

## An Empirical Investigation of Corporate Governance Practices in the Kingdom of Saudi Arabia

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**Abstract:** High-quality corporate governance (CG) guarantees that corporations perform better and have a better relationship with its stakeholders. The good practice of accounting standards is very important, as it leads to effective disclosure and consequently good CG programs. Therefore, the practice of appropriate accounting standards is a more relevant issue of good CG in the present competitive time as the standards provide a useful method to restructure the main corporate values. This paper discusses the practice of Saudi accounting standards for good CG, as it is regarded as one important issue of CG, with an objective to make Saudi accounting standards useful to ensure better disclosure, and consequently, good CG. The empirical results revealed that most of the selected companies were aware of the relevance of standards for good CG and complied with ten to twenty accounting standards with varied treatments of items, which exposed the comparability and left scope for personal discretion and confusion. The necessity of stringent and uniform standards, wide participation and harmonization of related laws are necessary for ensuring a true and fair view of business, and therefore guaranteeing good CG.

**Keywords:** Corporate governance (CG); Stakeholders; Accounting standards; Disclosure.

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### دراسة تجريبية لحوكمة الشركات بالمملكة العربية السعودية

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**ملخص البحث:** تضمن الحوكمة الجيدة للشركات أداء أفضل للشركات فضلاً عن تحسين العلاقة مع أصحاب المصالح. والممارسة السليمة لمعايير المحاسبية هي مسألة هامة جداً، لأنها تؤدي إلى تحقيق الإفصاح الفعال وبالتالي برامج حوكمة جيدة للشركات. ومن ثم، فإن ممارسة المعايير المحاسبية السليمة هي أكثر أهمية من مسألة جودة حوكمة الشركات في مجال المنافسة الحالية بينهما حيث توفر تلك المعايير آلية مفيدة لإعادة هيكلة قيم الشركات الأساسية.

وفي هذا السياق، فإن البحث يهدف لمناقشة ممارسة المعايير المحاسبية لتحقيق حوكمة أفضل للشركات، لأنها تعتبر واحدة من القضايا الهامة ذات الصلة بحوكمة الشركات، مع هدف جعل المعايير المحاسبية مفيدة لضمان الإفصاح بصورة أفضل، ومن ثم الحوكمة الجيدة للشركات. وقد كشفت النتائج التجريبية أن غالبية شركات العينة قد أدركت ملاءمة المعايير لتحقيق حوكمة جيدة للشركات والتزمت بـ 10-20 معيار محاسبي لمعالجات متنوعة من البنود، مما يعرض للخطر قابلية القوائم المالية للمقارنة ويترك مجالاً للتقدير الشخصي والارتباك. وقد تم التحقق من ان وجود معايير متشددة وموحدة، والمشاركة الموسعة، ومواءمة القوانين ذات الصلة كلها نواحي هامة لضمان صدق وعدالة القوائم المالية لمنشأة الأعمال، ومن ثم تحقيق حوكمة جيدة للشركات.

**كلمات مفتاحية:** حوكمة الشركات، المساهمين، المعايير المحاسبية، الإفصاح.

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## 1. Introduction

The interest in corporate governance (CG) has increased in many advanced economies, which have emerged over the past few decades, especially in the wake of the economic regression and financial crises witnessed by a number of East Asian countries, Latin America, and Russia in the 1990s. This is also true of the American economy that has witnessed recently the repercussions of the financial collapse of a number of poles of global US companies in 2002, as well as the global financial meltdown that toppled the global economy. Due to the growing interest in this concept, a number of international institutions were keen on its analysis, namely the International Monetary Fund (IMF), the World Bank (WB) and the Organization for Economic Co-operation and Development, which issued in 1999, the principles of CG that were concerned with the help of the member states, and non-members of the Organization, to develop legal and institutional frameworks for the implementation of CG in all public and private enterprises, whether current or non-current in financial markets. These frameworks introduced a number of guidelines to reinforce CG and efficiency of the financial markets and the stability of the economy as a whole, and that was emphasized by the World Organization of the Securities Administrators in May 2002, which highlighted the importance of adopting the principles of CG.

## 2. Purpose of the study

The current study aims at viewing the state and concept of CG in the Kingdom of Saudi Arabia (KSA) and reviewing the efforts exerted by the state, professional organizations, and academic institutions to spread the awareness of this concept and apply it in reality, as well as conducting research and discussing governance mechanisms applied in them. All this represent the foundation of CG to use the advantages of the Saudi experience and get some recommendations which could handle deficiencies and disadvantages and increase awareness of modern concepts.

## 3. The Experience of KSA

The Saudi market has the largest market value and has reached the peak during the period from 2003 until the beginning of 2006. The first joint-stock company in KSA was founded in 1954. By the end of 2015, the number of listed companies in the Saudi market has reached 151 companies with about 3 trillion Saudi riyals as a market value, (Tadawul, 2010). However, shares' exchange started in the early seventies with the increasing number of joint-stock companies. In 1984, a royal decree has been issued to organize shares' exchange through local banks. In 1990, the first integrated electronic system for exchange has been applied. In 2001, *Tadawul* system has been launched to present a new type of exchange that copes with global developments and the improvement of investment environment. KSA revised and updated many systems and established new systems that aim to restructure capital market according to the latest international principles and standards applied in this field (Capital Market Authority, 2012). Accounting and auditing profession have gained the attention of the state and has undergone many developmental phases as follows:

### Phase One: 1931 – 1978

This phase witnessed the birth of “Accounting & Auditing” profession in KSA. Therefore, it included the first governance mechanism represented in:

- 1- **Commercial Law:** The commercial law has been issued by Royal Decree No. 32 on 01.06.1931. It includes some general provisions that regulate commercial book-keeping (Commercial Law, 1931).
- 2- **Companies Law:** Companies' law has been issued by Royal Decree No. M/6 on 20.07.1965 which required all companies operating in KSA to prepare and revise financial statements by a licensed chartered accountant. Decree No. 422 of the year 1968 of the Ministry of Trade stipulated some of the conditions that must be met by people licensed to audit accounts (Companies Law, 1965).

**3- Chartered Accountants' Law:** It is the first chartered accountants' law by virtue of Royal Decree No. M/43 on 01.08.1974 which put the first brick in the wall of organizing this profession in KSA. A higher committee has been established for chartered accountants and has been assigned to supervise and develop the profession (First chartered accountants' law, 1974).

This phase reflects the existence of "governance" in KSA as early as 1931, which has been represented in the issuance of the first commercial law, companies' law and the first chartered accountants' law. The latter established professional regulation that resulted in the formation of a higher committee for chartered accountants.

#### **Phase Two: 1979-1990**

This phase is known for contributing in developing the accounting concept in KSA through the combination of many official, educational and professional efforts as deliberations took place in the middle of 1979 between the Deputy Minister of Trade and Al-Rashed Office (Chartered Accountants and Auditors) on the profession's conditions in KSA and the necessary developments that should be accomplished in order to cope with the new changes. This phase witnessed the cooperation between the Minister of Trade and King Saud University which organized a series of seminars to recommend some methods for developing accounting profession in KSA. Furthermore, the Saudi Accounting Association was established in 1981 to provide studies and advice, aiming at development.

As a result, it was suggested to develop the accounting profession through three phases. The Ministry of Trade assigned Al-Rashed Office to conduct a comparative study of the profession's status in a number of countries, aiming to utilize their experience to develop the profession in KSA. Following the ministry's follow-up during that period, the Ministerial Decree No. 857 has been issued on 02.05.1990 and stipulated the adherence to the goals and concepts of financial accounting and standard of presentation and public disclosure during

the preparation and audit of financial statements (Decree No. 852 of the Ministry of Trade on 02.05.1990).

#### **Phase Three: 1991-2002**

This phase represents the golden age of accounting and auditing profession in KSA following the issuance of Royal Decree No. M/12 on 19.11.1991 (New chartered accountants' law, 1991) that resulted in the cancellation of old chartered accountants' law (No. M/43) and the approval of a new law for chartered accountants. The new law stipulates in Article No. 19 the establishment of the Saudi Authority for Chartered Accountants which has been assigned to develop the "Accounting & Auditing" profession and anything that could contribute in developing it.

#### **1. CG Regulations**

Capital Market Authority (CMA) was founded in KSA by virtue of Capital Market Law issued by virtue of Royal Decree No. M/30 on 31.07.2003. It is a governmental authority that is financially and administratively independent and which is directly related to the Prime Minister. CMA in KSA issued draft regulations for CG on 01.07.2006. Then, the resolution of the Board of CMA has been issued on 12.11.2006 to enforce the regulations in the final format. It issued the regulations for acknowledging its duty and mission for developing capital market in view of the increasing international interest in the principles of CG and consideration of such principles as the most important mechanisms. During the preparation of the regulations, the principles specified by international organizations and utilization of the experiences of countries in CG have been taken into consideration, in addition to the numerous notes and proposals received by the authority after the initial publication of the draft on its website. Below is a summary of the articles included in the regulations (CMA, 2012):

#### **Article One: Preamble**

a- The regulations specify rules and standards regulat-

ing the management of listed companies, in order to ensure adherence to the best governance practices which guarantee protection of shareholders and other stakeholders' rights;

- b- The regulations are considered guiding regulations for all listed companies as long as another law or regulations or a resolution from the Board of the Authority stipulates that some of the provisions stated thereof are obligatory;
- c- Except for Paragraph (b) of this Article, listed companies shall adhere to disclosure of resolution of the Board of Directors regarding the provisions that have been applied from the regulations and those that have not been applied and reasons therefore.

It should be noted that the Saudi market has witnessed consecutive economic changes due to the increasing number of listed companies, their bigger sizes and their huge capitals. These changes resulted in imbalance between stakeholders and some administrations of listed companies. The Saudi market has suffered from breakdown during 2006, as market index declined from 20967 points to 14878 points on March 2006. After about six months, the index declined again to 6570 points approximately resulting in gross financial losses that reached 68% of market value (Tadawul, 2010) which resulted in the loss of stakeholders' rights, especially the current investors. This also resulted in potential investors' trust in accounting the information included in financial reports of these units.

The most important reasons for the previous breakdown in the Saudi market were the lack of control of governance mechanisms and lack of disclosure and transparency in some listed companies. This was reflected on a set of adverse effects, especially the loss of potential investors' trust in accounting information, which urged CMA at the beginning of 2007 to stop exchanging the shares of some companies whose losses exceeded 75% of capital as per Article No. 180 of Saudi Companies Law. This resulted in increasing the importance of CG, motivating KSA to exert continuous efforts to activate CG which promotes internal control in listed companies. This has been confirmed by issu-

ance of joint-stock companies governance regulations supplied by CMA on November 2006, aiming to provide the suitable environment for investment in capital market and ensuring disclosure and transparency and protection of investors and dealers in capital market.

- How shareholders can ensure governance non-abuse of their money?
- How those shareholders verify that governance seeks increasing profits and companies' share value in the long term?
- How can shareholders and stakeholders monitor governance effectively?
- To what extent is governance concerned with the main interests of society in different fields?

On the other hand, the Saudi economy has recently seen the emergence of a number of reforms which led to the expansion of a market economy. The financial momentum shown by the Saudi government could indicate the beginning of the positive trend accompanied by the growth in the size of Saudi companies, which have expanded. Accordingly, the numerous stakeholder's expectations have also increased, which could only be met through good CG. There is a growing awareness of the importance of good CG in improving the competitiveness and performance of enterprises and improve the relationship with all stakeholders, as some of the Saudi companies had to adjust the CG principles they apply.

To serve this purpose, Saudi companies are not requested right now to submit a detailed statement of what they have accomplished so far. This statement is also required for the compliance with sound accounting standards, as long as the standards limit aspects of estimation and discrepancies, and enhance the degree of transparency in the exchange of information with stakeholders as well as supports a bigger role for managers, enabling them of achieving the objectives of governance amidst challenges and adversities, which improves the benefit of disclosure (Hope, 2003).

**CG:** Generally, it is a set of laws, rules and standards that define the relationship between CG on the one hand, and the shareholders and other stakeholders

(parties related to the company such as bondholders, workers, suppliers, creditors, consumers) on the other. More specifically, that term provides answers to several questions including:

- How do shareholders ensure that governance shall not misuse their money?
- How do shareholders make sure that governance aims at maximizing the profitability and value of the company's shares in the long term?
- To what extent is governance attentive to the basic social interests in the areas of health and the environment?
- Finally, how can shareholders and stakeholders effectively monitor governance?

Furthermore, accounting dimensions of CG are varied, namely accountability of accounting and control; the pursuit of the development and application of accounting and auditing standards; the increasing role of both internal and external audit as well as auditing committees; the achievement of disclosure and transparency and reducing the negative effects of the process of earnings management implications; as well as the effective and continuous assessment of performance of the economic unit.

It follows from all this that CG is seen as a system of accountability geared mainly towards the shareholders. The application of accounting standards provides great confidence in CG, and makes the disclosure more effective, ensuring good CG. The study of accounting standards practices currently represents great importance and a topic relevant to good CG in the current environment, where the standards are considered as a response to technical appeal for improving financial reporting. Such a study is also a reflection of the expectations of societal change for the company's behavior and is a tool for socio/political monitoring and observation of facilities (Forsyth et al., 2009).

#### 4. Literature review and experimental studies

The professional and legislative interferences in CG field contributed to the existence of many academic

and applied studies that review different aspects of good governance mechanisms. A summary of the most important studies, which serve the goals of this paper, can be presented as follows:

- 1- Non-obligatory principles of CG which have been issued by the Organization of Economic Co-Operation & Development (OECD) in 1999 amended in 2004 (OECD, 2004) represent the most important and critical phase in history for CG, as these principles are a practical reference which can be followed and standards of good practice in the field of CG.
- 2- El Shammari (2005) confirmed that studies conducted by OECD highlighting the importance of local CG as to the sustainable development of productivity in developing countries. The regional forums organized by the organization regarding governance in Asia, Latin America, Southeast Europe and Russia indicated that the quality of local CG is very important to ensure successfulness of developmental efforts in the long run in different developing countries.
- 3- The Egyptian Ministry of Investment issued in October 2005 a Code of CG by virtue of Decree No. 332 of the year 2005. The Egyptian Institute of Directors affiliated to the Ministry of Investment issued Public Business Sector CG Guide in July 2006, in order to assert the same previously mentioned CG principles (The Egyptian Institute of Directors affiliated to the Ministry of Investment, 2006).

In KSA, financial reports shall be prepared according to Saudi Arabia Accounting Standards issued by the Saudi Organization for Certified Public Accountants (SOCPA) and the requirements of the Saudi Companies Act. The commitment of companies in the preparation and presentation of financial reports as stated in the list of requirements for the CMA must be submitted by the issuance entities that launch stocks to the public. In addition, there are requirements imposed by other regulatory bodies in KSA which may be associated with certain industries and disciplines.

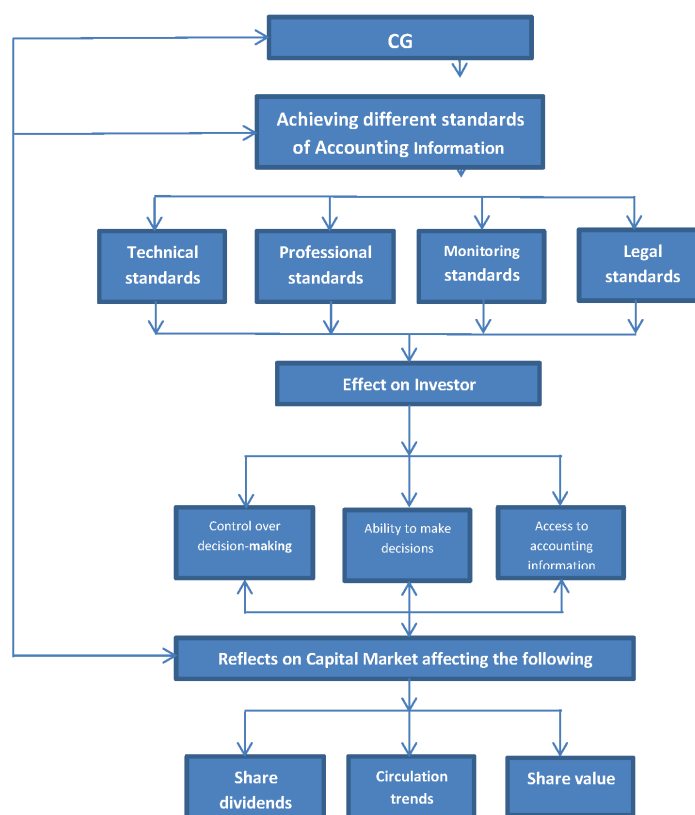


On the other hand, CG in KSA has been initiated quite recently: as on 1/7/2006, the CMA of KSA has issued a regulation draft for CG. Then the CMA Council issued an Act dated 12/11/2006 to put into practice the regulations in its final form. Amendments to the regulation were issued by the CMA Council’s decision on 19-5-2008. It included five chapters.

The Saudi CMA, the governing body for the stock market, has committed all listed companies in KSA to comply, starting from the year 2009, to the rules of governance associated with the disclosure of corporate boards of directors in the report. It was concluded that CG is just a set of rules of good practice to manage the company so as to maintain the rights of shareholders, bondholders, other stakeholders and employees of the company through the execution of contractual relations, financial and accounting tools sound formats ac-

ording to the standards of disclosure and transparency (Bhimani, 2009, p.2).

Good CG ensures the best performance for companies as well as improving their relationships with stakeholders. However, the quality of CG depends in turn on practicing good accounting standards, which leads to the achievement of effective disclosure and thus good governance programs for companies. The practice and commitment to sound accounting standards play a key role in the activation of governance systems. The final output of accounting practices is represented in reports and financial statements which are the primary means of communication in the areas of business; hence representing an influential element for governance, which in turn affects investors (Wright, 1998). The next Figure shows the relationship between CG and accounting standards and their impact on investors:



The white paper on CG trends impacting private businesses (Newswire, 2003) is one of the leading studies on the role of accounting and auditing in the application of CG and the development of capital markets. It concluded that there should be legal procedures for the protection of shareholders' rights, in addition to the need to adhere to accounting and auditing standards they ensure transparency in the preparation of financial statements and reports as well as its role in protecting the rights of the company's stakeholders, which should positively be reflected on the circulation of capital markets.

García Lara et al. (2009) reported a strong relationship between good CG and accounting practices, mainly practices involving Qualified Accounting. Shankariah and Rao (2004) provided the importance of good accounting practices in activating the mechanisms of good governance in Malaysia and Oman. Further, Fich et al. (2008) highlighted the importance of the relation between governance characteristics and accounting standards for better prediction of bankruptcy. On the other hand, Smaili and Labelle (2009) showed the inverse relationship between the occurrence of irregularities and quality of CG for a sample of listed companies in the Canadian stock market, meaning that irregular accounting practices could weaken governance of Canadian companies.

In KSA, the report of the first CG practice, issued in 2006, stated that negative practices of CG by Saudi companies were due to the weakness of the practice of accounting and auditing. The report called for more support to get to the good practice with the revision of the applicable accounting and auditing standards, so it took several measures to facilitate the application of CG, among which was the introduction of new and modernized Saudi accounting standards which were consistent with international equivalents.

The study of accounting standards and its issues with Saudi companies may help to understand the existing practices of accounting standards, which in turn helps in the design of effective atypical practices, so as to ensure good CG. In this context, the researcher started a study of accounting standards and practices in KSA,

with the aim of strengthening the accounting standards and improving their practices to achieve good CG.

Data related to the current study has been obtained from the annual reports (published during the period from 2006 to 2008) for 30 Saudi companies from various sectors, selected from a sample of top Saudi companies, according to the criterion of total assets. Perceptions of companies about appropriate accounting standards for Saudi companies to good governance have been studied as well.

### **5. Saudi Arabia Accounting Standards**

Bodies concerned with the accounting and auditing profession such as research centers and universities in various parts of the world have contributed to strengthen the elements of the accounting and auditing profession. Some countries issued a set of concepts, standards and rules governing the profession and opted for the internal organizational structure which guarantees its adherence to the issued standards and rules. The Ministry of Commerce in KSA conducted an extensive study in order to develop the accounting and auditing profession. It developed an intellectual framework for accounting which included a definition for the objectives of financial accounting and its concepts. Those efforts were culminated by the issuance of Royal Decree No. M / 12 dated 19/11/1991, by which the System of Chartered Accountants was approved and included in the provisions of its Article No. XIX on the establishment of the Saudi Organization for Certified Public Accountants. One of the most important achievements of the authority is its review, development and adoption of the accounting and auditing standards.

Several Saudi authorities have contributed to the promotion of standards, with their experience and wisdom to make CG more effective in the context of the changing corporate environment. Besides, CG is now pressing for the reform and the level of transparency of accounting practices by lenders, regulators, financial analysts and, above all, the board members who are aware that the quality of information will determine how efficient they are, discharging them of their

responsibilities towards good CG. prepared in accordance with Saudi Arabia accounting standards set by the Saudi Organization for Certified  
 The annual and interim financial reports in KSA are

**Table 1 - The Saudi accounting standards**

No. of Standard	Standard
1	Presentation and disclosure standard
2	Standard of foreign currencies
3	Inventory standard
4	Standard of disclosure process with stakeholders
5	Revenue standard
6	Administrative and marketing expenses standard
7	Research and development costs standard
8	Consolidation standard
9	Standard of accounting for investments in securities
10	Preliminary financial reports standard
11	Zakat standard and the income tax standard
12	Fixed assets standard
13	Accounting for lease standard
14	Segment reporting standard
15	IAS for under equity method investment
16	Intangible assets standard
17	IAS subsidies for government grants
18	Standard downs in the value of non-current assets accounting
19	EPS standard

Although Saudi companies have applied all Saudi accounting standards, practically, some are not without criticism because of some gaps that cannot be denied. Practices related to these standards in the Saudi industries, and gaps in application have been discussed in order to strengthen it and ensure good CG.

**6. Practices**

Data collected from selected companies (3) has

been presented in Tables 2 to 9, followed by a brief analytical study, to determine the extent of compliance with accounting standards and issues related to the practices of companies:

1. Table 2 reveals that all of the thirty companies in the selected sample have expressed the view that the accounting standards are more suitable for CG.

**Table 2 Companies' recognition of appropriate accounting standards for corporate governance (N = 30) (100%)**

Accounting Standards	No. of Companies(30)	%
Appropriate	30	100%
Inappropriate	0	0
No comment	0	0
Total	30	100%



Public Accountants. Table 1 illustrates the accounting standards applicable in Saudi Arabian companies.

2. Table 3 shows that the majority of companies

in the sample had accounting policies, of which 60% have disclosed adopting less than 15 accounting policy, while the rest of the corporate disclosure ranges from

**Table 3 Practices of accounting policies of companies disclosed in annual reports (N = 30) (100%)**

Scope of Policies	No. of Companies (30)	%
Less than 15	18	60%
15-25	10	33%
More than 25	2	7%
Total	30	100%

3. Table 4 shows that most of these companies (80%) has adopted either cost or net market value, whichever is less to estimate the value of inventory, while 13% have adopted the moving averages method to assess its stock, and that about (7%) of the companies in the

chosen sample did not have any stock as is the case of the services sector. Most importantly is that all the sample companies that belong to the commercial sector followed part of the valuation method, albeit different.

**Table 4 Practices of companies for inventory evaluation (N = 30) (100%)**

Method	No. of Companies(30)	%
Weighted average cost	4	13%
Cost or net realizable value, whichever lesser	24	80%
No disclosure	2	7%
Total	30	100%

4. Table 5 reveals that all of the thirty companies in the se-

lected sample have offered cash flow and changes in equity.

**Table 5 Practices of companies for preparation of statement of cash flows (N = 30) (100%)**

Published Lists	No. of Companies	%
Cash flow and changes in equity	30	100%
Total	30	100%

15 to 25 accounting policy. Only two companies (7%) in the selected sample disclosed more than 25 policies.

5. Table 6 reveals that the majority of companies in the sample (97%) have followed the straight-line method

**Table 6 Practices of companies for fixed assets standard (consumption methods) (N = 30) (100%)**

Method	No. of companies	%
A straight-line of depreciation	29	97%
Other methods	1	3%
No Disclosure	0	0
Total	30	100%

6. Table 7 shows the practices of companies to the standard of foreign currencies. 10% of the sample companies did not disclose this standard practice; 50% did

not conform to this standard, while the remaining 40% disclosed its accounting policies related to foreign currencies in published financial statements.

**Table 7 Standard practices of companies foreign currency (N = 30) (100%)**

Method	No. of Companies (30)	%
The disclosure of accounting policies relating to foreign currency	12	40%
Not applicable	15	50%
Are not disclosed	3	10%
Total	30	100%

7. Table 8 reveals that only about 47% of the sample (14 companies) have shown that they undertake activities that include research and development, of which three companies (10%) used the method of charging of research and development full costs to the income statement in the financial period in which

they occur, while the rest of companies (11 companies, representing 11%) processed them as deferred charges. However, a majority of 16 companies (53%) did not disclose any information regarding their contribution in any related research and development activities.

**Table 8 Standard practices of companies R & D costs (N = 30) (100%)**

Method	No. of Companies	%
Research and development costs charged in full to the income statement when incurred	3	10%
Processed as deferred charges	11	37%
No Disclosure	16	53%
Total	30	100%

to calculate consumption, while the remaining percentage (3%), followed other ways.

8. Table 9 shows the accounting practices of the rest of the sample companies, which shows multiple

**Table 9**  
**The practices of companies for other Saudi Arabia accounting standards**  
**(N = 30) (100%)**

Standard	No. of Companies	%
Revenue standard	27	90%
Standard of administrative and marketing expenses	30	100%
Consolidation standard	24	80
Standard of accounting for investments in securities	28	95%
Standard of preliminary financial reports	18	60%
Zakat standard and the income tax standard	29	97%
Standard of accounting for leases	13	40%
Segment reporting standard	12	43%
IAS for under the equity method investment	24	80%
Standard of intangible assets	24	80%
IAS subsidies for government grants	6	20%
Standard of downs in the value of non-current assets accounting	9	30%
Standard EPS	30	100%

## 7. Results

The research reached the following results:

1. All the sample’s companies were committed to disclose its accounting policies, as being mandatory. However, the items mentioned in the framework of the accounting policies or clarifications were not the same for all companies that were selected for this study. Besides, addressing some of the items lacked uniformity among sampled companies. The standard disclosure requirements were only for the essential detection of facts. What was deemed significant or insignificant was a matter to be decided by the concerned company, where personal judgment intervenes in the profile of such decisions in the absence of concrete guidelines. Thus, the presence of the standard became questionable.
2. In a small number of accounting standards, such as inventory and consumption evaluation, and accounting for research and development activities,

we found that the Saudi accounting standards had allowed many of the alternative accounting processing methods. This kind of flexibility created problems in judging the quality and credibility of financial statements of the institution, and different approaches by different manufacturers, or different periods of time, whether inside the unit or within the industry, led to the weakness and lack of comparability and made financial information less useful and created confusion in the minds of investors.

3. The development of standards was done in a closed and narrow way and its executions were done in a dis-appropriate way, which would result in the dispersion of the practices and inadequate disclosure. This was in contradiction with the main objective of accounting standards in achieving sound CG. The researcher presents the following proposals, based on discussions with companies for solving some of the aforementioned issues, in order to improve the relevance of accounting standards to ensure good CG.

practices for different standard and their heterogeneity.

## 8. Future research

1. It is suggested that the CMA in KSA, in cooperation with the Saudi Organization for Certified Public Accountants SOCPA, as well as accounting firms in the UK should develop a sort of mechanism to limit the scope of available alternative methods within each criterion of Saudi Arabia's accounting standards. Thus, the use of uniform accounting standards would enhance the specific dimensions and the dimensions of the comparability of the financial statements and the preparation of reports.

2. Achieving compatibility among the laws and regulations applicable in the UK (as Saudi Arabian companies' system, and as the Saudi law of trade and tax laws, Zakat and the guide on general monitoring administration of banks ... etc), would lead to a fundamental effect on the vocabulary/terminology used in financial statements, which provides a vision of a true and fair property.

3. The drafting of spontaneous and comprehensive criteria, such as accounting for price fluctuations, the economics of inflation, standards of sectorial accounting, standards of joint ventures, standard earnings per share and investments in subsidiaries and other companies, can be useful in making more appropriate standards for users which are also more acceptable at the international level.

## 9. Summary

To sum up, the industrial community in KSA as a whole should apply Saudi accounting standards in a uniform manner, with the adoption of disclosure practices that ensure a true and fair expression of economic activities. But it turned out for the researcher that with the economic liberalization policy and the increase in the international capital market activities, advisers to the Saudi Organization for Certified Public Accountants opted for the globalization of a set of entry points

for each accounting standard, which resulted in its limitation. On the other hand, the application of those standards should be compulsory; otherwise it would be extremely difficult for Saudi investors to have confidence in CG.

Good CG includes better performance of companies as well as improves the relationship with stakeholders. Besides, the practice of sound accounting standards is a very important issue because it leads to the achievement of effective disclosure, and thus to good governance programs for companies. It follows that the practice of sound accounting standards is more important than the issue of the quality of CG in the field of the existing competition between them, where those standards provide a useful mechanism for restructuring the basic values of companies.

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## Appendix

- I. This study has been honored by the issuance of Decree No. 692 of the Minister of Trade in 11.11.1985 which called for the necessity of the study by Eid El Shammari, *Vocational Rehabilitation to Practice Accounting and Auditing Profession in the Countries Forming Cooperation Council for the Arab States of the Gulf*, Riyadh, 2005
- II. The Ministry of Commerce in Saudi Arabia conducted an extensive study in order to develop the accounting and auditing profession which ended by the development of the intellectual framework for accounting and



included defining the objectives of financial accounting concepts. This has been prepared in the light of a framework on the general standard of presentation and disclosure and auditing standards and prepare an internal regulation of the profession. Those efforts culminated in the issuance of the Royal Decree No. M /12 dated 20/11/1991, by which the System of Chartered Accountants was approved, and it was stated by the provisions of Article No. XIX on the establishment of the Saudi Organization for Certified Public Accountants (a body working under the supervision of the Ministry of Commerce to promote the accounting and auditing profession and all that would help in the development of the profession and the promotion of its standard). The commission is concerned with the following areas:

1. Review, development and adoption of accounting standards.
2. Setting up rules for the required exam to obtain fellowship certificates.
3. Organizing continuing education program.
4. Proper organization for the field supervision to ensure the chartered accountant's application of professional standards and his/her compliance with the provisions of accountants' regulatory system.
5. Prepare accounting, auditing and related fields' researches and studies.
6. Issuing periodicals, books and newsletters relevant to accounting and auditing topics.
7. Participate in seminars, local and international committees in relation with accounting and auditing profession.

III. The Capital Market Authority was established under the "Capital Market Law" issued by the Royal Decree No. (M / 30) dated 01/08/2003. It is a financially and administratively independent body and is linked directly to the Prime Minister. The Commission shall supervise the organization and development of the financial market, and shall issue regulations, rules and instructions necessary for the application of the provisions of the Capital Market Law aimed at an appropriate climate for investment in the market to provide, and increase confidence in it. Furthermore, it shall ensure the appropriate disclosure and transparency of joint stock companies listed on the market, and the protection of investors and securities dealers. The Commission has the following prerogatives:

1. Organization and development of the financial market, and the development of methodology of authorities and entities in the field of securities trading.
2. Protection of investors against unfair and unsound practices involving fraud or deception, cheating or manipulation, or insider trading information.
3. Working to achieve justice, efficiency and transparency in securities transactions.
4. Develop regulatory measures which limit the risks associated with securities dealings.
5. Develop, organize and control the issuance and trading of securities.
6. Regulate and monitor the activities of the entities subject to the supervision of the Capital Market Authority.
7. Regulate and control the disclosure of information related to securities and their issuing entities.

