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The Saudi External Institutional Framework for Corporate Governance

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Abstract
This paper will evaluate the Saudi external institutional structure for corporate governance. The aim of this paper will determine the external supervisory organisations responsible for enhancing and promoting the Saudi corporate governance framework. Consequently, several external institutions will be emphasised including the Capital Market Authority, the General Department of Corporate Governance, Committees for the Resolution of Securities Disputes, the Saudi Stock Exchange, the Ministry of Commerce and Industry, accounting and auditing companies, the Organisation for Certified Public Accountants, and the National Anti-Corruption Commission.

Key words: Saudi Corporate Governance, External Institutional Framework.

1. Introduction
It would seem apparent that the strong need to differentiate the Saudi institutions for activating corporate governance provision took place after the creation of the Capital Market Authority.1 This authority was faced with this superior challenge shortly after its establishment following the market catastrophe which occurred in 2006. This market failure resembled other international market and corporation disasters, and specifically reminds us of the US stock exchange failure at the beginning of the last century.

The Saudi external institutional framework for corporate governance concurs with the following idea whereby the outer institutions can be found in the regulatory setting in which the corporation operates. In addition, it embraces the presence of government assistance for the detection of fraud as well as market devices. Specifically, these external institutes have a significant impact on a corporation’s corporate governance. Yet, they principally do this via regulations, codes of conduct, certification of financial reports and legal enforcement.2

However, this paper has been specifically outlined to gain a proper understanding of how the corporate governance framework works in Saudi Arabia. Thus, this paper will clarify the external rings of the institutional charters. This paper also attempts to answer a significant

1 Royal Decree, No. M-30, dated 1 August 2003.
research question regarding the role which the supervisory bodies play in the activation of the corporate governance system in Saudi Arabia. Accordingly, this paper is divided into a number of sections.

Section 1 will analyse the Capital Market Authority with keen attention being paid to the role of the General Department of Corporate Governance. Section 2 will investigate the Committees for the Resolution of Securities Disputes. Section 3 will focus on the Saudi Stock Exchange. Section 4 will revise the Ministry of Commerce and Industry. Section 5 will study the accounting and auditing professions and the Saudi Organisation for Certified Public Accountants. Section Six will assess the Saudi National Anti-Corruption Commission and a summary will be provided at the end of the paper.

2. Capital Market Authority

According to Article 4 of the Capital Market Law (hereinafter CML) releases the Capital Market Authority, which is created within the Kingdom of Saudi Arabia and has the requirement of reporting directly to the King. In addition, the Capital Market Authority has legal personality, administrative and financial sovereignty. Therefore, the Capital Market Authority has executive and legislative powers to pass and adopt regulations in addition to sustaining the reliability of the market value. Specifically, the Capital Market Authority has the ability to obtain the entire activities which are essential for accomplishing its prearranged responsibilities and functions.

It is important to note that the Capital Market Authority does not have the right to have a hold in any commercial dealings in order to obtain a particular interest in any scheme which has been proposed for profit, to borrow or lend any funds, or to acquire or to own or issue any securities. As the Capital Market Authority is the regulator of the capital market, its members, whether Board of Directors or employees, should distance themselves from what they actually direct. This can be found in Article 8 of the CML which states that:

Any person who becomes an employee or a member of the Board of the Capital Market Authority should, immediately upon accepting its functions, disclose to the Capital Market Authority, in the manner set forth in the regulations of the Capital Market Authority, the securities he owns or has at his disposal or the

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5 Capital Market Law 2003, Art. 4 (B).
disposal of one of his relatives, and thereafter declare any change thereon, within three days of becoming aware of such change.⁶

Article 9 of the CML also affirms that:

The members of the Board and the employees of the Capital Market Authority shall not engage in any other profession or job, including occupying a position or a post in any company, in the government, or within any public or private institutions. Furthermore, they shall not provide advice to companies and private institutions.⁷

It has been suggested that the most recent crucial Saudi corporate governance institution is the Capital Market Authority, which is a semi-governmental body with an appointed governmental board. Moreover, this board contains five permanent members who are required to be highly qualified and their membership duration is for the period of five years subject to a single renewal. These members are appointed, and the Chairman and the Deputy Chairman are nominated, and their salary is predetermined, by royal order.⁸

It has been argued that with the Capital Market Authority Board’s capability the enactment of statutory regulations has become quicker and easier as long as the proposed regulations have been controlled by the CML articles. However, this has given the Capital Market Authority Board the right to progress any article which has comes under the CML without it first being reviewed by the Council of Ministers and the Consultative Council as first-instance legislative bodies.⁹ The Capital Market Authority Board has taken justifiable statutory pieces of legislation, known as the implementing regulations, in addition to accomplishing its obligations. To demonstrate this, the Capital Market Authority Board has enacted merger and acquisition regulations, investment fund regulations, security business regulations, authorised persons’ regulations, market conduct regulations, listing rules and a corporate governance code.¹⁰

Furthermore, the main objectives of the Capital Market Authority is to develop the Saudi market; to regulate the issuance and trading in securities, to achieve transparency and fairness in securities’ transactions; to monitor the disclosure of information connected to securities and the listed companies and to adjust the actions of the stock exchange and listed

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⁸ Capital Market Law 2003, Art. 7 (A) and 7 (B).
⁹ Capital Market Law 2003, Art. 5 (B).
companies. Instead, the Capital Market Authority Board has a diversity of roles covering the stock exchange and the listed companies’ submissions that are subject to the following:

1) Laying down policies, work plans, and the promulgation of needed regulations to satisfy the above-stated objectives of the Capital Market Authority.
2) Altering the application regulations which would be necessary to put these regulations into effect.
3) Granting the flotation of securities.
4) Adjourning the stock exchange actions for a period of time.
5) Banning any security traded on the stock exchange.
6) Formatting vital principles for external auditors who review the reports of the stock exchange, brokerage companies, investment funds and listed companies.

The Capital Market Authority Board is influential in taking a variety of different application activities, reliant on its duty of the level and scope of either a corporation’s or an individual’s infringement. Thus, the Capital Market Authority Board would issue a caution, seize stock, remove income which has been expanded unlawfully, impose a fine or delist a corporation found in contravention of the CML and the implementing regulations. This can be traced back when reviewing the fines and issued decisions that have been taken by the Capital Market Authority Board against individuals and listed corporations which have been in breach. In particular, the Capital Market Authority Board has the same rights as the Committees for the Resolution of Securities Disputes when punishing breached individuals or corporations. These punishments will be covered in greater detail, when discussing the Committees for the Resolution of Securities Disputes, later on in this paper.

Thus, in general, it would seem that the Capital Market Authority Board is the bureau in charge of enacting regulations that are produced to adjust the Saudi stock market and for implementing these regulations at the same time. In particular, it can be seen that the Capital Market Authority Board is a starting point for rule-making and for controlling the affairs of the listed companies which were subject matter until recently under the supervision of the Ministry of Commerce and Industry and other distributed Saudi bodies and laws. This is due to the ability of the Capital Market Authority Board to issue and amend any piece of market regulation in accordance with the best practice found in other international jurisprudence. However, the major role of the Capital Market Authority regarding the implementation of corporate governance provisions is prepared mainly by the General Department of Corporate

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Governance. Hence, more explanations will be provided concerning this significant department.

2.1 The General Department of Corporate Governance

The Capital Market Authority Board as a body has several departments which are in charge to put in practice the CML and implementing regulations. One of these departments is the General Department of Corporate Governance. This department has held a number of responsibilities for improving and implementing the corporate governance system as outlined: 13

1) The department develops communication with specialised international and local institutes correlated to corporate governance with the intention of launching and extending corporate governance practices in the listed companies.

2) It encourages the perceptions of transparency, disclosure, liability and equality.

3) It enhances the knowledge of the listed companies and investors with Corporate Governance Code provisions.

4) It promotes and oversees the implementation of the self-regulation of the corporations’ corporate governance polices.

5) It trains the representative of the listed companies about the corporate governance practices. 14

With the thought of the magnitude of the academic research functions to advance good corporate governance practices, the general department of corporate governance has recently conducted a questionnaire regarding the opinions and suggestions of the officials of the listed companies and share investors. Notably, this questionnaire relates to the reality of corporate governance practices and the adherence to the legislative frameworks of the listed companies, in order to allow the laying down of enforcement plans to improve the regulatory and supervisory tasks of corporate governance by the Capital Market Authority. 15

Significantly, the General Department of Corporate Governance plays a noteworthy role regarding the issuing of financial decisions and suiting the abusing corporations in front of the Committees for the Resolution of Securities Disputes by referencing the Capital Market Authority Board to do so. The researcher visited the General Department of

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13 See, the Capital Market Authority Board Annual Report, 2011, p. 25.
14 Recently, the General Department of Corporate Governance has held workshops in many Saudi districts that are concern about the preparation of the report of the board of directors and to complete forms related to the rules of corporate governance. See, Al-Riyadh Newspaper, January 9, 2012, Issue 15904.
Corporate Governance and observed its strategy for referencing the Capital Market Authority Board to punish the breached listed companies. In actual fact, the punishment process involves the General Department of Corporate Governance analysing the articles of associations, website announcements, stock exchange website pronouncements and annual financial reports of the board of such listed companies. When the General Department of Corporate Governance finds such violations of the Corporate Governance Code provisions and the interconnected articles from the implementing regulations, especially the listing rules, it passes the issued decision to the Capital Market Authority Board. During this time it covers its suggestions, and outlines its recommendations and the lawful articles which have been sustained to discover the violations which have been committed by the breached companies and its opinion regarding the fines.

This delegation of responsibility from the Capital Market Authority Board to the General Department of Corporate Governance is in accordance with Article 7-D of the CML which holds that:

The Capital Market Authority Board may delegate, by a published resolution, any of its functions. The Capital Market Authority Board shall, however, at its discretion, retain the power to review the actions and decisions made by those who have been delegated with such powers.

3. Committees for the Resolution of Securities Disputes

Once again, the Saudi judicial authority is divided into three forms, namely the Shari’a courts system, the board of grievances and the quasi-judicial committees. Specifically, these quasi-judicial committees do not have agreeable and containable structures since their jurisdictions are extended within a range of instructions and under a great number of governmental and semi-governmental bodies. Nevertheless, the Committees for the Resolution of Securities Disputes can be seen as quasi-judicial financial commissions. The fundamental mission of these committees is to protect shareholding investors and market equity and to resolve disputes arising out of CML and the implementing regulations function.

16 The researcher visited the General Department of Corporate Governance from 29 July until 10 October 2011.
17 Capital Market Law 2003, Art. 7 (D).
18 It is announced that the number of legal cases that were seen by the committees for the resolution of securities disputes was approximately 977 at the beginning of 2011 and the total amount of compensation is around $16 Million US. See, Al-Jazirah Newspaper, June 8, 2011, Issue 14132.
There have been no studies concerning the Committees for the Resolution of Securities Disputes and their roles for challenging the corporate governance framework. Conducting research and obtaining law cases from the Committees for the Resolution of Securities Disputes can be expected to be much more difficult, as the law cases are interconnected to some prominent corporations and powerful individuals. Even though the researcher visited the Capital Market Authority and the Committees for the Resolution of Securities Disputes, assistance from these bodies was minimal.\footnote{In contrast, the debate about publishing the Committees for the Resolution of Securities Disputes law cases has arisen. While some believe that publishing the Committees for the Resolution of Securities Disputes law cases is not needed since these committees cannot be accepted as independence judicial foundations, others think that publishing the Committees for the Resolution of Securities Disputes law cases is a critical necessity. See, Okaz Newspaper, April 16, 2011, Issue 3590. This is definitely correct because all quasi-judicial committees, including the Committees for the Resolution of Securities Disputes, used to be prevented from publishing cases until recently when the Council of Ministers royal decree encouraged the quasi-judicial committees to publicly announce a summary of terminated law cases as it happens with the Committees for the Resolution of Securities Disputes law cases. See, Royal Decree, No. 215, dated 22 June 2009.}

Nevertheless, the role of the Committees for the Resolution of Securities Disputes regarding the corporate governance framework is obvious since a variety of corporate sector law cases are considered by these committees. For instance, the conflict of interest within the board cases, the insider trading cases and the shareholders pleas are arbitrated by these committees. In particular, the Committees for the Resolution of Securities Disputes have advanced and promoted good corporate governance practices since these practices cannot occur without support from the enforcing judicial system. The Committees for the Resolution of Securities Disputes can be seen as successful quasi-judicial committees which are placed outside of the ill-suited Shari‘a courts system.

Accordingly, this subsection will investigate the Committees for the Resolution of Securities Disputes by considering two committees: the Committee for the Resolution of Securities Disputes and the Appeal Committee for the Resolution of Securities Conflicts. Before doing so, it is deemed plausible to assume that writing about the Committees for the Resolution of Securities Disputes and their law cases is an original contribution to the research.

### 3.1 Committee for the Resolution of Securities Disputes (CRSD)

The Capital Market Authority Board launched a quasi-judicial committee, acknowledged as the Committee for the Resolution of Securities Disputes (hereinafter CRSD). The CRSD consists of a number of legal advisors who are experts in Islamic financial and legal transactions, financial contracts and capital market laws. Furthermore, these legal advisors
are appointed by the Capital Market Authority Board, and their membership term is three years subject to repeat. More specifically, these legal advisors should not have any direct commercial interests or any family affiliation, up to the fourth instance, with the parties involved in the grievances or the suits passed before the committee.\footnote{20 Capital Market Law 2003, Art. 25 (A).}

In particular, the CRSD is intended as being an independent quasi-judicial commission from the executive power of the Capital Market Authority Board. However, it has been argued that the CRSD is not a fully independent committee for two reasons. The first is being that CRSD members are chosen and compensated for by the Capital Market Authority Board. This means that CRSD members look like employees who have been recruited by the Capital Market Authority Board. Therefore, the appointment of these legal advisors should be completed by the Council of Ministers, like the Appeal Committee for the Resolution of Securities Conflicts members, in order to ensure the independence of this committee.

The second noteworthy reason is that the Capital Market Authority made it conditional that grievances and suits should be filed first of all under its decision for ninety days unless the Capital Market Authority provided permission to submit the case to the CRSD prior to the end of this determined time.\footnote{21 Capital Market Law 2003, Art. 25 (E).} In accordance with this condition, the defendant is unable to present their case to the CRSD before they file their case with the Capital Market Authority. As a result of this condition, the Capital Market Authority interference on the committee independence is obvious.

However, the CRSD has all of the powers to consider suits and grievances. These are outlined as follows: \footnote{22 Capital Market Law 2003, Art. 25 (D).}

1) Public cases – cases being sued against the individual who is refusing to comply with the provisions of the CML and the implementing regulations.
2) Private cases – cases being sued by investors against authorised groups.
3) Grievance cases – cases being claimed by an individual against complex regulations and proceedings issued by the Capital Market Authority Board and the stock exchange.
4) Temporary cases – cases being presented to the CRSD in order to decide temporary determinations.
In addition, the CRSD should start deciding suits and grievances within a period not longer than fourteen days from the filing date of the suits and grievances being filed with the committee.\(^{23}\) In addition, the CRSD has the right to concern itself with issued decisions, awarding damages or requesting a reversion to the original position which would act as assurance of the aggrieved rights.\(^{24}\) By law, the CRSD does not accept suits one year after the action has taken place in terms of the statute of limitation.\(^{25}\)

As an exception in the Saudi evidence system, the CRSD can accept electronic communication processes such as computer data, email, telephone recordings and facsimile messages as approved evidence in financial transactions and security cases.\(^{26}\) The Saudi legislator is not in agreement with the idea of accepting the electronic communication process as evidence in other legitimate substances.

Additionally, the CRSD has a variety of punishments that can be imposed as long as the defendant has breached, is breaching or is about to breach the practices against the CML, implementing regulations and stock exchange policies. These punishments would be considered as public actions against anyone who has violated the law. These punishments are, accordingly, subject to the following:\(^{27}\)

1. Noticing and forcing the defendant to give up or be banned from performance of the breach.
2. Empowering the defendant to deem the essential actions to avoid the breaching, or to deem such essential actions to treat the consequences of the breach.
3. Indemnifying people who have suffered damages as a result of the breach undertaken by the defendant.
4. Compelling the defendant to pay back to the Capital Market Authority the interest realised as a result of such breaching.
5. Adjourning the trading in the security.
6. Seizing and executing property.
7. Banning travel and imprisoning.
8. Forbidding the defendant working with listed companies.

\(^{23}\) Capital Market Law 2003, Art. 25 (B).
\(^{24}\) Capital Market Law 2003, Art. 25 (C).
\(^{25}\) Resolution of Securities Disputes Proceedings Regulations 2011, Art. 27.
\(^{26}\) Capital Market Law 2003, Art. 25 (I).
\(^{27}\) Capital Market Law 2003, Art. 59 (A).
Specifically, the CRSD by the Capital Market Authority Board endorsement is able to enforce fines on abused parties, either corporations or individuals, those who are responsible for a planned breach of the provisions of the CML, implementing regulations and stock exchange policies. However, these fines should be no less than $2,666 and no more than $26,666 for each breach that has been committed by the defendant whether it by an individual or a corporation.\(^{28}\)

3.2 The Appeal Committee for the Resolution of Securities Conflicts

First and most importantly, the Appeal Committee for the Resolution of Securities Conflicts has three members who are usually nominated by the Council of Ministers royal decree. In addition, their membership duration is for three years, is subject to renewal, and members often represent the Ministry of Commerce and Industry, the Ministry of Finance and the Bureau of Experts at the Council of Ministers.\(^{29}\)

In addition to illuminating the procedures for the Appeal Committee for the Resolution of Securities Conflicts regarding the grievances and suits, the defendants, whether they are breaching corporations or individuals, can ask for permission to appeal before the Appeal Committee for the Resolution of Securities Conflicts as long as the CRSD has terminated the legal case and it is within thirty days of the final decision being announced. The Appeal Committee for the Resolution of Securities Conflicts decision is, significantly, the final verdict since the Appeal Committee for the Resolution of Securities Conflicts has the judicial power to refuse or accept the CRSD judgement.\(^{30}\)

In a recent legal case, the appeal by the Chairman of the Saudi Diary and Foodstuff Company was accepted by the Appeal Committee for the Resolution of Securities Conflicts.\(^{31}\) Moreover, the Appeal Committee for the Resolution of Securities Conflicts invalidated the fine of $13,333 which was imposed by the CRSD against the defendant.\(^{32}\) The CRSD punished the defendant in line with article 5-A of the Market Conduct Regulations which states that:

\(^{28}\) Capital Market Law 2003, Art. 59 (B).
\(^{29}\) Capital Market Law 2003, Art. 25 (G). The Council of Ministers has recently re-appointed the Appeal Committee for the Resolution of Securities Conflicts members for three years since October 2011. See the link available at: http://crsd.org.sa/En/Conflict/Pages/Member.aspx, [Accessed 1 November 2012].
\(^{31}\) Issued Decision, No. 888-L-D1-2011 dated 18 June 2011 by the Appeal Committee for the Resolution of Securities Conflicts.
\(^{32}\) Issued Decision, No. 1-5-2010 dated 24 January 2011 by the Committee for the Resolution of Securities Disputes.
An insider is prohibited from disclosing any inside information to any other person when he knows or should have known that it is possible that such another person may trade in the security related to the inside information.\footnote{Market Conduct Regulations 2004, Art. 5 (A).}

The verdict of the CRSD was that the defendant was being found suspicious of disclosing inside information about the corporation to a third party. The defendant subsequently appealed before the Appeal Committee for the Resolution of Securities Conflicts within the determined time of thirty days after the CRSD decision and was regarded as being not guilty by the Appeal Committee for the Resolution of Securities Conflicts.\footnote{Issued Decision, No. 888-L-D1-2011 dated 18 June 2011 by the Appeal Committee for the Resolution of Securities Conflicts.}

4. The Saudi Stock Exchange

There are number of reasons associated with the establishment of the Saudi stock exchange including the launch of stock exchanges in neighbouring countries, namely Kuwait and Jordan, the increase in public knowledge about stocks, and the privatisation plans of the Saudi corporations. As a result of these factors, the Saudi stock exchange was created in its first incarnation took place in 1984 under the supervision of both the Ministry of Commerce and Industry and the Saudi Arabian Monetary Agency. Statistically, in 1996, shareholdings of seventy listed corporations were energetically traded. In the same year, the total market capitalisation was estimated at $45.9 billion with a market P/E ratio of 13.1. In accordance with this market capitalisation, the Saudi stock exchange was graded as the thirteenth largest developed market and the most superior of the markets within the Arab Gulf countries.\footnote{International Finance Corporation, Emerging Stock Markets Fact book, p. 328.}

However, the current Saudi stock exchange was introduced in 2003. The CML observes that a market shall be established in the Kingdom for the trading in securities which shall be known as the “Saudi stock exchange”.\footnote{Capital Market Law 2003, Art. 20 (A).} In addition, the stock exchange is directed by a board comprised of nine members who are chosen and nominated by the Council of Ministers royal decree upon nomination of the Capital Market Authority Board. Three members of this board should represent a variety of governmental bodies including the Ministry of Finance, the Ministry of Commerce and Industry and the Saudi Arabian Monetary Agency, and the remainder of members represent four licensed brokerage corporations and two listed corporations.\footnote{Capital Market Law 2003, Art. 21.}
There is a significant amount of evidence to suggest that the stock exchange has advanced since the number of listed companies at the beginning of this exchange transformation was seventy and now consists of around 150 corporations.

The greatest responsibility of the stock exchange with regards to the corporate governance framework is contributing towards the general meetings of corporations in order to ensure the voting process is carried out fairly; and to satisfy that the minority shareholders will be given their rights during these general meetings. Principally, the stock exchange is accountable for several challengeable targets that are connected to good corporate governance practices which:

1) Guarantee equity of listing requirements.
2) Ensure impartiality of transactions.
3) Undertake transparency requirements.
4) Certify technical mechanisms and information for securities listed in the stock exchange.
5) Resolve any disputes and approval of regulations.

5. The Ministry of Commerce and Industry
It is thought that the Ministry of Commerce and Industry has a variety of responsibilities in terms of being a strong premise as a Saudi external corporate governance institution. In addition, the Ministry of Commerce and Industry has a vital department, known as the Department of General Companies, which is accountable for studying and amending the articles of association of such newly established corporations.

The role of the Ministry of Commerce and Industry which is connected to corporate governance is to certify that the transformation of companies to be listed corporations has been fulfilled in accordance with the application of Company Law alongside the principles of good corporate governance regarding shareholders’ rights; as well as having the right to attend the corporation’s general meeting.

6. The Accounting and Auditing Professions and the Saudi Organisation for Certified Public Accountants

39 Company Law 1965, Art. 49.
40 Company Law 1965, Art. 83.
There is no doubt that the accounting and auditing professions at their external level have a wide range of liabilities – being in charge of assisting good corporate governance practices equally with other apparatuses responsible for implementing good corporate governance practices. Nonetheless, the accounting and auditing professions have been seen as a major negative factor in the international financial collapse which occurred in many international capital markets. Similarly, the circumstance does not differ in the case of the Saudi accounting and auditing professions. It is supposed that the Saudi accounting and auditing professions were one of the causative factors responsible for the Saudi market catastrophe in 2006 when they did not perform their duties fairly and were evidently lacking in professionalism.

Historically, the first Saudi accounting and auditing company was founded in 1957 by the Ministry of Finance, which subsequently permitted seven licensed accounting and auditing companies, six of which were foreign and only one was a Saudi accounting and auditing company. According to Al Angari, the Saudi accounting and auditing professions previously lacked suitable specialised education and training and as a consequence there were a lack of highly qualified accountants and auditors.

It is thought that the CL is a great factor behind the weaknesses of the Saudi accounting and auditing professions. Nevertheless, the CL situates the requirements for licensed accounting and auditing companies such as their nationality, reputation, residence and their members’ certificates and experiences. In addition, the CL requests the administration of different corporations to plan a financial report and submit this to a chartered public accountant and audit company. Specifically this chartered company should have the right to access the corporation’s records, to demand information and descriptions and to attain the corporation’s assets and liabilities. Unfortunately, the CL, as a reference for the accounting and auditing professions as seen, does not involve a sufficient enough number of accounting and auditing standards. It does not satisfy the Saudi home needs for supportive legal clauses regarding the functions of the accounting and auditing professions.

44 Company Law 1965, Art. 130.
This has encouraged the Saudi regulator to assign the task of advancing the accounting and auditing professions to the special entity, namely the Saudi Organisation for Certified Public Accountants. Particularly, the Saudi Organisation for Certified Public Accountants is in charge of promoting the Saudi accounting and auditing companies and their principles. It has a substantial number of targets as have been outlined:\(^46\)

1. Improving and supporting accounting and auditing standards.
2. Arranging contemporary education programmes and training workshops.
3. Contributing towards regional and international seminars and symposiums linked to the accounting and auditing occupations.
4. Conducting and publishing specific research related to accounting and auditing standards.

Furthermore, the Saudi Organisation for Certified Public Accountants has made urgent recommendations to the boards of different Saudi corporations regarding the lack of transparency regarding audit committee functions as well as the shortage of satisfactory control rules. Significantly, the Saudi Organisation for Certified Public Accountants has stimulated that current developed committees, explicitly the nomination, the remuneration, the risk and audit committees be implemented on the boards of different corporations since these committees were not previously present a couple of years ago.

In addition, the Saudi Organisation for Certified Public Accountants found and highlighted in its report that a huge number of the members of such audit committees did not hold specific certifications in accounting and auditing, and therefore the lack of professionalism would have a destructive effect on the interests of shareholders and other beneficial groups.\(^47\)

To sum up, the accounting and auditing companies are outer institutional bodies for activating corporate governance when they fulfil their responsibility for computability. Nonetheless, the accounting and auditing companies have the extreme role of corporate governance applications as external overseers of the records and submissions of different corporations especially with regards to adequate accounting and auditing standards. In particular, the accounting and auditing companies provide the solutions to the application of corporate governance principles regarding disclosure and transparency; as well as being the keys to a resilient legal framework within the corporate division.

\(^46\) Certified Public Accountants’ Regulations 1992, Art. 25.
7. The National Anti-Corruption Commission

Corruption has been defined as the mistreatment of delegated supremacy for personal achievement. Examples of corruption can include fraud, bribery and favouritism.48 Recently, corruption has gained the attention of Saudi regulators after a variety of irresponsible corrupted actions have been committed by corporations or individuals. It is understood that corruption happens elsewhere, in both the developed or less developed countries, but it should be less so in Saudi Arabia. In this respect, a recent empirical international report graded Saudi Arabia as one of the six-three least corrupt countries in the world.49

In addition, corruption inside the Saudi market can be seen when some listed corporations and individuals have not been seemed about applying the CML and the implementing regulations, including the Corporate Governance Code, or at least not amplifying why they have not conformed with this. These corporations and individuals have been unconcerned when the Capital Market Authority Board has issued them with a fine. It is important to note that the conflict of interest within the board and insider trading would be pointed out as an example of corruption which would be accomplished by the board members or top executives when they have traded in their corporations’ submissions or competed in the actions of their corporation.

Therefore, it is hoped that the National Anti-Corruption Commission will be an assisting semi-governmental organisation for encouraging good corporate governance practices. The National Anti-Corruption Commission, which is directly associated to the King, is a newly renowned body, but it is expected that the corruption dealings and wrongdoings should be under the scope of this commission.50 According to Article 1 of the National Anti-Corruption Commission Law, companies in which the state owns a minimum percentage of 25% of their capital should be included within the commission’s specialisation.51

50 Royal Decree, No. 165, dated 7 May 2011.