards, and appointed the auditor. The third part addresses the ethical standards. It indicates responsibility for detection of frauds. The fourth part addresses the question of independence. Finally, part five summarises the audit report.

The commercial law requires that, the auditor shall give his/her opinion on every matter connected with his/her examination at the general shareholders annual meeting. The auditor must include in his/her report the following:

- all the information and explanations which, to the best of his/her knowledge and belief, are necessary for the purposes of the examination;
- financial statements (balance sheet and profit and loss account) which present a true and fair view. They must be prepared in accordance with the Commercial Companies Law and the company's by-laws;
- a statement that inventory has been taken according to generally accepted principles;
- a statement indicating whether the information in the report of the board of directors is in agreement with the information in the company's books; and

- a presentation as to whether, according to his/her knowledge, any violations of the Commercial Companies Law or of the company's by-laws were committed during the year which would affect the company's activities or its financial position.

As mentioned above, the auditor's responsibility is to ensure that the financial statements are prepared in accordance with the Commercial Companies Law. Supplement (4.2) summarises the information and the auditor must ensure that the financial statement is in compliance with these items (Shuaib (1995)).

Accounting standards are the rules for preparing financial statements, that is, the generally accepted accounting principles. As stated in Law No.15 of 1960, the auditor's report must confirm that the financial statement was prepared according to the generally accepted accounting principles. A review of published financial statements revealed that significant differences exist in the disclosure included in the annual reports. These differences arise from the fact that accounting practice in Kuwait is derived from that of the U.S., U.K., and the neighbouring Arab countries. There are no official pronouncements.

Until the beginning of the 1970s, there had been no negative public concerns or lawsuits against practitioners. However, due to the stock market crash in 1982, some cases were brought against the auditors. This fact raises the question as to how the liability of the auditor should be determined in the absence of generally accepted accounting and auditing standards.

As a reaction to accounting problems, mainly the stock market crash in 1982, the accounting practice came under severe stress and attack for permitting companies a wide choice of accounting policies during the 1980s. After some public debate and controversy, the Ministry of Commerce and Industry (MCI) realised the need for defined accounting principles. MCI began to issue, at the end of each year, a resolution to be used as a guideline for preparing financial statements.

In January 1984, the Ministry of Commerce and Industry issued a memorandum to be used by the companies for preparing financial statements for December 1983. The memorandum addresses the most important points related to the Kuwaiti environment. For example, the first point in the memorandum relates to the treatment of post-dated cheques because, due to the stock market crash in 1982, it was considered to be a very important issue at that time. In general, the memorandum covered the following:

- Post-dated cheques related to securities transactions;
- Post-dated cheques related to commercial transactions;
- Investment in securities;
- Investment in land and real estate;
- Amortisation.

In February 1986, Ministerial Resolution No.10 of 1986 covered issues concerning the preparation of financial statements for the year 1985. The resolution addressed the following:

- Investment in securities;
- Investment in land and real estate;
- The difference of land and real estate evaluation;
- Receivable, debtors and loans;
- Amortisation of deferred loss.

In January 1987, resolution No.4 of 1987 was issued concerning the accounting principle to be followed in preparation of financial statements for 1986. The resolution consisted of the following:

- Objectives and procedures of the Permanent Technical Committee (PTC) for Setting Accounting Principles;
- Three guides relating to the following areas:
 - . Guide No.1 Financial Statements
 - . Guide No.2 Accounting for Investment
 - . Guide No.3 Accounting for Real Estate.

The Permanent Technical Committee (PTC) in its working methods and procedures stated that the development of accounting in developed countries will be used as a guide, whenever appropriate, for setting accounting standards in Kuwait, especially the International Accounting Standards Committee (IASC). These guides came into effect for financial statements ended December 1986 and thereafter, and were to be applied to materials items.

Guide No.1 deals with the information to be disclosed in financial statements, which is, to a great extent, similar to IASC statement No.5. It also includes illustrative financial statements intended to illustrate typical formats, terminology and disclosures. These statements were drawn from the practices in Kuwait and therefore the disclosures presented do not include all disclosures that may be required.

Guide No.2 related to accounting for investment in securities and is partially in line with the IASC statement No.25. The committee incorporated the unique practices relevant to Kuwait, reflecting the economic environment and professional and business community acceptance.

Guide No.3 related to accounting for real estate and is also to a great extent similar to IAS statement No.25, which incorporates factors reflecting the economic condition of real estate in Kuwait.

The Permanent Technical Committee (PTC) studied the trends in financial reporting, through observation of published financial statements and feedback from the practice, reviewing the effectiveness of its published guides in terms of compliance and the need for updating or adding new standards. As a result of this follow-up the committee arrived at a conclusion which stipulated the adoption of the international accounting principles. Consequently, on April 17, 1990, the Ministry of Commerce and Industry (MCI) issued resolution No.18 of 1990. The resolution required that all companies should apply international accounting standards (IAS). This resolution was effective for financial statements from Jan.1, 1991 and thereafter. The Ministry of Commerce and Industry (MCI) upon the recommendations of the standing Permanent Technical Committee (PTC) decided which IAS principles were to be followed.

On August 2, 1990, Iraq invaded Kuwait and disrupted the operations of all the companies in Kuwait. There were heavy losses, with most of the companies' assets damaged or stolen. Consequently upon the recommendation of the Permanent Technical Committee (PTC) for setting accounting principles, the Ministry of Commerce and Industry issued Resolution No.110, December 1991, which related to preparation of a financial statement for the year ending December 1991. However, because of the Iraqi invasion, most of the companies produced one financial statement for two years 1990-1991.

Resolution No.110 required that all companies should adhere to the resolution No.18 of 1990 which required the adoption of the IAS for preparing their financial statements. It stated that all the losses related to the Iraqi invasion should be treated as extraordinary loss and appear in the notes to the financial statement. In the event of receiving the claimed losses resulting from the invasion, it should be considered as extraordinary income. A survey of the financial statements of the listed companies in the Kuwait Stock Exchange, and other closed companies, revealed that most of the companies for that year referred to the losses in the auditor's reports and the notes to financial statements. The losses reported in the 1991 income statement were based on the historical cost of the companies and, therefore, did not represent the actual losses sustained by each entity. Such losses should have taken into consideration, among other factors, lost profits on business opportunities and the current cost to replace damaged or stolen assets. Most companies stated that they determined the economic losses, caused by the Iraqi invasion based on the guidelines issued by the Kuwaiti Public Authority for Assessment of Compensation (PAAC).

Article 2 considered the stock price of August 1, 1990 as the basis for short-term investment valuation by applying the cost or market, whichever was lower. For long-term investment, this was stated at cost with provision for the decrease in the value. For accounts receivables, the financial statement notes should show the principles used to determine the allowance. For real estate income (Rent), expected profit and claims, these should be treated as contra accounts and included in financial statements notes.

Another recent development which took place was Law No.51 of 1994, issued by The National Assembly and related to joint audits. This law amends Article 161 of Commercial Companies Law 15 of 1960, which stated that the company should have one or more auditors. While Law 51 of 1994, stated that "A company listed in or registered at the K.S.E. shall have not less than two auditors, provided that they are from separate firms. There are no pronouncements from any regulatory body in Kuwait that specify the practices and procedures to be followed in the case of a joint audit."

4.5.3. Financial Reporting In Kuwait

In the 1950s, the number of commercial firms increased. The establishment of shareholding companies necessitated the separation of management from ownership, and led to the need for financial statements and information to enable the shareholders, investors, and creditors to assess the results of operations. As a result of this development, businesses have moved towards more public and credible financial disclosure practices. This section briefly examines financial reporting and disclosure developments as they relate to the legislative acts, accounting profession, and the Kuwait Stock Exchange.

1952 which witnessed the inception of the first shareholding company, led to limited trading of shares - this could be considered an "over-the-counter" market. The 1960s is considered a take-off period for the development of accounting. The government realised the need for establishing rules and regulations and, to meet this need, enacted laws that influenced accounting development. It also recognised the need for accounting education. In 1963, the first secondary school of commerce was established to fulfil the increasing need for book-keepers, secretaries, and administrators. At university level the commerce, economics, and political sciences faculty of Kuwait University was established in 1967.

In the late 1960s, the stock market started to expand, and the number of companies increased further. At the beginning of the 1970s, which is considered to be the turning point in the development of the stock exchange in Kuwait, the stock market became more organised than in the 1960s, due to the law and decrees issued in relation to these activities.

Towards the end of the 1970s, few investment opportunities existed in Kuwait and; due to the easing of legal requirements, this led to Gulf countries such as the United Arab Emirates and Bahrain to form Gulf shareholding companies.

During 1980-1981, public attention began to focus on the Gulf public companies' shares. These Gulf shareholding companies were traded in the unofficial market -The Souk Al-Manakh. Up to the first half of 1982, the share prices soared. There was intensive demand by the public to buy shares. This closely resembled, to some extent, the behaviour of investors buying shares in the

U.S. rush market in 1929. The transaction in the official stock market in Kuwait slowed down considerably by the end of 1982.

By mid-August 1982, the market collapsed. The prices of shares started to decline, and post-dated cheques were overdue. The government urged the parties concerned directly to seek compromises with their creditors, followed by a decree requiring registration of post-dated stock market cheques and details of the transaction. To deal with the stock exchange crisis, in collaboration with the National Assembly and sometimes with the Kuwait Chamber Commerce and Industry, the government issued a series of resolutions. Another development took place on February 15, 1984 when the Stock Exchange Committee issued a resolution requiring that from June 30, 1985, all listed companies submit semi-annual financial statements in addition to the year-end statements. The requirements closely resemble those of the U.S. practices, SAS-36, Review of Interim Financial Information. The system of financial reporting has developed through disclosure requirements in various laws and resolutions. These laws have attempted to raise the level of the profession.

The adoption of IAS since 1990 is considered a major attempt towards accounting harmonisation. The IASC defines the primary objective of financial reporting as that of providing information for economic decision-making while recognising the existence of different types of users, and assumes that information useful to investors will meet most of the needs of other users. The IASC also assumes economic decisions require primarily an evaluation of an enterprise's ability to generate cash and cash equivalents on a timely basis. However, while investors are obviously interested in the cash generation ability of an enterprise, many of them are also interested in an enterprise's performance regarding the environment and other social and public issues. Furthermore, some have argued that the financial reporting plays a role beyond providing information used directly for economic decisions.

4.6. ANALYSIS OF ACCOUNTING REGULATIONS IN KUWAIT

As we mentioned earlier, commercial enterprises in Kuwait grew both in size and number, and more people became unwilling to share in management. This created a need for separation of ownership from management. Therefore, the need for information and verification of financial data increased for different groups; investors, intermediaries, portfolio managers, accountants, auditors, management, and regulators. However, voluntary disclosure was produced by the founders to increase welfare of the corporation in terms of easier capital raising, as it reduced agency costs. (Watts (1979)).

It could be said that securities regulations, in particular, resulted from the crash of the stock market in 1982, and the following financial stagnation; but this regulation did not provide a comprehensive treatment for the development of adequate financial reporting. Such lack of regulations create certain problems which appeared in the stock market (Shuaib (1995)). One problem was price manipulation that created a false impression of activity and forced prices up higher than their true market level. The other problem was the

misuse of financial information. The dealings in the market were concluded on the basis of estimation, rumours, guessing, and personal judgement. This occurred in such a way that shares of companies established in 1981 and 1982 were traded before the inception of actual operations and there was nothing financial about their activities. In addition, there was the excessive use of credit speculative deals. This type of credit meant that investors agreed to buy and sell at a certain price, but payment would be made with post-dated cheques, which resulted in making a profit without any cash commitment (Shuaib (1995)).

However, because of the development of the Kuwait Stock Exchange regulations during the 1980s, the following benefits have been achieved (Shuaib (1995)):

- uniformity with respect to the format and presentation of financial information disclosed by companies.
- regulations to improve the quality of the financial information available to the users, by setting minimum accounting standards for financial reporting.
- in general, adaptiveness and responsiveness of the regulators were adaptive and responsive to the needs of the changing environment in Kuwait.

The preceding sections document that growth of the economic business and environmental factors in Kuwait, during the last three decades, provided the stimulus for the development of accounting standards. Evidence and experience tell us that these developments in Kuwait are related to many environmental factors, which include: economics, social, political, cultural, legal, policy making - and as social values differ, so do accounting practice development and evolution (Bloma and Naciri (1989)), and Rahman, Wee and Tower (1994)).

4.6.1. Environmental Factors

The issue of the influence of environmental factors on accounting standards has been documented (AL-Hashim and Arpan (1992)). These factors include characteristics of the Kuwaiti economy, nature of the business, internal users, external users, government, accounting profession, academic, and regional and international influences (Shuaib (1995)).

1. Characteristics of Kuwait Economy: The economy of Kuwait has been built upon oil production, the export of which has provided a high standard of living. Because the government owned all oil resources, this led it to intervene in the private sector, to encourage, protect and assist. This in turn led to an increase in the controls exercised by the government and resulted in the growth of large-scale government companies. Also the limited absorption capacity of the country, because of its small economy, resulted in the movement of capital to outside Kuwait, for example, to the Gulf Corporation Council (GCC) countries, and abroad.

The authorities tried to direct investment throughout the economy, so as to provide each sector with companies capable of meeting the community's needs for goods and services. Their object was to broaden the industrial base of the domestic economy; create new job opportunities and

channel the oil surplus into the domestic economy, and because oil revenues were vital to the social and economic progress of the domestic economy, they attempted to divert them from the risks inherent in overseas investment. Domestic companies were considered the most suitable vehicle to direct more financial resources towards investment and employment, and to help in the creation of a solid economic base.

Due to the repercussions of the Iraqi invasion and their adverse effect on rates of domestic economic performance, several significant economic developments (Central Bank 1990-1992) took place. Kuwait had no official foreign debt before the 1990s. The only foreign borrowing was by the private sector. However, the war cost, oil prices decline in Kuwait, and intensive cost and efforts to rebuild the country, resulting from the Iraqi invasion, forced the country to approach the international markets for credit in 1991.

Another development which took place in 1993-1994, is privatisation. The World Bank prepared a privatisation strategy. The main theme was towards expansion and liberalisation of the private sector and less dependence on the public sector for goods and services (The World Bank (1993)).

2. Nature of Business: The forms of business organisations that exist in Kuwait are similar to other countries. In the forties and early fifties most business were family centred. In 1952 the country witnessed the establishment of the first shareholding company. This necessitated the separation of management from ownership, and the need for financial statements and information to enable the shareholders, investors and creditors, to assess the results of operations.

This led the government to issue the principle statute governing commercial companies in Kuwait, Law No.15 of 1960 Commercial Companies Law, which prescribed the forms of business. These forms resemble and follow the pattern in the U.K., U.S.A. and Arab countries mainly: sole partnerships, partnerships, and corporations.

The rapid changes in the 1970s - 1980s were brought about by the increasing complexity, problems in business, and different types of industries. The increase in numbers of shareholding companies, and the creation of the stock market in 1983, affected the content and the basis on which the financial statements were prepared. This led to the change in the nature and extent of information required by the users and to the imitations of the U.K., and U.S.A., practice and international standards.

3. Internal Users: The accounting system provides information in any organisation for three broad purposes (Horngren and Foster (1987)):

- I. Internal reporting to managers for planning and controlling routine and day-to-day operations.

- II. Internal reporting to managers for making non-routine decisions and in developing plans and policies.
- III. External reporting concerned with outside parties such as government, creditors, etc.

Within the firm, there are many users of data and information. These users include the board of directors, management and employees. An important change that has taken place in Kuwait is the development of the needs and sophistication of the investors, which places a burden on the board and management and has influenced the disclosure of financial data. On the other hand the elected members of the board and management used the accounting information during the year to monitor performance to protect their interest. The management also used the information for managerial decision such as a salary increase for employees and to formulate policies.

4. External Users: This group includes creditors, individuals and institutional investors. Creditors are important users of financial information such as Kuwait banks, which are becoming more sophisticated and require better information to help in their decision-making. Also as the banking system in Kuwait is under the supervision of the Central Bank of Kuwait, they need to keep financial data about their customers.

It is well established that an efficient capital market is dependent on well-informed investors. With the development of the Kuwait Stock Exchange (K.S.E.) in the seventies the need for the financial information increased. This was intensified with the failures of some public and non-public companies after the stock market crash in Kuwait, in late August 1982, and led to the Ministry of Commerce and Industry (MCI) issuing some guidelines for the preparation of financial statements starting 1983 and later requiring the adoption of the IAS.

For example, the guidelines included price of securities to be used for application of accounting principle for investment in marketable securities which generally carried at the lower of cost or market, because some shares were not traded or the market was not active. This environmental factor necessitated the inclusion of the list price. Also resolution No.110 required the application of IAS and stated that the Permanent Technical Committee (PTC) should decide which statements were to be followed. Because different factors could result in different accounting standards, the aim of this option is to provide a way for the committee to exclude the application of IAS in case they are not relevant to Kuwaiti environments or should other circumstances arises.

In addition, the creation of the Kuwait Stock Exchange (K.S.E.) in 1983 was another step toward protecting the investor. The Kuwait Stock Exchange (K.S.E.) began to set special requirements for the preparation and presentation of financial information and interim financial statements.

5. Government: The government started to regulate accounting practices as early as 1962 and the 1970s and it continued to force the development of accounting standards and practice. With the stock market crash, government intervention was increased to protect the public interest. The number of regulations was increased during the 1980s and 1990s.

For example, as stated before, a law introduced by National Assembly related to joint audit. On August 7, '94, Law No.51 of 1994 was issued. Article 3 of Law No.51 amends article 161 of Commercial Companies Law 15 of 1960 requiring that a company listed and registered at the Kuwait Stock Exchange (K.S.E.) shall have not less than two auditors from separate firms. While before, article 161 permitted a company to have one auditor.

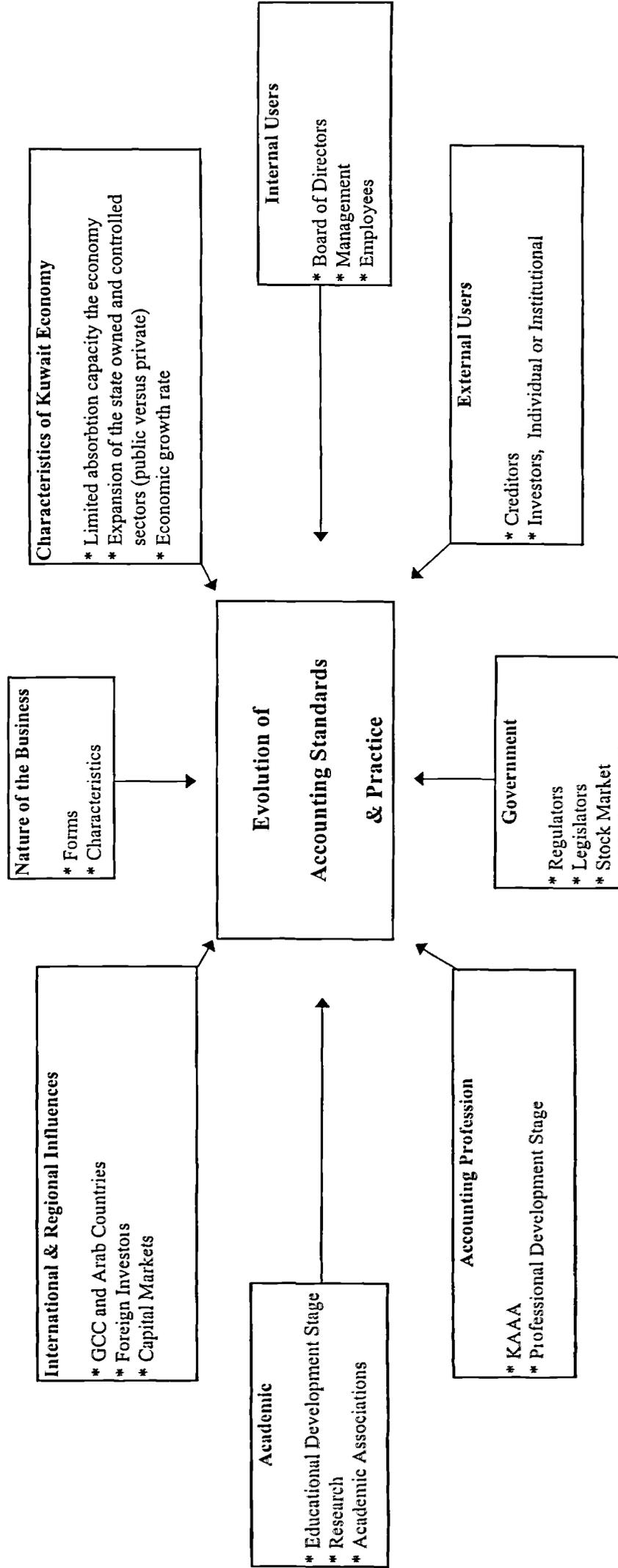
6. Accounting Profession: The well established professions have common characteristics: the rendering of important services to society, the existence of a body of specialised knowledge, a high degree of competence on the part of those practising in the field - both in terms of formal training and general personnel practice, which lead to a code of professional ethics, formal recognition of the group under state law or other authority, a sufficient level of public understanding and respect for the field, and continuing growth and development within the field to ensure that it will continue to be of service to society. (Carey (1968), and Roy and MacNeill (1969)). It could be said that the accounting profession currently meets much of the criteria stated. However, because the level of sophistication of the profession is an important factor, the accounting profession in Kuwait, to some extent, is far from being well established.

7. Academic: Prior to 1967 a university education in accounting was unavailable. The Kuwaiti student had no choice but to go overseas to further his/her study. In 1967, the College of Commerce, Economics and Political Science, of Kuwait University, was established. The establishment of the college provided the academic educational infrastructure in the country but, like other developing countries, Kuwait faced certain problems such as staffing, textbooks, research, and professional activities.

8. International and Regional Issues: There are many international accounting committees involved in harmonisation of accounting standards and auditing standards, and in the Gulf Corporation Council (GCC) and Arab countries region, there are committees that are active in attempting this harmonisation. The creation of the Kuwait Stock Exchange (K.S.E.) has created the need for financial information. These needs resulted in a pressure to attempt to define accounting and auditing standards. This led to the creation of a Permanent Technical Committee (PTC) in 1981 at the end the adoption of the International Accounting Standards. This pressure will, in the near future, force the Gulf Corporation Council (GCC) States as a regional economic group, to standardise reporting requirements.

Exhibit (4.1) shows the above environmental factors which have influenced and affected evolution of accounting practice in Kuwait.

EXHIBIT (4.1)
Environmental Factors and the Evolution of Accounting



Source: Shuaib, A.S. (1995).

4.6.2. Public and Private Sector Standards Setting

The disarrangement in the disclosure of the social, economic and political environment led to different regulations approvals, ranging from private sector to the government, or both, depending upon the role the government plays in the country's economy. In this respect the Kuwait government is intensively intervening in the economy. As stated in the World Bank report:

"The existing institutional and regulatory framework in which the private sector operates reflects a long standing philosophy that the appropriate role of the government is to extensively intervene in the private sector so as to encourage, protect and assist private businesses. This is sometimes characterised as a close co-operation between the government and private business, sometimes as a paternalistic or protective philosophy towards private business, or in more traditional terms as "Kafala" (Sponsorship of the State)." (The World Bank (1993)).

As stated before, the development of accounting standards has been entrusted to the public sector. The standards setting occurs through laws and governmental decrees specifying minimum accounting reporting requirement. As a reaction to the stock market crash 1982 the Ministry of Commerce and Industry (MCI) started to issue at the end of each year a resolution to be used as guidelines for preparing financial statements. In January 1987, three guides were issued and the resolution of 1990 required the adoption of IAS. These developments show that the political forces both government and National Assembly play a considerable role regardless of the contribution from the profession. This trend, particularly with 1990s, will continue, until such time where the private sector is capable of carrying out this responsibility.

4.6.3. Large, Small, Quoted and Unquoted Companies

In Kuwait all companies must have an independent audit and must publish annual accounts. This requirement is regulated by Law 15 of 1960. As mentioned before, resolution No.18 of 1990 required that all companies should apply IAS, from January 1990, and thereafter. This requirement creates problems for small companies, in some cases, in applying these standards. For example in cash flow statements, because of their limited expertise, some small audit firms have problems in preparing these based on the Ministry of Commerce and Industry (MCI) ruling during 1994.

When joint audit was introduced, it was agreed it should apply to only listed companies on the K.S.E. In contrast, IAS affected all companies. It seems that differential disclosure standards were recommended. Kuwait has adopted IAS from outside local government, and, therefore, the problems of cost benefit have arisen.

7. SUMMARY AND CONCLUSION

The purpose of this chapter was to examine and analyse the accounting standards setting in Kuwait. A review of the laws and legislation related to the accounting standards was presented, showing that the role of regional and international forces on the development of accounting standards in Kuwait was pervasive. For example, Law No.15 of 1960 which was considered the first law to regulate accounting practices, was inherited from the Arab countries which, in turn, is now practiced in Europe.

The development of the Kuwait economy has had to deal with wide degrees of accounting practice choice, market crises and financial embarrassments during the 1980s which resulted in changes in the approach of the development of standards in Kuwait. As a result of this development, the MCI issued a resolution in 1984, to be used as a guideline for preparing financial statements at the end of each year. Then faced with problems of limited resources, time factor, change in the nature and extent of information required by the users, and the development of the international relations and world economy, IAS was adopted in the 1990s.

Generally speaking, until the 1980s, there were wide choices of accounting practices and disclosure. On the one hand, there were some local firms, which were associated with one of the big five, are able to perform audits in line with U.S. and U.K. standards. On the other hand, there were other accounting firms that certified financial statements without doing effective auditing.

Events of the 1980s and 1990s resulted in changing the development of accounting standards. This resulted in the accounting profession having to give attention to the economic and social environmental characteristics, which had a direct influence on accounting and its social role. The challenges to the profession are still far from complete. The profession should continue its sustained interest in its healthy growth. It is important for the practice to progress in order to have consistent and logically derived accounting standards that form the basis of a conceptual framework.

Accounting in Kuwait is still in its infancy, and the government is seriously considering steps to improve the situation. It is at this stage that the accounting profession has a tremendous opportunity to help speed the process and to establish itself in society as the protector of public interest.

In Chapter 10, section (10.4), we suggest some recommendation which could help improve the standard of accounting in Kuwait.

In particular, to succeed in developing accounting and auditing standards, the standards must be politically supported, have professional acceptance, and meet technical requirements. They must also be well formulated and logically derived, consistent with approved standards, and practicable for some or all companies. The characteristics of the Kuwaiti economy must be considered, namely:

- The increase in controls on the economy exercised by the government.
- The expansion of the state-owned and controlled sectors.
- The rapid growth of large-scale government companies and establishments.
- The limited absorption capacity of the country because of the smallness of the economy.

The rapid changes in the 1980s and 1990s, brought about the increasing complexity and problems in business which were not capable of being handled by the present mechanism for setting accounting standards. The present process helped to improve reporting disclosure, but the resultant piecemeal approach did not establish a general framework and did not provide a comprehensive treatment for the standards setting.

**Supplement (4.1)
Audit Practice in Kuwait**

Title Auditor	Source of Authority	Licensing Procedures	Training
1. Auditor Registered Accountants	Law No.5 of 1981 on the Practice of Auditing Profession	<p>The applicant must record his/her name in the Auditors Register at the Ministry of Commerce & Industry. He should meet the following requirements:</p> <ol style="list-style-type: none"> 1. A natural person; 2. A holder of a Bachelor of Commerce Degree; 3. Practical experience seven years in Auditing of banks, insurance and investment companies and five years for others; 4. Kuwaiti Citizenship; 5. He should pass the examination set by the Ministry. 	<ol style="list-style-type: none"> 1. A Bachelor's degree in Commerce - Accounting Major. 2. Practical experience should be gained after his/her degree in the following: <ol style="list-style-type: none"> a. Auditing of accounts in an accounting firm; b. Practising accounting or auditing in the public or private sector companies; c. Practising accounting or auditing at the government units.

Audit Practice in Kuwait

	Required to be Auditor	Objective or Purpose of Audit	Auditing Standards
<p>2. To attest all companies functions</p>	<p>Appointed at annual company meeting for shareholding companies and by management (owner) for others.</p>	<p>The ensure that financial statements show a true and fair view and that they are prepared according to the Commercial Companies Laws and the by-laws, and that the company has proper books, that inventory has been taken according to GAAP, and that the board report agrees with the books.</p>	<p>The practice of the Auditing and Accounting Law. The auditor shall assign a file for every company audited by him. He should record all works he carried out in that file and he should keep all these files for a period of ten years. No official auditing standards. On the one extreme, there are some Kuwaiti and international accounting firms that perform audits using generally accepted auditing standards from the U.S. on the other extreme, there are other accounting firms that certify financial statements within doing effective auditing.</p>

Audit Practice in Kuwait

	Ethical Standards	Enforcement	Legal Liability	Responsibility for Detection of Funds
3. Ethics	<p>The practice of Audit of Accounts Law provides that ethics be specified by the Technical Committee. The Kuwaiti Association of Accountants and Auditors (KAAA) issued a code of professional ethics, which was adopted by the Ministry of Commerce and Industry.</p>	<p>Legal System</p>	<p>Not Defined</p>	<p>No precise definition</p>

Audit Practice in Kuwait

	Concept of Independence	Functions Generally Not Allowed
<p>4. Scope of Practice</p>	<p>The only specific prohibitions are under the Practice of Audit of Accounts Law</p>	<p>Serving as a partner or administrator of the client corporation; a partner or employee of the chairman or managing director; a relative or one or more in the company; a relative to the fourth degree of a management accountant in the audited company. An auditor cannot practice any other profession which is in conflict with his/her work as auditor, specifically: consulting works, the formation of the company, book-keeping or preparing the financial statements, advertising or obtaining business in an ethically incompatible manner with ethics of the profession.</p>

Audit Practice in Kuwait

Reporting Requirements	Reporting Address
<p>5. Audit Reports</p>	<p>The auditor must address his/her reports to the Shareholders</p>
<p>The companies law requires cash flow low statements; balance sheet and income statement. A statement of changes in financial position is required by the shareholding companies. Recently, for the year ended December 1994, a cash flow statement is required in conformity with international accounting standards. The audit report has a scope and opinion paragraph. The third paragraph states that the financial statements are in compliance with commercial companies law and the by-laws, and that the company has proper books, inventory has been taken according to GAAP, and the board report agrees with the books.</p>	

Source: Needles (1985), and Shauib (1985).

Supplement (4.2)

Items to be completed at the Interim Stage of the Audit

Shareholding Companies

Incorporation/Objectives	Capital	Board of Directors	Company Accounts
<ul style="list-style-type: none"> * Obtain the company's incorporation degree, should be published in the official gazette * Company's Articles of Association, should be published * The subscription in line with the incorporation degree * Ensure that the subscription procedures carried out in accordance with the Commercial Company's Law * Obtain copy of the minutes of the general assembly meeting of incorporation - first year only * Obtain a copy of the founders reports on the incorporation procedures * All the above should be verified and agreed with the companies law and articles of association * Ensure that the activities and operations of the companies agreed with the articles of association 	<ul style="list-style-type: none"> * The company's capital no less than KD37500 or KD7500 for closed shareholding * The nominal value not less than KD100 * The excess over the share's nominal value used to meet incorporation expenses and the excess should be transferred to statutory reserve * The share's nominal value should be paid with 5 year from the date of inception * Show the number of subscribed shares and amounts paid and due * Registration record shows the shareholders names, quantities and any changes * Interest changes on unsettled instalments * Consideration to shares issued against non cash * Ensure that the founder did not dispose of their shares within 3 years of the inception * The maximum limit for each shareholder 	<ul style="list-style-type: none"> * The appointment of the board of directors in accordance of the company's article of association and the law * Number of shares owned by each board member guarantee * The above required shares have been deposited in the bank 	<ul style="list-style-type: none"> * Appointment of the auditors has been made according to the law and company's articles of association

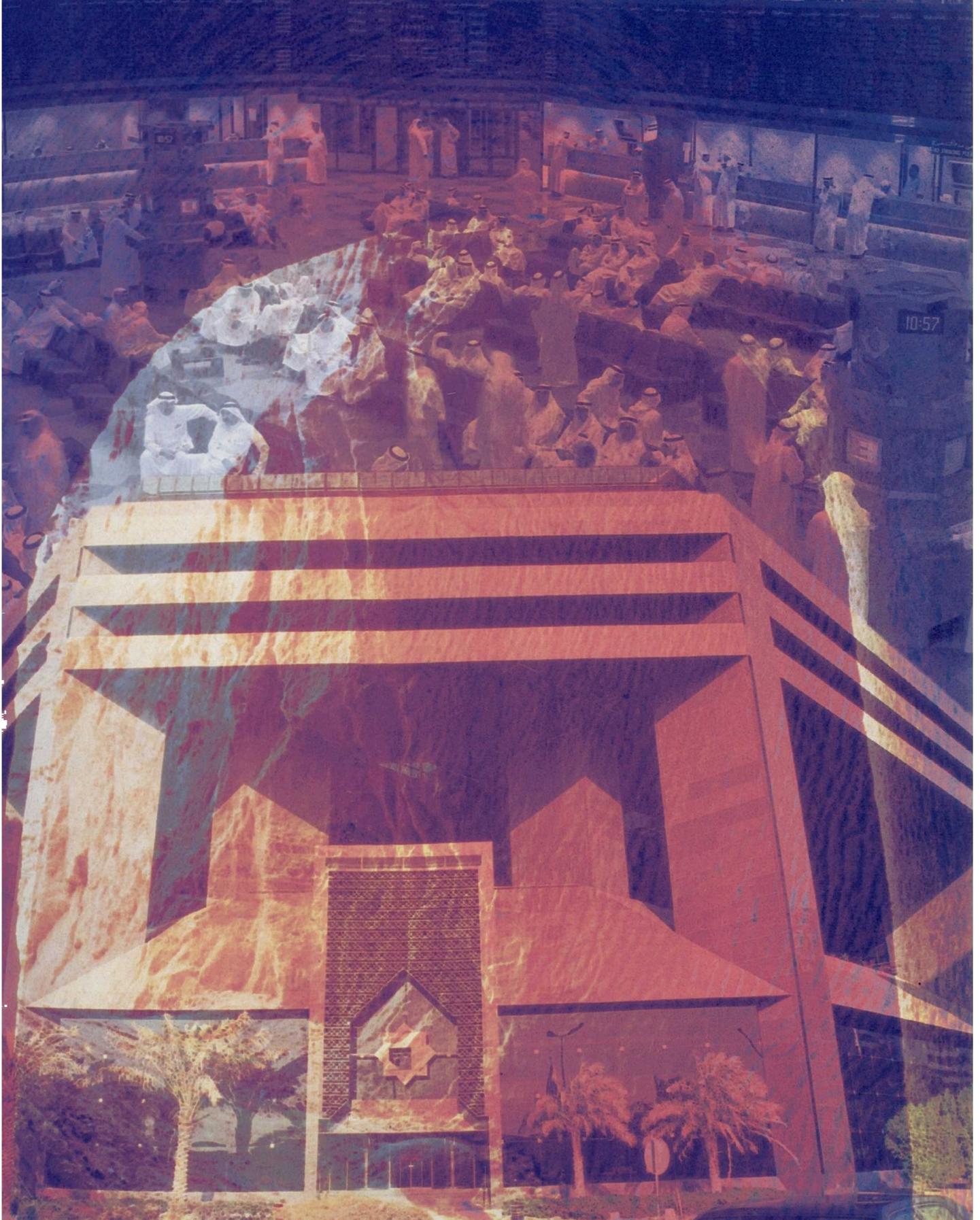
Items to be completed at the Final Stage of the Audit
Shareholding Companies

Incorporation/Objectives	Capital	Board of Directors/ General Assembly	Company Accounts
<ul style="list-style-type: none"> * Ensure that the activities of the company did not start before the inception * Ensure that the capital is paid prior to the General Assembly * The activities carried out by the company together with its activities in the article of association 	<ul style="list-style-type: none"> * Increase or decrease the capital based on the decision by the extraordinary General Assembly * Has the capital increased or decreased in conformity of the company commercial law * Did the company purchase any of its own shares? 	<ul style="list-style-type: none"> * The board should hold minimum 4 meetings during the financial year * Reviewing the minutes of the board * Attendance of the board members should conform with the law requirements * The directors remuneration should be calculated in accordance with law and company's articles of association * The board members have many transactions with company * Implementation of the resolutions of the shareholder's ordinary and extraordinary meetings * Any changes in the articles of association * The ordinary general assembly should be held within 3 months from the end of the company's financial year 	<ul style="list-style-type: none"> * If the appointment upon the board recommendation, then this should be disclosed before the general assembly meeting * Obtain the information deemed necessary for purpose of the audit * Ensure that the appropriation of net profit has been made in conformity with the law and articles of association * The use of reserve funds in conformity with the law and article of association * In case of statutory reserve suspension, approval of the general assembly is required * If the company's losses exceed 75% of its capital, this should be notified to the board for compliance with companies' law

Source: Shuaib (1995).

CHAPTER 5

Emergence & Development of the Stock Exchange in Kuwait



CHAPTER 5 : EMERGENCE AND DEVELOPMENT OF THE STOCK EXCHANGE IN KUWAIT

5.1. INTRODUCTION

The Kuwait Stock Exchange (K.S.E.) has undergone a series of developmental stages that can be analysed into specific periods. However, this chapter will address the following: (i) legislative development; and (ii) organisational structure of the Kuwait Stock Exchange.

5.2. LEGISLATIVE DEVELOPMENT OF THE KUWAIT STOCK EXCHANGE

With the first oil shipment from the shores of Kuwait in 1946, the economy of Kuwait changed and income from oil became the major source of revenue. As a result, the need arose to form commercial enterprises to assume some responsibilities of the national economic development process. The first national shareholding public firm, the National Bank of Kuwait, was formed in 1952, followed by the Kuwait Cinema Company in 1954, the Kuwait National Airways in 1956, and the Kuwait Oil Tanker Company in 1960. During the early 1960s: three major events occurred, the country became fully independent from British protection, a national currency unit was issued, and the first commercial law No.15 for the year 1960 was passed, which requires the directors of a company to present to the shareholders annual accounts that provide a true and fair view of the company's state affairs and profit or loss for the year.

The events of the 1960s encouraged nationals to start forming new economic units, mainly shareholding companies. Also, the separation of ownership from management created a need for a market where securities could be exchanged for capital resources.

However, in spite of the rapid increase in shareholding companies formation and the increase in number of stocks issued since the early 1960s, lawmakers did not express any significant concern about organised trade in securities. As a result, an "over-the-counter" market for securities came into existence.

5.2.1. The Emergence of the Kuwait Stock Exchange

A British consultancy group visited Kuwait in 1970 and examined the possibility of setting up a stock market in the country. The group concluded its initial report to the Ministry of Commerce and Industry (MCI) by saying, "in our view it should be possible to open a stock exchange within 9-12 months of a decision being taken and the necessary appointments made". (The formation of Kuwait Stock Exchange (1970)).

Shortly after, the first creditworthy law No.32/70 was issued which related to the conditions for trading in marketable securities and provided the Ministry of Commerce and Industry (MCI) with the right to issue any laws it deemed fit to regulate the trading of marketable securities until the issuance of a law for the establishment of the Stock

Exchange. Also, in August 1971, a resolution was issued relating to the daily press publication of information on marketable security transactions. The Kuwait environment consists of a different group that have interests in financial reporting, investors, information intermediaries.

After that resolution the companies' insurance supervision section in the Ministry of Commerce and Industry (MCI) was entrusted to regulate trade in securities and compile statistical analysis (The Central Bank of Kuwait (1969-1979)).

In early 1974, the Kuwait Council of Ministers formed a committee with the membership participation of representatives of the Council of Ministers, Minister of Finance, the Ministry of Commerce and Industry (MCI) and the Central Bank, to study the conditions of shareholding companies, under the supervision of the planning Board. The Committee concluded that traders of Kuwaiti stocks were hoping for a quick profit, in the short-term. They were looking for speculative profit, rather than a fair income. As a result, the Committee, recommended the reduction of a maximum limit for subscriptions. Also, Law No.3 of 1975 reduced the minimum nominal value of shares to one dinar.

On 2 November 1976, Ministerial decree no.16/76 was issued:

“Pertaining to the trade of Kuwaiti shareholding companies securities whereby a Securities Committee was established so as to organise and supervise securities trade and to prepare for the establishment of the Kuwait Stock Exchange, the said committee being comprised of 8 members chaired by the Minister of Commerce and Industry”. (Al-Zourban (1981)).

The committee consisted of the Minister of Commerce and Industry (Chairman), also known as the government representative; one representative of the Central Bank; one representative of the Ministry of Commerce and Industry (MCI); two representatives of the Chamber of Commerce and Industry; a representative of the investment companies; a representative of the brokers; and one other person knowledgeable in securities.

The committee was entrusted with wide powers including the right to:

- . draw up organisational rules for trading in securities such as methods and procedures, registration of companies and brokers, and the setting of minimum data requirements;
- . investigate complaints by dealers and brokers;
- . submit recommendations for the promotion of security dealings and the diffusion of investment practices;

submit studies to create a stock exchange and suggest the necessary by-laws.

The early 1970s witnessed a rapid growth in the formation of shareholding companies, that led investors to resorting to the Gulf Countries such as the United Arab Emirates and Bahrain, because of easier legal requirements between Gulf shareholding companies (AL-Tuhaih (1983)).

The “over-the-counter” market developed, during the 1960s, continued its growth during this period. Stocks were traded either directly between traders, or through scattered brokers. There was no one price for a stock, and different brokers offered different prices. In short, supply and demand did not determine stock price. Stock traded at prices which had no economic sense; rather, it was based on traders' personal judgement and speculative basis.

Therefore, both prices and volume of trading continued to decline in early 1977. The volume trade stocks dropped from 19.8 million in 1976 to 13.7 million the following year, a decline of 30.6 percent.

In 1977, 57 percent of trading was concentrated on one company “Sanitary Wear Industries Company”. Had this company been excluded from 1977 trading, the volume of the total trades in markets would be as low as 30 percent of the level of the previous year. However, the stagnation was witnessed in the financial markets in 1977 and 1979, and the outlook for the early 1980s was uncertain and somewhat gloomy, since the market continued its downward trend and most fundamental factors that affected the market during 1979 did not change.

The Kuwaiti Government entered the market as a buyer, to support prices and to prevent them from further depreciation. It also instructed the banking system to reduce the interest rate charged on outstanding loans and to extend the repayment period for additional years, with the possibility of a further extension depending on the financial conditions of an individual borrower. The government were intent on preventing the market from totally collapsing.

During 1981 the securities market in Kuwait witnessed some development, when the regulatory authority issued the conditions required for listing the Kuwait closed held joint stock companies and the Gulf Companies - the most important required conditions for listing the joint stock companies are:

- a) The company should have been established legally in one of the Gulf states signatory to the Economic Agreement concluded by the states (i.e., member states of the G.C.C. established in 1981).
- b) The company should be totally owned by Gulf individuals and institutions, provided the Kuwaiti share therein is no less than 50%.
- c) The company should have been established for at least three years.
- d) The company should have realised profits resulting from its activities and functions as outlined in its memorandum of association. The profits should not have been less than 10% per annum in the last two years.
- e) At the time of registration in the Stock Exchange, the capital of the company should not be less than five million Kuwaiti dinars.
- f) The Gulf companies, to which the conditions are applicable, should undertake not to increase their capital in any way other than free bonus (stocks) for three years from the date of admission.
- g) The admitted companies should undertake not to establish any subsidiaries for five years from the date of admission.
- h) The aforesaid conditions should not be applicable to applications for licensing trade in the stocks of Gulf companies engaged in the banking or insurance business.

5.2.2. AL-Manakh Crises

These closed joint companies shares were traded in the unofficial market, the Souk AL-Manakh. In the first half of 1982, the share prices soared. There was intensive demand by the public to buy shares. This description closely resembled, to some extent, the behaviour of investors buying shares in the United States market rush in 1929 (Galbraith (1980)).

Dealers in the Kuwait Stock Exchange used deferred payment deals. The total value outstanding for the period from May 1982 to December 1982 aggregated to \$5.26 billion, while the total value of Souk AL-Manakh transaction was estimated at \$3.3 billion for the same period (National Bank of Kuwait (1983)).

By the last quarter of 1982, signs appeared that some traders in the market were facing difficulties in fulfilling their financial obligations. These difficulties resulted from forward trading in securities, and they posed fear which put further downward pressure on securities prices. Table (5.1) shows the public and closed Kuwaiti shareholding companies formed and liquidated during the period 1940 – 2001.

Table (5.1)
Public and Closed Kuwaiti Shareholding Companies Formed and Liquidated
During the period 1940-2001

Year	Formed			Liquidated		
	Public	Close	Total	Public	Close	Total
1940 – 1950	1	-	1	-	-	-
1951 – 1960	6	-	6	-	-	-
1961 – 1970	14	9	23	-	-	-
1971	1	1	2	-	-	-
1972	22	6	28	-	-	-
1973	5	8	13	-	-	-
1974	3	9	12	-	-	-
1975	2	23	25	-	4	4
1976	1	33	34	-	-	-
1977	2	21	23	1	2	3
1978	-	30	30	-	1	1
1979	1	16	17	-	3	3
1980	-	27	27	-	1	1
1981	-	35	35	-	4	4
1982	1	66	67	-	-	-
1983	1	19	20	-	2	2
1984	-	15	15	1	4	5
1985	-	12	12	2	13	15
1986	-	6	6	1	33	34
1987	-	5	5	-	16	16
1988	-	6	6	-	4	4
1989	-	9	9	-	7	7
1990	-	4	4	-	-	-
1991	-	1	1	-	-	-
1992	-	11	11	1	7	8
1993	-	19	19	-	3	3
1994	-	12	12	-	4	4
1995	1	11	12	-	3	3
1996	-	33	33	-	3	3
1997	-	42	42	-	1	1
1998	2	51	53	-	6	6
1999	-	48	48	-	6	6
2000	-	38	38	-	1	1
2001	-	15	15	-	1	1
TOTAL	63	641	704	6	129	135

Source: Ministry of Commerce & Industry – until June 2001.

The characteristics of the Kuwait Stock Exchange were speculation, sensitivity to forces of political development, and high public demand for the shares.

In August 1982, the Kuwait Market collapsed, the share prices started declining. The post-dated cheques were overdue. The actual total figures were around \$90 billion. A Cheque Clearing Company (Kuwait Clearing Company) was created to gather all information on all forward dealings. The company started its operations on September 23, 1982. Table (5.2) groups the post-dated cheques according to their values.

Table (5.2)
Post-dated Cheques Submitted to Kuwait Clearing Company

Amount of/or less than		Number of Cheques
In KD	\$ Equivalent	
50,000	163,935	4,916
100,000	327,870	2,846
200,000	655,740	3,578
250,000	819,675	1,276
500,000	1,639,350	4,826
750,000	2,459,025	2,910
1,000,000	3,278,700	1,830
2,500,000	8,196,750	4,293
5,000,000	16,393,500	1,565
10,000,000	32,787,000	615
50,000,000	163,935,000	220
100,000,000	327,870,000	3
TOTAL		28,878

Source: Kuwait Clearing Company (1982).

This crisis was due to the following reasons:

1. The practices in the stock market were price manipulation, where successive buy and sell orders created a false impression of activity and forced prices up higher than their true market level.
2. The misuse of financial information, where dealers, most of the time, worked on the basis of estimations, rumours, guessing and personal judgement. For example, the shares of most companies established in 1981 and 1982, were traded before the inception of their actual operations, and there was no financial information about their activities.
3. The excessive use of credit to finance speculative deals. Because of this excessive use of deferred payment, some speculators did not meet – on maturity - their payment of post-dated cheques on.

5.2.3. The Establishment of Kuwait Stock Exchange (K.S.E.)

However, the crisis supported the laying down of rules and regulations in a way that helped the construction of a new entity. As evidence of improvement, the government issued on August 14, 1983, a decree to establish the Kuwait Stock Exchange. The decree dealt with the organisation, regulation and development of a formal Stock Exchange in Kuwait on February 15, 1984. The Stock Exchange Committee issued the following resolutions requiring that companies should submit their financial information as follows (resolution No.16 of 1987):

- Yearly financial information should be submitted within three months after the end of the financial year.
- Half-yearly financial information should be submitted by August 15, of every year. It should be noted that for most listed companies the year ends in December.
- Provide the Kuwait Stock Exchange with all minutes of the general assembly meetings within 15 days from such events.
- Dealings in shares of the companies which do not adhere to this resolution, would be suspended by the committee.

In 1986 the decree law No.132 was issued to reduce the minimum limit of a share nominal value to 100 fills in April 1987. This led to brisk trading by investors. The reduction in nominal value was aimed to expand the market, attract investors and to curb the competition by non-Kuwaiti companies (The Central Bank of Kuwait (1987)).

In May 1990, the law No.31 organising the traded securities and establishment of investment funds, was issued. This law consists of several articles, which aim to settle the market and to keep it under the control of the Kuwait Stock Exchange authorities. The full text of these articles is to be found in Supplement (5.1).

After the Iraqi invasion of Kuwait, the Kuwait Stock Exchange was reopened and several by-laws for regulating investment funds were issued. Decision No.1 of 1993 was issued by the Kuwait Stock Exchange, and aimed to merge both the parallel and official market, and to avoid contention among shareholding companies to be listed in the Kuwait Stock Exchange.

In June 1993, Resolution No.2 was issued with the following conditions to be met by the Investment Funds before applying to enlist in the Kuwait Stock Exchange:

- 1) The approval of the Minister of Commerce and Industry to establish the fund.
- 2) The capital of the fund not to be less than 5 million Kuwaiti Dinar.
- 3) All shares invested in the fund to be listed in the K.S.E.

- 4) The director of the fund to submit quarterly financial data as well as a report about the activity of the fund during this period. All financial data shall be examined by an auditor and shall include the following information:
 - a) the balance sheet;
 - b) income statements clarifying the realised and unrealised income;
 - b) statements detailing any change in the financial status;
 - c) full statements detailing the cost and market value of the investment as well as information about the selling and buying activity.
- 5) The auditor shall make a spot inventory of the assets of the fund at least twice a year, giving a report to the exchange about the results of this inventory.
- 6) Financial investment funds units shall be evaluated weekly and shall be published in the local newspapers every Saturday morning. The Exchange management shall have the right to look into the fund's records that includes detailed statements about the above mentioned information.
- 7) Real-estate investment funds units shall be evaluated every 3 months and shall be published in the local newspapers. The Exchange management shall have the right to look into the fund's record that include detailed statements about the above mentioned information.
- 8) In case of redemption the Exchange management must be notified within 2 weeks so that it will be able to advise the public.
- 9) Edit a monthly report accounting for the unit trading activity and to send it to the Exchange management by the end of each month.
- 10) The Investment Manager to edit an exclusive record individualising the name, nationality, and address of the participants in the fund; in addition, refer to the number of units each participant owns. Updating any change that occurs in this topic is also required.
- 11) The Investment Manager to notify the Exchange management in case of any resolutions or decisions taken affecting the price of fund's unit in the market.
- 12) Transactions in investment funds held in the Exchange are subject to the prevailing rules and any potential dispute is to be settled via the arbitrary court.
- 13) The Investment Manager shall sign an undertaking to abide by all the effective rules and regulations and any other regulation that may be issued, in future, by the Exchange committee and administration.
- 14) The Kuwaiti Clearing Company shall undertake the operation of transferring the fund units of the participants.
- 15) To settle the listing fees and annual subscription at the date appointed by the Exchange administration.
- 16) The Exchange committee must approve of registering the investment fund in the Exchange, and has the authority to request any additional information it considers necessary.

Up to 1977 there were only forty-two public shareholding companies in Kuwait, and the majority of these had been formed in the previous seven years. The total par value in 1977 was around KD 110 million.

Resolution No.10 was issued in 1971, to create division in the department of companies and insurance in the Ministry of Commerce and Industry (MCI) to supervise transaction in securities.

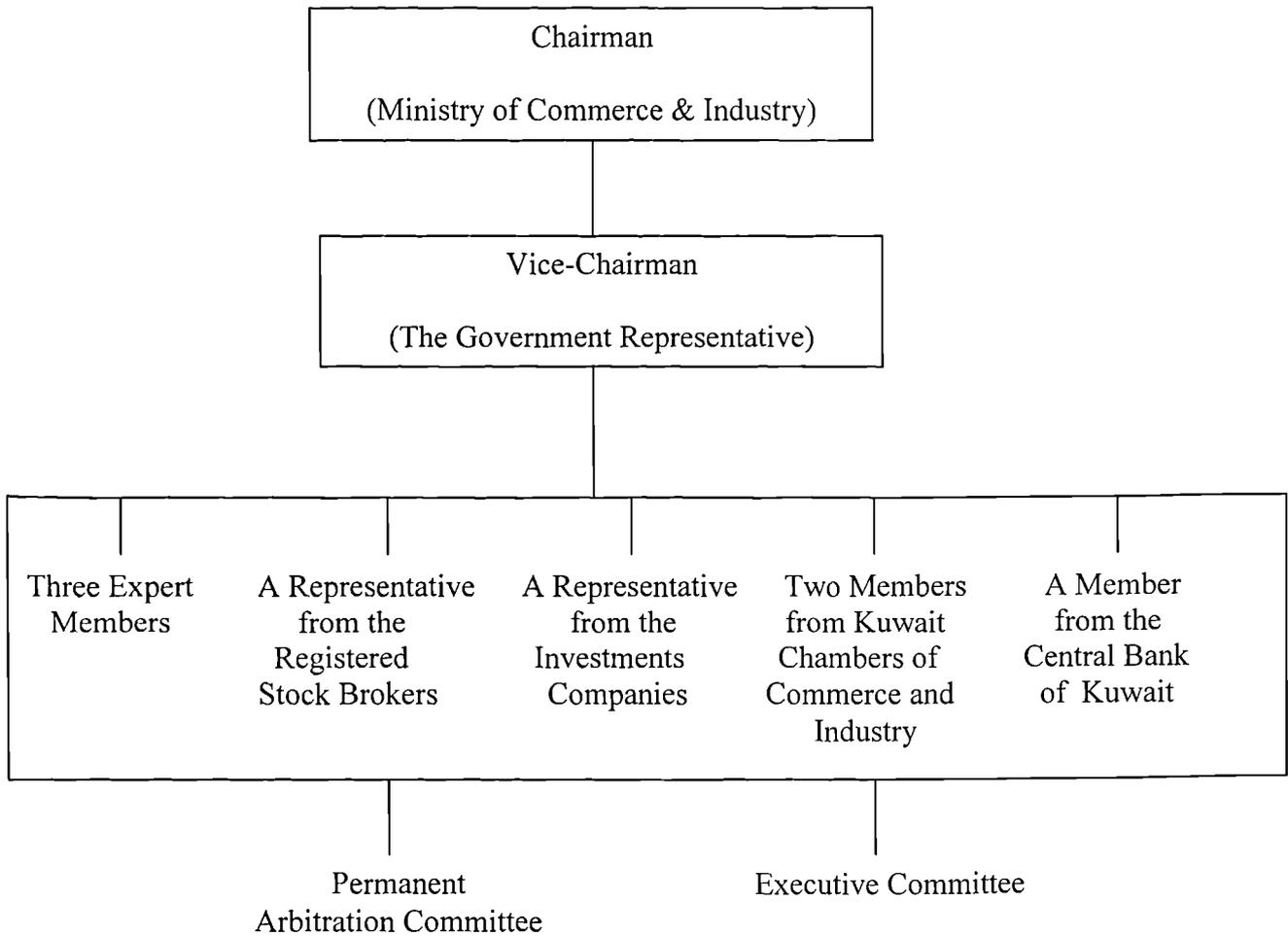
Decree No.10/71 can be considered the first law in the country, attempted in Article 3, to organise the brokerage role in trading in securities, which prohibited anyone from doing brokerage business without permission. Article 4 specified the following requirements for a brokerage licence: Kuwaiti citizenship, not less than twenty-five years of age, a good financial and personal reputation, a high school diploma, or ability to read and write, and a one year minimum working experience at the same business, willingness to follow the Ministry of Commerce and Industry (MCI) rules and regulations, to keep the books required by the Ministry of Commerce and Industry (MCI) and, finally, to submit a financial guarantee within ten days after the application approval. In addition, each broker was required to report detailed information about the transactions arranged through his/her office, in particular prices and number of stocks traded to the Ministry before the close of business. Brokerage commission was left undecided in the decree. Later, it was fixed at two fils per share (KD 1 = 1,000 fils) irrespective of the price of the stock or the number of the stocks traded.

Resolution No.6 of 1976, gave the Securities Committee (SC) a wide range of authorities and responsibilities related to protecting the interest of traders, investors, and companies, and to supervising the proper flow of securities trading operations particularly in the following areas: laying down the organisational basis for securities trading; looking into complaints of securities traders and brokers; presenting recommendations aimed at refining securities trading, and establishing widespread public awareness.

Exhibit (5.1) shows the structure of the Securities Committee, which is divided into two sub-committees; the executive committee and the present arbitration committee. The first sub-committee to be chaired by the government representative and to monitor security trading and operations. The second sub-committee to look into the disputes on complaints from traders and brokers (Al Tharban (1981)). It is also worth noting that this committee and its structure has not changed since it was established in the late seventies.

Exhibit (5.1)

Structure of the Securities Committee



Source: AL-Tharban (1981).

On 2 April 1977, the Kuwait Stock Exchange was inaugurated at the centre of Kuwait City. Decree No.61/76 regulating the trade of securities was, in effect, the memorandum of incorporation of the Kuwait Stock Exchange and accordingly the Securities Committee acted in the capacity of Exchange Board or the legislative body. Prior to 1983, the security market was administered by a committee and through the Ministry of Commerce and Industry (MCI); and after that, the Kuwait Stock Exchange (K.S.E.) became an independent entity, as shown in the next section.

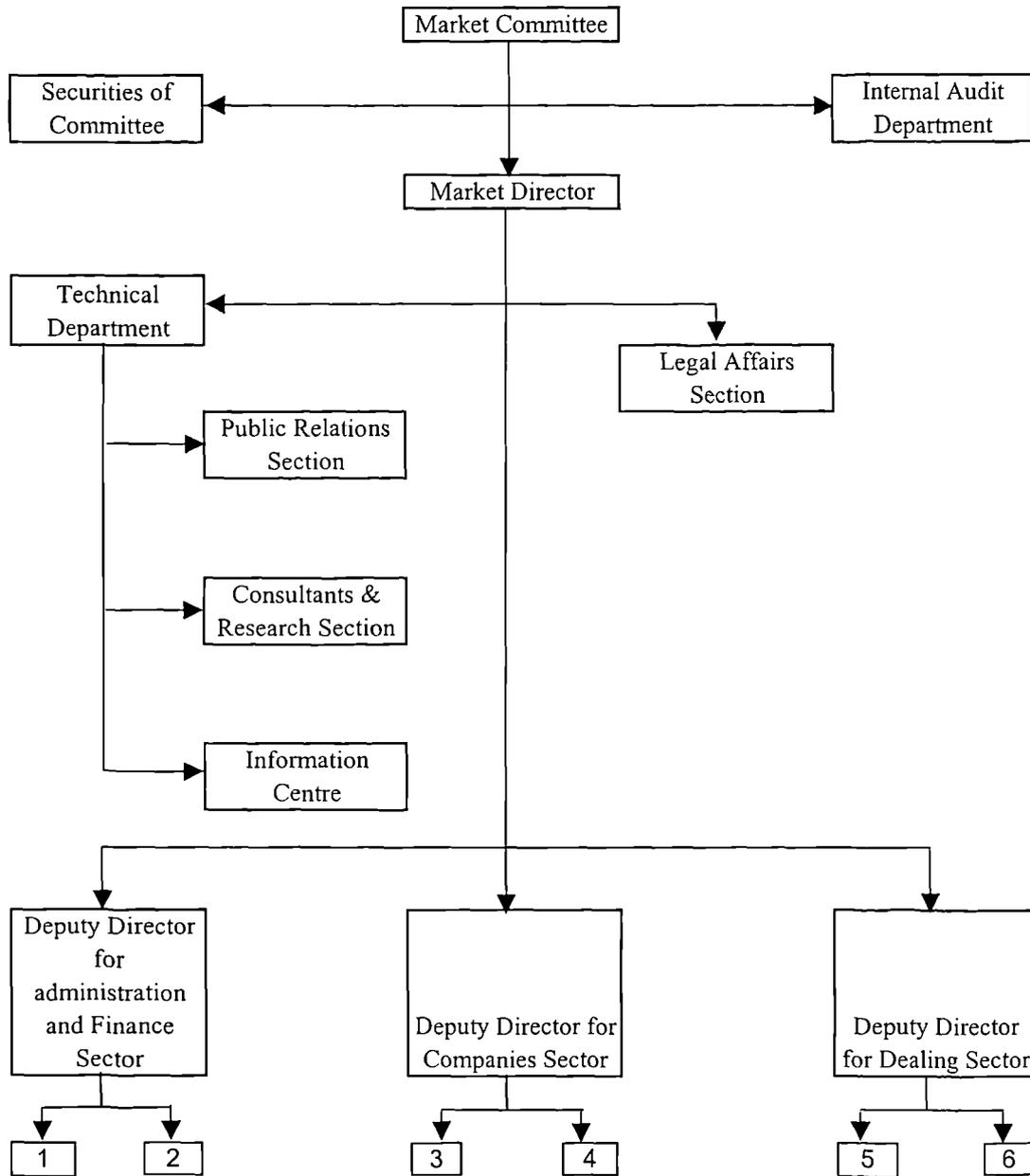
5.3. ORGANISATIONAL STRUCTURE OF KUWAITI STOCK EXCHANGE (K.S.E.)

Efforts by the Kuwait Stock Exchange (K.S.E.) continue, to set up the necessary procedures and regulations to develop the market. Exhibit (5.2) shows the number of companies (89 companies) listed in Kuwait Stock Exchange as of May 2001. The ministerial resolution No.35 of 1983 contained Stock Exchange objectives, listing and acceptance of securities, stock exchange membership, stock exchange administration, stock budget and financial accounts. To achieve its objectives the K.S.E. developed an organisational structure presented in Exhibit (5.3).

Exhibit (5.2) Shareholding Companies in the Kuwait Stock Exchange as at May 2001

Non-Kuwaiti Companies	Food Sector	Service Companies	Industrial Companies	Real Estate Companies	Insurance Companies	Investment Companies	Banks
Bahrain International Bank	Livestock Transport and Trading Co.	Kuwait National Cinema Co.	The National Industries Co.	Kuwait Real Estate Co.	Kuwait Insurance Company	Kuwait Investment Company	National Bank of Kuwait
Arabian General Investment Corporation	United Fisheries of Kuwait	Kuwait Hotels Co.	Kuwait Metal Pipe Industries Co.	United Realty Co.	Gulf Insurance Company	Commercial Facilities Company	Gulf Bank of Kuwait
Shajrah Cement & Industrial Development	Kuwait United Poultry Co.	The Public Warehousing Co.	Kuwait Cement Co.	National Real Estate Co.	AL-Ahleia Insurance Company	International Financial Advisors	Commercial Bank of Kuwait
Gulf Cement Co.	Kuwait Foods Co. (Americana)	Kuwait Commercial Markets Complexes Co.	Refrigeration Industries Co.	Sahihah Real Estate Co.	Warba Insurance Company	National Investments Company	Al-Ahli Bank of Kuwait
Umm Al-Qalwain Cement Industries Co.		Mobile Telecommunications Co.	Gulf Cable & Electrical Industries Co.	Pearl of Kuwait Real Estate Co.		Kuwait Investment Projects Co.	Bank of Kuwait and the Middle East
Fujairah Cement Industries Co.		Kuwait Computer Co.	Kuwait Shipbuilding & Repairyard Co.	Tamdeen Real Estate Co.		Coast Investment & Development Co.	Kuwait Real Estate Bank
Ras AL-Khairmah For White Cement Const. Materials		Kuwait Educational Services Co.	Contracting & Marine Services Co.	International Investment Projects Co.		AL-Ahleia Investment Co.	Burgan Bank
Arab Insurance Group		Independent Petroleum Group	Portland Cement Co.	Ajjal Real Estate Entertainment Co.		The International Investor Co.	Kuwait Finance House
United Gulf Bank		National Cleaning Co.	Shuaiba Paper Products Co.	Al-Massaleh Real Estate Co.		Securities House	
		Sullan Centre Food Co.	Kuwait Metal Collecting & Shredding Co.	Arab Real Estate Co.		Industrials Investments Co.	
		Al-Arabi Group Holding Co.	Kuwait Foundry Co.	Union Real Estate Co.		Securities Group Co.	
		The Transport Group Co.	Aerated Concrete Industries Co.	Al-Ebama-a Real Estate Co.	International Murabaha Company	Kuwait Financial Centre	Aref Investment Group
Kuwait and Gulf Link Transport	National Mobile Telecommunications Co.		United Industries Co.		International Investment Group	Investment Dar Co.	Kuwait & Middle East FIN. INV. Co.
		Boubyan Petrochemicals Co.	Gulf Glass Manufacturing Co.			Arab Financial Consultants Co.	
Kuwait Building & Construction Co.	Hilal Cement Co.						

Exhibit (5.3)
Organisational Structure of Kuwait Stock Exchange



Source: Kuwait Stock Exchange, 2001.

For the details of the different sub-units 1 - 6, please see Supplement (5.2)

5.4. SUMMARY

In this Chapter we presented two main sections to provide a brief history regarding the establishment of the Kuwait Stock Exchange (K.S.E.), and the first section discusses the legislative development of the exchange.

The establishment of K.S.E. was recommended by a British Consulting Group when the first creditworthy law was issued in 1970. In 1971, a resolution was issued to allow daily publication of information regarding market table securities transactions. Next, the companies' insurance supervision section was entrusted to regulate trade in securities and to couple statistical analysis. The Securities Committees was established in 1976. Due to the non-economic basis in dealing with stocks, both prices and volumes of trading declined in early 1977. Following this, the Government was forced to enter the market as a buyer to prevent further deterioration. During 1981, securities witnessed some relief due to setting up new conditions for listing the Kuwaiti closed held joint stock companies and Gulf companies which started in 1982, bringing more pressure on securities prices and ending with the collapse of the Kuwaiti market by the end of 1982. This event led to overdrawn cheques amounting to \$90 pillion. In 1986, Law No. 132 was issued to reduce the minimum limit of share nominal value of 100 fils. In May 1990, Law No.31, regarding the traded securities, was issued to keep the market under the control of Stock Exchange authorities. Towards the end of the chapter we give the layout and organisational structure of Kuwait Stock Exchange and its different committees.

SUPPLEMENT (5.1)

Law 31 (1990) Governing Traded Securities and Investment Funds

Article No.1

No one is permitted to issue Kuwaiti or non-Kuwaiti shareholding companies shares, bonds or quotes in the investment funds or any other securities to the public subscription inside the state of Kuwait without obtaining the authorised license issued by the Minister of Commerce and Industry.

The by-laws specify the conditions and procedures taken to issue such a license as well as an indication as to the method of underwriting in shares, bonds and investment securities.

Article No.2

Trading and transferring of ownership of shares listed in the Kuwait Stock Exchange (K.S.E.) is executed according to the procedures, rules and regulations set by the Exchange Committee.

The by-laws will determine the procedures, rules and regulations that must be followed in respect of trading and transferring of ownership of Kuwaiti shares not listed in the K.S.E.

Article No.3

It is prohibited to carry out the buying or the selling activity of non Kuwaiti shares or quotes in foreign investment fund for others' accounts without obtaining the permit issued by the Minister of Commerce and Industry.

No foreign company is permitted to obtain a license to carry out this activity without having a Kuwaiti agent whether it be an individual person or a company.

This agent is considered as a guarantor for the foreign company in all its responsibilities arising from its activity in Kuwait.

The by-laws specify the conditions and procedures taken to issue such a permit.

Article No.4

The approval of the Central Bank of Kuwait should be obtained before issuing the permit, referred to in the previous article, in case the company demanding such a permit, or the agent for whom the foreign company is acting, are subject to the Central Bank supervision.

Article No.5

The Ministry of Commerce and Industry exercises a continuing role of supervision and control over companies and agents, that have the permission of practising in the trading activity of non-Kuwaiti shares or quotas of foreign investment funds in Kuwait, without interfering with the supervision and control of the Central Bank of Kuwait.

The by-laws indicate the rules and supervision procedures over such companies, and the statements and information that have to be submitted to the Ministry of Commerce and Industry; in addition the means of verifying such information.

Article No.6

Kuwaiti shareholding companies where part of their responsibilities include investment on the behalf of others, may establish joint financial and real estate investment funds where Kuwaiti and other nationals have the right to participate in - that is, after obtaining the permission issued by the Minister of Commerce and Industry, and in compliance with the approval of the Central Bank of Kuwait.

The by-laws specify the conditions and procedures taken to issue such a permit.

Article No.7

The investment units are equivalent to one nominal value that must not be less than one Kuwaiti Dinar. It will be issued in a nominal certificate form that will give its holder the right to share in the capital gains of the fund, as well as the responsibility of withstanding the risk of loss according to the percentage of his/her capital invested in the fund. Holders of the units are not authorised to participate in the administration of the fund, but restriction does not apply to the managing company of the fund.

Article No.8

Each investment fund shall have an independent financial and legal entity from the company that established the fund, the investment fund manager, or the person he delegates, who shall represent the fund in its relations with others or in front of a court and shall have the right to sign on their behalf.

It is forbidden to make a judicial sale or to use in any way the money of the trust, except for payment of commitments arising from investing its funds.

Article No.9

The by-laws specify the conditions and the procedures taken to participate in an investment fund and the rights and liabilities of the managing administration of the fund.

Assigning and delegating financial auditors and allocation which should be kept by the fund. Conduct of redeeming and trading of the investment unit, the statement and the prospectus, rules, regulations and procedures taken during the liquidating of the fund as well as other regulations concerning the organisation of the activity of these funds.

Article No.10

The Minister of Commerce and Industry shall issue a resolution with regard to assigning employees proficient in supervising the implementation of this determined law and resolution, who will also have the authority of controlling any violations to the applied rules and writing of the required minutes.

Those supervising the investment funds mentioned above shall be employees from the Central Bank of Kuwait assigned by the Governor of the Bank.

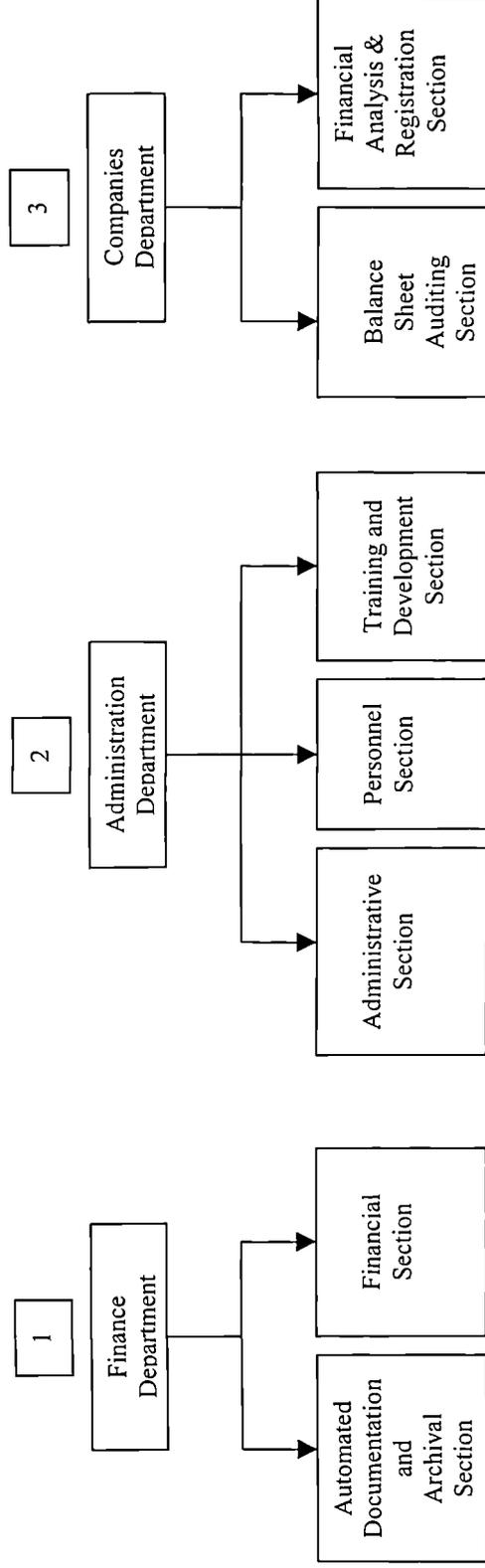
Article No.11

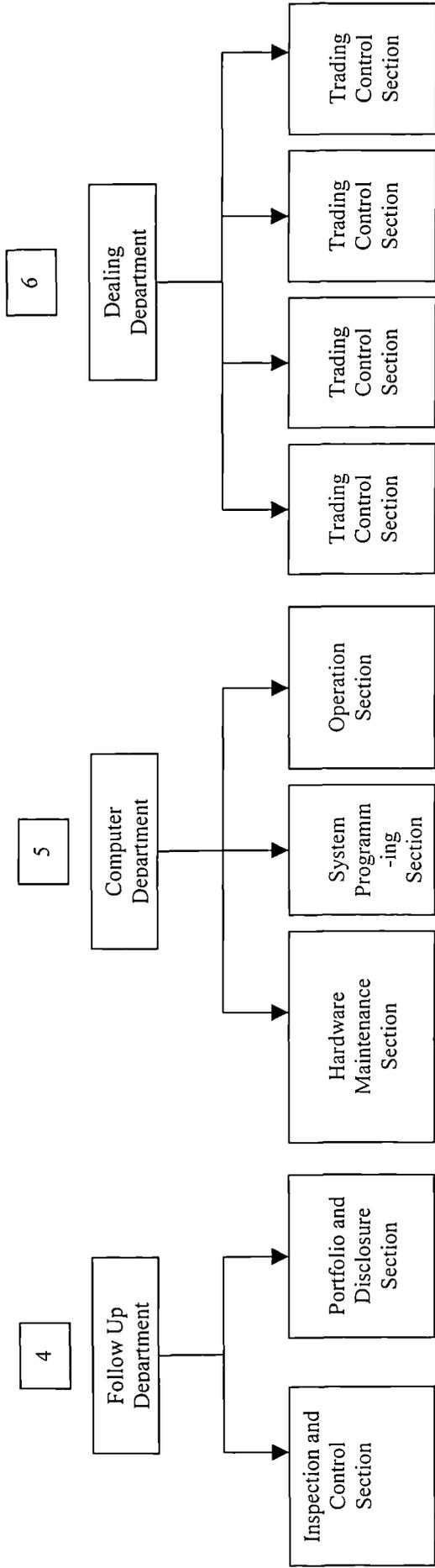
Without contradicting any harder penalty dedicated by another legislation, anyone who violates the regulations of articles 1,3,6,9 of this law for more than one year, or the resolutions issued, will be fined not less than 100 Kuwaiti Dinar and not more than 5000 Kuwaiti Dinar. Should they repeat this violation within two years, punishment will be doubled.

Source: Kuwait Stock Exchange (2001).

Supplement (5.2)

Organisational Structure of Kuwait Stock Exchange - Details of Sub-units





Source : Kuwait Stock Exchange, July 2001.

CHAPTER 6

Research Hypothesis & Research Methodology



CHAPTER 6 : RESEARCH HYPOTHESES AND RESEARCH METHODOLOGY

6.1. INTRODUCTION

As the ongoing developing of business and finance fosters the development of a growing capital market system, there is increasing interest and concern regarding the role of accounting and other financial information resources in securities pricing.

In this chapter we present an overview covering the issues of applying IAS in the Kuwait Stock Exchange (K.S.E.). Although we have thrown light on the historical development of the Kuwait Stock Exchange in earlier chapters, here we briefly state some of its main features, which will help the reader to follow our arguments without difficulty.

In short, the Kuwait Stock Exchange (K.S.E.) was established in April 1978. By 1982, 40 Kuwaiti and several other Gulf-based companies were trading on the Exchange. In 1981, the annual trading volume was about \$7 billion, and total market capitalisation was approximately \$30 billion. As happened in the USA where the AMEX unofficial market grew up on the 'Curb' outside the New York Stock Exchange, an unofficial "Souk AL-Manakh" market began trading shares of Kuwaiti and other Gulf-based companies next to the official Kuwaiti Exchange. A distinguishing characteristic of both the official and unofficial markets was the use of forward contracts based on post-dated cheques.

In August 1982, the official Kuwait Stock Exchange fell 21% in value and the unofficial Exchange fell 60%. From August 1982 until mid 1984, the Kuwaiti Government bought selected stocks to support prices. In September 1982, the Government required investors in both markets to report their open forward positions. At that time, the value of outstanding post-dated cheques in both markets was \$ 93 billion (\$ 17 billion in the official market and \$ 76 billion in the unofficial market) with settlement dates of up to 3 years. Then the market collapsed and ensuing economic and financial crises are referred to as the AL-Manakh crises.

Kuwait's response to the AL-Manakh crises was to institute laws and regulations governing information disclosure, securities registrations and capital and credential requirements for brokers. A reorganised Kuwait Stock Exchange began trading stocks in 1984. Prices were determined in a competitive auction. Trades were conducted by floor brokers on instructions from outside brokers, so that floor brokers did not know the identity of their clients.

From 1982 to 2nd August 1990 several legislative laws were issued concerning the Kuwait Stock Exchange (K.S.E.). Because of the Iraqi invasion of Kuwait in August 1990, the Kuwait Stock Exchange was suspended for 26 months, re-opening on September 28, 1992. In April 1992 the by-laws for regulating investment funds were issued. Resolution No.1 of 1993 was issued by K.S.E. and aimed to merge both the parallel (unofficial market) and official

market and lay down the conditions of shareholding companies to be listed in the K.S.E. Also, in June 1993, Resolution No. 2 was issued providing the conditions for the investment funds to be listed in the K.S.E.

However, efforts are continuing by the K.S.E. to set up the necessary procedures and regulations to develop the market, and to keep the Kuwait Stock Exchange abreast of the changes in the financial market environment and activity. The Government issued Law No. 18 of 1990 which requires the directors of a company to present to the shareholders, annual accounts to be prepared according to IAS. The objectives of this legislative development were to protect the investors and to promote broader public interest by providing a true and fair view of a company's state of affairs and profit or loss for the year. Again, undoubtedly the adoption of the IAS by Kuwaiti companies requires full disclosure to prevent manipulation of securities prices, to curb unfair trading practices, and to control excessive use of credit to finance speculations. These merits could be tested through using questionnaires directed to accountants, auditors and external users (brokers, financial analysts and investment companies) in Kuwait.

Because the financial reporting rules of IAS are different from those of the domestic accounting rules, the announced earnings of securities under IAS are never the same as their differential earnings, where the term "differential earnings" means earnings as stated using different domestic accounting principles. However, if one of the investors of the Kuwait Stock Exchange received a harmonised set of financial statements (that is, a set of financial statements adjusted to IAS financial reporting rules, revealing the same earnings), then the investors would be able to better price his/her own security based on the earning announcement of such security. Conversely, investors who received a differential set of financial statements may have to rely more on the closing price announcements in pricing their own security.

6.2. IAS AND STOCK MARKET EXCHANGE

Few articles have been published on the application of International Accounting Standards on the Stock Market Exchange. Recently countries started taking IAS seriously as an alternative to local accounting standards. A good example is the issuance by the IASC in 1998 of a statement regarding IAS 17 which deals with leases. The standard set out improvements over the original IAS 17, which was replaced, based on a review conducted in the context of limited revision that identified changes acceptable for cross-border funding and Stock Exchange listing.

Harris et al. (1999) evaluated earnings and book value amounts, prepared under IAS and US-GAAP, to provide evidence for the debate between the US SEC and NYSE, on whether foreign firms using IAS should be allowed to list in the US. It found that the US-GAAP

earnings reconciliation adjustment is value-relevant and that US-GAAP amounts are valued differently for market value and return models, but not for a price-per-share model. It is also found that IAS amounts are more highly associated with price-per-share than US-GAAP security returns. Cairns and David (1999) stated that the European Commission wants all Stock Exchange-listed companies to adopt IAS, which will improve many companies financial reports. Chen et al. (1999) gave a comparison of reporting under Chinese GAAP versus IAS based on the Shanghai Stock Exchange. They reported the results of an empirical examination of the difference between earnings based on Chinese GAAP and those based on IAS. Specifically, the study determined how current Chinese accounting standards are different from IAS (whether these differences are systematically biased towards under - or over-stated earnings), and which items from the financial statements contributed most to these differences. The findings suggested that reported accounting earnings, based on current Chinese GAAP, are significantly different from those based on IAS. On average, the reported earnings determined under the Chinese GAAP are 20% - 30% higher than earnings reported under IAS. After restatement, 15% of the B-share companies changed from a reported profit to a reported loss. The finding suggests that the differences between the two sets of earnings are caused by differences in accounting standards and financial rules, opportunistic applications of Chinese GAAP, and unusual market-wide events.

6.3. IAS AND KUWAIT STOCK EXCHANGE

In Kuwait very limited research papers have been proposed to address the issue of applying IAS, with few relevant publications; although several papers were published during the 1980s and 1990s to address the issue of how far the Kuwaiti companies comply with the local accounting standards. See for example (Shuaib (1980), EL-Azama and AL-Bahar (1984), Hasabo (1987), EL-Azama and EL-Adly (1988), and Abdel Rahim and AL-Goma (1989). In particular Mostafa (1994), addressed the issue of disclosure in financial statements for banking and similar financial institution for the IAS 30 and this is considered the first attempt to deal with the application of IAS in Kuwait.

Mostafa's study was based on a random sample of ten banks in Kuwait, investigating their financial statements from the year 1993, which is considered a main part of the disclosure operation. The primary objective of his investigation was to measure the degree of compliance of the banks with IAS 30. The analysis revealed that there are significant differences between Kuwaiti banks, regarding disclosure of information. Shuaib and Douglas (1996), reviewed the background of the banking system and the development of financial statements, as well as the transnational financial reporting in the 1990s and its implication for the Kuwaiti environment. They also discussed the harmonisation of accounting as a desirable objective which can be achieved by adopting IAS.

The work of Abdul Rahim et al (1997), investigated the relevance of IAS in the evaluation of fixed assets in Kuwaiti corporations, as well as the degree of application of IAS in Kuwaiti corporations in evaluating fixed assets. Their survey study, through a questionnaire, focused largely on five main issues, namely: questions regarding the fixed assets; evaluation of fixed assets; post acquisition expenditures; depreciation; and relevance of IAS in terms of benefits and problems of applications. Data was gathered from financial managers and accountants. Twenty-two corporations responded, which represents 51% of all corporations listed in the Kuwait Stock Exchange. Their results showed significant differences for internally constructed assets and exchange of fixed assets. There were significant differences in the banking and insurance sectors, but it was stressed that IAS are relevant to the evaluation of fixed assets in Kuwaiti corporations. They also stressed the importance of comprehensive IAS training of accountants in Kuwait corporations, and the revival of the role of the permanent technical committee in the analysis, explanation and interpretation of international accounting standards in accordance with the Kuwaiti environment.

However, 46% of corporations under investigation experienced problems with exchange of assets because of the lack of distinction between similar and dissimilar assets. The same percentage also faced some problems with the re-evaluation of assets. Generally, however, almost all corporations studied confirm the relevance of IAS with the exception of the re-evaluation of assets, although the study showed that this issue is not a problem but rather it is a violation of both IAS and GAAP's.

Mostafa and Abdul Rahim (1998) conducted a survey analysis on Kuwaiti investment corporations and external auditors to measure the degree of ease/difficulty and compliance with international accounting standards related to investment (IAS 25, IAS 27, and IAS 28). However, their concentration was mainly on investment activities related to shares, stocks, and real estate.

They also investigated whether the use of IAS helped in increasing the drive to achieve harmonisation. The analysis revealed that almost all corporations comply with IAS in some aspects with no difficulties in application. However in some other aspects the results came out inconsistent, especially in determining the cost of investment, or determining profits, or in re-evaluating investment and they recommended intensive IAS training for all accountants in these corporations.

In summary, the study came out with a set of recommendations to improve the practice of accounting in the Kuwaiti business environment.

1. Better and deeper understanding of IAS needed for all practitioners.
2. Any inconsistency which may exist between the local standards and the IAS should be resolved.

3. The unlimited flexibility of IAS which leaves room for some companies to apply their own accounting policies.
4. Extensive training courses for all practitioners, to enhance their skills with IAS.

However, the researcher felt that it will be of interest to cover in more detail the following main points in our discussion regarding the use of IAS by companies listed on the K.S.E. so as to justify the hypothetical relationship we will introduce later in this chapter.

To carry out the research objective, two different questionnaires were directed at (i) accountants (who prepare the annual accounts) /auditors (who audit accounts prepared by accountants), and (ii) external users (brokers, financial analysts, and investment companies), regarding the use of the IAS by companies listed on the Kuwait Stock Exchange, and consequent difficulties for both accountants and auditors. The following issues will be the focus of our investigation:

- (1) How thoroughly do accountants and auditors understand/apply IAS in Kuwait?
- (2) What is the perception of professional accountants and auditors of the competitiveness of IAS with regard to the local accounting system in Kuwait?
- (3) How easy is implementation of IAS in preparing/auditing annual accounts by companies listed on the K.S.E. and what possible consequent difficulties occur?
- (4) What are the major advantages of applying IAS in Kuwait?

On the other hand, external users' (brokers, financial analysts, and investment companies) association with IAS is through using accounting information produced by accountants and auditors in making decisions. Therefore, the questionnaires directed to them were different in nature and covered the following issues:

- (1) How comprehensively does the external user understand the accounting information produced by using IAS in Kuwait?
- (2) How much efficiency is gained by using IAS in Kuwait?
- (3) Do IAS give equal opportunities to all investors and dealers regarding revealing information by companies listed on the Kuwait Stock Exchange?
- (4) Do IAS help external users make rational decisions for companies listed in the Kuwait Stock Exchange?
- (5) How appropriate to the environment are IAS to the companies listed on the Kuwait Stock Exchange?

The following general questions cast light on the global impact and appropriateness of IAS:

- (1) How effective is the adoption of IAS in Kuwait on international transactions?
- (2) Do the existing IAS need modification to fit into the Kuwaiti environment?

Motivated by the above discussion, several ideas led the researcher to a number of questions that needed to be investigated. In particular, the researcher aims to explore the following set of hypotheses from accountants', auditors' and external users' viewpoints in order to be able to evaluate the suitability of IAS for the companies listed in the Kuwait Stock Exchange and to address potential problems from these different viewpoints.

6.4. RESEARCH HYPOTHESES

The study will test the following hypotheses, all of which were developed to include the relevant factors associated with the listed companies on the Kuwait Stock Exchange.

6.4.1. Research Hypotheses Related to Accountants and Auditors

First hypothesis asserts that there are no significant differences between levels of demographical variable levels and the attitudes of professional accountants/auditors to the familiarity and knowledge of IAS.

This hypothesis provides an indication of the attitudes of professional accountants/auditors towards the familiarity and knowledge of IAS.

The following set of sub-hypotheses characterises the above hypothesis in more detail.

- H.1.1.** There are no significant differences between levels of demographical variables and the attitudes of accountants/auditors regarding their knowledge rating of IAS.
- H.1.2.** There are no significant differences between levels of demographical variables and the attitudes of accountants/auditors regarding distinct sources of knowledge of IAS.
- H.1.3.** There are no significant differences between levels of demographical variables and the attitudes of accountants/auditors regarding the companies/firms stipulation of IAS for recruits.

Second hypothesis affirms that there are no significant differences between professional accountants/auditors in appreciating, implementing and using IAS in preparing/auditing annual accounts.

This hypothesis claims that professional accountants/auditors will appreciate using IAS in Kuwait. This indicates the ease of implementing IAS in preparing/auditing annual accounts.

However, the following set of hypotheses sheds light on the above hypothesis in more detail.

H.2.1. There are no significant differences between accountants'/auditors' demographical variable levels of experience with using IAS.

H.2.2. There are no significant differences between accountants'/auditors' demographical levels and their first and current perception of using IAS.

Third hypothesis claims that professional accountants/auditors have no difficulties in applying IAS/auditing reports prepared according to IAS.

This hypothesis affirms that, in applying IAS in Kuwait, professional accountants/auditors will not face great difficulties of measurement and disclosure. This indicates the ease of implementing IAS in preparing/auditing annual reports.

Specifically, the following set of sub-hypotheses characterises the above hypothesis in more detail.

H.3.1. There are no significant differences between accountants'/auditors' demographical variable levels regarding the difficulties of measurements.

H.3.2. There are no significant differences between accountants'/auditors' demographical variable levels regarding the difficulties of disclosure.

Fourth hypothesis asserts that professional accountants/auditors have a positive attitude towards applying IAS.

This hypothesis provides an indication about the perception of professional accountants/auditors to IAS and their positive attitude towards gaining benefits by applying /using IAS.

In specific terms, the following sub-hypotheses characterises the above hypothesis.

H.4.1. There is no significant difference between accountants'/auditors' demographical variable levels in rating their benefits regarding IAS.

H.4.2. There is no significant difference between accountants'/auditors' demographical variable levels and their rating of issues of quality of accounting information.

Officially, the IASC cannot force anyone to follow its standards. Compliance is totally voluntary. However, increasing support for the IASC holds many implications for businesses. Many countries demand that all corporations working within their jurisdictions must file reports in compliance with the IASC (Moore (2000)), Larson and Larson (2001)).

Fifth hypothesis asserts that the majority of professional accountants in Kuwait comply with IAS in order to achieve harmony in the use of accounting standards and practices employed in preparing annual accounts.

Sixth hypothesis claims that professional accountants/auditors have a positive attitude towards achieving harmony of accounting and reporting practices by applying IAS or towards accounts and reports, which have been harmonised by using IAS.

The hypothesis provides an indication about the perception of professional accountants/auditors to IAS and their positive attitudes towards achieving harmony of accounting through implementing IAS/auditing companies accounts, which have been harmonised using IAS in Kuwait (the effect of demographic variables in such perception have been investigated).

A survey study through two questionnaires directed to accountants and auditors have been conducted to test the above set of hypotheses in Kuwait. (see Appendix (A) and Appendix (B) for more details).

6.4.1.1. Accountants'/Auditors' Standpoint Regarding Adoption of IAS in the K.S.E. and Consequent Difficulties

As shown in the following Exhibit (6.1), the accountants'/auditors' questionnaires consist of the following sections:

Section 1: Familiarity and Knowledge of IAS

- Rating knowledge.
- Sources of knowledge regarding IAS.
- Stipulation of IAS knowledge for recruitment and appointment (IAS training).
- Regularly updating knowledge regarding IAS.

• Section 2: Implementation of IAS and Consequent Difficulties

- Experience in applying IAS in preparing annual reports.
- First perception of IAS.
- Current perception of IAS.
- Difficulties in measurement and disclosure.

• Section 3 : Advantages of Applying IAS

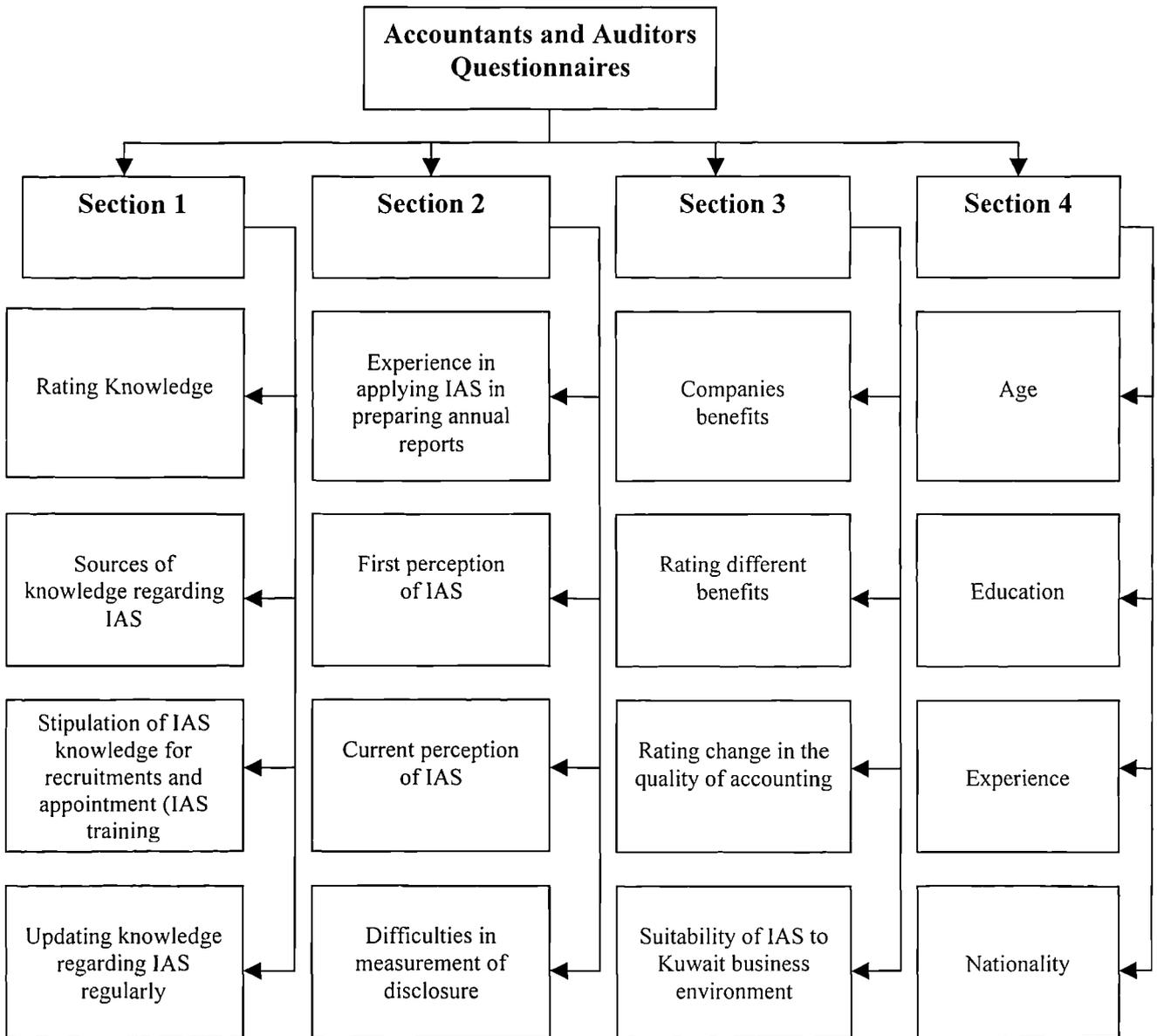
- Companies' benefits.
- Rating different benefits.
- Rating change in the quality of accounting information.
- Suitability of IAS to Kuwaiti business environment.

• Section 4 : Demographic Variables

- Age.
- Education.
- Experience.
- Nationality.

Exhibit (6.1)

Accountants and Auditors Questionnaires



6.4.2. Research Hypotheses Related to External Users

Seventh hypothesis declares that there is no significant difference between external users' age groups/jobs (brokers, financial analysts, and investment companies) regarding the issues of IAS benefits.

Eighth hypothesis claims that there is no significant difference between different external users' demographic variables levels, regarding their reliance on accounting information.

This hypothesis indicates the importance of the reliance of accounting information provided through using accounts, which have been harmonised using IAS.

The following set of sub-hypotheses explain the above hypothesis in more detail.

H.8.1. There is no significant difference between external users age groups regarding their reliance on accounting information.

H.8.2. There is no significant difference between different types of external users regarding their reliance on accounting information.

Ninth hypothesis asserts that there is no significant difference between external users' age groups/jobs (brokers, financial analysts, and investment companies), regarding their attitude towards the implementation of IAS on decision-making.

This hypothesis claims that external users will appreciate using accounting information resulting from using accounts, which have been harmonised by using IAS.

Tenth hypothesis maintains that there is no significant difference between different external users' demographical variable levels, regarding their attitude towards the impact of applying IAS on decision-making.

The following set of sub-hypotheses sheds light on the above hypothesis in more detail.

H.10.1. There is no significant difference between the different age group of external users, regarding their attitude towards the impact of applying IAS on decision-making.

H.10.2. There is no significant difference between different types of external users, regarding their attitude towards the impact of applying IAS on decision-making.

Eleventh hypothesis argues that there is no significant difference between external users' demographical variable levels, regarding the difficulties of using IAS.

The following set of sub-hypotheses explain the above hypothesis in more detail.

H.11.1. There is no significant difference between external users' age groups in rating their difficulties in using IAS.

H.11.2. There is no significant difference between different types of external users (broker, financial analysts, and investment companies), in rating their difficulties in using IAS.

Twelfth hypothesis declares that external users have a positive attitude towards the quality/quantity of accounting information resulting from using accounts, which have been harmonised by applying IAS.

This hypothesis indicates the importance of the quality and the amount of information, resulting from applying IAS, which is available to the external users in order to be able to reach rational decisions.

There is no doubt that the harmony of quality and quantity of accounting information, minimises the risk for the decision-maker.

A survey study through a questionnaire directed at external users (brokers, financial analysts and investment companies) was conducted to test the above set of hypotheses regarding the harmonisation by using IAS in Kuwait (See Appendix (C) for more detail).

6.4.2.1. External Users' Standpoint Regarding Adoption of IAS in the K.S.E. and Consequent Difficulties

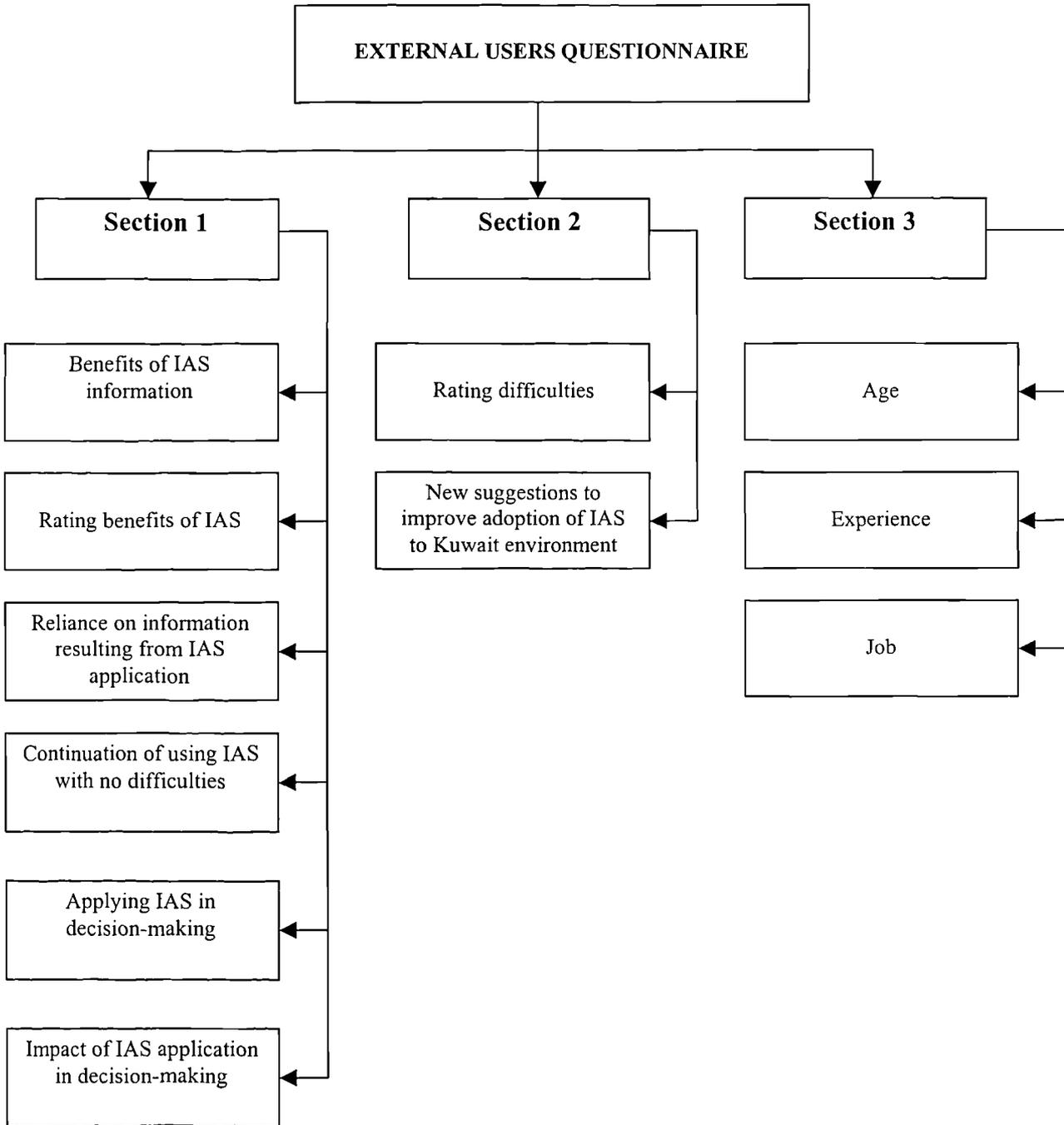
Exhibit (6.2) presents external users' questionnaires which include the following points.

- **Section 1: Advantages of Using Accounting Information Produced by Using IAS**
 - Benefits of IAS.
 - Rating benefits of IAS.
 - Reliance on information resulting from IAS application.
 - Continuation of use of IAS with no difficulties.
 - Use of IAS in decision-making.
 - Impact of IAS in decision-making.

- **Section 2 : Consequent difficulties of applying IAS**
 - Rating difficulties.
 - New suggestions to improve adoption of IAS in the Kuwaiti environment.

- **Section 3 : Demographic Variables**
 - Age
 - Experience
 - Job

Exhibit (6.2)
External Users Questionnaire



6.5. RESEARCH METHODOLOGY

The purpose of this section is to explain the methodology, and specific methods used in this study. First of all, the researcher would like to summarise the advantages and disadvantages of a number of research approaches, which may be used in formulating methodologies as follows:

- (i) **Laboratory experiments:** the advantage of this approach can be used with a small number of variables thoroughly examined in a laboratory setting; while, the disadvantage is the limited extent by which relationships exist in the real world compared to the isolated setting of the laboratory where the variables are tested.
- (ii) **Field experiments:** a positive feature of this approach extends laboratory type experiments into real life, which creates a greater relationship to reality, but the disadvantage of it is identifying a willing organisation to participate in this type of research.
- (iii) **Case studies:** the researcher can use this approach if he/she hopes to describe relationships, which exist in reality, but within a single or limited number of organisations. Also, it is useful in understanding the reality in great detail and allows for an analysis of multiple variables. On the other hand, the deficiency of this approach is the restriction of a few or even one organisation which in turn limits the generalisability of results.
- (iv) **Surveys:** the benefits of using this approach are that it: (a) gives snapshots of practices at a set point in time regarding relationships that exist in the past, present, and future; (b) allows a greater number of variables to be studied, than in experimental approaches; (c) provides real works situations which are more appropriate to generalisations; while, the shortcomings of this approach are that: (a) it is difficult to gain insight into the causes of phenomena being studied; (b) possible bias may exist in the respondent sample and/or population.

In this study, the researcher opted for using the survey as a research approach, specifically through using questionnaires and interviews. The nature of the research study in attempting to measure the perception among accountants, auditors, and external users of using International Accounting Standards convinced the researcher that the use of questionnaires and interviews is the most appropriate approach to use as it will allow the realisation benefits listed in (iv) above.

6.6. POPULATION AND SAMPLE

The population of interest to this study includes accountants, auditors and external users, who are employed by companies that are listed in the Kuwait Stock Exchange, as well as some independent financial analysts and brokers. Stratified sampling technique was employed in seven different sectors, including: banking, insurance, investment, real estate, industrial, services, and food. The total sample size for accountants, auditors and external users was computed as: accountants (205), auditors (60), and external users (89) using the formula (see Triola (1992) for more detail).

$$n = \frac{4Z^2 p(1-p)}{W^2}$$

To reach a total sample size of 354 (details of the formula's use in determining the sub-samples can be found in supplement (6.1)).

Where Z is the cut off point of the normal distribution which is equal to 1.96 at 95% confidence, and $P = 0.708$, which is the percentage of accountants or auditors or external users who have familiarity with IAS, and W is the precision of the results which are set to $W = 0.0947$.

6.7. QUESTIONNAIRES' VALIDITY

6.7.1. Pilot Testing Questionnaires

The three questionnaires were given to five accountants and auditors who are professors at Kuwait University College of Administration Science, and nine practitioners at the Kuwait Stock Exchange, to test their validity and to check on their relevancy. We received a total of fourteen questionnaires. Thirteen from professors of Kuwait University, and one from a practitioner from the K.S.E. Upon receiving their comments, editing and corrections were made to prepare the questionnaires for the fieldwork. (For more details see Appendices (D), (E), and (F) for Questionnaires Before the Pilot Test and Appendices (G), (H), and (I) for Questionnaires After the Pilot Test).

Here the researcher would like to mention to the readers and the future researchers, the reason for choosing these two categories for testing the questionnaires. From the researchers' point of view, it is believed that the Kuwaiti Professors have a high familiarity and knowledge of IAS, while the professionals or practitioners in Kuwait Stock Exchange (K.S.E.) have good and long experience regarding the implementation, benefits, and difficulties of IAS. The researcher would like to argue

that the approach used provided a very good balance has been reached, with the advice of professors (who have knowledge of IAS) and practitioners (who have experience in using IAS), in preparing the questionnaires.

6.7.2. Sampling Difficulties

During data collection the researcher faced several difficulties, in brief these are as follows:

- Absence of respondents' co-operation.
- Absence of higher-level management's co-operation.
- Lack of facility given to the researcher to finish the job.
- Lack of knowledge – by some - regarding IAS.
- Unfamiliarity – by some - with IAS technical terminology.

To overcome the above difficulties, the researcher was in continuous direct contact with higher level management, explaining the benefits of conducting the survey and how the result would help to bring future harmonisation to the accounting profession. Moreover, the researcher obtained written approval from the Ministry of Planning in Kuwait to conduct the survey which was used as a pass to reach the respondents. The researcher spent a sizeable amount of time explaining to respondents, the difficult concepts and terminologies, before they completed the questionnaires.

Furthermore, the researcher would like to take this opportunity to offer prospective researchers in Kuwait some advice which may help them save time by avoiding some of the difficulties in collecting data for their studies. In brief, these are as follows:

- The researcher should know that time is very important for his/her work, and should explain that to the respondents and managers.
- The researcher should distribute more questionnaires than he/she planned in the hope that he/she will receive the required number of questionnaires for analysis.
- To guarantee better co-operation with higher level management, the researcher should ask for informal meetings with top managers, to explain to them the importance of the co-operation and the confidentiality of the results and data, and promise to provide them with summary results regarding the research issues.
- Set a timetable for data collection, data entry, and statistical analysis in advance.

- Utilise the latest technology in surveys, for example the internet will speed up the collection, and minimise costs, time, and effort. Moreover, it encourages respondents to co-operate.
- Before data collection, the researcher should make informal visits to the target population, to explain different issues, the terminology used and ensure that individuals truly understand the technical side of the research.

Finally, it is worth reiterating the importance of the co-operation of the government in Kuwait in raising the degree of awareness and stressing the importance of the research and its impact on corporations and the community at large. As an example, the Ministry of Planning should assist in achieving this.

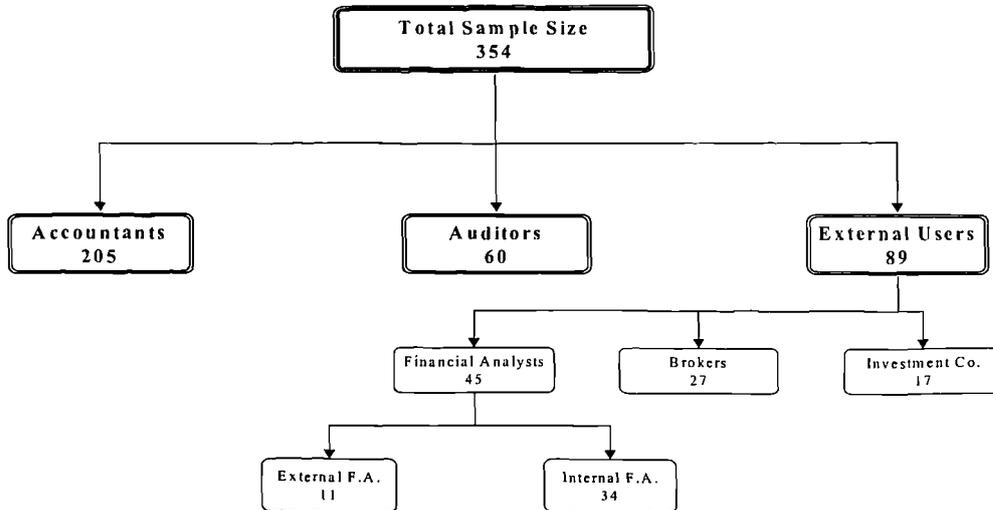
6.8. DATA COLLECTION AND DATA ENTRY

Data was collected within 3 months. During this period an SPSS (Statistical Package for Social Science) database for the three questionnaires was prepared and the logic of the code was also checked. Data was entered in the SPSS database. To check data entry and the codes, several tests were carried out including graphs, summary measures, and results checked against the actual records and sample characteristics, to search for any possible mistakes.

A test of reliability analysis was conducted to determine the extent to which the items in the questionnaires related to each other, and the overall reliability measure was around 94% which is considered very acceptable.

The distribution of sample size cover the three categories: accountants, auditors, and external users, is shown in the following Exhibit (6.3).

Exhibit (6.3)
Sample Size



6.9. INTERVIEWS

After the results were reached, it was necessary to cross validate the result with professionals and those experienced in the field. Two different categories were interviewed. Several professors from Kuwait University's College of Administration Science, who had investigated or conducted research into the subject of IAS and its implementation to the Kuwaiti environment were interviewed. The second group was selected from professionals working in the Kuwait Stock Exchange (K.S.E.), who had practical knowledge of difficulties in the implementation of IAS, benefits of the implementation of IAS, and familiarity and knowledge of practicing IAS.

6.10. NON-RESPONSE BIAS

The tendency is for interviews to engender lower levels of non-response compared with questionnaires administered by post or, indeed, self-administered questionnaires.

Non-response is an important problem, because a perfect random sample drawn from a perfect sampling frame and with virtually no prospective sampling error cannot be rendered representative because of the poor level of willingness of some respondents to be involved in the research. Indeed it seems useful to distinguish between a study's de jure sample (that which is selected) and its de facto sample (that which is achieved). The problem with non-response is that those people or firms that agree to participate may differ substantially from

those that do not. Those who participate are akin to the voluntary participant in experiments whose characteristics may differ sharply from those who choose not to volunteer.

However, it has to be recognised that when such checks are carried out, they can rarely conduct comparisons between respondents and non-respondents in anything but the most superficial of characteristics. Less directly observable characteristics can rarely be a source of comparison, so that even though respondents and non-respondents may appear similar in items such as gender, level in hierarchy, or company absenteeism records in the non-manual employee study, deeper differences such as attitudinal or behavioural divergences are almost never amenable to such analysis (Bryman (1988)).

The researcher agrees that it is often proposed that researchers should check to see whether there is evidence of systematic bias in their sample.

The researcher also feels that there is a sense in which much of the discussion of random sampling, non-response and so on, is redundant, because there is a widespread recognition among organisation researchers, that investigation using sample surveys are rarely based on probability samples.

However, I would like to suggest to future researchers that one way of testing for non-response bias, is to identify into first and second mailing respondents and treat the respondents to the second mailing as surrogates for non-respondents. This would allow the researcher to carry out the testing of differences between these two sub-samples. Tests which should provide evidence to support the assertion that these two sub-samples came from the same population.

Supplement (6.1)
The Formula's Used in Determining the Sub-samples

Sample Size

$$n = \frac{4 z^2 p (1 - p)}{w^2}$$

z = 1.96
p = 0.708
w = 0.0947

$$= \frac{4 (1.96) (1.96) (0.078) (0.292)}{(0.0947)^2} = \frac{3.1767881}{(0.0947)^2} = 354.2324 = 354$$

Accountants

$$n = \frac{4 z^2 p (1 - p)}{w^2}$$

z = 1.96
p = 0.41
w = 0.1346

$$= \frac{4 (1.96) (1.96) (0.41) (0.59)}{(0.1346)^2} = \frac{4 (3.8416) (0.41) (0.59)}{0.181171} = \frac{3.7171322}{0.0181171} = 205.17371 = 205$$

Auditors

$$n = \frac{4 z^2 p (1 - p)}{w^2}$$

z = 1.96
p = 0.60
w = 0.247

$$= \frac{4 (1.96) (1.96) (0.60) (0.40)}{(0.247)^2} = \frac{4 (3.8416) (0.60) (0.40)}{0.061009} = \frac{3.687936}{0.061009} = 60.449049 = 60$$

External Users

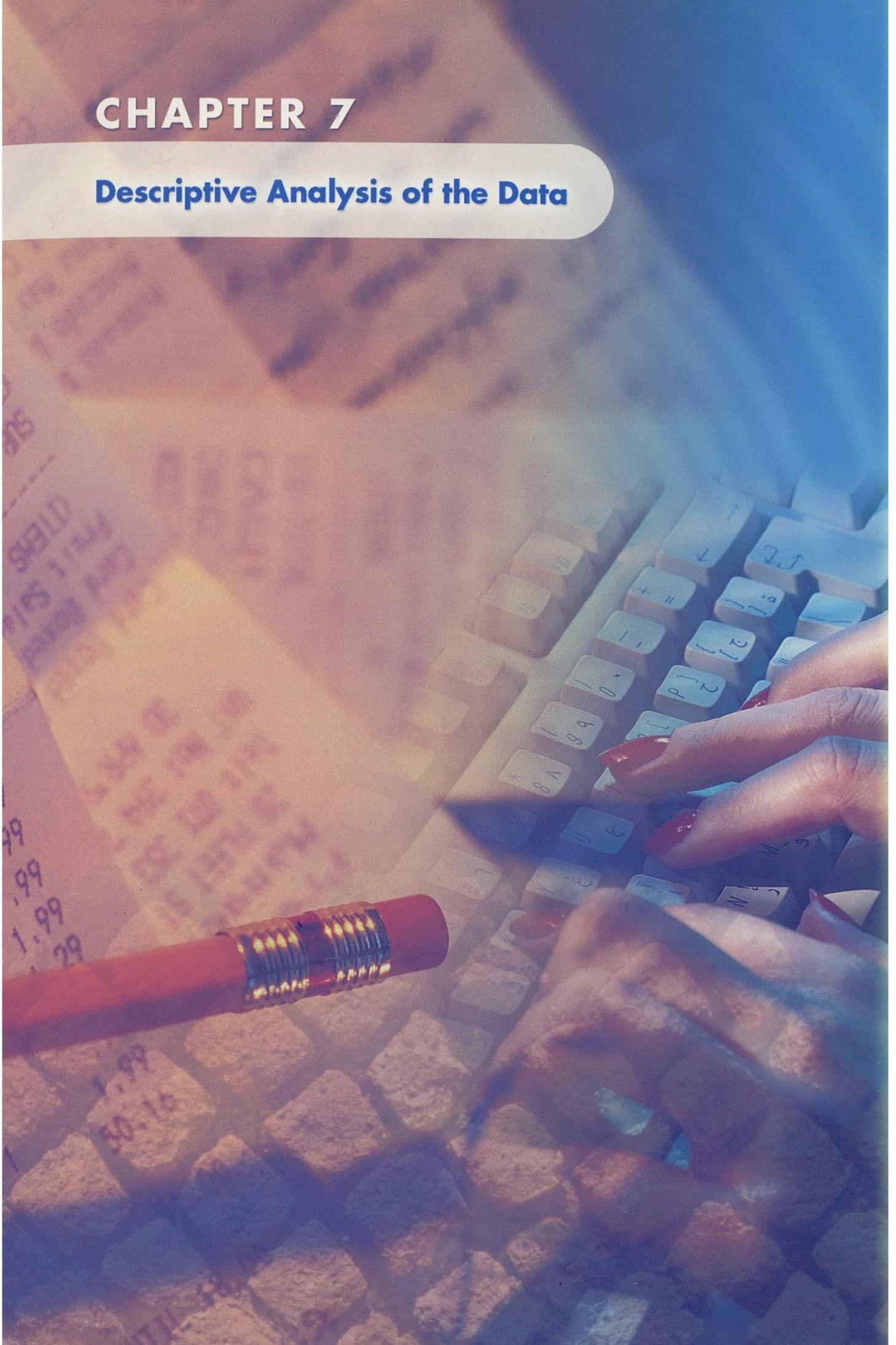
$$n = \frac{4 z^2 p (1 - p)}{w^2}$$

z = 1.96
p = 0.59
w = 0.204

$$= \frac{4 (1.96) (1.96) (0.59) (0.41)}{(0.204)^2} = \frac{4 (3.8416) (0.59) (0.41)}{0.041616} = \frac{3.7171322}{0.041616} = 89.319785 = 89$$

CHAPTER 7

Descriptive Analysis of the Data



CHAPTER 7 : DESCRIPTIVE ANALYSIS OF THE DATA

7.1. INTRODUCTION

This chapter gives the preliminary investigation to sample data, and highlights the important issues regarding the research hypotheses.

It starts by describing the sample from each of the three categories: accountants, auditors and external users. Several dimensions will be considered in the analysis. First, the characteristics of each sample will be presented with regard to relevant demographic variables: age, education, experience and nationality. Second, each section in the questionnaires will be explored independently. However, due to the similarity of accountants and auditors questionnaires, we will treat these two groups together in order to highlight their differences and to make significant comparisons whenever possible. In each section we first present the frequency distributions for each research question (response). Next, we give summary measures to major statistics where we elaborate on respondents' attitudes towards each issue. Third, where relevant, we discuss the degree of association between each research question and the demographical variables to indicate their inter- relationship. The results of cross tabulation analysis along with Chi-square results will also be given.

7.2. SAMPLING CHARACTERISTICS

As is mentioned in chapter 6 the sample sizes for accountants, auditors and external users are 205, 60 and 89 respectively. In the following subsections we present the distributions of the demographic variables as well as the research questions for each category. The following Table (7.1) gives samples and respondents.

Table (7.1)
Respondents and Samples for each Category

The Categories	Sample	Respondents	Percentage
- Accountants	250	205	82%
- Auditors	100	60	60%
- External Users	150	89	59%

7.2.1. Accountants and Auditors

The following describes the distribution of accountants/auditors according to their age groups.

**Table (7.2)
Distribution of Accountants/Auditors According to their Age Groups**

Age Group	Accountants		Auditors	
	Frequency	Percentage	Frequency	Percentage
- Less than 25 years	6	2.9	4	6.7
- 25 years & less than 35 years	67	32.7	26	43.3
- 35 years & less than 45 years	83	40.5	15	25
- 45 years & less than 50 years	39	19	13	21.7
- 50 years and more	10	4.9	2	3.3
Total	205	100%	60	100%

Percentage inside box represents the mode of distributions

From the above table it is evident that the majority of the respondents range between 35 years and less than 45 years which represents around 40.5%. Also, it is obvious that the mode of the respondents for auditors lies between 25 years and less than 35 years, which represents around 43.3%. The following Table (7.3) describes the distribution of the respondents educational levels for accountants and auditors.

Table (7.3)
Distribution of Accountants/Auditors According to their Educational Level

Educational Level	Accountant		Auditors	
	Frequency	Percentage	Frequency	Percentage
- Higher Diploma in Accounting or equivalent	25	12.2	1	1.7
- B.S. in Accounting or equivalent	151	73.7	28	46.6
- Qualified Accountant (e.g. Chartered Account)	21	10.2	30	50
- M.S. in Accounting or equivalent	8	3.9	1	1.7
Total	205	100%	60	100%

Percentage inside box represents the mode of distribution

It is noted from the above Table (7.3) that the mode of the respondents for accountants with B.S. in Accounting or equivalent, represents around 73.7% of the data set. It is also noted that the qualified auditors or equivalent is the mode of the distribution. The following Table (7.4) provides the levels of years of experience of practising accounting and auditing.

Table (7.4)
Distribution of Accountants/Auditors to their Years of Experience

Years of Experience	Accountants		Auditors	
	Frequency	Percentage	Frequency	Percentage
- Less than a year	2	1	2	3.3
- One year and less than 5 years	31	15.1	10	16.7
- 5 years and less than 10 years	40	19.5	18	30
- 10 years and less than 15 years	56	27.3	13	21.7
- 15 years and more	75	36.6	17	28.3
Not answered	1	0.5	-	-
Total	205	100%	60	100%

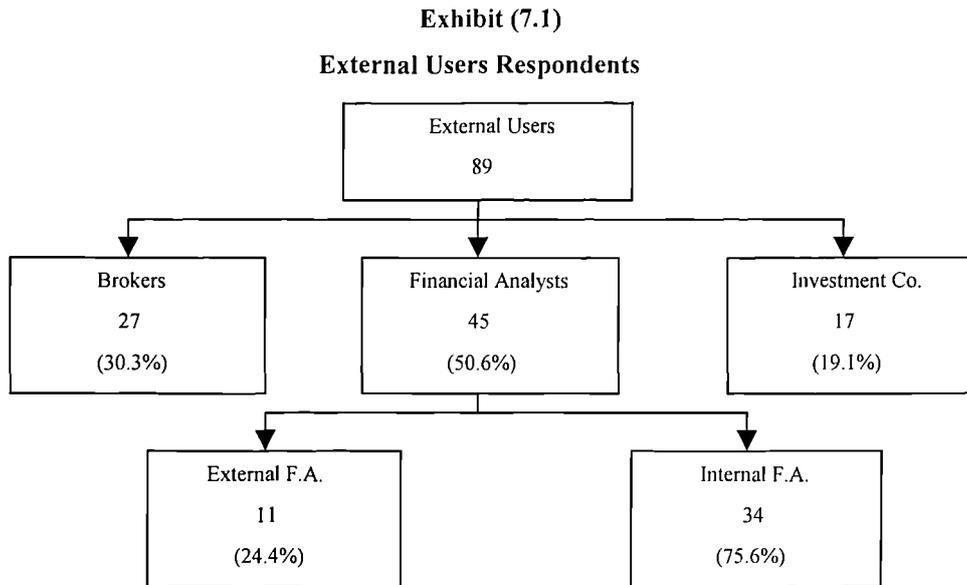
Percentage inside box represents the mode of distribution

The distribution of accountants' experience is skewed to left which indicates that the majority (mode) have over 15 years or more in practising accounting, this is around 36.6% of the data set. Similar to the accountants' distribution, the distribution of auditors' experience is also skewed to the left which indicates that the majority (mode) is between 5 years and less than 10 years in practising auditing, this represents 30% of the data.

Finally, regarding nationality the respondents consisted of: (i) 18.1% Kuwaiti accountants and 81.9% non-Kuwaiti accountants; (ii) it is also showed that the average number of years in practising accounting is 12.14 with standard deviation 6.61 years; (iii) also, the sample consisted of 18.5% Kuwaiti auditors and 81.5% non-Kuwaiti auditors; (iv) the average number of years in auditing is 11.05 years with standard deviation 6.45 years, very close to the corresponding figures for accountants.

7.2.2. External Users

The external users respondents size is 89, which is distributed among different users (brokers, internal and external financial analysts and investment companies) as shown in Exhibit (7.1).



The following Table (7.5) describes the distribution of external users according to their age groups, and to their job titles (brokers, financial analysts, and investment companies).

Table (7.5)
Distribution of External Users According to their Age Groups

Age Group	External Users					
	Brokers		Financial Analysts		Investment Companies	
	Frequency	Percentage	Frequency	Percentage	Frequency	Percentage
- Less than 25 years	1	3.7	4	8.9	-	-
- 25 years & less than 35 years	6	22.2	12	26.7	1	5.8
- 35 years & less than 45 years	7	25.9	13	28.8	8	47.1
- 45 years & less than 50 years	9	33.3	12	26.7	8	47.1
- 50 years and more	4	14.8	4	8.9	-	-
Total	27	100%	45	100%	17	100%

Percentage inside box represents the mode of distribution

From Table (7.5), it is evident that the majority of the respondents range for brokers is between 45 years and less than 50 years, representing around 33.3%. It is also evident that the majority of respondents range for financial analysts is between 35 years and less than 45 years which represents around 28.8%.

Finally, it is obvious that the mode of the respondents for investment companies lies between 35 years and less than 50 years, representing around 94.2%.

7.3. FAMILIARITY AND KNOWLEDGE OF ACCOUNTANTS AND AUDITORS

In this section we discuss several issues regarding the familiarity of accountants and auditors with the IAS. Also, how do they acquire their knowledge about these newly developed IAS? Here, several sources of knowledge were given to assist respondents in selecting the appropriate source of knowledge.

7.3.1. Rating Knowledge of IAS

The accountants were asked to rate their knowledge of IAS, the responses are presented in Table (7.6).

Table (7.6)
Rating Knowledge of IAS for Accountants/Auditors

Knowledge Rating	Accountants		Auditors	
	Frequency	Percentage	Frequency	Percentage
- None	2	1	-	-
- A little	22	10.7	11	18.3
- Moderate	69	33.7	9	15
- Very much	95	46.3	30	50
- A great deal	17	8.3	10	16.7
Total	205	100%	60	100%
Summary Statistics				
Mean	3.50		3.65	
Standard Deviation	0.83		0.97	
Coefficient Of Variation (C.V.%)	23.7%		26.6%	

Percentage inside box represents the mode of distribution

From the analysis we found that one percentage of the accountants questioned have no knowledge of the standards, 10.7% have little knowledge, 33.7% have moderate knowledge, 46.3% are very familiar with the standards while 8.3% know a great deal about the IAS. The mode of the samples indicates that 46.3% of the data are very much familiar with the standards.

This finding is supported also by the average, which is 3.5 out of 5 (between moderate and very much) with standard deviation 0.83.

On the other hand the same question was asked to auditors who exhibit almost the same pattern as the accountants. The respondents shows that all the auditors have some knowledge about the standards with differing degrees. We found that 18.3% of auditors know little about the standards, 15% of them have moderate knowledge, 50% have very good knowledge while 16.7% know a great deal about the standards.

The mode of the auditors distribution shows that 50% of the auditors have very good knowledge of the standards, while 16.7% know a great deal. The summary measures of the auditors were very much the same as the accountants. The average attitude of knowledge rating is 3.65 (moderate and very much) with standards deviation 0.97. Overall both accountants and auditors have similar positive rating regarding their knowledge of IAS.

7.3.2. Sources of IAS Knowledge

In order to identify different sources of IAS knowledge, both accountants and auditors were asked how they acquired their knowledge regarding IAS, and respondents were allowed to choose more than one source.

Table (7.7)
Different Sources of IAS Knowledge for Accountants/Auditors

Source of Knowledge of IAS	Accountants Percentage	Auditors Percentage
- From other Accountants /Auditors	37.1	43.3
- By attending training courses	27.8	64.7
- By direct practising	62	61.7
- By reading publications	50.7	76.7
- Other sources	10.2	10

Percentage inside box represents the mode of distribution

As shown in Table (7.7) auditors have more desire to learn from others than accountants. Also, the auditors are more committed than accountants to attend training courses in IAS. With regard to direct practising, both accountants and auditors have almost the same percentage. Auditors are much more determined than accountants to update their knowledge about IAS by reading publications. Both accountants and auditors use very little other sources of knowledge of IAS.

For the accountants, who acquired their knowledge by attending training courses, we found that the average number of courses was 2.33; while, for auditors who acquired their knowledge by training courses, the average was 5.89. Again, the data provides evidence that auditors are more keen than accountants to learn about the standards.

Auditors are also more willing than accountants to train staff to enhance their knowledge of IAS because they work in less strict environments and have a wider overview than accountants.

With regard to the dates of the first and last training courses they have attended, data showed that auditors knew about IAS as early as 1966, while the knowledge started eleven years later in 1977. However, the percentage of accountants who attended courses increased quickly over the years reaching its highest during (1996 – 1998); while, the number of auditors who attended training courses increased more slowly over the years, showing a noticeable improvement only from 1994 – up to now. Compare to accountants, auditors not only started taking training courses in IAS earlier but also their enrolment percentage compare to accountants was always higher. For both accountants and auditors statistics show a newly developed awareness regarding learning about IAS, which is supported by the latest enrolment in training courses during the last three years 1997 – 1999, as shown in the following Table (7.8).

Table (7.8)
Training Courses for Accountants/Auditors

Years	Accountants		Auditors	
	Frequency	Percentage	Frequency	Percentage
1988	2	3.5	-	-
1989	2	3.5	-	-
1992	1	1.8	-	-
1993	2	3.5	-	-
1994	6	10.5	3	10.7
1995	2	3.5	1	3.6
1996	5	8.8	3	10.7
1997	11	19.3	4	14.3
1998	23	40.3	13	46.4
1999	3	5.3	4	14.3
Total	57	100%	28	100%

For those accountants/auditors who acquired their knowledge by attending training courses, 18.5% of accountants stated that their companies now stipulate that all new recruits should have IAS training; and 85.7% of auditors confirmed that their firms required IAS training for new recruits. Of those accountants who stated that IAS training is required, 68.4% of them answered that these training courses are given by

companies while 31.6% of them replied that they are given by external providers. Of auditors who stated that IAS training is required, 75% answered that their firms provide such training while 25% replied that it is given by external providers. The average number of training courses accountants expected to attend each year was 1.65; for auditors, it was 2.17.

Those respondents who acquired their knowledge by reading publications were asked to rate the frequency of using these sources. The following Table (7.9) provides the distribution of their attitudes, which shows that auditors are more positive than accountants regarding updating their knowledge in this way. The average rating for the accountants is close to “reasonably”, while the average rating for auditors is above “reasonably.”

Table (7.9)
Rating Using Publication for Accountants/Auditors

Frequency of Using Publications	Accountants		Auditors	
	Frequency	Percentage	Frequency	Percentage
- Rarely	8	7.7	3	6.5
- Often	20	19.2	4	8.7
- Reasonably	48	46.2	14	30.4
- Very Often	23	22.1	16	34.8
- A great deal	5	4.8	8	17.4
Summary Statistics				
Mean	2.97		3.41	
Standard Deviation	0.96		1.20	
Coefficient Of Variation (C.V.%)	32.3%		35.2%	

Percentage inside box represents the mode of distribution

7.4. IMPLEMENTATION OF IAS AND CONSEQUENT DIFFICULTIES

7.4.1. Accountants' and Auditors' Implementation of IAS

In order to evaluate the familiarity of both accountants and auditors of IAS, and whether they have applied the standards in preparation or auditing of the annual reports before their present jobs.

Several questions were asked to identify their familiarity and to estimate their experience in IAS in the preparation of annual reports.

The percentage of accountants who applied IAS before they joined their present job is 66.8% over an average of 5.75 years; whilst 76.7% of auditors used IAS to audit annual accounts before joining their current job over an average of six years of auditing. When both accountants and auditors were asked about rating their level of experience in applying IAS, both responded positively as shown in Table (7.10).

Table (7.10)
Rating Experience Level for Accountants/Auditors

Level of Experience	Accountants		Auditors	
	Frequency	Percentage	Frequency	Percentage
- Very limited	3	2.2	2	4.3
- Limited	9	6.6	4	8.7
- Moderate	32	23.4	7	15.2
- Good	71	51.8	19	41.3
- Very good	22	16.1	14	30.4
Summary Statistics				
Mean	3.73		3.85	
Standard Deviation	0.89		1.09	
Coefficient of Variation (C.V.%)	23.9%		28.3%	

Percentage inside box represents the mode of distribution

For accountants, the majority (51.8%) of the sample responded positively to rating their experience (Good) in applying IAS in preparing annual reports, with the average rating 3.73,

and standard deviation 0.89. Auditors also responded positively to rating their experience with IAS in auditing annual reports, with their mode of their rating good (41.3%), and the average rating 3.85 with standard deviation 1.09. The results show a slight difference between both rating distributions, and indicates that auditors have better experience than accountants in applying IAS in annual reports. In the next chapter we will check for the significance of this difference. The following Table (7.11) presents detailed results regarding the familiarity or the use of IAS 1 – 33 by both accountants and auditors. An updated version of IAS at November 2001, is attached in Appendix (J).

Table (7.11)
Familiarity and Use of IAS for Accountants/Auditors

IAS	Accountants			Auditors		
	Frequency	Percentage	Rank	Frequency	Percentage	Rank
IAS 1	108	78.8	4	42	91.3	3
IAS 2	107	78.1	5	43	93.5	2
IAS 4	117	85.4	1	44	95.7	1
IAS 5	100	73	8	38	82.6	9
IAS 7	115	83.9	2	41	89.1	4
IAS 8	111	81	3	36	78.3	13
IAS 9	57	41.6	24	22	47.8	25
IAS 10	87	63.5	10	36	78.3	14
IAS 11	61	44.5	22	28	60.9	19
IAS 12	46	33.6	27	17	37	29
IAS 13	99	72.3	9	37	80.4	11
IAS 14	67	48.9	18	28	60.9	20
IAS 15	57	41.6	25	22	47.8	26
IAS 16	83	60.6	11	36	78.3	15
IAS 17	67	48.9	19	24	52.2	23
IAS 18	106	77.4	6	41	89.1	5
IAS 19	43	31.4	29	17	37	30
IAS 20	39	28.5	31	18	39.1	27
IAS 21	82	59.9	13	37	80.4	12
IAS 22	56	40.9	26	26	56.5	22
IAS 23	64	46.7	20	34	73.9	17
IAS 24	80	58.4	14	33	71.7	18
IAS 25	101	73.7	7	41	89.1	6
IAS 26	45	32.8	28	18	39.1	28
IAS 27	79	57.7	15	35	76.1	16
IAS 28	75	54.7	16	40	87.1	7
IAS 29	39	28.5	30	16	34.8	31
IAS 30	62	45.3	21	28	60.9	21
IAS 31	60	43.8	23	24	52.2	24
IAS 32	70	51.1	17	38	82.6	10
IAS 33	83	60.6	12	39	84.8	8

7.4.2. Accountants' and Auditors' perception of IAS

The degree of perception of both accountants and auditors when using IAS for the first time, how they perceive IAS now is shown in Table (7.12).

Table (7.12)
Accountants'/Auditors' Perception of Using IAS

Perception	First Perception				Current Perception			
	Accountants		Auditors		Accountants		Auditors	
	Freq.	%	Freq.	%	Freq.	%	Freq.	%
- Very low	12	8.8	9	15	1	.7	-	-
- Low	32	23.4	15	25	1	.7	-	-
- Neutral	67	48.9	25	41.7	27	19.7	16	26.7
- High	26	19	10	16.7	70	51.1	34	56.7
- Very high	-	-	1	1.7	38	27.7	10	16.7
Summary Statistics								
Mean	2.78		2.65		4.04		3.90	
Standard Deviation	0.86		0.99		0.76		0.66	
Coefficient Of Variation (C.V.%)	30.9%		37.4%		18.8%		16.9%	

□ Percentage inside box represents the mode of distribution

It is clear from the above Table (7.12) that both accountants and auditors have neutral perception to IAS when they used the standards first time with the average perception of accountants 2.78 (above low and less than neutral), and a similar perception to auditors 2.65 when they used the standards for the first time. Accountants' perception improved drastically over time to reach 4.04 (above high), while auditor's perception also improved to reach 3.90 (above neutral and less than high). It is reasonable to say that both accountants and auditors had some difficulties in perceiving the standards when they started using IAS, but their perception improved with training, reading publication or practising to reach a reasonable degree of understanding today.

7.4.3. Consequent Difficulties Faced by Accountants/Auditors

7.4.3.1. Difficulties in Measurements

Both accountants and auditors were asked to select the most common difficulties they face when they apply IAS. Table (7.13) presents the frequency and corresponding percentage of each difficulty. Interestingly enough, both accountants and auditors exhibit very similar patterns. In short, both of them claim that they face moderate difficulties for all measurements given in the questionnaires. However, accountants claim that shortage of IAS trained accountants is considered the only severe problem they face as far as measurements are concerned; while auditors believe that, in addition to the problem of a shortage of IAS trained auditors, there is also the severe problem of interpretation of IAS. Details regarding rating difficulties for both accountants and auditors are presented in Table (7.13).

Table (7.13)
Rating Difficulties For Both Accountants and Auditors
(Measurements)

SR.	Measurements	Accountants										Auditors									
		Degree of difficulties					Summary Measures					Degree of difficulties					Summary Measures				
		Frequency Percentage	Very severe	Severe	Moderate	Limited problem	No problem	mean	Standard deviations	C V %	Frequency Percentage	Very severe	Severe	Moderate	Limited problem	No problem	mean	Standard deviations	C V %		
1	Cost of measurements	F. 7 P. 9.2	8 10.5	28 36.8	19 25	13 17.1	3.26	1.22	37.40	F. 5 P. 38.8			5 26.3	7 38.8	7 36.8	4.11	0.81	19.7			
2	Evaluations of measurements	F. 6 P. 7.9	13 17.1	18 23.7	23 30.3	15 19.7	3.33	1.27	38.00	F. 8 P. 42.1			8 42.1	5 26.3	6 31.6	3.89	0.88	22.6			
3	Time consuming	F. 1 P. 1.3	12 15.8	29 38.2	17 22.4	16 21.1	3.43	1.11	32.40	F. 3 P. 47.4	3 15.8		3 47.4	1 5.3	6 31.6	3.53	1.12	31.7			
4	Needs a lot of efforts	F. 4 P. 5.3	13 17.1	28 36.8	16 21.1	14 18.4	3.26	1.18	36.20	F. 3 P. 42.1	3 15.8		3 42.1	2 10.5	6 31.6	3.58	1.12	31.3			
5	Shortage of knowledge	F. 8 P. 10.5	12 15.8	26 34.2	17 22.4	12 15.8	3.13	1.25	40.00	F. 4 P. 31.6	4 14		4 31.6		5 26.3	3.11	1.33	42.8			
6	Ambiguity in understanding	F. 4 P. 5.3	14 18.4	24 31.6	18 23.7	15 19.7	3.30	1.21	36.70	F. 6 P. 42.1	6 21.1		6 42.1		6 31.6	3.21	1.36	42.4			
7	Shortage of IAS trained accountants	F. 14 P. 18.4	25 32.9	20 26.3	13 17.1	3 3.9	2.51	1.14	45.40	F. 8 P. 36.8	8 26.3		8 36.8	1 5.3	2 10.5	2.53	1.17	46.2			
8	Interpretation of IAS	F. 9 P. 11.8	13 17.1	28 36.8	17 22.4	8 10.5	2.99	1.19	39.80	F. 7 P. 36.8	7 26.3		7 36.8	1 5.3	2 10.5	2.68	1.11	41.4			
9	Communicating understanding of IAS with other accountants	F. 10 P. 13.2	14 18.4	28 36.8	19 25	4 5.3	2.87	1.14	39.70	F. 4 P. 36.8	4 15.8		4 36.8	4 21.1	1 5.3	2.79	1.13	40.5			
10	Lack of accuracy of IAS	F. 5 P. 6.6	6 7.9	22 28.9	24 31.6	18 23.7	3.54	1.20	33.90	F. 2 P. 10.5	2 10.5		2 10.5	6 31.6	5 26.3	3.53	1.31	37.1			
11	Flexibility of Implementation	F. 6 P. 7.9	12 15.8	23 30.3	22 28.9	12 15.8	3.25	1.21	37.20	F. 1 P. 5.3	1 5.3		1 5.3	1 5.3	7 36.8	3.68	1.16	31.5			
12	Relevancy of measurements	F. 5 P. 6.6	9 11.8	28 36.8	20 26.3	13 17.1	3.32	1.17	35.20	F. 2 P. 10.5	2 10.5		2 10.5		9 47.4	3.74	1.37	36.6			
13	Complexity of measurements	F. 4 P. 5.3	13 17.1	23 30.3	23 30.3	12 15.8	3.30	1.17	35.50	F. 2 P. 10.5	2 10.5		2 10.5	1 5.3	5 26.3	3.21	1.32	41.1			
14	Contradictions between local regulations and IAS regarding measurements	F. 6 P. 7.9	8 10.5	17 22.4	23 30.3	21 27.6	3.55	1.29	36.30	F. 1 P. 47.4	1 5.3		1 47.4	3 15.8	6 31.6	3.74	0.99	26.5			
15	Adoption of IAS Standards	F. 5 P. 6.6	9 11.8	28 36.8	12 15.8	21 27.6	3.42	1.27	37.10	F. 1 P. 31.6	1 5.3		1 31.6	6 31.6	6 31.6	3.84	1.07	27.9			

7.4.3.2. Difficulties in Disclosure

For both accountants/auditors their difficulties with disclosures range between moderate or limited problems. The two patterns are somewhat similar except for the efficiency of information where the accountants claim that they face no problem dealing with it, while the auditors claim that they are facing a moderate problem. Generally, it seems that both accountants and auditors are facing either moderate or limited problems regarding measurements and disclosure. Details are presented in Table (7.14).

Table (7.14)
Rating Difficulties For Both Accountants and Auditors
(Disclosure)

SR.	Disclosure	Accountants										Auditors								
		Frequency					Degree of difficulties					Frequency			Degree of difficulties			Summary Measures		
		Percentage	Very severe	Severe	Moderate	Limited problem	No problem	mean	Standard deviations	CV %	Percentage	Very severe	Severe	Moderate	Limited problem	No problem	mean	Standard deviations	CV %	
1	Availability of information	F. 4 P. 6	4 20.9	14 26.9	18 26.9	18 26.9	13 19.4	3.33	1.19	35.7	F. 2 P. 10	2 20	4 50	10 50	2 10	2 10	2.90	1.07	36.90	
2	Quantity of information	F. 5 P. 7.5	5 20.9	14 29.9	20 29.9	14 20.9	20.9	3.27	1.23	37.6	F. 5 P. 1	5 3	25 45	15 45	3 15	3 15	3.20	1.01	31.60	
3	Quality of information	F. 5 P. 7.5	5 23.9	16 28.4	19 28.4	10 14.9	17 25.4	3.27	1.29	39.4	F. 1 P. 5	3 5	3 15	10 50	2 10	4 20	3.25	1.12	34.50	
4	Timing of disclosure	F. 3 P. 4.5	3 17.9	12 28.4	19 28.4	19 20.9	14 20.9	3.43	1.14	33.2	F. 3 P. 15	2 10	2 10	7 35	3 15	5 25	3.25	1.37	42.20	
5	Sufficiency of information	F. 10 P. 14.9	10 16.4	21 31.3	21 31.3	15 22.4	10 14.9	3.06	1.27	41.5	F. 3 P. 15	3 15	3 15	8 40	5 25	4 20	3.50	1.00	28.60	
6	Truth in revealing information	F. 5 P. 7.5	5 7.5	5 28.4	19 28.4	21 31.3	17 25.4	3.60	1.17	32.5	F. 1 P. 5	1 5	1 5	9 45	4 20	6 30	3.75	0.97	25.90	
7	Consistency of information	F. 5 P. 7.5	5 10.4	7 28.4	19 28.4	21 31.3	15 22.4	3.51	1.17	33.3	F. 4 P. 20	4 20	4 20	8 40	4 20	4 20	3.40	1.05	30.90	
8	From free of bias of information	F. 5 P. 7.5	5 10.4	7 31.3	19 31.3	19 28.4	15 22.4	3.48	1.17	33.6	F. 3 P. 15	3 15	3 15	5 25	6 30	6 30	3.75	1.07	28.50	
9	Efficiency of information	F. 6 P. 9	6 14.9	10 17.9	12 17.9	18 26.9	21 31.3	3.57	1.32	37.0	F. 3 P. 15	3 15	3 15	8 40	2 10	7 35	3.65	1.14	31.20	

7.4.4. Consequent Difficulties Faced by External Users

The results show all of the investment companies claim that they have no problems dealing with different dimensions of the information provided by IAS. However, it appears that brokers have limited problems only in the availability of qualified IAS trained staff; while the financial analysts have limited problems regarding foreign trade and business opportunities; the flexibility of the system; the availability of qualified IAS trained staff; and also problems of a limited nature communicating IAS with professionals. Details are presented in Table (7.15).

Table (7.15)
Rating Difficulties For External Users

SR.	Difficulties	Brokers										Financial Analysts										Investment Companies									
		Degree of difficulties					Summary Measures					Degree of difficulties					Summary Measures					Degree of difficulties					Summary Measures				
		Freq.	Very severe	Severe	Moderate	Limited	No Difficulties	mean	standard deviation	C.V. %	Percentage	Freq.	Very severe	Severe	Moderate	Limited	No Difficulties	mean	standard deviation	C.V. %	Percentage	Freq.	Very severe	Severe	Moderate	Limited	No Difficulties	mean	standard deviation	C.V. %	Percentage
1	Problems related to assets measurements	F.	1	3	5	17	4.52	0.89	20.00	F.	4	8	11	22	4.13	1.01	24.50	F.	1	2	14	4.59	0.94	20.50							
		P.	3.7	11.1	18.5	63				P.	8.9	17.8	24.4	48.9				P.	5.9	11.8	82.4										
2	Problems related to cost measurements	F.	1	1	9	17	4.59	0.57	12.00	F.	2	10	8	25	4.24	0.96	23.00	F.	1	2	14	4.76	0.56	12.00							
		P.		3.7	33.3	63				P.	4.4	22.2	17.8	55.6				P.	5.9	11.8	82.4										
3	Problems related to profits measurements	F.	1	1	8	18	4.63	0.56	12.00	F.	3	6	13	23	4.24	0.93	22.00	F.	3	3	14	4.82	0.39	8.10							
		P.		3.7	29.6	66.7				P.	6.7	13.3	28.9	51.1				P.	17.6	82.4											
4	Problems related to borrowings measurements	F.	2	2	6	19	4.63	0.63	14.00	F.	2	6	12	25	4.33	0.88	20.30	F.	1	2	14	4.71	0.77	16.00							
		P.		7.4	22.2	70.4				P.	4.4	13.3	26.7	55.6				P.	5.9	11.8	82.4										
5	Problems related to reports format	F.	2	2	6	19	4.63	0.63	14.00	F.	2	3	16	24	4.38	0.81	18.50	F.	2	2	15	4.76	0.66	14.00							
		P.		7.4	22.2	70.4				P.	4.4	6.7	35.6	53.3				P.	11.8		88.2										
6	Problems related to disclosure	F.	3	3	7	17	4.52	0.70	15.00	F.	2	8	11	24	4.27	0.91	21.00	F.	1	1	15	4.82	0.52	11.00							
		P.		11.1	25.9	63				P.	4.4	17.8	24.4	53.3				P.	5.9	5.9	88.2										
7	Problems related to quantity of accounting information	F.	3	3	6	18	4.56	0.70	15.00	F.	2	7	11	24	4.22	1.02	24.00	F.	2	2	14	4.71	0.69	15.00							
		P.		11.1	22.2	66.7				P.	2.2	4.4	15.6	24.4	53.3			P.	11.8	5.9	82.4										
8	Problems related to performance evaluation	F.	2	2	9	16	4.52	0.64	14.00	F.	7	5	15	21	4.18	0.96	23.00	F.	1	2	14	4.76	0.66	14.00							
		P.		7.4	33.3	59.3				P.	8.9	11.1	33.3	46.7				P.	5.9	11.8	82.4										
9	Problems related to comparisons across companies	F.	2	2	9	16	4.52	0.64	14.00	F.	1	2	8	14	4.11	1.01	24.00	F.	3	3	14	4.76	0.56	12.00							
		P.		7.4	33.3	59.3				P.	2.2	4.4	17.8	31.1	44.4			P.	17.6		82.4										
10	Problems related to foreign trades & business opportunities	F.	2	2	9	16	4.52	0.64	14.00	F.	3	7	19	16	4.07	0.89	22.00	F.	1	2	14	4.59	0.71	15.50							
		P.		7.4	33.3	59.3				P.	6.7	15.6	42.2	35.6				P.	5.9	11.8	82.4										
11	Problems related to time used in carrying out the analysis	F.	3	3	5	19	4.59	0.69	15.00	F.	1	11	16	17	4.09	0.85	21.00	F.	2	2	15	4.82	0.39	8.10							
		P.		11.1	18.5	70.4				P.	2.2	24.4	35.6	37.8				P.	11.8		88.2										
12	Problems related to the provision of equal opportunity to all external users	F.	4	4	6	17	4.48	0.75	17.00	F.	2	10	14	19	4.11	0.91	22.00	F.	1	1	15	4.71	0.59	12.50							
		P.		14.8	22.2	63				P.	4.4	22.2	31.1	42.2				P.	5.9	5.9	88.2										
13	Problems related to the flexibility of the system	F.	3	3	9	15	4.44	0.70	16.00	F.	1	8	19	17	4.16	0.80	19.00	F.	2	2	14	4.47	0.87	19.50							
		P.		11.1	33.3	55.6				P.	2.2	17.8	42.2	37.8				P.	11.8	5.9	82.4										
14	Problems related to the availabilities in your firm of qualified and trained staff in applying IAS	F.	1	2	13	11	4.26	0.76	18.00	F.	1	3	11	17	3.84	1.00	26.00	F.	2	2	15	4.29	0.85	20.00							
		P.	3.7	7.4	48.1	40.7				P.	2.2	6.7	24.4	37.8	28.9			P.	11.8		88.2										
15	Problems related to communicating with accountants about IAS	F.	2	2	12	13	4.41	0.64	15.00	F.	1	1	9	21	3.98	0.89	22.40	F.	1	2	14	4.47	0.72	16.00							
		P.		7.4	44.1	48.1				P.	2.2	2.2	20	46.7	28.9			P.	5.9	11.8	82.4										
16	Conflicts between IAS and stock market regulations	F.	2	2	8	17	4.56	0.64	14.00	F.	1	2	7	12	4.20	1.01	24.00	F.	2	3	12	4.76	0.56	12.00							
		P.		7.4	29.6	63				P.	2.2	4.4	15.6	26.7	51.1			P.	11.8	17.6	70.6										

7.5. ADVANTAGE OF APPLYING IAS

7.5.1. Accountants / Auditors Benefits of IAS

When accountants and auditors were asked whether companies have benefited from applying IAS, 89.8% of accountants and 88.3% of auditors replied positively. Table (7.16), provides the distributions of both accountants' and auditors' attitudes to different benefits, along with some statistical measures (mean, standard deviation and the coefficient of variation). As shown in Table (7.16) both accountants and auditors reacted positively to different benefits of IAS. For accountants most of their ratings range between reasonable and high, while auditors were highly positive.

Table (7.16)

Rating The Benefits of IAS For Both Accountants and Auditors

SR.	Benefits	Accountants										Auditors																						
		Frequency					Degree of Benefits					Summary Measures					Frequency					Degree of Benefits					Summary Measures							
		Percentage	Very low	Low	Reasonable	High	Very High	mean	Standard deviations	C V %	Percentage	Very low	Low	Reasonable	High	Very High	mean	Standard deviations	C V %	Percentage	Very low	Low	Reasonable	High	Very High	mean	Standard deviations	C V %						
1	Effectiveness of accounting system	F.	4	11	59	83	27	3.64	0.88	24.20	F.			16	25	12	39.20	0.73	18.60	P.	2.2	6	32.1	45.1	14.7			30.2	47.2	22.6				
2		Ease of implementation	F.	2	6	78	66	32	3.65	0.84	23.00	F.			12	25	16	4.08	0.73	17.90	P.	1.1	3.3	42.4	35.9	17.4			22.6	47.2	30.2			
3	Flexibility of the system		F.	4	7	71	67	34	3.64	0.94	25.80	F.		1	20	21	11	3.79	0.79	20.80	P.	2.2	3.8	38.6	36.4	18.5			37.7	39.6	20.8			
4		Understanding and communicating IAS	F.	1	8	63	82	29	3.92	3.01	79.80	F.			17	24	12	3.91	0.74	18.90	P.	0.5	4.3	34.2	44.6	15.8			32.1	45.3	22.6			
5	Better foreign trade and business opportunities		F.	9	22	58	67	28	3.45	1.04	30.00	F.		1	22	18	12	3.77	0.82	21.80	P.	4.9	12	31.5	36.4	15.2			41.5	34	22.6			
6		Less time compared with old system	F.	7	6	74	61	36	3.61	0.96	26.60	F.			18	19	16	3.96	0.81	20.50	P.	3.8	3.3	40.2	33.2	19.6			34	35.8	30.2			
7	More accurate cost and assets value data		F.	5	8	51	79	41	3.78	0.93	24.60	F.		1	14	20	18	4.04	0.83	20.50	P.	2.7	4.3	27.7	42.9	22.3			26.4	37.7	34			
8		More accurate profit measurement	F.	5	9	47	82	41	3.79	0.94	24.80	F.		1	9	13	19	3.23	1.92	59.40	P.	2.7	4.9	25.5	44.6	22.3			17	24.5	34			

7.5.2. External Users Benefits of IAS

When external users were asked whether their firm or client benefited by using accounting information produced by applying IAS, all were positive in their replies.

Table (7.17), presents the distribution of the external users' attitudes towards different benefits, along with some useful statistical measures (mean, standard deviation and the co-efficient of variation).

As shown in Table (7.17) most of the external users reacted either positive or very positive to different benefits. Most of the ratings range between good and very good.

Table (7.17)

Rating The Benefits of IAS For External Users

SR.	Benefits	Brokers										External Users															
		Degree of difficulties					Summary Measures					Degree of difficulties					Summary Measures										
		Frequency	Percentage	Very little	Little	Reasonable	Good	Very good	Mean	Standard deviation	C.V. %	Frequency	Percentage	Very little	Little	Reasonable	Good	Very good	Mean	Standard deviation	C.V. %						
1	Effectiveness of assets measurements	F.	3.7	-	4	13	9	4.07	0.92	22.60	F.	17.50	-	1	5	22	17	4.22	0.74	17.50	F.	4.53	8	9	4.53	0.51	11.00
2	Effectiveness of cost measurements	P.	-	-	2	17	8	4.22	0.58	13.70	F.	18.00	-	2	6	22	16	4.18	0.75	18.00	P.	4.41	8	8	4.41	0.62	14.00
3	Effectiveness of profits measurements	P.	-	-	7.4	63.7	29.6	4.33	0.62	14.00	F.	20.00	-	2	5	17	21	4.27	0.84	20.00	F.	4.53	8	9	4.53	0.51	11.00
4	Effectiveness of borrowing measurements	P.	-	-	7.4	51.9	40.7	4.22	0.89	21.00	F.	24.00	-	2	8	18	17	4.07	0.99	24.00	F.	4.29	10	6	4.29	0.59	14.00
5	Effectiveness of format measurements	F.	-	-	5	12	9	4.07	0.83	20.00	F.	19.40	-	2	5	19	19	4.22	0.82	19.40	F.	4.47	9	8	4.47	0.51	11.40
6	Effectiveness of disclosure	P.	-	-	3.7	18.5	44.4	4.19	0.83	19.80	F.	20.00	-	4.4	11.1	42.2	42.2	4.36	0.88	20.00	F.	4.59	7	10	4.59	0.51	11.00
7	Improvements of quantity of accounting information	P.	-	-	3.7	14.8	40.7	4.26	0.81	19.00	F.	19.00	-	4.4	13.3	24.4	57.8	4.38	0.83	19.00	F.	4.29	9	7	4.29	0.77	18.00
8	Better performance evaluation	P.	-	-	3	11	13	4.37	0.69	15.80	F.	21.00	-	2	8	17	18	4.13	0.87	21.00	F.	4.29	10	6	4.29	0.59	14.00
9	Effectiveness of comparisons between companies	P.	-	-	11.1	40.7	48.1	4.52	0.58	13.00	F.	22.00	-	1	6	17	20	4.20	0.92	22.00	F.	4.47	7	9	4.47	0.62	14.00
10	Better performance evaluation	P.	-	-	3.7	29.6	55.6	4.19	1.11	26.50	F.	26.00	-	2.2	13.3	37.8	44.4	3.93	1.01	26.00	F.	3.94	7	6	3.94	1.14	29.00
11	Less time compared with the time spent using accounting information produced under the old system	P.	-	-	7.4	7.4	29.6	3.93	1.09	27.50	F.	27.00	-	4.4	2.2	20	31.3	3.80	1.01	27.00	F.	4.06	7	7	4.06	1.14	28.00
12	Equal opportunity to all external users	F.	-	-	2	3	10	4.19	0.92	22.00	F.	22.00	-	2	10	17	16	4.04	0.88	22.00	F.	4.29	9	7	4.29	0.77	18.00
13	Flexibility of the system	P.	-	-	7.4	11.1	37	4.19	0.88	21.00	F.	23.00	-	4.4	22.2	37.8	35.6	3.93	0.89	23.00	F.	3.94	8	5	3.94	1.03	26.00
14	The availability in your firm of qualified and trained staff in applying IAS	F.	-	-	2	12	11	4.07	0.96	24.00	F.	22.00	-	3	9	22	11	3.91	0.85	22.00	F.	4.24	9	6	4.24	0.66	16.00
15	Ease of communication with accountants about IAS	P.	-	-	11.1	7.4	44.4	4.26	0.81	19.00	F.	21.00	-	6.7	20	48.9	24.4	4.00	0.85	21.00	F.	4.29	8	7	4.29	0.69	16.00
		P.	-	-	3.7	11.1	40.7	4.26	0.81	19.00	F.	21.00	-	6.7	15.6	48.9	28.9	4.00	0.85	21.00	F.	4.29	8	7	4.29	0.69	16.00

7.5.3. Rating the Change in the Quality of Accounting Provided to External Users

7.5.3.1. Accountants' and Auditors' Attitudes

To evaluate the change in the quality of accounting information provided to external users, both accountants and auditors were asked to rate their assessments of change due to applying IAS. Table (7.18), shows the distribution of their ratings as well as the major statistical measures (*mean, standard deviation and co-efficient of variation*).

Both accountants and auditors provide similar pattern regarding their attitudes. Their attitudes range between positive and very positive regarding the quality of accounting information. In addition, when they were further asked to rank different measure of information they responded similarly to each measure as shown in Table (7.19).

Table (7.18)
Rating The Change in Quality of Information

SR.	Accountants										Auditors									
	Frequency		Degree of Changes				Summary Measures				Frequency		Degree of Changes				Summary Measures			
	Percentage	Not at all	A little	Reasonable	To a good degree	To a great deal	mean	Standard deviations	C V %	Percentage	Not at all	A little	Reasonable	To a good degree	To a great deal	mean	Standard deviations	C V %		
1	F.	3	4	60	87	51	3.87	0.86	22.2	F.	1	2	16	20	3.88	1.08	27.8			
	P.	1.5	2	29.3	42.4	24.9				P.	1.7	3.3	26.7	33.3						
2	F.	2	5	47	78	73	4.05	0.88	21.7	F.	1	2	13	24	3.92	1.05	26.8			
	P.	1	2.4	22.9	38	35.6				P.	1.7	3.3	21.7	40				31.7		
3	F.	8	3	49	85	60	3.91	0.97	24.8	F.		2	16	23	3.9	0.99	25.4			
	P.	3.9	1.5	23.9	41.5	29.3				P.		3.3	26.7	38.3				30		
4	F.	1	2	56	79	67	4.02	0.83	20.6	F.		1	21	23	3.78	0.94	24.9			
	P.	0.5	1	27.3	38.5	32.7				P.		1.7	35	38.3				23.3		
5	F.	2	2	60	72	69	4	0.87	21.8	F.		1	21	24	3.77	0.93	24.7			
	P.	1	1	29.3	35.1	33.7				P.		1.7	35	40				21.7		
6	F.	3	3	54	63	82	4.06	0.92	22.7	F.	1	2	12	21	4	1.07	26.8			
	P.	1.5	1.5	26.3	30.7	40				P.	1.7	3.3	20	35				38.3		
7	F.	14	12	57	60	62	3.7	1.16	31.4	F.		3	20	24	3.7	0.96	25.9			
	P.	6.8	5.9	27.8	29.3	30.2				P.		5	33.3	40				20		
	F.	13	14	58	62	58	3.67	1.14	31.1	F.		3	19	25	3.72	0.96	25.8			
	P.	6.3	6.8	28.3	30.2	28.3				P.		5	31.7	41.7				20		

Table (7.19)
Ranking The Change in Quality of Information

SR.	The Change in Quality of Information	Accountants %								Auditors %							
		Rank 1	Rank 2	Rank 3	Rank 4	Rank 5	Rank 6	Rank 7	Rank 8	Rank 1	Rank 2	Rank 3	Rank 4	Rank 5	Rank 6	Rank 7	Rank 8
1	Relevance of accounting data	31.7	16.1	19.5	13.2	8.3	8.8	2		48.3	13.3	10	3.3	15	5	1.7	1.7
2	Reliability of accounting data	19	41.5	12.2	11.2	9.8	4.9		1	16.7	48.3	8.3	8.3	5	6.7	5	
3	Format of annual report	7.8	7.3	19.5	13.7	10.2	22.9	16.6	1.5	3.3	5	31.7	20	5	20	13.3	
4	Timeliness of accounting data	6.8	8.3	16.1	28.8	22.4	9.3	6.8	1	1.7	8.3	21.7	31.7	20	6.7	8.3	
5	Timeliness of annual report	6.8	8.8	17.1	17.1	28.3	12.7	5.4	3.4	5	10	8.3	13.3	38.3	18.3	3.3	1.7
6	Truthfulness & Fairness of accounting data	28.3	15.6	8.3	8.3	13.2	22.9	2.9		21.7	6.7	15	13.3	6.7	26.7	5	3.3
7	Across the sector in Kuwait	7.3	2.4	5.9	6.8	4.4	10.7	6.2		3.3	1.7	5	6.7	11.7	11.7	58.3	
	with similar companies outside Kuwait	4.4	3.9	4.4	9.3	3.4	10.2	38	25.9	1.7	1.7	1.7	3.3	6.7	11.7	18.3	53.3

7.5.4. Suitability of IAS to Kuwaiti Environment

To evaluate the suitability of IAS to the Kuwaiti environment, both accountants and auditors were asked to rate their attitudes towards using or auditing accounting information produced by using IAS. Table (7.20) yields the distribution of their rating. The data shows that average ratings were the same, 3.9 for both accountants and auditors.

Table (7.20)
Rating Suitability of IAS to Kuwait

Suitability of IAS	Accountants		Auditors	
	Frequency	Percentage	Frequency	Percentage
- Not at all	-	-	3	5
- A little	8	3.9	1	1.6
- Reasonable	56	27.3	16	26.7
- To a good degree	90	43.9	19	31.7
- To a great deal	51	24.9	21	35
Summary Statistics				
Mean		3.90		3.90
Standard Deviation		0.82		1.07
Coefficient Of Variation (C.V.%)		21%		27.4%

Percentage inside box represents the mode of distribution

7.5.5. External Users' Reliance on IAS Information

When external users (brokers, financial analysts, and investment companies) were asked to what extent their firm or clients rely on accounting information resulting from the application of IAS, it was high with the average rating of 4, as shown in Table (7.21).

When they were further asked whether their firm or client would continue to use the information provided by IAS in the future, almost 99% of them responded positively.

Table (7.21)
Reliance on IAS Information

Reliance of IAS Information	External Users					
	Brokers		Financial Analysts		Investment Companies	
	Frequency	Percentage	Frequency	Percentage	Frequency	Percentage
- Very little	2	7.4	1	2.2	-	-
- Little	-	-	-	-	-	-
- Reasonable	7	25.9	7	15.6	1	5.9
- To an extent	8	29.6	13	28.9	5	29.4
- To a great extent	10	37	24	53.3	11	84.7
Summary Statistics						
Mean	3.89		4.31		4.49	
Standard Deviation	1.15		0.90		0.62	
Coefficient of Variation (C.V.%)	30%		21%		13.5%	

□ Percentage inside box represents the mode of distribution

7.5.6. The Impact of IAS on Decision-Making

While the external users (brokers, financial analysts, and investment companies) were highly in favour of the quality of the information obtained from applying IAS, they were asked about the attitude regarding the implication of IAS in the decision-making process associated with the Stock Exchange, and their response was very positive.

Specifically, 44.4% of brokers claimed that the information obtained according to IAS provided a great deal of guidance and help in the enhancement of decision-making, while 48.1% believe that using IAS helps facilitate transactions with International Stock Exchanges. 48.1% of all brokers stressed that information engineered by IAS has greatly improved the process of disclosure.

Similarly with financial analysts, 42.2% think that the information provided by implementation of IAS greatly facilitates transactions with International Stock Exchanges. 46.7% believe that such information provides much better guidance in making decisions; and 60% of all financial analysts believe that this information greatly improves the process of disclosure.

Of investment companies questioned regarding the implication of applying information produced by IAS, 52.9% of all companies claimed it provides much better guidance in decision-making. 70.6% believe that the information greatly facilitates transactions with International Stock Exchanges, and 70.6% suggest that the information has improved the process of disclosure a great deal. Detailed findings are presented in Table (7.22).

Table (7.22)

Implication of Applying IAS on Stock Exchange Decision-Making

		External Users																													
SR.	Implication of Applying IAS	Brokers					Financial Analysts					Investment Companies																			
		Freqnents Percentage	Very Little	A little	Reasonable	To a good degree	To a great deal	mean	Standard deviations	C.V. %	Freqnents Percentage	Very Little	A little	Reasonable	To a good degree	To a great deal	mean	Standard deviations	C.V. %												
1	Better guidance and enhancement of the process of decision-making with respect to the use of accounting information	F.			6	12	9	4.11	0.75	18.00	F.	1			6	17	21	4.27	0.86	20.00	F.				1	9	7	4.35	0.61	14.00	
		P.			22.2	44.4	33.3				P.	2.2			13.3	37.8	46.7					P.				5.9	52.9	41.2			
2	Improving the process disclosure of accounting information	F.		1	3	10	13	4.3	0.82	19.00	F.	1			3	14	27	4.47	0.81	18.00	F.				1	4	12	4.65	0.61	13.00	
		P.		3.7	11.1	37	48.1				P.	2.2			6.7	31.1	60					P.				5.9	23.9	70.6			
3	Facilitating of transaction with International Stock Exchanges	F.		1	3	13	10	4.19	0.79	19.00	F.	7			6	19	16	3.96	1.15	29.00	F.				2	12	3	4.06	0.56	14.00	
		P.		3.7	11.1	48.1	37				P.	4.9			13.3	42.2	35.6					P.				11.8	70.6	17.6			

7.5.7. The Implication of IAS on Decision-Making

The external users (brokers, financial analysts and investment companies), were asked about the impact, of applying IAS on decision-making, on financial sectors and investors in Kuwait, as shown in Table (7.23).

Most of the brokers replied that the impact on the value of transactions is reasonable (29.6%) with an average attitude (3.74). With regard to the number of transactions they answered also that the impact is reasonable (37%), with an average attitude (3.59).

For the financial analysts, regarding decision-making, most replied that the IAS impact is very high (36.4%) with the average attitude (3.82); while internal working in companies see that the impact of IAS in decision-making is very high (44.1%) and the average attitude (4.26).

For the investment companies, the impact was very high (64.7%) with an average equal to (4.47).

Finally, when the external users were asked whether IAS needs amendment to alleviate difficulties, 93.3% of the respondents answered negatively.

7.6. SUMMARY AND CONCLUSION

In brief we have discussed the sampling characteristics, and presented the accountants, auditors, and external users respondents' replies to different research questions. We have provided summary measures to different responses, information of frequencies, and percentages as well as means, standard deviations and the coefficient of variation, wherever possible.

Preliminary results regarding the main dimensions, including familiarity and knowledge of accountants and auditors of IAS, implementation of IAS and consequent difficulties, the advantage of applying IAS are given for both accountants and auditors. Moreover, difficulties faced by external users, benefits, reliance of IAS information, and the implication of IAS information are also presented.

We have seen from the preliminary investigation of responses to the research questions that the respondents' attitudes towards the different IAS dimensions were very supportive. However, regarding the problem of measurements, accountants claimed that the shortage of IAS trained accountants is considered a severe problem; while auditors believe that both the shortage of IAS trained auditors and interpreting IAS forms are severe problems for them. On the other hand, external users claim that they have limited problems with the availability of IAS trained staff. However, they appreciate the amount and quality of information engineered by applying IAS in the process of decision-making, disclosure and international transactions.

In Chapter 8, we elaborate more on these findings. Moreover, we will thoroughly test the hypothetical claims we proposed in Chapter 6, in more detail.

CHAPTER 8

Testing Research Hypothesis Regarding Accountants & Auditors



CHAPTER 8 : TESTING RESEARCH HYPOTHESES REGARDING ACCOUNTANTS AND AUDITORS

8.1. INTRODUCTION

In this chapter we aim to investigate several dimensions regarding the compliance of Kuwait professionals with the IAS. In section (8.2), we focus our attention on studying the degree of associations between each demographical variable with research questions, to identify any significant relationships between them and the questions under investigation for accountants, auditors and external users. The results of Chi-square (tests cross tabs) will be given in the form of the P-value along with the decision as to whether we reject or accept the existence of a relationship. Moreover, and to strengthen our conclusion, we will support our findings with non-parametric statistical tests on these issues. In section (8.3) to reach exclusive decisions regarding the research hypotheses, we furnish our findings with a summary table to include these decisions for each questionnaire. Section (8.4) is devoted to factor analyses to summarise questions which have multiple aspects and, whenever relevant, in a number of homogenous factors. Finally, we summarise our conclusions and give our recommendations.

In Chapters (8) and (9), the researcher utilised several statistical tests and procedures to justify claims regarding the research questions. To study associations between research questions and demographic variable Chi-square (cross-tabs) tests were implemented.

Generally speaking, most of the tests used to reach decisions concerning the researchers' hypothesis were of the non-parametric type. The reasons are as follows: (1) research questions were of ordinate type, so parametric tests were inappropriate in this case, and (2) the sample size was small, which had certain limitations in using the central limit theorem and normality assumptions through which t-tests could be used. As an example, in the case of two independent groups (nationality (Kuwaiti and non-Kuwaiti)), the non-parametric Mann-Whitney tests were implemented. Furthermore, in the case of more than two independent groups, the non-parametric Kruskal-Wallis test was utilised (age, experience, education, etc).

8.2. STUDYING ASSOCIATIONS BETWEEN DEMOGRAPHICAL VARIABLES AND THE RESEARCH QUESTIONS

In this section we investigate the relationship between each demographical variable level and the respondents' attitudes towards the research question. Generically, we state the null and the alternative hypothesis in the following manner:

H_0 : There is no significant relationship between a demographical variable and the attitude of the respondents' to a given research question.

Against

H_1 : Such a relationship exists.

The associations between demographical variables and research questions for accountants, auditors and external users are explored within the dimensions presented in Chapter 7. The first dimension investigates familiarity and knowledge of accountants and auditors with IAS; the second discusses the implementation of IAS and its consequent difficulties; the third measures the advantages of applying IAS. Within each main dimension for each category (accountants, auditors and external users) we fix each demographical variable and then investigate its degree of association (the degree of linear relationship) with the research questions. Hence, we tested for the existence of significant differences between the demographical variables' levels using the appropriate non-parametric test. Furthermore, when the test revealed significant, we then extended our investigation through the analysis of a variance test as well as the multiple comparison analysis, to regroup levels and indicate the differences. It is worth mentioning that, when multiple choices (causes, difficulties etc) are required by the research question, we will try to reduce the dimension (scale) to a smaller number of factors that are both homogenous and heterogeneous to evaluate its importance through factor analysis technique.

8.3. FAMILIARITY AND KNOWLEDGE OF IAS

8.3.1. Testing Accountants'/Auditors' Attitudes Towards Their Knowledge of IAS

The accountants' questionnaires presented two main questions addressing the issue of their familiarity and knowledge of IAS.

This was to measure the accountants' knowledge regarding the IAS and whether age, education, nationality and experience play a role in such assessment.

Formally, we tested the following hypothesis:

H_0 : There are no significant differences between levels of demographical variables and the attitude of accountants/auditors to the familiarity and knowledge of IAS.

Against

H_1 : At least one level is significantly different.

This includes their knowledge rating, source of acquiring knowledge, stipulation of IAS knowledge for recruitment.

- **Knowledge Rating**

1. **Responses of Accountants/Auditors to their Age Groups**

To investigate the degree of linear association between accountant's age, and familiarity and knowledge with IAS, we performed a sequence of statistical tests to address the dimension. First, we conducted Chi-square test to measure the existence of a relationship between different age groups and their knowledge rating, which revealed that there is a significant correlation between the accountants' age groups and their knowledge of IAS (P-value = 0.000). This means that there is significant association between the age of the accountants and his/her knowledge regarding IAS. Moreover, a non-parametric Kruskal-Wallis test was performed on whether ratings knowledge varies significantly between different age groups. The results of the test confirmed significant differences in knowledge (P-value = 0.001). It is also obvious from Table (8.1) that the mean ranks of rating knowledge of older accountants auditors is higher than the mean ranks rating of younger accountants/auditors. The one-way analysis of the variance test also confirmed such findings (P-value = 0.001).

Table (8.1)

The Main Ranks of Rating Knowledge of IAS According to Accountants' and Auditors'

Age Groups

Age Group	Accountants		Auditors	
	N	Mean Rank	N	Mean Rank
- Less than 25 years	6	92.17	4	20.75
- 25 years and less than 35 years	67	87.53	26	21.56
- 35 years and less than 45 years	83	100.59	15	39.57
- 45 years and less than 55 years	39	135.67	13	38.62
- 55 years and more	10	105.75	2	45.50

Furthermore, Duncan's multiple comparison test was conducted to regroup age categories according to accountants'/auditors' knowledge of IAS. We present these results in Table (8.2).

To study the effect of the age of auditors on their knowledge rating regarding IAS, a Chi-square test was performed. The results of the test illustrates that there is a significant relationship between auditors' age and their rating (P-value = 0.027). Moreover, Kruskal-Wallis non-parametric test to ascertain whether age groups of auditors are significantly different according to their IAS knowledge rating was carried out. The result supports the fact that age groups are statistically different with regard to knowledge rating (P-value = 0.001) and the analysis of the variance test confirmed the findings. Furthermore, the analysis was extended to designate the groups according to the homogeneity of each group rating. The multiple comparison test Table (8.2) presents this result.

Table (8.2)

Homogenous Age Groups According to Accountants' and Auditors' Rating

($\alpha = 0.05$)

Age Group	Accountants			Auditors		
	N	Group 1 Means	Group 2 Means	N	Group 1 Means	Group 2 Means
- Less than 25 years	6	3.17		4	3.00	
- 25 years and less than 35 years	76	3.3		26	3.12	
- 35 years and less than 45 years	83		3.46	13		4.15
- 45 years and less than 55 years	10		3.5	15		4.20
- 55 years and more	39		4.0	2		4.50
SIGNIFICANCE		0.294	0.072		0.819	0.521

With regard to their knowledge of IAS, there are two main age groups. Accountants whose age is less than 35 have less knowledge of IAS than those 50 years or older. However, accountants who are between 35 years of age and less than 50 years come within either groups; meanwhile, although all ages are positive regarding their knowledge of IAS, older accountants are more familiar and knowledgeable than younger ones. To conclude, it appears that all age groups are very much familiar with IAS, although older accountants are more familiar with them than younger accountants. As mentioned earlier, at the moment professional accountants acquire knowledge of IAS through non-formal education merely by either attending training courses or by reading publications, as well as practising applying IAS and, as a result, older accountants have better knowledge and a clearer understanding of IAS than younger accountants.

It is evident from the above table that auditors' knowledge of IAS can be classified into two distinct age groups. Those, whose age is less than 35 years, have a moderate knowledge of IAS; whereas those over 35 years are much more knowledgeable. As a conclusion, all auditors have positive attitudes towards their knowledge and familiarity of IAS, but older accountants more so than younger ones.

2. Responses of Accountants/Auditors with Respect to their Education

It is also important to study whether educational levels affect accountants' and auditors' degree of familiarity and knowledge of IAS. For accountants the questionnaire presented several educational levels (High Diploma in Accounting, B.S. in Accounting, Qualified Chartered, M.S. in Accounting, and Ph.D. in Accounting). The results of Chi-square test confirmed that there is no significant difference between accountants' educational level and their attitudes towards their knowledge of IAS (P-value = 0.214).

For auditors, the first result of Chi-square test of significant correlation between knowledge rating and qualifications (educational level) revealed that these are statistically correlated (P-value = 0.000); and the parametric Kruskal-Wallis test also supported this result.

However, the analysis failed to designate different groups with respect to their homogeneity, due to shortage of data in some groups (less than 2 auditors per group). However, descriptive statistics suggested that both Ph.D. and B.S. holders in Accounting provided lower rating than Higher Diploma holders and Qualified Professionals who gave very positive ratings. This is due to the fact that Higher Diploma holders and Qualified Professional in Accounting have studied over a shorter period and, therefore, practice accounting earlier than holders of Ph.D. and B.S. In addition, it should be stressed that Ph.D. holders are generally more concerned with teaching rather than practicing as accountants. This supports the finding that IAS are experience based standards.

3. Responses of Accountants/Auditors with Respect to their Experience

Five different experienced groups were given, ranging from less than one year (inexperienced accountants) to 15 years or more (highly experienced accountants). To relate their knowledge to their experience, the Chi-square test declared the existence of the relationship between their years of experience and their familiarity and knowledge of IAS (P-value = 0.020). On further investigation, to test whether different experience groups have different knowledge rating, the result of Kruskal-Wallis test indicated that this is so, (P-value = 0.003). The result of one-way analysis of variance supported the conclusion that the knowledge ratings of these five groups are significantly different (P-value = 0.002) and, as indicated in Table (8.3), increased with experience.

Table (8.3)

The Main Ranks of Rating Knowledge of IAS Relating to Years of Experience of Accountants and Auditors

Years of Experience	Accountants		Auditors	
	N	Mean Rank	N	Mean Rank
- Less than 1 year	2	76.75	2	6.00
- 1 year and less than 5 years	31	70.79	10	13.90
- 5 years and less than 10 years	40	99.90	18	29.00
- 10 years and less than 15 years	56	104.40	13	34.88
- 15 years and more	75	116.26	17	41.38

The mean rank of knowledge rating also increased, which means that higher experienced accountants are more familiar and have better knowledge of IAS than less experienced accountants. This finding suggests that familiarity of IAS, is experience-based knowledge rather than education-based, since courses about IAS are not yet included in the curriculum in either undergraduate or graduate programmes in many institutions; and often the only source of knowledge of IAS is gained either by attending training courses, by practising or by reading.

Cross tabulation results confirmed the existence of a strong positive association between auditors' years of experience and their knowledge regarding IAS, (P-value = 0.000). The Kruskal-Wallis, test for significant difference between different experience groups was justified (P-value = 0.000). Hence the analysis of the variance test and the test of multiple comparisons to discriminate between groups provided the results presented in Table (8.4).

Table (8.4)

Homogenous Years of Experience According to Accountants and Auditors Rating

Years of Experience	Accountants		Auditors		
	N	Group 1 Means	N	Group 1 Means	Mean Rank
- Less than 1 year	2	3.00	2	2.0	
- 1 year and less than 5 years	31	3.03	10	2.6	
- 5 years and less than 10 years	40	3.43	18		3.61
- 10 years and less than 15 years	56	3.55	13		3.92
- 15 years and more	75	3.72	17		4.29
SIGNIFICANCE		0.103		0.162	0.133

From Table (8.4) we can undoubtedly classify the auditors' knowledge rating of IAS into two, statistically significant, groups; it also shows accountants' knowledge rating of IAS as one group. Auditors with less than five years' experience have little knowledge regarding IAS, while auditors with more than five years have much more knowledge of IAS. We can see from the above table that knowledge rating increases, as experience increases. Therefore, knowledge of IAS is an experience-related aspect, proving that it is gained by practice rather than education.

4. Responses of Accountants/Auditors with Respect to their Nationality

To study whether nationality (Kuwaiti or non-Kuwaiti) affects the attitudes of accountants in rating their knowledge regarding IAS, the Chi-square test declared the presence of association (correlation) between the two levels of nationality and their knowledge of IAS (P-value = 0.023).

The non-parametric Mann-Whitney test provided (P-value = 0.478) which supports the null hypothesis of no significant difference between the two groups of accountants (Kuwaiti and non-Kuwaiti) regarding their knowledge of IAS, as shown in Table (8.5).

The Mann-Whitney test showed that there is no significant difference between Kuwaiti and non-Kuwaiti auditors regarding rating their knowledge of IAS (P-value = 0.636), as shown in the following Table (8.5).

Table (8.5)

The Main Ranks of Rating Knowledge of IAS with Respect to Nationality of the Accountants and Auditors

Nationality	Accountants			Auditors		
	N	Mean Rank	Sum of Ranks	N	Mean Rank	Sum of Ranks
- Kuwaiti	37	96.72	3578.50	11	28.41	312.50
- Non-Kuwaiti	167	103.78	17331.50	49	30.97	1517.50

- **Sources of Acquiring Knowledge of IAS**

This addresses the issue of how accountants acquire their knowledge of IAS within the familiarity and knowledge dimension in IAS. We found earlier in Chapter 7, page (109), Table (7.7), that 37.1% of all accountants included in the survey depended on other accountants to gain knowledge of IAS, while 27.8% depended on training courses, of which 62% depended on direct practising and 50.7% on reading publications.

As we have shown earlier in Chapter 7, page (109), Table (7.7), 43.3% of all auditors in the sample acquired their knowledge from other auditors, 64.7% sought their knowledge by attending training courses, and 61.7% obtained their knowledge by direct practising and 76.7% gained their knowledge by reading IAS relevant publications.

Specifically, we aim to justify the following set of claims:

H_0 : There are no significant differences between levels of demographical variables and accountants'/auditors' sources of acquiring knowledge of IAS.

Against

H_1 : At least one level is significantly different.

1. Responses of Accountants/Auditors with Respect to their Age Groups

When we studied whether age groups have distinct sources of knowledge regarding IAS, the results of the Chi-square test showed that the age groups and different sources of knowledge are unconnected. In other words sources of knowledge of IAS do not depend on certain age groups.

To address the issue of whether different age groups differ significantly in acquiring their knowledge of IAS, the Kruskal-Wallis test showed no significance between accountants'/ auditors' age groups and their sources of knowledge.

2. Responses of Accountants/Auditors with Respect to their Education

When sources of knowledge of IAS were crossed with different educational levels the Chi-square tests indicated that learning from other accountants is correlated with different educational levels (P-value = 0.017). We found that more holders of B.S. than other qualified accountants, depended on seeking their knowledge from more experienced accountants. It is also evident that attending training courses is not associated with certain educational levels (P-value = 0.435); while accountants who seek their knowledge by direct practising cannot be distinguished by their qualifications, (P-value = 0.820). It is also evident that seeking knowledge by reading publications about IAS is related to education levels, (P-value = 0.000). In addition, B.S. holders in Accounting tend to read more publications regarding IAS, than other qualified accountants, which could be due to the lack of IAS courses offered at undergraduate level; while other qualified accountants have better knowledge by training.

The test statistics prove that there is no significant difference between auditors' differing education levels, regarding their sources of acquiring IAS knowledge.

3. Responses of Accountants/Auditors with Respect to their Experience

When we questioned if the choice of a certain source of knowledge depends on the experience of the accountants, we found that those with less than five years experience are more likely to achieve their knowledge by seeking help from more experienced accountants (P-value = 0.004). Nevertheless, we found no significant correlation between different experienced groups in gaining knowledge by attending training courses (P-value = 0.865). Nor was there any significant correlation between seeking information by direct practising and different levels of experience (P-value = 0.974). On the contrary, accountants with more than five years' experience depended on reading publications related to IAS as the main source of knowledge (P-value = 0.007).

With regard to auditors, in investigations whether different levels of experience differed in acquiring knowledge of IAS, the Kruskal-Wallis test revealed that among the different sources of knowledge stated in the questionnaire, acquiring IAS knowledge by direct practising is the only significant one (P-value = 0.049).

4. Responses of Accountants/Auditors with Respect of their Nationality

It appears from the result of Chi-square test that nationality (Kuwaiti or non-Kuwaiti) is not a factor in determining whether they seek their knowledge from other accountants (P-value = 0.406). Although the percentage of non-Kuwaitis who acquire their knowledge by attending courses is higher than the Kuwaitis, the difference is still not significant (P-value = 0.501). Also, accountants who learn IAS by direct practising are not correlated with nationality. This means that there is no significant difference between Kuwaitis and non-Kuwaitis who use direct practising as their main source of knowledge to familiarize themselves with IAS (P-value = 0.990). This pattern also holds for accountants who acquire their knowledge by reading publications (P-value = 0.498).

We found that the Mann-Whitney test did not indicate any significant difference between the Kuwaiti auditors and non-Kuwaiti auditors, in acquiring this knowledge.

- **Stipulation of IAS:**

When accountants auditors were asked whether their companies/firms stipulate that all new recruits should have IAS training, 72.2% of all accountants declined to answer the question, 18.2% were positive and 9.3% provided negative attitudes. While 53.3% of all auditors declined to provide answer, 40% yielded a positive answer and 6.7% gave a negative answer. We also investigated whether there are significant differences between accountants/auditors different demographical variable levels and the stipulation of IAS. We found that there is no significant difference between all levels of demographic variables whether or not the company stipulates knowledge of IAS when recruiting.

The overall assessments to their attitudes regarding the question, were generally negative with all demographic variables.

- **Overall Knowledge and Familiarity Rating for Both Accountants and Auditors**

As a general conclusion, from the following Table (8.6) we found that accountants who are less than 25 years old or more than 55 years are less familiar and less knowledgeable than other accountants. This could be due to the fact that younger accountants still have little experience with IAS, especially if they have not been exposed to these standards during their undergraduate studies. While accountants whose age is greater than 55 years resist changes especially if they have used the old local system for a long time. Regarding the auditors' familiarity and knowledge of IAS, the picture is a little different for auditors whose age is less

than 35 years who are less knowledgeable than older auditors. Again this could be due to shortage of experience, which is gained over time. It is also evident that accountants/auditors who hold professional certificates are more familiar with IAS than other accountants/auditors. This indicated that IAS are experience-based standards, rather than educational-based. Meanwhile, we can strongly say that shorter practicing accountants/auditors (less than 5 years) are less familiar and less knowledgeable, than longer practicing accountants/auditors. Both Kuwaiti accountants/auditors showed less knowledge and familiarity than non-Kuwaiti accountants/auditors.

Table (8.6)
Knowledge and Familiarity Rating for both Accountants and Auditors

Knowledge Demographic Variables	Accountants		Auditors	
	Less Knowledgeable	More Knowledgeable	Less Knowledgeable	More Knowledgeable
- Age	Age < 25 Age > 55	25 < Age < 55	Age < 35	Age > 35
- Education	- Higher Diploma in Accounting - B.S. in Accounting	- Qualified Certificate in Accounting - M.S. in Accounting	- Higher Diploma in Accounting - B.S. in Accounting	- Qualified Certificate in Accounting - M.S. in Accounting
- Experience	1 < Number of years < 5	Number of years > 5	1 < Number of years < 5	Number of years > 5
- Nationality	Kuwaiti	Non-Kuwaiti	Kuwaiti	Non-Kuwaiti

8.3.2. Summary

In this section we investigated the degree of association between different demographic variables (age, education, experience, nationality) for both accountants and auditors, regarding familiarity and knowledge of IAS. Several non-parametric test statistics were used to carry out this objective. Briefly, we have found that the only demographic variables which declared significant with familiarity and knowledge of IAS are the accountants' age and experience.

8.4. IMPLEMENTATION OF IAS IN KUWAIT

8.4.1. Testing Accountants'/Auditors' Attitudes Towards Implementing IAS in Kuwait

- **Levels of Experience in Applying IAS**

To investigate the subject of implementation of IAS in Kuwait and its consequent difficulties from the accountants' views, several questions were asked to assess their attitudes. The first question dealt with application of IAS in the preparation of annual reports before joining his/her current work, and 66.8% of all accountants responded positively; and when they were asked to describe the level of their experience in practising IAS when preparing annual reports before joining their current job, 8.8% reacted negatively (limited, very limited) 67.9% reacted positively (Good, Very Good), and 23.4% replied moderate.

Next we extended the investigation to explore whether different levels of demographical variables had significant differences in rating their experience in using IAS to prepare annual reports before they joined their current job. We found that among all demographic variables considered in this study (age, education, experience, and nationality) only age and experience of accountants proved significant to the question.

Regarding age, the result of the Kruskal-Wallis test indicated significant differences between age groups when accountants were asked to rate their level of experience (P-value = 0.025).

Regarding experience, the same test above showed that accountants with different experience levels reacted significantly different when they rated their levels in using IAS in preparing annual reports, before joining their current firm (P-value = 0.001).

However, because of the shortage of data in some groups, the multiple comparison tests were unable to classify accountants and their levels rating into distinct groups.

Specifically, several research questions were presented to accountants to weigh up their perception of IAS when they applied it for the first time, and also to appraise their current perception to these standards after they used it.

Similarly, the implementation of IAS in Kuwait and its consequent difficulties were tested from the auditors' views and the same questions were given as to the accountants. It was found from the survey that 76.7% of auditors have audited annual reports were produced according to IAS before they joined their current jobs. We also found that among those auditors who replied positively 13% described their levels of experience negatively (limited, very limited), 71.7% described their levels positively (Good, Very Good), and 15.2% described their levels as moderate.

The first question dealt with auditing accounts that have been prepared according to IAS before joining his/her present job. From the survey we found that 76.7% of the sample replied positively to the statement; and 71.7% replied positively regarding previous experience.

In the following section we present statistical analysis to test whether there is a significant difference between auditors' levels of demographical variables and their responses to the implementation of IAS in Kuwait and its consequent difficulties.

First, among demographic variables included in the questionnaire, education is the only variable which proved significant differences regarding the level of experience of auditors before they joined their present work, (P-value = 0.000). Professionally qualified auditors responded very positively to their experience of IAS, while B.S. holders responded moderately to their experience of IAS; and auditors with Higher Diploma in Accountancy said that their experience of IAS was little before they joined their present job. Meanwhile, interviewees commented that education has little impact on knowledge, or familiarity with IAS.

- **First and Current Perception for Both Accountants and Auditors**

We asked: "as an accountant, what was your perception of IAS when you first started using them? And what is your perception of IAS now?"

As mentioned in Chapter 7, page (115), Table (7.12), 32.2% of all accountants responded negatively, 19% replied positively, and 48.9% were neutral in their perception of IAS when applied for the first time. They were then asked to describe their current perception of IAS approximately 1.4% responded negatively, 78.8% responded positively, and 19.7% were neutral.

We then asked "as an auditor, what was your perception, when you first started auditing reports, of those which have been prepared according to IAS?"

As stated in Chapter 7, page (115), Table (7.12), 40% of all auditors replied negatively, while 18.4% replied positively, and 41.7% were neutral in their perception of IAS when applied for the first time. They were asked to describe their current perception of IAS, approximately 73.4% responded positively, and 26.7% were neutral.

It was of interest to further investigate the demographic characteristics of accountants/auditors and their perception of IAS when applied/audited for the first time, and at present.

In other words, did accountants/auditors views differ from their current perception (with different demographic variables (age, education, experience, and nationality)) when they applied IAS for the first time.

The above question begs to assert the following hypothesis:

H_0 : No significant differences between accountants'/auditors' demographic levels in perceiving IAS when applied for the first time and currently.

Against

H_1 : At least one level is significantly different.

1. Responses of Accountants/Auditors with Respect to Age Groups

Kruskal-Wallis test revealed that there are no significant differences between accountants' age groups in perceiving IAS when applied for the first time (P-value = 0.662).

It also showed that there are no significant differences between accountants' age groups in perceiving IAS at the present time, (P-value = 0.444).

Table (8.7)
Homogenous Age Groups
According to Accountants' First and Current Perception

Age Groups \ Perception	First Perception	Current Perception
- Less than 25 years	2.50	3.00
- 25 years and less than 35 years	3.22	4.17
- 35 years and less than 45 years	3.12	3.85
- 45 years and less than 55 years	3.43	4.14
- More than 55 years	2.98	3.01

Although tests did not reveal any significant differences between accountants' age groups when they applied IAS for the first time or at the present, a non-parametric test confirmed that their perception is often improved by implementing IAS, (P-value = 0.000).

The Kruskal–Wallis test confirmed that there is no significant difference between the perception of different auditors age groups' when they audit accounts prepared using IAS for the first time (P-value = 0.740).

Conversely, when auditors were asked about their present perception, the analysis showed significant differences by different age groups (P-value = 0.006). Additionally, when similar perceptions were combined, we could classify different age groups into two main age categories using Dunkin's multiple comparison test, as shown in Table (8.8).

Table (8.8)
Homogenous Age Groups According to Auditors' First and Current Perceptions

Age Groups	First Perception		Current Perception	
	Group 1 Means	Group 2 Means	Group 1 Means	Group 2 Means
- Less than 25 years	2.50		3.58	
- 25 years and less than 35 years		3.59		3.75
- 35 years and less than 45 years		3.63		4.00
- 45 years and less than 55 years		4.12		4.07
- 55 years and more		4.25		4.38

Although all age groups have a positive perception of IAS after practicing, younger auditors (≤ 25 years) are significantly less perceptive to IAS implementation than older auditors. These young professionals need to engage in good IAS training programs, to read more publications, and to work under the supervision of senior experienced staff. It is evident that auditors' perception to IAS has improved after auditing accounts, which have been provided by using IAS for some time.

2. Responses of Accountants/Auditors with Respect to their Education

Our next question addressed the issue of the effect of education levels on accountants' perception of IAS, when applied for the first time, and also their current perception.

The result of Kruskal-Wallis test provided significant evidence that accountants with different qualifications (Higher Diploma in Accounting, B.S. in Accounting, Qualified Certificate in Accounting, and M.S. in Accounting) do perceive IAS differently (P-value = 0.034).

Moreover, the multiple comparison tests classified different qualifications, with respect to their IAS perception, into two significantly different groups as shown in the following table.

Table (8.9)
Homogenous Levels of Education
According to the First Perception of Accountants' Rating of Applying IAS

Educational Levels	Group 1 Means	Group 2 Means
- Higher Diploma in Accounting	2.08	
- M.S. in Accounting	2.57	
- B.S. in Accounting		2.83
- Qualified Certificate in Accounting		3.07

The first group includes accountants with Higher Diploma or M.S. in Accounting. The second, those with B.S. in Accounting or Qualified Certificate in Accounting. The first group was less perceptive to IAS when applied for the first time than the second group.

We then asked “how do accountants perceive IAS now (after they have applied the standards)?”.

The test P-value turned out as (P-value = 0.058), which indicated that there is still significant difference of current perception between those with different qualifications. Further, the multiple comparison tests could classify differences in perception according to accountants' qualifications, into two main groups, as shown in Table (8.10).

Table (8.10)
Homogenous Levels of Education
According to the Current Perception of Accountants' Rating of Applying IAS

Educational Levels	Group 1 Means	Group 2 Means
- Higher Diploma in Accounting	3.58	
- M.S. in Accounting	2.57	4.06
- B.S. in Accounting		4.13
- Qualified Certificate in Accounting		4.43

Although accountants who hold a Higher Diploma in Accounting are currently less perceptive to IAS than other qualified accountants, their perception is still very good. However, comparing Tables (8.9) and (8.10) we conclude that practising using IAS improves accountants' perception

towards the standards. This remark supports our conclusion earlier that IAS is an experience-based rather than education-based accounting system, at least for the time being.

To ascertain whether different educational levels could provide different perception to IAS implementation, the Kruskal-Wallis test affirmed that there was no significant difference between less qualified and qualified auditors (P-value = 0.202) in perceiving IAS when implemented for the first time. Currently, however, the same statistical test confirmed that there is a significant difference between auditors with different qualifications (P-value = 0.000). However, further analysis to designate these groups based, on their qualifications, was not possible because of the shortage of sample size ($n < 2$) for some groups.

3. Responses of Accountants/Auditors with Respect to their Experience

Similarly, we asked accountants the question: “did accountants with different experience backgrounds perceive IAS differently when they applied it for the first time. Also, how do accountants with different experience levels perceive IAS at present?”.

Statistical analysis shows that there was no significant difference between different experienced accountants’ perception when they started applying IAS (P-value = 0.805). However, when asked about their perception when applied for some time (current perception), the test statistics declared that there is a significant difference (P-value = 0.017).

It also shows that accountants with longer experience are more perceptive to IAS than those with less experience. In conclusion, we see that the more you practice IAS, the more you gain knowledge and familiarity of using the standards. This remark proves our earlier finding that IAS is an experienced-based set of standards.

Again auditors were asked to express their perception of IAS, when they applied the standard for the first time. Then they were asked to illustrate their perception at the present time, based on their experience.

There was no significant difference when they applied it for the first time (P-value = 0.202). However, the test indicated a significant difference between auditors regarding their current perception of IAS (P-value = 0.000).

When investigation was extended to designate different significant groups, the multiple comparison tests provided the following classification.

Table (8.11)
Homogenous Years of Experience According to Auditors' Rating

Years of Experience	Group 1	Group 2	Group 3
- 1 year and less than 5 years	3.10		
- Less than 1 year		3.5	
- 5 years and less than 10 years		3.83	
- 10 years and less than 15 years			4.23
- 15 years and more			4.24

From Table (8.11) it is obvious that less experienced auditors are less perceptive to IAS currently, but their perception is above average. It is also evident that positive perception to the issue of IAS increases with longer experience in practising auditing accounts prepared according to IAS.

4. Responses of Accountants/Auditors with Respect to their Nationality

Accountants of different nationalities were asked to describe their perception regarding IAS when applied for the first time and to express their perception of IAS at the present time.

The Kruskal-Wallis test was used to see whether there is a significant difference between Kuwaiti's and non-Kuwaiti's regarding their perception of IAS when used for the first time. The results revealed that there are significant differences (P-value = 0.042). However, the test did not show any significant difference between Kuwaitis and non-Kuwaitis in their perception of IAS after it was applied for some time (P-value = 0.272). This is because non-Kuwaiti recruitment is strict and very demanding, and whoever is recruited must be qualified. In contrast, Kuwait appoints according to a mandatory employment law. Practising IAS improved Kuwaiti perceptions over time and therefore we find no significant difference between Kuwaiti and non-Kuwait perceptions after applying IAS for some time.

The analysis was performed to test whether Kuwaiti and non-Kuwaiti auditors are different in their perception of IAS when they applied it for the first time. The Mann-Whitney test provides strong evidence that Kuwaiti auditors were less perceptive to IAS than non-Kuwaiti auditors (who have better and longer experience) when applying the standards for the first time (P-value = 0.000).

When comparing qualifications, the same test supported the existence of significant differences between Kuwaiti and non-Kuwaiti auditors regarding their current perception of IAS. It indicated that Kuwaiti auditors are less perceptive to IAS than non-Kuwaiti auditors (P-value = 0.042).

Regardless of the consideration of their personal characteristics, it would be interesting to compare both accountants' and auditors' perception to IAS when using it for the first time, and their current perception.

Accountants' perception of IAS, and whether it improved after practicing IAS: test statistics revealed that accountants' perception has currently improved compared to their first perception. Although the improvement in perception is significant (P-value = 0.000), it is not substantial. Conversely auditors' perception has improved substantially compared to their first perception (P-value = 0.000), although their first perception to IAS was higher than accountants. Currently auditors' perception is much higher than accountants' perception and such current difference is significant (P-value = 0.000).

- **Implementing IAS in Preparing/Auditing Annual Reports**

It will be of interest to know whether accountants/auditors are significantly different in implementing using the following IASs as listed in Table (8.12) in preparing/auditing the annual reports. In other words, we may ask the question "Do accountants differ significantly from auditors regarding familiarity of implementing IAS in preparation of annual reports?".

This question can be answered by the following hypothesis:

There are no significant differences between accountants/auditors in implementing using IAS in preparing/auditing annual reports.

To show whether there are significant differences between accountants and auditors regarding their familiarity of IAS in preparation/auditing of annual reports, the following table gives summaries of the Mann-Whitney test and the associated significant levels. It is evident from the results in Table (8.11) that there are significant differences between accountants and auditors regarding the following standards: IAS 2, IAS 4, IAS 11, IAS 12, IAS 19, IAS 20, IAS 22, IAS 26, IAS 29, IAS 30, IAS 31, IAS 32, IAS 33. In all the above standards, apparently accountants are using these standards more often than auditors. This finding makes reasonable sense because these significant standards are more technical and more related to accounting than auditing. Accountants are more concerned than auditors about the process of measurements according to IAS.

However, both have read and are using the thirty three items of IAS in preparing/auditing annual reports, although we found that auditors are using the following IAS items more than accountants: IAS 8, IAS 9, IAS 14, IAS 15, IAS 17, IAS 24. Auditors are more concerned, than accountants with the above IAS standards because their application is more related to disclosure than measurements.

The following Table (8.12) shows the international accounting standards, which consists of 33 items.

Table (8.12)	
International Accounting Standards	
IAS 1 (revised)	PRESENTATION OF FINANCIAL STATEMENTS (effective 1 July 1998)
IAS 2	INVENTORIES
IAS 4	DEPRECIATING ACCOUNTING
IAS 5	INFORMATION DISCLOSURE IN FINANCIAL STATEMENTS (effective 1 July 1998)
IAS 7	CASH FLOW STATEMENTS
IAS 8	NET PROFIT OR LOSS FOR THE PERIOD, FUNDAMENTAL ERRORS AND CHANGES IN ACCOUNTING POLICIES
IAS 9	RESEARCH AND DEVELOPMENT COSTS
IAS 10	CONTINGENCIES AND EVENTS OCCURRING AFTER THE BALANCE SHEET DATE
IAS 11	CONSTRUCTION CONTRACTS
IAS 12	INCOME TAXES (effective 1 January 1998)
IAS 13 (revised)	PRESENTATION OF CURRENT ASSETS AND CURRENT LIABILITIES (effective 1 July 1998)
IAS 14 (revised)	SEGMENT REPORTING (effective 7 July 1998)
IAS 15	INFORMATION REFLECTING THE EFFECTS OF CHANGING PRICES
IAS 16	PROPERTY, PLANT AND EQUIPMENT
IAS 17 (revised)	ACCOUNTING FOR LEASES (effective 1 January 1999)
IAS 18	REVENUE
IAS 19	RETIREMENT BENEFIT COSTS
IAS 20	ACCOUNTING FOR GOVERNMENT GRANTS AND DISCLOSURE OF GOVERNMENT ASSISTANCE
IAS 21	THE EFFECTS OF CHANGES IN FOREIGN EXCHANGE RATES
IAS 22	BUSINESS COMBINATIONS
IAS 23	BORROWING COSTS
IAS 24	RELATED DISCLOSURES
IAS 25	ACCOUNTING FOR INVESTMENTS
IAS 26	ACCOUNTING AND REPORTING RETIREMENT BENEFIT PLANS
IAS 27	CONSOLIDATED FINANCIAL STATEMENTS AND ACCOUNTING FOR INVESTMENTS IN SUBSIDIARIES
IAS 28	ACCOUNTING FOR INVESTMENTS IN ASSOCIATIONS
IAS 29	FINANCIAL REPORT IN HYPERINFLATIONARY ECONOMIES
IAS 30	DISCLOSURE IN THE FINANCIAL STATEMENTS OF BANKS AND SIMILAR FINANCIAL INSTITUTIONS
IAS 31	FINANCIAL REPORTING OF INTERESTS IN JOINT-VENTURES
IAS 32	FINANCIAL INSTRUMENTS : DISCLOSURES AND PRESENTATION
IAS 33	EARNINGS PER SHARE (effective 1 January 1998)

Table (8.13)
Accountants and Auditors Familiarity of Implementing IAS in
Preparation/Auditing of Annual Reports

IAS Items	Professionals	N	Mean Rank	P-Value
IAS1	Accountants	205	135.62	0.131
	Auditors	60	124.05	
	Total	265		
IAS2	Accountants	205	136.73	0.038*
	Auditors	60	120.24	
	Total	265		
IAS4	Accountants	205	136.39	0.045*
	Auditors	60	121.42	
	Total	265		
IAS5	Accountants	205	134.41	0.444
	Auditors	60	128.17	
	Total	265		
IAS7	Accountants	205	135.07	0.233
	Auditors	60	125.94	
	Total	265		
IAS8	Accountants	205	132.97	0.987
	Auditors	60	133.10	
	Total	265		
IAS9	Accountants	205	129.60	0.116
	Auditors	60	144.63	
	Total	265		
IAS10	Accountants	205	133.64	0.732
	Auditors	60	130.80	
	Total	265		

IAS11	Accountants	205	147.39	0.000*
	Auditors	60	83.83	
	Total	265		
IAS12	Accountants	205	143.32	0.000*
	Auditors	60	97.74	
	Total	265		
IAS13	Accountants	205	134.09	0.562
	Auditors	60	129.29	
	Total	265		
IAS14	Accountants	205	131.57	0.492
	Auditors	60	137.88	
	Total	265		
IAS15	Accountants	205	129.48	0.103
	Auditors	60	145.02	
	Total	265		
IAS16	Accountants	205	133.98	0.609
	Auditors	60	129.65	
	Total	265		
IAS17	Accountants	205	129.92	0.146
	Auditors	60	143.53	
	Total	265		
IAS18	Accountants	205	135.40	0.176
	Auditors	60	124.79	
	Total	265		
IAS19	Accountants	205	143.10	0.000*
	Auditors	60	98.51	
	Total	265		

IAS20	Accountants	205	143.87	0.000*
	Auditors	60	95.85	
	Total	265		
IAS21	Accountants	205	134.31	0.489
	Auditors	60	128.52	
	Total	265		
IAS22	Accountants	205	146.40	0.000*
	Auditors	60	87.23	
	Total	265		
IAS23	Accountants	205	134.67	0.419
	Auditors	60	127.30	
	Total	265		
IAS24	Accountants	205	132.88	0.952
	Auditors	60	133.41	
	Total	265		
IAS25	Accountants	205	135.63	0.144
	Auditors	60	124.03	
	Total	265		
IAS26	Accountants	205	143.31	0.000*
	Auditors	60	97.77	
	Total	265		
IAS27	Accountants	205	133.76	0.695
	Auditors	60	130.39	
	Total	265		
IAS28	Accountants	205	136.08	0.106
	Auditors	60	122.47	
	Total	265		

IAS29	Accountants	205	142.54	0.000*
	Auditors	60	100.40	
	Total	265		
IAS30	Accountants	205	146.72	0.000*
	Auditors	60	86.13	
	Total	265		
IAS31	Accountants	205	144.95	0.000*
	Auditors	60	92.17	
	Total	265		
IAS32	Accountants	205	151.13	0.000*
	Auditors	60	71.05	
	Total	265		
IAS33	Accountants	205	150.45	0.000*
	Auditors	60	73.38	
	Total	265		

* Test is significant at 5% level.

8.4.2. Summary

Section (8.4) explores both accountants' and auditors' attitudes towards implementing IAS in Kuwait, and several findings were reached. Among different demographic variables considered in this study, only age and experience of accountants proved significant in rating their experience in using IAS to prepare reports before they joined their current job. We found that younger accountants have less experience (lower rating) with IAS standards than older accountants. Also, more experienced accountants rated their level of experience higher than less experienced ones.

In contrast, among demographic variables included, education was the only variable which proved significant regarding auditors' levels of experience when they joined their current job. More qualified auditors responded very positively to their experience of IAS than less qualified ones.

Furthermore, more qualified accountants showed higher perception to IAS than auditors when they applied it for the first time and, as expected, their perception of IAS improved over time. In addition, statistical analysis provided strong evidence to believe that there is no significant difference between auditors' perceptions of IAS when they started applying it for the first time, when their experience is considered. However, their perception improved after applying it for some time.

Currently, more experienced accountants showed better perception than those less experienced, although both had a similar perception when they first knew about IAS. The nationality of accountants also plays a role regarding the issue of perception. The test showed that Kuwaiti accountants were less perceptive to IAS than non-Kuwaiti when they first started applying IAS. However, there was no indication of difference in their current perception.

With regard to auditors' perception of IAS, the test statistics indicated that older auditors had a better perception of IAS than younger auditors did when applying it for the first time. Currently however, although both younger and older auditors have a better perception, the gap between the two groups is still significant. However, results showed that their experience is not a factor in distinguishing their perception when they audited accounts made according to IAS for the first time, although more experienced auditors showed better perception than less experienced auditors. The analysis revealed also that there is a significant difference between Kuwaiti and non-Kuwaiti auditors. Non-Kuwaiti auditors were more perceptive to IAS when they audited accounts prepared using IAS for the first time, and are still better in their perception.

8.5. CONSEQUENT DIFFICULTIES

8.5.1. Difficulties of Implementation of IAS

The difficulties related to measurements that were considered by both accountants' and auditors' questionnaires included: cost of measurements; evaluation of measurements; time to implement; effort; shortage of knowledge; ambiguity in understanding; shortage of IAS training; interpretation of IAS; communication of IAS with other professionals; inaccuracy of IAS; flexibility and implementation; relevancy of measurements; complexity of measurements; contradiction between local regulation and IAS regarding measurements and adoption of IAS.

To test whether there is a significant difference between different levels of demographical levels (age, education, experience and nationality) for each of the above potential difficulties, non-parametric statistical tests were performed to test the following claim.

H_0 : No significant difference between demographical levels regarding difficulties of measurements.

Against

H_1 : At least one level is significantly different.

8.5.1.1. Difficulties of Measurement

To measure the degree of difficulties, accountants or auditors may face with implementation of IAS, our survey included several questions to evaluate the size of the problems in two different directions. The first direction was concerned with difficulties related to measurements (measuring of financial statement items); the second related to disclosure (disclosing of financial statement items).

The results showed that among all accountants in the survey 37.1% confirmed that they have problems regarding measurements, while 32.7% indicated that they have problems with disclosure. For auditors, 31.7% said they have problems with measurements, and 33.3% showed that they have difficulties with disclosure.

8.5.1.1.1. Difficulties of Measurement Facing Accountants and Auditors

In this section we study the effect of accountants'/auditors', age, education, experience, and nationality, on the degree of difficulties they face when they prepare/audit accounts made by using IAS in measurement.

1. Responses of Accountants and Auditors with Respect to their Age Groups

The following Table (8.14) gives statistical results of testing different issues of difficulties of measurement with different accountants/auditors age groups.

Table (8.14)
Difficulties of Measurement with Different Accountants and Auditors Age Groups

Difficulties of measurements	Age Groups			
	Accountants		Auditors	
	Chi-Square Test	P-value	Chi-Square Test	P-value
1. Cost of measurements	3.608	0.462	5.719	0.126
2. Evaluation of Measurements	4.354	0.360	5.131	0.162
3. Time Consuming	7.804	0.099	7.905	0.048*
4. Needs a Lot of Effort	5.306	0.257	3.321	0.345
5. Shortage of knowledge	3.438	0.487	3.210	0.360
6. Ambiguity in Understanding	9.326	0.053	2.106	0.551
7. Shortage of IAS Trained Accountants	16.523	0.002*	3.510	0.319
8. Interpretation of IAS	4.130	0.389	2.993	0.393
9. Communicating of IAS with other Professionals	5.367	0.252	6.531	0.088
10. Lack of Accuracy of IAS	2.782	0.595	2.350	0.503
11. Flexibility of Implementation	2.577	0.631	2.201	0.532
12. Relevancy of Measurements	6.515	0.164	1.222	0.748
13. Complexity of Measurements	8.341	0.080	1.397	0.706
14. Contradiction Between Local Regulation and IAS Regarding Measurements	3.945	0.413	3.355	0.340
15. Adoption of IAS	6.252	0.181	7.253	0.064

* Test is significant at 5% level.

The only difficulty that revealed significant in different accountants' age groups is the shortage of IAS trained accountants, (P-value = 0.002).

- **Shortage of IAS Trained Accountants**

It is clear from Table (8.15) that there is a significant difference between different age groups of accountants' regarding the shortage of IAS trained accountants, (P-value = 0.002).

Table (8.15)
Rating the Shortage of IAS Training with Accountants Age Groups

Accountants Age Groups	Shortage of IAS Trained Accountants	
	Severe problem	Little problem
- Less than 25 years	1.40	
- 25 years and less than 35	2.10	
- More than 50		2.67
- 35 years and less than 45		2.86
- 45 years and less than 50		3.20

It is obvious that younger (less than 35 years) accountants considered the shortage of less trained accountants a severe problem, compared with older accountants (more than 35 years) who considered it a little problem. This leads us to suggest that younger accountants need more IAS training programmes in undergraduate curricula. The same conclusion was met by Abdul Rahem et al (1997).

From Table (8.14), it is evident that auditors from different age groups have different views regarding the issue which claims that IAS is a time consuming accounting system (P-value = 0.048). However, it was not possible to classify auditors' age groups according to their different views due to lack of sample size (n < 2).

2. Responses of Accountants/Auditors with Respect to their Education

As mentioned earlier, educational levels for accountants/auditors considered in this study are (B.S. in Accounting, Higher Diploma in Accounting, M.S. in Accounting, and Qualified Certificate in Accounting). When the above levels were asked to rate the degree

of difficulties of measurements they replied according to their different educational levels.

We show in Table (8.16), the result of a Non-parametric test, and the associated P-values for both accountants' and auditors' educational levels.

Table (8.16)
Difficulties of Measurement with Accountants' and Auditors'
Different Educational Levels

Difficulties of measurements	Education			
	Accountants		Auditors	
	Chi-Square Test	P-Value	Chi-Square Test	P-Value
1. Cost of Measurements	4.982	0.173	1.684	0.431
2. Evaluation of Measurements	10.124	0.018*	2.747	0.253
3. Time Consuming	0.292	0.961	2.205	0.332
4. Needs a Lot of Effort	3.942	0.268	1.918	0.383
5. Shortage of Knowledge	8.566	0.036*	1.859	0.395
6. Ambiguity in Understanding	10.459	0.015*	1.624	0.444
7. Shortage of IAS trained Accountants.	7.483	0.058	2.726	0.256
8. Interpretation of IAS	5.741	0.125	2.103	0.349
9. Communicating of IAS with other Professional	0.986	0.805	2.822	0.244
10. Lack of Accuracy of IAS	1.305	0.728	0.660	0.719
11. Flexibility of Implementation	2.175	0.537	1.615	0.446
12. Relevancy of Measurements	3.662	0.300	1.225	0.542
13. Complexity of Measurements	3.691	0.297	1.991	0.370
14. Contradiction Between Local Regulation and IAS Regarding Measurements	6.966	0.073	0.165	0.921
15. Adoption of IAS	4.711	0.194	2.235	0.327

* Test is significant at 5% level.

Table (8.16), the statistics test, suggested no significant differences between auditors' educational backgrounds on any issues of difficulties of measurement. For accountants' among difficulties of measurements stated, the following indicated significant with different educational levels.

- **Evaluation of Measurements**

Accountants with different educational background responded differently to the degree of severity of the problem of evaluation of measurements.

From Table (8.16) it is clear that (P-value = 0.018), illustrates significant differences between accountants' responses to the issue. Moreover, the multiple comparison test results are given in Table (8.17).

Table (8.17)

Rating the Evaluation of Measurements with Accountants Educational Levels

Education Levels of Accountants	Evaluation of Measurements		
	Severe Problem	Limited Problem	No Problem
- M.S. in Accounting	1.67		
- Higher Diploma in Accounting		3.00	
- B.S. in Accounting		3.37	3.37
- Qualified Certified in Accounting			4.50

From the classification table above, accountants with M.S. degree have a severe problem with evaluation of measurements; accountants who hold either Higher Diploma in Accounting or a B.S. in Accounting have limited problems; whilst accountants who have Qualified Certificate in Accounting have no problem. From the interviews, however, we found that education has little impact on attitudes, when compared to professional experience - which supported our previous conclusion of IAS are experience-based standards, rather than education-based.

- **Shortage of Knowledge**

Also, the test pointed out significant differences between different levels of education when considering the problem of shortage of IAS knowledge, (P-value = 0.036). The multiple comparison tests classified accountants' views based on their educational background, as shown in Table (8.18).

Table (8.18)

Rating the Shortage of Knowledge Regarding Accountants Educational Levels

Education Levels of Accountants	Shortage of Knowledge	
	Very Severe Problem	Limited Problem
- M.S. in Accounting	1.67	
- Higher Diploma in Accounting	2.46	2.46
- B.S. in Accounting		3.33
- Qualified Certified in Accounting		3.50

Accountants with M.S. or Higher Diploma in Accounting believe that shortage of IAS knowledge is a severe problem, while others regard it as a limited problem. Since IAS is new to the Kuwaiti environment there is no clear understanding among professionals of its implementation, besides which, the professionals gained their knowledge mainly by either practising or training regardless of their educational background. To rectify this deficiency, it is suggested the establishment, by Kuwait Auditors and Accountants Association, of a good IAS training policy for all professionals.

- **Ambiguity in Understanding IAS**

The Kruskal-Wallis test on whether there is a significant difference between accountants of different backgrounds, regarding their views on difficulties of ambiguity in understanding IAS provided (P-value = 0.015), which proved there were significant differences. Moreover, the multiple comparison test was able to classify their views in the ambiguity issue into three different groups according to Table (8.19).

Table (8.19)

Rating the Ambiguity in Understanding IAS for Accountants

Education Levels of Accountants	Ambiguity in Understanding IAS		
	Very Severe	Limited Problem	No Problem
- M.S. in Accounting	2.00		
- Higher Diploma in Accounting	2.54		
- B.S. in Accounting		3.48	
- Qualified Certified in Accounting			4.00

Accountants who have M. S. in Accounting or Higher Diploma in Accounting review the ambiguity problem as very severe, while accountants with B. S. degree in Accounting consider it a limited problem, and accountants who hold Qualified Certificate in Accounting have no problem.

In conclusion we found that among all issues of difficulties in measurements, only evaluation of measurements, shortage of IAS knowledge, and ambiguity in understanding IAS concerned accountants. In order to overcome this problem we believe that IAS should be taught in undergraduate and postgraduate accounting degrees; and/or through training courses under the supervision of the Kuwait Auditors and Accountants Association.

3. Responses of Accountants/Auditors with Respect to their Experience

In this section we continue to investigate the effect of accountant/auditor levels of experience on how they face the difficulties of measurement of IAS. As we stated in Chapter 7, this study considers five different levels of experience: less than one year, one year and less than five years, five years and less than ten years, ten years and less than fifteen years, and more than fifteen years of experience. When different issues of difficulties of measurements of IAS were tested against different levels of experience, the Kruskal-Wallis test provided the following results.

Table (8.20)
Difficulties of Measurement with Different Experience of
Accountants' and Auditors'

Difficulties of measurements	Experience			
	Accountants		Auditors	
	Chi-Square Test	P-Value	Chi-Square Test	P-Value
1. Cost of Measurements	3.62	0.306	3.862	0.425
2. Evaluation of Measurements	6.12	0.106	1.404	0.844
3. Time Consuming	3.20	0.361	3.868	0.424
4. Needs a Lot of Effort	6.867	0.076	1.280	0.865
5. Shortage of Knowledge	9.79	0.020*	1.076	0.898
6. Ambiguity in Understanding	13.82	0.003*	3.763	0.439
7. Shortage of IAS trained Accountants.	14.45	0.002*	4.174	0.383
8. Interpretation of IAS	6.31	0.097	2.995	0.559
9. Communicating of IAS with other Professionals	3.47	0.324	7.432	0.119
10. Lack of Accuracy of IAS	0.30	0.960	4.468	0.346
11. Flexibility of Implementation	1.97	0.578	1.495	0.346
12. Relevancy of Measurements	1.72	0.633	1.136	0.888
13. Complexity of Measurements	4.14	0.247	2.787	0.594
14. Contradiction Between Local Regulation and IAS Regarding Measurements	1.09	0.779	4.030	0.402
15. Adoption of IAS	2.68	0.445	3.533	0.472

* Test is significant at 5% level.

From Table (8.20) it is quite clear that auditors' experience does not have a real impact on their attitudes regarding difficulties. However, auditors with different years of experience have no significant differences regarding their views of the difficulties they face in measurements.

It is also clear for accountants from the P-values presented in the above table that the only significant issues are: shortage of knowledge of IAS; ambiguity in understanding IAS; and shortage of IAS trained accountants. All the above significant difficulties are related to how accountants perceive IAS information and

how they communicate such information, and appeared to be related to accountants' experience.

- **Shortage of Knowledge of IAS**

Further investigation, through the multiple comparison tests, revealed that we have two distinct views regarding the shortage of knowledge of IAS when accountants' experience is considered.

As shown in Table (8.21) less experienced accountants (less than 5 years) considered the shortage of knowledge of IAS, a severe problem, while accountants who have more than five years experience considered the issue as a moderate to limited problem. This is logical, since IAS knowledge is not commonly taught in schools, but, rather earned by experience.

Table (8.21)
Rating the Shortage of Knowledge for Accountants

Years of Experience	Shortage of Knowledge	
	Severe Problem	Moderate-Limited Problem
- 1 year and less than 5 years	2.50	
- 5 years and less than 10 years		3.06
- More than 15 years		3.14
- 10 years and less than 15 years		3.75

- **Ambiguity in Understanding IAS**

The following Table (8.22) presents the summary of the multiple comparison tests.

Table (8.22)
Rating the Ambiguity of Understanding IAS for Accountants

Years of Experience	Ambiguity in Understanding IAS	
	Severe Problem	Moderate-Limited Problem
- 1 year and less than 5 years	2.67	
- 5 years and less than 10 years	2.88	
- 10 years and less than 15 years		3.68
- More than 15 years		3.80

Obviously, less experienced accountants (less than 10 years) considered ambiguity in understanding IAS a very severe problem, while more experienced accountants (more than 10 years) consider it a moderate to limited problem. As we have said IAS is a new system of accounting and is experience-based knowledge, which means that the longer accountants use the system the more knowledgeable they are and IAS becomes less ambiguous.

- **Shortage of IAS Trained Accountants**

Our investigation regarding the effect of accountants' experience on their views of the degree of difficulties concerning the training issue is shown in Table (8.23).

Table (8.23)
Rating the Shortage of Trained Accountants and their Experience

Years of Experience	Shortage of IAS Trained Accountants		
	Very Severe	Severe Problem	Moderate Problem
- 1 year and less than 5 years	1.83		
- 5 years and less than 10 years		2.31	
- 10 years and less than 15 years		2.65	
- More than 15 years			3.09

Accountants with less than five years experience considered the problem very severe, while accountants with experience of more than five years and less than 15 years viewed the difficulty as a severe problem. In contrast, those with experience of more than 15 years believed that it is a moderate problem.

4. Response of Accountants'/Auditors' with Respect to their Nationality

When the key issues of difficulties of measurements of IAS were viewed by Kuwaiti and non-Kuwaiti accountants/auditors, we found that there is no significant difference for either of them. In other words, nationality is not a factor in judging the degree of difficulties of implementing IAS in Kuwait, as shown in the Table (8.24).

Table (8.24)

Difficulties of Measurement of Different Accountants and Auditors of Different Nationality

Difficulties of Measurement	Nationality							
	Accountants				Auditors			
	Mann-Whitney Test	WilCoxon Test	Normal Z	P-Value	Mann-Whitney Test	WilCoxon Test	Normal Z	P-Value
1. Cost of Measurements	443.500	563.500	-0.190	0.850	16.000	19.000	-0.141	0.888
2. Evaluation of Measurements	421.500	2312.500	-0.483	0.629	16.000	169.000	-0.142	0.887
3. Time Consuming	428.000	2319.000	-0.401	0.688	12.500	165.000	-0.644	0.519
4. Needs a Lot of Effort	410.000	2301.000	-0.643	0.520	13.000	166.000	-0.563	0.574
5. Shortage of Knowledge	450.000	570.000	-0.101	0.920	15.500	168.500	-0.210	0.834
6. Ambiguity in Understanding	407.500	527.500	-0.673	0.501	16.000	169.000	-0.319	0.889
7. Shortage of IAS trained Accountants.	364.500	484.500	-1.255	0.209	15.500	168.500	-0.210	0.834
8. Interpretation of IAS	380.500	500.500	-1.041	0.298	16.000	19.000	-0.140	0.889
9. Communicating of IAS with other Professionals	362.500	482.500	-1.289	0.198	13.500	16.500	-0.482	0.632
10. Lack of Accuracy of IAS	414.500	2305.500	-0.582	0.561	13.500	166.500	-0.479	0.632
11. Flexibility of Implementation	431.000	2322.000	-0.357	0.721	10.000	13.000	-1.036	0.300
12. Relevancy of Measurements	449.000	2340.000	-0.115	0.908	15.500	168.500	-0.220	0.826
13. Complexity of Measurements	420.000	2311.000	-0.506	0.613	10.500	163.500	-0.908	0.364
14. Contradiction Between Local Regulation and IAS Regarding Measurements	335.000	2246.000	-1.381	0.167	14.500	167.500	-0.358	0.720
15. Adoption of IAS	361.000	2252.000	-1.311	0.190	10.000	163.500	-0.976	0.329

Far from these personal characteristics, it is important to know whether accountants' and auditors' attitudes are different towards the difficulties they faced dealing with measurements. The results of the non-parametric test indicated that accountants are facing more difficulties of measurements, than auditors. Measurements and the difference is significant (P-value = 0.000). However, details regarding differences in their attitudes in specific issues of measurements are given in the following Table (8.25).

Table (8.25)
Accountants' and Auditors' Difficulties of Measurement

Difficulties of Measurement	Accountants	Mean Rank	P-Value
	Auditors		
1. Cost of Measurement	Accountants	125.86	0.000*
	Auditors	157.38	
2. Evaluation of Measurement	Accountants	126.09	0.000*
	Auditors	156.63	
3. Time Consuming	Accountants	126.36	0.000*
	Auditors	155.68	
4. Needs a Lot of Effort	Accountants	126.14	0.000*
	Auditors	156.43	
5. Shortage of Knowledge	Accountants	126.52	0.000*
	Auditors	155.15	
6. Ambiguity in Understanding	Accountants	126.63	0.000*
	Auditors	154.75	
7. Shortage of IAS Trained Accountants	Accountants	126.66	0.000*
	Auditors	154.65	
8. Interpretation of IAS	Accountants	126.62	0.000*
	Auditors	154.78	
9. Communicating of IAS with other Professionals	Accountants	126.46	0.000*
	Auditors	155.36	
10. Lack of Accuracy of IAS	Accountants	126.24	0.000*
	Auditors	156.09	
11. Flexibility of Implementation	Accountants	126.23	0.000*
	Auditors	156.14	
12. Relevancy of Measurements	Accountants	126.22	0.000*
	Auditors	156.18	
13. Complexity of Measurements	Accountants	126.52	0.000*
	Auditors	155.13	
14. Contradiction Between Local Regulation and IAS Regarding Measurements	Accountants	126.40	0.000*
	Auditors	155.55	
15. Adoption of IAS	Accountants	126.13	0.000*
	Auditors	156.46	

* Test is significant at 5% level.

From the above table it is evident that there are significant differences between accountants' and auditors' attitudes towards different issues of measurements. Moreover, it appears that accountants are facing more difficulties than auditors with all issues listed above (P-value = 0.000). This could be due to lack of experience and knowledge of IAS by accountants'.

8.5.1.1.2. Accountants' Main Difficulties of Measurement

The factor analysis technique was used in attempting to identify the main factors that explain the issue of difficulties of measurements. In other words, can the fifteen different issues we discussed earlier, be reduced to a less number of issues (factors). The result of the analysis reduced these into three main factors, namely: flexibility of IAS regarding measurements, which explains 30.536% of the total encountered variations; cost effectiveness of IAS, which explains 26.409% of the total variations; and ambiguity of IAS, which explains 14.823% of the total variations. In summary the following three factors were able to explain 72% of the total variations in the data and Exhibit (8.1). Table (8.26) provides the result of the factor analysis. We elaborate further on this issue later in the summary in Section 8.5.2.

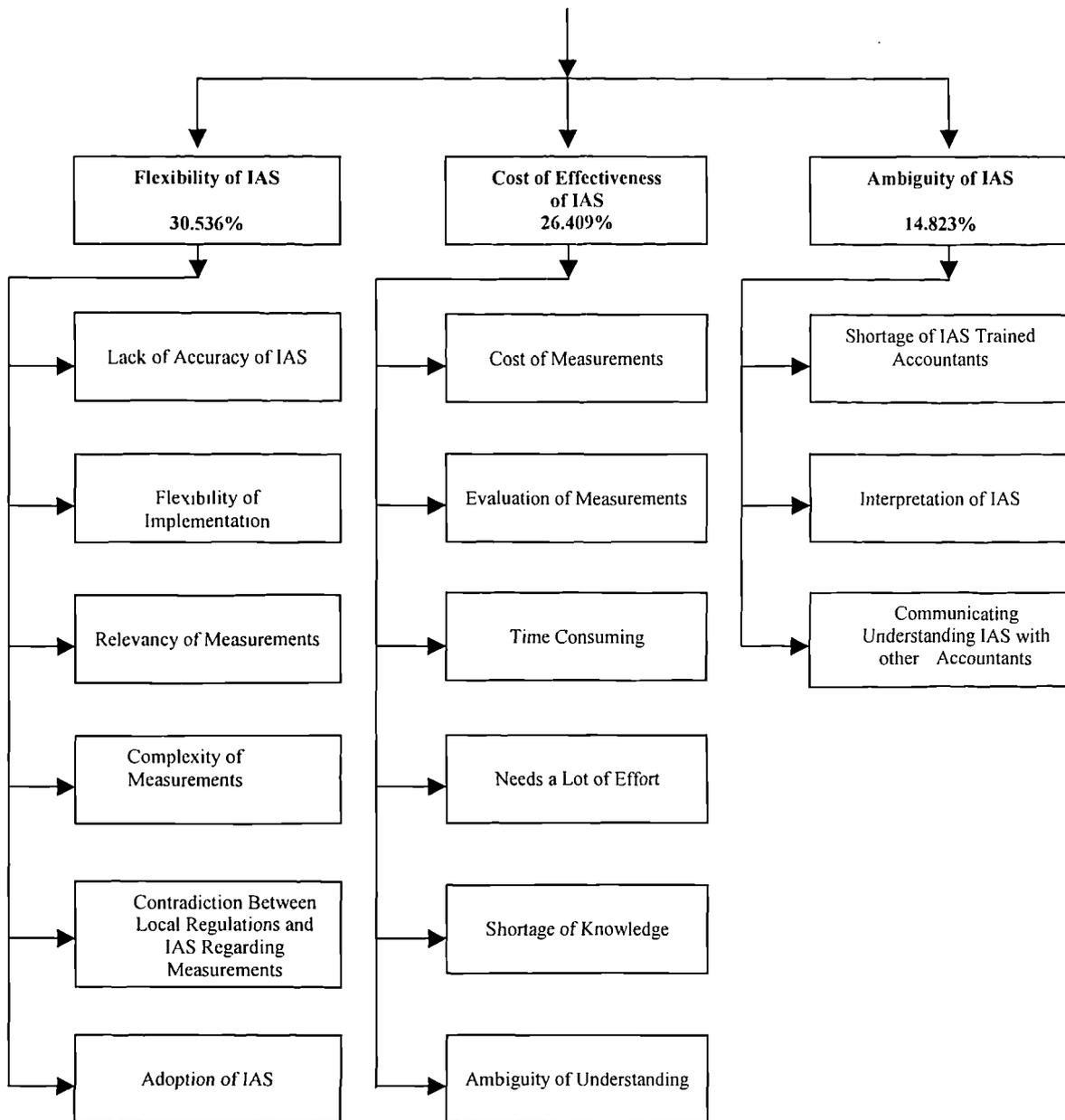
Table (8.26)
Accountants' Main Factors of Difficulties of Measurement

Main Factors	Factors Loadings			% Explained
<p><u>F1. Flexibility of IAS:</u></p> <ul style="list-style-type: none"> - Lack of Accuracy - Flexibility of Implementation - Relevancy of Measurements - Complexity of Measurements - Contradictions Between Local Regulations & IAS Regarding Measurements - Adoption of IAS 	<p>0.628</p> <p>0.840</p> <p>0.855</p> <p>0.717</p> <p>0.770</p> <p>0.753</p>			<p>30.536%</p>
<p><u>F2. Cost of Effectiveness of IAS:</u></p> <ul style="list-style-type: none"> - Cost of Measurements - Evaluation of Measurements - Time Consuming - Needs a Lot of Effort - Shortage of Knowledge - Ambiguity in Understanding 		<p>0.795</p> <p>0.717</p> <p>0.687</p> <p>0.649</p> <p>0.758</p> <p>0.664</p>		<p>26.409%</p>
<p><u>F3. Ambiguity of IAS:</u></p> <ul style="list-style-type: none"> - Shortage of IAS Trained Accountants - Interpretation of IAS - Communicating Understanding IAS With Other Accountants 			<p>0.842</p> <p>0.638</p> <p>0.744</p>	<p>14.823%</p>

Exhibit (8.1)

Accountants' Main Factors of Difficulties of Measurement

The Main Factors



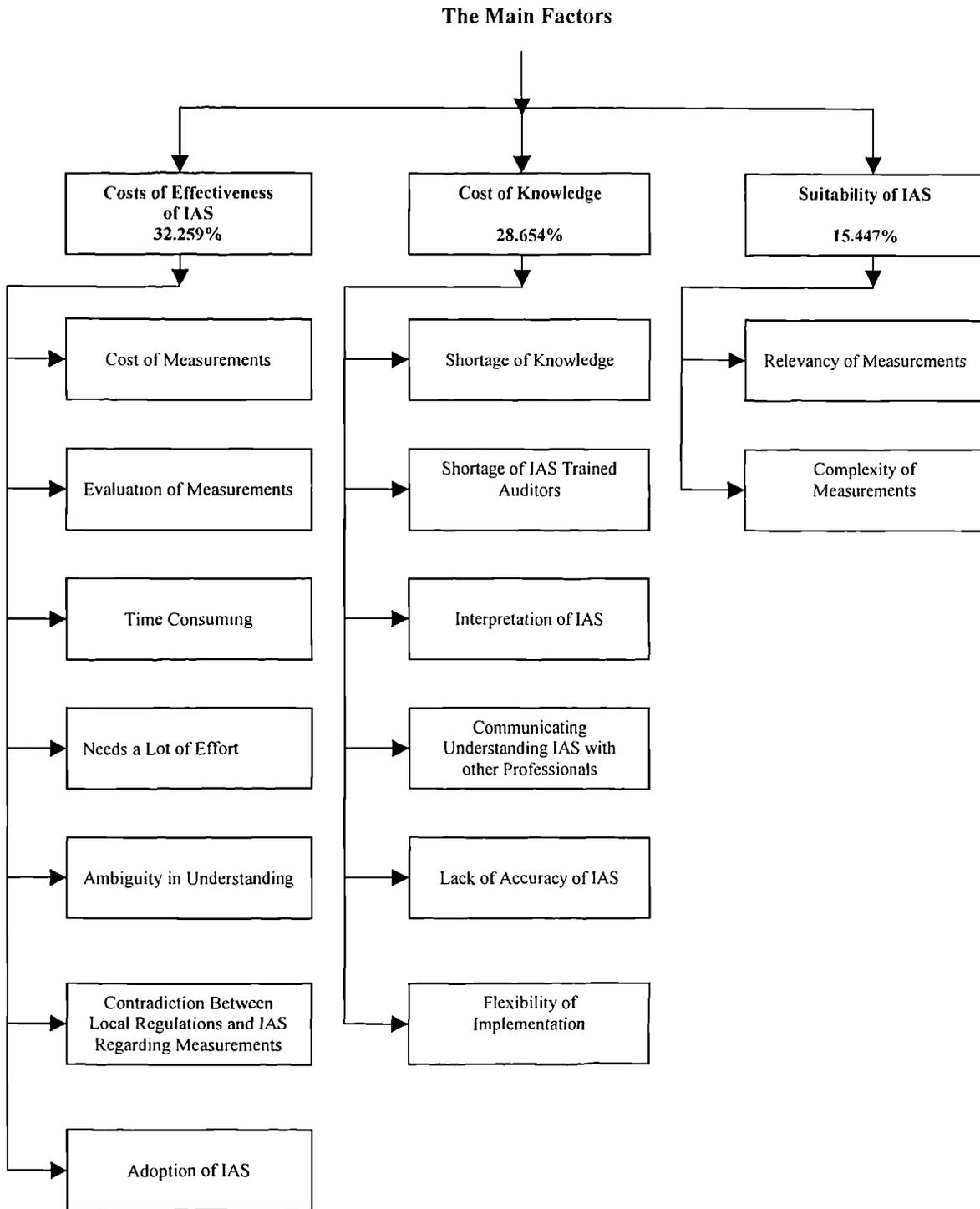
8.5.1.1.3. Auditors' Main Difficulties of Measurement

Using the factor analysis procedure we were able to reduce the 15 different issues from auditors' points of view into three main factors which explains 76.359% of the total variations collectively. The first factor: cost of effectiveness of IAS which explains 32.259% of the total variations; the second factor: cost of knowledge, which explains 28.654% of the total variations; the third factor: suitability of IAS which explains 15.447% of the total variations. Exhibit (8.2) and Table (8.27) shows the results of the factor analysis in more detail.

Table (8.27)
Auditors' Main Factors of Difficulties of Measurement

Main Factors	Factors Loading			% Explained
<u>F1. Cost of Effectiveness of IAS:</u>				32.259%
- Cost of Measurements	0.722			
- Evaluation of Measurements	0.717			
- Time Consuming	0.870			
- Needs a Lot of Effort	0.834			
- Ambiguity in Understanding	0.686			
- Contradiction Between Local Regulation and IAS Regarding Measurements	0.640			
- Adoption of IAS	0.825			
<u>F2. Cost of Knowledge:</u>				28.654%
- Shortage of Knowledge			0.520	
- Shortage of IAS Trained Accountants			0.898	
- Interpretation of IAS			0.928	
- Communicating Understanding IAS With Other Professionals			0.826	
- Lack of Accuracy of IAS			0.702	
- Flexibility of Implementation			0.712	
<u>F3. Suitability of IAS :</u>				15.447%
- Relevancy of Measurements			0.720	
- Complexity of Measurements			0.818	

Exhibit (8.2)
Auditors' Main Factors of Difficulties of Measurement



8.5.1.2. Difficulties of Disclosure

Both accountants' and auditors' questionnaires stated several issues which may explain the problem of disclosure under the IAS system, mainly: availability of information; quantity of information; quality of information; timing of disclosure; sufficiency of information; truth in revealing information; consistency of information; free of information from bias; and efficiency of information. A non-parametric statistical technique was performed to study the effect of demographical variables on each of the above issues. We briefly present summaries in the following sub-sections.

8.5.1.2.1. Difficulties of Disclosure Facing Accountants and Auditors

1. Response of Accountants/Auditors with Respect to their Age Groups, Education and Experience

Table (8.28) gives the results of the Kruskal-Wallis Test, where we found that there are no significant differences between accountants'/auditors' age groups, educational backgrounds, levels of experience, on any of the issues of disclosure.

Table (8.28)
Difficulties of Disclosure with Different Accountants and Auditors Age Groups, Educational Levels, and Experience

Difficulties of Disclosure	Accountants						Auditors					
	Age Groups		Education		Experience		Age Groups		Education		Experience	
	Chi-Square Test	P-Value										
Availability of Information	5.712	0.222	1.277	0.735	2.810	0.422	0.977	0.807	2.931	0.231	4.936	0.294
Quantity of Information	5.478	0.242	5.047	0.168	4.270	0.234	4.404	0.221	2.732	0.255	7.056	0.133
Quality of Information	4.742	0.315	0.628	0.890	5.707	0.127	4.452	0.209	2.329	0.312	3.831	0.429
Timing of Disclosure	6.577	0.160	2.273	0.518	0.503	0.159	3.285	0.350	1.474	0.478	8.751	0.068
Sufficiency of Information	3.932	0.415	0.083	0.994	0.465	0.994	3.749	0.290	2.293	0.318	5.194	0.268
Truth in Revealing Information	4.932	0.294	1.740	0.628	1.740	0.927	3.497	0.321	1.527	0.466	2.117	0.714
Consistency of Information	4.544	0.337	1.706	0.636	0.239	0.971	6.532	0.088	1.971	0.373	8.276	0.082
Free of Information from Bias	1.992	0.737	3.574	0.311	0.888	0.828	1.613	0.657	2.665	0.264	1.209	0.877
Efficiency of Information	1.500	0.818	0.469	0.929	0.309	0.958	0.373	0.946	1.710	0.425	1.857	0.762

2. Response of Accountants/Auditors with Regard to their Nationality

When the issues of disclosure were tested with respect to accountants'/auditors' nationality (Kuwaiti and non-Kuwaiti), the test statistics suggested no significant differences, as shown in Table (8.29).

Table (8.29)
Difficulties of Disclosure with Different Accountants and Auditors Nationality

Difficulties of Disclosure	NATIONALITY							
	Accountants				Auditors			
	Mann-Whitney Test	Wilcoxon Test	Normal Z	P-Value	Mann-Whitney Test	Wilcoxon Test	Normal Z	P-Value
1. Availability of Information	295.000	1780.000	-0.913	0.361	15.000	186.000	-0.406	0.685
2. Quantity of Information	295.000	1780.000	-0.913	0.361	10.000	181.000	-1.069	0.285
3. Quality of Information	333.500	1818.500	-0.286	0.775	17.500	187.000	-0.260	0.946
4. Timing of Disclosure	350.500	441.500	-0.008	0.993	16.000	188.500	-0.068	0.795
5. Sufficiency of Information	311.500	1796.500	-0.644	0.520	17.500	188.500	-0.066	0.947
6. Truth in Revealing Information	333.000	1818.000	-0.396	0.767	15.500	186.500	-0.337	0.736
7. Consistency of Information	317.000	408.000	-0.558	0.577	12.000	183.000	-0.791	0.429
8. Free of Information from Bias	323.000	414.000	-0.459	0.646	16.000	187.000	-0.261	0.794
9. Efficiency of Information	310.500	401.500	-0.662	0.508	14.500	185.500	-0.467	0.640

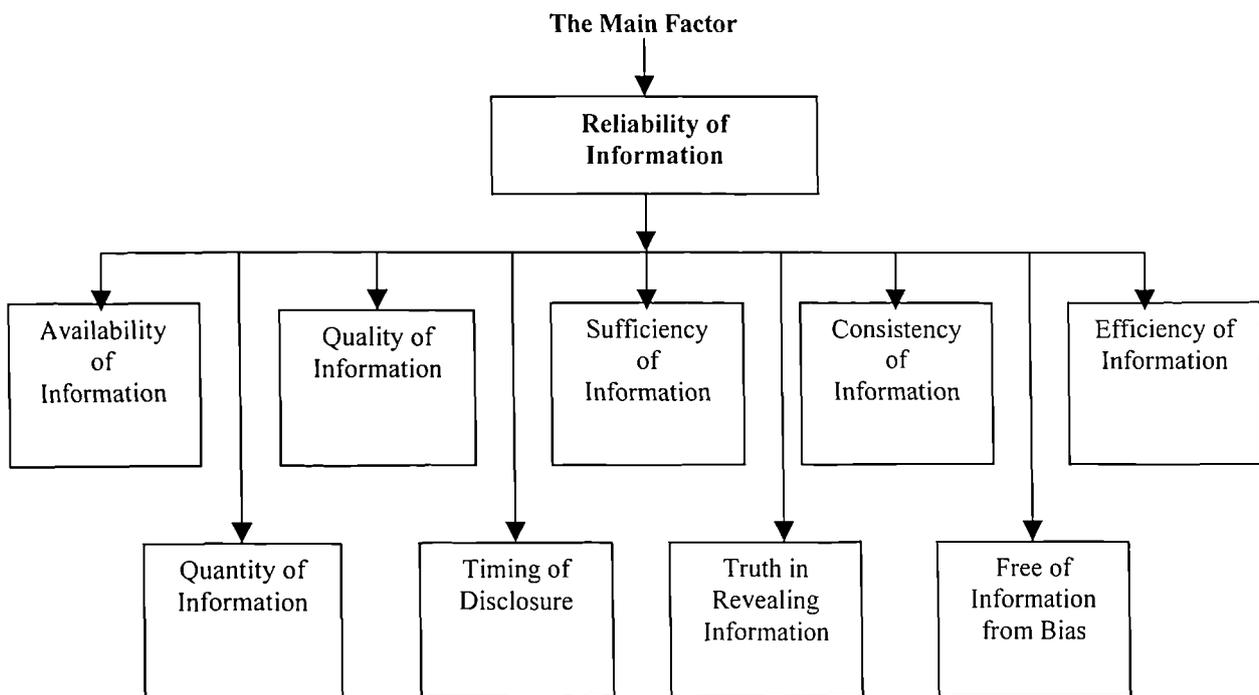
So far what we have concluded in this section is that none of the nine issues of difficulties in disclosure declared significant under different accountants and auditors characteristics (age, education, experience and nationality). In other words, both accountants and auditors have no problems with disclosure.

8.5.1.2. 2. Accountants' Main Difficulties with Disclosure

The factor analysis technique could not reduce the nine different issues stated previously to a less number of factors to explain the difficulties in disclosure. However, all the nine different issues can be considered one factor. This factor is the reliability of information, as shown in Exhibit (8.3).

Exhibit (8.3)

Accountants' Main Factor of Difficulties with Disclosure



Regardless of their personal data, it would be of interest to know whether accountants'/auditors' attitudes towards difficulties of disclosure are different. The result of non-parametric tests indicated that accountants are facing more difficulties of disclosure, than auditors. The difficulties of disclosure and the difference is significant (P-value = 0.000). Further, details regarding differences in their attitudes in specific issues of disclosure are given in the following Table (8. 30).

Table (8.30)
Accountants' and Auditors' Difficulties with Disclosure

Difficulties of Disclosure	Accountants	Mean Rank	P-Value
	Auditors		
1. Availability of Information	Accountants	126.02	0.000*
	Auditors	156.85	
2. Quantity of Information	Accountants	125.80	0.000*
	Auditors	157.59	
3. Quality of Information	Accountants	125.58	0.000*
	Auditors	158.38	
4. Timing of Disclosure	Accountants	125.70	0.000*
	Auditors	157.94	
5. Sufficiency of Information	Accountants	125.40	0.000*
	Auditors	158.97	
6. Truth in Revealing Information	Accountants	152.63	0.000*
	Auditors	158.19	
7. Consistency of Information	Accountants	125.65	0.000*
	Auditors	158.10	
8. Free of Information from Bias	Accountants	125.37	0.000*
	Auditors	159.07	
9. Efficiency of Information	Accountants	125.45	0.000*
	Auditors	158.79	

* Test is significant at 5% level.

From the above table it is evident that there are significant differences between accountants auditors attitudes towards different issues of disclosure. Moreover, it shows that accountants are facing more difficulties than auditors with all issues listed above (P-value = 0.000). These difficulties could be due to the lack of knowledge and experience of accountants when compared with auditors.

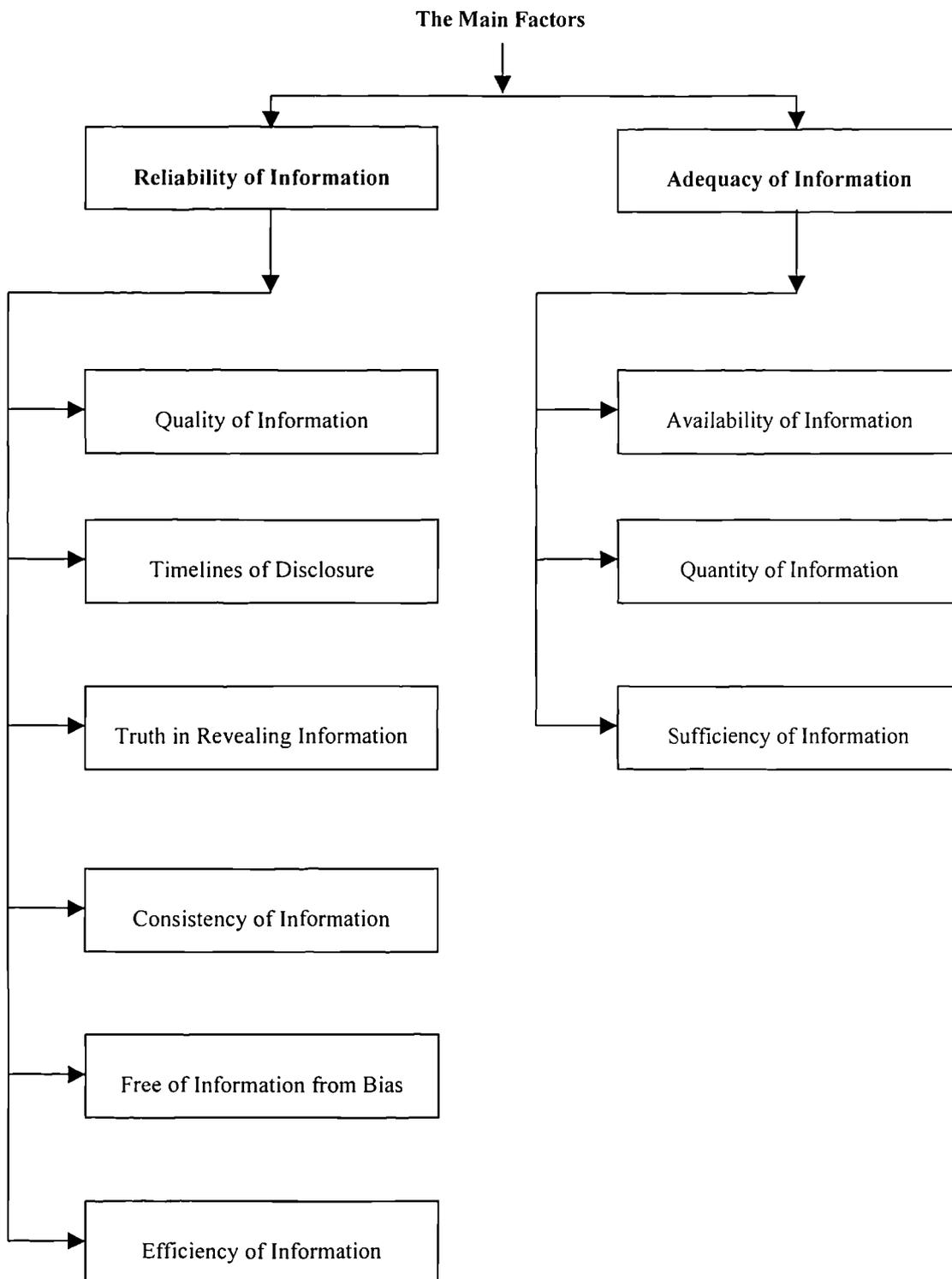
8.5.1.2.3. Auditors' Main Difficulties with Disclosure

The main factor analysis reduction technique was able to reduce the nine issues of disclosure into two main factors, which explains 66.685% of the total variation collectively. The first factor: reliability of information, explains 42.564% of the total variation; the second factor, adequacy of information explains 24.121% of the total variations. Exhibit (8.4) and Table (8.31) offers detailed results regarding the factor analysis.

Table (8.31)
Auditors' Main Factors of Difficulties with Disclosure

Main Factors	Factors Loadings		% Explained
<u>F1. Reliability of Information:</u> - Quality of Information - Timing of Disclosure - Truth in Revealing Information - Consistency of Information - Free of Information from Bias - Efficiency of Information	0.769 0.656 0.886 0.815 0.871 0.661		42.564%
<u>F2. Adequacy of Information:</u> - Availability of Information - Quantity of Information - Sufficiency of Information		0.535 0.788 0.884	24.121%

Exhibit (8.4)
Auditors' Main Factors of Difficulties with Disclosure



8.5.2. Summary

In Section (8.5) we examined difficulties of implementing IAS in both measurements and disclosure encountered by accountants and auditors. As far as measurements are concerned several difficulties were presented to both accountants and auditors, including: cost of measurements; evaluation of measurements; time consuming; efforts, shortage of knowledge; ambiguity in understanding, interpretation of IAS; communicating using IAS; lack of accuracy of IAS; flexibility of implementing IAS; relevancy of measurements; complexity of measurements; contradiction between IAS and the local standards regarding measurements; and adoption of IAS. From accountants' perspective among all previously stated difficulties, shortage of IAS trained accountants is the only one that revealed significant when age is considered. It seems that younger accountants have more concern than older ones regarding IAS training. When the same list of difficulties was crossed with accountants' education, three main difficulties indicated were: the problem of evaluation; shortage of knowledge; and ambiguity in understanding IAS format.

Interestingly enough, accountants with formal education (B.S., Higher Diploma, and M.S. in Accounting) are more troubled with these difficulties than Qualified Accountants; this could be due to the fact that the IAS is not included in the formal education curriculum. Some companies require Certified Accountants to have knowledge of IAS.

Furthermore, when the above difficulties were tested against accountants' experience, shortage of knowledge of IAS, ambiguity in understanding IAS format, and shortage of IAS trained personnel, indicated significant. All three difficulties ratings exhibited the same pattern, with less experienced accountants regarding them as severe and more experienced accountants viewing them as controllable. When the effect on different nationalities was considered, none of the above difficulties revealed significant.

Auditors' outlooks regarding the above difficulties are different. When these were tested against auditors' age, we found that they viewed IAS as time-consuming. Although the statistical test was indifferent, to distinguish between age groups regarding their average rating of the time-consuming problem, simple statistical measures suggested that older auditors are less worried by it than younger auditors. Meanwhile, the above set of difficulties did not specify any evidence of significance when tested against auditors' education, experience and nationality.

Regarding accountants'/auditors' main difficulties of measurements, let us define what measuring an asset or liability entails, describing the measurements basis to be used and determining the monetary amount that is appropriate for that basis.

The flexibility of IAS could lead to inconsistency in applying measurements and, consequently, may create inconsistency of results. This of course is against the main principle

under which the IAS have been established. In some cases the flexibility of IAS will lead to a case of "no standard" at all and, in such a case, the result of the accounting system will be inaccurate and hence impractical. On the other hand, due to the flexibility of IAS, there is a conflict between what is required by financial institutions (for example, Kuwait Central Bank, the Ministry of Industry and Commerce, and the Kuwait Stock Exchange), and what IAS standards offer. (Mostafa and Abdul Rahim (1998)).

It appears clear, from the results of the factor analysis technique, that all components under the first factor: flexibility of IAS, which includes lack of accuracy, flexibility of implementation, relevancy of measurements, complexity of measurements, contradictions between local system and IAS regarding measurements and adoption of IAS, are considered the main difficulties facing accountants, and all are directly or indirectly related to the flexibility of IAS.

The second main difficulty facing accountants deals with "cost of effectiveness of IAS", which includes, cost of measurements, evaluation of measurements, time-consuming, efforts, shortage of knowledge and ambiguity in understanding IAS, all of which cost time and effort to understand and, hence, to apply IAS. This is due to a shortage of knowledge of IAS, as well as ambiguity of the standards, especially for younger experienced professionals (Mostafa and Abdul Rahim (1998)), because accountants need to be able to perceive the exact way of computing and evaluating different measures in financial statements.

The third main difficulty facing accountants as far as measurements are concerned is the "ambiguity of IAS". Financial statements should be prepared in a way that makes them intelligible to all users, regardless of their level of experience. However, accountants who are fully aware of the basis on which financial statements should be prepared will undoubtedly provide an outstanding financial report, but shortage of IAS training, misinterpretation and miscommunication of IAS will certainly produce unsatisfactory financial reports.

Auditing is the examination, by an independent accountant, of the financial data, accounting records, business documents, and other pertinent documents of an organisation, in order to attest to the truth and fairness of its financial statements. From this standpoint, the main task of the auditor is evaluating and examining financial statements prepared by accountants beforehand. Therefore, we expect difficulties of measurements faced by auditors to be very much similar to those faced by accountants. The factor analysis technique provided three main difficulties that characterise auditors' main difficulties of measurement. The first difficulty reflects the "cost of effectiveness of IAS", which includes costs of measurements, evaluation of measurements, time consumption, efforts, ambiguity in understanding IAS, contradiction between local regulation and IAS regarding measurements, (see Mostafa and Abdul Rahim (1998)), and adoption of IAS.

As we have seen earlier, accountants face some of the difficulties above, except for the contradiction between the local regulations required by local financial institutions (Kuwait Central Bank, Kuwait Stock Exchange) and IAS. It appears that such a contradiction concerns auditors more than accountants in implementing IAS in measurements.

This bears out perfectly the main principle of external auditors that, when such a contradiction exists, they appeal to local accounting systems rather than international accounting systems.

The second difficulty focuses on "Cost of Knowledge". This factor includes, shortage of knowledge of IAS, shortage of training, interpretation, miscommunicating, lack of accuracy, and flexibility. If rules and principles of evaluations and examinations are not clearly and carefully stated to auditors in order to carry out the auditing process, we expect unsatisfactory outcomes. Auditors have emphasized that they are facing problems related to lack of knowledge of IAS. In Kuwait, IAS are new and different accounting standards, and not very many professionals are familiar with them. Besides which, IAS are not yet included in the Kuwait University curriculum at undergraduate level. Meanwhile, practitioners in Kuwait acquire their knowledge either by training, or by reading publications, or from other professionals.

Therefore, the absence of formal IAS education may cause difficulties in the implementation of IAS. However, we expect improvement in IAS knowledge, within the next few years, due to redesigning the curriculum to include complete courses on IAS.

The third difficulty reflects the "Suitability of IAS" in some cases, in preparing financial reports from auditors' standpoints; this difficulty includes lack of measurements, relevance of measurements and complexity of measurements.

When the previous difficulties of disclosure were tested against accountants'/auditors' personal characteristics (age, education, experience, and nationality) none appeared significant. This finding led us to believe that differences in demographic levels have no effect on their attitudes towards difficulties of disclosure.

Regarding accountants'/auditors' main difficulties of disclosure, let us first clarify the point of information we usually disclose.

Information relating to the financial position of an enterprise is presented in a balance sheet, while disclosures about operating results are displayed in a profit and loss statement. Data relating to an organisation's liquidity and changes in its financial structure are shown in a statement of changes in financial position. Such financial statements are prepared to provide

information about past performance which, in turn, become a basis for users to try to project what might happen in the future.

The result of factor analysis technique revealed that accountants have only one difficulty to face when disclosure is a matter of concern. The "reliability of information" which embraces several components including: availability of information; quantity of information; quality of information; time of disclosure; sufficiency of information; truth in revealing information; free of information from bias and efficiency of information. We have to bear in mind that information is reliable only if users can depend upon it representing and faithfully the actual status of entities. It should also be free of deliberate or systematic bias, and able to be compared to similar information about other entities in order to evaluate their relative financial performance and financial positions.

In this context, and from the result of factor analysis, we can classify the reliability of information into two main aspects: the quantitative aspect, which includes: availability of information; the quantity of information; sufficiency of information. The qualitative aspect, which includes: quality of information; time of disclosure; truth in revealing information; consistency of information; free of information from bias; and efficiency of information.

The disclosure principle requires that financial statements present the most useful amount of relevant information to users, in order for them to be able to take appropriate action or make rational decisions.

The difficulties faced by auditors are summarised in two main factors, contrary to what we have seen in accountants' main difficulties of disclosure, where these were reduced to one difficulty: reliability of information. For auditors, the two factors are: the reliability of information; and adequacy of information. The "reliability of information", includes the quality of information, timeliness of disclosure, truth of revealing information, consistency of information, free of information from bias, and efficiency of information. This factor focuses on the quality of information to be revealed to users, the time of disclosure, how trustful the information is, consistency of information to enhance decision-making and a comparison between different entities; also information should be free of deliberate bias , as well as efficient to ensure the minimum of uncertainty contained in the information. The reliability factor reflects the auditors' concern regarding the quality of information presented in it.

The second main difficulty "adequacy of information" which reflects auditors' satisfaction of disclosed information to ensure that it is available at the right time, and sufficient for users to make rational decisions and take appropriate actions.

From the above discussion we have seen that accountants' main difficulties of disclosure are very interrelated; while, for auditors, the reliability of information and adequacy of information was targeted differently by integrated objectives.

8.6. ADVANTAGES OF APPLYING IAS IN KUWAIT

Both accountants' and auditors' questionnaires included several questions on the benefits of applying and using IAS in Kuwait. In Chapter 7, we found that 89.8% of all accountants in Kuwait confirmed that their companies have benefited from applying IAS in Kuwait, while, 88.3% of all auditors replied that they have benefited from auditing accounts prepared using IAS.

In the following sections, we discuss the effect of accountants' and auditors' characteristics, on rating different benefits of IAS.

This incorporated several benefits directed to both accountants and auditors. Among the benefits are: effectiveness of accounting system; ease of implementation; flexibility of the system; understanding and communication; better foreign trade and business opportunities; less time compared with old system; more accurate cost and assets value data; and more accurate profit measurements.

8.6.1. Accountants'/Auditors' Benefits of IAS

In this subsection we tried to answer the main question:

“Do accountants auditors differ in rating their benefits of applying IAS?”

Exclusively, we need to validate the following set of hypotheses:

H_0 : There is no significant difference between accountants'/auditors' demographic variable levels in rating their benefits regarding IAS.

Against

H_1 : At least one level is significantly different in rating these benefits.

1. Responses of Accountants/Auditors with Respect to their Age Groups

Kruskal-Wallis test to signify whether differences of rating are significant, provides the following Table (8.32).

Table (8.32)

Benefits of IAS with Different Age Groups of Accountants and Auditors

Benefits of IAS	Accountants		Auditors	
	Chi- Square Test	P-Value	Chi- Square Test	P-Value
1. Effectiveness of Accounting System	8.529	0.074	15.631	0.004*
2. Ease of implementation	21.447	0.000*	8.166	0.086
3. Flexibility of the system	10.965	0.027*	11.988	0.017*
4. Understanding and Communicating IAS	12.334	0.015*	7.011	0.135
5. Better Foreign trade and business opportunities	14.688	0.005*	11.290	0.023*
6. Less Time Compared with Old System	7.240	0.124	16.045	0.003*
7. More Accurate Cost and Assets Value Data	5.489	0.241	9.063	0.059
8. More Accurate Profit Measurement	3.729	0.444	4.632	0.327

* Test is significant at 5% level.

Among the accountants' benefits the following were found significant with age groups: ease of implementation; flexibility of the system; understanding and communications; and better foreign trade and business opportunities, as shown in Table (8.32).

- **Ease of Implementation and Flexibility of the System**

Accountants have shown different views regarding the ease of implementation of IAS and flexibility of the system. Specifically, different age groups showed significant differences in views. Moreover, with regard to age the Duncan's multiple comparing tests could classify accountants' views, into two main groups as shown in Table (8.33).

Table (8.33)
Rating the Ease of Implementation and the Flexibility of the System with
Different Age Groups of Accountants

Accountants' Age Group	Benefits of IAS			
	(1) Ease of Implementation		(2) Flexibility of the System	
	Reasonable	High	Reasonable	High
- 25 years and less than 35 years	3.43		3.36	
- More than 50 years	3.44		3.56	
- 35 years and less than 45 - years		3.58		3.66
- Less than 25 years		3.75		3.75
- 45 years and less than 50 years		4.19		4.03

Younger accountants (25 years and less than 35 years) and older accountants (more than 50 years) have similar views in having only reasonable benefits from applying, IAS and on the flexibility of the system. In contrast, accountants whose age is less than 25 years and middle age accountants (35 years and less than 50 years) believe that companies have highly benefited from applying IAS and on its flexibility.

- **Understanding and Communicating IAS**

Accountants from different age groups rated the issue of understanding and communicating IAS differently, (P-value = 0.015). Further analysis was carried out to classify their ratings into distinct groups and Table (8.34) presents the result of the multiple comparison tests.

Table (8.34)
Rating the Understanding and Communicating of IAS with Accountants
of Different Age Groups

Accountants' Age Group	Understanding and Communicating IAS	
	Reasonable Rating	High Rating
- Less than 25years	3.25	
- 35 years and less than 45 years		3.82
- More than 50 years		3.89
- 45 years and less than 50 years		3.95
- 25 years and less than 35 years		4.10

Regarding age, the analysis on communications and understanding, sorted the rating into two main groups according to their ages. Accountants whose age is less than 25 years rated IAS reasonable; and accountants over 25 years of age rated IAS high.

- **Better Foreign Trade and Business Opportunities**

Different age groups declared significant differences when they rated the opportunities IAS may create worldwide, (P-value=0.005). Further analysis classified accountants' rating into the following groups, as shown in Table (8.35).

Table (8.35)
Rating Better Foreign Trade and Business Opportunities with Accountants'
of Different Age Groups

Accountants' Age Group	Better Foreign Trade and Business Opportunities	
	Reasonable Rating	High Rating
- 25 years and less than 35 years	3.22	
- Less than 25years	3.25	
- 35 years and less than 45 years		3.34
- More than 50 years		3.89
- 45 years and less than 50 years		3.95

The multiple comparison test was able to categorise accountants' rating into two different groups. Those whose age is less than 35 years considered IAS a reasonable accounting system to create business opportunities, while older accountants believe that it is excellent.

As previously shown in Table (8.32), auditors were asked to rate their attitudes towards the above benefits with respect to their age groups, and they confirmed that significant benefits are: effectiveness of accounting system; flexibility of the system; better foreign trade and business opportunities; and less time compared with old system. We further elaborate on the significant benefits in the following section.

- **Effectiveness of Accounting System**

When auditors were asked to rate their companies, benefits by applying IAS, they responded differently to the question (P-value = 0.004). When the above statement was further investigated, the multiple comparison test suggested the following Table (8.36).

Table (8.36)

Rating the Effectiveness of Accounting System with Auditors of Different Age Groups

Auditors' Age Groups	Effectiveness of Accounting System	
	Reasonable - High	Very High
- Less than 25 years	3.00	
- 25 years and less than 35 years	3.67	
- 35 years and less than 45 years		3.93
- 45 years and less than 50 years		4.46
- More than 50 years		4.50

The test was able to classify auditors into two groups. Those who are less than 35 years of age believe that their companies have achieved reasonable to high benefit from applying IAS in their accounting system, while older auditors think that their companies have benefited a great deal (very high).

- **Flexibility of the System**

Concerning the flexibility of the system, auditors had different views regarding this issue (P-value 0.017). When investigation was extended to identify different groups according to their answers, we obtained Table (8.37).

Table (8.37)

Rating the Flexibility of the System with Auditors of Different Age Groups

Auditors' Age Groups	Flexibility of the System	
	Reasonable - High	High - Very High
- Less than 25 years	3.00	
- 25 years and less than 35 years	3.52	
- 35 years and less than 45 years	3.86	
- 45 years and less than 50 years		4.23
- More than 50 years		4.50

It appears from the above table that younger auditors (< 45 years) believe reasonably – highly, that IAS is a flexible system, while older auditors think that the system is very highly flexible.

- **Better Foreign Trade and Business Opportunities and Less Time Compared with Old System**

Auditors of different age groups responded differently regarding the issue foreign trade and business opportunities (P-value – 0.023), and the time efficiency of the IAS compared to the old system (P-value = 0.003). Further investigation suggested the following classification of auditors with respect to their age groups and responses, as shown in Table (8.38).

Table (8.38)
Rating of Auditors of Different Age Groups Regarding Better Foreign Trade and Business Opportunities and Less Time Compared to the Old System

Auditors' Age Groups	(1) Better Foreign Trade & Business Opportunities		(2) Less Time Compared to Old System	
	Reasonably	High	Reasonably	High
- Less than 25 years	3.00		3.00	
- 25 years and less than 35 years		3.52		3.62
- 35 years and less than 45 years		3.79		4.07
- 45 years and less than 50 years		4.23		4.54
- More than 50 years		4.50		4.50

Auditors whose age is less than 25 years old think that IAS is a reasonable system with regard to foreign trade and business, while auditors older than 25 years rate it very high.

It is clear from Table (8.38), that auditors younger than 25 years old of age believe that IAS saved reasonable time compared to the old system, while older ones think that the system saved a great deal of time.

2. Responses of Accountants/Auditors with Respect to their Education

When accountants/auditors were asked to compare previous benefits with respect to their education, they affirmed that effectiveness of the accounting system, better foreign trades and business opportunities, and less time compared to the old system, are the significant benefits as shown in Table (8.39).

Table (8.39)

Benefits of IAS with Accountants and Auditors of Different Educational Levels

Benefits of IAS	Accountants		Auditors	
	Chi-Square Test	P-Value	Chi-Square Test	P-Value
1. Effectiveness of Accounting System	9.908	0.019*	8.020	0.046*
2. Ease of Implementation	7.662	0.054	4.925	0.177
3. Flexibility of the System	5.683	0.128	4.200	0.241
4. Understanding and Communication	6.531	0.088	3.938	0.268
5. Better Foreign Trade and Business System	3.007	0.391	8.217	0.042*
6. Less Time Compared with Old System	4.139	0.247	8.441	0.038*
7. More Accurate Cost and Assets Value	13.394	0.004*	2.174	0.0537
8. More Accurate Profit Measurement	15.523	0.001*	2.455	0.438

* Test is significant at 5% level.

- **Effectiveness of Accounting System, More Accurate Cost and Assets Value Data, and More Accurate Profit Measurements**

Accountants with differing educational backgrounds showed different attitudes towards the effectiveness of IAS as an accounting system (P-value = 0.019), the accuracy of the system in generating cost and assets value data (P-value = 0.004), and accurate profit measurements (P-value = 0.001). When these differences were additionally investigated, we could classify different attitudes into two main groups, as shown in Table (8.40).

Table (8.40)

Rating the Effectiveness of Accounting System, More Accurate Cost and Assets Value Data, and More Accurate Profits Measurement with Accountants of Differing Educational Levels

Accountants' Educational Levels	(1) Effectiveness of Accounting System		(2) More Accurate Cost and Assets Value Data		(3) More Accurate Profit Measurement	
	Reasonable	High	Reasonable	High	Reasonable	High
- Higher Diploma in Accounting	3.09		3.09		3.09	
- B.S. in Accounting		3.67		3.88		3.88
- Qualified Certificate in Accounting		3.89		3.89		3.89
- M.S. in Accounting		4.00		33.36		3.88

Although all rating averages were greater than 3 (reasonable), accountants with B.S. Qualified Certificate of Accounting and M.S. in Accounting believe that it is very effective.

Accountants with Higher Diploma in Accounting think that IAS are reasonable in helping produce value data, while accountants with M.S., B.S., or Qualified Certificate in Accounting believe that is a very good system.

Furthermore, we provide detailed discussion regarding the significance of the benefits with respect to auditors' educational backgrounds.

- Effectiveness of Accounting System**

Auditors with different educational backgrounds reacted differently with regard to effectiveness of the IAS as an accounting system (P-value = 0.046). Further, analysis was not able to classify auditors' attitudes towards the issue with respect to their educational backgrounds, due to shortage of group sample size <2.
- Better Foreign Trade and Business Opportunities**

Auditors have different attitudes towards the efficiency of IAS in foreign trades and business opportunity (P-value = 0.042). However, analysis failed to classify auditors response according to their education for some group size < 2.

- **Time Less Compared with Old System**

Statistical tests also revealed that there is significant difference between auditors regarding their attitude towards IAS in saving time compared with the old accounting system (P-value = 0.038). However, no further analyses were possible.

3. **Response of Accountants/Auditors with Respect to their Experience**

When benefits were tested against accountants' experiences, understanding and communicating IAS, better foreign trade and business opportunities, accurate cost and assets value data, and more accurate profit measurements, there were significant differences. Also, when the same benefits were tested with respect to auditors' experience, several benefits were significant including: effectiveness of accounting system; flexibility of the system better foreign trade and business opportunities; and timeliness compared to the old system as shown in Table (8.41).

Table (8.41)
Benefits of IAS with Accountants' and Auditors' Different Experience

Benefits of IAS	Accountants		Auditors	
	Chi-Square Test	P-Value	Chi-Square Test	P-Value
1. Effectiveness of Accounting System	7.951	0.093	10.018	0.040*
2. Ease of Implementation	7.725	0.102	6.506	0.164
3. Flexibility of the System	9.223	0.056	10.715	0.030*
4. Understanding and Communication	14.166	0.007*	8.026	0.091
5. Better Foreign Trade and Business Opportunities	12.740	0.013*	13.787	0.008*
6. Less Time Compared with Old System	5.359	0.252	12.582	0.014*
7. More Accurate Cost and Assets Value	20.400	0.000*	9.668	0.046*
8. More Accurate Profit Measurement	15.010	0.005*	7.329	0.012*

* Test is significant at 5% level.

Regarding accountants, further investigation to identify the differences were not possible because one of the experience groups has a sample size of (n<2).

However, regarding the auditors, the following benefits were declared significant with experience: effectiveness of accounting system; flexibility of the system; better foreign trade and business opportunities; less time compared with old system; more accurate cost and assets value; and more accurate profit measurement.

- **Effectiveness of accounting system**

From their experience perspectives, auditors showed significant differences regarding the effectiveness of IAS, in the preparation and reporting of companies' annual accounts, (P-value = 0.040).

However, further analysis indicated that the auditors' evaluation of how effective IAS is, can be regrouped into two main categories as shown in Table (8.42).

Table (8.42)

Rating the Effectiveness of Accounting System with Different Auditors' Different Experience

Auditors' Experience	Effectiveness of Accounting System	
	Reasonable - High	High- Very High
- Less than 1 year	3.00	
- 1 year and less than 5 years		3.67
- 5 years and less than 10 years		3.71
- 10 years and less than 15 years		4.00
- More than 15 years		4.31

Less experienced auditors (less than one year) believe that the system is reasonably effective, while those who have more than one year of experience have a stronger belief in IAS as a good vehicle for accounting. Belief in the system gets stronger with longer experience, as shown in Table (8.42) above.

- **Flexibility of the System**

Although auditors believe that IAS is a flexible system, their attitudes vary (P-value = 0.030) from reasonable to very high. Further analysis, however, indicated that these differences in responses are due to differences in experience as shown in Table (8.43).

Table (8.43)

Rating the Flexibility of the System with Auditors' Different Experience

Auditors' Experience	Flexibility of the System	
	Reasonable	Reasonable - High
- Less than 1 year	3.00	
- 1 year and less than 5 years	3.17	
- 5 years and less than 10 years		3.72
- 10 years and less than 15 years		3.83
- More than 15 years		4.119

It is clear from Table (8.43) that less experienced auditors think that IAS is reasonably flexible, and more experienced auditors believe that it is highly flexible.

- **Better Foreign Trade and Business Opportunity**

Auditors' opinions of IAS, regarding the issue of foreign trade and business opportunities that may be generated as a result of IAS implementation, vary between low and high (P-value = 0.008). However, further analysis indicated that these differences in opinion can be classified into two distinct groups when their experience is considered, as shown in Table (8.44).

Table (8.44)

Rating Better Foreign Trade and Business Opportunities with Auditors' Different Experience

Auditors' Experience	Better Foreign Trade & Business Opportunities	
	Low - Reasonable	Reasonable- High
- 1 year and less than 5 years	2.83	
- Less than 1 year	3.00	
- 10 years and less than 15 years		3.67
- 5 years and less than 10 years		3.94
- More than 50 years		4.13

Auditors who have less than 5 years experience think that IAS may reasonably enhance foreign trade, while more experienced auditors (more than 5 years) thought it more highly.

- **Less Time Compared to Old System**

Although auditors' attitudes concerning the issue of IAS time efficiency ranged from reasonable to very high, their opinions varied (P-value = 0.014). Further investigation could classify these opinions into three main groups from the experience perspective, as shown in Table (8.45).

Table (8.45)

Rating Less Time Compared to Old System with Auditors' Different Experience

Auditors' Experience	Less time Compared to Old System		
	Reasonable	Reasonable - High	High – Very High
- Less than 1 year	3.00		
- 1 year and less than 5 years		3.33	
- 5 years and less than 10 years		3.76	
- 10 years and less than 15 years		4.17	
- More than 15 years			4.38

Auditors with less than one year's experience think that IAS is a reasonable time efficient system, while those with between one year and less than 15 years' experience believe that it is a highly time efficient system; auditors with more than 15 years' experience evaluated the system as very highly time efficient compared to the old accounting system.

- **More Accurate Cost and Assets Value and More Accurate Profits Measurement**

From Table (8.41), it is evident that auditors with different experience have a different view regarding the issue which claims that IAS helps produce more accurate cost and assets value (P-value = 0.046), and more accurate profits measurement (P-value = 0.012). However, it was not possible to classify auditors' experience according to their different view due to lack of the sample size (n<2).

4. Responses of Accountants/Auditors with Respect to their Nationality

When accountants auditors were asked to rate their benefits of applying IAS with respect to their nationality, we obtained the following Table (8.46).

Table (8.46)
Benefits of IAS with Accountants and Auditors of Different Nationality

Benefits of IAS	Accountants				Auditors			
	Mann Whitney Test	Wilcoxon Test	Normal Z	P- Value	Mann Whitney Test	Wilcoxon Test	Normal Z	P- Value
1. Effectiveness of Accounting System	2378.500	3008.500	-0.803	0.422	1126.500	1116.500	-1.830	0.067
2. Ease of Implementation	2320.000	2950.000	-1.026	0.305	1132.000	1122.000	-1.690	0.091
3. Flexibility of the System	2390.000	3020.000	-0.753	0.451	166.500	1156.500	-0.798	0.425
4. Understanding and Communication	2500.000	3130.000	-0.343	0.732	142.000	1132.000	-1.428	0.153
5. Better Foreign Trade and Business System	2524.000	1355.000	-0.245	0.807	186.000	231.000	-0.303	0.762
6. Less Time Compared with Old System	2503.500	3133.500	-0.325	0.745	174.500	1164.500	-0.591	0.555
7. More Accurate Cost and Assets Value	2132.000	2762.000	-1.723	0.085	131.500	1121.500	-1.671	0.095
8. More Accurate Profit Measurement	1949.00	2579.000	-2.418	0.016*	98.000	1088.000	-2.457	0.017*

* Test is significant at 5% level.

From Table (8.46) , the only significant benefit that indicated particular differences between Kuwaiti and non-Kuwaiti accountants is the capability of IAS to generate accurate profit measurements, (P-value = 0.016). Although both are positive, Kuwaiti accountants are less positive than non-Kuwaiti accountants (mean = 3.43).

None of the previous benefits indicated significant except that the IAS provides more accurate profit measurement, (P-value = 0.017), and non-Kuwaiti auditors believe more strongly about this issue than Kuwaiti auditors.

If their personal data is not a matter for concern, do accountants and auditors differ significantly in their attitudes towards the benefits of applying/using IAS? A non-parametric test confirmed that auditors think they gained more benefits, than do accountants, regarding all issues under investigation as shown in Table (8.47).

Table (8.47)
Accountants' and Auditors' Benefits of IAS

Benefits of IAS	Accountants	Mean Ranks	P-Value
	Auditors		
1. Effectiveness of Accounting System	Accountants	111.91	0.000*
	Auditors	181.28	
2. Ease of Implementation	Accountants	109.10	0.000*
	Auditors	191.83	
3. Flexibility of the System	Accountants	114.44	0.000*
	Auditors	171.77	
4. Understanding and Communication	Accountants	113.01	0.000*
	Auditors	177.15	
5. Better Foreign Trade and Business System	Accountants	113.89	0.000*
	Auditors	173.84	
6. Less Time Compared with Old System	Accountants	111.57	0.000*
	Auditors	182.57	
7. More Accurate Cost and Assets Value	Accountants	112.42	0.000*
	Auditors	179.35	
8. More Accurate Profit Measurement	Accountants	120.78	0.005*
	Auditors	147.97	

* Test is significant at 5% level.

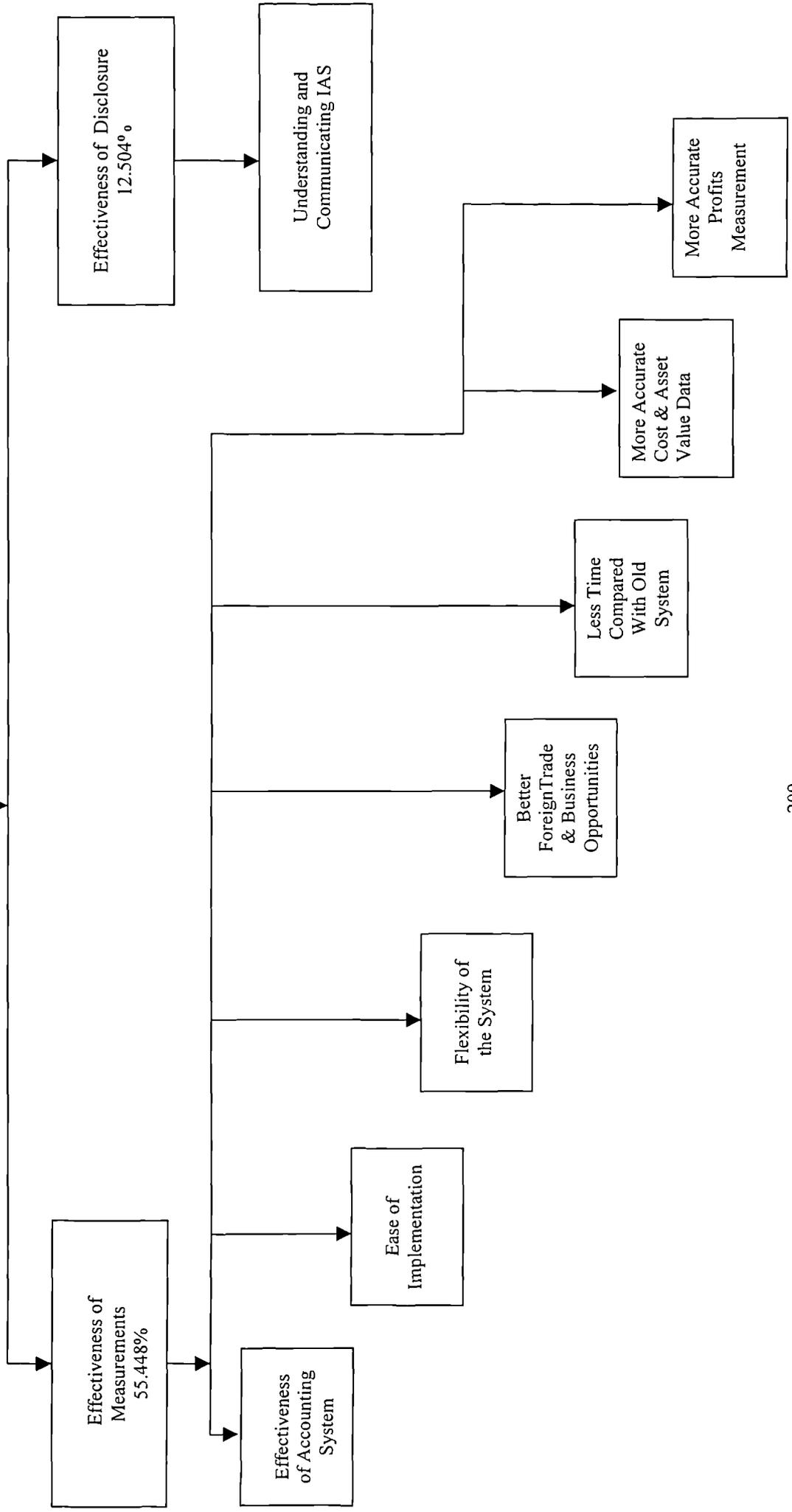
8.6.2. Accountants' Main Benefits of IAS

The factor analysis technique was able to reduce the eight different benefits into two major factors that explain 67.94% of the total variation encountered. The first factor: effectiveness of measurements, explains 55.448% of the total variation; the second factor, effectiveness of disclosure, explains 12.504% of the total variations. Further details are presented in Table (8.48) and Exhibit (8.5).

Table (8.48)
Accountants' Main Factors of Benefits of IAS

Main Factors	Factors Loading		% Explained
<u>F1: Effectiveness of Measurements :</u>			55.448%
- Effectiveness of accounting system	0.757		
- Ease of Implementation	0.830		
- Flexibility of the system	0.826		
- Better foreign trade & business Opportunities	0.732		
- Less time compared with old system	0.792		
- More accurate cost Assets value data	0.820		
- More accurate profit measurements	0.789		
<u>F2: Effectiveness of Disclosure:</u>			12.504%
- Understanding and Communicating IAS		0.962	

Exhibit (8.5)
Accountants' Main Factors of Benefits of IAS



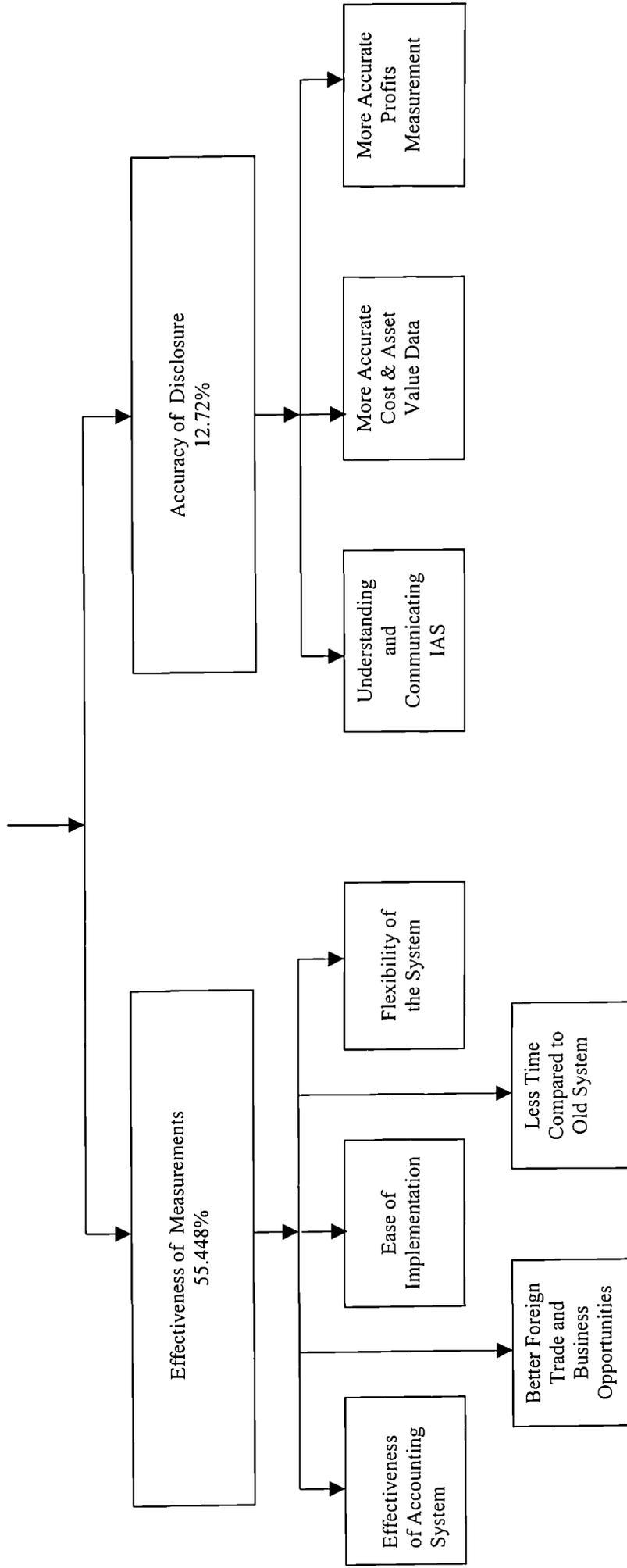
8.6.3. Auditors' Main Benefits of IAS

In using the factor analysis technique, we were able to reduce the eight benefits considered above into two major factors, which explains 79.97% of the total variation encountered. The first factor is the effectiveness of measurement, which explains 67.26% of the total variation; the second factor is effectiveness of disclosure, which explains 12.72% of the total variation. More details are presented in the following Table (8.49) and Exhibit (8.6).

Table (8.49)
Auditors' Main Factors of Benefits of IAS

Main Factors	Factor Loading		% Explained
<u>F1. Effectiveness of Measurement:</u>			67.26
- Effectiveness of accounting system	0.713		
- Ease of implementation	0.757		
- Flexibility of the system	0.718		
- Better foreign trade and business opportunities	0.939		
- Less time compared with old system	0.809		
<u>F2. Accuracy of Disclosure:</u>			% 12.72
- Understanding and communicating IAS		0.685	
- More accurate cost and assets value data		0.636	
- More accurate profit measurements		0.936	

Exhibit (8.6)
Auditors' Main Factors of Benefits of IAS



8.6.4. Summary

The main purpose of Section (8.6) is to answer the following important question: “To what extent have accountants/auditors benefited from these newly developed standards”?

Several benefits were presented to both accountants and auditors to rate their attitude towards each, including: effectiveness of accounting; ease of implementation; flexibility of IAS; understanding and communicating accounting information/data using IAS; the indirect role of IAS in improving foreign trade and business opportunities; time spent when compared with local standards; more accurate profit measurements.

When these were tested against accountants’ characteristics we found that those from different age groups rated differently the benefits: ease of implementation; flexibility of the system; understanding and communicating IAS; and better foreign trade and business opportunities; differed. However, all the significant benefits stated above demonstrated the same distribution with respect to accountants’ age groups; but older accountants rated the above benefits higher than younger ones, which implies that older accountants are more aware of the outcomes of applying these standards than younger ones. Furthermore, in rating the same set of benefits with respect to accountants’ education only effectiveness of accounting system; more accurate cost and assets value; and more accurate profit measurements; proved to be significant.

Almost all ratings of the significant benefits displayed similar characteristics. It is obvious that accountants with Higher Diploma in Accounting rated these benefits lower than those with M.S., B.S., or Qualified Certificate in Accounting, thus accountants with professional certificates are more aware and appreciative of benefits when their experience is tested against: understanding and communicating IAS; better foreign trade and business opportunities; more accurate cost and assets value; and more accurate profit measurements revealed significant.

Although detailed analysis was not possible, due to the shortage of sample size per group, sample statistics presented in Chapter 6 in Exhibit (6.3), page (101), illustrated the fact that experienced accountants appreciated these benefits more than younger accountants. When nationality was taken into consideration, Kuwaiti accountants were less positive than non-Kuwaiti accountants.

When auditors were faced with the same set of benefits their overall attitude was as positive as accountants; and when tested against auditors personal profiles their rate distributions were more positive than those of accountants.

Auditors from different age groups rated significantly: effectiveness of accounting system; flexibility of the system; better foreign trade and business opportunities; and time saving compared to system based on local accounting standards.

Older auditors were more positive towards the above significant benefits than younger auditors. When auditors' education was considered, the only significant benefits were: effectiveness of the accounting system; better foreign trade and business opportunities; and time saving compared to a system based on local accounting standards. It seems reasonable to conclude that auditors with professional education were more positive towards these benefits than those with formal education.

As far as auditors' experience is concerned, the following is significant: effectiveness of accounting system; flexibility of the system; better foreign trade and business opportunities; time saving; accurate cost and assets value; and more accurate profit measurements. More experienced auditors were better pleased with almost all of these benefits than less experienced ones.

When the above benefits were tested against auditors' nationality, more accurate profit measurements was the only significant benefit. Non-Kuwaiti auditors believed more strongly, than Kuwaiti auditors regarding this issue.

It was of interest to reduce the benefits that both accountants/auditors gained by applying/auditing accounts to less and rather more obvious benefits. The factor analysis technique was employed to carry out this objective.

The main benefits accountants may gain by applying IAS could be summarized into two main factors.

The first factor presents the effectiveness of measurements and although IAS entailed some difficulties in implementation, it offers reasonable standards to increase the effectiveness of measurements.

The second factor deals with the effectiveness of disclosure under IAS practice as a result of better understanding and communicating information/data using IAS.

The auditors' main benefits of applying IAS can also be categorised into two main factors: effectiveness of measurements; and the accuracy of profit measurements.

8.7. CHANGES IN THE QUALITY OF ACCOUNTING

8.7.1. Accountants'/Auditors' Views Regarding Changing the Quality of Accounting

In this section, we investigate the benefits of applying IAS in changing the quality of accounting and include the issues: relevancy of accounting data; reliability of accounting data; format of annual report; timeliness of accounting data; timeliness of annual reports; truthfulness of accounting data; and comparability across the sectors in Kuwait and with similar companies outside Kuwait.

We pointed out in Chapter 7 that accountants and auditors gave positive responses to the above. In this section, it is intended to study whether demographical variables have any effect on the above issues. The following subsection exhibits the result of the non-parametric test to study the effect of age, education, experience and nationality on the above issues from accountants'/auditors' points of view.

More formally we intend to justify the following set of hypotheses:

H_0 : No significant difference between accountants'/auditors' demographic levels and their rating of issues of quality of accounting.

Against

H_1 : At least one level revealed significant.

1. Responses of Accountants/Auditors with Respect to their Age Groups

The Kruskal-Wallis test provided the following Table (8.50) to study whether the age of accountants/auditors affects their attitudes towards the issues of changing the quality of data supplied to users.

Accountants/auditors from different age groups were asked to rate their opinions regarding these issues. The following Table (8.50) presents the result of a non-parametric test.

Table (8.50)

The Issues of Changing Quality of Data with Different Accountants and Auditors Age Groups

Issues of Changing Quality of Data	Age Groups			
	Accountants		Auditors	
	Chi-Square Test	P-Value	Chi-Square Test	P-Value
1. Relevance of Accounting Data	8.044	0.090	1.925	0.750
2. Reliability of Accounting Data	6.430	0.169	2.766	0.598
3. Format of Annual Report	1.794	0.774	2.176	0.703
4. Timeliness of Accounting Data	5.064	0.281	3.771	0.438
5. Timeliness of Annual Report	3.724	0.445	3.419	0.490
6. Truthfulness & Fairness of Accounting Data	2.046	0.727	0.862	0.930
7. Comparing Across the Sector <u>in</u> Kuwait	4.167	0.384	2.248	0.690
8. Comparability with Similar Companies <u>outside</u> Kuwait	3.294	0.510	1.848	0.764

As shown in Table (8.50) none of the issues of changing quality of accounting data by applying IAS showed significant difference between age levels, which means, that accountants/auditors of all age groups agreed on these issues.

2. Responses of Accountants/Auditors with Respect to their Education

When we address the effect of education on accountants' auditors' attitudes regarding the issues of changing quality of accounting data, Table (8.51), presents the results of the Kruskal-Wallis test.

Table (8.51)
The Issues of Changing Quality of Date with Different Educational Levels of
Accountants and Auditors

Issues of Changing Quality of Data	Education			
	Accountants		Auditors	
	Chi-Square Test	P-Value	Chi-Square Test	P-Value
1. Relevance of Accounting Data	14.494	0.002*	1.379	0.706
2. Reliability of Accounting Data	9.744	0.021*	5.258	0.154
3. Format of Annual Report	3.998	0.262	2.756	0.431
4. Timeliness of Accounting Data	4.387	0.223	3.603	0.308
5. Timeliness of Annual Report	3.494	0.321	2.692	0.442
6. Truthfulness & Fairness of Accounting Data	14.414	0.002*	4.632	0.201
7. Comparing Across the Sector <u>in</u> Kuwait	9.149	0.027*	3.562	0.313
8. Comparability with Similar Companies <u>outside</u> Kuwait	8.228	0.042*	3.068	0.381

*Test is significant at 5% level.

From Table (8.51), we found that none of the above issues showed significant regarding different educational backgrounds of auditors. However, we see that several issues indicated significant with accountants of different educational backgrounds, including: relevance of accounting data; reliability of accounting data; truthfulness and fairness of accounting data; comparing across the sectors in Kuwait; and comparing similar companies outside Kuwait.

- **Relevance of Accounting Data, Reliability of Accounting Data, Comparability Across the Sectors in Kuwait, and Comparability with Similar Groups outside Kuwait**

Accountants with different education backgrounds showed significant differences in their opinions regarding relevance of accounting data (P-value = 0.002), reliability of accounting data (P-value = 0.021), comparability across the sectors in Kuwait (P-value = 0.027), and comparability with similar companies outside Kuwait (P-value = 0.042). However, further analysis grouped the accountants into two categories, (Higher Diploma and M.S. in Accounting and B.S. and Qualified Certificate in Accounting) as shown in Table (8.52).

Table (8.52)

Rating Relevance of Accounting Data, Reliability of Accounting Date, Comparability Across the Sectors in Kuwait, and Comparability with Similar Companies outside Kuwait with Accountants' of Different Educational Levels

Accountants' Education Levels	(1) Relevancy of Accounting Data		(2) Reliability of Accounting Data		(3) Comparability Across the Sectors in Kuwait		(4) Comparability with Similar Companies outside Kuwait	
	Good	Very Good	Good	Very Good	Good	Very Good	Good	Very Good
- Higher Diploma in Accounting	3.63		3.60		3.20		3.20	
- M.S. in Accounting	3.63		3.75		3.13		3.13	
- B.S. in Accounting		3.93		4.13		3.77		3.74
- Qualified Certificate in Accounting		4.14		4.44		4.00		3.95

The test allowed the researcher to classify accountants' attitudes regarding relevance of accounting data generated by IAS into two groups. The first group of accountants with Higher Diploma in Accounting or M.S. in Accounting, believe that IAS is a good system for improving the quality of the data. The second group of accountants with B. S. or Qualified Certificate in Accounting think that IAS is very good system.

It is also obvious that accountants with Higher Diploma in Accounting and M. S. holders believe that IAS is a good system in generating reliable accounting data, while, accountants with B.S. in Accounting or Qualified Certificate consider it a very good system.

Accountants who hold M. S. in Accounting or Higher Diploma in Accounting consider IAS a good system when comparing sectors in Kuwait with similar companies outside Kuwait; while, accountants who have B. S. in Accounting, or who hold a qualified Certificate in Accounting, believe that it is a very good system.

- **Truthfulness and Fairness of Accounting Data**

Accountants with different educational backgrounds showed significant differences regarding the issue of fairness of accounting data (P-value = 0.002). As shown in Table (8.53), we were able to classify accountants into two groups.

Table (8.53)

**Rating Truthfulness and Fairness of Accounting Data with
Accountants of Different Educational Levels**

Accountants Educational Levels	Truthfulness & Fairness of Accounting Data	
	Good	Very Good
- Higher Diploma in Accounting	3.48	
- M.S. in Accounting	3.75	
- Qualified Certificate in Accounting	4.10	
- B.S. in Accounting		4.17

Accountants whose educational backgrounds are either Higher Diploma in Accounting, M. S. in Accounting or Qualified Certificate in Accounting think that IAS is good in generating truthful and fair accounting data, while accountants who hold B. S. in Accounting believe it is very good.

3. Responses of Accountants/Auditors with Respect to their Experience

When the issues of changing quality of accounting data were tested against accountants'/auditors' experience we obtained the following summary statistics presented in Table (8.54).

Table (8.54)
Rating Issues of Changing Quality of Data with Accountants and Auditors
of Different Experience

Issues of Changing Quality of Data	Experience			
	Accountants		Auditors	
	Chi-Square Test	P-Value	Chi-Square Test	P-Value
1. Relevance of Accounting Data	23.356	0.000*	1.233	0.873
2. Reliability of Accounting Data	20.182	0.000*	6.826	0.145
3. Format of Annual Report	9.478	0.050	1.062	0.900
4. Timeliness of Accounting Data	12.903	0.012*	3.089	0.543
5. Timeliness of Annual Report	7.923	0.094	5.421	0.247
6. Truthfulness & Fairness of Accounting Data	11.198	0.024*	1.198	0.878
7. Comparing Across the Sector in Kuwait	22.287	0.000*	5.160	0.271
8. Comparability with Similar Companies outside Kuwait	20.419	0.000*	3.822	0.431

*Test is significant at 5% level.

As shown in Table (8.54), when the issues were tested against auditors' experience, none was found to be significant.

Also, the same table shows that, the issues which indicated significant differences with accountants' experience are: relevancy of accounting data; reliability of accounting data; timeliness of accounting data; truthfulness of accounting data; comparability with similar companies outside Kuwait.

- **Relevancy of Accounting Data, Reliability of Accounting Data, Timeliness of Accounting Data, Comparing Across the Sectors in Kuwait, and Comparability with Similar Companies outside Kuwait**

Further analysis of the significant differences are shown in Table (8.55).

Table (8.55)
Rating Relevance of Accounting Data, Reliability of Accounting Data, Timeliness of Accounting Data, Comparability Across the Sectors in Kuwait, Comparability with Similar Companies Outside Kuwait with Accountants of Different Experience

Accountants' Experience	(1) Relevance of Accounting Data		(2) Reliability of Accounting Data		(3) Timeliness of Accounting Data		(3) Comparability Across the Sectors in Kuwait		(5) Comparability with Similar Companies Outside Kuwait	
	To A Good Deal	To a Great Deal	To A Good Deal	To a Great Deal	To A Good Deal	To a Great Deal	To A Good Deal	To a Great Deal	To A Good Deal	To a Great Deal
- 1 year and less than 5 years	3.29		3.52		3.58		2.81		2.84	
- 10 years and less than 15 years	3.86		4.07		3.98		3.75		3.70	
- 5 years and less than 10 years	4.00		4.03		4.20		3.90		3.88	
- More than 15 years	4.03		4.24		4.12		3.89		3.85	
- Less than 1 year		5.00		5.00		4.50		5.00		5.00

Accountants with more than one-year's experience believe that IAS are able to generate relevant accounting information, reliability of accounting information, and timeliness of accounting data to a good deal, whereas, accountants with experience less than one-year think that is a great system in this respect.

As indicated in Table (8.55), accountants with less than one year's experience think that IAS is a great system in comparability across the sectors of Kuwait, and to integrating data which is internationally comparable; while accountants with more than one year's experience think that it is a reasonable-good system.

- **Truthfulness and Fairness of Accounting Data**

Although accountants with different experience have differing attitudes regarding the truthfulness of IAS based accounting data, (P-value = 0.024), the test could not classify accountants into distinct groups.

4. Responses of Accountants/Auditors with Respect to their Nationality

Statistical tests to investigate the effect of nationality of accountants/auditors (Kuwaiti – non-Kuwaiti) on the issue of quality of information were performed. The summary of the results is given in Table (8.56).

Table (8.56)

The Issues of Changing Quality of Data with Accountants and Auditors of Different Nationality

Issues of Changing Quality of Data	NATIONALITY							
	Accountants				Auditors			
	Mann Whitney Test	Wilcoxon Test	Normal Z	P-Value	Mann Whitney Test	Wilcoxon Test	Normal Z	P-Value
1. Relevance of Accounting Data	3029.000	17057.000	-0.198	0.843	212.500	1437.500	-1.143	0.253
2. Reliability of Accounting Data	2965.500	16993.500	-0.405	0.685	214.000	1439.500	-1.111	0.267
3. Format of Annual Report	2919.000	3622.000	-0.556	0.578	188.000	1413.00	-1.643	0.100
4. Timeliness of Accounting Data	2711.000	16739.000	-1.236	0.216	204.500	1429.500	-1.318	0.188
5. Timeliness of Annual Report	2754.500	16782.500	-1.091	0.275	163.500	1388.500	-2.155	0.031*
6. Truthfulness & Fairness of Accounting Data	2884.000	16912.000	-0.671	0.502	210.500	1435.500	-1.193	0.233
7. Comparability Across the sector <u>in</u> Kuwait	2800.500	16828.500	-0.925	0.355	231.000	1456.000	-0.779	0.436
8. Comparability with the Similar Companies <u>Outside</u> Kuwait	2847.500	16875.500	-0.774	0.439	212.000	1437.500	-1.166	0.244

* Test is significant at 5% level.

It is obvious from the above table that none of the issues revealed significant with the nationality of the accountants, except for timeliness of annual reports which showed that non-Kuwaiti auditors believe more strongly than Kuwaiti auditors that IAS is not time-consuming in preparing annual reports.

Table (8.57)

The Issues of Changing Quality of Data for both Accountants and Auditors

Issues of Changing Quality of Data	Accountants	Mean Rank	P-Value
	Auditors		
1. Relevance of Accounting Data	Accountants	123.42	0.000*
	Auditors	165.73	
2. Reliability of Accounting Data	Accountants	123.28	0.000*
	Auditors	166.22	
3. Format of Annual Report	Accountants	122.02	0.000*
	Auditors	170.52	
4. Timeliness of Accounting Data	Accountants	124.78	0.000*
	Auditors	161.10	
5. Timeliness of Annual Report	Accountants	124.75	0.000*
	Auditors	161.20	
6. Truthfulness and Fairness of Accounting Data	Accountants	122.39	0.000*
	Auditors	169.26	
7. Comparing Across the Sector in Kuwait	Accountants	124.99	0.000*
	Auditors	160.38	
8. Comparability with Similar Companies outside Kuwait	Accountants	124.10	0.000*
	Auditors	163.39	

* Test is significant at 5% level.

As in previous sections, we ask the question: regardless of their personal characteristics, “do accountants and auditors attitude differ in rating the change in the quality of accounting data supplied to external users, e.g. investors, lenders, following the implementation of IAS?” As presented in Table (8.57) the statistical non-parametric Mann Whitney test shows significant differences exist between accountants and auditors regarding all issues. Although both have positive attitudes towards the quality of accounting data provided to external users, auditors tend to be more positive regarding all stated issues.

8.7.2. Summary

To question the impact of adopting IAS in Kuwait, on changing the quality of accounting, several issues were investigated from both accountants and auditors viewpoints. These issues include: relevancy of accounting data; reliability of accounting data; format of annual report; timelessness of annual reports; truthfulness of accounting data; and comparability across the sectors in and outside Kuwait. When the above issues were crossed with accountants demographic variables, accountants’ different education showed significant differences in rating the issues of relevance of accounting data, reliability of accounting data, comparability across sectors in and outside Kuwait.

It is fairly safe to say that almost all rating distributions provided similar patterns. Professionally certified accountants have a better attitude towards the above issues than non-qualified accountants. When accountants' experience was considered, all issues were significant, except for the format of annual reports and timeliness of annual reports; and all levels of experience were in perfect agreement about the significant issues, where their ratings ranged from reasonable to a good deal.

Surprisingly, accountants with less than one year's experience rated the above issues even higher than those with more experience. However, this could be due to the lack of awareness of them.

When the same issues of the impact of IAS on changing the quality of accounting were presented to auditors, no significant difference between different characteristics level was identified, except for the issue of the timeliness of annual reports when auditors' nationality was considered. Non-Kuwaiti auditors believe more than Kuwaiti auditors that IAS can reduce time, in auditing annual reports produced according to its requirements.

8.8. SUITABILITY OF IAS TO KUWAITI ENVIRONMENT

8.8.1. Accountants'/Auditor' Views Regarding Suitability of IAS to the Kuwaiti Environment

The questionnaires included a general question about the suitability of IAS to the Kuwaiti business environment. We have seen from the summary given in Table (7.20) that 3.9% of accountants answered "little", 27.3% said to a "reasonable deal", 43.9% said to a "good deal", and 24.9% of accountants said to a "great deal". When we further investigated these answers against demographical variables we found the following.

With regard to the suitability of IAS to the Kuwaiti business environment from auditors' perspective, in Chapter 7, we saw that 5% believe that IAS is not suitable to the Kuwaiti environment, 1.6% think that it is suitable to a little extent, 26.7% replied that IAS is reasonable, 31.7% responded very positive in favour, and 35% of auditors said that IAS will help the Kuwait business environment a great deal.

Moreover, when accountants'/auditors' opinions were tested against demographical variables, age, education, experience and nationality, some were declared significant, as we discuss in the next section.

1. Responses of Accountants/Auditors with Respect to their Age Groups

Different aged accountants differed in their responses to the question, (P-value = 0.033). Further investigation indicated that accountants who are less than 35 years of age believe

that IAS is good for the Kuwaiti environment; while those older than 35 years think that IAS suits Kuwaiti business a great deal as shown in Table (8.58).

Table (8.58)
Rating the Suitability of IAS to the Kuwaiti Environment with
Accountants of Different Age Groups

Accountants' Age Group	IAS is Good for Kuwaiti Business	
	Good Deal	Great Deal
- Less than 25 years	3.17	
- 25 years and less than 35 years	3.72	
- 35 years and less than 45 years		3.96
- 45 years and less than 50 years		4.08
- More than 50 years		4.30

To test whether auditors from different age groups think the same about the suitability of IAS to the Kuwaiti environment, a non-parametric Kruskal-Wallis test showed that (P -value = 0.031), proving that there is a significant difference between auditors' opinions. In addition, a multiple comparison test was able to classify auditors' opinions into two main age groups, as shown in Table (8.59).

Table (8.59)
Rating the Suitability of IAS to the Kuwaiti Environment with Auditors of Different Age
Groups

Auditors' Age Groups	IAS is good for Kuwaiti Business	
	Good Deal	Great Deal
- 25 years and less than 35 years	3.46	
- Less than 25 years		4.00
- 35 years and less than 45 years		4.07
- 45 years and less than 50 years		4.38
- More than 50 years		5.00

Auditors whose age is between 25 years and less than 35 years believe that IAS is suitable for the Kuwaiti business environment to a good degree, while other age groups think it suits the Kuwaiti business environment a great deal.

2. Responses of Accountants/Auditors with Respect to their Education

Accountants with different educational backgrounds differed in their views regarding the suitability of IAS to the Kuwaiti business environment, (P-value = 0.002). Further analysis is presented in Table (8.60).

Table (8.60)
Rating the Suitability of IAS to the Kuwaiti Environment with
Accountants of Different Educational Levels

Accountants' Educational Levels	IAS is Good for Kuwaiti Business	
	Good Deal	Great Deal
- Higher Diploma in Accounting	3.40	
- M.S. in Accounting	3.63	
- B.S. in Accounting		3.94
- Qualified Certificate in Accounting		4.29

It is obvious that accountants with Higher Diploma in Accounting or M.S. believe that IAS is good for the Kuwaiti environment to a good degree; while accountants with B. S. in Accounting or Qualified Certificate in Accounting believe that IAS is good for Kuwaiti business to a great deal.

Auditors with different educational backgrounds were indifferent with respect to the suitability of IAS to the Kuwaiti environment, (P-value = 0.000). However, the multiple comparison test was unable to classify auditors' opinions with respect to their educational background due to shortage of sample size for some groups (< 2).

3. Responses of Accountants/Auditors with Respect to their Experience

Accountants with different experience backgrounds indicated significant differences of opinion about the suitability of IAS to the Kuwaiti business environment, (P-value = 0.000). The multiple comparison analysis could classify accountants opinions into two groups according to Table (8.61).

Table (8.61)
Rating the Suitability of IAS to the Kuwaiti Environment with
Accountants of Different Experience

Accountants' Experience	IAS is Good for Kuwait Business	
	Good Deal	Great Deal
- Less than 1 year	3.26	
- 1 year and less than 5 years	3.50	
- 5 years and less than 10 years	3.98	
- 10 years and less than 15 years		4.02
- More than 15 years		4.03

As seen from the above table accountants with less than 10 year's experience think that IAS is good for the Kuwaiti environment to good degree; while those with more than 10 years experience believe that IAS is good for the Kuwaiti environment to a great deal.

We also investigated whether auditors with different years of experience had differing opinions with regard to the suitability of IAS to the Kuwaiti environment. The test result illustrated that there is a significant difference between auditors' opinions, when their experience is considered (P-value = 0.000). Consequently, a multiple comparison test was able to classify auditors into two main groups as shown in the following Table (8.62).

Table (8.62)

Rating the Suitability of IAS to the Kuwaiti Environment with Auditors Different Experience

Auditors' Experience	IAS is good for Kuwaiti Business	
	Little	Great deal
- 1 year and less than 5 years	2.60	
- 5 years and less than 10 years		3.83
- Less than one year		4.00
- More than 15 years		4.24
- 10 years and less than 15 years		4.54

As can be seen from the above table, auditors whose experience is between one year and less than 5 years have some concern regarding the IAS suitability to the Kuwaiti business environment, while those more experienced believe that IAS is very suitable for it.

4. Responses of Accountants/Auditors with Respect to their Nationality

The test also proved that there is no significant difference between Kuwaiti and non-Kuwaiti accountants regarding their opinions on how good IAS is for the Kuwaiti business environment, (P-value = 0.518).

Both Kuwaiti and non-Kuwaiti auditors believe that IAS is a good system to be adopted in Kuwait.

As a general pattern, regardless of their demographic variables, accountants and auditors provided a high rating as to the suitability of IAS to the Kuwaiti environment. Therefore, the difference between their attitudes is insignificant (P-value = 0.077).

The following Table (8.63) provides a pattern for accountants' perception of IAS when they first apply it and their current perception.

Table (8.63)
Percentages of Accountants' First and Current Perceptions to IAS

Levels of Perception	First Perception	Current Perception
- Very Low	8.8%	0.7%
- Low	23.4%	0.7%
- Moderate	48.9%	19.7%
- High	19.0%	51.1%
- Very High	0%	27.7%

As the above indicates there is considerable willingness from the accountants' side to comply with IAS.

We may also look to the frequency of applying all 33 standards by accountants in preparing annual accounts by indicating to their compliance with the standards. The following Table (8.64) presents the distribution of the use of the 33 standards by accountants in preparing the annual accounts.

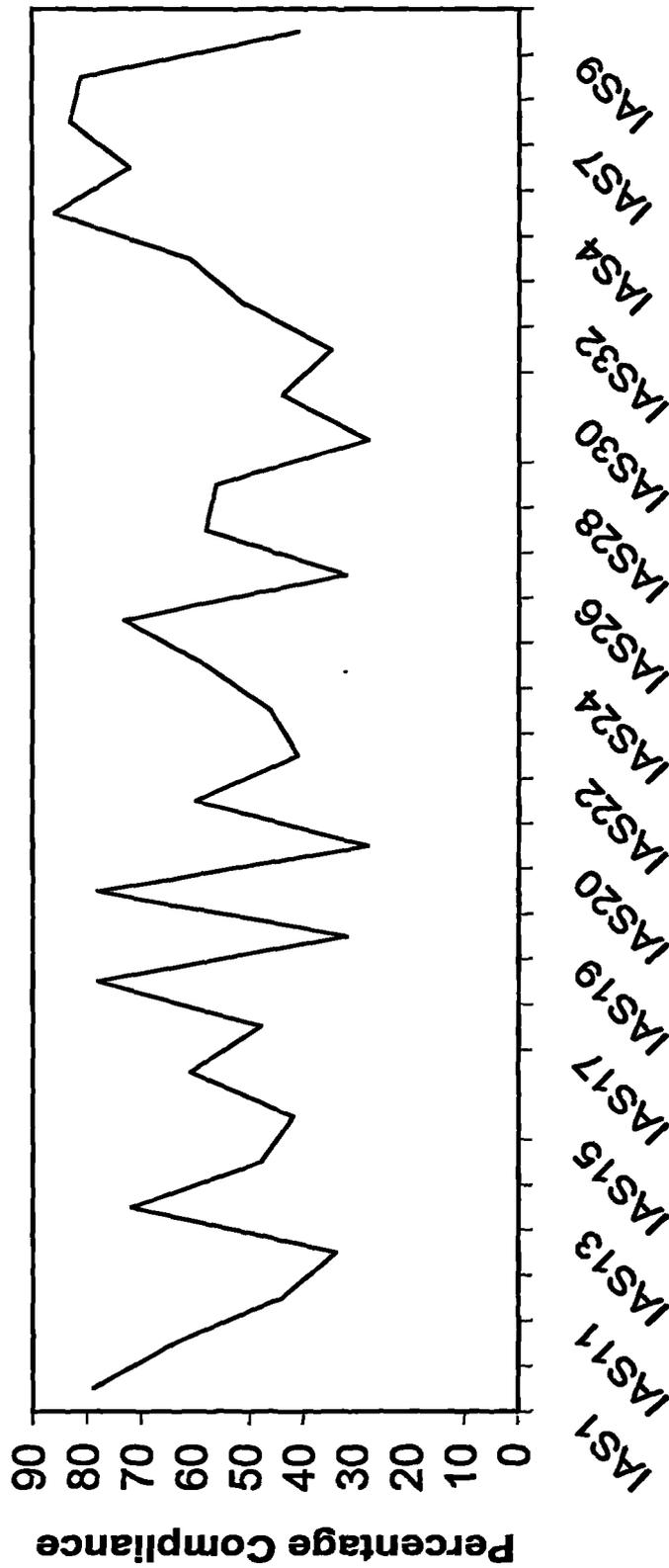
Table (8.64)
The Distribution of the Use of IAS 1-33 Standards by Accountants in Preparing Annual Accounts

% Compliance	Number of Standards Used	% of Standards Used	% Less than Compliance	Cumulative of Standards
28% - 35%	6	18.1%	Less than 28%	0%
35% - 42%	3	9.1%	Less than 35%	18.1%
42% - 49%	5	15.2%	Less than 42%	27.2%
49% - 56%	2	6.1%	Less than 49%	42.4%
56% - 63%	5	15.2%	Less than 56%	48.5%
63% - 70%	2	6.1%	Less than 63%	63.7%
70% - 77%	3	9.1%	Less than 70%	69.8%
77% - 84%	6	18.1%	Less than 77%	78.9%
84% - 91%	1	3%	Less than 84%	97.0%

The average of compliance with the standards is 56.376%. The following Exhibit (8.7), shows the percentage of compliance of accountants with each standard.

Exhibit (8.7)
Accountants' Compliance with IAS

Accountants Compliance with IAS



INTERNATIONAL ACCOUNTING STANDARDS

The above discussion illustrates that accountants in Kuwait have the desire and the willingness and more determination to comply with IAS by more practice, more reading, and by improving their perception. This supports the fifth hypothesis asserts that the majority of professional accountants in Kuwait comply with IAS in order to achieve harmony in the use of accounting standards and practices employed in preparing annual accounts, as stated in Chapter 6.

It is known that measuring harmonisation is not an easy task. So far, trials have been made to come up with a robust measure of harmonisation. However, this issue is not yet settled. (Van der Tas (1988), Van der Tas (1992), Walton (1992), Rahman et al (1996), Parker (1996), and Nobes and Parker (2000)).

8.8.2. Summary

The questionnaires for both accountants and auditors included a general question to rate their attitude regarding the suitability of IAS to the Kuwaiti environment.

Older accountants were more in favour of IAS than younger ones. Accountants with a professional degree were more strongly positive than those formally educated. Also, more experienced accountants were very supportive of the adoption of IAS in Kuwait, than those less experienced.

However, no significant difference between Kuwaitis and non-Kuwaiti accountants was noticed regarding this issue.

Auditors' attitudes regarding the suitability of IAS to the Kuwaiti environment, were mainly the same as accountants.

8.9. CONCLUSION

In this chapter we have investigated professionals' (accountants and auditors) attitudes towards implementation of IAS in the preparation and auditing of the accounts of companies which are listed on the Kuwait Stock Exchange.

A survey study was conducted, through questionnaires, of random samples of these professionals. Due to the similarity of the nature of their missions, the same questionnaire was used for both accountants and auditors. For external users we constructed a different questionnaire.

For both accountants and auditors we considered three main dimensions in our attempt to answer the research questions, which were:

1. Familiarity and knowledge of professionals with IAS

- (i) The results indicate that familiarity and knowledge of IAS, for both accountants and auditors is “experienced-based” knowledge rather than “educational”. This is supported by the fact that courses on IAS are not yet offered at either graduate or undergraduate levels in many academic institutions. It seems that the only available sources of knowledge of IAS are either training courses, practising, or reading publications.
- (ii) With regard to the issue of how accountants and auditors acquire their knowledge of IAS, both indicated that the first source of knowledge is by reading publications; while for accountants the second source of knowledge is from practice; for auditors the second source of knowledge is from attending training courses. For both accountants and auditors learning from others is the last source of knowledge of IAS.
- (iii) It is evident from the analysis that sources of acquiring knowledge (for both accountants and auditors) cannot be classified according to age. When different sources of knowledge were tested against the educational background, we found that accountants with B.S. degrees depended on seeking their knowledge from those more experienced than other qualified accountants.
- (iv) To sum up, auditors have more desire to learn from others, than accountants. Moreover, auditors are more committed to attending training courses than accountants. However, with regard to direct practising, both accountants and auditors have almost the same attitudes.
- (v) Auditors are much more determined than accountants to update their knowledge of IAS. Furthermore, data shows that auditors started to learn about IAS as early as 1966, while accountants did not start until 1977; although the percentage of accountants who attend training courses has increased over the years.

2. Implementation of IAS in Kuwait and Consequent Difficulties

This dimension includes: experience in applying IAS in preparing annual reports; first perception of IAS; current perception of IAS; and difficulties in measurement and disclosure.

- (i) We found that younger accountants have less experience, than older ones. However, auditors' age has no impact on their level of experience in applying IAS in auditing annual reports. We also found that accountants with different experience level reacted significantly in rating their experience. Results also showed that more qualified auditors responded very positively to their level of experience of IAS, while B.S. holders responded moderately to their level of experience of IAS, whereas auditors who have only Higher Diploma in Accounting had poor experience before they joined their present jobs.
- (ii) When auditors were asked about their present perception of IAS with respect to their age, the result showed that those younger than 25 years are less perceptive of applying IAS than older auditors.
- (iii) Pertaining to educational backgrounds and IAS perception, less qualified accountants showed less perception than those more qualified, when applying it for the first time. Meanwhile, practising using IAS improved accountants' perception of the standards and over time narrowed the gap between those qualified and those less qualified.
- (iv) To sum up, we would say that positive perception to IAS increases with experience in practising accounting and auditing.
- (v) Regarding difficulties of implementing IAS, finding trained accountants is considered a severe problem especially with younger accountants.
- (vi) Both accountants and auditors were questioned about the same difficulties of measuring when their experience was considered. From accountants' standpoints, the only difficult ones were: shortage of knowledge of IAS; ambiguity in understanding IAS; and shortage of IAS trained staff. Moreover, less experienced accountants (less than five years) find the problem of shortage of IAS knowledge a more severe problem than older accountants. Accountants with less than ten years' experience consider the problem of ambiguity in understanding IAS a severe one.

To sum up the above findings concerning difficulties in implementing IAS, we utilised the factor analysis statistical technique to summarise the above difficulties of measurements into a less number of major factors for both accountants and auditors.

From accountants' standpoint they can be reduced into three main difficulties. The first factor, flexibility of IAS, which explains $\approx 31\%$ of encountered difficulties. The second factor, cost effectiveness of IAS in measurements, explains $\approx 26\%$ of the total variation.

The third factor, ambiguity of IAS, explains $\approx 15\%$ of the difficulties stated. However, there is still 28% unexplained.

Auditors' main difficulties of measurements were also reduced to three main factors: the first is lack of implementation, which explains $\approx 32\%$ of the total variations; the second is, the lack of knowledge, which explains $\approx 29\%$ of the total variations; the third is the lack of suitability, which explains $\approx 15\%$ of the total variation. With regard to the issue of disclosure, both accountants' and auditors' questionnaires stated several concerns, mainly: availability of information; quantity of information; quality of information; time of disclosure; sufficiency of information; truth in revealing information; consistency of information; free of information from bias; and efficiency of information.

The accountants' main difficulties were reduced to only one factor, reliability of information, which explains $\approx 63\%$ of the variation encountered in difficulties of disclosure. However, the remaining amount of unexplained variation counts for 37%.

Auditors' main difficulties could be reduced to two factors: the first, reliability of information, which explains $\approx 43\%$ of the encountered difficulties; the second is the adequacy of the information, which explains $\approx 24\%$ of the variation; with 33% unexplained variation.

3. Advantages of Applying IAS

To investigate the benefits of applying IAS in Kuwait, both accountants and auditors were surveyed through the use of questionnaires. The issues covered included: effectiveness of accounting system; ease of implementing IAS; flexibility of the system; understanding and communicating IAS; better foreign trade and business opportunities; less time consumption compared to the old system; more accurate cost and assets value data; more accurate profit measurements.

When auditors were given the same set of benefits for rating with respect to their age, they were certain about the effectiveness of IAS as an accounting system, providing better foreign trade and business opportunities, and less time consuming compared to the old system. Here auditors younger than 35 years of age rated the effectiveness of IAS from reasonable to high; with older auditors rating it very high. Concerning the flexibility of IAS, auditors less than 45 years of age believed that their companies have gained reasonable-high benefits from these advantages; whilst older auditors judged the benefit as very high.

Considering the issue that IAS provides better foreign trade and increased business opportunities, auditors who are less than 25 years of age rated the issue reasonably; while older ones gave a higher rating to it. Different age groups of auditors differed regarding the

time efficiency of IAS compared to the old system. Auditors who are younger than 25 years of age think that IAS saved reasonable time compared to the old system; while older ones believe it saved a great deal of time.

To summarise the main benefits resulting from applying IAS, from both accountants' and auditors' perspectives, we have used the factor analysis technique to sort them according to their relative importance. The technique was able to divide all benefits into two main factors: effectiveness of measurements; and effectiveness of disclosure.

4. Changing Quality of Accounting

We further investigated benefits of applying IAS by including several issues to address the topic of changing the quality of accounting. These were: relevancy of accounting data; reliability of accounting data; format of annual reports; timeliness of annual reports; truthfulness of accounting data; and comparability across the sectors in Kuwait and outside Kuwait.

- (i) Neither accountants nor auditors indicated significant differences for the above issues, when tested against their age groups. When education was considered accountants showed significant difference for the relevance of accounting data; the reliability of accounting data; truthfulness of accounting data; comparability between similar companies across Kuwait and outside Kuwait. Regarding the relevance of accounting data, accountants with Higher Diplomas or Masters in Accounting perceive it to be of benefit; while those with B.S. degrees or Qualified Certificates in Accounting perceive it to be of very good benefit.
- (ii) The previous pattern holds true for issues regarding the reliability of accounting data; and comparability with similar companies across Kuwait and outside Kuwait.

5. Suitability of IAS to the Kuwaiti Environment

When accountants and auditors were asked whether IAS was suitable to the Kuwaiti business, both rated its adoption, as an accounting system, positive.

To conclude, we can say that both professional accountants and auditors have shown strong determination and willingness to implement and use IAS in Kuwait. This leads the researcher to assert that accountants and auditors have positive attitudes towards the use of IAS as a vehicle for achieving harmony of accounting or reporting practice.

CHAPTER 9

Testing Research Hypothesis Regarding External Users



CHAPTER 9 : TESTING RESEARCH HYPOTHESES REGARDING EXTERNAL USERS

9.1. INTRODUCTION

This chapter focuses primarily on measuring and, hence, testing external users' attitudes towards IAS. By external users we mean users who are directly related to IAS through using information of accounts produced by applying International Accounting Standards (IAS).

Several dimensions were considered to carry out investigations. The first dimension measures the advantages to external users of using accounting information produced by using IAS. The second dimension explores the implications of applying IAS on the decision-making process associated with trading on the Stock Exchange, and consequent difficulties.

In Chapter 6 we explained the external users' sample which is distributed as follows: 45 financial analysts, 27 brokers, and 17 investment companies. Moreover, financial analysts were further broken down into 11 external and 34 internal. In Chapter 7, we found that 5% of external users rely on IAS information to a great extent, which is the mode of the distribution. In the following sub-sections we thoroughly investigate several research questions to help characterise the external users profile regarding the advantage of using accounts produced by using IAS.

9.2. MEASURING EXTERNAL USERS' ADVANTAGES OF USING ACCOUNTING INFORMATION PRODUCED USING IAS

To explore this issue, the questionnaire presents several questions to address this point. 100% of external users confirmed that the information resulting from applying IAS has helped their companies' analyses. However, external users, who responded positively, were asked to rate some specific benefits including the effectiveness of: assets measurements; cost management; profits measurements; format presentations; disclosure; improvement of quantity of accounting information; better performance evaluation; comparisons between companies; better foreign trade and business opportunities; the time compared with the time spent using accounting information produced under the old system; equal opportunity to all external users; flexibility of the system; availability of trained staff; and ease of communication.

Our next assertion concerns the hypothesis:

Do external users have different attitudes regarding the above benefits with respect to their age/job?

Specifically, we formulated the following hypothesis:

H_0 : No significant difference between external users' age groups/jobs (brokers, financial analysts, and investment companies) regarding the issue of IAS benefits.

Against

H_1 : At least one level is significantly different.

The Kruskal-Wallis non-parametric test was conducted, the results of which are shown in Table (9.1).

Table (9.1)

Benefits of IAS Regarding External Users' Different Age Groups and Type of Jobs

Benefits of IAS	External Users' Attitudes			
	Age		Job	
	Chi-Square Test	P-Value	Chi-Square Test	P-Value
1. Effectiveness of assets measurement	3.025	0.554	3.164	0.206
2. Effectiveness of costs measurement	5.831	0.212	1.38	0.502
3. Effectiveness of profits measurement	1.196	0.879	1.034	0.596
4. Effectiveness of borrowings measurement	1.97	0.741	0.6	0.741
5. Effectiveness of format presentations	2.659	0.616	2.273	0.321
6. Effectiveness of disclosure	1.446	0.836	2.441	0.295
7. Improvement of quality of accounting information	5.314	0.257	0.798	0.671
8. Better performance evaluation	3.406	0.492	2.073	0.355
9. Effectiveness of comparisons between companies	4.856	0.302	2.178	0.337
10. Better foreign trades and business opportunities	11.532	0.021*	1.685	0.431
11. Less time compared with the time spent using accounting information produced under old system	10.072	0.039*	1.316	0.518
12. Equal opportunity to all external users	3.786	0.436	1.78	0.411
13. Flexibility of the system	7.967	0.093	2.101	0.350
14. The availability in your firm of qualified and trained staff in applying IAS	4.416	0.353	2.403	0.301
15. Ease of the communication with accountants in using IAS	0.000	1.000	0.000	1.000

*Test is significant at 5% level.

From Table (9 .1), it is evident that none of the above benefits was declared significant for any type of user, suggesting that there is no significant difference of opinion between brokers, financial analysts, and investment companies regarding the benefits of using accounts produced by IAS.

It is also clear from Table (9.1) that the only significant benefits for age groups are better foreign trade and business opportunities, and less time spent than when using accounting information produced under the old local system.

Although external users, generally, positively agree that the quality of information enhances foreign trade and business opportunities, those from different age groups have different opinions regarding this issue (P-value = 0.021).

Again, external users in general think that IAS minimises time compared to the old system, but different age groups have shown different opinions regarding this issue, (P-value = 0.039).

Table (9.2) shows that, older external users believe that IAS will provide reasonable improvement of foreign trade and business opportunities, compared to the old system, but younger ones think more positively about the enhancement of foreign trade and business.

Table (9.2)
Rating External Users' Benefits and their Age Groups

External Users Age Groups	Benefits of IAS			
	(1) Better Foreign Trades and Business Opportunities		(2) Less Time Compared with the Time Spent Using Accounting Information Produced Under Old System	
	Reasonable	Good	Reasonable	Good
- More than 55 years	3.13		3.38	
- 25 years and less than 35 years		3.42		3.84
- Less than 25 years		4.00		4.40
- 35 years and less than 45 years		4.07		4.18
- 45 years and less than 55 years		4.24		4.45

Again older external users think that IAS is a reasonable system to save time compared to the old system, while younger external users believe that it is a good system for saving time. This could be due to the fact that: (1) Younger external users are more willing to learn about accounting information produced using IASs, and (2) they believe that the use of IAS results in informative and clearer financial statements.

9.2.1. External Users' Main Benefits of Using Accounting Information

The factor analysis reduction technique used to extract the main benefits of IAS from external users' viewpoints, was able to reduce the fifteen items into only three main factors which explain 71.218% of the total encountered variation. Table (9.3) gives detailed results regarding the factor analysis.

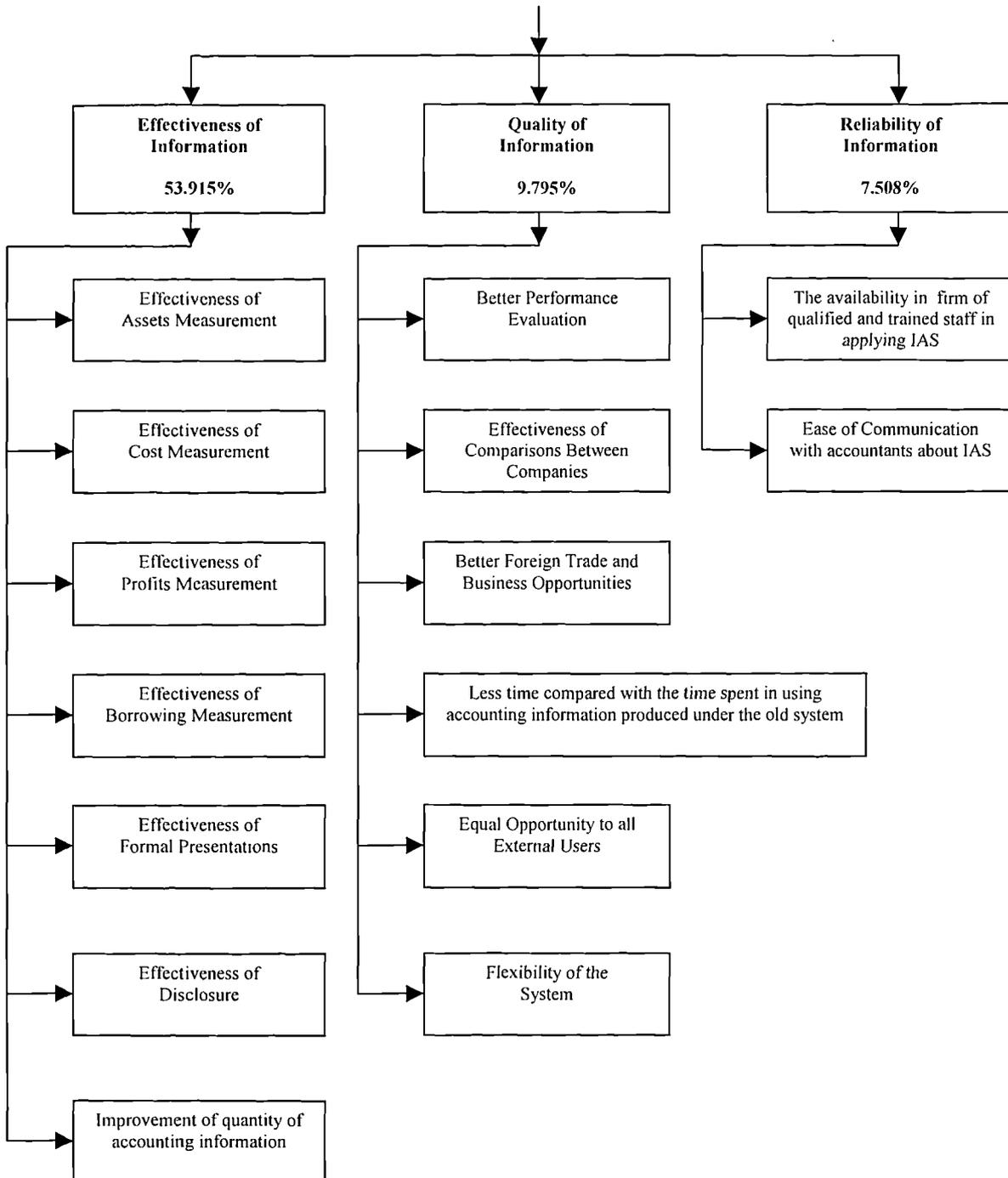
Table (9.3)
External Users' Main Factors of Benefits of Using Accounting Information

Main Factors	Factor Loading			% Explained
<u>F1. Effectiveness of Information:</u>				53.915%
- Effectiveness of Asset Measurement	0.768			
- Effectiveness of Cost Measurement	0.692			
- Effectiveness of Profits Measurement	0.785			
- Effectiveness of Borrowing Measurement	0.531			
- Effectiveness of Format Presentations	0.786			
- Effectiveness of Disclosure	0.816			
- Improvement of Quantity of Accounting Information	0.638			
<u>F2. Quality of Information:</u>				9.795%
- Better Performance Evaluation		0.619		
- Effectiveness of Comparisons Between Companies		0.594		
- Better Foreign Trades and Business Opportunities		0.878		
- Less Time Compared with the Time Spent Using Accounting Information Produced Under the Old System		0.810		
- Equal Opportunity to all External Users		0.597		
- Flexibility of the System		0.727		
<u>F3. Reliability of the Information:</u>				7.508%
- The Availability in Firm of Qualified & Trained Staff in Applying IAS			0.842	
- Ease of Communication with Accountants about IAS			0.845	

Exhibit (9.1)

External Users Main Factors of Benefits of Using Accounting Information

The Main Factors



With regard to the main benefits to external users of accounting information produced by using IAS standards, the factor analysis procedure summarises/explains 71.218% of total variation.

Three main factors of benefit to external users:

The first deals with effectiveness of IAS information in measuring assets, cost, profits and borrowing, which explains 53.915% of all benefits. Results of the effectiveness of presenting information and disclosure is an improvement in the quantity of accounting information.

The second factor relates to quality of information and explains 9.795% of all benefits which include better performance and better evaluation, effectiveness of comparisons between companies, better foreign trade and business opportunities, less time, equal opportunities to all external users and flexibility of the system.

The third factor deals with the reliability of information, which explains 7.508% of the total benefits, which includes availability of qualified staff and IAS trained professionals, and the ease of communicating IAS.

9.2.2. Brokers', Financial Analysts' and Investment Companies' Benefits of Using Accounting Information

Concerning the brokers', financial analysts', and investment companies' benefits in using accounting information, Table (9.4) shows that no age group declared any significant benefits. From Table (9.5), it is evident that none of the following benefits was declared significant for any type of external users.

Table (9.4)
Brokers', Financial Analysts', and Investment Companies'
Benefits of Using Accounting Information According to their Age Groups

Benefits of IAS	Brokers		Financial Analysts		Investment Companies	
	Chi-Square Test	P-Value	Chi-Square Test	P-Value	Chi-Square Test	P-Value
1. Effectiveness of assets measurement	5.045	0.283	1.171	0.883	0.889	0.641
2. Effectiveness of costs measurement	2.132	0.711	5.205	0.267	0.545	0.462
3. Effectiveness of profits measurement	2.100	0.717	0.939	0.919	1.833	0.400
4. Effectiveness of borrowings measurement	5.142	0.273	0.645	0.958	1.690	0.430
5. Effectiveness of format presentations	4.714	0.318	4.258	0.372	1.361	0.506
6. Effectiveness of disclosure	2.527	0.640	2.447	0.654	0.943	0.626
7. Improvement of quality of accounting information	4.584	0.333	5.527	0.237	1.706	0.426
8. Better performance evaluation	3.444	0.416	6.847	0.144	1.690	0.430
9. Effectiveness of comparisons between companies	1.872	0.759	5.029	0.284	2.100	0.350
10. Better foreign trades and business opportunities	2.751	0.600	3.710	0.447	1.725	0.422
11. Less time compared with the time spent using accounting information produced under old system	8.327	0.080	6.237	0.182	1.551	0.460
12. Equal opportunity to all external users	5.886	0.208	5.907	0.206	1.460	0.495
13. Flexibility of the system	1.686	0.793	5.663	0.226	1.740	0.419
14. The availability in your firm of qualified and trained staff in applying IAS	7.295	0.121	2.020	0.732	2.595	0.273
15. Ease of communication with accountants about IAS	6.161	0.187	2.624	0.622	1.556	0.459

Table (9.5)

**Brokers', Financial Analysts', and Investment Companies' Benefits of Using Accounting
Information According to their Jobs**

Benefits of Using IAS	Brokers	Mean Rank	P-Value
	Financial Analysts		
	Investment Companies		
1. Effectiveness of assets measurement	Brokers	40.96	0.206
	Financial Analysts	44.16	
	Investment Companies	53.65	
2. Effectiveness of cost measurement	Brokers	43.63	0.502
	Financial Analysts	43.58	
	Investment Companies	50.94	
3. Effectiveness of profits measurement	Brokers	43.59	0.596
	Financial Analysts	43.89	
	Investment Companies	50.18	
4. Effectiveness of borrowings measurement	Brokers	47.13	0.741
	Financial Analysts	43.08	
	Investment Companies	46.71	
5. Effectiveness of format presentations	Brokers	40.37	0.321
	Financial Analysts	45.37	
	Investment Companies	51.38	
6. Effectiveness of disclosure	Brokers	39.63	0.295
	Financial Analysts	46.20	
	Investment Companies	50.35	
7. Improvement of quality of accounting information	Brokers	42.59	0.671
	Financial Analysts	47.19	
	Investment Companies	43.03	
8. Better performance evaluation	Brokers	48.78	0.569
	Financial Analysts	42.63	
	Investment Companies	45.26	
9. Effectiveness of comparisons between companies	Brokers	49.15	0.355
	Financial Analysts	41.51	
	Investment Companies	47.65	
10. Better foreign trades and business opportunities	Brokers	50.69	0.337
	Financial Analysts	42.07	
	Investment Companies	43.74	
11. Less time compared with the time spent using accounting information produced under old system	Brokers	47.00	0.431
	Financial Analysts	41.84	
	Investment Companies	50.18	
12. Equal opportunity to all external users	Brokers	47.07	0.518
	Financial Analysts	42.19	
	Investment Companies	49.15	
13. Flexibility of the system	Brokers	50.11	0.411
	Financial Analysts	42.36	
	Investment Companies	43.88	
14. The availability in your firm of qualified and trained staff in applying IAS	Brokers	47.72	0.350
	Financial Analysts	41.46	
	Investment Companies	50.06	
15. Ease of communication with accountants about IAS	Brokers	49.00	0.301
	Financial Analysts	41.12	
	Investment Companies	48.91	

9.3. RELIANCE OF EXTERNAL USERS' COMPANIES ON IAS

We needed to validate the following set of hypotheses:

H_0 : No significant difference between external users age groups regarding their reliance on accounting information.

Against

H_1 : At least one level is significantly different.

External users, when asked to rate the reliance of their companies on accounting information resulting from application of IAS, responded very positively, and further study showed that there is no significant difference of opinion between external users' age groups, (P-value = 0.094).

Specifically, we tested the following hypothesis:

H_0 : No significant difference between different types of users regarding their reliance on accounting information.

Against

H_1 : At least one level is significantly different.

Moreover, when different types of external users were asked about their opinions regarding the reliance of their companies on information produced by IAS, we found that there was no significant difference regarding this issue, (P-value = 0.073).

9.4. THE IMPLICATION OF APPLYING IAS ON THE DECISION-MAKING PROCESS ASSOCIATED WITH TRADING ON THE STOCK EXCHANGE

When external users were asked whether their companies will continue to use IAS in the future, 98.9% responded positively. Those who responded were asked to rate the implication of IAS in the decision-making process associated with trading on the Stock Exchange. Three major factors were considered to address the implication of IAS: better guidance and enhancement of the process of decision-making with respect to the use of accounting information; improvement of the process disclosure of accounting information; and facilitating transactions with the International Stock Exchange.

Specifically, we tested the following hypothesis:

H_0 : No significant difference between external users' age groups/jobs (brokers, financial analysts, and investment companies), regarding their attitude towards the implementation of IAS on decision-making.

Against

H_1 : At least one level is significantly different.

Firstly, we tested whether there is a significant difference of opinion between external users' age groups. Secondly, the same factors were tested against the different types of external users (brokers, financial analysts and investment companies), as shown in Table (9.6).

Table (9.6)
The Implication of IAS in Decision-Making Regarding External Users of
Age Groups and Jobs

Implication of IAS in Decision-Making	External Users			
	Age Group		Job	
	Chi-Square Test	P-Value	Chi-Square Test	P-Value
- Better guidance and enhancement of the process of decision-making with respect to the use of accounting information	9.716	0.045*	1.409	0.472
- Improving the process disclosure of accounting information	7.001	0.136	2.444	0.295
- Facilitating of transaction with International Stock Exchange	2.547	0.636	0.696	0.706

*The test is significant at 5% level.

From Table (9.6) it is evident that the only significant factor with age groups is the first factor "Better guidance and enhancement of the process of decision-making with respect to the use of accounting information", (P-value = 0.045).

When we extended the analysis to point out the difference, and designate different age groups, we obtained the following Table (9.7).

Table (9.7)

Rating The Better Guidance with Different Age Groups of External Users

External Users' Age Group	Better Guidance	
	Good	Very Good
- 25 years and less than 35 years	3.84	
- More than 50 years		4.00
- 35 years and less than 45 years		4.21
- Less than 25 years		4.40
- 45 years and less than 55 years		4.55

Although all external users' age groups rated the Better Guidance factor positive, those between 25 years and less than 35, were less positive.

However, none of the three factors revealed significant differences with any of the external users (brokers, financial analysts, and investment companies), as shown in Table (9.6).

9.4.1. The Implication of Applying IAS on Decision-Making of Brokers, Financial Analysts, and Investment Companies

Table (9.8) gives the factors of implication of IAS on Decision-Making, declared significant by external users (brokers, financial analysts, and investment companies) of different age groups.

Table (9.8)

The Implication of Applying IAS on Decision-Making Regarding Brokers, Financial Analysts, and Investment Companies and their Age Groups

Implication of ISA in Decision-Making	Brokers		Financial Analysts		Investment Companies	
	Chi-Square Test	P-Value	Chi-Square Test	P-Value	Chi-Square Test	P-Value
- Better guidance and enhancement of the process of decision-making with respect to the use of accounting information	7.573	0.109	7.154	0.128	2.706	0.258
- Improving the process disclosure of accounting information	3.360	0.500	6.064	0.194	0.833	0.859
- Facilitating of transaction with International Stock Exchange	0.632	0.959	4.966	0.291	3.173	0.205

Again, it is evident that none of the above factors declared significant with external users (brokers, financial analysts, and investment companies) of different age groups, as shown in the above table.

9.5. THE IMPACT OF APPLYING IAS IN DECISION-MAKING

Next, external users were asked to rate the impact of applying IAS on the financial sectors (brokers, financial analysts, and investment companies) . For brokers, two main issues were considered: (a) value of transactions; (b) number of transactions. For financial analysts two main issues were also considered: (a) independent decision-making; (b) internal working in companies: decision-making. Finally, the investment companies: decision-making.

Statistically however, we needed to assert the following hypothesis:

H₀: No significant difference between different age groups of external users (brokers, financial analysts, and investment companies), regarding their attitude towards the impact of applying IAS on decision-making.

Against

H₁: At least one level is significantly different.

When the above factors were tested against external users' age groups, we obtained the following Table (9.9), which shows none was significant.

Table (9.9)
The Impact of Applying IAS in Decision Making and their Age Groups

External Users' Impact	Chi-Square Test	P-Value
Brokers:		
(i) Value of Transaction	2.080	0.592
(ii) Number of Transactions	2.816	0.589
Financial Analysis:		
(i) Independent : Decision-making	4.042	0.400
(ii) Internal : Decision-making	2.934	0.569
Investment Companies	9.194	0.056

Furthermore, we tested the following hypothesis:

H₀: No significant difference between different types of external users, regarding their attitude towards the impact of applying IAS on decision-making.

Against

H₁: They have different attitudes.

Our next assertion in this context, questions whether different external users (brokers, financial analysts, and investment companies) have a different attitude towards the impact of applying IAS in a decision-making process in relation to trading on the Stock Exchange. The following Table (9.10) presents the results of the non-parametric Kruskal-Wallis test.

Table (9.10)
The Impact of Applying IAS in Decision-Making and their Jobs

External Users Impact	Chi-Square Test	P-Value
Brokers:		
(i) Value of Transaction	77.455	0.000*
(ii) Number of Transactions	84.603	0.000*
Financial Analysis:		
(i) Independent : Decision-Making	12.072	0.002*
(ii) Internal : Decision-Making	49.845	0.002*
Investment Companies	81.925	0.000*

* The test is significant at 5% level.

From Table (9.10), it is clear that all stated the impact of applying IAS is significant. However, Table (7.23) showed that 88.8% of all brokers rated the value of transactions produced by IAS above average, their average rating to the same issues was 3.74% (high impact) with standard deviation (1.10).

Also, in Table (7.23), 88.8% of all brokers rated the number of transactions above average with average rating (3.59) (high) and standard deviation (1.05). 91% of independent financial analysts rated the impact of applying IAS on decision-making above average. The average rating was (3.82) (high) with standard deviation (1.08).

On the other hand, 99.9% of internal financial analysts rated the implication above average with average, rating (4.26) (very high) and standard deviation (1.00).

While 99.9% of all investment companies rated IAS impact on decision-making above average with average rating (4.47) (very high) and standard deviation (0.8).

9.6. CONSEQUENT DIFFICULTIES IN USING ACCOUNTING INFORMATION PRODUCED THROUGH THE APPLICATION OF IAS

We tested the following hypothesis:

H₀: No significant difference between external users' age groups in rating their difficulties in applying IAS.

Against

H₁: At least one group is significantly different.

The external users were asked about rating some consequent difficulties using accounting information produced through the application of IAS. The following Table (9.11), presents the test of Chi-Square for each problem with respect to age group and its level of significance.

Table (9.11)
Rating Difficulties of External Users of Different Age Groups, in Applying IAS

Consequent Problems of Applying IAS	Chi-Square Test	P-Value
1. Problems related to assets measurement	13.532	0.009*
2. Problems related to costs measurement	12.200	0.016*
3. Problems related to profits measurement	8.024	0.091
4. Problems related to borrowings measurement	1.608	0.807
5. Problems related to reports format	7.222	0.125
6. Problems related to disclosure	9.772	0.044*
7. Problems related to quantity of accounting information	12.206	0.016*
8. Problems related to performance evaluation	12.618	0.013*
9. Problems related to comparison across companies	12.847	0.012*
10. Problems related to foreign trades and business opportunities	8.882	0.064
11. Problems related to time used in carrying out the analysis	11.849	0.019*
12. Problems related to provision of equal opportunity to all external users	12.261	0.016*
13. Problems related to the flexibility of the system	5.000	0.287
14. Problems related to the availability <u>in your firm</u> of qualified and trained staff in applying IAS	7.954	0.093
15. Problems related to communicating with accountants about IAS	5.796	0.215
16. Conflicts between IAS and Stock Market Regulation	12.885	0.012*

*The test is significant at 5% level.

Of the considered problems, the following are the only ones declared significant: assets management; costs measurement; disclosure; quantity of accounting information; performance evaluation; comparison across companies; time used in carrying out the analysis; provision of equal opportunity to all external users; and conflicts between IAS and Stock Market regulations.

External users from different age groups were also asked to rate these problems and further analysis provided the following designated groups, as shown in Table (9.12).

**Table (9.12)
External Users' Difficulties of Applying IAS with Respect to their Age Groups**

External Users Age Group	Problems Related to:																		
	(1) Assets Measurement		(2) Cost Measurement		(3) Disclosure		(4) Quantity of Accounting Information		(5) Performance Evaluation		(6) Comparisons Across Companies		(7) Time used in carrying out the analysis		(8) The Provision of Equal Opportunity of all External Users		(9) Conflict Between IAS and Stock Market Regulation		
	Moderate difficulty	No difficulty	Moderate difficulty	No difficulty	Moderate difficulty	No difficulty	Moderate difficulty	No difficulty	Moderate difficulty	No difficulty	Moderate difficulty	No difficulty	Moderate difficulty	No difficulty	Moderate difficulty	No difficulty	Moderate difficulty	No difficulty	
25 years and less than 35 years	3.74		3.89		3.95		3.84		3.84		3.74		3.89		3.84		3.89		
More than 55 years		4		4.25		4.38		4.38		4.38		4.25		4		3.88			4.5
35 years and less than 45 years		4.54		4.54		4.57		4.46		4.5		4.54		4.54		4.5			4.54
45 years and less than 55 years		4.55		4.76		4.69		4.76		4.66		4.66		4.66		4.62			4.69
Less than 25 years		4.8		4.6		4.4		4.4		4.4		4.2		4.4		4.4			4.2

Table (9.12) shows that external users, between 25 years and less than 35 years think that IAS can create moderate problems in all the areas questioned, while other groups believe that they have no difficulties in using information produced by IAS.

To elaborate on this potential conflict between IAS and Stock Market regulations, one group of younger professionals (25 years and less than 35 years) believe that flexibility of IAS could lead to some conflict between what is required by them and financial institutions. It is worth mentioning that Mostafa and Abdul Rahim (1998) came to the same conclusion.

Specifically, we tested the following hypothesis:

H₀: No significant difference between different types of external users (brokers, financial analysts, and investment companies) in rating their difficulties.

Against

H₀: At least one level significantly different.

Also the consequent difficulties stated above were tested for different external users' rating (brokers, financial analysts, and investment companies). Table (9.13) presents the results of a Chi-Square test.

Table (9.13)
Rating External Users' Difficulties of Applying IAS with Respect to their Job

Consequent Problems of Applying IAS	Chi-Square Test	P-Value
1. Problems related to assets measurement	5.284	0.071
2. Problems related to costs measurement	4.941	0.085
3. Problems related to profits measurement	7.011	0.030*
4. Problems related to borrowings measurement	4.456	0.108
5. Problems related to reports format	5.711	0.058
6. Problems related to disclosure	6.413	0.040*
7. Problems related to quantity of accounting information	4.585	0.101
8. Problems related to performance evaluation	7.693	0.021*
9. Problems related to comparison across companies	8.125	0.017*
10. Problems related to foreign trades and business opportunities	7.759	0.021*
11. Problems related to time used in carrying out the analysis	13.916	0.001*
12. Problems related to provision of equal opportunity to all external users	7.384	0.025*
13. Problems related to the flexibility of the system	3.865	0.145
14. Problems related to the availability <u>in your firm</u> of qualified and trained staff in applying IAS	4.370	0.112
15. Problems related to communicating with accountants about IAS	6.650	0.036*
16. Conflicts between IAS and Stock Market Regulation	5.796	0.055

* The test is significant at 5% level.

Of all difficulties stated in the questionnaire, the following problems are the significant ones: profits measurement; disclosure; performance evaluation; comparisons across companies; foreign trade and business opportunities; time used in carrying out the analysis; equal opportunity to all external users; and communicating with accountants about IAS.

External users (brokers, financial analysts, and investment companies), were asked to rate their attitude towards the consequent difficulties of applying IAS in these areas.

Moreover, further tests to regroup external users' opinions are shown in Table (9.14).

**Table (9.14)
External Users' Difficulties of Applying IAS with Respect to their Jobs**

Problems Related to:																	
External Users Jobs	(1) Profits Measurement		(2) Disclosure		(3) Performance Evaluation		(4) Comparisons Across Companies		(5) Foreign Trade and Business Opportunities		(6) Time used in carrying out the analysis		(7) The Provision of Equal Opportunity of all External Users		(8) Communicating with Accounting about IAS		
	Limited difficulty	No difficulty	Limited difficulty	No difficulty	Limited difficulty	No difficulty	Limited difficulty	No difficulty	Limited difficulty	No difficulty	Limited difficulty	No difficulty	Limited difficulty	No difficulty	Limited difficulty	No difficulty	
Financial Analysts	4.24		4.27		4.18		4.11		4.07		4.09		4.11		3.98		
Brokers		4.63		4.52		4.52		4.52		4.52		4.59		4.48		4.41	
Investment Companies		4.82		4.82		4.76		4.76		4.59		4.82		4.71		4.47	

Table (9.14) shows that all problems have similar distributions with respect to external users (financial analysts, brokers and investment companies).

Although they all have positive opinions regarding these difficulties in favour of IAS, brokers and investment companies are slightly more confident than financial analysts about the information produced by IAS.

9.6.1. External Users' Main Difficulties

A factors analysis reduction technique was used to reduce the consequent external users' difficulties. The technique was able to extract only two main factors, which explains 73.191% of the total variation. The first factor: problems of evaluating measurements, which explains 40.566% of the total variation. The second factor: problems of communications, which explains 32.625% of the total variation. Table (9.15) offers detailed results regarding the factor analysis.

Table (9.15)

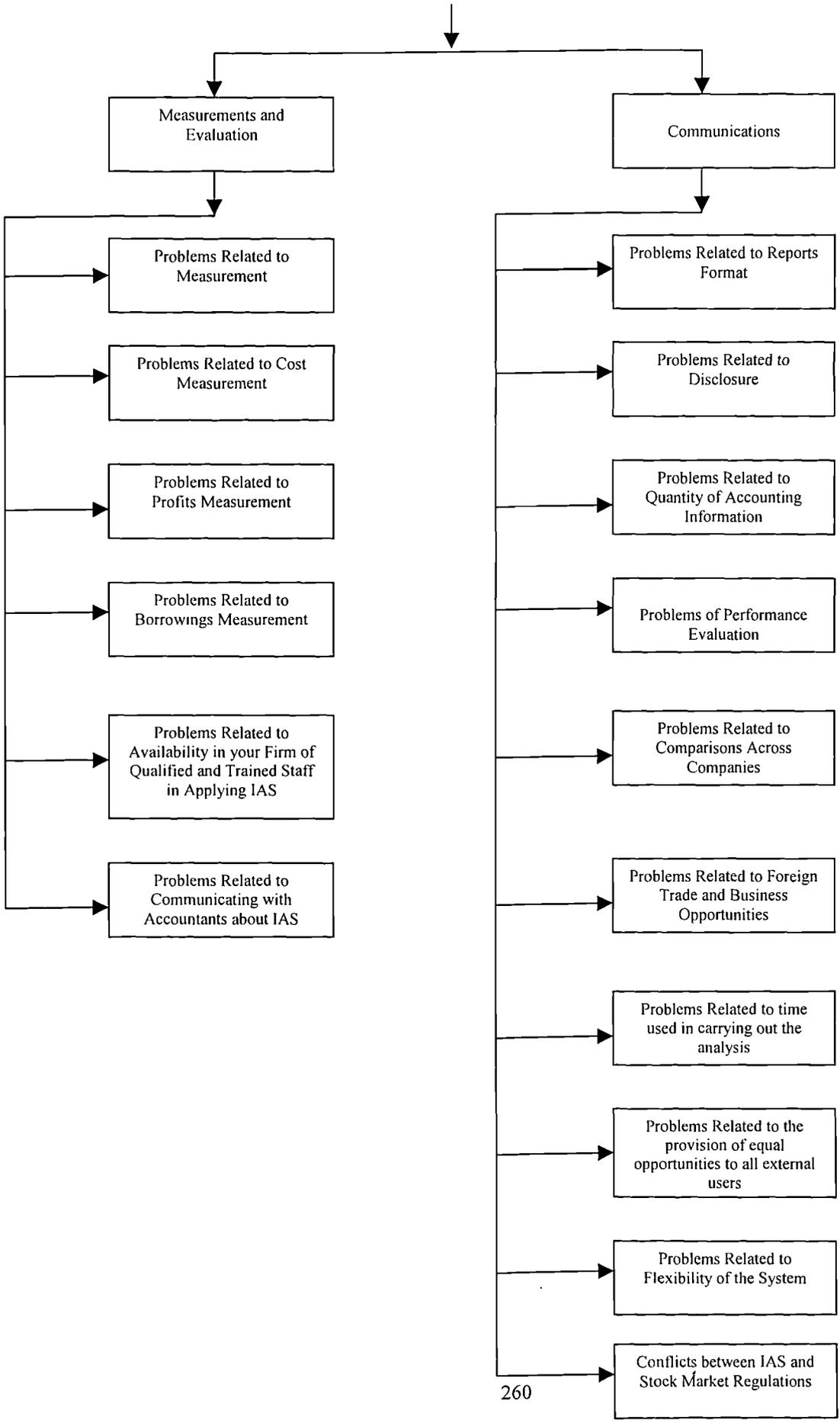
External Users' Main Factors of Difficulties in Applying IAS

Main Factors	Factor Loading	% Explained
<u>F1. Measurements & Evaluations:</u>		40.566%
- Problems related to asset measurements	0.748	
- Problems related to costs measurements	0.784	
- Problems related to profits measurements	0.734	
- Problems related to borrowing measurements	0.571	
- Problems related to the availability in your firm of qualified & trained staff in applying IAS	0.834	
- Problems related to communicating with accountants about IAS	0.785	
<u>F2. Communications:</u>		32.625%
- Problems related to reports format	0.629	
- Problems related to disclosure	0.757	
- Problems related to quantity of accounting information	0.678	
- Problems related to performance evaluation	0.736	
- Problems related to companies across companies	0.792	
- Problems related to foreign trades & business opportunities	0.778	
- Problems related to time used in carrying out the analysis	0.799	
- Problems related to the provision of equal opportunity to all external users	0.846	
- Problems related to the flexibility of the system	0.684	
- Conflicts between IAS and Stock Market Regulation	0.852	

Exhibit (9.2)

External Users Main Factors of Difficulties in Applying IAS

The Main Factors



As users, external users' concerns are different from those of accountants and auditors, particularly about assessment of financial performance. Therefore, information on financial performance needs to be presented in a way that focuses attention on that key characteristic. Good presentation of financial performance information typically involves:

- a) recognising only gains and losses in the statements of financial performance;
- b) classifying components by reference to a combination of functions;
- c) distinguishing amounts that are affected in different ways by changes in economic conditions or business activities.

External users have two main difficulties in dealing with IAS, which explains 73.2% of total variation. The first problem is related to measurements and evaluating, which explains 40.566% of all problems. This factor includes: assets; costs; profits and borrowing together with availability of qualified IAS trained staff who are capable of understanding and communicating IAS.

The second factor is related to the final use of the information provided by applying IAS, which explains 32.625% of all problems. This factor includes: report format; disclosure of information; quality of information; performance evaluation; comparability of information; foreign trade; time used in carrying out the analysis; equal opportunity to all external users; flexibility of the system; conflict between IAS and local regulations.

9.6.2. Brokers', Financial Analysts', and Investment Companies' Difficulties

Concerning the brokers', financial analysts', and investment companies' difficulties in applying IAS, Table (9.16) gives the result of the Kruskal-Wallis test. We found that, firstly it is evident that none of the following difficulties was significant with brokers of different age groups.

Secondly, among the following difficulties of applying IAS, the only one that was revealed significant with different age groups in investment companies was a problem related to profits measurement (P-value = 0.043).

Thirdly, of all the difficulties stated in the questionnaire, the following difficulties were significant with different age groups of financial analysts: age groups: assets measurement; cost measurements; quantity of accounting information; performance evaluation; comparisons across companies; the availability in the firm of qualified and trained staff in applying IAS; and conflicts between IAS and Stock Market regulations.

Table (9.16)

Brokers', Financial Analysts', and Investment Companies' Difficulties of Applying IAS

Consequent Problems of Applying IAS	External Users					
	Brokers		Investment Companies		Financial Analysts	
	Chi-Square Test	P-Value	Chi-Square Test	P-Value	Chi-Square Test	P-Value
1. Problems related to assets measurement	1.477	0.831	5.692	0.058	10.461	0.033*
2. Problems related to costs measurement	2.204	0.698	5.692	0.058	9.601	0.048*
3. Problems related to profits measurement	1.880	0.758	6.286	0.043*	5.347	0.254
4. Problems related to borrowings measurements	2.593	0.628	3.825	0.148	2.181	0.703
5. Problems related to reports format	4.490	0.344	2.400	0.301	5.234	0.264
6. Problems related to disclosure	3.105	0.540	2.391	0.303	8.578	0.073
7. Problems related to quantity of accounting information	4.717	0.318	0.525	0.769	10.336	0.035*
8. Problems related to performance evaluation	2.273	0.686	2.400	0.301	12.155	0.016*
9. Problems related to comparisons across companies	2.326	0.676	3.825	0.148	14.607	0.006*
10. Problems related to foreign trades and business opportunities	2.326	0.676	2.476	0.290	8.123	0.087
11. Problems related to time used in carrying out the analysis	4.554	0.336	3.857	0.145	6.410	0.171
12. Problems related to provision of equal opportunity to all external users	3.361	0.499	5.464	0.065	10.509	0.033*
13. Problems related to the flexibility of the system	2.579	0.630	0.917	0.632	7.500	0.112
14. Problems related to the availability in your firm of qualified and trained staff in applying IAS	5.333	0.255	3.138	0.208	6.557	0.161
15. Problems related to communicating with accountants about IAS	5.056	0.282	1.329	0.515	6.624	0.153
16. Conflicts between ISA and Stock Market Regulation	2.351	0.671	5.692	0.058	9.924	0.042*

* Test is significant at 5% level.

Financial analysts from different age groups were asked to rate their attitude towards the consequent difficulties of applying IAS in: assets measurement; cost measurement; quantity of accounting information; performance evaluation; comparison across companies; provision of equal opportunity to all external users; and conflicts between IAS and Stock Market regulations. The non-parametric test revealed that these problems are significant (P-value = 0.000). Further analysis shows in Table (9.17) that financial analysts between 25 years and less than 35 years think that IAS can create moderate problems, while other groups believe that they have no difficulty in using information produced by IAS. This could be due to their lack of knowledge and experience in using accounting information produced using IAS.

**Table (9.17)
Rating Financial Analysts' Difficulties of Applying IAS According to their Age Groups**

Financial Analysts Age Group	Problems Related to:													
	(1) Assets Measurement		(2) Cost Measurement		(3) Quantity of Accounting Information		(4) Performance Evaluation		(5) Comparisons Across Companies		(6) The Provision of Equal Opportunity of all External Users		(7) Conflict Between IAS and Stock Market Regulation	
	Moderate difficulties	No difficulties	Moderate difficulties	No difficulties	Moderate difficulties	No difficulties	Moderate difficulties	No difficulties	Moderate difficulties	No difficulties	Moderate difficulties	No difficulties	Moderate difficulties	No difficulties
25 years and less than 35 years	3.42		3.58		3.5		3.5		3.25		3.58		3.5	
More than 55 years		3.75		4		4.5		4.25		4.25		3.15		4.5
35 years and less than 45 years		4.31		4.31		4.23		4.23		4.23		4.15		4.38
45 years and less than 55 years		4.58		4.5		4.75		4.75		4.75		4.67		4.67
Less than 25 years		4.75		4.83		4.5		4.25		4.25		4.25		4

External users claimed that they have benefited a great deal by using information produced by applying IAS. Table (7.17), page (125), showed that all external users (brokers, financial analysts, and investment companies) have high regard for and appreciation of these benefits. It is evident from Table (7.21), page (130), that the average rating of brokers reliance on IAS is approximately 4 and for financial analysts 4.31, and for investment companies 4.49 out of 5. These means of reliance signify the strong dependence of external users on information produced by applying IAS.

In addition, Table (7.22), page (132), provides good support to the thesis that undoubtedly IAS brings harmonisation to accounting practice. Brokers, financial analysts, and investment companies showed strong attitudes towards the quality of information produced by applying IAS in stock market decisions regarding issues - like guidance and enhancement of the process of decision-making - with respect to the use of accounting information, improving the process of disclosure of accounting information and facilitating of transactions with international stock exchanges. Table (7.15), page (121), provides evidence that external users have no problems with different types of difficulties which may face external users dealing with information produced by applying IAS. From the above we can illustrate that external users have positive attitudes towards quality/quantity of information - hence decisions made by using harmonised IAS information.

9.7. SUMMARY AND CONCLUSION

External users are all users of accounting information produced using IAS. Several dimensions were considered in the testing of the different hypotheses formulated for this group of users. The first dimension discusses the external users' advantages gained from using information produced by IAS. The second dimension elaborates on the implications of using IAS on the decision-making process associated with trading on the Stock Market Exchange.

To study the first dimension, external users were provided with a list of 15 different benefits including the effectiveness of: assets measurement; cost measurement; profits measurement; borrowing measurement; formal presentations; disclosure; quantity of accounting information; better performance evaluation; comparisons between companies; better foreign trades and business opportunities; less time compared with the time spent in using accounting information produced under the old system; equal opportunity to all external users; flexibility of the system; the availability in their firm, of qualified and trained staff in applying IAS; and ease of communication with accountants about IAS.

When the above were tested against external users' age groups, the only two that were declared significant were: better foreign trades and business opportunities, and the efficiency of the information produced by IAS. External users showed similar responses to both issues

with younger external users believing that IAS is a good system for both issues, and older ones thinking that it is a reasonable system for both issues.

When the same benefits were tested against different external users' jobs (brokers, financial analysts, and investment companies), the results showed no significant differences between external users' opinions. The factor analysis technique has been used to sort the above benefits according to their relative importance from external users' perspectives. We categorised the benefits referred to above into 3 main factors. The first factor embraces those that are related to measurements, and disclosing this factor is considered the most important, which explains 53.915% of all stated benefits. The second factor covers those that are related to IAS implementation and explains 9.795% of the total encountered benefits. The third and final factor is endless benefits, which are related to ease of IAS which explains 7.508% of the total benefits.

The second dimension, is connected to the implications of applying IAS on the decision-making process associated with trading on the Stock Exchange. This dimension includes reliance of companies on accounting information produced by IAS, reliance of brokers and financial analysts on this information, and whether external users will continue to rely on information produced by IAS.

First, we tested whether different external users' age groups have different news regarding the implications of IAS, in decision-making. These include: better guidance and enhancement of the decision-making process in using information; improving the process of disclosure; facilitating transactions with International Stock Exchanges. It seemed that that the capability of IAS to provide better guidance and enhancement of the decision-making process is the only significant issue when the age of external users is considered.

Moreover, further analysis proved that younger external users believe that IAS provides good guidance in enhancing the decision-making process related to the Stock Market, while older ones think that it provides a very good guidance.

When different external users (brokers, financial analysts and investment companies) were asked to rate their implications for the same previous issues, none was declared significant.

When external users were asked about the impact of applying decision-making, for brokers (value of transaction, number of transactions), for financial analysts (independent decision-making, dependent decision-making) and investment companies, none of the above issues was declared significant with respect to external users' age groups. However, these issues were significant from different external users' jobs perspectives.

Several potential problems associated with using accounting information produced using IAS were presented to external users to rate his/her attitude towards these problems. These potential problems related to: assets measurements; cost measurement; profits measurement; borrowing measurement; availability in the firm of qualified and trained staff in applying IAS; communicating with accountants about IAS; reports format; disclosure; quantity of accounting information; performance evaluation, comparisons across companies; foreign trades and business opportunities; time used in carrying out the analysis; provision of equal opportunities to all external users; flexibility of the system; and conflicts between IAS and Stock Market regulations.

Of all these 16 stated problems, those related to: assets measurements; cost measurement; disclosure; quantity of accounting information; performance information; comparisons across companies; time used to carry out the analysis; provision of equal opportunity to all external users, and the problem of conflicts between IAS and stock market regulations, were significant with respect to external users' age groups. Surprisingly enough, all the above issues showed similar patterns with respect to external users' age groups. Younger external users rated the above as moderate difficulties, while older external users believe that these issues were not problems.

When the same set of potential problems was tested from different external users' jobs perspectives, we found that problems related to: profits measurement; disclosure; performance evaluation; comparison across companies; foreign trades and business opportunities; provision of equal opportunity to all users; are the only difficulties which were statistically significant. When we extended the analysis further, we found that financial analysts considered the above issues created limited problems, while both brokers and investment companies considered them no problem.

Towards the end we summarised all the above potential difficulties into two main factors, using the factor analysis. The first is related to problems of measurements and evaluations which explains 41% of all encountered problems. The second is related to problems of communicating IAS which explains 33% of all problems.

Finally, we tested the above problems with respect to each external users' age groups independently. In other words, we tried to answer the question "do (brokers, financial analysts, investment companies) react differently to these problems when we consider their age groups?". We found that brokers' age groups have no significant impact on attitudes toward the above stated difficulties.

With regard to financial analysts, they reacted significantly to several problems including those related to: assets measurements; costs measurements; quantity of accounting

information; performance evaluation; comparisons across companies; provision of equal opportunities to all external users, when we took their age groups into account.

When analysis was extended further, we found that financial analysts under 35 years of age reacted moderately to the above issues, while older financial analysts considered these of no importance.

Investment companies were tested independently to rate the degree of difficulties of the above issues. The only significant issue was that of profits measurements, which was to be expected, since profit is the most important issue for investment companies.

Finally, based on the analysis presented in this chapter, the researcher believes that it is safe to say that external users have a positive attitude towards the quality and quantity of the accounting information, which has been harmonised using IAS in decision-making.

CHAPTER 10

Professional Attitudes Towards Implementation of IAS to Kuwaiti Environments - Main Conclusion



CHAPTER 10: PROFESSIONALS' ATTITUDES TOWARDS THE EFFECT OF THE IMPLEMENTATION OF IAS ON THE KUWAITI ENVIRONMENT – MAIN CONCLUSION

10.1. INTRODUCTION

Chapter 1 of this study discusses the issues associated with the use of International Accounting Standards in Kuwait and its importance. It also describes the objective of the study and its limitations. More importantly, it outlines the methodology of conducting the research and relevant hypotheses. Chapter 2 discusses several issues in conjunction with the need for international standards. Environmental factors relevant to the multinational enterprise are also identified including the role of the multinational corporation, and the transfer of investments. Finally, the chapter addresses the subject of harmonisation and the need for IAS. Chapter 3, designates parties who are interested in IAS and identifies bodies who are working for international accounting rules and disclosure, notably IASB. Chapter 4 examines and analyses the accounting standards in Kuwait. Here laws and legislation related to accounting standards are presented and discussed. The role of both regional and international forces on the development of accounting standards in Kuwait is also shown. Chapter 5 also presents a brief history associated with the establishment of the Kuwait Stock Exchange and its legislative development. Chapter 6 formally states the research hypotheses to justify claims regarding the research dimension: familiarity and knowledge by profession; implementation and consequent difficulties; advantages of applying IAS, how it helps change the quality of accounting information and its suitability to the Kuwaiti environment. The data collection and method of sampling described in Chapter 7 provides summary statistics, tables, frequency distribution to all questions included in the questionnaires. Preliminary results are also discussed in this chapter to highlight important factors for consideration in subsequent development considered in Chapters 8 and 9.

10.2. ACCOUNTANTS' AND AUDITORS' MAIN CONCLUSIONS

Statistical analyses given in Chapter 8 address and justify claims regarding accountants and auditors. Here, the reaction of the several practitioners we selected at random for structured interviewing to check the validity of our findings, is emphasised. These professionals were selected on the basis of their familiarity and knowledge of accounting in the Kuwait Stock Exchange. A set of questions regarding the significance on our findings regarding the above dimension were prepared beforehand and practitioners were interviewed independently. In the following we give our main findings, and practitioners' main concerns regarding the adoption of IAS.

Regarding familiarity and knowledge of IAS, it was found that accountants/auditors of all age groups were positive. The majority had been dealing with IAS for some time. They were less

perceptive to the IAS at first, but became more aware after gaining experience. This conclusion indicated that familiarity and knowledge of IAS, in general, is an experience-based knowledge, which is supported by the fact that courses regarding IAS are not included in accounting curricula at either graduate or undergraduate levels. However, since some schools have already started to teach IAS in their accounting courses (and Kuwait University is among them), better knowledge and familiarity of IAS in the near future is expected.

The above conclusion was supported by the interviews. All professionals agreed that, although IAS was adopted in 1990, professionals (especially accountants) are still not yet fully aware of its rules and format. There were cases where accountants were confused between IAS and the local standard, and they made the following suggestions and comments:

- The teaching of IAS should be included at undergraduate and postgraduate levels to familiarise practitioners with the Standards. Recently, Kuwait University, College of Business, began to include several courses on IAS into their accounting curriculum.
- The importance of getting local organisations, such as, Kuwait Central Bank, Kuwait Stock Exchange, Kuwait University, and Kuwaiti Public Accounting Body (the Kuwait equivalent of the National Audit Office (NAO)) involved in reviewing any materials related to IAS format and to jointly design training courses to meet their requirements and avoid any possible future conflicts.
- A concrete policy should be designed to offer a series of training courses on IAS on a regular basis (yearly), to update professionals' knowledge. This could be arranged with International Accounting Organisations, such as IASB.
- Encourage young professionals to work towards professional qualifications e.g. CPA.
- Stipulations of IAS recruitment knowledge should be mandatory for all companies, organisations, and financial institutions.

There was complete agreement between younger respondents, that younger professionals do not yet fully understand the standards as well as older professionals. They therefore require better supervision when they start their careers. This was also supported by experienced professionals, who stated that experience is the key issue in developing knowledge, familiarity, and positive perceptions of using IAS.

They added that, more experienced professionals are better capable of dealing with the Standards than those less experienced. This is a fact and that is why newly recruited professionals should be trained under the supervision of senior professionals to ensure a reasonable level of IAS knowledge, familiarity, and understanding.

It is necessary for all companies to establish libraries specialised in IAS publications in order to make such information available to all professionals. Moreover, they should subscribe to

accounting journals, which publish information regarding IAS, so that this is regularly available to practitioners.

In addition, the government should set up a system of supervision and control to check regularly that all professionals follow IAS guidelines, with minimum deviations. This could be done through The Central Bank of Kuwait, and Kuwait Stock Exchange, by giving them more authority to regularly monitor the compliance of companies with IAS; and also by establishing a merit-demerit system to ensure companies' compliance with IAS.

Some professionals stated during the interviews they also would benefit from a circulation of any amendments and changes in IAS to keep them updated. They added that funds to start such a publication could be raised by profitable companies and financial institutions, and the Kuwait Stock Exchange. Furthermore, senior professionals should be encouraged to write, for circulation among the professionals, papers and case studies.

The second conclusion reached, concerns the implementation of IAS and consequent difficulties.

The analysis showed that two-thirds of the accounts in the sample had been prepared using IAS. Also, three-quarters of the auditors in the sample had audited accounts produced according to IAS. This sample results indicate compliance of both accountants and auditors with the Standards. It was also found that the degree of positive perception and awareness improved with the length of experience in using IAS.

However, several difficulties facing both accountants and auditors have become a matter of concern. Accountants' main difficulties of measurements could be summarised into three main factors: flexibility of IAS; the difficulty of cost effectiveness; and the ambiguity of IAS. Accountants also face some difficulties regarding disclosure. It became obvious that reliability of information is considered a major difficulty facing accountants, when preparing annual reports.

Auditors' main difficulties of measurements were also summarised into three main factors. The first and the most important is the cost of implementation of IAS; the second is the cost of knowledge; and the third is the suitability of the Standards to the Kuwaiti environment. Regarding difficulties of disclosure facing auditors, there are two main ones. The first, and most important, is the reliability of information; and the second is related to adequacy of information. Interviewees agreed that professionals are still confused and cannot easily distinguish between the old local standards and IAS. They added that this deficiency could be remedied by intensive training courses. However, respondents added that they have witnessed drastic changes in experienced accountants'/auditors' skills in applying/auditing reports prepared according to IAS when compared to those prepared before gaining experience, when a state of confusion and ambiguity existed. This comment supports our findings in Chapter 8 that professionals'

knowledge and perceptions will improve by practising, training courses, reading publications etc. and consequently, difficulties will become less; and, of course, better knowledge of IAS will reduce vagueness and disclosure haziness regarding its format. Although, interviewees praised IAS for its many advantages compared with the old local standards which were used before IAS became mandatory, they mentioned that there were difficulties in implementing IAS format, especially by accountants, where a full understanding of its rule and a maximum degree of awareness are needed. They also added that, as far as IAS is concerned, they are reasonable accounting standards, but the problem is how to prepare professionals to deal with relatively new standards in relation to the Kuwaiti environment.

There is no doubt that younger professionals, especially Kuwaitis, find it difficult to implement these standards. Both accountants and auditors emphasised more problems in measurements, than in disclosure. When asked why, they replied that measurements are very demanding and needed skills to follow the principles. They also added that IAS are new and have not been taught in schools, and educational backgrounds make no difference. This further supports the researcher's findings that IAS are experienced-based standards. Some respondents asked whether computer-aided packages designed for IAS training, or preparation of annual reports, are available in the software market. If so, this would also improve their skills a great deal.

The question was asked about the flexibility of IAS and whether it is considered favourable or not. The majority of interviewees stated that it is flexible, because it has a lot of advantages, especially when accounts are compared across companies or internationally. However, all concerned parties need to be aware of the format used to facilitate comparisons, but they stressed that there was a great shortage of the highly qualified staff required to implement this.

The question is therefore asked; has IAS changed the quality of accounting in Kuwait? All respondents and interviewees were positive in their answers. There was complete agreement between all professionals regarding the role of IAS in bringing harmonisation to accounting. There were large differences between old local standards and IAS. IAS requires more information disclosure and is closer to "a true and fair view".

Discussions at the end of Chapter 8, conclude that both accountants and auditors have shown strong determination and willingness to comply with IAS in Kuwait.

Finally, it can be safely be said that professional accountants/auditors have positive attitudes towards achieving harmony of accounting or reporting practising by applying IAS.

10.3. EXTERNAL USERS' MAIN CONCLUSION

In all accounts, external users were in favour and very supportive of the adoption of IAS in Kuwait. Several dimensions were brought to external users to assess their attitude towards the

information produced by using IAS and there is no doubt that IAS based information has helped external users in many ways. The main points are summarised in the following factors:

- those related to measurements and disclosure (considered the most important);
- those related to IAS implementation;
- those related to ease of IAS;
- similar lines of difficulty facing accountants/auditors, where external users also have problems related to measurements and evaluations, and communicating IAS.

The comments of external users were mainly related to IAS and the quality of information produced by using the Standards. External users emphasised they had been using accounting information produced through the implementation of IAS for some time. However, they expected more from the Standards; but also added that transparency of the information, time of disclosure, equal chance given to all investors, are the advantages of using IAS. In addition, it is not hard to enter international markets when using information prepared using International Accounting Standards, but the main problem is how to train brokers and qualified financial analysts well, so as to avoid ambiguity faced in understanding the presentation of data.

If this can be overcome, we will have a complete and efficient accounting framework for use by accountants and auditors.

10.4. GENERAL RECOMMENDATIONS

Accounting in Kuwait is still in its infant stage, and the government is seriously considering steps to improve the situation. Here the accounting profession has a tremendous opportunity to help speed up this process and to establish itself in society as the protectors of public interest. Based on the analysis given and the interviews, carried out by the researcher, the following recommendations may help improve the level of accounting in Kuwait:

1. Accounting education must be expanded at both pre-university and university levels. This expansion is needed in order to fulfil the increasing demand for accounting services in the country.
2. Adaptations are needed in the content of accounting education, to reflect the local environment. Accounting research should be encouraged and supported. In addition, if an accountant of the future is to fulfil his/her social responsibility, he/she should acquire special skills. For example, he/she will need a greater knowledge of the behavioural sciences, macroeconomics, information systems and quantitative methods to successfully service and evaluate social programmes.
3. To be effective, professional accounting groups must be better organised and more concerned with the identification and standardisation of accounting practices to reflect accurately the needs of users of financial statements.

4. Accounting practitioners in Kuwait should assume responsibility for recruiting IAS-trained Kuwaitis. Efforts must be made to attract college students to enter the public and private accounting fields.

The accounting profession should establish an acceptable list of accounting principles and auditing procedures in the country; but this step can be taken only after thorough research to identify the needs of the users of accounting reports. A close relationship should be established between the accounting profession and the government to speed up the process of establishing and adopting IAS principles and practices.

10.5. PARTIES WHO CAN BENEFIT FROM THE RESEARCH RESULTS

There are several parties in and outside Kuwait that can benefit from this study. They are as follows:

- In Kuwait:

One of the main results of the research is that older accountants/auditors have better knowledge regarding IAS and its practice. Authorities in Kuwait should utilise this finding and the fact that so far IAS is experience based, in order to enhance IAS practice and implementation. Several parties can be involved in this project.

- **The Kuwait Auditors and Accountants Association**

The Association can provide major assistance to younger accountants/auditors through training courses, consultants, and workshops. It should adopt two approaches : (i) a theoretical approach to introduce IAS to young accountants/auditors, as well as updating seniors and professionals with the latest IAS developments; (ii) a practical approach which enhances practitioners ability to better implement IASs. This can be achieved by workshops, case studies, and consultations in specific subjects regarding IAS. These courses, workshops and consultations should be offered to all professionals in the country including ministries, oil companies, banks, insurance companies, Kuwait Stock Exchange (K.S.E.), and private trading companies. Moreover, the Association should invite on a regular basis, professors and practitioners from abroad to hold seminars, conduct training courses, run workshops, and provide consultations. The Association can start fund raising so as to generate money to support research in IAS and related subjects. In addition, it should regularly circulate among members information, such as case studies. It should also encourage its members to write research in IAS in Arabic, and translate IAS books to the Arabic language to maximise the benefits to its members.

- **Kuwait University**

The research indicates the shortage of knowledge of young practitioners. Moreover, newly graduate accountants have a lack of experience regarding IAS. Therefore, on its part, Kuwait University, specifically the School of Business Administration, should seriously investigate this problem. A comprehensive strategy should be set up to improve students' knowledge regarding IAS, with several courses covering IAS included among undergraduate and graduate courses. Before graduation, students should pass a course model(s) on IAS and their use in preparing and auditing financial accounts. The School of Business Administration, through its centre of excellence should provide regular training courses, case studies, and workshops. Also, the publication council of Kuwait University should encourage writers, professors and researchers to write books in Arabic funded by the council. Circulating technical reports among teachers, students, and professionals would undoubtedly improve professionals' knowledge of IAS. A complete plan should be set forward by Kuwait University and Kuwait Auditors and Accountants Association.

- **Kuwait Government**

The government should benefit from the researchers' findings, and find reasonable solutions to difficulties raised in this research. New laws to facilitate and expedite the process of full compliance of IAS, should be issued.

To increase the supervision and control of accounting information and practicing accounting, the government should allocate funds for research in IAS. Finally, the government should mandate that all Kuwaiti companies (listed and unlisted) must comply with IAS.

- Outside Kuwait:

- **The International Accounting Standards Board (IASB)**

The Board can benefit from this study (the case of Kuwait) as an example of the users' perception of IAS in preparing annual accounts, by showing the compliance of a third world country with the IAS.

By this example, the Board can encourage companies in other countries to adopt and use IAS in preparing their annual accounts.

10.6. AREAS FOR FUTURE RESEARCH

For further research, the following should be considered:

- In Kuwait:
 - Repeating the same study after a certain time (it is three years since we collected the data for this study, 1999), to investigate the users' (accountants, auditors, and external users) attitudes towards using accounting information produced using IAS. This would allow a comparison of these results with the results of the present study. This new study would help identify trends and new lessons to learn emanating from the adoption of IAS in preparing and auditing company accounts.
 - After more than ten years of applying IAS in Kuwait, we suggest that research be carried out to explore whether IAS gave users of annual accounts better accounting information in support of their decision making.
 - Repeating the same study with other IAS standards which include IAS 34-41, to measure user's perception/attitudes of using these standards in preparing annual accounts.
- Other Countries:
 - Repeating the same study in the Gulf countries like (United Arab Emirates (U.A.E.), Saudi Arabia, Qatar, Bahrain, and Saltanate of Oman), to investigate users' perceptions of using IAS in these countries. After that the researcher can compare the results of his/her study with the current results of the present study.