



# The Association between Corporate Governance and Disclosure of Audit Committee Characteristics: A Conceptual Model for the Saudi Listed Companies

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## Abstract

Corporate governance has become common issues and the numbers of issues have increase gradually since the last two decades. Good corporate governance plays crucial part in developing better linkages in the organization which includes the vital role in the organization such as board members, managers, stakeholders and stockholders. Good practices of corporate governance not only can be seen in well-developed and business-oriented, but it also will promote organization events and enhance organization abilities in accessing all the sources. Besides, this practice will encourage organization in developing the values of business and systems controlled in facing any risk during the process of creating better organization. In achieving status of good status of corporate governance, a good organization should have good practices in the governance and disclosure also broad knowledge it is crucial elements for successful organization in the world. However, most of Arab Saudi listed companies have the foundation of good governance knowledge and this practice is one of the best elements for increasing and maintaining organization efficiency especially Index listed company. Nevertheless, previous studies on corporate governance always highlighted on controversial results on corporate governance impacts on the efficiency of company. However, this paper will be highlighted on factors that contribute corporate governance which include committees of board audit, the size of audit, independence, compensation and the frequency of meeting. On top of that, the result of this study will offer more suggestions for further research on the linkages between corporate governance and company also Saudi listed company disclosure in Saudi Arabia context. In aligned on the results, it will offer the implications on authority regulators, policymakers and shareholders with effective implication of best practices and information disclosure on corporate governance.

**Key words** Saudi Arabia, disclosure, Board of audit committee

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## 1. Introduction

In the rapid growth modern world, the importance of information presentation has been a wake-up call to business company to focus on wide range activities either financial or non-financial performance for instance socially responsible performance (Akisik and Gal, 2011). Due to increases numbers on financial crises and corporate scandals, corporate transparency and governance has become the beacon of hope in helping organizations in providing information through disclosure via media which includes annual reports, corporate websites, prospectuses and press releases. Information disclosure has been categorized as mandatory to reveal the real status of organization as demanded by regulations whilst power to select information to be revealed by management referred as voluntary disclosure (Uyar and Kilic, 2012). By implementing comprehensive public disclosure, awareness by stakeholders and investors will increase towards financial

and non-financial in the aspects of environment, responsibility on social, customers, employees and others. This will help organization in reducing inaccurate information between top managements and stakeholders, costs of agency and validating all company activities. As emphasized by Singhvi and Desai (1971), insufficient disclosure on in annual reports disclosure would cause fluctuations on share process due to less information on investment decisions within organization. Low level of transparency in the firm would face obstacles either in finding capital to ensure the operation of company would keep running or higher capital cost would incur (more information Elliott & Jacobson, 1994). There are two standards that have been published by Banking Regulation and Supervision Agency for financial institution which are International Accounting Standards and International Financial Reporting Standards meanwhile Capital Markets Board was established in the purpose of public traded companies since 2003. Thus, in promoting transparency, Capital Markets Board had issued Corporate Governance Principles (CGP) of Saudi Arabia which promote regulatory and supervisory authority in securing markets of the country in 2003 and Saudi Corporate Governance Code was implemented (SCGC) in 2006.

The corporate governance (CG) has witnessed a large development in the regulations and compliance procedures in the world (Rahman and Omar, 2013). According to McGee (2010), CG disclosure is a serious issue in the economic development. Legal systems of CG disclosure are often characterized by poor enforcement of property laws and weak market control mechanisms. These systems are recently established capital market authorities for coping with emerging governance concepts and issues. Modern corporate governance disclosure practices are the product of earlier practices formalized in the 1970s. According to Al-habshan (2015), many rules survived to form the basis for modern corporate governance disclosure and remain the subject of serious debate worldwide. Corporate disclosure is quite a new concept in the capital market of Saudi Arabia. CG disclosure was neglected as a significant issue by Saudi Arabian corporate sector. A corporate governance framework should be designed and implemented in such a way that it facilitates the disclosure of all material and non-material or more specifically financial and non-financial issues (Al-Ghamdi, 2012). The growth of modern CG and corporate governance disclosure was initiated around 1992 when —The Committee on the Financial Aspects of Corporate Governance UK - issued by the Cadbury Report. Then later, the 1998 and 2004 OECD Principles of Corporate Governance and the 2002 United States (US) Sarbanes-Oxley Act helped in formulating corporate governance for modern corporate works requirements (Al-habshan, 2015). In 2005, the Saudi capital market authority (CMA) initiated programs for the promotion of corporate disclosures. The Asian financial crisis (1999) and another crisis (2007) and Saudi Arabian market crash (2006) pointed out many issues with prevailing company ordinance acts and codes of corporate governance around the world. Hence, to develop and regulate the Saudi capital market and to ensure best governance practices among Saudi listed companies, the Saudi Capital Market Authority (CMA) introduced the Saudi Code of Corporate Governance in 2006. Consequently, capital market regulatory authorities around the world either initiated formulation of corporate governance codes or started amending existing (Manaseer *et al.*, 2012).

### **1.1. The Corporate governance environment in Saudi Arabia**

Saudi Arabia is not just the largest country but also the largest Producers in the market in Arab countries (Alsaeed, 2006) as it holds 25 percent gross domestic product of Arab. The establishment of stock company in Arab has brought into the introduction of corporate governance in 1930s and the numbers of company grew to 14 public companies. The rapid growth of Arab economic due to oil boom in 1970s which led to higher numbers of public companies and banks gradually as the market started to operate in the year of 1930s informally with participation from Automobiles Company in the stock company (Tadawul, 2012). By year of 1985, the establishment of Saudi stock market exchange operated since that year nonetheless it did not mirror Saudi economic importance regionally and internationally (Hussainey and Al-Nodel, 2008; Tadawul, 2012; Al-Filali and Gallarotti, 2012). SFG (2009) and Alshehri and Solomon (2012) emphasized on restructuring of CG and stocks in the country of Saudi Arabia by the investors, academicians and experts in financial field also it is a part of economic restructuring in 2000s (Al-Matari *et al.*, 2012). The increasing numbers of firms gradually in the market capitalization, visibility, numbers of firm and liquidity are the results from the reform of economic and this also led to the establishment of CMA (internal corporate governance) as it was institutionalized in 2006 by the SCGC publication (Hussainey and Al-Nodel, 2008; Al-Moataz and

Hussainey, 2012; Soliman, 2013a). The implementation of corporate governance code has been compulsory to every Saudi companies since 2006 also disclosure and transparency can be seen in the reporting reforms which issued by The Ministry of Commerce and Industry by 1985 (Alzahrani, 2013). In 2002, Saudi Organization for Certified Public Accountants (SOCPA) has updated the standard and another reform of disclosure which involved country's commitment can be seen in the adoption of International Financial Reporting Standards (IFRS) in 2017. In addition, Companies Act of 1965 was the major regulation which used to govern the behavior of companies among Saudi Arabia (Haniffa and Hudaib, 2007; Hussainey and Al-Nodel, 2008). The reformation of economy of Saudi Arabia has change the landscape of economic which placed them as one of the biggest developed economic and largest stocks (Piesse *et al.*, 2012).

### **1.2. Definition on Corporate Governance**

Corporate governance definition is different and not identical due to different perspectives such as economic, political and other aspects in any countries (Alzahrani, 2013). Hence, definition of corporate governance is depended on the subject matter referring to such as which level of country's development and understanding, policy, practitioner, researcher or theorist. On top of that, it also could be described as organization which been controlled and directed as a system (Alzahrani, 2013) which used by Cadbury Committee (1992) in defining corporate governance. (Mendez, 2003) describe definition as a framework which consisted of rules and regulation, laws, procedures in developing interaction and relationships between owners, management, managers and other parties that have interests in the decision-making process of organization. Academically, definition and concept has related fields such as management, economics, sociology, finance and the system of corporate governance could be enlightened into specific field (Alzahrani, 2013). Thus, SCGRs objectives which were developed aimed to offer guideline for best practices to organization, shareholders and others in enhancing shareholders protection.

### **1.3. Corporate Governance and Disclosure**

Mechanisms of CG were designed in scrutinizing and endorsing the managerial decision in order to ensure organization to function efficiently in the organization (Chi, 2009; Donnelly and Mulcahy, 2008; Forker, 1992). Mechanism of governance offers to provide protection to external investors against action taken by insiders due to agency problems (Jensen and Meckling, 1976; Porta *et al.*, 2000). Nicolo *et al.* (2008) stressed on corporate governance as policymaker top agenda priorities across the world especially after financial crisis in Asian countries 1990s (Akhtaruddin and Haron, 2010). According to Bauwhede and Willekens (2008), political and business leaders were forced to apply governance in order to decrease number of scandals which involved huge organization such as Enron, World Com and Parmalat as to gain public trust. Improvements on corporate governance will lead to maximum level of value and better quality of corporate governance practices (Cheung *et al.*, 2008). In creating and maintaining good relationship in the organization (corporation and stakeholders), corporate governance disclosure has become major element to develop the mechanism of corporate governance (Gaa, 2009). This study applies agency theory in examining corporate governance practices effects on the company competency compare to previous study which focused on resource dependence theory (Bektas and Kaymak, 2009; Duma *et al.*, 2006; Kyereboah-Colema, 2007; Lawal, 2012; Lin, 2011; Major and Markis, 2009). In present, recent study showed resource dependence theory matched with agency theory and previous study by Al-Matari *et al.* (2012a) applied these theories in their research.

### **1.4. Agency Theory**

Corporate governance context showed agency theory is the most suitable theory and most of previous study is based on the theory (Filatotchev and Boyd, 2009). Meanwhile, Jensen and Meckling (1976) clarified agency contract as agreement between owners and managers in order to ensure organization will operate based on shareholder interest. Nonetheless, conflicts occur always covered with segregation of power between ownership and management in corporate governance world (Adam Smith, 1976). The establishment of agency theory is to reduce issues occur in the organization involve shareholders and managers also helps to avoid abuse power on shareholders' wealth. Previous literature on corporate governance as top management will gather all information and excessive pay (Jensen and Meckling, 1976;

Black 2006a; Chalevas, 2011; Berle and Means, 1932; Shleifer and Vishny, 1997; Bebchuk and Fried, 2003; Ntim *et al.*, 2012). The mechanism of corporate governance introduced managerial opportunism which helps in reducing the costs of agency, it also helps in establishing governance structure by developing legal contract between shareholders and managers (Haniffa and Hudaib, 2006; Solomon, 2010). Good corporate governance helps on boosting executive independence by reducing the number of board members (executive) (Berle and Means, 1932; Solomon, 2010; Chen, 2011; Al-Janadi *et al.*, 2013; Fama 1980; Bebchuk and Weisbach, 2010; Conyon and Het., 2011) and help in controlling managerial behavior (Klein, 1998; Allegrini & Greco, 2013). Next, internal control system aimed to restrict wealth abuse caused by organization management or members of managerial boards (Jensen and Meckling, 1976; Renneboog and Szilagyi, 2011). Compensation and managerial system will help managers in maintaining and improve their performance (Bebchuk and Fried, 2003; Chalevas, 2011; Ntim *et al.*, 2014).

Furthermore, the establishment of agency theory would help organization in setting up good governance in reducing organization costs (monitoring and bonding), increase practices of governance, financial performance and voluntary disclosure (Fama and Jensen, 1983; Siddiqui *et al.*, 2013) as recommended by the codes of corporate governance (e.g., the 1992 Cadbury Report; the 2003 Combined Code; the 2002 King Report; the 2006 SCGC). In order to reform and developing program of corporate governance, Saudi Arabia government has taken number of actions to develop 2006 SCGC which aims to reduce conflict while increase accountability, responsibility and transparency among director of corporate boards (Al-Abbas, 2009; Al-Nodel and Hussainey, 2010; Robertson, Diyab and Al-Kahtani, 2013; ROSC, 2009; Alshehri and Solomon, 2012). Surprisingly, it is significant with the context of Saudi Arabia due to increasing numbers of ownership among Saudi listed organization (Al-Abbas, 2009; Al-Nodel and Hussainey, 2010). Unfortunately, this action will harm small organization badly and lead to conflicts between small and large shareholders which larger companies have ability in appointing their relatives and friends also individual that politically well-connected by neglecting their ability and capability in performing some roles in the organization (Haniffa and Hudaib, 2007; Boytsun *et al.*, 2011). To conclude, this kind of practices will do more harm on voluntary corporate disclosure and financial performance al in the stock market of Saudi.

## **2. Literature Review**

This article provides information about CG in the Kingdom of Saudi Arabia on CG and regulatory legislation by explaining on the corporate governance background in the Kingdom. Also, this article discusses studies on CG and the relationship among CG instruments including the characteristics of the Audit Committee (size, independence, meeting frequency and compensation) between CG disclosure and audit committee characteristics of Saudi listed companies.

### **2.1. Audit Committee Characteristics and Corporate Governance Disclosure**

Audit committee concept is new in developing countries, and capital market regulatory authorities of these economies have introduced regulations design to achieve a high-quality audit. Corporate governance codes are making it compulsory to audit the disclosure of corporate information internally as well as externally. Strict enforcement and application of audit laws also encourage foreign investors and help in building their trust in financial matters of local companies. Auditing is a process that ensures transparency in financial reporting and a mechanism in enhancing the reliability of revelations; lessen gap and cost of information (ASX, 2010b; Kalbers and Fogarty, 1993). The Saudi Companies Act requires that a company should publish its annual audited accounts and reports in agreement with Generally Accepted Accounting Principles and signed by CEO and chairman of the board and must be available to all stakeholders (Abeysekera, 2010). According to Hassaan (2013), a sound audit committee is a pre-condition for good disclosure of corporate governance practices in any company. This leads to the scrutiny on characteristics of audit committee impact like scope, freedom, meeting occurrence and compensation on corporate disclosure. This current paper is intended to fill the knowledge gap about these characteristics in the Saudi content and uses a literature review to determine salient features. Thus, the study examines audit committee characteristics using factors in the next sections.

## **2.2. Audit Committee Size and Corporate Governance Disclosure**

The role of audit committee is to improve disclosure quality and reducing asymmetric information (Chung et al., 2004). Monitoring function by audit team urge the management team to maintain financial information as scheduled (Ika and Ghazali, 2012). The important and fundamental rationale for the presence of such a committee is that it provides a connection between corporate governance and the auditor in the survey of the yearly accounts and the disclosure of audit fees (Collier and Gregory 1996). SOX and the Security and Exchange Commission Act 2002 have given clear guidance about the role and effect of an audit committee in publicly listed American companies (Abdel-Meguid *et al.*, 2014). Nacd (2000) noted that the audit committee plays important role in assessing and reviewing external and internal information, ensuring financial reporting, providing control system and monitoring the connection between the external auditor and management. Agency theory was utilized as a part of this review with the presumption that the audit committee can mitigate the agency conflict by bringing transparency and trust (Yasin and Nelson, 2012). Audit practices can play a major role in controlling audit committee work and the agency issue because stakeholders feel comfortable with the quality of financial and corporate disclosure (Yasin and Nelson, 2012). Some have argued that a larger audit committee is a source of more knowledge and experience and can better a scrutinize company's financials (Lipton and Lorsch, 1992; Cornett *et al.*, 2009). While several studies have discovered scope as significant factors on financial reporting quality (Lin *et al.*, 2006; Cornett *et al.*, 2009), further studies have testified an irrelevant impact of size towards the process of financial reporting (Bedard *et al.*, 2004; Abbott *et al.*, 2004; Lary and Taylor, 2012). Companies that continuously repeat their reporting errors are perceived as having unqualified or inexperienced members in audit committee. According to Lary and Taylor (2012), audit team with unqualified members considered to be an ineffective committee. As Abbott et al. (2003a) pointed out, the main objective of an audit committee is to identify and trace mistake and potential fraud to present a good image in the eyes of external auditors as well as stakeholders. To enhance fiscal reporting, Nyse and Nasd (1999) highlighted that listed companies should sustain an audit team with at least three directors, every one of whom must be liberated (Chen *et al.*, 2015). Previous research studies (i.e., Arcay and Vazquez, 2005; Ho and Wong, 2001) found a positive relationship between the audit committee and corporate governance disclosure. The corporate governance code in Saudi Arabia says that the number of audit committee members must be no less than three, having independent members as indicated by a capital market experts and the company's framework (Rahman and Omar, 2013). Therefore, a relationship between corporate governance disclosure and audit committee size, hence, the following hypothesis is posited:

**H1:** *There is a relationship between the size of the audit committee and the level of corporate governance disclosure.*

## **2.3. Audit Committee Independence and Corporate Governance Disclosure**

A result from earlier research that has analyzed the features of the audit committee has found that audit committee independence is vital for an efficient audit committee (Abbott *et al.*, 2003; Vafeas and Waagelein, 2007). Indeed, several authors have recommended that liberated audit committee independence as a tool for measuring the impact of an audit committee as a control system (Bradbury *et al.*, 2004). Raghunandan and Rama (2007) found that the degree of independence ensures good corporate governance practices which indicate constructive linkage between audit committee meetings frequency and independence. Many empirical findings (Vafeas 2005; Klein 2002a, Wright, 1997; Beasley, 1996; Dechow *et al.*, 1996) have reported that the financial reporting process has a substantial effect on the relationship between the board independence and audit committee. They argued that board independence, as well as liberated audit committee, are contrariwise with tampering with financial records. Audit committee independence improves the probability of auditors' issuing going-concern opinions and is related to a decline in the probability of auditor expulsion taking after going-concern opinions (Carcello and Neal, 2000, 2003). Importantly, the study found a significant positive connection between board independence (the extent of independent non-executive directors) and audit committee function as being active and found that the proportion of independent director acts as a proxy of the audit committee independence, with a larger proportion being better. It was also showed that that audit committee independence provides an

authoritative impact and has more power (Turley and Zaman, 2007). Several commissions and reports have examined the issue of independent audit committee members. For example, the Cadbury Committee Report of 1992 recommended that at least three outside non-executive directors serve on an audit committee to assure its independence, and the Blue-Ribbon Committee report of 1999 in the United States recommended the same. Having a base number of non-executive directors on an audit committee is an effort to improve the status and organizational significance of this governance mechanism (Abbott *et al.*, 2004; Adelopo *et al.*, 2012). Lynch and Williams (2012) argued that having a financial stake in a company makes audit committee members less impartial and their independence questionable. In Saudi Arabia, Williamson's theoretical framework (1984) recommends that more prominent outside board were connected with better monitoring and reporting. Such a need for independence is currently applicable to corporate governance listed on the Capital Market Authority of Saudi Arabia. There has been some confirmation that audit committee and board independence is related to the nature of the financial reporting process in Saudi Arabia, and research has highlighted the importance of audit committee independence (Lynch and Williams, 2012). From the above literature, a relationship has been found to exist between the independence of the audit committee and the level of corporate governance disclosure. Hence, the following hypothesis is posited:

**H2:** *There is a relationship between the independence of the audit committee and the level of corporate governance disclosure.*

#### **2.4. Audit Committee Meetings and Corporate Governance Disclosure**

The audit committee meeting is the third vital factor of audit committee characteristics, and, accordingly, the frequency of a number of board meetings has been studied relative to the financial matters of companies. Meeting frequency of an audit committee is seen as a proxy of strict monitoring (Sharma *et al.*, 2009; Laksmana, 2008; Vafeas, 1999; Collier and Gregory, 1999). Previous studies have commonly depended on audit committee meetings per year as a metric for the perseverance of an audit committee because different measures of effort are not publicly observable (DeZoort *et al.*, 2002). Increased meeting frequency is often seen as being helpful in the utilization of director's time and skill in the most useful way (Carcello and Neal, 2002; Laksmana, 2008 and Vafeas, 1999). However, the results of these subjects have been mixed. Some have found a relationship; other has found no relationship. For example, Puspitaningrum and Atmini (2012) found that the number of audit committee meetings positively impacted the degree of IFR disclosure of Indonesian companies. However, no significant relationship has been found between the level of discretionary accruals and audit committee meetings. This result is not exceptional as most research was found no relationship between the frequency of audit committee meetings and disclosure of corporate governance (AL-Ghamdi, 2012). The fact that many prior studies were unable to find a relationship between disclosure of CG and audit committee meetings might be because of a small sample (one year) (AL-Ghamdi, 2012), the companies chosen, or the country context, among other reasons. More frequent meetings of audit committees have been seeing as leading to more efficient monitoring in some contexts (Titova, 2015). Audit committee meeting frequency is higher in Spain and Italy than in New Zealand and the United Kingdom. The difference may be related to suggestions and recommendations about a minimum number of board meetings given in the codes of corporate governance of respective countries. One reason that has been articulated for the lower frequency of board meeting is a higher number of liberated directors. For example, Spanish companies with the lowest number of liberated directors had the highest rate of audit committee meetings. Spanish and Italian companies exhibit a lower rate of independent directors on the board than the organizations in the Anglo-Saxon Countries (Greco, 2011).

Regulators, commissions and committees have recommended more frequent audit committee meetings in a year. For instance, for an effective audit committee, the Blue-Ribbon Committee (1999) and PwC (1993) suggested at least four meetings per year; similarly, KPMG (1999) proposed between three and four meetings per year. The result aligned with the Saudi Arabia Code of Corporate Governance (2006) that recommends an audit committee to hold a minimum of four meetings per year (Yin *et al.*, 2012). Anglo-American model influenced Saudi Arabian corporate governance in boosting shareholders' wealth. The Saudi Arabian Corporate Governance Codes (2005) are extremely identical to CG practices in the United States, which depend on the principles of agency theory (Hill *et al.*, 2015). In present, directors were demanded to

reveal important points which effects organization and surprisingly they cannot sustain without approval by shareholders' meeting (Hill *et al.*, 2015). However, an opposite linkage might develop amid the audit committee's activities and the number of board meetings. Similarly, more frequent board meetings would prompt more audit committee actions (Adelopo *et al.*, 2012). Hence from the above discussion, the following hypothesis is posited:

**H3:** *There is a relationship between the number of a meeting of the audit committee and the level of corporate governance disclosure.*

### **2.5. Audit Committee Compensation and Corporate Governance Disclosure**

Executive compensation disclosure provides an excellent opportunity to examine board practices, and Laksmana (2008) provides some evidence that boards with the power to act independently from management provide more details about executive compensation practices. In the absence of clear guidelines, boards often have considerable latitude what details to report about executive compensation (Laksmana 2008). Board committee compensation urge directors to spend more time in formulating an effective corporate disclosure policy. In most large organizations, the executive compensation plan is the duty of subcommittee of directors and, in some cases, the audit remuneration committee (Anderson & Bizjak, 2003). While the general concentration of government regulation has been to energize outside board portrayal on audit committees compensation (Anderson and Bizjak, 2003). Generally speaking, executive compensation is an indispensable part of the management system, and boards and their compensation committees have essential obligations to set proper motivational contracts, to guarantee that the agreements are ideally structured, and to modify the agreements to adjust efficiency metrics to compensation (Laksmana, 2008). Disclosure of executive compensation provides a natural environment for the consideration of board disclosure practices (Laksmana, 2008). To motivate managers and to save taxes companies have introduced many sorts of compensation packages including stock options and profit sharing over time (Monks *et al.*, 2008). Increased responsibility and accountability have prompted substantial increments in audit committee compensation. For example, Archer (2003) anticipated that executive compensation would increase by 10% in 2004 and would increase by 50% in 2007 (Archambeault *et al.*, 2008). Moreover, insiders may comprehend the particular social and political parts of a company that are helpful for remuneration counselors or compensation committees in organizing motivators (Anderson and Bizjak, 2003). While the regulations increased compensation committees' independence, the arrangement of the remuneration committees influences neither compensation levels nor general motivating forces (compensation plus ownership) (Anderson and Bizjak, 2003; Hill *et al.*, 2015). That leads to the following hypothesis:

**H4:** *There is a relationship between the compensation of audit committees and corporate governance disclosure.*

### **3. Proposed Research Framework**

The proposed framework (as shown in Figure 1) is based on the agency theory, suggesting that the board of audit size, audit independence, and audit meeting frequency effect on corporate governance and disclosure. Agency theory views on organization as a set of contracts between the principal (owner or shareholders) and agent (managers) and argues that agent should act in choosing the best interest of the principal. Agency theory argues the role of management is to ensure that resources are being utilized to maximize owners' wealth. Berle and Means (1932) state that, when management is not monitored by the shareholders, the conflict of interests and separation seen as consequence of management and shareholders in the organization could result in agency problems. According to Kren and Kerr (1993), to improve the relationship between principal and agent, agency cost should be negotiated. It is widely recognized that the implementation of improved CG practices is expected to enhance the overall observation of management, and further reduce issue in terms of data asymmetry.

The most effective CG mechanisms are centred on the supervision of company management on the behalf of investors and these include director board. Markedly, through the director's board, management will be guided to act on behalf of shareholders. Agency theory, which considers board of directors as a

function of control and argued that board play a significant role in mitigating the agency cost by applying required control (Shleifer and Vishny, 1997).

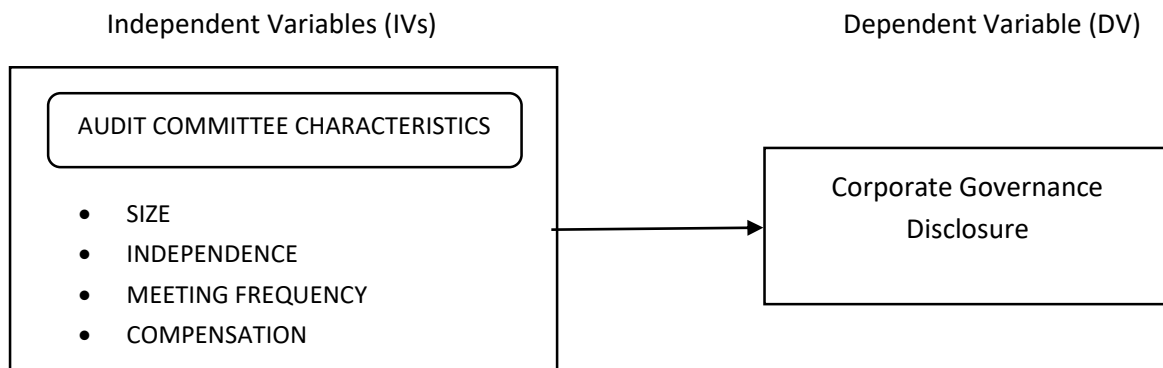


Figure 1. The Theoretical Framework

#### 4. Conclusions and suggestions for future research

The paper reveals some elements of corporate governance, namely, on the structural association between corporate governance disclosures of Board of the audit committees (Audit size, independence, meeting frequency and compensation) and their impacts on company disclosures with a focus on the Saudi Arabia companies. In the context of Saudi Arabia, the economic environment and culture are not the same as those of the developed countries where most of the concepts and theatrical frameworks of corporate governance came from. Research on the relationship between corporate governance and disclosure of the company in Saudi Arabia may provide different results compared to other research in developed countries.

Generally, there are few to studies on the relationship between corporate governance and company disclosure in Saudi Arabia. Given corporate governance concerns the behavior of humans, practices of business, and the different effect of different organizational environments and cultures, there is a need for more empirical research on the corporate governance model for Saudi Arabia And other countries across the globe. One of the possible avenues for future research that was highlighted by this study is to extend this paper to examine the effect of additional attributes of corporate governance on disclosure such as other moderating variables, such as debt ratio.

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