

Private Investors' Perceptions of the Audit Function in Saudi Arabia

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Abstract

This study examines the perceptions of the external audit function held by private investors (as distinct from institutional investors) in the Saudi stock market. Based on a review of the Saudi Companies Act, regulations and professional auditing literature, a questionnaire instrument was constructed and delivered personally to shareholders through the commercial banks at the share trading units. Of the 300 questionnaires given to private investors, 145 usable questionnaires were received giving a 48 percent response rate. One major conclusion is the need for private investors in the Saudi stock market to be educated about the external audit function and its limitations. A second major conclusion is that Saudi auditors could reconsider whether any of the current audit objectives could be amended or expanded given private investors' perceptions of the external audit function.

Key words: Private investors; Audit function; Perceptions; Saudi Arabia.

مفاهيم المستثمرين الأفراد في سوق الأسهم حول وظيفة المراجع الخارجي في المملكة العربية السعودية

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ملخص

تهدف الدراسة إلى تحديد مفاهيم المستثمرين الأفراد في سوق الأسهم السعودية حول طبيعة وظيفة المراجع الخارجي. ولبلوغ هذه الهدف تم بناء أداة استبيان وتوزيعها على عينة من المساهمين الأفراد من خلال وحدات تداول الأسهم في البنوك والمصارف التجارية. تم توزيع 300 استمارة استبيان ، بلغ عدد العائد منها والصالح للتحليل 145 استمارة تمثل ما نسبته 48 % من الاستمارات الموزعة. من الاستنتاجات التي توصلت لها الدراسة حاجة المستثمرين الأفراد إلى فهم الوظيفة الحقيقية للمراجع الخارجي التي تحدها الأنظمة والمعايير المهنية وإمكانية إعادة النظر في المهام والوظائف الحالية للمراجعة في ضوء فهم المستثمرين الحاليين لهذه المهام.

الكلمات المفتاحية : المستثمرين الأفراد ؛ وظيفة المراجعة ؛ المفاهيم ؛ السعودية.

Introduction

The nature of the problem

In Saudi Arabia, as in many other countries, the external auditor has a statutory duty to provide a report to the entity's investors on the truth and fairness of the entity's published financial statements. The role of the auditors, therefore, is an important element of helping to maintain the credibility of published financial statements used by investors, creditors and other shareholders as a basis for making capital allocation decisions.

Numerous research projects have been conducted worldwide (see, for example, AICPA, 1978; ICAEW, 1986; CICA, 1988; Steen, 1990; ICAS, 1993; Porter and Gowthorpe, 2004 and Al-Qarni, 2009) and in general these studies found that only a small proportion of the general public (including private investors) believe they know a lot or a fair amount about auditing. They generally considered that auditors should perform a wide range of duties not identified by rules and regulations governing the financial statements (Gramling *et al.* 2000; Best *et al.*, 2001; Al-Qarni, 2004; and Lin and Chen, 2004). For example, they perceived that the auditor do have a specific duty to, among other things, guarantee the accuracy of a company's financial statements and give early warning about the possibility of business failure. The perceptions of different parties including users of corporate financial statements about auditing have been studied in various research projects (e.g. Commission on Auditors Responsibilities 1978; Guy and Sullivan, 1988; Gramling *et al.* 2000; Sidani, 2007 and McEnroe, 2007). Investors and financial statements users are usually represented by financial analysts, financial journalists, bank loan officers or other professional users. This may be due to the fact that it is sometimes difficult for the researcher to identify a suitable source from which to select an appropriate sample. The main objective of this study is to extend prior research by directly focusing on how private investors (as distinct from institutional investors) in the Saudi stock market perceive the audit function.

To achieve the above objective the following broad question is raised? *What are the perceptions of individual investors in the Saudi stock market regarding the audit function and its limitations?* This question covers a number of audit issues related to fraud and irregularities, audited financial statements and audit features.

The significance of this study is that it focuses empirically on private investors in the Saudi stock market. In addition, this study also comes during the current international financial crises in which hundreds of thousands of Saudi investors lost billions of Saudi riyals as a result of the Saudi stock market crashed since February 2006¹.

The rest of the paper is structured into seven major sections. The next section presents the research framework; Section 3 discusses agency theory; Section 4 outlines prior research in the area; Section 5 discusses the research design; and Section 6 reports the results and analysis of the study. The final section (7) contains conclusions about the external audit function, possibilities for future research and limitations of this research project.

The research framework

One important aspect of the rapid change and development in the Saudi economy is the increasing sophistication of business activities and the size of corporations in Saudi Arabia. According to Haddad and Hakim (2008) the Saudi bourse ranks as the largest stock market in the Middle East, representing more than 50 percent of the total capitalization of Arab stock exchanges. Although Tadawul (Saudi Stock Market) did not reveal the average size of a private investor's portfolio, according to Riyadh-based Jadwa Investment, private Saudi investors accounted for nearly 95 percent of stock market trades². However, Tadawul's monthly report (November, 2009) indicates that the percentage share of Saudi nationals from the market trades was 88.9 percent for selling which is SR 68.57 billion and 87.5 percent for buying which is SR 67.51 billion.

These economic developments have stimulated the establishment of commercial regulations and reformation of the public accounting profession in Saudi Arabia (Al-Qarni and Ziegenfuss, 2001). The 1965 regulations for companies, and its 1982, 1985, and 1992 amendments, were the first laws to recognize the accounting and auditing profession in Saudi Arabia. Although, the focus of the Companies Act 1965 was on the formation and operation of business firms and companies, the Act introduced, in a separate section (Articles 129 through 133), a number of issues of great importance to auditors. For example, the Act provides for the auditors' appointment, compensation, independence, rights, duties, responsibilities and penalties. The Act also gives the auditor the right to inspect the company's books, records and other documents and verify the assets and liabilities of the company. In addition, the Act requires the board of directors to prepare the inventory, balance sheet, and profit and loss account, and to make them available to the auditor at least twenty-five days before the shareholders' annual meeting. The Act provides for the principle of consistency in preparing the financial statements and in valuing the assets and liabilities³.

The first Certified Public Accountants (CPA) regulation in Saudi was found in 1974 by Royal Decree No. 43 which became the second legal basis for company auditing until 1992 in which Royal decree No M/12 approved new CPA regulations and replaced the first 1974 CPA regulations. The two CPA regulations and the Companies Act affect several aspects of auditing in Saudi Arabia. Among other things, the 1974 and 1992 CPA regulations defined the licensing requirements, professional responsibility and legal liability, and educational and continuing professional development requirements of Saudi Certified Public Accountants. For instance, under article 15 of the 1992 regulations a CPA shall be liable for damages sustained by clients or other parties as a result of professional errors in the performance of his work. Such liability shall be borne jointly by partners of the accounting firm concerned.

On the other hand, Article 19 of the 1992 CPA regulations mandated that an organization should be established under the name of the Saudi Organization for Certified Public Accountants (SOCPA) that is responsible, among other tasks, for reviewing, developing, and approving accounting and auditing standards and establishing an appropriate quality review programme in order to ensure that Certified Public Accountants comply with accounting and auditing standards and the provisions of these regulations. SOCPA has issued a number of auditing standards, opinions and other professional standards.

However, in case there is an auditing issue that no auditing standard or professional opinion has been issued thereof by SOCPA, the auditing standard issued by the International Auditing and

Assurance Standards Board for that issue shall be considered the generally accepted standard in this respect. However, in case there is an auditing issue that no standard or professional opinion has been issued thereof by SOCPA or no international auditing standard has been issued, the auditing standard or the professional opinion or an application approved by SOCPA and which is one of the locally or internationally generally accepted applications, shall be considered as the generally accepted standard in this respect (SOCPA, 1994).

Agency theory

In the light of the objective of the study, agency theory best fits this study. This theory explains how to best organize relationships in which one party (the principal) determines the work, which another party (the agent) undertakes. In this relationship the principal delegates or hires an agent to perform work. Delegation is an act where one person or persons relies on other people to take actions on their behalf (Lupia, 2001). According to Eisenhardt (1989) agency theory attempts to deal with two specific problems: first, that the goals of the principal and agent are not in conflict (agency problem), and second, that the principal and agent reconcile different tolerances for risk. The problem here is that the principal cannot verify that the agent has behaved appropriately. The second is the problem of risk sharing that arises when the principal and agent have different attitudes towards risk. The problem here is that the principal and the agent may prefer different actions because of the different risk preferences. In the auditing context, owners or investors (as principals) hire auditors (as agents). The auditor's primary role is to provide reasonable assurance services on the truth and fairness of financial statements. According to the auditing literature the concerns of the financial statements users centre primarily on the prevention, detection and disclosure of material irregularities, illegal acts and fraud (Gay *et al.* 2008; Al-Qarni, 2004; Gramling *et al.* 2000) and to guarantee the accuracy of financial reports (Porter, 1997 and Koh and Woo, 2001). These concerns of the users go beyond the roles and functions of traditional company audits.

Prior research

Many articles have been written and published worldwide in an attempt to show the perceptions of different groups towards a variety of auditing issues. For example, Gay *et al.* (2008) report the results of a questionnaire administered to ascertain financial report users' perceptions of auditor's responsibilities for the prevention, detection and reporting of fraud and other irregularities, including other illegal acts and error. The overall results indicated that the users may have "unreasonable" expectations of auditors' responsibilities for irregularities, particularly in relation to the prevention of fraud and the detection of illegal acts.

The Sarbanes-Oxley Act of 2002 (SOX) requires, among other things, that the auditor renders an opinion as to the effectiveness of a company's system of internal controls. Empirical studies have examined the assumption implicit in this requirement that the new internal control opinion provides investors with value-relevant information. For example, a recent study conducted by Vandervelde and Wu (2009) reveals that an adverse audit opinion on internal controls over financial reporting provides incremental value relevant information to investors beyond that contained in the financial statement audit opinion alone.

Investors' perceptions regarding auditors independence have also been investigated (Dykxhoorn, 1982; Narasimhan and Ng, 1999; Rutledge *et al.*, 2003; Alleyne *et al.* 2006). Rutledge *et al.* (2003), for example, use a "regional approach" to determine if countries within a single region (i.e. Arabic Gulf countries) have similar views on the issue of auditor independence. The results of the study showed that both auditors and financial analysts have no significant differences in their perceptions of auditor independence. Beattie *et al.* (1999) reported a survey of leading financial journalists to ascertain their current views on auditor independence and found that some of the recent significant changes to the regulatory framework have influenced the perceptions of the users of the financial statements. In Barbados, Alleyne *et al.*, (2006) surveyed a sample of 66 auditors and 148 users to investigate any differences in perceptions of auditor independence between auditors and users. Auditor independence was perceived to be enhanced by the existence of audit committees, rotation of audit partners, risks to auditor arising from poor quality, regulatory rights and requirements surrounding auditor change and an auditor's right to attend and be heard at the company's annual general meetings.

In a related line of research in the UK, Innes *et al.*, (1997) conducted a research study about the development of SAS 600. They compared the perceptions of auditors and users based on the UK short form audit report and found that the expanded audit report (when compared to the short form report) brought users' perceptions, to some extent, closer into alignment with those of auditor. Similar to Innes *et al.* , but with three different groups that included auditors, preparers and financial statements users, Manson and Zaman (2001) investigated the extent to which the new audit report, SAS 600, has been successful in aligning the views of auditors, preparers and users about issues dealt with in the expanded audit report, and the extent to which the three groups considered that it would be useful for additional matters, including corporate governance, to be reported upon by the auditor. The results suggested that SAS 600 has been successful in clarifying the purpose of the audit and the respective responsibilities of auditors and directors. Similarly, in Australia, Gay and Schellugh (2008) examined the effect of the new long form auditor's report on users' perceptions of the auditor's role in financial reporting. The users participating in this study included 60 senior bank lending officers, 60 investors and 60 non-investors with business backgrounds. The authors found that the changed wording of the long form audit report advocated in the revised Statement of Auditing Practice AUP 3, the Audit Report on a General Purpose Financial Report, issued in 1993, significantly increased users' understanding of the role of the auditor, the nature of the audit process and the financial reporting process.

Finally, there is one main lesson to be drawn from prior research. There has been relatively little research concentrated on the perceptions of private investors about auditing. The current study extends prior research by measuring the perceptions of private individual investors in the Saudi stock market towards fraud and irregularities, audited financial statements and audit features. The outcome of the current study is expected to provide some insights on this subject and be useful for the professional accounting body and stock market in Saudi Arabia.

Research design

a. The instrument

This study is based on a questionnaire survey. The questionnaire was separated into two main parts and each part included several questions or statements. The first part collected demographic data. The second part contained a list of statements covering a number of auditing issues. This list of statements was selected based on a review of previous related literature (Porter, 1993; Humphrey *et al.* 1993 and Porter and Gowthorpe, 2004) and by reference to the Saudi Companies Act and CPA professional regulations. All statements were followed by a five-point Likert scale in terms of 'strongly disagree'=1 to 'strongly agree'=5 designed to determine respondents' perceptions regarding the audit function and its limitations. Once constructed, a draft questionnaire was piloted with colleagues and private investors in order to make sure it serve the purpose for which it was intended. Following their comments and suggestions, the draft questionnaire was suitably amended. The reliability of the questionnaire was measured using the coefficient alpha and it was 0.894. The literature (for example, Botosan, 1997) suggests 0.70 as an acceptable level so the alpha value for this study can be considered reliable.

b. Population and sampling

The target population of this study has to be all private investors in the Saudi stock market. However, as mentioned earlier, it is sometimes difficult for the researcher to identify a suitable source from which to select an appropriate sample. Therefore, it was decided that the most practical way to reach the private investors in the Saudi stock market was through the commercial banks at the share trading units where these investors could be found. The researcher approached the managers of the banks' share trading units requesting their assistance in delivering the questionnaires to the private investors. Consequently, the questionnaire was delivered by hand to the private investors through investment units of commercial banks during working hours. The questionnaires were collected by the researcher on a specific, agreed date. Of the 300 questionnaire distributed, 145 were completed and returned for a response rate of 48 percent. The response rate is acceptable for a study of this nature.

c. Data treatment

Data were entered and analyzed with the Statistical Package for Social Science (SPSS). Descriptive analysis used in this study includes frequencies, percentages, mean, and standard deviations. The Cronbach's Alpha test, however, was used to assess the relationship between different parts of the questionnaire.

Results and analysis

This section presents and discusses the survey findings. It is divided into two main parts. The first is concerned with the respondents' background: gender, years of experiences and level of education. The second part discusses the perceptions of the private investors about a number of auditing issues included in the second part of the questionnaire.

a. Demographic Data

The sample was predominantly male, with only 16 (11.3 percent) of the private investors responding being women. Most respondents had experience in investing in the Saudi stock exchange with 52.6 percent having less than 5 years, 33.3 percent from 5 to 10 years, 7.4 from 10 to 20 years and 6.7 percent more than 20 years. The sample as a whole can be considered well educated, with 56.2 percent having a bachelor degree. A summary of the demographic data of the respondents is given in Table 1.

Table 1 Demographic data of the responding private investors

Variable	Freq . N=300	Percentage
Gender		
(1) Men	125	88.7
(2) Women	16	11.3
Total	141	100%
Years of experience in investing in Saudi stock exchange		
(1) Less than 5 years	71	52.6
(2) From 5 to 10 years	45	33.3
(3) From 10 to 20 years	10	7.4
(4) More than 20 years	9	6.7
Total	135	100%
Level of education		
(1) Less than University degree	46	33.6
(2) University bachelor degree	77	56.2
(3) Master	11	8.0
(4) PhD	3	2.2
Total	137	100%

b. Perception about audit function

This section aims to document the perceptions of the private investors about a number of auditing issues included in the second part of the questionnaire. Tables 2, 3 and 4 give the means of the responses to various duties showing that private investors' perceptions about audited financial statements were relatively homogenous. The responses of the participants are detailed in the following three sections.

c. Fraud & irregularities

Respondents were asked to indicate their agreement or disagreement with four aspects of the auditor's role regarding fraud and irregularities. Table 2 summarizes the prevailing views on these four issues based on the means of their responses to all four statements perceived by the participants as duties of the auditor. The first statement that auditors should disclose in the audit report illegal acts which directly affect the company's financial statements (1) produced the highest level of agreement (89%) among the participants. One possible explanation for this finding is that investors worldwide including Saudi investors are under much pressure since the collapse of high profile companies,

such as Enron, which has reduced the ranks of the large accounting firms from the Big Five to the Big Four. In addition, hundreds of thousands of Saudi investors lost billions of Saudi riyals as a result of the stock market crash since February 2006. It has collapsed by 50 percent after briefly reaching an all-time high of over 20,000 points.

Table 2 Fraud and irregularities

No.	Duty	Mean Value	Std. Deviation	Agree (%)	Disagree (%)	Rank
1	Auditors should disclose in the audit report illegal acts which directly affect the company's financial statements.	4.4545	811250.	89	3.8	1
2	Auditors should look for errors and illegal acts and prevent them.	4.3542	978570.	83	7.7	2
3	Auditors should provide significant protection against all fraud and illegal acts.	4.2138	1.10671	81	9.6	3
4	Auditors should detect theft of corporate assets by company officials.	4.1181	1.20892	78	13	4

Mean values- Scoring: 'strongly disagree'=1; 'strongly agree'=5; Strongly agree and agree= agree; Strongly disagree and disagree = disagree

Similar reactions by the private investors (ranging from 83% to 78% agreement) were observed toward the last three statements: auditors should look for errors and illegal acts and prevent them (2), auditors should provide significant protection against all fraud and illegal acts (3) and auditors should detect theft of corporate assets by company officials (4). These are not unexpected finding since similar reactions were found in some western countries (see for example, Steen, 1990). In order to clarify the position of the profession towards these issues the same questions were asked to a number of senior accounting professional and SOCPA members. The views of the SOCPA's members implied that working particularly to discover audit fraud and irregularities was not an audit objective. In addition, generally auditors rely on internal control in the organization to ensure that there has not been any material distortion because of fraud. Therefore, the auditors consider that they do not have a specific duty to search for fraud but they follow up on anything suspicious which comes to light in the course of the audit. The next part of this section considers the perceptions of the private investors regarding audited financial statements.

d. Audited financial statements

Respondents were also asked to indicate their agreement or disagreement with six aspects of the auditor's role regarding clients' audited financial statements. Analysis of their responses is summarized in Table 3.

Table 3 Audited financial statements

No.	Duty	Mean Value	Std. Deviation	Agree (%)	Disagree (%)	Rank
1	Auditors should detect deliberate distortion of financial information and disclose it in audit report.	4.5172	698250.	94	2	1
2	Auditors should ensure auditee company's financial statements comply with generally accepted accounting principles (GAAP).	4.4859	750750.	92	2.8	2
3	Auditors should ensure the validity of financial transaction.	4.4653	892180.	91	4.9	3
4	Auditors should guarantee the accuracy of a company's financial statements.	4.3681	882990.	88	5.6	4
5	Auditors should give a professional and independent opinion on the fairness of the company's financial statements.	4.2917	843530.	83	4.2	5
6	Auditors should prepare the auditee company's financial statements.	4.2168	1.04234	83	9.1	6

Mean values- Scoring: 'strongly disagree'=1; 'strongly agree'=5; Strongly agree and agree= agree; Strongly disagree and disagree = disagree

As can be seen from Table 3, the private investors agreed with the issues that auditors should detect deliberate distortion of financial information and disclose it in audit report (1), auditors should ensure auditee company's financial statements comply with generally accepted accounting principles (GAAP) (2), auditors should ensure the validity of financial transaction (3) and auditors should give a professional and independent opinion on the fairness of the company's financial statements (5). The last three duties (2, 3 and 5) were clearly identified by the Companies Act and CPA regulations in Saudi Arabia as part of the auditor's duties. However, although the author is not aware of any explicit requirements regarding duty (1), one of the SOCPA's members remarked that if the auditors find anything in the financial statements that does not appear fair they must report it. This view however is consistent with situation in the UK. The UK Companies Act 1985, for example, clearly stated that "if the financial statements have been deliberately distorted, unless carefully and cleverly concealed, such distortion should be detected by auditors who plan and conduct their audit...".

Auditors should guarantee the accuracy of a company's financial statements (4). As expected the reaction of the participants to this duty was positive. It is broadly consistent with previous studies carried out in different environments (see for example Porter, 1991 and Gramling et al. 2000). In general, the position of the profession was always that auditors' responsibilities will be limited by

the amount of evidence that can be collected. Auditors only obtain evidence that enables them to determine whether the information in the financial statements is reliable. In addition, this is the CPA view and accepted worldwide. For example, Cohen (1987) remarked that "our role is to provide "reasonable assurance" not "guarantees".

Auditors should prepare the auditee company's financial statements (6). This proposed duty was included in this study as a test of the awareness of the private investors in relation to this issue. The result revealed private investors' perceptions about this issue were not realistic as 83% consider that it is the duty of auditors to prepare the auditee company's financial statements. Yet, the preparation of financial statements is typically controlled by the board of directors of the companies who are separate from the company's shareholders. In other words, that function is performed by a company's accountants under the direction of its management. Article (123) of the Saudi Companies Act was clear on that issue as it stated that the board of directors shall prepare a balance sheet of the company, a profit and loss statement, and a report on its operations and financial position for the expired financial year. The next part of this section considers the perceptions of the private investors towards the auditor's role regarding certain possible audit features.

e. Audit clients

As a further check to ascertain whether the private investors understood the function and limitations of auditing, respondents were given five statements regarding audit features and were requested to indicate their level of agreement with each of them. The responses are summarized in Table 4.

Table 4 Audit features

No.	Duty	Mean Value	Std. Deviation	Agree (%)	Disagree (%)	Rank
1	Auditors should ensure the company's internal control system is satisfactory.	4.3958	838070.	98	1.5	1
2	Auditors should ensure auditee company compliance with the requirements of Companies Act.	4.2797	763660.	90	4.9	2
3	Auditors should give early warning about the company's continued existence.	4.2069	1.04014	80	9.7	3
4	Auditors should ensure auditee company compliance with corporate governance.	4.1915	852850.	79	3.5	4
5	Auditors should ensure auditee company provide a social service to society.	4.1408	1.02169	79	9	5

Mean values- Scoring: 'strongly disagree'=1; 'strongly agree'=5; Strongly agree and agree= agree; Strongly disagree and disagree = disagree

Auditors should ensure the company's internal control system is satisfactory (1). As shown in Table 4, the sample agreed with this duty. A system of internal control consists of policies and procedures designed to provide management with reasonable assurance that the company will achieve its objectives. According to the Committee of Sponsoring Organizations of the Treadway Commission (COSO), these objectives include three categories: reliability of financial reporting; effectiveness and efficiency of operations and compliance with applicable laws and regulations (COSO, 1992). In addition, Robertson and Louwers (1999) pointed out that the external auditors are responsible for evaluating existing internal controls and assessing the control risk in them. Therefore, examining the control system of the entities is usually the starting point of the external and internal auditors to determine whether recorded information properly reflects the economic events that occurred during the accounting period. However, it is worth mentioning at this point that recent empirical research by Al-Qarni (2010) reveals that one of the main challenges facing external auditors in Saudi Arabia is the weakness of the internal control systems of some auditee companies.

Auditors should ensure auditee company compliance with the requirements of the Companies Act (2). Most private investors recognized this duty of the auditor. This audit duty is a primary duty of the auditors according to the relevant legislation's requirements in Saudi Arabia including the Companies Act. These include many of the items on which the directors are required by the Companies Acts to report. The same results were also reported by Chen and Lin (2004), as 94 percent of beneficiaries in China considered that an audit is to ensure a client's compliance with the state's legislation and regulations.

Auditors should give early warning about the company's continued existence (3). Again 80% of private investors agreed with this statement. This result however is not surprising since many prior research projects (for example, ICAS, 1993 and Gramling et al. 2000) have acknowledged the existence of confusion regarding this issue. Nonetheless, according to the Saudi Organization for Certified Public Accountants (SOCPA) reporting standards, auditors are not required to do more than obtain a reasonable degree of assurance about the financial statements to enable them to express an opinion as to whether they, taken as whole, present fairly the client's financial position (see SOCPA, Para. 3541, 2001).

Auditors should ensure auditee company compliance with corporate governance (4). The private investors clearly recognized this duty of the auditor. However, despite the importance of the corporate governance practices for the listed joint stock companies in the Kingdom in enhancing their credibility and encouraging investors to buy their shares and improve the direction of the company in general, the Saudi Code of Corporate Governance has been historically voluntary since it was issued in 2006. This finding may result from the fact that this issue is still relatively new and the beneficial role that auditors could play by providing assurance in these regard has not yet been recognized by some private investors.

Auditors should ensure auditee company provides a social service to society (5). Although it may be reasonable for the public to expect such duty to be part of auditor work, there is no explicit professional guidance or current specific auditing standards in the Kingdom that relate to this issue. This might be due to the fact that performing such a duty by a company's financial auditor would require appropriate experience and qualifications which they do not have.

Conclusions

This study has empirically investigated the perceptions of Saudi private shareholders in the Saudi stock market towards the external audit function. The survey results reveal that users of the corporate financial statements under study (namely private investors) perceived all listed items as being part of the auditor's duties.

About half of the listed duties were identified by the Companies Act and CPA regulations and these duties were recognized by the private investors. The other half of the listed duties of external auditors fell outside the framework to which auditors work but, for each of these duties the mean of the private investors' responses was greater than 4.0 (with 5.0 being strongly agree). Therefore, the overall survey's outcome indicates the need for private investors in the Saudi stock market to be educated about the audit function and its limitations. This may be a necessary step for the future of the accounting and auditing profession and capital market in Saudi Arabia. A second major conclusion is that Saudi auditors might wish to reconsider whether any of the current audit objectives can be amended or expanded in the light of the findings from this survey about private investors' perceptions of the audit function.

Two limitations may be identified in this study. The first one is attributed to the sample of the study. The sample for this study was limited to only 300 private investors. More compelling evidence might have been obtained using a larger sample. The second limitation is that there is always the possibility that the target group misunderstood the questionnaire and its objectives. To try to overcome this limitation, a personally signed letter was attached to the questionnaire stating its objectives and also emphasising the confidentiality of responses.

Further research is required in this area both in Saudi Arabia (following the introduction of the new Companies Act) and in other countries. For example, future research could cover the perceptions of a wider range of private investors in the Saudi stock market. Such future research could add more depth to our knowledge of private investors' perceptions of the external audit function.

Footnotes

- 1- For more information about the current status of the market today please visit : <http://www.tadawul.com.sa>
- 2- Saudi Stock Exchange or Tadawul is the only stock exchange in Saudi Arabia. It is supervised by the Capital Market Authority. Its trading hours are 11AM to 3:30PM, Saturday to Wednesday (for more information: <http://www.tadawul.com.sa>)
- 3- Saudi Arabia has recently published the draft of a new Companies Act, which has long been awaited. Amendments made are major and will change many of the concepts found in the previous law. 43 articles have been deleted out of 233 and 24 new articles have been enacted.

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