

The Implementation of Quality Review Programmes on Audit Firms in Saudi Arabia: an Illustration of Change Processes in a Transitional Economy

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ABSTRACT: This paper provides an understanding of the nature and extent of the changes that took place within audit firms operating in Saudi Arabia following the implementation of quality review programmes for audit firms by the Saudi Organisation for Certified Public Accountants (SOCPA). Establishing this understanding was based upon the 'processual' theoretical models of 'first and second order' organisational change. The Habermasian 'three stage discursive processes' were used, as the methodological approach for this empirical research, to explore a case-study involving a variety of seven selected audit firms operating in Saudi Arabia. This paper concludes that the implementation of quality review programmes for audit firms by SOCPA has affected the core activities of the seven audit firms in question, generating 'second order', 'evolution' and 'colonisation' changes. It also concludes that although the consequences of the new imposed programmes have been welcomed by some individual professionals and firms, as well as representatives of other interest groups within the Saudi accountancy context, they were unwelcome to many others.

Introduction

This paper seeks to provide an understanding of the nature and extent of the changes that took place within audit firms operating in Saudi Arabia following the implementation of quality review programmes for audit firms by the Saudi Organisation for Certified Public Accountants (SOCPA). It aims to provide an understanding of the nature of these programmes which are seen to be a tool by which major regulatory changes in the Saudi accountancy profession are followed by the targeted audit firms. This understanding will be based upon the 'processual' theoretical models of 'first and second order' organisational change identified and developed by *Laughlin (1991)* and

Laughlin and Broadbent (1996a). The empirical data presented in this paper is the result of case-study based empirical research, in which the theoretical models were used to inform the context of the research through applying a methodological approach based upon the Habermasian ‘three stage discursive process’ (*Habermas, 1988*). It should be clearly stated that the empirical data portrayed in this paper is not intended to be read as a way of testing the validity of the applied theoretical models. Different empirical data may reflect on the models in different ways and, therefore, the theoretical models should not be limited to a certain development. They, rather, should be employed while ‘allowing both variety and diversity’ in any empirical situation to ‘demonstrate and amplify their nature’ (*Laughlin, 1991, p. 210*).

In recent years, there have been efforts made by the Saudi government, through the Ministry of Commerce, to implement changes to the structure and working system of audit firms in order to bring them more in line with the huge economic growth the country has been experiencing since the 1980s, a system more compatible with what is considered acceptable in advanced or developed societies (*Al-Sultan, 1981; Al-Rashid, 1983; Elkharouf, 1985; Moustafa, 1985; Al-Rehaily, 1992; Al-Wabil, 1998*). Such intended changes would not have been necessarily adopted by the targeted firms without the force of legislation and regulation. These changes are traceable to the 1991 CPA Law (SOCPA, 1994a) and directed mainly at changing the ‘interpretive schemes’, ‘design archetypes’ and ‘sub-systems’ of organisations of certified public accountants operating in Saudi Arabia. Together with the imposition of new licensing and disciplinary rules, the CPA Law of 1991 entailed the establishment of a quasi self-regulatory accountancy body, the Saudi Organisation for Certified Public Accountants (SOCPA), whose major responsibilities were to organise, regulate, monitor and develop the accountancy profession in Saudi Arabia. Audit firms, as part of the ‘systems’ level of the Saudi accountancy context, still perform the audit services. However, the Ministry of Commerce, as the ‘steering media’ of that context, is no longer there to be a simple organiser and provider of CPA licences. It is there to direct, monitor, define and redefine professional action and activities through the SOCPA. Following such an overwhelming change, basic requirements needed for the improvement of the Saudi accountancy profession, such as accounting and auditing standards, ethical codes, fellowship examinations and, most importantly, quality review programmes for audit firms have been prepared, approved and enacted by SOCPA during a relatively short period of time. As a result, audit firms have been experiencing a ‘time of crisis’ arising from the difficulty to deal with the imposed quality review programmes, as they require complying with wide-ranging regulations. After enjoying a long period of freedom in which it was possible for them to define their own professional practices, audit firms are now being required to undertake immediate changes, as they must cope with the implementation of SOCPA’s quality review programmes for audit firms, which is said to be a tool by which the firms’ compliance with the new imposed regulations (e.g. licensing rules, professional standards and codes of ethics) can be ensured.

This paper is concerned with understanding the nature and extent of the changes that took place within audit firms operating in Saudi Arabia following the implementation of SOCPA’s quality review programmes for audit firms aiming to provide an understanding of the nature of these programmes. The paper is organised into three main sections. Section one outlines the applied theoretical and methodological approach. Section two illustrates and amplifies the applied theories by

drawing from data collected through a case-study based examination of the imposed quality review programmes for audit firms ('steering mechanisms') emanating from the Ministry of Commerce and the Saudi Organisation for Certified Public Accountants (SOCPA). Section three discusses the change 'pathways' followed by those seven affected organisations and the final section provides a summary and conclusion.

I. The Theoretical and Methodological Framework

The 'language' provided by the applied theoretical framework facilitated helpful tools to articulate the context of the research. This framework was, mainly, drawn from the Habermasian Theory of Societal Evolution (Habermas, 1979, 1984, 1987; Laughlin, 1987; Broadbent et al., 1991; Laughlin and Broadbent, 1996a) and some organisational theories of change (Miller and Friesen, 1980a, 1980b, 1984; Ranson et al., 1980a, 1980b; Walsh et al., 1981; Greenwood and Hinings, 1988; Hinings and Greenwood, 1988; Laughlin, 1991; Laughlin and Broadbent, 1996a). The Habermasian theory maintains that, in a modern society, Societal Institutional 'Steering-media' (SIS) (the Ministry of Commerce and SOCPA) is created to 'steer' the behaviour Societal Organisational 'Systems' (SOS) (audit firms) through various 'steering mechanisms' (e.g. quality review programmes for audit firms). This process, in an ideal type of modern society, is undertaken to ensure that these SOS operate in a particular manner in order to 'enable' the requirements of the Societal 'Life-World' (SLW) (accumulated and communicatively agreed aims, roles, and concepts of the accountancy profession within the Saudi society). This is, however, not always the case. The SIS, in some circumstances, directs its 'mechanisms' away from 'enabling' the requirements. This leads to a 'colonisation' process where the SLW and SOS become 'colonised' by the values and interests of the SIS.

At the organisational level, based on the societal level discussed above, the SOS (audit firms) can have their own SLW or Organisational 'Interpretive Schemes' (OIS) (e.g. core activities), SIS or Organisational 'Design Archetype' Steering-media (ODAS) (e.g. internal control and communication systems) and SOS or Organisational 'Sub-Systems' (OSS) (e.g. audit manuals). The interaction between the societal and organisational levels can mostly be recognised in the case of imposing changes by the SIS over the SOS. The impact of any change can vary in terms of its ability to change the organisational arrangement ('balance and coherence' between the three levels). A 'first order' change includes changes only at the ODAS ('rebuttal') or at both the ODAS and OSS levels ('reorientation'), while a 'second order' change generates changes to all levels within the organisation, including the OIS, ODAS and OSS. This latter change can be either of an 'enabling' ('evolution': the change in the OIS results from the 'discursive process' as a 'normal' societal and organisational development) or of a 'colonising' ('colonisation': the change in the OIS results from a force created by various changes in the ODAS that are inconsistent with the values and expectations of the OIS) nature depending on the potential of the SIS behind the 'steering' process. Additionally, the role played by the ODAS in coping with the 'mechanisms' adopted by the SIS, regardless of whether they are accepted or resisted, is considered as having a strong impact in determining the nature and extent of the effects over the OIS and OSS levels of the organisation.

On this basis, understanding the nature and components of each of the organisational differentiated levels is fundamental to categorising the type of any

change initiated by an ‘environmental disturbance’, since such a categorisation will be based on the extent to which each of the ‘supposedly’ balanced levels is affected (Laughlin, 1991; Laughlin and Broadbent, 1996a). However, whilst any of the four ‘pathways’ are likely to occur in the case of ‘environmental disturbances’, it is difficult to determine which one of them will be followed without investigations within actual empirical situations (Laughlin, 1991).

The above outlines the theoretical ‘language’ that has been used to inform the context of the research. A methodological approach based on the Habermasian ‘three stage discursive process’ (Habermas, 1988) has been used to carry out an empirical case-study based examination within the audit context of Saudi Arabia during the past three years. This involved participants from seven audit firms (from A1 to A7). These selected seven firms range in nature (international, local with international co-operation and local) and in size (from big to small). The selection of participants in the interviews and ‘discursive processes’ within each of the seven firms involved consideration of their hierarchical positions (e.g. partners, managers, and senior and junior audit staff) and the conditions required for them to participate in the research (e.g. willingness to participate and awareness of the regulatory changes). In addition to the seven audit firms, interviews have been carried out with a randomly selected individual members of various interest groups, including the Saudi Organisation for Certified Public Accountants (SOCPA), the Ministry of Commerce, the Ministry of Finance and National Economy, the Department of Al-Zakah and Income Tax, academics, the Saudi Accounting Association (SAA), accounting students, and the private and public sectors.

The participants have engaged in an equal opportunity-based discourse process, where they were committed to co-operation in their search for ‘truth’ on the basis of allowing the ‘force of the better argument’ to emerge (Laughlin, 1987; Habermas, 1988). A ‘three stage discursive processes’ were undertaken in each site, in which every individual involved had different contribution at each stage. The insights gathered from the first stage (‘formulation of critical theorems’, e.g. initial understanding of the key areas of concern) were subject to challenges and refinements at the second stage (‘processes of enlightenment’) when the participants were introduced and asked to discuss and give their views regarding the issues under investigation. At this second stage, the interaction between the applied theoretical models and the gathered empirical data, in particular, the way in which each informed the other, became clearer. Also, shared understandings have been developed within the various locations on what areas should be further explored in order to achieve an understanding about the nature and extent of the changes taking place within the seven audit firms under research following the implementation of SOCPA’s quality review programmes for audit firms. The refined insights, emerging from the second stage, formed the basis of the strategies that the participants have chosen from in the third and final stage (‘selection of strategies’) for the pursuit of the development they desired for their organisations.

The following section addresses the case-study based on the accountancy profession in Saudi Arabia. Following the passage of the new CPA Law of 1991 (‘mechanisms’) by the Saudi government, represented by the Ministry of Commerce, the context of the accountancy profession in Saudi Arabia has witnessed remarkable changes. Consequently, audit firms operating in that context, have been, and still are, required to follow new licensing and disciplinary rules included in the Law as well as being

organised and regulated by a newly established body, the Saudi Organisation for Certified Public Accountants (SOCPA). The latter fundamental change (the establishment of SOCPA) has enabled wide-ranging accounting and auditing regulations ('steering mechanisms') to be issued and enacted by SOCPA and imposed upon audit firms. These new regulations relate to the requirement placed upon audit firms to comply with the Ministry of Commerce's and SOCPA's newly issued accounting and auditing standards, codes of professional ethics, and monitoring, disciplinary and licensing rules. The case-study presented in the following section aims to establish an understanding of the nature and extent of the changes which the implementation of the quality review programmes for audit firms by SOCPA has generated within audit firms, based upon the perceptions gathered from the participants within seven selected audit firms. Through this process the research attempts to answer the following question:

To what extent do the implementation of quality review programmes for audit firms by the Saudi Organisation for Certified Public Accountants (SOCPA) impact upon audit firms, in particular, upon their socio-cultural aspects (e.g. norms, beliefs and core activities), their control and monitoring elements (e.g. communication and internal control systems) and upon their technical and tangible elements (e.g. nature of work and services, number of staff and technological equipment)?

The following two sections attempt to address this question.

II. Empirical Insights into the Impact of Socpa's Quality Review Programmes

This paper focuses on providing an understanding of the implication of SOCPA's quality review programmes for audit firms through examining their impact on the audit firms under question. Therefore, the following will highlight the main concerns with respect to SOCPA's quality review programmes for audit firms that were raised by the participants during the next stage of the empirical research. This, however, does not mean that the impact of other regulatory changes, such as the new licensing rules, will not be covered. The main objective behind the implementation of SOCPA's quality review programmes for audit firms is the ensuring of professional compliance with the Ministry of Commerce's and SOCPA's regulations and, therefore, developing an understanding of the impact of these programmes over audit firms, which is the main concern of this paper, can involve analysis on the impact of other regulatory changes (e.g. the new licensing rules and SOCPA's professional standards and codes of ethics).

Two types of reviews are included in SOCPA's Quality Review Programmes for Audit Firms (SOCPA, 1994). The first is an annual review, in which certified audit firms are required to complete nine different documents, disclosing information regarding their owners, partners, managers, staff, clients and services. After being submitted to SOCPA's Secretary General within 90 days of the end of their financial year, the annual required information of each firm is reported to the Quality Review Committee of SOCPA who assign, if necessary, a special team to investigate any observed limitations or shortcomings. The Quality Review Committee, based upon the report provided by the assigned team, notifies the Secretary General of SOCPA of any activity they recommend. The second type of review included in SOCPA's imposed programmes is concerned with evaluating the internal quality control systems implemented by audit firms. This type of review is undertaken by a specialist team appointed and supervised by SOCPA. It takes place once every three years for audit firms who provide audits to publicly owned enterprises, and once every five years for

those firms involved in audits for other types of enterprises. For audit firms to pass such programmes certain requirements must be met. SOCPA's Standards of Quality Control (SOCPA, 1994) within audit firms illustrate the policies which audit firms should follow when designing their internal control system.

Although the regulations concerning the implementation of such programmes have been approved and issued by SOCPA, the programmes are still not fully operational at present. This has allowed the seven audit firms considerable freedom to-date to manage most of the new regulations as they deem appropriate. This partial implementation of the programmes, however, has led to a substantial reduction in the number of licensed CPA individuals and firms, from 341 to 156. This reduction has resulted from SOCPA's annual quality review programme, where each licensed CPA has to complete various forms and questionnaires that require all sorts of information regarding the audit firm he works for, its owner/partners, managers, staff, clients and services.

Despite the fact that SOCPA's quality review programmes for audit firms are not, to-date, fully implemented, anxieties are aroused about their potential. What was apparent, however, was an obvious split between the participating members of the seven firms, in terms of those who welcomed the potential of professional support and those who were suspicious and far from being supportive of such an intrusion, even from fellow professionals. A reason for this suspicion, given by a partner in one of the international firms, was that the quality review programmes were already successfully operating in the thinking and actions of many audit firms, such as the firm he worked for, without outside directions. This partner, from A2, was at pains to point out that:

“Our internal quality review system is very sophisticated. It is an international system that applies to us as well as other branches of our firm in different countries.”

Or as an audit manager in A1 pointed out:

“We have a special internal department for the quality review so the quality review programmes initiated by SOCPA will not affect us. More importantly, I hope they send us qualified people.”

Most of the participants who shared the same view saw that the information required in the questionnaires related to their clients and, therefore, must be held in confidence or it could be used against their firms. They could not see any reason for disclosing such information. In addition, the absence of feedback by SOCPA created anxiety and the feeling that some sort of secret evaluation might be undertaken against them. At a more personal level, some participants, involved in filling out SOCPA's questionnaires, felt that this was boring and there was a feeling that their role as qualified professionals had been reduced to doing very limited and time consuming tasks.

However, not all professional audit firms in Saudi Arabia implement an internal quality review without being required legally to do so. A possible reason for this, provided by participants from the smaller firms, was that the production processes required for completing the wide ranging questionnaires, as well as preparing the documentation and filing systems for the quality review teams were too costly in terms of time and energy. Partners participating from all five local firms, even those members in the international professional organisations, shared this view. What was clearly admitted by most of their partners/owners was the fact that being prepared to get through the full implementation of the quality review programmes of SOCPA is very

costly and their firms may be far from fulfilling the requirements. Lack of experience, manpower and financial resources were the main justifications for these partners not being able to cope with the full phase of the programmes.

However, despite these difficulties, a major change has occurred within these five firms reflected by the emergence of internal quality review divisions, ranging in size, role, nature and the qualifications of the people involved. This is not to say that such a change has resolved the whole problem, it was only a technique aimed at coping with the new monitoring change that was taking place. Of the five local firms there seem to be two major types of newly established quality review divisions. The first can be referred to as having a more 'housekeeping' nature, involving one of the managing directors and one junior member of staff. The role of this type far from fulfils the required role of such a division. It is limited to certain aims, which are the rearranging of the working papers, the establishing of filing systems, the completing of SOCPA's questionnaires, and the informing of other members of any new issuance of the Ministry of Commerce and SOCPA. Interestingly, this illustrates the past degree of 'messiness' since these essential tasks had not been fully organised and accomplished in the past. The results of this new role were given by the owner of the small sized local firm:

"I myself handle the responsibility of responding to SOCPA, filling all the forms sent to us, ensuring compliance with the issued standards, informing all members of the times of the public hearings, conferences and training programmes which SOCPA organises."

Maintaining the same level of income while trying to be more organised was the reason provided by the owner of this firm who was the only licensed CPA, as he argued:

"I am afraid I cannot afford to employ extra staff. The only thing I could do was to devote existing staff into carrying out the new responsibilities hoping that they can do their previous tasks as they used to."

However, this was not the case for all the five local firms. Some of them, who adopted the second approach to the internal quality review division, in particular, the big local firm and the two local firms who were members of international professional organisations, went far beyond the scope achieved by the first type. For these three firms the internal quality review divisions have long existed but their role has expanded from verifications of auditing assignments to ensure that audit works were adequately performed and that there was confirmation that the gathered findings supported their final reached audit opinions. This expansion, also, includes considerations of the extent to which the quality of the work, as professionally accepted by these three firms, was in line with the Ministry of Commerce's and SOCPA's regulations and professional standards. It was, however, only in A3 that the development of the quality review division entailed the movement towards an even more organised stage, as explained by one of their partners in the following:

"In order that our firm continues as one of the top five audit firms in Saudi Arabia, as we believe it is, we finally decided to join one of the massively growing international firms who provide us with the required marketing approach, standards, filling system, manuals, information technology, quality control system, training".

All participants agreed that the quality review programmes should be directed at developing auditing practices not merely at uncovering illegal acts and mistakes. An accepted level of flexibility together with the required timing and qualifications of the members involved in the work-teams were seen to be essential for a successful

implementation of the programmes, otherwise they would cause problems. As one senior auditor in A4 put the matter:

“The quality review programmes, which SOCPA will soon start to carry out over audit firms, will increase the quality of the work of good audit firms, and will take the bad ones, which are unfortunately the majority, out of the audit market.”

Or as one partner in A4 indicated:

“The Saudi audit market needs double the number of the existing audit firms. When SOCPA starts its quality review programmes for audit firms half of the CPA individuals and firms will quit because they will not be able to obtain the profit they have been making, since the cost of fulfilling SOCPA's requirements is too high.”

Whether this will transpire, making the fears of many a reality, remains to be seen. However, at present, audit firms still have a relative freedom in defining how they choose to manage the new imposed regulations. It is losing this ability to manage the new regulations that constituted the major effect on the seven audit firms. Importantly, the quality review programmes of SOCPA do not reflect or include any new rules. What they do is create a greater control over audit firms

Thus, it is only a ‘mechanism’ for ensuring the compliance of audit firms with the previously issued regulations. This ‘mechanism’, when fully operated, will minimise the firms’ ability to approach these regulations in their own preferred way, in which they could ensure an acceptable level of income and protect their core elements from being altered.

Thus, the problem that audit firms face when trying to cope with SOCPA’s quality review programmes for audit firms is highly related to the requirement of complying with the Ministry of Commerce’s and SOCPA’s new rules and regulations. What has been raised by the participants in the interviews and ‘discursive processes’ in this regard can be calcified into three main regulatory changes. The first is related to the implementation of the Saudisation policy through the new licensing rules, the second is concerned with the difficulty of complying with some independent requirements addressed by the new ethical codes of the profession, and the third is related to the difficulty of following some accounting and auditing standards. Each will be considered in turn below.

As the ‘discursive processes’ reached their third and final stage, the ‘selection of strategies’, participants within the seven audit firms were able, in the light of what has been explored through the previous stages, to decide on whether SOCPA’s quality review programmes imposed on them and their firms were seen as an acceptable development or as threatening them and their core activities. They also were able to determine their positions with respect to the ways of dealing with these programmes. Put simply, several ways to avoid and resist the programmes could be suggested as strategies to prevent the firms’ core activities from being altered in an unacceptable direction, or various methods of coping with the accepted changes that can be caused by the implementation of the programmes might be seen as developing strategies. Thus, the time of ‘emancipation’ that distinguishes the nature of this stage from the previous stages has been reached.

During this final stage of the ‘discursive processes’ participants were encouraged to select proactive developments of their own desired future. It was observed that there

was a shared feeling that they would not be able to change anything, as they did not have the required power. This, however, does not suggest that SOCPA's quality review programmes for audit firms were seen as unjustified organisational and societal development, rather the conclusions reached within the seven sites suggested that the reform in the accountancy regulatory system as a whole (the establishment of SOCPA) was desirable and for their benefit as well as the wider society. The following statements illustrate such conclusions:

“Being regulated and monitored by SOCPA as a professional auditing regulatory body is much better than being regulated and monitored by the Ministry of Commerce.”

“The government should not intervene. It should give SOCPA the power to organise and monitor the auditing profession as a professional self-regulatory body.”

The above quotes suggest that participants within the seven firms saw the reform in the accountancy regulatory structure as an acceptable development. On this basis, their future strategies, instead of being in an aggressive actively resistant fashion, were highly peaceful. As such they could not be considered as strategies. They, rather, were suggestions concerning the ways to cope and adjust to the regulatory changes, as well as expectations over what should be done by SOCPA in the future. Again, this does not indicate that all participants were totally happy with all aspects of the regulatory changes. In fact several issues addressed in the 1991 CPA Law have been rejected. But this rejection seemed to be limited, not only because of a lack of perceived power, but also because they acknowledged that such a rejection was obviously not in line with the overall societal context of the Saudi auditing profession. An example of this was the foreigners' attitude towards the new licensing rule, which prevented them from obtaining CPA licences. Despite participants' acknowledgement of the significance of the implementation of the Saudisation policy within the auditing profession not only for the Saudi government but also for the wider society, a common view was that there should be a reconsideration of the new licensing rule. This, it was suggested, would soften its damaging consequences, which otherwise could lead to most foreign professionals leaving the country while they were still needed. One solution was provided by a partner in A4, who suggested how to organise the licensing of foreign professionals. According to this solution, which was widely accepted by participants within the seven firms, it could be done in one of the following ways:

“...organising the licensing of foreign professionals can be done by either limiting the number of foreign licensed CPAs to let us say two or three at a time depending on the size of the firm, or by specifying a maximum percentage as for example 25% for the number of licensed foreigners in every professional firm.”

The shared view among the participants, from the seven firms as well as most of those interviewed from other sites, with respect to SOCPA's quality review programmes for audit firms can be summarised in the following quote from an audit manager in A3:

“SOCPA should adopt a flexible way of conducting the quality review programmes especially in the first two years or so. The aim of such programmes should be to develop professional firms by strengthening their weaknesses not merely to reveal their illegal acts through going through small details. Also, the timing and nature and qualifications of the people involved in the teams of SOCPA's quality review programmes should be decided carefully.”

Thus, the views of partners and owners of the seven firms concerning their attitude toward SOCPA's quality review programmes were very similar.

III. Implications and Discussion

The introduction and imposition of SOCPA's quality review programmes for audit firms has generated problems relating to the core activities of the seven audit firms, in particular, the recruitment and promotion policies followed by these firms. Although the firms' primary purpose of existence has not been directly affected, their ability to continue to fulfil such a purpose has been conditioned. This is mainly through the need to comply with the licensing requirements included in the 1991 CPA Law, i.e. limiting the licensing of new CPAs to Saudi nationals for the purpose of implementing a national policy of Saudisation. Apart from the previously licensed CPA foreign professionals, the Law thus requires that new applicants for CPA licence must hold Saudi nationality. This has placed pressure not only on the partners and owners of the firms, who must change the recruitment and promotion policies of their firms by employing and promoting more Saudi national professionals, but also on all existing members of these firms, including Saudi nationals and foreigners, and thereby affecting the roles, hierarchical positions, competitions and relationships between members of the firms.

Finally, concerning the autonomy of individual auditors and the extent to which this was affected by the implementation of SOCPA's quality review programmes for audit firms. The level of freedom within which individual auditors, in the seven firms in question, used to exercise their professional activities and form their audit judgements previous to the passage and consequences of the quality review programmes of SOCPA varied among the seven firms, depending on the nature of the philosophies used by the firms to guide the conduct of their audits. In particular, whether professional expertise resided in the individual or in the structure of the organisation (for a review of literature on such a relationship, see: Carpenter et al., 1994; Manson et al., 1997). The more the tasks of the individual auditors are defined in sets of standardised audit procedures, such as those expressed in audit manuals as well as by the implementation of highly structured communication and control systems, the less the freedom given to individual auditors to apply their own values, learning and skills when exercising the professional judgements and vice versa. Regardless of the level of autonomy of individual auditors previous to the regulatory changes, the Saudi audit industry, at present, is seen to be moving towards a more organised and controlled level. The legal requirements of SOCPA's quality review programmes for audit firms to follow specific accounting and auditing standards, codes of ethics and licensing rules, as well as to be subject to penalties, has reduced the level of autonomy of individual auditors to exercise their professional judgements and decide on the actual audit procedures.

Thus, as analysed above, the core activities of the seven audit firms, as elements within the Organisational Interpretive Schemes (OIS), have been affected by the implementation of the quality review programmes for audit firms by SOCPA. The core activities for the two big international audit firms used to be constituted by the cultural values of their headquarters. The core activities of the other five audit firms, on the other hand, used to be dominated and determined by the values of their partners and owners, while other members had neither the power nor the inclination to challenge these partners and owners than their values. They were totally under the authority and direction of partners and owners of their firms. Effects of headquarters of big international firms and partners and owners of local firms could not be prevented and, thus, changes in their core activities have occurred.

In considering the impact of the implementation of SOCPA's quality review programmes for audit firms upon the Organisational 'Design Archetype' Steering-media (ODAS) of the seven audit firms, one obvious change was observed. The emergence of the internal quality review division within some local firms and the expansion, development or, in some cases, adjustment of the role of this division in some of other local and international firms were examples of the effects imposing these programmes on the firms' ODAS levels. The key justification, behind these changes within the ODAS levels, provided by the partners and owners who participated in the interviews and 'discursive processes' was that they had to be prepared and ready as possible for the quality review programmes of SOCPA over their firms. Despite the inability of some of the firms, especially the local small and medium sized firms, who could not afford to adequately approach the changes by adopting the required nature and role of such a division within their firms, this movement, in itself, reflects changes at their ODAS levels.

In this respect, it should also be pointed out that the concept of 'absorption' as recognised and defined in several previous empirical studies (e.g. Laughlin et al., 1994b, Laughlin and Broadbent, 1996b) has not been observed within the seven audit firms. These studies relate the concept of 'absorption' to 'something which needs to be "soaked up" rather than being seen as an enabling force' (Laughlin et al., 1992, p. 60) and, therefore, a small group of existing staff is created for the purpose of softening the damaging effects of the imposed changes and preventing the core activities of the organisation from being altered. This, however, does not mean that the empirical data gathered in this research suggest that the seven firms could not undertake any sort of resistant activities or that the imposed regulatory changes are irresistible. There was, in fact, 'absorption' at the individual level to some of the changes (e.g. the requirement put on foreign licensed CPAs to stay for a period of nine months every year). What is meant is that a formally agreed 'absorption' division of the same nature has not been observed. One obvious reason for this might be the cultural variations between members of each firm, leading to there not being consensual views with regard to identifying the core values and activities that should be secured or the required policies for 'absorbing' or coping with the imposed regulatory changes. Another reason might be worries about the legal consequences of undertaking such an activity in an obvious manner. Put simply, although the change in the ODAS levels of the seven firms have resulted from resentments held by the partners and owners when approaching the imposed regulatory changes, the establishment or development of the internal quality review divisions were not intended to 'absorb' the impact of the Ministry's and SOCPA's requirements and to allow the firms' core values and activities to continue unaffected or, in other words, to prevent the occurrence of a 'second order' change. Rather, there was an appreciation of the fact that the requirements of the imposed regulations were difficult to delegate to a particular 'absorption' group or division. The inability of this group or division, in any form, to prevent changes to core values and activities was acknowledged and observed by the partners and owners of the seven firms. Therefore, attempts at such a movement were limited and directed at coping with the imposed regulations as 'disturbances', which came from the Societal Institutional 'Steering-media' (SIS), even if they were, for many participants, unwanted.

To illustrate, the changing processes in the ODAS of the seven audit firms were associated with changes in the perceptions of the members involved within these firms over what constitutes acceptable performance. These perceptions used to be determined

for each firm individually, depending on the background professional standards, ethical codes and policies that each firm followed. While the headquarters, partners and owners of the seven firms in question used to dominate the determination of such professional backgrounds within their firms in the past, these are now defined by the Ministry of Commerce and SOCPA and, therefore, acceptable performance is only considered in relation to the extent of the compliance with them. Thus, changes in the ODAS components of the seven audit firms, such as the establishment or development of internal quality review divisions, have been essential for enabling changes at their OIS levels, such as members perceptions regarding acceptable professional performance which, in turn, required changes at their OSS levels since the new perceptions are related to defined sets of professional standards and ethical codes.

IV. Summary and Conclusion

A case-study based empirical research was explored in this paper, in which certain theoretical models were used to inform the adopted methodological perspective. These models provided the required 'language' for understanding the nature and extent of the changes that took place within audit firms operating in Saudi Arabia following the implementation of quality review programmes for audit firms by the Saudi Organisation for Certified Public Accountants (SOCPA) drawn from Laughlin (1991) and Laughlin and Broadbent (1996a). The empirical data that has been presented in this paper is the result of a case-study based empirical research where the theoretical models have been used to inform the context of the research through applying a methodological approach based upon the Habermasian 'three stage discursive process' (Habermas, 1988).

The findings of the empirical research suggest that the nature of the Organisational Interpretive Schemes (OIS) of the seven audit firms was far from being uniform or homogeneous. They were seen to be existing at three different levels of abstraction (missions and beliefs, e.g. to develop the market, social welfare and public interest; reasons for existence, e.g. to make profit; core activities, e.g. recruitment and promotion policies, type of services, policies followed in the active engagements with clients, and the level of freedom at which individual auditors can form their judgements). As was analysed, only the cultural elements that used to constitute what would be considered the core activities of the seven audit firms, as elements within the OIS, have been affected by the implementation of SOCPA's quality review programmes for audit firms, resulting in the occurrence of 'second order' changes within the seven firms. Interestingly, due to having contradictions in the perceptions of the participants, the way in which these 'second order' changes have been perceived was not identical even within the same firm. While they seemed to be of an 'evolution' nature for the Saudi national members, these changes were seen to be of a 'colonising' nature by the foreign professionals involved. But the existence of such contradictions within the OIS is limited, as they do not reach the higher levels of abstraction within the OIS. This could answer the question of how each of the seven audit firms could continue as an entity while having conflictual perceptions among the participants regarding the impact of the regulatory changes imposed on them and their firm. It should be noted that the very fact that members involved within these firms shared similar perceptions regarding the significance of their knowledge-based profession, which they can provide through their professional firms, especially while these firms could still make a profit suggested a reason for running them. Importantly, the change in the OIS of each of the seven audit

firms was not exclusively enabled by changes in the regulatory system (the SIS), but it is interesting to note that lasting change required changes at the firms' ODAS levels (e.g. the establishment or development of internal quality review divisions) which have been used to enable both the change in their OIS (e.g. members' perceptions regarding acceptable professional performance) and OSS (e.g. defined sets of professional standards and ethical codes). In this way, the OIS and OSS of the seven firms became mirrors of their new ODAS enabling the 'second order' process of change to occur.

By way of concluding, there are a number of general comments about the nature of the research process which came about after having completed the empirical work. These are related to theoretical and methodological issues that were not so apparent prior to the empirical conduct of the research, as follows.

First, the empirical data gathered in the course of this research has entailed some development to the applied theoretical and methodological frameworks. This does not mean that these frameworks can become more predictive, rather, future research in different locations and circumstances may cause even further development. The findings of this research can enrich the 'language' provided by the original theoretical and methodological models by adding further dimensions to the possibilities that might be examined or to the issues that might be taken into account in the organisation of the 'discursive process' in future adoption of such models in diverse settings.

Second, the applied methodological approach was modified in practice due to the contextual requirements. The nature of the 'discursive process' suggests that the various stages of the discourse can unfold, overlap and mould into each other in a way that each stage cannot be considered as totally distinct from the others. As there were major 'formulations of critical theorems' and some strategy selection processes during the 'processes of enlightenment' stage, some understanding refinements in the 'selection of strategies' stage were expected.

Third, an issue relating to the evident overlap between the stages was the quality of the 'discursive processes' and the extent to which the 'ideal' type of discourse was applied and adequately followed. According to the empirical experience, several constraints were faced when applying the 'ideal' type of 'discursive process', although the nature of such a process was explained during the initial contacts with the seven audit firms. Lack of time and motivation were the most obvious constraints to moving the process through the different stages at each location. These, however, were dealt with according to their contextual circumstances, as, for example, when some initial participants were substituted for others during the second stage of the processes as they were no longer interested, not fully aware of the regulatory changes, or too busy. On the other hand, the extent to which the 'ideal' of allowing freedom to the participants to express, question or challenge ideas in the discussions and arguments involved in the processes was adhered to remains difficult to assess. However, what was apparent, at least to the researchers, was the growing level of trust in the relationships between the researchers and those involved in the processes and the fact that the quality of the exchanges seemed to be increasing as the 'discursive processes' progressed.

Fourth, the implementation of SOCPA's quality review programmes for audit firms has resulted in major changes occurring within the seven audit firms in question. Such changes have affected all individuals working for these firms, regardless of the diversity

in the way they were perceived, leading to shifts in the firms' three interconnected and supposedly balanced levels (the OIS, ODAS and OSS). Importantly, it is this sense of being unavoidable for all organisational members that distinguishes the nature of these changes from, for example, other changes investigated in previous research (e.g. Laughlin et al., 1994a) where changes imposed by an external 'steering media' could be managed to effect a particular group of the organisational members ('absorption' group) while other groups within the same organisation could ignore these changes and remain unaffected by them.

Fifth, and final, the empirical data gathered in this research is subject to being incomplete and may change substantially in the next few years. This does not reduce the richness of the data in reflecting what has happened to date, but claiming the opposite would not be consistent either with the evolving nature of the empirical data or with the changeable nature of the applied theoretical and methodological approach. In order to maintain the validity of the empirical data, explored in this paper, there is a need to continually update the empirical observations over time.

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تطبيق برامج لمراقبة جودة الأداء المهني على مكاتب المراجعة في المملكة العربية السعودية : توضيح لعمليات التغيير في اقتصاد انتقالي

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المستخلص: يقدم هذا البحث فهماً عن طبيعة ونطاق التغييرات التي طرأت على مكاتب المراجعة التي تعمل في المملكة العربية السعودية والتي ترتبت عنها تطبيق برامج مراقبة جودة الأداء المهني لمكاتب المراجعة بواسطة الهيئة السعودية للمحاسبين القانونيين. استند تكوين هذا الفهم على نماذج نظرية "تعاقية" من "المستويين الأول والثاني" للتغير المنظمي. وقد تم الاعتماد على استخدام منهجية هابرماس النقدية في إجراء الدراسة الميدانية التي يستعرضها هذا البحث والتي تركزت على سبعة مكاتب مراجعة مختارة. وتؤكد نتائج هذا البحث أن تطبيق برامج مراقبة جودة الأداء المهني لمكاتب المراجعة بواسطة الهيئة السعودية للمحاسبين القانونيين أثر على الأنشطة الأساسية للمكاتب السبع محل البحث مما ترتب عليه حدوث تغييرات متفاوتة من "المستوى الثاني". كما تؤكد نتائج هذا البحث أيضاً أنه وعلى الرغم من أن الآثار التي ترتبت على البرامج المفروضة حديثاً كانت مقبولة من قبل عدد من المهنيين وممثلي الأطراف المهتمة بالمهنة في المملكة، فإن هذه الآثار كانت مرفوضة تماماً لدى كثيرين غيرهم.