

REGULATING AUDITING IN SAUDI ARABIA: FROM STATE TO SELF REGULATION*

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ABSTRACT

This paper explores the interaction between the practising and regulatory divisions of the auditing profession, focusing particularly on the effects that changes in the context of the latter can have on the former. It examines this interaction within the auditing context of Saudi Arabia, where remarkable changes in the nature of regulating auditing practices have taken place following the passage and implementation of the 1991 CPA Regulation. These changes have affected the supply side of the Saudi audit industry, in terms of new CPA licensing and disciplinary rules, the establishment of an accountancy regulatory body, and, consequently, the issuance of new auditing standards and ethical codes, the setting of professional fellowship examinations and continues training requirements, and the implementation of quality review programme for professional firms. For this purpose, the paper outlines the results of series of research conducted during the last few years within the auditing context of Saudi Arabia. It involves a specific concern, namely: showing how could the issuance and implementation of numerous auditing regulations be utilised to the favour of professionals. It will proceed in five sections including a final concluding section, as follows. Section two outlines the implemented theoretical ideas drawn from the political economy theory. Third section provides a brief background to the context of the auditing profession in Saudi Arabia. Section four outlines the results of several research works conducted within the Saudi auditing contexts within the last few years, and finally, section five provides discussion and concluding comments.

Keywords: Auditing Context. Auditing Profession. CPA Regulations. Political Economy. Saudi Arabia.

Jel Code: M42, M48.

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SUUDİ ARABİSTAN'DA DENETİMİN DÜZENLENMESİ: DEVLETTEN ÖZ DÜZENLEMeye

ÖZ

Bu çalışma, denetim mesleğinin uygulama ve düzenleme bölümleri arasındaki etkileşimi araştırmakta ve özellikle ikincisi bağlamındaki değişikliklerin birincisi üzerindeki etkilerine odaklanmaktadır. Bu etkileşimi, 1991 CPA Yönetmeliği'nin kabulü ve uygulanmasının ardından denetim uygulamalarını düzenleme niteliğinde önemli değişikliklerin meydana geldiği Suudi Arabistan'ın denetim bağlamında incelemektedir. Bu değişiklikler, Suudi denetim sektörünün tedarik tarafını, yeni CPA lisansı ve disiplin kuralları, muhasebe düzenleme kurumunun kurulması, yeni denetim standartları ve etik kuralların çıkarılması, mesleki sınavlarının düzenlenmesi ve profesyonel firmalar için kalite inceleme programının uygulanması açısından etkilemiştir. Bu amaçla, makale Suudi Arabistan'da denetim bağlamında son birkaç yılda yapılan bir dizi araştırmanın sonuçlarını ana hatlarıyla açıklamaktadır. Çok sayıda denetim yönetmeliğinin çıkarılması ve uygulanmasının profesyonellerin lehine nasıl kullanılabileceğini gösteren özel bir endişe de çalışma içerisinde belirtilmektedir. Çalışma, sonuç bölümü dahil olmak üzere beş bölümde ilerlemektedir. İkinci bölüm, politik ekonomi teorisi bağlamında uygulanan teorik fikirlerin ana hatlarını çizmektedir. Üçüncü bölüm, Suudi Arabistan'daki denetim mesleğinin bağlamına kısa bir arka plan sağlamaktadır. Dördüncü bölüm, son birkaç yıl içinde Suudi denetim bağlamında yürütülen çeşitli araştırma çalışmalarının sonuçlarını özetlemektedir. Son olarak, beşinci bölüm tartışma ve sonuç yorumları sunmaktadır.

Anahtar Kelimeler: Denetim Bağlamı. Denetim Mesleği. Mali Müşavirlik Mevzuatı. Politik Ekonomi. Suudi Arabistan.

Jel Kodu: M42, M48.

1. INTRODUCTION

Auditors and the conduct of their professional work are mostly subject to regulation in one form or another. According to mainstream accounting research, the emergence and development of the auditing profession and its regulatory system is highly related to the development of technology, the industrial form of society and the information needs of capital markets and rational investors (e.g. Sriram and Vollmers, 1997). The regulation of the auditing profession, accordingly, has a strong connection to the development of social welfare policies and public interest criteria; as it can promote and sustain certain desirable characteristics of practitioners (traits, e.g. Roy and McNeil, 1967), improve the efficiency and credibility of the conduct of their work (functionalists, e.g. Jones, 1981), prevent abuse of positions and power by practitioners and various interest groups (capture hypothesis, e.g. Briloff, 1972; Chatov, 1975; Watts and Zimmerman, 1978; Benston, 1985), and, in general, prevent the occurrence of audit failures (Watts and Zimmerman, 1986).

In more recent accounting research critical dimensions were implemented (e.g. Cooper and Sherer, 1984; Tinker, 1984; Sikka, 2002). Inherent in this implementation was a critique of the proposition that regulators operate from an interest motive consistent with that of all social

behaviour, and an exploration of how specific historical, social, economic and institutional circumstances, rather than any overriding technical imperative, have contributed to particular modes of professional development (e.g. Loft, 1986; Willmott, 1986; Armstrong, 1987; Lehman and Tinker, 1987; Puxty et al., 1987; Whittington, 1989; Armstrong, 1993; Robson et al., 1994; Puxty et al., 1997; Hendrickson, 2001) and major changes in auditing practices (e.g. Burchell et al., 1985; Miller and O'Leary, 1987; Miller, 1991; Young, 1994). Distinctively, and more negatively, for a number of these critical studies, especially when about a self-regulated auditing profession, the concept of the profession itself is referred to in relation to both regulators and practitioners. Here, the regulation of the profession is seen to be associated with a causal indulgent relationship between regulators and practitioners, where professional bodies facilitate providers of auditing services with the judgement domain or indeterminacy of their task (e.g. Willmott, 1990; Puxty et al., 1997; Sikka, 1997; 2002). This is, as the profession is self-regulated, to establish and maintain the profession's claim of serving the public 'best interest' (e.g. Sikka et al., 1989) and, thus, hide the commercial nature of their services (e.g. Hanlon, 1996); and, most of all, gain the trust and support of the state (e.g. Sikka and Willmott, 1995; Mitchell et al., 1996). Accordingly, any change in the regulatory structure and contents would be related to what the practising division of the profession favours (e.g. Power, 1993; Robson et al., 1994). On the other hand, it was argued in some other studies, using critical perspectives, that the regulation of the auditing profession can involve conflicts between regulatory bodies and professional firms, as it can be associated with intervention, ineffective barriers to enter the profession, unnecessary constraints on auditing practices and increase in the cost of professional firms (e.g. Radcliffe et al., 1994; Velayutham, 1996).

The regulation of the auditing profession has an impact on the demand for and supply of auditing service (Turley and Sherer, 1991). The method of regulating the auditing profession varies from one country to another, depending on the social, economic and political status of each country. However, various forms of auditing regulatory systems, to some extent, share the focus on defining the licensing, disciplinary and monitoring rules and issuing standards and ethical codes for practitioners. The regulatory system, thus, is seen as a controlling activity through which the identity, role, actions and activities of practitioners are defined and monitored in line with pre-existed defined and standardised requirements. Since auditing practices are dependent upon standardised requirements, any changes to these requirements, whether as a consequence of change in the structure of the regulatory system, or as a revisionary adjustment to the existing requirements to meet specific ends, can have significant effects on the nature of such practices (Turley and Sherer, 1991).

This work explores the interaction between the practising and regulatory divisions of the auditing profession, focusing particularly on the effects that changes in the context of the latter can have on the former. It examines this interaction within the auditing context of Saudi Arabia, where remarkable changes in the nature of regulating auditing practices have taken place following the passage and implementation of the 1991 CPA Regulation (SOCPA, 1994). These changes have affected the supply side of the Saudi audit industry, in terms of new CPA licensing and disciplinary rules, the establishment of an accountancy regulatory body, and, consequently, the issuance of new auditing standards and ethical codes, the setting of professional fellowship

examinations and continues training requirements, and the implementation of quality review programme for professional firms.

This paper outlines the results of series of research conducted during the last few years within the auditing context of Saudi Arabia. It involves a specific concern, namely: showing how could the issuance and implementation of numerous auditing regulations be utilised to the favour of professionals. It will proceed in five sections including a final concluding section, as follows. Section two outlines the implemented theoretical ideas drawn from the political economy theory. Third section provides a brief background to the context of the auditing profession in Saudi Arabia. Section four outlines the results of several research works conducted within the Saudi auditing contexts within the last few years, and finally, section five provides discussion and concluding comments.

2. POLITICAL ECONOMY THEORY

A clear articulation of the characteristics of Marxism perspective in accounting research can be seen in Cooper and Sherer (1984), who argued for a political economy approach in accounting research, based on the Marxist school of thought. The authors reasoned the need for this alternative to the neglecting of various users of accounting information in the positive accounting, apart from shareholders. They also argued for a recognition of the existence of power and conflict within society, stressing that it is important to scrutinise the effects which accounting and auditing reports have on the distribution of income, power and wealth in society. Consequently, the contested nature of value forms a major theme in such enquiries, where, also, attention is paid to the specific historical and institutional environments in which accounting and auditing is conducted, together with the roles played by multinational business organisations, the state and any other interested parties. A concern with the potential of people is important at all times, as is the issue of their emancipation. This is to be complemented by an exploration of the manner in which the practice of accounting and auditing can contribute to the objective of emancipation.

Within the political economy perspective, the study of the auditing phenomenon focuses on the relationship between auditing systems and their social, economic and political context. Thus, issues such as power, social conflict, the role of the state and professional bodies in shaping auditing policy, the effects of auditing reports on the distribution of income and wealth in society, the historical change of cultural values, people's response toward auditing reports, and all other socio-political aspects are considered very important factors in the process of reality construction.

Furthermore, the political economy perspective is based on a belief that auditing is not neutral and objective, nor that it serves the public interest, as is claimed by regulatory bodies. Instead, it is viewed as a highly partisan practice and a useful tool for shaping social behaviour and attitudes.

Cooper and Sherer (1984) also provided a guideline for researchers who want to adopt the political economy approach. This guideline includes three methodological requirements:

the first is to be ‘explicitly normative’, where the researcher explains his view of the social structure. The second is to be ‘descriptive’, where the researcher should describe the relationship between political forces and cultural values, and the way in which accounting is exercised in the society under examination. The third is to be critical, where the researcher should understand the contestable role of auditing.

Neimark and Tinker (1986) provide an example of the adoption of political economy perspective in accounting empirical research. Their study aimed at supporting a critique to the traditional control model, in its ignorance of the ‘socio-historical’ environment of management control system, and its failure to recognise the relationship between organisations and their social, economical, political context. Therefore, the authors suggested an alternative ‘dialectical approach to control’ through which an understanding of the relationship between an organisation’s control system and its environment can be obtained. According to this approach, the driving force for societal change in capitalist society is a result of the existing contradictions which are inherent within the structure of society.

Informed by the political economy ideas outlined in this section, an insights into the Saudi auditing profession is provided the next section followed by a review of some recent literature on the Saudi auditing profession, in the last section.

3. INSIGHTS INTO THE SAUDI AUDITING PROFESSION

The period taken in developing the auditing profession in Saudi Arabia is considered to be relatively short. It was first introduced as a profession in the Kingdom in 1950, as it received the first legal acceptance through the first Income Tax Act. But despite the limited length of this period, the Saudi auditing profession has witnessed several major stages of development, starting from the period when auditing was practiced in the absence of regulations, to the appearance of limited rules and conditions concerning the competence of the auditor and his rights and obligations by the passage of the first Companies Act in 1965, to the enactment of the first CPA Law in 1974 which has been seen as lacking of the minimum basic requirements needed for organizing the profession (e.g. professional standards, ethical codes and quality control and continues training programmes), to the approval of the first package of professional standards by the Ministry of Commerce in 1983, as a result of remarkable efforts made by the Ministry with the aid of one of the pioneer national professional firms. During these stages, a number of academic conferences dealing with “methods of developing the accounting and auditing profession in the Kingdom” has taken place in King Saud University, the first conference was followed by the establishment of the first academic association for accounting in the Kingdom in 1981 under the name of the “Saudi Accounting Association”.

Through the above mentioned stages, the Saudi auditing profession has suffered from two fundamental issues. Firstly, the absence of an appropriate system for accounting education and training, and hence, the lack of qualified national professionals. Secondly, the absence of a specialized regulatory body, which led to the absence of obligatory professional standards, ethical codes and other rules and regulations required for controlling the practices of auditors,

and hence, the difficulty of comparing and judging the quality of professional performances. These difficulties had led to the emergence of a gap between the economic development and the profession. Despite the considerable increase in the numbers of national and international professional audit firms, determining the level of quality was left to the practitioners of these professional firms.

The current modern structure of the organization of auditing profession in Saudi Arabia is traceable to issuance of the present CPA Law by the Royal Decree No. 12/M in November 1991. The issuance and implementation of the new CPA Law is seen as a culmination of the efforts put into the development of a Saudi conceptual framework by the Ministry of Commerce, professionals and the SAA. Article 19 of the Law entails the establishment of a professional body (Saudi Organization for Certified Public Accountants, SOCPA) responsible for and authorized to organise, regulate and promote the accountancy profession. The objectives of SOCPA can be summarized as follows: (1) reviewing, developing and issuing accounting and auditing standards, (2) setting and organising professional fellowship examinations, which should include theoretical topics and practical skills as well as related regulations, (3) organizing continuous training programmes, (4) undertaking research on accounting and auditing related issues, (5) publishing journals, books and bulletins on accounting and auditing related issues, (6) monitoring professional compliance with the 1991 CPA Law and the issued accounting and auditing standards and codes of ethics, and (7) participating in local and international accounting and auditing conferences (SOCPA, 1994, CPA Law of 1991, Article 19, pp. 6-7).

Although this body operates under the supervision of the Ministry of Commerce, it reflects a remarkable movement in the nature of the Saudi accountancy regulatory system, from having been entirely governmental in form to becoming a quasi-self-regulatory system, since almost half of the total number of participants in SOCPA's Board of Directors is certified public accountants. The new CPA Law provides not only regulations concerning the internal regulation of the profession, conditions of registration, registration procedure, obligations and penalties of certified public accountants, but also the mechanisms that enable the implementation of such regulations.

Following the establishment of SCOPA, the auditing profession in Saudi Arabia has witnessed remarkable changes. Fundamental changes, among others, have been reflected in the nature of the new regulatory system, moving from a governmental form to becoming closer to a professional self-regulatory form. Following this remarkable reform, basic requirements needed to the enhancement of the profession (e.g. accounting and auditing standards, ethical codes, quality review programs and licensing rules) have been prepared by a number of specialised committees formed within SOCPA, and approved and enacted by SOCPA's Board of Directors during a relatively short period of time. In addition, during the same period SOCPA has organized accounting and auditing conferences and training programmes, undertaken and published research on existing accounting and auditing practices and a professional bulletin.

The practice of auditing in Saudi Arabia has also gone through many stages of development, starting the beginning when auditors used to undertake comprehensive checking

and testing of all transactions and account balances included in the records and financial statements, then moving to make use of statistical sample methods and analytical review in order to reduce the extent and depth of auditing procedures, and finally applying the systems based and risk based approaches (Al-Angari, 2004). Similarly, the roles and functions of auditing firms have also witnessed a considerable movement, especially during the past decade, when these firms began to concentrate on providing value-added audit services in order to compete within a highly competitive market. Such a movement has brought about new concepts of auditing and gave the opportunities to audit firms to market a wide range of consulting services beside the traditional auditing and accounting services. This transition contributed to give a considerable commercial feature to the professional services provided by these firms, and led in its turn to change the predominant concept of the role and function of these firms which were based mainly on practicing auditing and other accounting services in a way that assures providing the best professional service to the economic community and society in general (Al-Angari, 2003).

Finally, it must be noted that despite of the considerable efforts made for the development in the organizing and practicing of the auditing profession in Saudi Arabia, empirical evidences indicate the existing of some major problems, including the failure of professionals to comply adequately with many professional rules and regulations despite the implementation of the quality review programme by SOCPA over auditing firms (Al-Angari and Sherer, 2002). It is a matter of fact that the difficulty which the professional firms face in accepting the compliance with any new regulation is mainly associated with the freedom they enjoyed throughout the stages that were prior to the issuance of 1991 CPA Act. Moreover, the Saudi auditing profession environment suffers from the continuity and spread of the low audit fees and its negative effects, not only on the relationship between professional firms, but also on the nature and quality of services provided by them (Al-Angari, 2005). It also suffers from the limited number of professional firms, as well as the existence of monopoly over professional services exercised by limited number of big firms. Recent statistics indicate that 78% of the income of professional firms in the Kingdom (102 offices) is concentrated in only 11 firms, which employ 53% of the total number of auditing practitioners in the Kingdom (The SOCPA Magazine, Issue. 23, January, 2000, p. 2).

4. RECENT STUDIES ON THE SAUDI AUDITING PROFESSION

Al-Angari and Sherer (2001) provides an understanding of the nature and extent of the changes that took place within audit firms operating in Saudi Arabia following the implementation of quality review programs for audit firms by the Saudi Organization for Certified Public Accountants (SOCPA). Establishing this understanding was based upon the 'processual' theoretical models of 'first and second order' organizational change (Laughlin, 1991; Laughlin and Broadbent, 1996a). The Habermasian 'three stage discursive processes' (Habermas, 1988) were used, as the methodological approach for this empirical research, to explore a case-study involving a variety of seven selected audit firms operating in Saudi Arabia. This paper concludes that the implementation of quality review programs for audit firms by

SOCPA has affected the core activities of the seven audit firms in question, generating 'second order', 'evolution' and 'colonization' changes. It also concludes that although the consequences of the new imposed programs have been welcomed by some individual professionals and firms, as well as representatives of other interest groups within the Saudi accountancy context, they were unwelcome to many others.

Al-Muatiri and Al-Angari (2002) argued that the future of the organization of the Saudi Accountancy profession might encounter significant pressure from the effects of the World Trade Organization (WTO). As it was expected that the Saudi accountancy profession will seek to follow the WTO, the paper provided an analysis that revealed the necessary role for the accountancy profession to develop its local regulations. Additionally, the paper explored the importance of assessing and improving the professional competence and the requirements of professional accountants. The paper concluded by asserting that the adoption of international accounting and auditing standards is crucial to follow the WTO.

Al-Angari (2003) aims to provide an understanding of the nature and extent of changes that occurred or expected to occur within audit firms operating in the Kingdom of Saudi Arabia following their compliance to implement regulations related to the Saudisation policy. The significance of this paper comes from providing a basis upon which future evaluation of the requirements of the imposed regulations can be undertaken. The results of this paper were derived from a qualitative empirical study that has been conducted on four selected audit firms operating within the Saudi auditing environment. The results suggested that the compliance of the audit firms under research to implement the imposed Saudisation regulations will lead in any case to the occurrence of changes that affect part of the intangible concepts embedded within these firms which normally constitute their cultural and societal bases, as well as some of their tangible or technical concepts. In the light of the details of the theoretical approach that has been applied in collecting and analysing the empirical data, this paper concluded that the remarkable split in the views of members of the audit firms under research regarding the extent to which they accept these changes must reflect in describing their nature and occurrence procedure.

Similarly, Al-Angari (2004) aims to determine the nature and extent of changes that occurred or are expected to occur within audit firms operating in the Kingdom of Saudi Arabia resulting from their compliance to conform to a growing number of auditing standards issued by the Saudi Organisation for Certified Public Accountants (SOCPA). The significance of this paper comes, on one hand, from providing a basis upon which future evaluation of the significance and legitimacy of developing local auditing standards can be undertaken, and, on the other hand, from determining the appropriateness of such standards to the Saudi auditing environment and, in particular, the extent to which developing these standards can be seen as more efficient than relying upon other existing and widely accepted standards, such as the American auditing standards, the international auditing standards and the auditing guidance in the UK. The results of this paper were derived from a qualitative empirical study that has been conducted within eight selected audit firms operating within the Saudi auditing environment. The results of this study suggested that the compliance of the audit firms under research to

follow local auditing standards has led or is expected to lead in any case to the occurrence of changes that affect part of the intangible concepts embedded within these firms which normally constitute their cultural and societal bases, as well as some of their tangible or technical concepts. In the light of the details of the theoretical approach that has been applied in collecting and analysing the empirical data, this paper concluded that these changes cannot be considered as resulting from normal and accepted developments regarding the firms' reasons for existence and bases that govern the nature and details of the firms' core activities, especially when the majority of their members have confirmed their dissatisfaction regarding the significance and appropriateness of developing local auditing standards by SOCPA, as well as their dissatisfaction regarding the difficulties of following and implementing such standards while dealing with major problems from which the Saudi auditing environment suffers.

Al-Sudairi and Al-Angari (2004) explored aspects of the expectation gap existing between auditors and parties benefiting from their services within the auditing profession's environment of the Kingdom of Saudi Arabia. Their findings suggested that a consensus does not seem to exist between different parties under research (auditors, parties benefiting from their services, and financial managers). Although these parties agreed on certain aspects regarding the nature of the auditor's work and his responsibilities as well as social expectations in relation to the required quality of the auditor's work and contemporary challenges facing the Saudi auditing profession, the results suggested that these various beneficiary parties do not share similar views regarding other aspects of these issues. By way of concluding, the researchers stressed the importance of monitoring the compliance with the issued accounting and auditing standards and regulations, improving social awareness of the role and responsibilities of auditors, and undertaking research on contemporary challenges facing the Saudi auditing profession.

Al-Gamdi and Al-Angari (2005) explored the impacts of implementing quality review program on audit firms in the Kingdom of Saudi Arabia. Their findings suggested that implementing the quality review program on audit firms in the Kingdom has led to the enhancement of the quality of professional services provided by audit firms. It has also helped to eliminate professionals' misconduct by controlling their compliance with the profession's standards, ethical codes and other related rules. Moreover, results of the research had uncovered a number of hindrances that prevented audit firms from fulfilling all the requirements of the quality review program and together with a number of problems that result from the program's implementation over targeted firms.

Al-Angari (2006) provided an evaluation of audit reports in Saudi Arabia in order to bring to light whether there are factors that limit the level of clarity and usefulness of such reports to their users. The empirical study of this research had been directed at determining the shortcomings that limit the possibility of obtaining audit reports that are clearer and thus more useful to the users of such reports, with respect to the requirements of the Saudi auditing standards, control procedures that assure their implementation, and the level at which various beneficiary groups within the Saudi auditing context are aware of the nature of work undertaken and roles played by auditing practitioners within the course of undertaking the assignments

under audit reports. The results of the empirical study indicated that most participants agreed on the significant of adding a number of important requirements to the Saudi auditing standard while considering the availability of a number of principals and methods that assure increasing the effectiveness of the quality review program imposed by SOCPA on audit firms operating in Saudi Arabia, noting that the results of the empirical study also showed the users of audit reports in Saudi Arabia have a high level of awareness regarding the nature of work undertaken and roles played by auditors. Three recommendations had been provided in this paper, including stressing the significant of developing the requirements of both the Saudi auditing standard and the quality review program on the light of the results of the empirical study, in addition to stressing the significant of supporting the methods that may assure maintaining the higher level of awareness by various beneficiary groups within the Saudi auditing context of the nature of work undertaken and roles played by auditing practitioners within the course of undertaking the assignments under audit reports.

Al-Shatri and Al-Angari (2006) explored the impact of low level audit fees on the quality of professional performance, as well as its impacts on firms continuation, increase of competition in the audit market and professional breaches. Their were contradictory to a large extent, these revealed that although no major effects were caused by the reduction of audit fees on the quality of professional performance, such a reduction has generated other matters including, reducing the willingness of being a professional within the audit industry, minimizing the chances of attracting new qualified professionals and increasing the severity of competition and professional misconduct and violations. The study also revealed that there were more effects on smaller firms compared with larger firms. These small firms were seen to be more ready to accept the damages caused by the reduction of audit fees, and thus being unable to maintain an accepted level of professional performance and avoid violation. The study concluded by providing a number of recommendations, including the necessity of actuating the expecting role of the quality review program in order to ensure improvement in the quality of the performance of audit firms, the necessity of imposing a minimum limit on audit fees along with a controlling and regulatory roles played by SOCPA, the necessity of increasing public awareness of the role and function of the auditing profession within society, the necessity of encouraging accuracy in selecting and comparing auditors as well as concentrating on quality and qualification rather than on the low fee factor, and encourage small firms to merge in suitable groups where they can consolidate their capabilities, qualifications and experiences in order to strengthen their position in the market, develop their professional methods and expand the scope of their professional services.

Al-Amr and Al-Angari (2007) evaluated major regulatory pillars upon which the auditing profession in the Kingdom of Saudi Arabia is based (including professional standards, ethical codes of professional conduct, fellowship examinations, continues professional education programs, quality review programs, and communication channels that assure the delivery of rules and regulations to auditors and society in general) through measuring the effectiveness of such regulatory pillars in dealing and coping with the difficulties and challenges facing the Saudi auditing profession's environment and restricting its negative effects. Their findings suggested that a consensus does not seem to exist between auditors on

one hand and related parties on the other hand on their knowledge of difficulties and challenges facing the Saudi auditing environment. The significant of some aspects related to the factors explored in the empirical research (including the limitation of compliance with professional standards, ethics and other rules and regulations by auditors, the persistence and spread of existing “low baling” concept (i.e. low level audit fees) within the Saudi audit environment, the monopoly over professional services by a limited number of professional firms, the existence of regional professional bodies, and the affiliation to the World Trade Organization by Saudi Arabia) Moreover, there were differences in the responses of parties under research regarding other aspects related to the same factors. Although, these parties agreed on their knowledge of major regulatory pillars upon which the auditing profession in Saudi Arabia. The paper is concluded by providing some recommendations, such as participating of academics in correcting the laws of accounting and auditing, assuring the existence of fair balance between fees and effort in all audit assignments, and the consideration that should be placed by SOCPA on various required changes on its strategic plan that would enable Saudi Arabia to achieve the requirements of the World Trade Organization.

Al-Jifri and Al-Angari (2007) explored the incentives towards the trend of expanding the extent of professional services provided by audit firms in the Kingdom of Saudi Arabia, to include a wide range of financial, administrative, economic and technical consultancy services together with the traditional accounting and audit services; based on the supply and demand indications in Saudi market as a basis to interpret such a trend. Also, this research discusses the effect of providing such services to an audit client on the auditor independence. The researchers had based the conduct of the research on dividing the research sample into two main parts, the first reflected the supply side, which was represented by certified public accountants, and the second reflected the demand part, which was represented by parties benefiting from services provided by audit firms. The results of the empirical study indicated that agreement seems to exist between the two sides of the research sample regarding a number of factors relating to the demand and supply of non-audit services provided by audit firms, and a number of reasons for the demand on such services, in spite of having some differences on the degree of significance. The results also indicated that the provision of non-audit services to audit clients could have a minor or limited impact on the independence of the auditor. In the conclusion of the research, the researchers stressed the necessity of issuing a package of regulations and standards by SOCPA related to the provision of non-audit professional services rather than concentrating only on the traditional audit service in a way more accurate and suitable to the audit profession’s environment in Saudi Arabia in order to regulate the practices of such services and assure the auditor independence in both substance and appearance. The researchers also stressed the necessity of enhancing social awareness of the role, scope, nature of work and responsibilities of audit firms, as well as giving more support to research related to non-audit services and their related professional standards and regulations, together with research related to the problems and challenges that faces audit firms by way of attempting to find-out and suggest proper solutions through implementing contemporary research methodologies so as to reach more effective results.

Bakr and Al-Angari (2008) explored the concept of value-added auditing in its forth generation, as well as uncovering its supply and demand obstacles in the Kingdom of Saudi Arabia. Their results assured the existence of a modern concept of auditing which requires undertaking unconventional auditing procedures that aim at providing additional services to clients in order to improve their performance and assure their satisfaction. Also there were a number of obstacles that limit the implementation of such a concept in Saudi Arabia, related to the economic factors of the market and business, regulations, and related to the auditing profession itself. In addition the results of the empirical study indicates that there is an adverse relationship between providing value-added audits and auditor's independence. Finally, this research is concluded by providing some recommendations, such as stressing that the provision of value-added auditing in the Kingdom of Saudi Arabia requires the existence of a more transparent business environment as well as professional firms' compliance to continuously develop the capabilities of their professional members of staff allowing them to capture new concepts and methods of their professional practices, and while, on the other hand, the growing demand on such a service requires increasing beneficiary parties' awareness of its significant, implementation requirements and additional features as well as assuring that its provision does not affect the auditor's independence.

Al-Angari (2008) aims at exploring the impacts of the monopoly over the provision of audit service by a limited number of large professional firms on the quality of professional conduct in the Kingdom of Saudi Arabia. To achieve that, a positive methodological approach has been implemented. This approach is based on exploring, explaining and predicting certain phenomenon through reviewing previous researches as well as understanding the current status in order to reach a number of definitions and to identify all sorts of factors related to this phenomenon. Based on ideas drawn from such methodological approach, the researcher had identified the research main hypothesis. This has been examined using questionnaires through which a number of factors have been used. Selecting and determining these factors were facilitated by issues taken from previous researches on the market economics and concentration and quality of professional conduct, together with the researcher's personal understanding of the development of the auditing profession in Saudi Arabia and his interpretation of the difficulties and challenges facing that profession today. The empirical study were conducted over samples of parties representing auditors working for those professional firms holding a significant portion of the Saudi audit market, financial executives of publicly owned companies who used to be audited by such firms, and inspectors working for the quality review program over professional firms. The findings of this research suggested that a general agreement exist amongst the various parties of the research sample supporting the negative impacts of the monopoly over the provision of audit service by a limited number of large professional firms on the quality of professional conduct in the Kingdom of Saudi Arabia, which support the validity of the research main hypothesis.

Al-Jadani and Al-Angari (2009) aims to explore the extent to which size, reputation and nature of competition between audit firms impact upon the quality of their professional performance in the Kingdom of Saudi Arabia. The importance of this research comes from the need to improve the level of quality and efficiency in the auditing profession in Saudi Arabia,

through focusing on the essential factors that directly impact upon the quality of professional performance, these factors include size, reputation and nature of competition between audit firms. To achieve that, a questionnaire has been designed based on certain indicators and was directed to examine each of the study's two main hypotheses, based on the positive methodological approach. The result of the study has indicated that the first hypothesis which related the size and reputation of audit firms with level of professional performance quality by a positive relation was accepted, whereas the second hypothesis which related the competitive relations between audit firms and quality of professional performance by reverse relation was refused. Finally, the researchers provided a number of recommendations, among which was the necessity for small audit firms to restructure their present structures and to merge in suitable groups, as most of the beneficiary parties consider the size and reputation of audit firms to be as a scale for the quality of professional performance, and also the need for more studies relating to the nature of competitive relations between audit firms to explore the negative effects on the quality level of professional performance, as the majority belief on the positive effect of competitive relations on the quality of professional performance.

Al-Aglah and Al-Angari (2010) aims at exploring the expected future scenarios of the Saudi auditing profession after the affiliation of the Kingdom of Saudi Arabia to the World Trade Organization (WTO). The paper also tries to clarify local and international variables affecting the profession, and investigate the ability of the various stakeholders to contain and absorb the affiliation's consequences. To achieve that, a questionnaire has been designed based on certain elements directed to each of the study's two main hypotheses. These elements were derived from previous literature combined with the consideration of the nature and the development of the auditing profession in Saudi Arabia, noting that the researcher has adopted the positivism approach to conduct this research and achieve its objectives. The results of this study showed that the Saudi Arabia's affiliation to the WTO will lead to fundamental impacts on the nature, components and mechanisms of regulating the auditing profession in Saudi Arabia. By joining the WTO's regulations, laws and legislation, major changes should start to develop plans and goals for treatment. Moreover, results showed that affiliation will imply remarkable effects in the nature and requirements of the practice of the auditing profession in Saudi Arabia, and hence, there is a necessity to cope with these changes. Finally, the study concludes with some recommendations related to the regulation of the profession, such as the restructuring of the Saudi Organization for Certified Public Accountants (SOCPA) and its professional rules and regulations, and related to the practice of the profession, such as the necessity to reconsider the adoption of all mechanisms that could lead to the development of the quality of professional conduct of the practitioners of the auditing profession in Saudi Arabia.

Al-Thenaiian and Al-Angari (2010) aims to uncover the causes of the "audit opinion shopping" concept in Saudi Arabia and measuring and analyzing its impacts on the organizing and practicing of the auditing profession. The importance of this research comes from the significance of its topics which relates to a profession that relies directly on public confidence, as well as the lack of relevant literature relates to the Saudi auditing profession's environment. For the purpose of achieving the objectives of this research, a positive methodological approach

has been implemented and used to identify and formulate one question and one hypothesis, and a questionnaire has been used as a method for collecting data to know the views and trends of the sample drawn from the research community which constitutes of Certified Public Accountants working in Saudi Arabia. The results of the empirical study indicates that there are five causes of the presence of this phenomenon, which are: the auditor refuses to accept new auditing assignment due to the low level of fee offered by the new client, auditor does not accept the accounting procedures implemented by the audited company, direct request from the new financier or investor to the company to change the current auditor and replace him by another one, the auditor does not accept to perform an additional tasks which are not included in the audit engagement letter, and finally, the auditor does not accept the company's level of commitment to the audit requirements and accounting standards adopted in Saudi Arabia. Also, the study showed that most of the participants in the questionnaire were not sure of the existence of the "audit opinion shopping" and its impact on the auditing profession in the Kingdom. Meanwhile, the results of the study ensured the reliability of the study's hypothesis that, the presence of the "audit opinion shopping" adversely affects the organization and practice of the auditing profession in Saudi Arabia, based on the views of auditors who are familiar with the impacts of the phenomenon on the environment of their own profession. At the end of this research, the researchers provided a number of recommendations, of which the most important were: stressing the importance of supporting the ongoing awareness of the audit opinion shopping phenomenon and its causes and effects, the need for an effective cooperation between the Saudi Organization for Certified Public Accountants (SOCPA) and the Saudi Capital Market Authority (CMA) by which a system that can enable an effective turnover of auditors between companies especially open and closed joint companies and to ensure auditor independence from the company's management can be developed and implemented, the need for establishing a continues communication between the CMA with the auditors to review existing shareholding companies, the need for ensuring an effective communication between the current and old auditors and the possibility of exchanging information between them, the need for developing and implementing a system that can limit the ability of the current auditor in providing non-audit services to audit clients, the need to ensure the auditor's right to discuss his dismissal decision in the general meeting with the company's shareholders and, finally, the need to have an application that must be completed by companies who decide to change their auditors while allowing a space where auditors can explain the reasons for their dismissal.

Samman and Al-Angari (2011) aims at evaluating the effectiveness of audit reports in taking investment decisions from the point of view of users of such reports in the Kingdom of Saudi Arabia. The significance of this research comes from the need to have a basis upon which proper future solutions that enable the existence of effective information sources for investment decisions makers, including audit reports that had been prepared and approved by certified public accountants in Saudi Arabia, especially when the number of academic studies and research relating to audit reports in the Kingdom of Saudi Arabia are limited. This has been accomplished through highlighting the most important factors that support the level of clarity, usefulness and comprehensibility of audit reports, and thus, the possibility of using these reports as bases for successful investment decisions, as well as identifying other sources of information

that can be used as bases for taking investment decisions rather than audit reports. To achieve that, a questionnaire that includes a number of indicators directed to test the research's two hypotheses has been designed, as a positive research methodological approach was implemented. The results of the empirical research support the reliability of the first hypothesis, which in turn, support the significance of having clearer, and more useful and comprehensive audit reports, to be able to use there reports as bases for successful investment decisions. The results also support the reliability of the second hypothesis, which in turn support the importance of having various sources of information that can be used as bases for taking investment decisions rather than audit reports. By way of conclusion, the researchers have provided a number of recommendations, among which were emphasizing the significance of the factors that enhance the level of clarity, usefulness and comprehensibility of audit reports, asserting the significant of supporting the methods that may assure a higher level of awareness to such factors by various beneficiary groups and the Saudi society at large, and asserting the importance of enhancing investors' awareness of the significance of using audit reports as well as other proper sources of information that can help in reaching successful investment decisions. The researchers have also emphasized the importance of undertaking more research relating to audit reports within the Saudi auditing context, due to the lack of the proper number of related studies, and due to the significance of these research for the investment decision of a wide beneficiary group.

Zeater and Al-Angari (2011) aims at clarifying and discussing how much an auditor depends on his judgment during the fieldwork processes embedded within the conduct of auditing assignments, and his ability to comply with the requirements of fieldwork auditing standards for his contracted auditing assignments. It also aims at uncovering the impact of the variations of performance between auditors, which results in using judgments during the interpretation of the requirements of the fieldwork standards, and how this can impact upon the quality of their professional performance. The importance of this research comes from facilitating the scientific basis required to clarify the relationship between using judgments and complying with a number of requirements of various fieldwork auditing standards, as well as to clarify how judgments can impact upon the quality of auditors' professional performance. The significance of establishing such a basis resides in maintaining public confidence for the auditing profession, especially through limiting doubts around the ability of the auditing standards to achieve their aims in unifying professional performance. In order to achieve these aims, a questionnaire was designed containing a number of statements taken from fieldwork standards which the researcher considered as providing auditors with the ability of using their judgments, in addition to a number of elements related to the quality of professional performance which, the researchers believes that the judgments may negatively affect them. These statements and elements were directed to examine the two research hypotheses, based on the positivism methodological approach. The results of the empirical study supported the reliability of two hypotheses, as they indicated that the judgment of the auditor contributes to having a wide range of variations in professional performance, and such variations do negatively impact upon the quality of auditors' performances. By way of conclusion, the researchers provided a recommendation that requires the Auditing Standards Committee of the

Saudi Organization for Certified Public Accountants (SOCPA) to prepare a revised version for their issued standards and opinions that include a clear and accurate definitions for the numerous undefined phrases, as well as requiring audit firms to implement continues training programs for professional staff including new entrants in order to standardize practices while emphasizing the importance of that in their audit manuals.

Al-Eatani and Al-Angari (2012) aims to uncover whether the concentration of the provision of audit service in a limited number of audit firms affect the regulation of the audit profession in Saudi Arabia. In order to achieve such an aim, a questionnaire containing a number of elements of and bases for regulating the auditing profession in Saudi Arabia was designed. These elements and bases were implemented and directed to examine the research hypothesis, based on the positive methodological approach. The results of the empirical study supported the reliability of the research hypothesis, where the results of the empirical study indicated that the monopoly over the provision of the audit service by a limited number of professional firms do negatively affect the regulation of the audit profession. By way of conclusion, the researchers provided a recommendation that the Saudi Organization for Certified Public Accountants (SOCPA) must implement various methods and strategies that can ensure limiting the spread of market concentration for the audit service. Such methods and strategies should be directed to ensure proper consistency between the number and size of audit assignments accepted to be undertaken by a specific audit firm in one hand and the number of equity partners in that firm; the implementation of an executive plan for gradually increasing the number of partners in large audit firms; the enforcement of a statutory requirement for audit firms to disclose the details of their professional engagements in their proposals to audit committees of public companies; the avoidance of applying audit firms' categories by banks and financial institutions and requiring their clients to approach certain audit firms; and finally encouraging the mergers of small and medium size audit firms so that they can compete with large firms.

5. DISCUSSION AND CONCLUDING COMMENTS

It seems that the regulatory changes in the Saudi auditing profession reflect the Saudi government's intent to exert a controlling influence over the behaviour of audit firms, requiring them to implement national policies and meet certain defined quality levels in conducting their audit procedure. The government's intent, therefore, was to make audit firms accountable for what they are doing, through monitoring their work, ensuring compliance with accounting and auditing regulations, encouraging the development of credible audit services to meet the needs of financial statements users, and, thereafter, bringing the auditing profession in line with the economic development the country has been experiencing since the 1980s. Through a newly established regulatory body the Saudi Ministry of Commerce's intention was to enable the creation of conceptual frameworks by which the accountancy profession can be improved. SOCPA was seen to be the agent by which such frameworks were developed, resulting in the issuance of wide-ranging sets of accounting and auditing standards, codes of ethics,

professional examinations, training and quality review programmes, and licensing and disciplinary regulations.

Despite the government being an enabler for the move towards professional autonomy for professional auditors, by the creation of a quasi-self-regulatory accountancy body, many professionals perceived this new movement to be both inappropriate in terms of their previous actions and illegitimate in terms of its potential threat.

This allowed professional auditors to contain the changes through practising their rights as key players in SOCPA's Board and Committees. In that they succeeded in utilising the issued regulations to avoid harms to their firms.

Finally, it must be noted that despite of the considerable efforts made for the development in the organising and practicing of the auditing profession in Saudi Arabia, empirical evidences indicate the existing of some major problems, including:

- 1- The failure of professionals to comply adequately with many professional rules and regulations despite the implementation of the quality review program by SOCPA over auditing firms (Al-Angari and Sherer, 2002). It is a matter of fact that the difficulty which the professional firms face in accepting the compliance with any new regulation is mainly associated with the freedom they enjoyed throughout the stages that were prior to the issuance of 1991 CPA Act.
- 2- The Saudi auditing profession environment suffers from the continuity and spread of the low audit fees and its negative effects, not only on the relationship between professional firms, but also on the nature and quality of services provided by them (Al-Angari, 2005).
- 3- It also suffers from the limited number of professional firms, as well as the existence of monopoly over professional services exercised by limited number of big firms. Recent statistics indicate that 78% of the income of professional firms in the Kingdom (102 firms) is concentrated in only 11 firms, which employ 53% of the total number of auditing practitioners in the Kingdom (The SOCPA Magazine, Issue. 23, January, 2000, p. 2).

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