

# THE MECHANISM OF AUDIT COMMITTEES IN SAUDI ARABIA - FIELD STUDY

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## **Abstract**

*This study provides insights into the practices that audit committee members carry out in the meeting, including the part of meeting where members meet the auditors. The investigation was conducted via a field study in three Saudi listed companies.*

*The results highlight key matters that audit committees members emphasize during meetings such as: accuracy of financial statements, quality of external auditors, effectiveness of internal controls, business and financial risk and internal audit reports. Our results find that the decisions made by the audit committee members rely heavily on the works of the internal auditors. Thus, members play an important role in choosing the right qualified person for this position.*

## **Objectives**

The economic changes experienced by the Saudi Arabia imposed attention to audit committees, especially after the establishment of the Capital Market Authority (CMA) and the issuance of the Corporate Governance Regulations in 2006. Hence, this research aims to find out how audit committees members practice their duties in meetings. In particular, this research aims to find out the committees practices within the meetings by answering the following questions:

1. What are the issues and questions that committee members focus on at their meetings?
2. What mechanism followed by the members of the committees in studying and evaluating of these issues?
3. How do the members of the committee answers and responses to managers and auditors during the meeting?

The author used sociological techniques adopted by Gendron Y and Bédard J (2006) to examine the following topics:

- The major features about the members of the committees and how members' backgrounds influence perceptions of audit committee effectiveness.
- Support and assistance to audit committees.
- Methodology used to discuss issues during the meetings.
- The relationship with the external auditor, management, and the internal auditor.

We believe that knowing the practices of the audit committees from inside will help to assess and develop the effectiveness of the committees. This study derives its importance from its subject which has not been addressed in Saudi Arabia. Studying such subject will help the legislative bodies in Saudi Arabia to understand the mechanism of audit committee in order to enhance its effectiveness.

**Methodology**

The study provides information on the practices of audit committees but does not intend to evaluate the effectiveness of the committees. Thus, the appropriate scientific method for the study is actually a balance between generalization and understanding. Hence, this study is based on the analytical method through the collection and analysis and interpretation of data on key elements of the study.

This approach is appropriate for the purpose of this study as it revolves around the knowledge and understanding of a particular phenomenon as it is in actual fact (Patton, 1990). The approach taken by this study is consistent with studies that have dealt with similar issues, such as those studied audit committees activities (see, for example, Cohen, Krishnamoorthy, and Wright, 2002; Gendron, Bedard, and Gosselin, 2004; Gibbins, Richardson, and Waterhouse, 1990; Spira, 1999).

The author collected evidence via interviews with the audit committee members, CEOs, CFOs, internal auditors, audit partners associated with three Saudi corporations. Interviewees were asked to describe the process of a typical audit committee meeting, the role of the audit committee, and difficult issues faced by the committee.

The author attempted to understand the process by which audit committee effectiveness is internally developed and sustained by audit committee meeting attendees.