STATUTORY AUDITOR'S ROLE IN CORPORATE SOCIAL AND ENVIRONMENTAL REPORTING

An Empirical Study of the Kingdom of Saudi Arabia

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In the Name of Allah, the Most Compassionate and Merciful, Praise be to Allah, Lord of the Universe and Peace and Prayers be upon His Sealed of Prophets and Messengers

# Abstract

The social and environmental audit practice is regarded as an effective mechanism for adding accuracy and credibility to the corporate social responsibility reports. In civilised societies, auditing is viewed as an evaluative tool for enhancing corporate accountability and transparency (Power, 1999; Owen and Humphrey, 2000; Sikka et. al, 1998; Smith et. al, 2011; Perego and Kolk, 2012). Throughout the past few decades, previous investigatory studies have provided a critical assessment of the evolution of social audit practices (for example, Gray, 2000; 2007; O'Dwyer and Owen, 2005; 2007; Bebbington and Thomson, 2007; Manetti and Toccafondi, 2012; Bepari and Mollik, 2016; Canning et. al, 2019). However, these studies offered little evidence on issues related to the impact of social audit services on the professional independence and ethic of auditors, and the role of religious and cultural values in shaping the nature of the social audit engagements. Furthermore, there is also a paucity in the prior literature in investigating critical issues, such as the lack of consistency in social and environmental audit practices. Moreover, the influence of socio-environmental factors on the views of stakeholders on social auditing remains largely unaddressed in the mainstream literature.

Most studies in the relevant literature examined the social and environmental audit phenomenon from a Western perspective, leaving several open-ended questions and unresearched issues about the social audit practices in non-Western contexts. The present research aims to fill the gap in the literature by highlighting sustainability audits in the emerging economies from an Islamic angle, taking Saudi Arabia as a model. In doing so, the study sought to scrutinise the social audit phenomenon and elicit viewpoints from audit providers and relevant stakeholders, embracing the interpretivist

methodology to help in gaining insights from this exploratory examination. Particularly, the study selected a triangulation of mixed methods to collect data through content analysis of audit reports, and semi-structured interviews with statutory auditors and individual stakeholders. Finally, the empirical findings were analysed and interpreted with the consideration of the three theoretical constructs (audit, legitimacy, and stakeholder theories).

The interviewed auditors claimed that social and environmental audit services would benefit the audit firms, the companies, and the Saudi Arabian society. However, some interviewees expressed concerns about various risks associated with the ways social and environmental audits are currently exercised. Although the audit of corporate social responsibility reports helps to identify risks in corporate governance systems, it may jeopardise the impartiality and ethics of audit providers. Consequently, the social and environmental audit engagements may pose a reputational risk to the audit firm.

Similarly, statutory auditors expressed opposing views about engaging stakeholders in the social and environmental audit processes. While some interviewees admitted that the audit of stakeholder engagements in client companies' social responsibility processes is a daunting, costly and valueless task for Saudi Arabian audit firms, others supported that audit procedure as an accountability and transparency enabler. Nevertheless, there are several problematic issues associated with stakeholder engagement reporting audits. Obstacles to the auditing of stakeholder engagement include, among others, dealing with unreliable evidence, engaging the irrelevant stakeholders, and the inability to assess the stakeholder materiality and relevance. Also, the statutory auditors offered a collective opinion that regarded the accurate representation of stakeholders' views on companies' social performance as a quite challenging and unattainable goal within the Saudi cultural boundaries.

On the other hand, the interviewees from stakeholder groups gave a general satisfactory impression of the growing, albeit slowly, social audit performance. The participated stakeholders recognised and appreciated the importance of the voluntary contribution of statutory auditors to the Saudi Arabian business environment through their independent verification of corporate social and environmental responsibility activities and statements.

Whereas findings from the content analysis of sixty audit reports revealed a high tendency of statutory auditors to integrate the outcome of social and environmental audit processes with that of the traditional financial auditing within single audit statements. The observation showed also an overwhelming reliance on accountancy-based approaches of generally accepted financial auditing standards in Saudi Arabia, ISA, or the ISAE 3000 in the audits of corporate social and environmental reports. Stakeholder engagements in the social audits were noticed in only one audit report, which illustrated a limited range of assurance on a company-stakeholder dialogue.

Although the audit of corporate social and sustainability reports is not mandated in Saudi Arabia, the statutory auditors' voluntary role in ensuring the validity of corporate social responsibility statements is seen as an acceptable act whereby auditors can boost their social legitimacy. From an Islamic perspective, the notion of corporate social and environmental responsibility is strongly encouraged for Islamically permitted or *Halal* purposes (Dusuki, 2008; Elasrag, 2015). Hence, the provision of sustainability audit services to improve the quality of corporate social reporting and discharge organisational accountability can be viewed as an Islamic permitted act.

Overall, social audit exercises in Saudi Arabia are still at an early stage and necessitate substantial improvements.

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Dedication

This thesis is dedicated with all my love and respect to my parents, my brothers, my sister, my wife, and my beloved children Hala and Al-Waleed

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List of Abbreviations

AGM	Annual General Meeting
ARAMCO	Arabian-American Oil Company
CEOs	Chief Executive Officers
CMA	Capital Markets Authority
CSR	Corporate Social Responsibility
GAAP	Generally Accepted Accounting Principles
FEE	Federation des Experts Comptables Europeens
GRI	Global Reporting Initiative
IAASB	International Auditing and Assurance Standards Board
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
IPOs	Initial Public Offerings
ISA	International Standards on Auditing
ISAE 3000	Intrnational Standard on Assurance Engagements 3000
MENA	Middle East and North Africa
NGOs	Non-Governmental Organisations
NIE	New Institutional Economics
NIS	New Institutional Sociology
NPM	New Public Management
OECD	Organisation for Economic Co-operation and Development
OIE	Old Institutional Economics
PIF	Public Investment Fund
PIRC	Public Interest Research Centre
SAA	Saudi Accounting Association
SAMA	Saudi Arabian Monetary Agency
SMEs	Small and Medium-sized Enterprises
SOCPA	Saudi Organization for Certified Public Accountants
TASI	The Tadawul All-Share Index
VFM	Value For Money
WTO	World Trade Organisation

Chapter One: Introduction to the thesis

1.1 Introduction

The rapid rise of modern social and environmental audit practices throughout the 1970s and early 1980s can be attributed to the efforts led by individuals or groups[1] to improve corporate accountability to society (Medawar, 1976; Gray et. al, 1996; Gray, 2001; 2008). Numerous campaign groups highlighted corporate social and environmental misbehaviour. They exposed the exploitation of natural resources by companies that did not take full responsibility for their decisions and actions. Independent non-profit bodies and non-governmental organisations (NGOs), such as Greenpeace, Friends of the Earth, Amnesty International, Oxfam, Social Audit and the Consumers' Association, played prominent roles in directing public pressure towards a lack of corporate transparency and social accountability (Gray et. al, 1993; Unerman and O'Dwyer, 2007). In advanced democratic states, such as the United Kingdom and the United States, the campaigns by these self-appointed watchdog organisations regarding corporate behaviour was successful, especially in cases in which powerful corporations readily responded to societal demands and pressures through sustainability reporting[2] (Gray et. al, 1996). Ethical investment and corporate social responsibility issues were raised vigorously by the NGOs' supporters and sustainability activists, who demanded (as they have continued to do) that these organisational issues be considered through

[1] For instance, social audit movements in the United Kingdom.

[2] For this research, the terms "sustainability reports" and "social and environmental reports" are used interchangeably, as are "social and environmental auditing" and "sustainability auditing". These terms are commonly misunderstood and misinterpreted because there is a lack of clarity regarding the specific concept behind "sustainability" (Bebbington, 2001). There is not yet a consensus regarding either the best definition of "sustainability" or the measures that may need to be taken to achieve sustainable development (Gray and Bebbington, 2001). Bebbington (2001) asserted that the concept of sustainable development means "different things to different people in different contexts". Also, some studies revealed that corporate managers are unclear about what sustainability is referring to (Gray and Bebbington, 2000).

the engagement of social and environmental audits[3].

The function of auditing help to improve corporate accounting systems and identify financial irregularities and weaknesses (Power, 1999; Matthews, 2006; Dennis, 2015). When companies do not account for their actions by, for example, disclosing corporate performance via the internet or public media, the audit practice can be a helpful mechanism to verify whether or not corporate accountability has been delivered (Gray, 2001). The primary role of auditing is to evaluate the effects of an organisation's financial activity from an internal or external perspective[4] by an independent auditor (Blanco and Souto, 2009). Such evaluation aims to boost the credibility of the company's report and the confidence of current and potential corporate report users outside the company regarding the company's financial position as measured according to specific professional standards (IAASB, 2013). In comparison, social audits aim to validate the corporate environmental effects on the ecosystems for a broader set of beneficiaries than those who use audit reports (Gray, 2001; 2008). Therefore, social auditors are responsible to parties beyond company management and shareholders. However, there are similarities in the attestation procedures between traditional auditing and social auditing in the examinations to ensure credibility and quality of corporate disclosure (Gray, 2001).

Social and environmental auditing is not only an effective instrument for the evaluation of corporate accountability (Gray, 2002) but can also empower stakeholders and

[3] Examples of corporate social responsibility issues include the marketing and advertising of junk food to Third World countries (Medawar, 1979), providing low and unfair wages by multinational corporations to cheap labour in the Third World countries (The New York Times, January 25, 2012), the contribution of companies to governments' counter-terrorism policies and the removal of funds from international terrorist groups (Smith, 2003; Weidenbaum, 2003), and the encouragement of consumer boycotts of socially irresponsible corporations (Smith, 1990).

[4] The present research is concerned with the external auditing field only.

enhance their inclusivity (Ball et. al, 2000; Adams and Evans, 2004; O'Dwyer and Owen, 2005; Edgley et. al, 2010). The disclosure of audited social and environmental information allows stakeholders to judge companies' environmental performances and organisational social attractiveness based on professional auditing. Furthermore, social auditing enables stakeholders to hold company management responsible for decisions and actions that affect the environment (AccountAbility, 2008). Corporate managers should disclose information that is credible and verifiable. Otherwise, the auditing engagement is worthless. As Power's (1999) study asserts, auditing cannot function when corporate information is not assured. Therefore, conflicting demands for information of the corporate-reporting system necessitate a robust accounting/auditing framework to add credibility to company reports.

During the last few years, with the substantial growth of social and environmental auditing (KPMG, 2013; 2015; 2017), many studies have empirically investigated the nature and implications of the practice (for example, Ball et. al, 2000; Gray, 2000; Adams and Evans, 2004; O'Dwyer and Owen, 2005; 2007; Manetti and Becatti, 2009). These investigations add valuable insights into the social audit literature and profoundly enlighten the research and professional areas. Nevertheless, there is room for a more philosophical contribution to the development of a proper auditable measurement system, as the social and environmental audit explosion implies the possibility to expand further beyond the area of traditional auditing (Power, 1999; Free et. al, 2009; O'Dwyer, 2011; O'Dwyer et. al, 2011).

In the context of Saudi Arabia, where the influence of Islamic beliefs is pervasive, civil society is governed by "secular" policies (Mehregan, 2017) as the business environment undergoes drastic transformation to accomplish the goals of the "Saudi Vision 2030" programme (Altawyan, 2017). The success of this economic shift depends upon the balance between two conflicting ideologies: a secularised version of Islam (modernised Islam) and classical Islamic doctrine (pure Islamic *Shari'a* law). One of these changes in Saudi corporate behaviour was observed at the outset of the 2000s when public companies showed a growing interest in disclosing their social and environmental performances (Emtairah et. al, 2009; Ali et. al, 2013; Mandurah et. al, 2012). In recent years, the Saudi regulatory bodies started to adopt international monetary and professional standards, which will be discussed.

Thus, the present study aims to provide complementary insights into the richness of critical analysis of social and environmental audits and identify the impact of such audits on the Saudi Arabian financial services industry. As some countries in the Gulf region strictly apply the Islamic *Shari'a* law and, to a greater or lesser extent, secular administrative regulations, the researcher is motivated to find out how Islamic and cultural dominance is influencing the nature of social audit practices within Saudi businesses. In recent years, Saudi companies were encouraged to contribute to the national sustainability programmes as a part of collective public efforts to tackle social and environmental challenges (Ali et. al, 2013; Khan et. al, 2013). Despite that corporate social responsibility disclosure is not a mandatory act, the Capital Market Authority (CMA) urged public companies to formulate a clear written policy for relationships with stakeholders and protect and address their rights[5]. Since there is a growing trend within the Saudi public businesses towards disclosing social responsibility and sustainability information (Aldosari and Atkins, 2015), there is a need to explore this corporate phenomenon in one of the largest twenty economies worldwide. The scarcity of studies on social and environmental auditing in the Saudi

[5] For further details about the Saudi Corporate Governance Guidelines, Article 10, 2017, visit: https://cma.org.sa/en/Awareness/Publications/booklets/Booklet_13.pdf#search=corporate%20governance

Arabian context inspires the researcher to conduct this research. Notably, the present thesis is not concerned with comparing the nature of social audit practices in Saudi with another social audit in other economies, despite that there may be similarities with other Islamic or Arab nations countries.

1.2 Rationale of the study

There is increasing demand for studies to clarify the nature of social and environmental auditing and its implications. Indeed, many studies have provided significant intellectual contributions to the social and environmental audit literature and the definition of best practice in this field. However, these contributions have not adequately highlighted issues related to the external effects of societies on social audit practices, such as lack of uniformity and the influence of socio-environmental factors (such as religious and cultural pressures).

In respect of the performance of social and environmental audits, some global standards have been issued by independent institutions (for example, AA1000AS by AccountAbility) to regulate the practice. However, these regulatory initiatives have been criticised for their lack of inclusion of several aspects of social and environmental audit conducts (Deegan et. al, 2006; Manetti and Toccafondi, 2012). Also, these regulations and guidelines have failed to address the inconsistencies in social audit practices, which have exacerbated the gap between users' perceptions of social auditing and the actual performance achieved by social auditing providers.

Scholarly investigations on corporate social and environmental responsibility reporting and social auditing in Saudi Arabia offered little to address the main professional flaws. Although the literature documents some attempts to cover loopholes such as the limits of auditor's accountability and responsibility for the assurance of corporate social and environmental statements, the gaps remain with these issues. The audit practice is regarded as a professional service that is designed to improve accuracy and credibility for the users of corporate reports through its role as a contributor to sustainability management (Adams and Evans, 2004). If users of audited corporate statements cannot make economic decisions based on confidence and trust, then the auditing function is ineffective.

Below is a summary of some past studies conducted on social and environmental auditing, as well as their respective methods of inquiry:

Table 1.1 The main studies of social and environmental audits in the literature

Studies	Purpose	Method
Canning, O'Dwyer and Georgakopoulos (2019)	To extend and develop an understanding of how the audit/assurance providers experienced the process of operationalising materiality assessment in sustainability assurance engagements	Semi-structured and in-depth interviews with the accounting and non-accounting assurors from the sustainability assurance departments of one of the Big4 audit firms operating in the Netherlands and Belgium
Islam, Deegan and Gray (2018)	To explore the use of social compliance audits in evaluating the working conditions of factory workers in the garment industry in Bangladesh as a developing nation	Interviews with internal auditors to discover the motivations that drive the adoption of such audits, and the likely outcomes of the social audit process
Bani-Khalid and Kouhy (2017)	To explore the views and perceptions of both internal and external stakeholders in Jordan regarding the importance of historical, political, economic, socio-cultural, and non-institutional factors in the motivation of the	Semi-structured interviews that aimed to extract information from multiple stakeholder groups

	reporting and auditing of corporate social and environmental information	
Bepari and Mollik (2016)	To analyse the content of the assurance statements contained in Australian corporate sustainability reports to examine the degree to which these statements boost and uphold organisational transparency and accountability to stakeholders	Content analysis of sustainability audit process
Perego and Kolk (2012)	To discuss adoption by multinational corporations of social auditing to sustain accountability of social and environmental practices	Content analysis of the assured sustainability statements
Ridley D'Silva and Szombathelyi (2011)	To highlight ways in which stakeholder interests should be and are considered in the internal audit process by corporate managers in the emerging markets. And to evaluate ways in which such audits improve the effectiveness of corporate governance systems	Theoretical and systematic review of the academic and professional literature to determine the current sustainability issues and best-practice guidance for independent auditors
Jones and Solomon (2010)	To examine whether social and environmental auditing is necessary and substantial	Interviews with company representatives
Farneti and Guthrie, (2009)	To investigate the motivations of those preparing voluntary sustainability information in both annual reports and stand-alone sustainability reports	Interview-based empirical investigations with key providers of sustainability reports
O'Dwyer and Owen (2007)	To analyse critically the extent to which social audit enhances organisational accountability to stakeholders	Content analysis of social audit reports

Alsaad (2007)	To explore environmental and social audit exercises from an auditor's perspective in the Saudi Arabian context	An empirical study to deduce statutory auditors' views regarding the contribution of traditional audits to environmental audit services in Saudi Arabia
Khalid Alsaeed (2006)	To examine corporate, non-financial disclosures in Saudi Arabia	Content analysis of corporate reports in Saudi Arabia
Basalamah and Jermias (2005)	To investigate the status of social and environmental reporting and auditing practices in Indonesia and discover managements' motivations to disclose such information	Review of the content of three social and environmental reports produced by Indonesian companies
Rob Gray (2000)	To review current and future trends in social and environmental audit practices	Content analysis of social auditing statements

It can be seen from the table 1.1 above that most of these studies downplayed or omitted discussion of the importance of stakeholder participation in the practice of social and environmental auditing. Instead, the researchers directed their attention to theoretical analysis of the audit practice itself or the opinions of the audit providers. Other essential considerations to the scholarly investigation were also neglected, such as the determinants of the relationship between auditors and non-auditors; the accountability limits in the social audit engagement; and the role of religion and traditional beliefs or values in shaping the nature of social and environmental audit practice. Hence, there is a need for responsive and adaptable research methods to explore the complexity of social auditing. It is also necessary to probe into theories regarding the macro-social influence of religious and cultural norms on social audit practices and analyse public opinion regarding the legitimacy of social auditing, especially within the Saudi Arabian context.

Saudi Arabia was selected for this study in preference to other emerging Middle Eastern countries due to its recent and remarkable industrial progress that has caused irreversible global environmental repercussions (Akhtar and Asif, 2017). Saudi industrial development has been accompanied by socio-environmental consequences that raise concerns regarding the role of current accounting and auditing systems to demonstrate ways in which accountants and auditors measure and disclose the financial and non-financial impacts of corporate activities worldwide. Notably, in January 2016, the Saudi authorities mandated publicly listed companies to adopt international financial reporting standards (IFRS) to boost the confidence of both local and foreign investors in their financial situations[6]. As markets and financial policies are increasingly integrated, the harmonisation of accounting standards and practices helps to improve transparency in company statements and facilitate comparison between companies' financial reports on a global scale (Ball, 2006). In the context of regulatory frameworks such as the IFRS, it is necessary to understand the levels of financial disclosure and auditing potential in order to evaluate the environmental repercussions of corporate activities and to enable comparison between environmental details published across different global markets based on corporate environmental reports and standardised recognition, measurement and disclosure procedures (Negash, 2012).

[6] For information regarding the "IFRS Convergence Plan" drawn up by the Saudi professional body, the Saudi Organisation for Certified Public Accountants, visit Deloitte report (Accessed 07 June 2017): https://www2.deloitte.com/xe/en/pages/about-deloitte/articles/on-malta/adoption-of-IFRS-in-sa.html

1.3 Research aims

This research is designed to highlight the nature of social and environmental auditing in the context of an emerging market. Most investigative studies on social auditing that are available in the Western and English-speaking world are concerned mainly with economically developed countries. Very little is known regarding the social, sustainability and environmental audit practices in rising economic powerhouses such as Saudi Arabia. This study attempts to fill this gap in the literature by bringing insight into the social and environmental audit practices pursued in emerging Islamic economies.

Leading scholars have debated whether social and environmental auditing helps to reduce the legitimacy gap and improve organisational accountability (Gray et. al, 1996; Gray and Bebbington, 2000; O'Dwyer, 2002; Dillard et. al, 2004). Furthermore, some scholars have questioned whether the function of traditional auditing is appropriate for involvement in social audit practice (Power, 1999). However, there is a dearth of studies that consider ways in which non-auditing services are rendered in Islamic emerging markets, such as in Saudi-like states, where the effect of religious and cultural factors is pervasive in the determination of the nature of the auditing profession (Al-Angari, 1999; Haniffa and Hudaib, 2007).

The research aimed to find out how the various spectrum of stakeholders view the state of the services offered now and in the foreseeable future. In particular, the study aims to accomplish the four following objectives:

(1) To focus on the extent of external auditors' accountability to the relevant stakeholders in the business community of Saudi Arabia. It is important to evaluate the social and environmental auditing exercises that are conducted within emerging Gulf-

states economies. For instance, companies in states such as the United Arab Emirates have demonstrated serious intentions to report corporate social responsibility (CSR) issues (KPMG, 2017). In this vein, the study aims to analyse the opinions of relevant stakeholders and their expectations of auditors' performance in the social audit services (Mitchell et. al, 1997; Chen and Roberts, 2010; Deegan and Unerman, 2011).

(2) To investigate the perceptions of various stakeholders regarding auditor independence in Saudi Arabia. Three interconnected approaches can help to achieve this objective. The first approach examines auditing providers' opinions and stakeholder groups' perceptions of the effects of social and environmental auditing on auditor independence. The second approach is to investigate stakeholder groups' views of factors that could play a role in enhancing auditor independence, and the third considers stakeholder perceptions regarding factors that may create threats to auditor independence.

(3) To probe into the content of corporate social and environmental reports under audit, and observe whether their variability and quality are consistent with Islamic and local cultural values or international standards, and ways in which auditors illustrate their accountability and responsiveness to such reports (Karim, 1990; Kamla et. al, 2006).

(4) To explore the techniques and strategies employed by auditors to ensure high levels of corporate social and environmental credentials.

1.4 Features of the study

The research structure consists of three primary parts.

The first part outlines the critical and empirical studies of the social and environmental auditing literature. The past studies enable the researcher to explore the characteristics of social and environmental audit practices in different economies and highlight similar patterns of institutional behaviour to the auditing in Saudi Arabia. Several factors are taken into consideration in the analysis of the literature. For instance, attributes of the social audit providers (such as the size of audit firm; auditor qualification and expertise; the effect of social auditing on the independence of auditors; the economic importance of social audit services in comparison with traditional auditing; the Islamic and cultural legitimacy of social auditing; and stakeholder consideration in the social auditing engagement) are investigated. The information from this phase will constitute the input for the next part.

The second part is concerned with the evidence-gathering of data in regards to social and environmental audits performed by statutory auditors through semi-structured interviews and content analysis. The reason for selecting the semi-structured and content analysis methods is to seek more explanation of the social and environmental audit processes from the auditors themselves and the social and environmental audit reports.

While the second part is devoted to eliciting information from auditing practitioners and audit reports, the third part concentrates on the interviewing of stakeholders. Some published studies have recognised the significance of stakeholder involvement and the influences of stakeholders on the practice and have recommended further investigation (Adams and Evans, 2004; O’Dwyer and Owen, 2007; Edgley et. al, 2010, Urzola, 2011). As a response to calls from scholars for an updated and thorough examination of stakeholder inclusion in social and environmental auditing, this research will pay careful attention to the stakeholders' views on social audit engagement.

Opinions and comments of the interviewees are valuable to address the uncertainty and ambiguity surrounding the social and environmental audit practice (O'Dwyer, 2011, Canning et. al, 2019). Also, information from different relevant stakeholder constituents may offer various viewpoints regarding the social audit practice and update previous findings in the literature. Statutory auditors' thoughts could also provide substantial evidence regarding the state of social and environmental audit practice in Saudi Arabia and illustrate the advantages and obstacles that they have experienced during the last few years. Likewise, stakeholders' views, including those from the Islamic establishment, might provide valuable information regarding the societal acceptance of social audit services and determine whether their demands and expectations are addressed. Whereas the content analysis method is chosen to give a snapshot of the current state of the social audit practice via the sample of external audit reports. Overall, the opinions of social and environmental audit providers and stakeholders, with the findings from the qualitative content analysis process are pivotal for exploring the trends of social and environmental auditing in Saudi Arabia.

1.5 The main questions considered in this research

The present study attempts to find sufficient and reasonable explanations for the following three prime questions:

1) How do statutory auditors in the Saudi environment currently view their role within the social and environmental audit engagement, and how does social and environmental auditing impact their professional interests and standards?

2) How do the interests of a broad range of stakeholders impact the quality of social and environmental audit services, and in turn, how do auditors respond to societal demands and pressures?

3) How social auditor accountability is perceived in Saudi Arabia by different

stakeholders, including the government, regulatory bodies, corporate managers, the religious establishment, institutional investors and financial media?

1.6 The contribution to the social and environmental audit literature

The study aims to provide additional insights into the growing social and environmental auditing literature. As a wealth of studies in the social audit literature have theoretically and empirically investigated this growing audit practice within mostly Western business environments, this study casts light on the social audit in non-Western economies, particularly in the Saudi Arabian context. Insights into the body of knowledge were based on two sources. First, from the prior investigatory studies that probe on corporate social responsibility reporting and social audits, for instance, Gray and Collison (1991), Power (1997); (1999), Gray (2000); (2001), Bebbington and Thompson (2007), Rika (2009) and Gillet (2012). Whereas the second one was from data obtained from some of the audit statements that are attached to Saudi corporate social responsibility reports, and the semi-structured interviews with some statutory auditors and relevant stakeholders.

Particularly, the present study explored the nature of sustainability, social and environmental audits within the conservative Islamic society, and extended the exploratory investigation of previous studies to observe the audit of corporate sustainability reporting in Islamic economies. More importantly, the study also considered external socio-religious factors and the effects of social audit practices in the Saudi Arabian economy. The gaps in the body of knowledge are identified by using a combination of qualitative methods.

Despite the broad inconsistencies in the political and socio-religious principles that constitute the accounting and auditing standards between Saudi Arabia and Western economies (Lewis, 2001; Kamla et. al, 2006), the study sought to demonstrate the auditors' opinions concerning the harmonisation of western or international social audit practice guidelines with the local practices.

Findings of the present study highlighted thoughts and visions of statutory auditors and related stakeholders regarding the present and future status of social auditing, and the efficacy of applying traditional auditing techniques to verify corporate social and environmental claims in the Kingdom. Interviews with statutory auditors and stakeholders illustrated various recommendations concerning the need to adhere a generally accepted social and environmental audit guidelines, the risks to auditors impartiality, and ways to improve the social auditing profession in Saudi Arabia. Generally, the empirical findings provided significant inputs for the literature of social and environmental audits in Islamic developing economies, where mostly the social audit practices are still in their early stages and contributed to the wave of research efforts in this field.

1.7 Thesis structure

This thesis consists of seven chapters. The first chapter introduces the study and explains its potential contribution to the knowledge of the auditors' role in social auditing within the financial audit services industry. This introductory chapter includes a presentation of the study rationale, aims, and design of the research.

Chapter two provides an overview of the research context, which is Saudi Arabia, and a brief background of the historical development of the accounting and auditing profession.

Chapter three discusses prior studies from the social and environmental audit literature and offers selected theoretical perspectives before identifying gaps in the literature.

The fourth chapter elaborates on the philosophical approach of the research and presents the adopted methodology and methods for evidence collection as well as the analysis of the empirical findings.

The fifth chapter introduces an in-depth discussion of interviews with statutory auditors regarding their social responsibilities, accountability, and comments about the professional techniques that are used in social and environmental audit engagements. Furthermore, interviews with relevant stakeholders are also included.

Chapter six concentrates on the content analysis of social and environmental audit reports to obtain further findings of the nature of social and environmental audit practice in the Saudi Arabian context. In comparison with the results of interviews, insights from the content analysis provide a broader and closer picture of the state of social audit practices. Insights about, among others, the adoption of international or domestic standards in the audits, scopes and degree of the audit processes undertaken, the extent of auditors' involvement in stakeholder engagements.

Finally, the seventh chapter summarises the study findings and the study's contribution to the extant literature. Also, recommendations and suggestions are offered to improve auditors' performances in social auditing in Saudi society.

Chapter Two: Overview of the Research Context: Saudi Arabia

2.1 Introduction

In its position as an emerging economy and one of the top 20 economies in the world (G20) and a member of the World Trade Organisation (WTO), Saudi Arabia continues to pursue business reforms and diversification (Niblock, 2006). The Saudi Arabian government strongly supports the growth of the private sectors through its Saudi Vision 2030 economic plan to modernise the economy and transmogrify four key sectors. The first sector is national industries, including petroleum and petrochemical companies; the second is the mining sector; the third is energy and logistics, and the fourth is the financial services market[7]. An influx of foreign investment during the last four decades represents one of the main sources of economic expansion. It contributes to the country's infrastructure and capital market and brings with it multinational organisations that introduce their various corporate management systems and practices to operate within Saudi Arabia's evolving legislative framework. Such development in the private sector entails complex relationships with local and international audit organisations to meet the standards that are set out by Saudi decree and regulations, which respond by necessity to the demands of sophisticated stakeholders in these multinational organisations. The majority of these global organisations maintain strong relationships with audit firms to ensure that their financial statements meet global standards and, simultaneously, conform to Saudi legislation.

The present research aims to explore the social and environmental audit phenomenon and to highlight the extent of statutory auditors' participation in this phenomenon in the Saudi context. In the study of social audits in Saudi Arabia, key issues such as

[7] Details of the Saudi economic plan (Saudi Vision 2030) are available in: https://vision2030.gov.sa/en/node/421

stakeholder perception of statutory auditor independence, require not only knowledge of the nature of the relations between users of corporate information and statutory auditors, but also to determine the extent of auditors' willingness to help their client companies to discharge social accountability. Insights from such issues enable the researcher to investigate the underlying causes and effects of auditors-client companies relationships.

This chapter presents information on Saudi Arabia, as the research context, and shed light on the Islamic and social structure of society, under investigation. The chapter is structured to give a broad overview of the nature of the Kingdom, how it evolved, how it is governed through Islam doctrine, its wealth, and the financial structures that regulate and supervise national businesses. The focus then narrows to the regulations of the country's accounting profession, with a discussion that pertains to the auditing profession and the providers of social and environmental audit services in Saudi Arabia.

2.2 The nature of Saudi Arabia

With the globalisation of business in the developing world, which includes Saudi Arabia as an integral part, the accounting profession plays a crucial role in improving and shifting corporate policies to more robust and standardised governance systems (Nanthini and Sowdhasri, 2018). In this business environment, the accounting framework is the product of global trade and interaction, generally adapted from advanced economies (Burchell et. al, 1980; Bailey, 1990, Järvenpää, 2007). However, the type of government that manages any economy affects the internal regulatory environment of the economic market. The government policies reflect the values and norms of its society, and to a varying extent, the global business values of the governments' guest corporations (Cortell and Davis, 1996; Perraton et. al, 1997).

The Saudi Arabian environment exemplifies an ideological disconnection between the domestic values and international expectations on the one hand, and corporate social responsibility performance and domestic political, religious beliefs, on the other (Wilson, 2006; Habbash et. al, 2016; Ajina et. al, 2020). Such contradictions direct the factors that affect the government's ability to manage economic change. Thus, for placing this research into context, a brief discussion of the Saudi environment, demographics, and history follows.

2.2.1 Geography and population

Saudi Arabia covers an area of approximately 2,240,000 sq km and occupies around 75-80% of the Arabian Peninsula (Bowen, 2014; Anishchenkova, 2020). It borders two seas: the Red Sea and the Arabian (or Persian) Gulf; and seven countries: Jordan and Iraq to the north; Kuwait, Qatar and the United Arab Emirates to the east bordering the Gulf; and Yemen and Oman, which occupy the southern reaches of the Arabian Peninsula (House, 2013). The area of Saudi Arabia is approximate, as the borders with the United Arab Emirates and Oman are not precisely determined. Saudi Arabia is divided into 13 provinces: Makkah, Medina, Riyadh, Eastern Province, Northern Province, Asir, Al-Baha, Hail, Al-Jouf, Jizan, Najran, Tabuk and Al-Qassim (Vincent, 2008; House, 2013). Saudi Arabia is generally hot and dry and consists of semi-desert and desert with oases. Annual precipitation is only 100 mm, and this sparse rainfall renders almost half the country uninhabitable. The eastern area is lowland, with plateaux in the west rising to mountains of 3,000 metres in the southwest, an area known for its green and fresh climate (Vincent, 2008). In the summer seasons, the desert climate is very hot during the day and mild during the night (except for Asir Province in the southwest); the coastal cities are hot, with high humidity. In the winter seasons, the climate is cold in most areas. The capital, Riyadh, which is situated in the centre-east, has an average temperature of 42°C in July and 14°C in January. In contrast, Jeddah on the western coast experiences averages of 31°C in July and 23°C in January. There are no permanent rivers or lakes in Saudi Arabia (Vincent, 2008). Less than two per cent of the total area is suitable for cultivation, and population distribution varies significantly among the towns of the eastern and western coastal areas, the densely populated interior oases, and the vast, almost empty deserts, such as the Rub'al Khali (The Empty Quarter), the Arabian Desert and East Sahara-Arabian scrublands (House, 2013).

Regarding the total population, it is estimated that in January 2020 the country is inhabited by 34,218,169 residents (General Authority of Statistics, 2019). According to the 2018 Saudi General Authority of Statistics, the Saudi residents comprises 20,768,627, while expatriates from various nations amounted to 12,645,033[8].

2.2.2 History of Saudi Arabia

The modern Kingdom of Saudi Arabia was founded in 1932. Before this, tribal or clan system governed the Arabian Peninsula, in which sheikhs ruled each tribe (Al-Tawail, 1995). The Al-Saud family had long attempted to unite the scattered factions in the area, first in 1745 when Mohammad Ibn Saud, the founder of the first Saudi state, allied with the Wahhabi movement associated with the reformer Mohammad Ibn Abdul Wahhab. The first state was dissolved in 1818 by the Ottoman Empire. However, in 1824 the Saudi Emir, Imam Turki Ibn Abdullah, returned to Riyadh after Ottoman forces withdrawal. The Saudis ruled the land until 1891 when the Al-Rasheed family forced them to leave Saudi to exile in Kuwait (Al-Rasheed, 2010). In 1902, King Abdulaziz bin Abdurrahman Al-Saud established a new state after he and his family

[8] For additional information about the Saudi population visit, https://www.stats.gov.sa/en/indicators/10.

had recovered from the defeat by the Al-Rasheed emirate. King Abdulaziz Al-Saud unified the Arabian Peninsula into a single state, the Kingdom of Saudi Arabia, on 23 September 1932, which now celebrated each year as the National Day (Al-Tawail, 1995). Then, the King's immediate challenges were the consolidation of power and the restoration of law. Under the authority of the King, every sheikh was made responsible for the welfare of his tribe. This system proved successful in facilitating social and economic growth in the region and was assisted by the emergence of a financial windfall from oil revenues in the mid-1950s (Al-Rasheed, 2010). King Abdulaziz permitted the Islamic principle of *Shura* (consultation) regarding business growth and the country's development; however, this was impeded by a lack of expertise in several professional fields such as accountancy. As the Kingdom invited experienced Arabs expatriates to work in the country, young Saudis were given scholarships to study abroad. The King appointed his son, Saud, as his successor, and upon the death of the King in 1953, King Saud reigned until he was removed by his brother, Faisal, in 1964. During King Faisal reign and his successors, and Fahd and Khaled, the government restricted the freedom of expression and expanded the nationalisation of the media. However, King Fahd suffered a stroke in 1995, and the fourth son of King Abdulaziz, Abdullah, became the *de facto* ruler. King Fahd died in 2005, and Abdullah became the sixth king of the third state of Saudi Arabia.

During King Abdullah's reign, the culture and education levels of the Kingdom were modernised as more than 150,000 young Saudi men and women were offered government scholarship grants to study for undergraduate and postgraduate qualifications abroad. King Abdullah also built 30 public universities and colleges in the Kingdom, which offered Saudi citizens priority and opportunities for employment. Other political and economic achievements covered the empowering of women to participate as members of the consultative council (*Majlis al-Shura*). In the national economy area, King Abdullah pledged more than US$ 30 billion for a mega-project to build six economic cities to diversify the oil-dependent economy and attract foreign investment. However, King Abdullah died before completing these cities on 23 January 2015, at the age of 90, and he was succeeded by his half-brother, Salman Bin Abdulaziz. Since then, King Salman, with his son the Crown Prince Mohammad bin Salman (MBS), has continued King Abdullah's reforms through the introduction of the Saudi Vision 2030 plan as a comprehensive economic and cultural milestone and the removal of the ban on many socio-economic human rights and business practices, such as establishing cinemas, the inability of women to drive and the prohibit of work in a mixed-gender environment.

2.3 Saudi Arabian economy

The land that is known today as the Kingdom of Saudi Arabia, where is mostly desert, was limited to access to natural resources a few decades ago (Stoff, 1980). The people of the Eastern Province survived through subsistence agriculture, growing a few crops and dates, and fishing. The Arabian desert was a hostile environment in which permanent habitations existed only at oases through nomadic animal husbandry and subsistence farming. The Western Province, which was previously known as the *Al-Hijaz* region, was more urbanised and offered long-distance trade and services to pilgrims to the two holy cities of Mecca and Madinah. (Stoff, 1980; House, 2013; Bowen, 2014). Long distances between populated areas, poverty and tribal societies obstructed the establishment of connected transportation infrastructure, until King Abdulaziz used the annual Muslim pilgrimage revenue, customs duties and *Zakat*, or religious tax, to stabilise the country and gain loyalty from the tribal leaders (Stoff, 1980).

2.3.1 Oil-based economy (1930s-2000s)

In 1933, the Arabian American Oil Company (Aramco) was established by four American oil companies: Standard Oil of California (30%); Texaco (30%); Esso (30%); and Mobil Oil (10%) (Ramady, 2010). Oil was discovered in 1938, six years after the country was established, and brought an influx of massive revenues, which confirmed the King's authority, and gave the new Saudi government influence and leverage in international relations (Ramady, 2010; House, 2013). Henceforth, Saudi Arabia moved from a subsistence economy to a major oil-exporting country. For example, annual government revenue grew substantially from US$15 million in 1946 to US$100 million in the 1950s, and once again to US$338 million in 1960 (Niblock, 2006). The massive financial resources and economic boom have helped Saudi Arabia to transform into a modern state in short years. In 1953, the Council of Ministers was created to manage the economy and industrial matters of the nation (Niblock, 2015). In 1972, the Saudi government obtained a 25% equity share of the oil producer, and in 1980, Aramco became a wholly government-owned company (Moliver and Abbondante, 1980). Despite industry diversification, oil continues to be the most crucial source to bankroll the economy, as it contributed to more than 90% of total revenues during the second half of the 20th century (Choudhury and Al-Sahlawi, 2000; Niblock, 2006). The Saudi Minister of Petroleum and Mineral Resources reported to the 6th International Oil Summit Conference in France in April 2005 that the proven Saudi oil reserves comprised 25% of the world's oil reserves, at 261 billion barrels with a probable additional oil reserve of approximately 100 billion barrels. As a result, the Saudi economy is likely to continue its dependence on oil revenue for the next 50 years, despite the government efforts to diversify its revenues from other sources through the Saudi Vision 2030 and the National Transformation 2020 strategic plans.

2.3.2 The Saudi Vision 2030 (mid 2010s-present)

On 25 April 2016, the Saudi Arabia government announced a long-term plan entitled Saudi Vision 2030, which aim to boost the national economy of non-petroleum sectors and improve public sectors in, for instance, the health, education, infrastructure, entertainment and tourism industries. The Saudi Vision 2030 also seek to bring more international investments and increase job opportunities for Saudi youths through various planned mega-economic and industrial cities. It also planned to increase public spending on military budgets and produce military equipment and ammunition locally. The Crown Prince Mohammad Bin Salman (MBS), who is also the head of the Council of Economic and Development Affairs, stated in 2016 that the Vision goal was to place Saudi Arabia as a global economic powerhouse that would geographically connect the Asian, European, and African continents.

Saudi Vision 2030 encompasses three development themes. The first is to reach a vibrant society, where the government focuses on domestic affairs by enhancing social welfare and improving the healthcare system. The second is to create a thriving economy that involves developing the education system and promoting business opportunities for individuals and local institutions. And finally is the concentration of achieving national goals such as efficiency, transparency, accountability and responsibility.

These three pillars of Saudi Vision 2030 illustrate the government's desire to elevate the Saudi economy to become one of the world's leading emerging economies. Many themes of the plan focus on improved quality of life, healthcare, education, environmental sustainability, transparency, public-sector efficiency and business social accountability. These national goals are relevant to corporate social responsibility management, which necessitate a more constructive role for statutory auditors to provide social and environmental audit services in the Kingdom.

2.4 Corporate social responsibility from an Islamic perspective

Despite that corporate social responsibility has emerged since the 1950s as a newly recognised form of organisational ethics in western management literature and the global economy (Blowfield and Murray, 2014), the notion of corporate social responsibility was embedded in Islamic scriptures and teachings more than 1440 years ago (Dusuki, 2008; Elasrag, 2015). Believers of Islam are required to bear such responsibility as a form of divine accountability to the general public, and, simultaneously, it is regarded as a fundamental part of obedience to the Islamic *Shari'a* law in a Muslim's everyday life (Shamim and Karim, 2010; Adnan et. al, 2014). As a result, due to their reliance on spiritual and material sources, Islamic corporate social responsibility principles provide a broader philosophical framework than that offered by non-Islamic corporate social responsibilities. Responsibility and accountability in the Islamic doctrine require all Muslims to be accountable for their actions in their life. In this sense, Muslims are also required to strictly obey the commands of Allah and his prophets in respect of bearing a social responsibility in order to obtain the promised rewards in the hereafter. Thus, any social responsibility and accountability practice carried out by Muslims, whether as individuals or as part of institutions, must be in line with Islamic teachings according to the statement *Hadith* of the Prophet Muhammad (peace be upon him): "Each one of you is a guardian and each guardian is accountable for everything under his care[9]".

Based on the Islamic core principles known as *Tawḥīd*, the main objective of each

[9] Ṣaḥīḥ al-Bukhārī 6719, Ṣaḥīḥ Muslim 1829.

follower is to accept the unity of Allah as the creator, and concurrently, the faithfulness of the united community and the totality of life (Moten, 1990). Such acceptance of the *Tawḥīd* axiom "perfects the ethical consciousness of mankind and endows humanity with the hidden power of wisdom, which nurtures and perfects it" (Moten, 1990, p. 171). In an Islamic democracy, the adherents of Islamic laws are required to be socially responsible for all creatures in order to be accountable to Allah through a form of vicegerency on the Earth, which is called *khiläfah* in the Islamic holy book, the Quran[10]. Based on this Quranic text, along with the acceptance of the oneness of Allah, businesses that operate in an Islamic society should follow Islamic *Shari'a* instructions by acting responsibly as a vicegerent of Allah and by abstaining from social or environmental harms (Haniffa et. al, 2004). Therefore, the Islamic corporate social responsibility objectives philosophically differ from those in the western-based version through Islamic assertion that companies should show non-voluntary commitments to conduct commercial activities in a manner that serves the interests of the general public. Moreover, the Islamic version of corporate social responsibility aims to discharge accountability to Allah before the stakeholders and society. Unlike that in the Islamic version, corporate social responsibility in the traditional Western basis seeks only political and social legitimacy (Elasrag, 2015).

Several principles for the Islamic economy discipline exemplifies corporate social responsibility. The *Takaful* or solidarity arrangement is an Islamic socio-economic principle that portrays the community as one body, in which all members have a shared responsibility for social profit or loss (Islamically known as *Mudarabah*). The

[10] The Quran states in Chapter 2, verse 30: "Behold, thy Lord said to the angels: 'I will create a vicegerent on earth.' They said: 'Wilt Thou place therein one who will make mischief therein and shed blood? whilst we do celebrate Thy praises and glorify Thy holy (name)?' He said: 'I know what ye know not.'"

solidarity principle was also enshrined in the Prophet's *Hadith*, which states: “The place of relationships and feelings of people with faith, between each other, is just like the body, when one of its parts is afflicted with pain, then the rest of the body will be affected[11]”. This statement indicates that the *Takaful* or solidarity offers a broader meaning of corporate social responsibility than the conventional definition, to include cooperation between individuals, groups, governments, and commercial and non-profit entities in a united role to account to Allah as servants and vicegerents in social and environmental protection (Siwar and Hossain, 2009). In practice, solidarity or *Takaful* involves the participation of people and companies in activities to mitigate social and environmental hazards, and to financially contribute to philanthropy funds. This fund invests these donations on behalf of the Muslim community (Salman, 2014; Nazir and Noor, 2018; Bhatti and Husin, 2020).

However, Elasrag (2015) points out that the Islamic version of corporate social responsibility is experiencing several severe challenges in the 21st-century business environment. One significant difficulty is the intervention of political institutions that seek to determine the nature and limits of corporate social responsibility activities. This can result in a public dispute regarding what is classified as a socially responsible or irresponsible corporate entity. Subsequently, this political influence can hinder cooperation and coordination among society's members, and eventually, the progress of corporate social responsibility. Another potential obstruction stems from different explanations of the nature of corporate social responsibility, which leads classical Islamic and contemporary legislators and corporate managers to form different understandings regarding this corporate responsibility and to whom companies should

[11] From the *Sunnah* (Prophet says) sources: Ṣaḥīḥ al-Bukhārī no. 5665 and Ṣaḥīḥ Muslim no. 2586.

be held accountable.

2.4.1 Corporate social responsibility disclosure in Saudi Arabia

The Saudi Arabian government has undertaken various institutional reforms to enhance organisational transparency in information exchange, diversify national revenues and comply with international economic and financial standards and regulations set by the Organisation for Economic Co-operation and Development (OECD) and the WTO (Niblock, 2006). The government's economic programme[12] Saudi Vision 2030[13] aim to radically transform the country from an oil-based economy, which is based on secrecy or insufficient disclosed information, into a knowledge-based transparent economy with diverse national income. One of the Saudi Vision 2030 goals is to privatise state-owned institutions involved in various sectors. The plan includes the proposed part-privatisation of Aramco, the largest oil producer and distributor in the world[14], and government organisations that operate in the military, natural gas, mineral exploration, cement, power generation industry, and petrochemical sector. In addition, the government aims to expand its hedge fund, the Public Investment Fund (PIF), to new investment portfolios in global technology, transportation networks, and renewable and nuclear power projects. These strategic economic plans require a robust accounting and auditing system to accompany the projected boom in the national economy[15], to account

[12] The Economist, April 30th, 2016 - https://www.economist.com/news/middle-east-and-africa/21697673-bold-promises-bold-young-prince-they-will-be-hard-keep-saudi-arabias (Accessed 21 June 2017)

[13] For more details about the Vision's agenda, visit:
http://vision2030.gov.sa/en (Accessed date: 29 May 2017)

[14] For additional information regarding the Aramco initial public offering, visit:
https://www.ft.com/content/45295af2-bff6-11e6-9bca-2b93a6856354 (Accessed date: 25 February 2017)

[15] For more details about the economic forecast for Saudi Arabia, visit:
file:///C:/Users/user/Downloads/Saudi_Updated_Macroeconomic_Forecast_2016_2020.pdf
(Accessed date: 15 June 2017)

for corporate social and environmental activities, and more importantly, to respond to stakeholder demands.

Over the last decade, several government institutions, family-owned businesses, and shareholder-oriented private companies have benefited from stock-market flotation through numerous Initial Public Offerings (IPOs), which exponentially increased the number of listed companies on the Saudi stock market (Faraj, 2016). However, the transformation from a public to a private or part-private organisation requires corporate management to increase the transparency and accountability of the business to the shareholders and stakeholders by taking full and permanent consideration of the Islamic *Shari'a* law and local norms to avoid social disapproval from many Saudi investors (Alqahtani and Boulanouar, 2017)[16].

Nevertheless, national economic development has promoted the notion of corporate social responsibility within the business environment and raised the awareness of private companies on their duties to contribute to social welfare and consider the interests of stakeholders. For example, many public companies have recently increased their financial and material donations to local communities. Also, some private companies have sponsored Saudi students to study in prestigious universities in advanced countries, launched safety and training schemes for their employees, and offered interest-free loans to workers to buy company shares (Aldosari and Atkins, 2015).

Many Saudi public companies voluntary disclosed audited social and environmental

[16] The IPO of the National Commercial Bank (NCB) raised public concern, as it sparked a religious argument between prominent Islamic clerks and the media on the one hand, and religious scholars and potential local investors on the other. Such controversy led to a boycott of NCB's IPO by most conservative-oriented investors. For more information visit: https://www.reuters.com/article/us-nationl-comml-bk-ipo-islam/saudi-banks-6-billion-ipo-ignites-religious-controversy-idUSKCN0I31QG20141014

statements. In the petrochemical industry, the leading publicly-owned chemicals producer, the Saudi Arabian Basic Industries Corporation (SABIC), has continued its 2018 plan to shift to renewable energy, technology and materials innovations in order to reduce the price of renewables such as solar cells. Recently, SABIC acquired the majority share of an American company that specialised in nanotechnology operations, which manufactured modified carbon nanotubes for energy-storage applications. The acquisition of SABIC led to an environmental gain and increased battery efficiency, extended their life, improved their energy density and enabled the design of smaller batteries, which help to meet the growing demand for light electric-vehicle batteries with lower production costs[17].

In the banking sector, organisational social responsibility is delivered in diverse forms. For example, Saudi American Banking (SAMBA) has sponsored numerous education and training programmes domestically and abroad for Saudi young people. Furthermore, in line with the government *Kafala* programme to stimulate the business environment, SAMBA has supported small and medium entities by providing finance and consultancy services to new businesses. The funding of new housing projects and healthcare development schemes forms a primary SAMBA contribution to the Saudi community, in which the SAMBA board has financed the establishment of more than 500 furnished housing units and hospitals across the Kingdom[18].

Generally, Saudi companies pay considerable attention to their social commitment towards the public through spending on the religious tax, known as the *Zakat*. *Zakat* payments by corporations are one sign of social responsibility fulfilment within

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[17] Details of the SABIC sustainability plan are available at: file:///F:/SABIC_SR_FINAL_2018_tcm1010-18598.pdf

[18] Additional information about SAMBA social contributions is available at: http://www.csr.samba.com/index.html

the Saudi society and exemplify the role of Islam in building social justice, reducing social inequality, and mitigating poverty (Ahmed, 2007; Khurshid et. al, 2013; Al-Sabban et. al, 2014).

The voluntary delivery of corporate social responsibility by public Saudi companies has benefited their financial performance. A recent investigative study by Al-Malkawi and Javaid (2018) conducted on 107 publicly listed companies (excluding banks and insurance companies) revealed that investment in socially responsible activities, through regulated spending on *Zakat*, substantially improved the market values and profitability of companies. Moreover, the study concluded that the discharge of Islamic accountability through the *Zakat* compliance was advantageous to the Saudi companies and their host society. The payment of *Zakat* as a form of implementation of the Islamic *Shari'a* law helped to maximise financial returns and improve the social image of companies. This empirical evidence is consistent with stakeholder theory, which shows that Saudi companies' efforts to shrink the economic gap between classes of societies through the enhancement of corporate performance and social reputation (Freeman, 1984).

As the government encourages ethical and sustainable investments, most large corporations published reports that proclaim their social and environmental efforts to the authorities, communities, local and foreign investors. In the survey of Aldosari and Atkins (2015) study, public listed companies that disclosed their socially responsible activities increased from 29% to 31% between 2010 and 2012. Among the companies that disclosed their socially responsible actions, nearly all focused on their community contributions, precisely 92% of the 2010 sample of 25 companies and 90% of the 2012 sample of 32 companies. These findings indicate an increased awareness of the importance of corporate social and environmental reporting among Saudi politicians and business communities and show a greater flow of information to stakeholders. Another survey study conducted between 2010 and 2014 on the corporate governance systems in the Middle East and North Africa (MENA) revealed that Saudi Arabia was among the first countries that acknowledged the rights of stakeholders to access corporate information (OECD, 2014)[19]. As Saudi is internationalising its emerging economy, the rapid growth of corporate sustainability is likely to elevate political and social expectations of social and environmental audit performance in the business environment.

2.5 The political structure of the Saudi Government

The Basic Law, adopted in 1992, declared that Saudi Arabia was a monarchy and that the Quran formed the constitution of the country, which is governed through the Islamic *Shari'a* law (Jones, 1992; Aba-Namay, 1993). The political structure consists of the King, the head of the Kingdom and the prime minister; the Crown Prince, as deputy prime minister, and three advisory institutions, the Royal Cabinet, the Consultative Council and the Council of Ministers (Aba-Namay, 1993; Niblock and Malik, 2007; House, 2013). Government legislation is promulgated through the Council of Ministers and their ministries, regional governments, and municipal councils. The King distributes the operation of lesser ministries to influential families and others to maintain political stability (Aba-Namay, 1993; Ramady, 2010; Bowen, 2014; Riedel, 2019). A rule by decree must be directly related to the King, currently King Salman bin Abdulaziz. Thus, Saudi Arabia is an absolute monarchy without a parliament or political parties. The regime of Saudi Arabia is underpinned by its wealth of oil, its

[19] For more details, visit:
http://www.oecd.org/daf/ca/corporategovernanceprinciples/49012924.pdf

Islamic governance system and security systems.

2.5.1 Government, constitution and legislature

As an Islamic country and a sovereign power with its singular political structure, the impact of Saudi's legal system on its citizens is different from that of legal systems of other developed and developing countries (Vogel, 2000). This section constitutes a brief description of governance in a Muslim country and the manner by which legislation is formulated and enacted in Saudi Arabia.

The constitution of Saudi Arabia resides in the *Shari'a*, or Islamic teachings, from which its traditions and legislation are derived. This is not well known or well-understood in non-Muslim countries (Al-Farsy and Al-Farsy, 1990; Vogel, 1994). The *Shari'a Islamia* (or the Islamic law) contains the instructions for the organisation and governance of a Muslim society. It provides ways to pacify disputes between individual citizens and their governors on day-to-day matters.

The *Shari'a Islamia* or Islamic law is derived from four sources: the primary source is the Quran. The Quran contains the directives of Allah and sets general moral standards for Muslims to guide their aspirations (Al-Farsy and Al-Farsy, 1990). The second source, the *Sunnah*, or the Prophet says, reflects the traditions and utterances of the Prophet Mohammad and explains matters related to the Quran. The third is the *Ijma*, which includes the consensus of religious scholars in their interpretations of the superior book. This source is of particular interest to this study, as it discusses the delegated legislation for a Muslim community. The fourth source is the *Qiyas*, or arguments by analogy. Judges in Muslim governance entities may apply analogies and reasons from the Quran and the *Sunnah* to decide new case law if not previously clearly addressed. This often occurs when they interpret a principle in a new situation (Al-

Farsy and Al-Farsy, 1990; Kamali, 1991; Vogel, 1994). The Islamic law is fundamental to Saudi citizens and touches every aspect of their life, political and economic affairs, social interactions, family relationships, morality, the rights and duties of citizens, and religious practices. The following sections describe the structures of governance that are derived from the principles of Islamic law.

2.5.2 The Saudi Arabian political structure

The King, as prime minister, is advised by the the Consultative Council (*Majlis Al-Shura*), which was established in 1992. From August 1993, the Consultative Council has been restructured successively by Kings Fahd, Abdullah, and Salman, to boost efficiency in the political governance system (Sharp, 2004; House, 2013; Riedel, 2019; Anishchenkova, 2020). Initially, the Council was composed of 60 prominent appointed members of Saudi social, political, and religious elites, but it had expanded to 90 members by 1997 (House, 2013). The Consultative Council regularly advises the King and the Council of Ministers on issues related to government programmes and policies. The primary function of the Consultative Council is to assess, interpret, and modify the Kingdom's civil laws, municipal council contracts, and international agreements. A royal decree in 2003 enabled the Council to initiate legislation. The royal decree gives the Council the ability to debate political arguments, though the King is the final arbiter. In October 2003, the Saudi press reported that elections could be held for one-third of the Consultative Council members every four years. The matter of elections was reraised by the national media outlets in April 2005, when some prominent Council members suggested increasing the number to 150 appointed and elected members (Sharp, 2004; Bowen, 2014; Riedel, 2019).

The Council of Ministers, first appointed by the King in 1953, advises on the formulation of general policy and directs the governmental activities to a large number of politicians and bureaucrats (Vogel, 2000). The Council of Ministers consists of the King as prime minister, the deputy prime minister and 20 ministers. The proposed legislations are approved by the Council of Ministers, ratified by the Consultative Council and royal decree, and must be compatible with the Islamic laws.

The Kingdom is divided into 13 provinces through which local affairs are administered. Each is headed by a governor (or *emir*) appointed by the King (Dekmejian, 1998; Niblock and Malik, 2007; House, 2013). The governor is assisted by a vice-governor and a provincial council, composed of the heads of the province's government departments and a ten-member council of prominent individuals in the community who are appointed for four-year. In 1993, the late King Fahd promulgated new by-laws for the provincial system to aid in the administration of the country's provinces and to facilitate their continued national social and economic development.

2.5.3 Saudi Arabia's judiciary and legal system

The Islamic *Shari'a* law is the basis for Saudi legislation and legal decisions, supplemented by government legislation for its judiciary structure (Ochsenwald, 1981; Aba-Namay, 1993; Vogel, 2000; Sharp, 2004). The King is the ruler of the judicial system and the final arbiter of Appeal Courts that issue the verdicts of pardon. Thus, the judiciary is subject to the influence of the royal family. The judiciary system was established in its present form in 1975, based on the Islamic courts (Niblock and Malik, 2007; House, 2013; Bowen, 2014; Riedel, 2019). The Law of the Judiciary, Article 5, specifies that the Islamic courts consist of four levels (Ministry of Justice, 1975)[20]. First is the Supreme Judicial Council, which manages judicial appointments and the work of

[20] Information the Saudi judicial system visit: https://www.moj.gov.sa/English/Ministry/Pages/MOJHistory.aspx

the courts, and it can intervene in all sort of judgements. Second is the Court of Cassation, which includes the Penal Suite and the Personal Status Suite, and it acts as a court of appeal for other cases. The third is the General Court, in which one or more judges can pass judgement on every judiciary case except those concerning the fourth courts, which are the Courts of Summary (Al-Tawail, 1995). The jurisdiction of Courts of Summary is similar to the General Court that used for misdemeanours, disciplining and some other cases. Adoption of the Islamic *Shari'a* law, as the principle of the Saudi constitution, means that all activities of individuals and government are ruled by the Islamic *Shari'a* law, and no other law can oppose it. However, when Saudi Arabia became an internationally recognised state, King Abdulaziz issued a decree for new systems to accommodate contemporary legal issues of the state. Legal modern issues include laws for weapons ownership, nationality, insurance and motor vehicles (House, 2013; Riedel, 2019). These new laws, at that time, were not approved by the *ulama* or religious scholars. Thus, those scholars refused to enforce royal decrees of civilised laws (Vogel, 1994). The disagreement between the religious scholars and the politicians of the royal family led to two legal streams: one based on the Islamic *Shari'a* law and the others considered Western-based secularised regulations (Marar, 2004). As a result, special courts were established for secularised regulations, and therefore, the country has a duality in its legal system. For instance, the secular Grievances Board investigates complaints of improper behaviour by government officials.

Even though Saudi Arabia's legislation stems from the Islamic *Shari'a* law, its religion-based legal practices are slow and less methodical. The co-existence of two judicial systems results in ineffective legal decision-making processes. The Islamic judgements reject secularised instructions that stem from non-Islamic sources and contradict the Saudi constitution. The two contradictory legal systems affected the statutory auditors in their duties, especially in dealing with issues under two contrasting legal regulations, the Islamic *Shari'a* law and the certified public accountants' standards. Moreover, in the case of judiciary conflicts, one party might favour the Islamic *Shari'a* law and the other secularised regulations. Therefore, in such circumstances, an out-of-court settlement is needed.

2.6 Financial structures of Saudi Arabia

The focus of the Saudi government on the diversification of the economy relies on oil revenues and, to a lesser extent, on private sector contributions, as funds are disproportionately obtained from these sources (Nurunnabi, 2017; Banafea and Ibnrubbian, 2018). The financial system in Saudi Arabia is essential for the regional and global economy as the country's monetary policy influences the regional and international oil markets (Nurunnabi, 2017). The financial markets demand relevant and reliable financial information to facilitate decision-making processes. The institutions that form Saudi Arabia's regulatory framework and structures are discussed in the following sub-sections.

2.6.1 The Monetary Agency

Established in 1952, the Saudi Arabian Monetary Agency (SAMA) is the central bank of Saudi Arabia (Banafe and Macleod, 2017). It performs a crucial role in the country's monetary system: it issues currency, maintains stable prices, and manages the exchange rate and foreign reserves. It also administers the government's finances and partially regulates the finance sector. Primarily, SAMA developed a monetary system to replace many foreign currencies in usage and established the Saudi riyal, based on the silver tokens that were in use until the mid-1950s, and maintained an exchange rate based on the US dollar (Banafe and Macleod, 2017). The central bank also issued gold coins and

Pilgrim Receipts (Hajj Receipts) to relieve pilgrims from the burden of hard currency in use at the time. These Pilgrim Receipts later became accepted throughout the Kingdom as a *de facto* currency, foreshadowing the first Saudi banknotes in 1961, which then replaced the Pilgrim Receipts (Al-Suhaimi, 2001).

Before 1952, foreign banks and local exchange dealers administered the monetary needs of the Kingdom. In post-1952, the SAMA supervised the improvement of the national banking system through the 1966 Banking Control Law (Banafe and Macleod, 2017). The Banking Control Law designates capital reserves, liquidity, and loan conditions. Restrictions on foreign banks limited their growth by defining the number of branches and capital wealth each could attain. By the mid-1970s, all foreign banks or their branches were transformed into, or merged with, national companies under joint-venture status, which stipulated that non-Saudis could invest, but with a mandatory majority of Saudi shareholders (Presley and Wilson, 1991).

Auditing protocols are codified in the 1966 Bank Control Law (Article 14), administered by the central bank SAMA. However, the Bank Control Law requires financial institutions to select two external licensed auditors to audit companies' financial positions. Most Saudi financial institutions have audit committees that report for assisting their regulatory obligations. SAMA has issued rules and guidelines for banks to explain the duty of the audit committee, and the relationship between the audit committee and other internal organisational divisions, internal control systems, statutory auditors, and the bank regulators (SAMA, 1996). SAMA Rule No.7 (a) notes that one of the roles of the audit committee is to monitor the relationship between the statutory auditor and the management of the banks. Also, concerning the protection of the external auditor independence, Rule No. 7 (b) states that the audit committee should ensure that the statutory auditors work independently and objectively by holding regular meetings to discuss various important issues. And the committee must obtain representation in the form of a written letter from the statutory auditors on an annual basis wherein they confirm their independence in accordance with regulatory and professional regulations. To further strengthen the level of independence and objectivity of statutory auditors, the audit committee in Saudi joint-stock companies should not reappoint the same external audit firm for more than five consecutive fiscal years. Accordingly, companies should rotate their audit firms after the enforcement date on the 2nd of May, 2016 (the Saudi Company Law 2015, Article 133 and Article 166).

2.7 Accounting and auditing profession in Saudi Arabia

The protocols of audit practice in Saudi Arabia have evolved from the early accounting methods used by international corporations that operated in Saudi Arabia in the 1930s. These subsidiary organisations reported the financial information to comply with the formats and protocols of their head offices' countries of origin. Further, Saudi decrees and regulations followed the Islamic *Shari'a* law and thus differed in their reporting requirements (for example, interest-based data, religious tax or *Zakat*). Saudi accounting regulations date back to the 1930s with the Commercial Business Regulation (Al-Qahtani, 2005). By the 1950s, although auditing was mandatory for financial institutions, audited financial statements of Saudi companies were regarded as internal documents by the general public, and auditors' reports on a company's financial positions were published only when deemed necessary by the company management. The development of the accounting and auditing profession in the Kingdom forms the antecedents of the theme of this study as the evolution of social audit practice seems analogous. Also, the provision of social and environmental audit services may impair the independence of statutory auditors in Saudi Arabia, for which accounting and auditing rules need to be reviewed. The laws, regulations, and orders that govern accounting and auditing are discussed in the following sections. The development of accounting and auditing in Saudi Arabia is included in the discussion.

2.7.1 The Income Tax and *Zakat* Law

The Income Tax and *Zakat* Law (1950) was a critical milestone for advancing the accounting and auditing profession in Saudi Arabia. Notably, Article 16 stipulated that an internationally recognised auditor should prepare a company's taxation report[21]. At that time, companies were generally managed by their owners, and audits were not a priority issue for *Zakat* or religious taxation and income tax purposes, with few accounting firms and offices in Saudi Arabia. The first accounting firm that operated in Saudi was in 1955, the non-Saudi firm of Saba Nawar and Co., and the first Saudi accounting firm was Daghastani and Abdul Wahab, set up in 1959 (Al-Qahtani, 2005).

2.7.2 The Saudi Arabian Company Law

The Company Act, effected in 1965 and amended in 1985 and 2015, regulates the appointment of a statutory auditor, the relationship between the auditor and management, and the auditors' responsibilities (Al-Angari, 1999). Articles 123 to 128 of the Companies Act refer to the financial-disclosure requirements of joint-stock companies, expatriate and Saudi ownership. Whereas Articles 129 to 133 describe the manner of auditor appointments and professional interactions of the relationships between the companies and statutory auditors. Article 169 draws the limited-liability partnerships as entities for audit regulations[22].

The articles of the Company Act elaborate on the responsibility of corporations and

[21] For additional details visit:
https://gazt.gov.sa/en/Pages/default.aspx (Accessed 18 September 2020)
[22] For more information in regards to the Saudi Company Act (1965) visit:
https://www.idc.gov.sa/en-us/RulesandRegulations1/The%20saudi%20Companies%27%20Law.pdf (Accessed 20 September 2020)

statutory auditors. For instance, the duty of preparing financial statements is explained in Article 123, which states that the financial statements should contain the balance sheet, profit and loss and stock inventory reports. The management report on the corporate financial position, including distribution of net profits or losses, should be available to the statutory auditor in 55 days before the Annual General Meeting (AGM) for examination. Articles 124 to 129 are related to financial-information disclosure, including the shareholders' rights to access corporate financial information under the terms of the Company Act. Article 130 mandates that statutory auditors should be appointed at the AGM for the following annual year. Also, Article 130 determines the situations that may impair the independence of auditors. This regulation, namely, Article 130, describe protocols that determine statutory auditors' responsibilities and actions that may impact their professional impartiality.

However, there is insufficient detail in the Company Act to comprehensively describe all situations in which auditor independence is at risk. Also, the impact of social and environmental audit exercises on auditor independence, which is the focus of this study, is not clarified. The auditors' independence may be misinterpreted without clear guidance from the Saudi legislation.

2.7.3 The Bank Control Law

SAMA, the central bank, introduced the Bank Control Law in 1966. In the post-1960s, SAMA promulgated accounting standards, explanatory notes, and guidelines to regulate audit committees of public companies (Al-Angari, 1999). Relevant to the present research, Article 14 of the Bank Control Law requires all financial institutions to appoint two licensed statutory auditors. But the Bank Control Law does not specify the particular creation for the appointment or criteria related to auditor independence.

Furthermore, SAMA issued an explanatory note on the selection process, which stated that a financial institution's audit committee should determine the specifications for the audit, then select five licensed chartered accountants to tender for the audit. The companies should assess the qualifications and experience of the statutory auditors, the quality ratings of the chosen audit firms, and identify potential conflicts of interest between the audit firm or its members and the client organisation personnel (SAMA, 1996). This guidance implies the necessity for auditor independence. However, the SAMA guidance does not determine or discuss operational risks to the companies or auditors.

2.7.4 Accounting Laws

The Ministry of Commerce and Industry and the auditor licensing authority issued Order No. 422 of 1968, which sets out the criteria, including qualifications, for auditor registration (Vinten and Al-Qahtani, 2005). However, in response to the oil-funded trade and economic boom in the 1970s, the first Accounting Law was issued in 1974 by the royal decree No. M/43. The Accounting Law established the supreme Committee for Professional Accountants (CPA) to supervise and oversee the accounting and auditing profession in Saudi Arabia. The committee is responsible for licensing accountants and reviewing the application of standards such as age, nationality, education, and the experience required for the accounting designation. Although these requirements were necessary, they are insufficient for improving the profession. After establishing the Saudi Organization for Certified Public Accountants (SOCPA), the law was replaced in 1992 by royal decree No. M/12, which introduced the Statutory Accountants Act (Al-Angari, 1999).

2.7.5 Accounting and Auditing Standards

The first Saudi accounting firms were established in 1955, and by 1970 there were over 50 accounting and auditing firms in the Kingdom (Al-Angari, 1999; Al-Qahtani, 2005). Despite the increase in businesses and the growing number of audit firms, regulatory protocols proved to be insufficient to oversee the formation of accounting and auditing principles, standards, or a code of ethics. In 1980, with the consultation of the Saudi accounting firm owner, Abdulaziz Al-Rashid, the government proposed a review of accounting principles and practices to meet the public expectation from the accounting profession while retaining relevance to the religious and socio-economic environment of Saudi Arabia. Al-Rashid's audit firm coordinate with King Saud University and the Ministry of Commerce and industry to prepare accounting and auditing standards and establish a regulatory body for the profession (Al-Angari, 1999). This project, conducted over a decade, and consisted of three parts.

The first part included a comparative study of the profession in three selected countries (1980-1981). The second part concentrated on preparing a conceptual framework to regulate the accounting practice (1982-1986). Finally, the third part was the establishment of the SOCPA in 1992.

The first phase encompassed a comparative study of accounting of three countries. The study compared the economic environment and the level of accounting development of three countries with Saudi Arabia. The USA, West Germany (before the reunification of modern Germany), and Tunisia were selected for evaluating each country's accounting standards and financial reporting, auditing standards and professional ethics, and internal organisation of the accounting profession. Al-Rashid's accounting office submitted this report to the Ministry of Commerce in 1981.

Meanwhile, the second phase, 1981 to 1986, was concerned with seeking alternative approaches to improve professionalism in accounting and auditing in Saudi Arabia. The first approach developed recommendations to strengthen the professional standard across the country, while the second focused on urgent accounting and auditing issues. As a result, the ministry adopted the second approach. The approach entails objectives and concepts of financial accounting, disclosure requirements, and accounting and auditing standards. Three teams of international and local academics and industry members were selected. The first team developed protocols to standardise all aspects of professional conduct: licensing, training, monitoring and other management issues. While the second team was devoted to establishing the auditing standards, the third team specialised in setting the financial accounting standards. The third team dedicated its efforts to forming a conceptual framework of financial accounting for Saudi Arabia.

By 1985, the teams submitted five draft reports to the ministry. While the fourth draft report was concerned with professional standards, the fifth report proposed a framework to oversee the accounting profession in Saudi Arabia and set a code of professional ethics. Eventually, the Ministry of Commerce accepted the recommendations for professional standards of the fourth report. The fifth report that suggested the code of ethics from international accounting standards were rejected by the ministry.

These recommendations became effective in November 1985 by Order No.692. Thus, the accounting and auditing standards are approved to be voluntarily followed by statutory auditors until mandated in Order No.852 of 1990 (Al-Angari, 1999).

The ethical aspects of the Company Act include prohibiting financial audit services advertising or disclosing client companies information. However, the act was considered an inadequate code of ethical conduct. While the Accounting Law's of the Committee for Professional Accountants aimed to standardise accountants' licences rather than regulate the industry, the law failed to address crucial issues, such as inadequate accounting and auditing quality to meet the country's needs and insufficient emphasis on the qualification standards for accountants. The Kingdom's financial industry required a self-governing organisation to standardise, administer and lobby for a change of the profession. Furthermore, the increasing international debate regarding government control over the accounting and auditing profession concluded that self-regulation was preferable in Saudi Arabia, as it was direct and more responsive to changing circumstances.

The third phase of the accounting project, the Certified Public Accountants Law of 1991, established the SOCPA, which reported to the Ministry of Commerce and was chaired by the Minister of Commerce. The objectives of the SOCPA were sevenfold:

(1) to review and promulgate accounting and auditing standards;

(2) to examine accounting and auditing standards for certified public accountants;

(3) to set and supervise continuing professional training;

(4) to research in accounting, auditing, and related fields;

(5) to monitor the implementation of accounting and auditing standards;

(6) to publish relevant accounting and auditing study material for examinations;

(7) to take place in accounting seminars and conferences on local and international stages.

In summary, the development of accounting and auditing standards underwent three stages. The first stage in 1980 was a comparative study of accounting and auditing of three different countries (USA, West Germany and Tunisia). The second stage in 1982-1986 covered the improvement of professionalism in accounting and auditing in the country, while the third one, in 1992, resulted in the establishment of the SOCPA and the Statutory Accountants Act. An influential role was played by the Department of Accounting at King Saud University and the Saudi Accounting Association (SAA) in improving the accounting and auditing profession.

Chapter Three: Literature Review

3.1 Introduction

This chapter presents a review of the recent literature that considers social and environmental auditing. There is a considerable attention in the auditing and accounting literature regarding the rise of social and environmental audit practices. Intellectual debates on the role of social and environmental auditing generally revolve around ways in which this emerging practice should and can operate. These much-debated opinions are likely to continue and to be more informed by empirical pieces of evidence (Bebbington and Thomson, 2007; Adams and Frost, 2008; Parker, 2011).

The chapter is organised as follows: the next section, considers drawbacks of traditional accounting and provides an overview of the strengths of the social accounting system. The following section addresses critical debate regarding the limits of auditor accountability. Section four outlines the theoretical frameworks of this study: audit theory, legitimacy theory and stakeholder theory. Section five presents the contextualisation of the theoretical perspectives in the Saudi financial audit market. Section six identifies the gaps in the literature and the research questions. Finally, the seventh section concludes the chapter.

3.2 Traditional accounting and social accounting

Accounting helps to deliver essential and unbiased information for decision-makers in democratic societies (Gray, 1992). In free markets, the dissemination of information for investors is essential to the maintenance of market efficiency, assuming that the investors and other relevant decision-makers have access to necessary accounting information[23] (Gray et. al, 1996). Moreover, accounting structures, as a significant part of the power system in organisations, play a central role in the characterisation, capture, and communication of risks within corporate-governance processes (Cooper et. al, 1981; Bebbington and Thomson, 2007).

However, the traditional model of accounting serves a limited number of self-interested parties (namely shareholders) to maximise their capital/profit (Gray et. al, 1996). Moreover, there is a common notion that the accounting profession is restricted to particular financial accounting principles (Unerman and O’Dwyer, 2007). The conventional approach of accounting is widely criticised for selectivity, lack of critical analysis or imagination, lack of responsiveness to increasing social demands for corporate information, and its strict control by economic measurements (Gray et. al, 1995; Unerman and O’Dwyer, 2007). In the conventional accounting system, shareholders' narrow interests far outweigh multiple stakeholders' demands (Gray, 2008). Consequently, the mainstream accounting practice is an ineffective accountability tool for stakeholders and is incapable of extending accountability to the wider public (Gray et. al, 1996).

In modern interactions between corporations and society, the scope of corporate governance has expanded to include a wide range of risks that have endangered companies' survival (Walker, 2016; Schaltegger et. al, 2017). The increasingly diverse range of risks creates new or additional challenges for corporate-governance systems that have led some scholars to question the value of conventional accounting thinking and practice (Gray et. al, 1996; Gray, 2000; Hopwood, 2002; Gray, 2006; 2008; 2010).

[23] However, Rob Gray, Dave Owen and Carol Adams (1996) have pointed out that there are economic inequalities and power asymmetries in the most "liberal economic democracies", where the political and economic disparities between individuals, institutions, and states are evident (p.19).

Other researchers have sought to extend the scope of accounting as it is deemed to be "a mutable social practice, which is capable of changing in various social and organisational contexts" (English and Guthrie, 1991, p. 347). Examples of the integration of corporate social and environmental issues into the accounting system include movement towards a more emancipated and equitable social order; the mobilisation of accounting information; and the radicalisation of accounting rationality (Owen et. al, 1997; Power, 1999; Cooper et. al, 2005; Bebbington and Thomson, 2007; Gray, 2008; Bryer, 2014). These proposed changes to accounting rationality are essential for risk-taking in organisational decisions within inter- and multi-national corporations[24], whose activities have considerable impacts on the global ecosystem.

Medawar (1976) was among the first to acknowledge the rapidly emerging version of the liberated accounting approach as a means to overcome the limitations of conventional accounting and to help corporations in expressing their social accountability. In the 1970s, there were prominent societal pressures on the accounting practice. For instance, in the UK there was active campaigning led by the Social Audit Ltd[25] (Gray, 2008). However, the lack of universal agreed conceptual framework or principles to standardise the accounting practices within the corporate social responsibility orthodoxy may be attributed to the notion that social accounting is theoretically incoherent within the financial accounting domain (Gray, 2008). Scholarly attempts to theorise social accounting and unlock the socio-political potential of

[24] The emphasis of the corporate impacts is on activities that relate closely to the global ecosystem. For example, several Saudi companies in the petroleum and petrochemical industry have disclosed their social responsibility reports. However, public concerns have been expressed regarding the content and levels of transparency, materiality, and quality of the reporting (Ibrahim and Habbash, 2015).

[25] Social Audit Ltd is an independent non-profit-making body that has been described as the publishing division of the Public Interest Research Centre (PIRC), a registered charity in London, UK. Social Audit Ltd's activities aim primarily to raise awareness of governments and the business sectors to consider general public interest by publishing periodicals, which promote corporate social responsibility disclosure and expose socially irresponsible institutional behaviour (Gray et. al, 1996).

accounting have been challenged by critical theorists, feminists, and post-modernists (Tinker et. al, 1982; Gray, 2008). However, these criticisms help to formulate "a more coherent theoretical framework for social accounting" (Gray, 2008, p. 9).

The social account may contain financial information but is likely to contain a combination of quantified non-financial and descriptive, non-quantified details (Gray et. al, 1996; Gray, 2008). Social accounting serves different purposes, but the discharge of organisational accountability to stakeholders is the most dominant of those purposes, and accounting reports are the basis on which the social accounts can be judged (Medawar, 1976). Nevertheless, Gray (2008) emphasises that social accounting can be used to integrate other types of accounting practices, including financial accounting, into the sustainability management system. Accounting for society and the environment can pave the way for company management to adopt and apply various techniques to measure corporate social performance and convey the measurement to stakeholders via narrative or quantified reports.

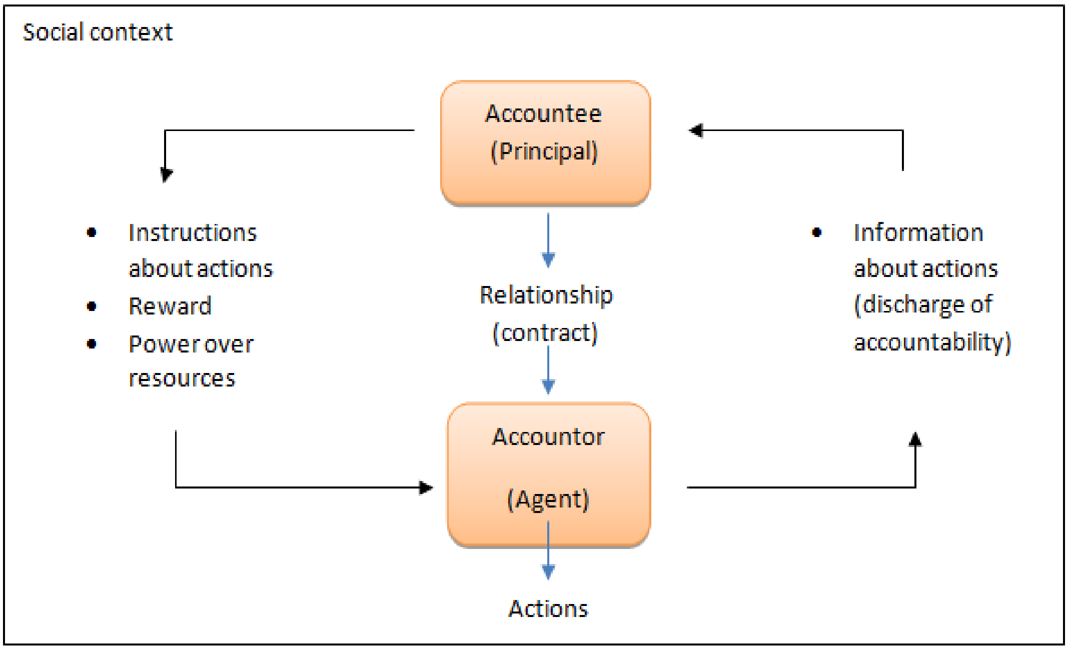
In the current information age, accounting needs to integrate non-financial and financial measures when assessing corporate social and environmental activities to conform with mainstream expectations and, more importantly, with stakeholder demands. Further, Gray and Collison (1991) have advocated for collectively agreed regulations to unify social and environmental accounting procedures. They support the extension of accountants' and auditors' accountability beyond resource providers, and they consider that accounting is a 'public interest' profession. Continuing demand for greater corporate transparency and accountability indicates that financial services, including accounting and auditing, require a substantial improvement in companies' social and environmental reporting for both current audiences and future generations.

3.3 Accountability in the accounting and auditing literature

Much of the published studies focus on the changing extent to which accountants and auditors are accountable to societies. Accountability itself is shaped and interpreted depending on the disciplinary context, so it is a "murky and a multi-faced term" (Sinclair, 1995). Gray et. al. (1996) describe the term "accountability" as "a duty to provide an account or reckoning of those actions for which one is held responsible" (p. 38). This is not restricted to financial accounts. In this sense, accountability encompasses two responsibilities, one to act and the other to account for the action. The following diagram depicts accountability dynamics in its simplest form:

Figure 1: A Portrayal of Accountability Model

A portrayal of accountability model (cited from Gray et. al, 1996)



In reality, the nature of these accountability relationships is always subject to change. For instance, the accountor may be an accountee and vice versa (Gray et. al, 1996). Also, the set of relationships between the interested participants in the accountability model is more complicated because they are various participants with different needs and demands for information from the accountors. The rights to information that are enshrined in written laws and contracts largely specify only one part of accountability, which covers the minimum level of responsibilities to act. However, the responsibility to account for the chosen actions is rarely determined (Gray et. al, 1996). This partial disregard of accountability within the law creates an accountability deficit between the accountor and the accountee. In the organisation-stakeholder relationship, the role of social and environmental accounting and auditing is helpful to address and shrink this accountability gap by providing information beyond the minimum legal requirement (Shearer, 2002; Messner, 2009).

The development of social and environmental accounting occurred due to a political accountability deficit (Roberts, 2009). However, several arguments raised questions regarding the accountants'/auditors' role, to whom they account, and ways in which information should be delivered from the company management to stakeholders (Bailey et. al, 2000). In his critique of the accountant-accountability concept, Roberts (2010) contended that accounting *per se* was accountability, asserting that accounting was essentially a delivery mechanism for corporate accountability.

Accountability can be enhanced through active communication between corporate management and stakeholders. Public disclosure of a company's social and environmental performance serves as an effective means to discharge corporate accountability. Social accounting is also a significant contributor to constructing a robust system that ensures a flow of information in democratic societies (Gray et. al, 1996). Likewise, the enhancement of transparency as a valuable source for the improvement of corporate social accountability is a democratic contributor. Transparency is advantageous for companies. However, Roberts (2009) suggests that transparency can also be a cause of misplaced pride and can lead to 'bare bottoms' and 'ugliness', and argues against the ambivalent embrace of transparency (academically known as the blame-avoidance strategy). For example, corporate managers may shape and manipulate the level of transparency behind closed doors to serve contradictory purposes that range from the defence of their actions to blaming others for corporate failure or the avoidance of public criticism. The characteristics of 'traditional accountability' reverse the benefit of making corporate information visible, instead of enabling the masking, abstracting or decontextualising of the real information and performance of organisations (Strathern, 2000). It is ironic that in each failure of corporate governance, managers react to public anxiety through more investment in 'backward' transparency to remedy the situation, believing that transparency can provide sufficient organisational accountability (Roberts, 2009). Notably, O'Neill (2002)[26] introduces the idea of 'intelligent accountability' to resolve the drawback of accountability as a means of transparency. The 'intelligent' form of accountability involves a non-traditional method that includes direct, active and extended enquiries[27] between representative parties in the accountability relationship model under a set of specific criteria to facilitate 'the capture of corporate performance at a moment of time' (Roberts, 2009, p. 966). Furthermore, the intelligent form of accountability provides information that enables meaningful comparison between non-financial statements regarding corporate performance and prevents the use of transparency to manipulate presentations of corporate performance by misguided managers.

The issues of contradictory socio-cultural beliefs in transparency and normative accountability limits prevail in the Saudi business environment, in which organisational

[26] Cited from Roberts (2009) p. 958.

[27] The enquiry refers to interaction in the intelligent accountability model, which includes listening, asking questions, and talking.

hierarchies may misinterpret these limits to sway public perception[28]. Examples include critical matters of accounting and auditing that became manifest after the 2006 stock market crash.

It is essential to appreciate the fundamental inconsistencies and commonalities between the religious, political and cultural principles of the Islamic *Shari'a* law and Western capitalism[29] (Lewis, 2001; Tinker, 2004). More precisely, it is necessary to understand the similarities of religious and social values and moralities in different civilisations (Huntington, 1996) because these similarities can help to elicit shared beliefs that provide norms for human behaviours at a particular time, and it can determine the standards that influence members of society. Similarly, local religious and cultural values can affect perceptions and shape meanings of accounting and auditing concepts (Belkaoui and Picur, 1991) such as auditors' independence, transparency, and accountability[30]. Thus, careful consideration should be given to Islamic and cultural interpretation in the attempt to harmonise the concepts of classical auditing with those of social and environmental auditing, especially when these concepts are related to two

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[28] In one of many staggering cases in the Saudi accounting and auditing history, authorities suspended the audit licences of Deloitte & Touche Bakr Abulkhair & Co, a local partner of the leading international accountancy firm Deloitte & Touche, for two years (2015-2016), and fined the firm 300,000 Saudi riyals (about £58,000).

The ban was due to critical misjudgements in the financial statements of Mohammad Al-Mojil Group (MMG) between 2008 and 2011. Accountants, auditors, and the financial advisor HSBC Saudi Arabia significantly overstated MMG's 2008 financial position. The overstatement of MMG's sales, assets, and future cash flows gave investors a misleading picture of the company's expected future financial performance and led to a loss of more than 270 per cent of its capital in April 2015. The MMG corporate executive chief, Adel Al-Mojil, was sentenced to a five-year jail term. He also was banned from working in listed companies for ten years as he had provided flawed evidence to substantiate the IPO process in 2008.
(http://www.reuters.com/article/deloitte-saudi-regulator-idUSL6N0TL0VW2014120) Accessed date: 05 June 2017
(http://www.arabnews.com/node/1051686/business-economy) Accessed date: 06 June 2017

[29] Tinker (2004, p. 452) pointed out to several ideas adapted from Islamic values that are consistent with the ideals that cherish in the "original" and pure Enlightenment. However, the dominant embrace of modern Enlightenment in the West fundamentally contradicts Islam.

[30] In other words, the limitation of corporate transparency and auditor responsibility in the Western interpretation is different from that in the Saudi understanding. Similarly, what is regarded as the minimum level of auditor independence in the Western business community is not necessarily the same minimum level of independence as that observed in the Saudi business environment.

incompatible societies. Social and environmental accountability that is promoted according to Islamic law may be more convincing to Saudi auditors than Western values, as it represents social responsibility as an integral practice of Muslims' everyday lives. For example, individual and institutional Muslims in Saudi Arabia generally encourage and perform social accountability as an application of the Prophet's (peace be upon him) advice: "*Iman* (faith) has about 60 or 70 branches. The uppermost of all these is the Testimony of Faith: there is no true god except Allah; while the least of them is the removal of a harmful object from the road. And shyness is a branch of *Iman*".

This discussion of auditors' accountability and its limits serves as a basis for the proposed application of a theoretical perspective, namely the corporate audit theory, which discusses the auditors' responsibility to verify corporate social and environmental statements. The next section outlines the audit theory along with other proposed theoretical perspectives: legitimacy theory and stakeholder theory.

3.4 Theoretical perspectives

Many theories are employed in the social and environmental auditing literature to attempt to explain the complexity of the practice. Mostly, the existing literature investigates the dynamics and variables that surround social and environmental audit practice in the context of systems theory and political theory, while others apply accountability theory (Bebbington and Thomson, 2007). However, the auditing literature over the last two decades has considered other theoretical frameworks, such as: corporate audit theory; legitimacy theory; and stakeholder theory (for example Ball et. al, 2000; Deegan, 2002; O'Dwyer and Owen, 2005; Jones and Solomon, 2010; Chen and Roberts, 2010; Edgley et. al, 2010; O'Dwyer et. al, 2011; O'Dwyer, 2011).

Thus, this section will discuss each of the following: audit, legitimacy, and stakeholder theories, and then a summary will conclude the section.

3.4.1 Audit theory

The audit theory is regarded as the theoretical basis for social and environmental auditing. It originates in the avocation by several prominent scholars for auditing principles to be applied to areas beyond traditional auditing (Power; 1997; 1999; Humphrey and Owen, 2000; Power, 2003). The auditing process aims to verify companies' reported information for the concerned parties, using procedures inscribed in official programmes (Power, 1999, p. 65). However, the audit practice can be characterised as indeterminate and inferential. Auditing, on the one hand, has the potential with its frame of cognitive science to expand into new areas outside financial auditing (Power, 1999), and on the other, can be viewed as a practice with dysfunctional issues (Humphrey and Owen, 2000). Nevertheless, scholarly debates that consider the search for precise and comprehensive auditing functions have positive and negative aspects. The positive part is that audit has become an increasingly integral element in organisational governance in different areas and an important vehicle to enhance corporate transparency and reduce operational risk (Power, 1999). On the negative side, when auditors vaguely judge the quality of corporate financial reporting, a gap between the rhetoric of accountability and empowerment is created (Hopwood et. al, 1994). The accountability vacuum in traditional auditing performance allows auditors to escape public criticism during corporate regulatory failures[31], as in the case of the 2008 global financial crisis. The negative aspect of traditional financial auditing is related to the

[31] The Enron debacle in 2001 exemplifies how the auditing profession survived a crisis despite widespread public criticism of the efficacy of the audit practice as a safety valve against corporate financial collapse. Arthur Andersen audit firms, which was one of the Big5 audit firms worldwide, was involved in this scandalous event. Arthur Andersen misled the shareholders by their audits of their client Enron. Thus, massive financial irregularities and losses had been hidden by Enron executives. And no auditor within Arthur Andersen was held responsible.

concentration of the audit on the quality of internal control systems, as it is primarily a managerial auditing function, albeit that the two versions of auditing should be, at least partially, harmonised (Sherer and Kent, 1983). Such focus on internal management systems makes audit practice remote from practicality because the quality is difficult to measure, and its notions lie in "ambiguity and fluid meanings" (Power, 1999). Hence, the ambiguous quality of the measurements distance the auditing performance from the audience in general, and particularly the relevant beneficiary of the auditing services. This substantive ambiguity confirms the allegation that traditional auditing is performed within a black box, which paradoxically satisfies various constituents and simultaneously manoeuvres in different economic events[32]. Michael Power, a leading scholar in the auditing literature[33], attempted through his 1997 intellectual publication *The Audit Society: Rituals of Verification* to clarify thoroughly the vagueness of the practical nature of audits. Power (1997) distinguished between programmatic and normative, and between technological and operational, elements of auditing to aid understanding of ways in which the practice can enhance organisational accountability and control. The programmatic or normative element relates to the ideas and concepts that formulate the auditing approach within a theoretical framework, which is inscribed in a specific political structure. The programmatic or normative dimension of auditing focuses on broader values, such as auditor impartiality, ethics and due diligence, to ensure the achievement of pre-determined objectives. At the level of the programmatic or normative elements, regulatory systems require auditing to be performed in accordance with policy discourse, for which auditing presumably has the capabilities

[32] For example, auditors sought a scapegoat during many corporate governance failures and escaped close public scrutiny (Sikka, 2009).

[33] Michael Power's explanation of audit theory components were considered and employed in the scholarly examination of social and environmental auditing by other prominent researchers in the third millennium (for example, Ball et. al, 2000; O’Dwyer and Owen, 2005; 2007; Jones and Solomon, 2010; O’Dwyer et. al, 2011; O’Dwyer, 2011).

to achieve abstract ideals and goals (Power, 1999; Humphrey and Owen, 2000).

From the normative or programmatic perspective, academics and professional bodies develop most audit principles and conceptual frameworks. Indeed, there is no universal agreement on how the audit practice is theoretically defined, and how such an evaluative exercise should operate, but historically there have been systematic attempts to explicate the audit pre-occupations and outline the limits of auditor accountability to company management in the principal-agent relationship (Sherer and Kent, 1983; Flint, 1988; Rose and Miller, 1992). In general, the normative or programmatic part assumes that traditional auditing is bound up with programmes that shape the direction of auditors' performances, as these programmes are interpreted and implemented by official and regulatory bodies.

In contrast, the audit practice at the technological or operational levels is directed by written standards and guidelines that have been codified and formalised by practitioners through years of experience and expertise (Power, 1999; 2003). These guidelines and standards deal with auditing techniques that constitute the backbone of the practice, such as sampling; evidence gathering; substantive tests; and analytical methods. Thus, technological or operational levels in auditing are restricted through meta-discourses and professional programmes. Nevertheless, auditing practitioners have debated professional standards in order to maintain and improve the quality, cost-efficiencies, and capability of the practice (Power, 1999). Statutory auditors may be reluctant to embark on a new philosophical or programmatic model of audit practice because auditing has developed in a practical way (Dennis, 2015). It is crucial to highlight the distinction between programmes and operations of the audit practice to understand how the audit development is attached to the efforts of regulatory programmes that aim to discharge 'presumably' public accountability and reduce the audit expectation gap

(Dunn and Sikka, 1999). Hence, the longer the distance between the normative aspect of auditing embodied in regulatory programmes and societal demands for more socially responsible auditing, the wider the audit expectation gap becomes.

Auditors should use their knowledge and skills to perform auditing services in comfort with regulatory standards, which should be consistent with social values, and draw reasonable and fair professional judgements to help to shrink the audit gap (Power, 1999; Humphrey and Owen, 2000). In this sense, auditing has the potential to play a significant role in shaping the public perception of the social audit gap and to respond to the principal-agent accountability issues as a neutral evaluative practice (Power, 1999).

3.4.1.1 Auditing strengths and limitations

The importance of auditing lies in the potential of auditors to understand and improve corporate reporting production and procedures (Power, 1999). External auditors are trained to obtain the necessary knowledge and technical skills to evaluate the risks associated with corporate reporting systems and present resolutions of weaknesses in the control structure. Effective communication between statutory auditors and their clients in regard to the control system may be helpful to improve corporate reporting and procedures (Power, 1996). Further, an external auditor's knowledge and ability can help to extend the audit services to cooperate with professional experts from other disciplines (Chiang and Lightbody, 2004). Also, the audit practice can play a constructive role in the maintenance and support of corporate legitimacy, thereby strengthening transparency as a means to release corporate social accountability (Power, 1999; 2000; 2007; Roberts, 2009).

The business community is influenced by auditing procedures even though there is a general scepticism regarding the auditing programmatic ideals of performance and quality and the efficacy of its technologies (Power, 1999). In an attempt to boost trust and confidence in the auditing-society relationship, Power (1996) has suggested four stages to facilitate the audit knowledge base in society. These stages of the audit knowledge foundation include auditing standards, regulations and procedures; formal and informal education and training schemes; audit practice that incorporates negotiations; and finally, a focus on quality control of audit conduct and procedures.

Another advantage of the audit theory is the ability to strengthen transparency as a means to discharge corporate accountability (Power, 1994; 1999; Roberts, 2009). Auditing operations can facilitate the holistic evaluation of company control systems by external, independent and knowledgeable investigators. Consequently, internal corporate information can become more visible and transparent through neutral auditing conduct (Gray, 1992), and ultimately, the auditing process can simultaneously serve the interests of company management and stakeholders. But Power (1994) questions the extent of audit transparency. Power doubts the efficacy of auditing given that there are differences in transparency levels between audit conduct and audit outcomes. Since auditors exclusively have access to the auditing procedures that are undertaken, the effectiveness of transparency cannot be determined precisely (Power, 1996). In other words, audit providers do not reveal many parts of the auditing engagement outcome (Strathern, 2000), and the idea of transparency of audit rhetoric is regarded as an abstraction that conceals the real performance of organisations (Robert, 2009). The scope and role of auditors have changed over time as a response to audit beneficiaries' demands and pressures. As a consequence, doubts about the auditors' ability to deliver transparent auditing for related constituents has grown and created a sense of uncertainty concerning the credibility and reliability of the audit assignments (Power, 2007).

Since the 1970s, an alarming issue raised by philosophers and regulatory organisations is the 'audit expectations gap' (Monroe and Woodliff, 1993; Sikka et. al, 1998; Noghondari and Foong, 2013). Scholars suggest that this gap is the difference between what society expects from auditing and what is provided by the actual performance of auditing in that society (Porter, 1993; Humphrey, 1997; Best et. al, 2001). Precisely, the audit expectations gap refers to a misunderstanding of the auditors' responsibilities and audit functions by users of financial statements (Chandler and Edwards, 1996). Historically, professional auditing bodies have reacted to the audit gap problem through the promulgation of more accounting and auditing standards and guidelines (Humphrey et. al, 1993). Despite several years of critical evaluation and empirical investigation to narrow the audit expectation gap, the gap remains and is even exacerbated (Sikka et. al, 1998; Dixon et. al, 2006). Haniffa and Hudaib (2007) assert that any attempt to reduce the audit expectation gap requires an understanding of the interactions of factors in the business environment that affect the nature, purpose, possibilities, and limitations of auditing; otherwise, any proposed resolution may be futile. However, the existence of the audit expectation gap has not prevented the explosion of the audit knowledge base to other disciplinary and professional areas (Power, 1996; 1997).

3.4.1.2 The growth in audit practice

Throughout the last century, the growth of the auditing profession in advanced Western democracies has been attributed mainly to three interconnected factors (Power, 1999). The first is political pressure from various members of society, who have demanded increased corporate transparency and accountability (Power, 1999). In the aftermath of corporate financial failures, governments and institutional investors call for organisational governance improvements. Auditing can play an integral part in the governance reform process (Power, 1999; Cooper and Owen, 2007). Second, the introduction of the New Public Management (NPM) strategy has attracted attention to the Value For Money (VFM) auditing model to accelerate managerial reform and reinforce financial control (Power, 1999). The NPM structure enables public companies to focus on their objectives and monitor their performance. The third driver for the rapid expansion of auditing is the demand for new quality in audit practices and regulatory re-construction (Power, 1999). Auditing concentrates on quality to accomplish the accounting measurement and disclosure objectives, which are central to the attestation arrangement. The regulatory shift in accounting and auditing attempts to regulate company operations and use the companies' cognitive and economic resources to ensure compliance. Regulatory initiatives promote the idea of corporate self-governance to help in risk management assessment and strengthen the internal control system (Power, 1999). Further, auditing has gained importance due to the growing public need for quality management that installs a publicly auditable self-inspection capacity to link the ideals of corporate accountability to those self-control programmes (Power, 1999).

In general, scholars recognise that auditing has become a crucial element in the operationalisation of organisational governance in programmatic areas, where corporate social and environmental responsibilities are one of them (Power, 1999; Gao and Zhang, 2006; Gray, 2010). As corporations are required to be more transparent in their social, environmental and sustainability disclosures (Michelon et. al, 2015), the intervention of auditing in this sense becomes more desirable. Under the audit theory, inspection and validation of company statements and accounts boost the reliability and accuracy of the audited information, although consideration must be given to the limitations in the auditing function (Power, 1997; 1999).

In a well-functioning democratic society, auditing is viewed as a mechanism for evaluation of corporate activities and disclosures, through validation and enhancement of corporate transparency (Sikka et. al, 1998; Owen and Humphrey, 2000). As a consequence, the audit has been introduced into a range of non-traditional fields. The audit theory is seen as appropriate for the analysis of existing audit practices to understand broader accountability relationships. These fields are: the judgement of a professional third party (Power, 1994); the recognition of the audit expectations gap (Sikka et. al, 1998; Adams and Evans, 2004); the improvement of corporate transparency and accountability (Power, 1999); the importance of stakeholder participation and appreciation of auditor independence (Beattie et. al, 1999; Ammenberg et. al, 2001; Dogui et. al, 2014); and issues regarding managerial capture (Ball et. al, 2000; Smith et. al, 2011). Based on the discussion above, critical elements associated with audit theory seem to be helpful to examine variable issues that surround the audit of corporate social and environmental statements in Saudi society. Therefore, notions of the audit theory are valuable in the present research.

3.4.2 Legitimacy theory

The legitimacy theory is commonly used to analyse corporate social responsibility disclosures. A company is considered 'legitimate' by ensuring that its 'value system is congruent with the value system of its wider society' (Lindblom, 1993). Compliance with socially acceptable norms and values is regarded as the priority to become a legitimate organisation. Therefore, public knowledge and perceptions of organisations' conduct are used to shape the legitimacy status of every organisation, and these institutions must adopt strategies to enable interested members of society to assess their conduct (Suchman, 1995). Concerned members, who may be internal or external to organisations, are referred to as 'the relevant publics' (Lindblom, 1993). The legitimacy assessment by these 'relevant publics' is quite complex but vital for the survival of organisations (Patten, 1991). To maintain a company's survival, managers must understand and respect the ethos, norms and values of local communities in which the company operates, and must consider meticulously what is socially regarded as legitimate (Deegan, 2009). The idea of a social contract is an important aspect of legitimacy theory (Gray et. al, 1996; Deegan and Unerman, 2011), which asserts that society exerts pressure on companies. Social perceptions constitute the explicit and implicit terms of the social contract and help to pre-gauge the legitimacy of businesses in society. The terms of the social contract are quite difficult to define and are not visible, but have gained importance over the past years as the public has altered its regard, for instance, for the notion that profit maximisation is the sole indicator of corporate performance (Deegan, 2009). Social issues are forms of societal concerns that form the social contract, such as concern regarding poor health and safety of employees; neighbours' rights violations; consumer comments and dissatisfaction; and environmental problems such as management of waste. Social expectations generally aim to ensure that company operations are not harmful to any group or object (human, animal, plant or any natural resources) in the domestic and global environment. Hence, organisations should pay close attention to the rights of society as a whole, rather than to investors and financial contributors only (Deegan and Unerman, 2011). In the Saudi Arabian context, companies should primarily ensure compliance with the tenets of Islamic *Shari'a* law, and to a slightly lesser degree, with social values, to maintain their status as socially legitimate members of society. For example, some companies support religious and political desires by preventing the mixed-gender workplace to avoid social disapproval (Sallam, 2013).

Scholars have argued that organisations operate under the social contract boundaries when their activities are congruent with socially desirable ends and distribution of political, social and economic benefits to individuals and groups is generally just (Deegan, 2009). Moreover, scholars suggest that in a dynamic society, sources of organisational power and needs are temporary; therefore, companies should adopt strategies that help them to gain not only current legitimacy but also legitimacy that is consistently relevant in society. This approach is achieved when individuals or groups consider that a company's services and products are offered in line with whole society approval (Deegan and Unerman, 2011). A typical instance of societal support for businesses is the grant of a licence to operate. The licence to operate offers companies the opportunity to build their reputations within communities by demonstrating that their actions are not socially and environmentally irresponsible. Also, a licence to operate enables companies to obtain vital resources, such as land, water and employees, that they require for their operations. These resources are otherwise not available to the companies, as they are fundamentally held by society (Gray et. al, 1996). Legitimacy *per se* is a valuable resource for companies (O'Donovan, 2002), as it constitutes a fundamental stage in the granting of a societal permit to operate (Deegan and Blomquist, 2006). Legitimate companies may access resources more easily in a society where societal expectations must be met to sustain the licence to operate and to maintain legitimate status.

However, social expectations are complicated and the demands and needs of businesses are subject to change. Furthermore, societal expectations are distinct from legal requirements to the extent that Lindblom (1993) argues that societal expectations can contradict legal requirements. As a result, companies that seek legitimacy must not focus solely on legal requirements when adapting to societal expectations (Deegan and Unerman, 2011). Corporate managers must be proactive. Suchman (1995) states that time and place are the primary considerations to react to changes in social demands, in situations where these demands aim to align company performance with society's values. Such societal pressure should be considered carefully by company managers, who must anticipate and address changes in societal expectations to avoid any threat to their licence to operate. Companies that are exposed to the risk of social disapproval for a breach of the social contract are likely to lose the licence to operate. Such risk could take the form of social risk; for instance, the mainstream media can campaign against company activity or people can abstain from working or applying for the illegitimate company. Alternatively, there might be a legal risk; for instance, when a company faces lawsuits or economic sanctions or finds difficulties accessing crucial resources, or faces product or service boycotts.

Some researchers argue that companies should adopt strategies to gain, maintain, and repair their legitimacy through regular communication (Patten, 1991; Suchman, 1995; O'Donovan, 2002; Deegan and Unerman, 2011). Most commonly, companies provide information regarding their social and environmental performances directly to external parties to inform the public about their operations (Neu et. al, 1998). Corporate social disclosure is adopted by many businesses to demonstrate legitimacy to their respective societies (Deegan, 2009). Gray and Bebbington (2000) and Dillard et. al. (2004) argue that managers employ corporate disclosures as a legitimising tool rather than a mechanism to achieve accountability. Managers perceive threats to their business from the relevant public if they do not discharge accountability (O'Dwyer, 2002).

Various strategies for public disclosure act as attempts to achieve legitimacy. A company that operates in a new commercial or industrial project aims to gain legitimacy strategy because it has no past reputation in that business or industry. To achieve legitimacy and respond to the liability of newness, the company needs to engage proactively and report on relevant activities to obtain social acceptance (Deegan and Unerman, 2011). Finally, the strategy to repair legitimacy is similar to that required to maintain it, with the difference that companies act proactively during the maintenance but reactively during repair (O’Donovan, 2002).

Philosophers such as Lindblom (1993) and Suchman (1995) have introduced different ways to classify legitimation strategies. While all approaches seem to be crucial in the examination of legitimacy theory, Suchman's view seems more popular in institutional analyses (Deephouse and Suchman, 2008), whereas Lindblom's method is considered in studies that relate to corporate social and environmental disclosure and auditing (Neu et. al, 1998; Deegan, 2002; O’Donovan, 2002). As the present research is related to social and environmental reporting, Lindblom's categorisation is selected.

In summary, legitimacy theory provides opportunities for businesses to demonstrate legitimate and good citizenship in society. Companies are regarded as socially legitimate when societal norms and values are considered in management policies. However, the legitimacy theory focuses on society as one entity and ignores the various individual elements that construct the community. These individual elements might not share all universal values and norms; hence, corporate behaviour that approaches domestic legitimacy is unlikely to attract universal approval. There are other approaches to achieve organisational legitimacy and encourage companies to seek legitimacy by focusing on a narrower scale and paying attention to particular groups rather than society as a whole. One of these approaches represents the stakeholder theory, which is the theme of the next section.

3.4.3 Stakeholder theory

The concept of stakeholder theory emerged as part of Pitman's management section of public policy discipline. Pitman formed the basis of current stakeholder theory (Freeman, 1984). Stakeholder theory emphasises the interests of each stakeholder group that holds a stake in the organisation (Freeman, 1984). Stakeholder theory stresses that businesses should acknowledge, respect and conform to the requirements of their stakeholders (Freeman, 1984). Understanding the norms and values of stakeholders is not an easy task, but appears to be a more refined and rigorous approach than the management of expectations of society as a whole, as suggested in the legitimacy theory (Deegan and Unerman, 2011).

Despite differences in the focus between legitimacy theory and stakeholder theory, there are similarities between the two conceptual perspectives. Analogies can be observed in the fundamental concept of both theories that all companies are part of a broader social structure and that these companies influence and are influenced by others within society (Deegan, 2009). Deegan and Unerman (2011) state that the treatment of stakeholder theory and legitimacy theory as distinct and competing theories is flawed; they suggest instead that the theories should be viewed as complementary. Hence, both theories can be used to explain corporate behaviour from different focus points.

Stakeholder theory highlights the importance of individual groups in society and the valuable role they can offer in the existence and success of corporations (Roberts, 1992; Mitchell et. al, 1997). As organisations and individual groups affect each other, O'Dwyer (2005) notes that there must be information flow to each stakeholder from the organisation tasked with accountability. Influential stakeholders own resources needed by a company for its operations, and these stakeholders are paramount to the company's survival. In the postmodern era, business markets require companies to maintain good relationships with numerous stakeholders, bearing in mind that the impact of corporate activities on each stakeholder group is different (Chen and Roberts, 2010).

Since the 1960s, many philosophers and researchers from various disciplines have assisted in the development of stakeholder theory, which helps to provide multiple explanations for the aggregate behaviours of organisations. However, stakeholder theory is often employed without explanation of the aims and assumptions made during the application of the concept (Deegan and Unerman, 2011). This drawback may explain why Hasnas (1998) disputes the description of stakeholder theory as a disruptive perspective, because previous studies have applied the theory as a practical perspective of management, and simultaneously as a normative perspective of business ethics, without attempting to justify such juxtaposition.

Scholars have categorised stakeholders into different groups that exhibit different features. In the paradigm of stakeholder theory, the most common classification of stakeholders is as primary or secondary groups (Clarkson, 1995) then through application of ethical (normative) or managerial perspectives (Roberts, 1992; Deegan and Unerman, 2011); and through power, legitimacy and urgency features (Mitchell et. al, 1997; Paloviita and Luoma-aho, 2010).

Primary stakeholders enjoy direct participation, which is needed for a company to survive as a going concern. Secondary stakeholders, who influence and are affected by a company's operations, are in indirect contact with the organisation, and therefore are not vital to the organisation's survival (Clarkson, 1995). In Clarkson's grouping, primary stakeholder interests must be monitored carefully and companies must attend to primary stakeholders' concerns. Company management should prioritise primary stakeholders in decision-making, as the success of companies depends on serving their interests (Deegan, 2009). Although secondary stakeholder demands receive less attention from managers, Gray et. al. (1996) propose that secondary stakeholders have the rights to access information about corporate actions that affect them whether they are affected directly or indirectly. These rights must be respected, even if secondary stakeholders select not to use the information or do not influence the survival of the company (O'Dwyer, 2005).

The ethical and managerial dimension of stakeholder theory is outlined by Deegan and Unerman (2011). The ethical aspect of the theory (known as the moral or normative perspective) assumes that stakeholder power is not directly relevant; therefore, companies should treat all stakeholders fairly. The position of the ethical aspect is that stakeholders have rights that should not be violated because of companies' economic priorities and that companies, as part of a social structure, have responsibilities to account for other units of that structure (O'Dwyer, 2005). Nonetheless, some prominent scholars in stakeholder theory, such as Freeman (1984), and Donaldson and Preston (1995), argue that companies cannot attend in practice to all needs of all relevant stakeholders, but can concentrate on only specific stakeholder requirements. Stakeholders' expectations can be considered as not demand-driven, but rather responsibility-driven (Deegan and Unerman, 2011). The studies of Patten (1991); Deegan and Rankin (1996); and Deegan et. al. (2002) illustrated that responsibility-driven disclosure has high importance and usefulness in the corporate decision-making process.

The managerial branch of the theory asserts that companies should focus exclusively on the needs of those stakeholders who can affect the company strategies. While considering the variation of stakeholder interests in the business community and the multiple ways in which company behaviour reacts, the managerial perspective concentrates on stakeholders who are relevant to resource providers. One study by

Ullmann (1985) concludes that the more a company needs the resources held by particular stakeholders for its survival, the more that company will focus on addressing the demands of those stakeholders. More precisely, companies will not attempt to meet the expectations of stakeholders who make insignificant contributions to corporate operations. As a result, Gray et. al. (1996) regard the managerial perspective of stakeholder theory as organisation-centred.

Another approach of the stakeholder theory is in the model developed by Mitchell et. al. (1997), who groups stakeholders into units based on qualities they possess and how these qualities can affect a company's existence. In this model, qualities are used to identify stakeholders, so that managers can determine their importance to the organisation. The stakeholder qualities are power, legitimacy, and urgency. Power enables stakeholders to exert influence on concerned companies to follow a particular pattern of behaviour and achieve specific outcomes. Legitimacy is the degree to which company activities are viewed and perceived as socially appropriate, desirable and acceptable. Urgency refers to the extent to which stakeholder expectations are required or expected to lead to immediate action from company management (Paloviita and Luoma-aho, 2010; Deegan and Unerman, 2011). The attention to stakeholders is determined by the qualities they possess. Hence, Paloviita and Luoma-aho (2010) label those stakeholders who have power, legitimacy, and urgency as definitive stakeholders; and consequently, corporations should prioritise their needs. Meanwhile, stakeholders who feature two of the qualities attract less attention, whereas stakeholders with a single quality are positioned last in the companies' stakeholder agendas. However, some studies indicate that these stakeholder qualities are likely to change over time (Unerman and Bennett, 2004). Hence, while corporate managers must attend to the interests of stakeholders, they must address the demands not only of those stakeholders who have the three qualities but also of those who possess fewer qualities. Deegan and Unerman (2011) support this argument by suggesting that companies must find methods to balance the needs and demands of socially recognised stakeholders.

Many scholars regarded the social and environmental disclosure as a mechanism for engagement between companies and stakeholders (Neu et. al, 1998; Deegan and Blomquist, 2006; Islam and Deegan, 2008). Roberts (1992) observes that social and environmental disclosure is a successful instrument for the promotion of active organisation-society relationships. However, the disclosure of corporate social and environmental information cannot be regarded as the most efficient method to foster organisation-stakeholder dialogue because communication is in one direction only. In this one-sided dialogue, only one party (the management) can provide, control and interpret the report contents (Thomson and Bebbington, 2005). Generally, stakeholder classification is a successful strategy to manage stakeholder interest and it forms an efficient way to operate beyond the limitations of conventional accounting and auditing. Such an approach enables the consideration of more than one party simultaneously and may be used to improve accountability to stakeholders.

In summary, the stakeholder theory encourages the consideration and participation of stakeholders in company decisions. Social and environmental reporting and auditing are practices that share important attributes with the stakeholder theory. As the auditing profession offers a public service, it can enhance the credibility of corporate social and environmental reports for interested parties. Developments in audit services have led to calls for consideration of more stakeholders in the social audit practice (Adams and Evans, 2004; O'Dwyer and Owen, 2005; 2007; Edgley et. al, 2010; O'Dwyer, 2011). The stakeholder conceptual perspective can be employed as a basis for stakeholder engagement. This notion has developed significantly in practice as well as in research over recent years (Sloan, 2009). Hence, the stakeholder theory assists in the identification of relevant stakeholder interests in social and environmental audit engagements in Saudi Arabia.

3.4.4 Summary

In this section, three theoretical perspectives (audit theory, legitimacy theory and stakeholder theory) have been outlined to explain social audit practices. Studies discussed in the literature employ the three theoretical perspectives to examine corporate social and environmental disclosure, the social audit phenomenon and its implications for the accountancy and auditing professions (for example, Power, 1997; O'Dwyer and Owen, 2007; Chen and Roberts, 2010; Edgley et. al, 2010; Smith et. al, 2011). The theoretical perspectives discussed above are helpful to address the problems outlined in the literature. The three theoretical perspectives are viewed as a means to aid in investigations of auditors' responsibilities and their involvement in socially and environmentally related services. The next section is devoted to the contextualisation of the theoretical perspectives in the Saudi Arabian business market.

The following table encapsulates the central concepts of the theoretical models and the proposed approach to the research analysis:

Table 3.1 Research theoretical framework

Theory	Audit Theory	Stakeholder Theory	Legitimacy Theory
Aim	To verify the credibility and accuracy of corporate reports	To satisfy stakeholders' needs and expectations according to their level of importance	To comply with societal norms, values and expectations at large
Unit analysis	External auditors	External auditors, auditors' clients, government, and others	
Application methods	Implement auditing procedures	Apply (gain or maintain and/or repair) legitimacy strategy	

3.5 Contextualisation of the theoretical perspectives in the Saudi auditing profession

This section discusses the concept of social and environmental auditing within the context of the research and provides an overview of the socio-cultural status of the Saudi Arabian business environment. Since the main research objective is to explore the extent of a statutory auditor's responsibility and accountability in the assurance of corporate social and environmental statements, it is important to cast light on the factors and effects of social audit practices within the dynamic of the Saudi Arabian economy. The Saudi government have encouraged public and private companies to involve in the national sustainability programmes to deal with the social and environmental challenges that the country is facing in the 21-century (Emtairah et. al, 2009; Ali et. al, 2013; Khan et. al, 2013). Therefore, these companies and audit firms are likely to respond to government encouragement and distinguish themselves through improving their public reputations and engaging in socially and environmentally related practices. Accordingly, this section provides an overview of the socio-cultural status of Saudi Arabia and aims to contextualise the social audit research area in the environmental field of Saudi Arabia. Then it links the research investigation to the three selected theoretical perspectives, which were presented in the previous section.

When both businesses and audit firms perform a voluntary practice, for example, the reporting and auditing sustainability and social reports, within a particular country based on the circumstances of its society at a specific time, that practice should suit the social culture and expectations (Perera, 1989). This is because accounting and auditing, as public professions, are practices that are provided for society and must reflect the society's cultural conditions (Mueller, 1983). The contextual environment, therefore, plays a pivotal role in shaping the policies and activities of company disclosure. Social and environmental reporting and auditing, in particular, are a result of, and a component in, the development of the societal settings from which they emanate. Thus, understanding the contextual factors in the environment is of particular significance for an investigation of the organisational social and environmental practices such as corporate reporting and social auditing, especially in developing nations (Wallace, 1988). There are two motives for directing the present study towards an examination of the social and environmental auditing phenomenon as a contemporary and developing practice of the corporate social responsibility field in emerging economies. Firstly, due to differences between the performance and operation of businesses in developed compared with developing countries, it is necessary to broaden the understanding of the nature of the social audit practice in developing economies. Secondly, the judgement of corporate practices should be based primarily on the cultural context within which organisations operate (Radebaugh et. al, 2006).

Contextual factors, such as political ideologies; religious beliefs; social climate; and the development stage of accounting and auditing professions in the business society, are all interrelated and have impacts on several institutional attributes (Deegan and Unerman, 2011). Local culture forms the basis of analysis of the differences between social systems, as it represents a broad concept that refers to "the collective mental programming of the people in an environment" (Hofstede, 1980, p. 42). In this context, Saudi culture encompasses the lifestyle, beliefs, values, customs, and norms that are shared and accepted by society's constituent groups are derived from the social environment (Greet, 1991). Hence, the culture reflects the development and maintenance of the physical environment in the social structure (Radebaugh et. al, 2006), and subsequently, has institutional consequences for the socio-cultural, political, economic and legal structure (Gray, 1988). These consequences are mirrored in the methods and levels of organisational practices of environmental auditing or corporate sustainability disclosure to the general public (Deegan and Rankin, 1996). As corporate management practice of social responsibility is a social construct, it is useful to scrutinise corporate practice through its contextual settings (Dahlsrud, 2008).

Several studies in the literature have documented contextual factors, including political, socio-cultural, economic and legal factors, which inspire managers to disclose audited corporate social and environmental information. However, most studies have been performed in a developed nation context (Patten, 1991; Hasnas, 1998; Deegan and Blomquist, 2006; Perego and Kolk, 2012; Cohen and Simnett, 2014; Beelde and Tuybens, 2015). Discussion of social and environmental auditing in Saudi Arabia, as a developing economy in the Islamic world, will help to provide an understanding of the audit of corporate sustainability reports in Middle Eastern Arab countries. Moreover, the present study facilitates the analysis of the influential factors and effects on social audit practices from a non-Western perspective and within the non-capitalist-oriented economy of Saudi Arabia.

Particularly, the motivation for the selection of Saudi Arabia as the study context is due to the ongoing rapid development of corporate social responsibility practices among its publicly listed companies. This development is due to growing awareness of the importance of consideration of sustainability issues in society (Ali et. al, 2013; Saudi Arabian General Investment Authority, 2015). Economically, Saudi Arabia is a rapidly growing nation[34] and a global financial powerhouse, with a gross domestic product growth rate of 1.65 in 2017 that is projected to reach 1.7% and 1.9% in 2018 and 2019, respectively, according to annual reports of the International Monetary Fund (IMF) executive boards (http://www.imf.org). Also, a long-term goal of the Saudi Vision 2030 is to achieve environmental sustainability through encouraging public and private organisations to participate in environmental initiatives, and improving corporate accountability and transparency (http://vision2030.gov.sa/en). In this vein, this study aims to determine precisely the extent of statutory auditors' involvement in the verification of corporate efforts to discharge their social and environmental responsibilities and accountability within Saudi society.

Some studies in the relevant literature include examination of corporate social and environmental responsibility disclosure, and to a lesser extent social auditing, in the context of emerging Islamic nations (for example, Rahman Belal, 2001; Nazli Nik Ahmad and Sulaiman, 2004; Basalamah and Jermias, 2005; Bani-Khalid and Kouhy, 2017; ElGammal et. al, 2018). However, only one study concentrates on the exploration

[34] For more information: visit:
https://www.arabianbusiness.com/politics-economics/401593-imf-says-saudi-gdp-growth-to-strengthen-to-19-in-2018

of environmental and social audit exercises from an auditor's perspective in the Saudi Arabian context (Alsaad, 2007). Alsaad (2007) conducted an empirical assessment of external auditors' views of the state of the traditional auditing role in environmental auditing services in Saudi Arabia and deduced their perspective on technical approaches to improve the quality of this emerging audit. The study applied the corporate audit theory to elicit information through questionnaires distributed to a sample of auditors, who represented various audit firms in the country. The findings were interpreted through the use of quantitative analysis and revealed that most auditors who participated recognised that traditional auditing principles could help in the conduct of environmental auditing engagements, which were required to be performed within a team of non-statutory auditors under a set of relevant Saudi professional bodies' rules and regulations. Furthermore, Alsaad's (2007) paper called for further exploratory studies of environmental audit practice to deepen the understanding of the nature and evolution of such practices in the Arabian Gulf States region, whose markets attracted global institutional investors who needed detailed information regarding corporate social responsibility practices. As a response, the present study aims to extend the empirical analysis of Alsaad's (2007) paper, but by employing two other theoretical perspectives (the legitimacy and stakeholder theories) in addition to the audit theory, and by integrating stakeholder participants into the exploratory research.

In the present study, the audit theory is used to understand the nature and implications of the use of social audit practices in the Saudi auditing arena. In Saudi Arabia, as a developing industrial market, one evident issue related to the audit practices is the audit expectation gap, which has been created in Saudi Arabia in particular circumstances (Haniffa and Hudaib, 2007). The creation of the audit expectation gap in Saudi Arabia can be attributed to the difference between Western and Islamic accounting and auditing principles in terms of the religious and social values that surround the profession (Tinker, 2004). For example, traditional Western capitalism emphasises the maximisation of profit and shareholder interests, while the Islamic *Shari'a* doctrine considers that value as greedy and immoral[35]. Instead, the Islamic religion promotes moderation (or *iqtisad*) as a virtue in the context of any profit orientation (Lewis, 2001). Islamic values tolerate profit-making activities only to the extent that accumulation of profit does not involve risk or disturbance to others by, for example, trading harmful products to society or providing professional services of poor quality. Islam strictly requires believers when selling goods and rendering services, such as accounting and auditing, to other Muslims or non-Muslims, to consider fairness, honesty, and justice (Lewis, 2001).

As the Saudi government owns the highest percentage of shares in most publicly listed companies through its investment arm the Public Investment Fund (PIF), its primary goal is to maintain dominance over corporate management and participate in decision-making processes in accordance with Islamic and social values (Al-Janadi et. al, 2016; Al-habshan, 2017). Thus, the fundamental religious and social principles are essential elements for the meta-analysis of the audit expectation gap when delineating insights of the auditing profession in Saudi Arabia.

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[35] In the Quranic verses, greed or *Tamaa* is discouraged. In Allah's words in the Quran:

"Those who are already firmly established in their homes [in Medina], and firmly rooted in faith, show love for those who migrated to them for refuge and harbour no desire in their hearts for what has been given to them. They give them preference over themselves, even if they too are poor: those who are saved from their own souls' greed are truly successful." Verse 59:9.

Also, Islam strictly prohibits the making of profits at above the average inflation rate (Usury or *Riba*) according to the verse:

" And whatever you bring in Riba (Usury and other forms of unlawful gain) that it may augment upon (other) persons' wealth (gained by Usury or other forms of unlawful gain), then it does not augment in the Providence of Allah; and whatever you bring in Zakat, (poor-dues) willing to seek the Face of Allah, then those are they who will get (recompense) manifold." Verse 30:39.

Legitimacy theory is another theoretical framework used in this study to attempt to form a high-quality picture of what constitutes the legitimacy of social audit practices in Saudi Arabia, and how the legitimisation of social auditing in the Kingdom differs from the context of Western economies. The concept of organisational social responsibility has always existed in religions and philosophies in social life, as bearing responsibility towards others is enshrined in the ancient holy scripts of various religions that promote socially responsible practices (Ramasamy et. al, 2010). Given that religious faiths are likely to shape individual perceptions of corporate social responsibility, and to offer many spiritual teachings that concern the ethics of company or audit firms' conduct (Farook, 2007), Islam arguably provides a thorough approach to correct institutional social behaviours and gives spiritual motivation for Muslims to engage in good practices (Dusuki, 2008). Islamic doctrine prioritises the preservation of the planet's resources, as they are God's creations, and this should be seen in every Muslim's responsibility in society (Brammer et. al, 2007). As Saudi Arabia strictly embraces Islamic teachings, its laws and rules of government dictate that society's affairs, including corporate activities, are governed according to the Islamic *Shari'a* law. Hence, the Islamic *Shari'a* law supports the formation of a sense of responsibility to others and encourages individuals and companies to act in socially responsible ways within Saudi society (Dusuki and Abdullah, 2007). Islamic law promotes several concepts that have significant implications for corporate social reporting and social and environmental audit practices. The issue of concern with regards to discharging public accountability, there is the notion of *Alistikhlaf*, or fulfilling humanity's role as the steward of God or Allah, which implies that human beings are appointed by Allah as stewards of the planet. Given such accountability to Allah, all Muslims are responsible for preserving the rights of others (Lewis, 2001; Kamla et. al, 2006). Unlike Western capitalism, which regards the 'freedom of trade' and the 'limited role of goverments' as important economic pillars (Jahan and Mahmud, 2015)[36], the Islamic economic system gives more priority to the public than private interests and restricts freedom of business to certain permissible choices. From an Islamic angle, people are Allah's vicegerents on the earth and are required to exploit the resources of the Creator in the right way, which should lead to a fair redistribution of wealth in society (Visser, 2013). In this context, Islamic law takes an integrated view of individuals and groups and acknowledges corporate sustainability disclosure and social audit as contributory activities to society's well-being, and these activities should be consistent with Islamic principles of social equality. In this sense, Islam has a significant impact on organisational behaviour and practice in Saudi Arabia, where companies and audit firms must take religious legitimacy into account in the audit of corporate sustainability reports. Accordingly, the postulates of legitimacy theory are helpful to observe and understand the inclination of statutory auditors to assure readers of the validity of corporate social and environmental statements, and understand how such audits are instrumentalised as a legitimising tool in the Saudi business environment.

The selection of the stakeholder theory for the study's exploratory investigation of social audit practices in Saudi Arabia has two motives. First, stakeholder theory is fundamentally concerned with the improvement of the managerial performance of businesses, and re-conceptualisation of the organisational concept of value creation and trade, and a revisiting of the ethics of capitalism (Freeman, 1984; Donaldson and Preston, 1995). As societal awareness of the impact of companies' commercial and industrial activities on ecosystems has grown globally, stakeholder theory has

[36] Cited from Terziev et. al. (2016) investigation of capitalism in Bulgaria. available at: https://www.researchgate.net/profile/Ekaterina_Arabska/publication/305567663_NATURE_AND_EVOLUTION_OF_CAPITALISM_IN_BULGARIA_2020_AGENDA/links/5793b80d08aec89db794cc1b.pdf

suggested that corporate behaviours can be socially and environmentally improved without destroying the basis of capitalism (Freeman, 1984; Donaldson and Preston, 1995; Jones and Wicks, 1999). Thus, the assumptions of stakeholder theory aid the social and environmental audit practice to serve as a mechanism to observe, define and validate the accuracy and credibility of corporate ethics, social measures and disclosures in respect of stakeholder management (Zadek, 1994). Empirically, stakeholder theory has been instrumentalised, directly or indirectly, in studies of corporate social responsibility practices in different disciplinary areas such as in the accounting of corporate social responsibility reporting in developed and emerging economies (for example, Roberts, 1992; Gray et. al, 1997; Ruf et. al, 2001; Van der Laan et. al, 2008; Chiu, 2015), in auditing (for example, Edgley et. al, 2010; Manetti and Toccafondi, 2012). Instead of the legitimacy theory's concentration on aligning corporate operations with the legitimacy of society as a whole, stakeholder theory narrows the focus to satisfy the demands of a certain set of non-shareholder groups that have stakes in organisations. Such a suggestion of stakeholder theory offers advantages for the empirical examination in the present study by paying attention to non-capital provider groups, which are theoretically the primary beneficiaries of social and sustainability auditing.

More importantly, the second motive is related to the capacity of stakeholder theory that has helped to develop social and environmental accounting, auditing and reporting as concepts and practices since the 1990s (Zadek et. al, 2013). In essence, the stakeholder approach in management concentrates on organisational accountability rather than social responsibility, in which Gray (2001) demonstrates that stakeholder inclusion is the core of social and environmental reporting and auditing. As discussed in the second chapter, particularly in section 2.4, the disclosure and audit of corporate social and environmental information are the means of discharging companies' social accounts to the public, and this includes stakeholders as individuals and groups. Furthermore, stakeholder theory posits that company management can identify the importance of each stakeholder based on different categories that were discussed previously in the stakeholder perspective section in the third chapter. According to intellectual debates regarding stakeholder theory, the importance of stakeholder groups for corporate management success is determined by the extent of companies' response to stakeholders' needs and expectations. The reaction to stakeholders' demands can be reflected in the companies' considerations of stakeholders interests in strategic policies, profitability, performance, and competitiveness (Freeman, 1984; McWilliams et. al, 2006). Thus, companies that pay close attention to the demands and expectations of relevant stakeholders, who acquire the resources needed for companies' survival (Brammer and Pavelin, 2008), and disclose audited sustainability information to enhance the corporate public image (Branco and Rodrigues, 2006; Esa and Ghazali, 2012), are regarded as successful in stakeholder management. In contrast with the Western business model, Islamic-oriented businesses ensure that compliance with Islamic principles is the paramount driver of companies' consideration for stakeholders' legitimate needs and demands (Hassan and Latiff, 2009). Profitability is not always the first or sole priority to address stakeholders' interests in businesses in Saudi Arabia. In this vein, prior empirical studies in Saudi Arabia have shown inconclusive findings in corporate social responsibility and stakeholder management, which includes accounting and audit practices. For example, an investigative study by Al-Janadi et. al. (2013) found a positive, albeit weak, correlation between profitability and company management's tendency to report audited social and environmental information to the public, which included stakeholders. Another study conducted by Al-Moataz and

Hussainey (2013) concluded that profit-seeking determinants, among others, formed only one of the motives behind public companies' disclosure of information related to the corporate governance system and social performance to stakeholders. In contrast, a case study conducted by Alsaeed (2006) showed an insignificant association between the profitability variable and companies' voluntary involvement in social and environmental practices, such as sustainability reporting.

Hence, the application of stakeholder theory offers an opportunity for the present study to elicit more pertinent information about social auditing from various angles, including corporate managers, accountants, auditors and represented stakeholder groups.

3.6 Gaps in the literature

In light of the above, this section examines several factors related to the audit of corporate sustainability statements. It aims to identify gaps in the body of knowledge and provide new lines of enlightenment for future research. In doing so, this section provides a critical discussion of the studies that examined the social and environmental audit phenomenon from three different angles within three contexts. These angles respectively represent the structure of the audit reports that are used to convey the social audit conclusions, the ability and expertise of traditional audit providers to carry out social audit engagements, and the relevancy of stakeholders to the social audit processes. Considering the lens of the three theoretical perspectives that have been presented earlier in this chapter, the section provides a critical discussion of the past studies to reach the loopholes in the literature in four parts. The first part illustrates the studies that probed on social and environmental audits in the main developed economies followed by highlighting studies in the developing economies. Whereas the third part narrows the concentration to studies in Saudi Arabian context. Finally, the section concludes with a theoretical assessment of the social and environmental audit literature to reach the research questions.

3.6.1 Discussion of social and environmental audit studies in the developed western contexts

Several Western-based studies in the relevant literature focused on the content of corporate social responsibility reports. Despite the growing interests in corporate social responsibility management among other related interdisciplinary fields, substantive reviews of micro-analysis of religious, political and cultural factors on which to draw up theories remain scarce in the auditing literature (Guthrie and Parker, 2017). Particular researchers, including Deegan et. al., (2006); Manetti and Toccafondi, (2012); O’Dwyer and Owen, (2005); (2007); and Simnett et. al., (2009); have provided valuable information regarding the content analysis of the audited social and sustainability reports. Nevertheless, there is a need for further investigation to update prior research findings. Even though prior studies have provided important insights about the content of audited corporate social, environmental and sustainability reports, the contribution of knowledge has not been updated and remains comprehensively insufficient. Nevertheless, some studies have shown important features of social and environmental auditing such as those conducted by, for example, Perego and Kolk (2012), O’Dwyer and Owen, (2005), and (2007). But with a lack of conceptual enquiry for social and environmental audit practices that help to identify the rules for audit expression (Dennis, 2015), and with an absence of universally agreed-upon guidelines to standardise social audit exercises, some insights are needed to theorise a framework for the social audit practice.

As audit providers are the cornerstone of social and environmental audit practices, scholars paid considerable attention to their role in the engagement. Some previous studies have called for direct observation of auditor involvement in the practice (for instance, Larrinaga-Gonzalez and Bebbington, 2001; Bebbington et. al, 2007; Edgley et. al, 2010; Manetti and Toccafondi, 2012; Canning et. al, 2019). Recently, some studies have empirically provided valuable information regarding the auditor-society interactions by interviewing auditors (for example, studies by Edgley et. al, 2010 and O'Dwyer, 2011). These studies sought to analyse social and environmental audit techniques through obtaining insights from the audit providers. O'Dwyer (2011) built his research analysis on Power's arguments in his 1996, 1997, 1999 and 2003 researches, and proposed the philosophical idea that new areas beyond traditional audit could be auditable through, for example, the re-orientation of traditional audit objectives, mindsets, and technical procedures. O'Dwyer's (2011) investigation also extended prior studies of Radcliffe (1999) and Gendron et. al., (2001), questioning the audit efficiency in complementing the directional nature of social audits. The difficulty of harmonising traditional audit with an innovative audit version lies in the issues that arise from operational discomfort and frustration among statutory and non-financial auditors, especially in the gathering and evaluation of evidence and the documentation of communication with stakeholders. This harmonisation also constrains the opportunities of non-auditors to exercise progressive changes in clients' dialogue. Also, concerns about traditional auditors extend to the fear of creating (or broadening) an expectation gap that emanates from the failure to meet societal expectations, and subsequently, leads to another failure in the carrying out of stakeholder accountability.

The literature also discussed the interactions between the financial auditors and the sustainability specialists in the multidisciplinary audit team. In a recent study, Canning et. al. (2019) probed on the alleged tension between financial auditors and non-auditor specialists with the social and environmental team within the Dutch and Belgian contexts. Contrary to prior researches, they uncovered findings that demonstrated professional alliance and respect among the financial auditors and non-financial assurors in the provision of sustainability audits.

Other studies attempt to explore issues beyond the examination of technological aspects of traditional audit practitioners. For example, some reviews by, among others, Perego, (2009), and Jones and Solomon, (2010), have outlined some benefits as well as impediments to social audit engagement from the traditional auditor's perspective. Notably, some researchers, such as Deegan et. al. (2006), have concentrated on the variable factors in the social audit practice. However, considering that social audits remain universally a developing practice, there is a need for further examination to illustrate inconsistencies in the social and environmental audit practices.

Another enquiry that remains unanswered relates to whether social auditors realise their accountability to parties beyond their clients. In a raft of studies, stakeholders' engagement in social audits has been covered in the literature (Park and Brorson, 2005; Perego, 2009; Edgley et. al, 2010; Kolk and Perego, 2010). However, the majority of these studies inadequately investigated auditors' responsibility to meet most stakeholders' legitimate needs and demands. A recent study in the Australian context, by Bepari and Mollik (2016), confirmed prior findings by using a research method applied by O'Dwyer and Owen (2005). The study concluded that the social audit practice lacked stakeholder participation with social audit engagements. Meanwhile, social audit practitioners exert greater efforts toward gathering data and examining companies' internal systems than they do to discharging their social accountability, which makes the practice more similar to internal control audit than to social auditing.

In addition, social audit providers primarily perform their services to clients to gain public legitimacy and maintain their license to operate from the society in which the audit operates (Power, 2003). The seek for public gain was posited in the legitimacy theory in which organisations use sustainability reports as a useful tool to enhance corporate reputations and legitimise their operations (Gray, 2000; Bebbington et. al, 2008; Kolk and Perego, 2010).

Stakeholder and legitimacy theories were repetitively applied in the literature to offer a broader explanation of how social audit might be conducted in the mix of a multidisciplinary team, and how to improve the legitimacy of social audits and support stakeholder accountability. In this vein, auditors' perspectives can enrich the background knowledge and experience in social audits, by providing valuable information not only for academic interests in the field, but also for the professional bodies, government agencies, and different stakeholders.

Thus, the role of statutory auditors is pivotal to the provision of social and environmental audit services. The current practice of social and environmental auditing, especially with its irregular conduct and unstandardised measure, enables discrepancy and, to some extent, futility within the structure and content. Such incoherence undermines the quality of any social audit exercise and its ability to enhance organisational accountability (Smith et. al, 2011).

Corporate social responsibility reporting aims to communicate with a variety of stakeholder groups, who often have contrasting interests (Neville and Menguc, 2006). In respect to the stakeholder's involvement, several studies in the literature have stressed the importance of considering stakeholders' engagement in social and environmental audits (Gray et. al, 1996; Ball et. al, 2000; Adams and Evans, 2004;

Bebbington et. al, 2007; Gray, 2007; Manetti and Toccafondi, 2012). However, an empirical finding from O'Dwyer and Owen's (2005) and (2007) analyses[37] illustrated concerns regarding the inadequate levels of transparency and accountability in the social and environmental audit statements. Stakeholders' feedback is one channel that assists in the management of corporate social responsibility issues. Social audit practice constitutes an essential element in the stakeholder management function as an accountability enabler (O'Dwyer, 2002; O'Dwyer and Owen, 2005; 2007; Smith et. al, 2011; Perego and Kolk, 2012). Smith et. al. (2011) criticised corporate management and auditing for its inability to capture what should have been an exercise in public accountability.

Investigatory studies of the social audit phenomenon within the Western developed nations context covered several aspects of the social audit practice. Critical factors that impact the social audits were not evaluated enough to find out how social audits are performed and organised. Such unaddressed factors include, for instance, socio-cultural pressures on social and environmental audits, the profitability considerations of social audit services, the extent of social audit repercussions on the impartiality and ethics of auditors, and the applicability of traditional audit methods in social and environmental audits.

3.6.2 Discussion of social and environmental audit studies in the developing economies

In the developing countries, many studies concentrated on providing analysis of the content of corporate sustainability statements (for example, the study of Chiang and

[37] Both the 2005 and 2007 studies use a sample of environmental, social and sustainability assurance statements from the 2002 and 2003 ACCA UK and European Sustainability Reporting Awards scheme.

Lightbody (2004) in the New Zealand context; Basalamah and Jermias (2005) in the emerging Indonesian economy; Alsaad (2007) on the Saudi Arabian audit services market; Hariz and Bahmed (2013) in the Algerian companies; and Thabit et. al. (2019) on the Iraqi audit firms). While most studies in the developing Islamic nations included examinations of the relationship between the social and environmental audits and corporate social responsibility disclosure (Basalamah and Jermias, 2005), recent studies embarked on the investigation of the impact of external legal systems on the social audits (Hassan, et. al, 2020). Indeed, the relevant literature addressed the growing concerns regarding the influence of social and environmental audit services on the professional ethics and impartiality of auditors (Basalamah and Jermias, 2005).

Scholarly consideration of stakeholders participation in the social audit engagements has not been adequately addressed in the context of developing nations. Because of the notion that public dissemination of corporate social and environmental information has an "adverse impact" on the operation of companies, companies in the developing economies have difficulties in persuading stakeholders that their activities are publicly acceptable (Basalamah and Jermias, 2005). However, Bani-Khalid and Kouhy (2017) concluded that several companies, particularly from the Amman Stock Exchange of the Jordanian emerging market, highly considered stakeholders demands in the corporate sustainability reporting process. Therefore, these Jordanian companies substantiated their social and environmental claims with external audit services. One recent study examined eighty-four corporate sustainability reports of Indonesian and Malaysian companies from 2010 to 2016 (Harymawan et. al, 2020). The study found a positive correlation between corporate sustainability reports with external assurance and the level of acceptance by stakeholders, mainly investors. Overall, social and environmental audit studies and practices in the developing countries are still in an emerging stage.

3.6.3 Discussion of social and environmental audit studies in the Saudi Arabian context

Unlike prior studies in the developed, and other developing economies context, studies of social audit practices in the Saudi Arabian domain have rarely investigated the nature of the social audit practice and its legitimacy and public acceptance in the Kingdom (Alsaad, 2007). Indeed, the previous examinations in the relevant literature have provided valuable insights into the social and environmental audit engagements in the context of the developed nations, suggesting that financial auditors can play a more constructive role in discharging organisational social accountability (Ball et. al, 2000; Adams and Evans, 2004; Jones and Solomon, 2010; Canning et. al, 2019). While several studies empirically explored the association of social and environmental audit risks and the independence of auditors in different countries, research on the impact of sustainability audit exercises on the professional ethics and impartiality of statutory auditors in Saudi Arabia appears to be scarce (Alsaad, 2007).

Although there was considerable progress in the accounting and auditing profession in Saudi Arabia over the last decade (Al-Qahtani, 2005), the social audit practice remains in an early development stage. More importantly, non-traditional auditing in the Saudi financial service sector is assumed to be consistent with Islamic beliefs, values, and domestic norms, especially within a religious and conservative environment. The legitimisation of sustainability, social, and environmental audits to gain approval from the public may provide an opportunity to elicit statutory auditors' and stakeholders' opinions regarding the legitimacy of this type of auditing in Saudi Arabia.

The present study pays particular attention to the inconsistency that characterised the social audit nature in the emerging economies, seeking to question the stakeholders' ability to understand and interpret the substance of social audit reports and the rigour of the practice. More broadly, the study attempt to determine the degree of social audit legitimacy in Saudi Arabia.

Furthermore, this study seeks to elicit stakeholders' perceptions regarding the extent of statutory auditors' responsibility in sustainability auditing. Such perceptions may indicate the degree of public confidence in non-traditional audits in Saudi Arabia. In general, the expression of stakeholders' opinions regarding the social audit legitimacy can contribute to the research objectives through the application of legitimacy and stakeholder theories from two aspects. Firstly, the normative dimension, or what the social audit should achieve. Secondly, the descriptive dimension, or how the social audit is functioning.

Furthermore, the study examines stakeholders' vision regarding whether or not social audit providers can help companies to discharge stakeholder accountability. The quality level of social and environmental audits is paramount for the users of corporate social and environmental reports, namely the fundamental stakeholders.

The status of social and environmental auditing in Saudi Arabia showed incongruities between the normative literature and actual practice concerning stakeholder engagement in the audit process (Alsaad, 2007). This incongruity inspires the researcher to conduct in-depth interviews and empirical observations to understand this disparity within the Saudi Arabian context.

3.6.4 Research question

From the discussions above, the study seeks to explore features of the social audit report and its associated implications, and the potentiality of statutory auditors with their traditional audit techniques to carry out social and environmental audit engagements. The application of audit theory can demonstrate critical determinants of the social audit reports and the factors that affect the credibility of social audit practice. Whereas legitimacy theory may also be helpful to provide a clear understanding of social auditors' motives. Furthermore, the inclusion of stakeholders' expectations in social and environmental audit practices is investigated with the consideration of stakeholder theory.

Thus, three theoretical perspectives are selected to explore several aspects of social auditors' performance in Saudi Arabia. First, audit theory helps to identify the objects and determinants for carrying out the social auditing engagement, which is essential to strengthen corporate transparency and accountability. The second application is through the lens of legitimacy theory, which can offer an in-depth understanding of auditor motivation to engage in the social audit process (Suchman, 1995). The third is stakeholder theory, which can be employed to extract statutory auditors' views concerning current and potential stakeholders for whom accountability is to be upheld. Therefore, the theoretical framework can potentially assist in analysing the diverse content of statements and ways in which auditors consider stakeholders' involvement in the social auditing process (Sweeney and Coughlan, 2008).

In the light of the above, the research questions are posed as the following:

RQ1: How do statutory auditors in the Saudi environment currently view their role within the social and environmental audit engagement, and how does social and environmental auditing impact their professional interests and standards?

RQ2: How does the interest of a broad range of stakeholders' impact the quality of social and environmental audit services, and in turn, how do auditors respond to societal demands and pressures?

RQ3: How is social auditor accountability perceived by different stakeholders in Saudi Arabia, i.e., the Government officials, regulatory bodies, corporate managers, the religious establishment, institutional investors, financial media and so on?

3.7 Chapter summary

This chapter reviewed the social and environmental audit literature concerning several issues. In an era of globalised trading, the influence of organisational activities on societies has expanded geographically, which has heightened the importance of corporate social responsibility as a response to increased awareness of the general public. This research aimed to extend prior investigations of social and environmental audits. In doing so, the study is designed to explore social and environmental auditing in Saudi Arabia by deducing the auditors' opinions and relevant stakeholders' views on several aspects that concern the complexity of this type of auditing. Indeed, previous studies have provided a critical assessment of the evolution of social accounting and auditing practices throughout the last 30 years or so (for example, Gray, 2000; Bebbington and Thomson, 2007). However, these studies offered little evidence regarding issues, such as the impact on auditor independence within the multidisciplinary task of stakeholder engagement in social audits, which are identified as a significant gap in the literature. Also, the literature illustrated the scarcity of social auditing studies in emerging economies. In an attempt to plug these gaps, the research questions posed in the chapter aim to provide convincing, but not conclusive, answers to the questions, considering the views of stakeholders, senior managers, primary stakeholders, and most importantly, of statutory auditors. The next chapter will introduce the proposed methodologies to address the research questions.

Chapter Four: Research Methodology

4.1 Introduction

This chapter demonstrates the strategy that was adopted to pursue the study objectives. In particular, the fourth chapter is organised to elaborate on the concept of the research philosophy and methodology that concerns the social and environmental audit practice in the Kingdom of Saudi Arabia.

Moreover, the present study was based on empirical data gathered from two sources, primary data and secondary data.

In the next section, an overview of the research philosophy is introduced. Section three addresses the methodology and method chosen to perform the investigative stage of the research and outlines the research questions, including the supporting questions. Sections four and five discuss the process of data collection and data analysis, respectively. While section six illustrates the sampling process, section seven presents aspects of research ethics. The eighth section explains the reasoning behind the selection of semi-structured interviews. Finally, the chapter concludes with a summary.

4.2 Research philosophy

Research philosophy is a guide that illuminates how data should be gathered, analysed, and used. One crucial aspect when undertaking research is to consider various research paradigms, as they affect the research direction from problem formulation until the conclusion. An understanding of research philosophies enables the researcher to align the selected theoretical models with the objectives and nature of the study. Thus, such alignment helps to reduce research bias (Flowers, 2009). There are two approaches to the design of the research strategy: the inductive and the deductive approaches. The deductive method is based on the theories and findings of past studies. Also, the method is predicated on the production of specific hypotheses to be tested in the research process. The inductive approach involves the initial gathering of data, followed by an analysis of the data and a search for patterns that lead to a theory. This study embraced an inductive approach to examine and interpret the findings from the empirical investigation. The next part of this section explains two interconnected research philosophies, which are: ontology and epistemology.

4.2.1 Ontology

Ontology is a significant element for every study that questions the existence of a phenomenon or event in the research field. More importantly, ontology represents the basis for starting a research and constitutes researchers' acceptance of assumptions as reality (Grix, 2002). The recognition of one premise includes how the presumption exists, how assumption appears, and what units of assumption are composed and interact with each other (Blaikie, 1993).

There are two dimensions of ontology: objectivism and constructivism. Objectivism asserts that the existence of a particular social phenomenon and its repercussions are independent of the influence of social factors. In contrast, constructivism posits that the presence and continuity of a social event and its associated aspects are dependent, to varying degrees, on social factors (Bryman and Bell, 2015). From the ontological perspective, social practices are defined by what they constitute or how they are described rather than how they exist or operate.

4.2.2 Epistemology

Epistemology can be regarded as an advanced stage of ontology that is concerned with how the philosophy of knowledge is produced rather than only defining reality. Mainly, epistemology concentrates on the mechanism of generating knowledge that eventually leads philosophers to develop theoretical perspectives (Grix, 2002). Thus, ontology and epistemology can be viewed as interrelated philosophies that can play a complementary role in addressing and informing of how knowledge is generated.

On the epistemological side of philosophy, one way to investigate social events is positivism, which is commonly used in research. The principal idea of positivism is the emphasis on the use of natural science techniques in social studies. Proponents of positivism propose that the occurrence of a social phenomenon or practice is objective and that knowledge can be validated through observations of external reality. Therefore, they argue that the role of externality, such as laws, is pivotal in the generation of developed theories (Flowers, 2009). Walliman (2015) stresses that positivism should adopt specific procedures to verify the accuracy and consistency of a researcher's observations. Nevertheless, such exploratory approaches of social behaviours in the real world undermine the positivists' rationale by excluding the importance of human agency (Bracken, 2010). Alternatively, another epistemological approach should be considered to overcome positivism weaknesses, which is interpretivism.

Unlike the tenets of positivist philosophy, those of the interpretivist philosophy state that social behaviours and actions have originated as a result of different human beliefs, experiences, interactions, and changes in expectations of individual groups in societies. These changes in human perception of the social phenomenon are shaped and reshaped by various interpretations at a specific time and place (Flowers, 2009). Advocates of interpretivism recognise the diversity of individual analysis of the social phenomenon. Hence, they suggest that it is necessary to discover individual thoughts and experiences that affect, or are affected by, external factors in the social environment (Denzin and Lincoln, 2008). However, the interpretative approach, as an epistemological philosophy, relies on individual subjectivity in explanations of social activities (Grix, 2002). Thus, this weakens the possibility to reach a generalisation of any phenomenon in its social context (Williams, 1999).

As this study examines the extent of statutory auditors' engagement in social and environmental audits in Saudi Arabia and aims to explore viewpoints from different individuals and groups, a positivist paradigm would provide insufficient insights to support the study purpose. From a positivist epistemological viewpoint, the responses of participating individuals to research questions may overlook their situation within traditions of knowledge that constrain their interpretations of reality. In other words, full reliance on positivist philosophy can lead to non-reflexive results regarding the social and environmental audit phenomenon in Saudi Arabia, as the participants could hold taken-for-granted beliefs about the social audit practice. In comparison, the interpretivist technique is more likely to offer the researcher a broader view of the social and environmental auditing profession through examination of the interactive dynamics that formulate the practice within the Saudi business environment. Nevertheless, external observation as in the positivist approach can be helpful, to some extent, to understand the auditors' motives for their engagement in social audit services, from the Islamic and societal perspective at least, and to highlight the factors that surround this non-conventional audit.

In essence, the research primarily adopted the interpretivist philosophy, which considers different views of constituents on environmental and social auditing and appreciates interactions with social factors. Positivist philosophy is used, to a lesser degree, to provide an initial picture of the nature of social and environmental auditing in Saudi Arabia and to determine the relevant factors that affect the social practice, under examination. The selection of mixed philosophical techniques helped the research to benefit from their advantages to reach a solid understanding of the issues that have shaped social and environmental auditing.

4.3 Methodology and method

There are several aspects in this study need to be investigated to understand the nature of the social and environmental audit phenomenon. These aspects include, among others, the cultural background in where the social and environmental audit is exercised, the limits of auditor's responsibilities and accountability, and factors related to the accuracy, clarity, and credibility of corporate sustainability reports. There are two sources of data that are required for the study analysis: primary data and secondary data. The research methodology differs, dependent on the types of data.

4.3.1 Primary data

Primary data were collected to investigate the contextual factors that are associated with the voluntary social and environmental audit practice in Saudi Arabia. Semi-structured interviews were chosen as tools for data collection to form a print of behaviour of social interactions and perceptions concerning social and environmental audit practices through specific actors. While most studies in the literature used either content analysis or quantitative case-study approaches, few studies applied semi-structured interviews and content analysis approaches to investigate various aspects of corporate sustainability audit in developed and developing countries (O’Dwyer, 2002; O’Dwyer and Owen, 2005; 2007; Hedberg and Malmborg, 2003; Islam and Deegan, 2008; Rika, 2009; Gillet, 2012; El-Firjani et. al, 2014). Primary data collection aims to highlight what is regarded as professionally appropriate to, for example, embrace locally or internationally recognised guidelines for social and environmental audit practices in the Kingdom, and why it is necessary to comply with the relevant standards. Interviews were held with statutory auditors and stakeholders to discover the suitable approaches needed to improve the quality and credibility of social and environmental audit practices. Furthermore, the study addressed the importance of stakeholder engagement in social and environmental audit processes from auditor and stakeholder perspectives. Since auditing and accounting practices involve auditors, customers, suppliers, local communities, religious establishments, and the general public, evaluations of the opinions of these constituents through direct interviews were essential to understanding the extent of auditor accountability and responsibility in social and environmental auditing. The primary data was determined through findings from a series of semi-structured interviews.

4.3.2 Secondary data

Secondary data for the research are comprised of relevant studies from the social and environmental audit literature, sustainability assurance statements, and the content of statistical reports available through the internet. These data are already published as part of previous studies conducted by other scholars (Flick, 2014). However, the accuracy and relevance of the data can be questioned, and there may be limitations to the use of secondary data due to licence/copyright issues. Therefore, secondary data are used as a supporting source for the present research, particularly as previous studies on the social and environmental audit practice in Arab states, notably Saudi Arabia, are scarce.

4.3.3 Methodology

Most of the studies in social and environmental audit literature have concentrated on published reports available from sustainability reporting award schemes or professional assessments by specialised international organisations, such as AccountAbility, that are concerned with guidelines and stakeholder engagement (O'Dwyer and Owen, 2005; 2007; Manetti and Becatti, 2009; Kolk and Perego, 2012). During the investigation of practice, such as social and environmental auditing, it is methodologically useful to rely on different sources as evidence to support research arguments (Yin, 2003). Furthermore, the participants' opinions on social auditing phenomena constitute valuable evidence (Kumar, 2011) as a pragmatic strategy for the present study (Gray, 2002).

This study embraced the interpretivist position to understand social auditing exercises and their implications in Saudi Arabia. Interpretivism purports that idealism is a fundamental concept in the exploration of any social phenomenon. In this idealist concept, social, political and value-oriented actors should be excluded entirely and the study should focus on the scientific process (Guba and Lincoln, 1989). More specifically, the interpretivist standpoint aims to disregard the external dominance of social practice to facilitate the identification of human and cultural influences on the shape of social practice, under examination. Therefore, interpretivism benefited this research by providing a broader picture of ways in which social phenomena interact with different actors in reality (Bryman and Bell, 2015). Interpretivism also helps in reducing study bias by eliminating the effect of political externalities and adds reliability and confidence to research findings. Moreover, interpretivism, eventually, offers a thorough explanation of the underlying mechanisms of the phenomenon. Such advantages provide opportunities to employ some of the flexible and various methods of data collection and analysis in a more objective condition (Kumar, 2011). The interpretivist view of a social practice stresses that interaction should be categorised based on the dynamic of negotiation, as it is in the real world. However, interpretivism emphasises the ways in which negotiation is constructed within the society, where this negotiation takes place, and how it correlates with cultural and social actors that make the social interaction meaningful (Guba and Lincoln, 1989). In reality, there are numerous interpretations of the nature and interaction of social actions from different perspectives, and these enriched the present study by offering a broader understanding of the dynamics and complexity of the social phenomenon under question (Guba and Lincoln, 1989).

In the Saudi Arabian context, where religious and social considerations are pervasive, the interpretivist branch of the epistemological philosophy seems applicable to evaluate social and environmental audit engagements. Saudi companies concurrently operate within a conservatively strict culture and are involved in socially and environmentally related industries, in which corporate managers should give paramount consideration to organisational social responsibility issues (Ali et. al, 2013). Consequently, corporate management in Saudi Arabia produced an increasing number of social, environmental and sustainability responsibility reports. The growth in corporate social responsibility disclosure, coupled with the demands for social audit services in the oil-rich economy, necessitate in-depth questioning about this relationship. The adherence to interpretivist philosophy, with partial reliance on positivist postulates, offer valuable insights to the researcher's attempt to comprehend social audit complexity in the Saudi Arabian society. This is because the mix of ideologies can be used to integrate different explanations from a spectrum of individual groups (statutory auditors, financial accountants, and various stakeholders) who are concerned with auditing engagement.

4.3.4 Method

Previous studies on corporate social responsibility management have employed different approaches to explore one of its practices, environmental accounting, and auditing. However, it seems that the quantitative method has been the most popular (Lockett et. al, 2006). Quantitative methods were historically dominant in academic studies of corporate social and environmental auditing (Ball et. al, 2000; O'Dwyer and Owen, 2005; Deegan et. al, 2006; O'Dwyer and Owen, 2007; Simnett et. al, 2009; Kolk, 2010; Manetti and Toccafondi, 2012). However, an increasing number of recent studies have used qualitative methods (for example, Park and Brorson, 2005; Edgley et. al, 2010; Jones and Solomon, 2010; O'Dwyer et. al, 2011; Edgley et. al, 2015).

Research methods are usually selected to offer a viable mechanism to reach conclusions by strengthening the research techniques and offsetting its weaknesses. As the present study mainly embraced the interpretivist philosophy, the qualitative approach was chosen to attempt to achieve the study aims. The researcher is inclined towards the qualitative option to address different aspects related to the nature and complexity of social audit practices in Saudi Arabia by engaging in direct dialogue with social audit providers and concerned stakeholders. This methodological choice offer the opportunity to improve understanding of the underlying details of the social audit phenomenon via narrative explanation by individuals and groups, who are, directly or indirectly, involved in the social practice.

Based on this discussion of the adopted method, and the premises of audit, legitimacy and stakeholder theories, the first central research question of the study is constructed to capture knowledge and different aspects of social audit statements, and hence, the questions and supporting sub-questions are:

RQ1: How do statutory auditors in Saudi Arabia view their role within the social and environmental auditing processes, and how does social and environmental audit impact their professional interests and standards?

This research question aims to understand the statutory auditors' normative responsibility to prepare social audit statements from a professional perspective. Other questions aim to gain further explanations regarding social and environmental audit reports:

RQ1-a: How do auditors determine the accuracy, clarity, and credibility of corporate social and environmental statements?

This sub-question is concerned with the essential characteristics of companies that produce social and environmental statements assured by statutory auditors. Several previous studies in the field have conducted similar investigations in, particularly, the industrialised developed economies (for example in the UK context, Perego and Kolk, 2012; Manetti and Toccafondi; 2012).

RQ1-b: Does social and environmental audit practices impair the independence of statutory auditors? If so, what steps are or can be taken to ensure independence while conducting the exercise?

The researcher sought details regarding the financial auditors' coordination with non-financial experts and specialists in the provision of social audit services. Due to the wide range of issues that are related to the nature of social and environmental audit practices, there is a need for experts with sound knowledge in non-financial audit disciplines to conduct the audit (Power, 1996; Lightbody, 2000). Previous studies in the literature have concentrated on the investigation of such issues of social audit practices and the role of statutory auditors in non-financial engagements (O’Dwyer and Owen, 2005; 2007; Simnett et. al, 2009).

RQ1-c: What contents that social and environmental audit reports should include?

The third supporting question considers the structure of social audit reports. A raft of studies has previously presented valuable insights into the content of social and environmental audit reports (for instance, O'Dwyer and Owen, 2005; Deegan et. al, 2006). Participants may respond with information that includes: the nature of the reports' content; the nature of report rhetoric; quantified or non-quantified details regarding corporate social and environmental activities; the extent of stakeholder involvement in the audit practice; recommendations for improving corporate social accounting and reporting systems; the conclusion of auditors' assurances; and stakeholder consideration in the audit engagements.

The second research question required social and environmental audit providers to describe their reactions to stakeholders' demands and expectations of this non-conventional audit. Valuable information can be gained by questioning auditors through the lens of audit theory regarding suitable audit techniques for the verification of stakeholder information included in the corporate sustainability reports. Postulates of legitimacy theory also are helpful to investigate the extent of auditors' inclinations to expand the scope of social audits to include stakeholder engagement within corporate social and environmental activities. The managerial branch of stakeholder theory is used to explain the tendency of audit firms to conduct social and environmental audits and to consider what motivates statutory auditors to perform this non-traditional auditing in Saudi Arabia. Hence, the second primary interview question posited to deduce auditors' viewpoints is:

RQ2: How do the interests of a broad range of stakeholders impact the quality of social and environmental audit services, and in turn, on how auditors respond to societal demands and pressures?

One supporting research question encompasses auditors' thoughts and viewpoints regarding their participation in social and environmental auditing:

RQ2-a: What is the motive behind the offer and conduct of the social and environmental auditing service?

This question is followed by other enquiries that seek further explanation of auditors' interest in performing social auditing, for example:

RQ2-a-1: Do Islamic, social and cultural considerations play a role in motivating statutory auditors to audit the clients' social and environmental statements?

Such questions aim to discuss the auditors' desires to pursue social and environmental audits to attain pre-determined objectives. Prior studies by leading scholars, such as Dewar (1991); Dittenhofer (1995); Taylor et. al. (2003); Lightbody and Chiang (2004); Watson and Emery (2004); Gray (2007); Edgley et. al. (2010), have demonstrated several benefits of social and environmental audit in the UK, European Union and elsewhere. Notably, the independence of auditors is another critical area of concern as it could be compromised within the provision of social and environmental audit services (Chiang, 2010).

Finally, the third research question considers the stakeholders' viewpoints regarding the social audit practice. The perspective of legitimacy theory was employed in this question to aid the researcher to understand the stakeholders' opinions of what constitutes social legitimacy of the social auditing profession. Also, the legitimacy theory aid in understanding what are the limits of accountability of statutory auditors in the Saudi Arabian environment.

Also, the classification by Mitchell et. al. (1997) of stakeholder attributes in stakeholder theory was considered to determine stakeholders' various abilities to orient company behaviour to validate corporate social statements by external auditors. Hence, the central question for stakeholder interview is:

RQ3: How does a broad spectrum of interested stakeholders perceive social auditor accountability? (Examples of stakeholders include government officials, regulatory bodies, corporate managers, the religious establishment, investors and financial media).

To enrich stakeholder discussions regarding their engagement in social and environmental auditing, secondary questions are asked as follows:

RQ3-a: To what extent does an audit of corporate social and environmental statements add credibility and fair representation to these statements?

This question attempts to cover issues related to the social and environmental audit that stakeholders believe are beneficial. Notably, Jones and Solomon (2010) and Edgley et. al. (2010) have stated that social auditing is a fundamental contributor to corporate accountability and transparency for stakeholders as it adds credibility to social audit reports and verifies company-stakeholder dialogue.

RQ3-b: What can or should auditors do to improve the process of assuring corporate social reports to help companies to discharge corporate accountability more efficiently?

This question turns stakeholders' attention to the weaknesses of social audit reports or areas that require improvement by the social audit team (Edgley et. al, 2010). The question seeks to envision the future of the social and environmental auditing profession from a stakeholder perspective within the emerging Saudi economy.

The adoption in this study of a qualitative method, as illustrated earlier, was helpful as this tool could capture as much information as possible regarding the interaction between social actors and social and environmental audit practices in Saudi Arabia through a holistic assessment of primary and secondary data and, more importantly, through semi-structured interviews with relevant constituents and content analysis of corporate social audit statements. Guba and Lincoln (1989) concluded that the use of a method that relies upon examination of secondary-research data of social activity only is insufficient to give a comprehensive explanation of the phenomenon, under review. Thus, interviews performed in a semi-structured way with relevant actors and reactors in the social and environmental audit frame added updated insights to the literature, especially from the point of view of statutory auditors and stakeholders in the developing nations.

4.4 Data collection

The researcher used only qualitative method as a primary instrument of data collection. Whereas the quantitative method requires mathematical, or numerical analysis techniques to collect data, such as statistical tests. Qualitative researches, on the contrary, collect data usually through interviews or observations in the form of written or verbal statements, actions or visual images that are considered to be a strength in terms of richness and depth of exploration and description (Myers, 2000). Qualitative analysis is also subject to the claim that findings cannot be generalised because sample sizes are small and the data are not tested to discover whether they are statistically significant or due to chance (Smallbone and Quinton, 2004).

Many public corporations in Saudi Arabia, mostly from the petrochemical and industrial services sectors, voluntarily publish stand-alone sustainability statements through the Saudi stock exchange (Tadawul), thereby claiming their social and environmental credentials. These statements, which are assured by either internal auditors of company management or external multidisciplinary audit team, constituted one of the foundations of the secondary data collection. Hence, the published statements of corporate social responsibility information with their external audit reports available at Tadawul and Saudi companies' websites are the source of the secondary data.

Additionally, the sample of statutory auditors, who provided social and environmental auditing, was taken from the official website of the Saudi Organization for Certified Public Accountants (SOCPA)[38]. This research sample represented the source of the primary data, which were taken directly from the statutory auditors in the form of verbal words, through semi-structured interviews conducted directly through conversations held via landline telephone calls. The data were gathered from eleven statutory auditors and three individual stakeholders. Most of the study interviews were held during the Ramadan fasting month. These interviews were conducted with several difficulties due to time constraints. But some statutory auditors generously found longer time to engage in the interviews, despite that they relinquish their religious requirement for the focused interviews during the Holy Month of Ramadan in Saudi Arabia. During Ramadan, the month that the majority of the interviews were conducted in 2018 between 16 May and 14 June, which is the period that the working conditions changes because employees (mostly are Muslims) abstain from eating and drinking for 30 days from dawn until sunset. Business hours during Ramadan are decreased from eight to five hours each day, and there is approximately an hour break for prayer times. The limitation of working hours formed a major restriction also for the researcher because of the limited time available to cover all interview questions.

Several sources of stakeholder data were used to reflect, as much as possible, all

[38] The website of the regulatory body of accounting and auditing in Saudi Arabia is: https://socpa.org.sa/Socpa/Home.aspx

interested stakeholder groups[39] in the Saudi Arabian environment. The following table 4.1 encapsulates the sources of data collection:

Table 4.1 Sources of data collection

Data Category	Source of data	Data extraction tool
Primary data	Statutory auditors and accountants listed in http://socpa.org.sa/Socpa/Licensed-Accountants/Accounting-Offices.aspx	Semi-structured interviews
Secondary data	1) Empirical findings from relevant studies in developed or emerging economies 2) Corporate sustainability reports in the Saudi business market	1) Social and environmental auditing literature 2) Saudi stock market exchange website www.tadawul.com.sa
Primary data	Institutional investors such as members of the Saudi Public Investment Fund (PIF) www.pif.gov.sa/index.html	Semi-structured interviews
Primary data	Influential stakeholders, i.e., General Authority of *Zakat* and Tax (www.gazt.gov.sa), journalists from the financial media, charitable and philanthropic foundations and other non-government organisations	Semi-structured interviews
Secondary data	The annual statements of Saudi companies available at their websites and the stock exchange https://www.tadawul.com.sa	Content analysis approach

[39] Stakeholder groups include, *inter alia*, individual and institutional investors; companies customers and suppliers; shareholders activists; local communities; experts in Islamic accounting, religious establishments, financial media.

Table 4.2 Information regarding interviewed auditors

Auditor Code	Audit firm size	Professional designation	Years of experience	Academic background	Number of social audit conducts
AUD 1	Small firm	1) SOCPA 2) Senior auditor	19	1) Bachelor in financial accounting 2) Master in Islamic finance	Uncounted
AUD 2	Small firm	1) SOCPA 2) Senior auditor	11	1) Bachelor in financial accounting	7
AUD 3	Mid-sized firm	1) SOCPA 2) Senior auditor	7	1) Bachelor in finance 2) Diploma in accounting and business	2
AUD4	Large firm	1) SOCPA 2) Senior auditor	13	1) Bachelor in business administration 2) MBA in finance	11
AUD 5	Small firm	1) SOCPA 2) Junior auditor	2	1) Bachelor in financial accounting	1
AUD 6	Small firm	1) SOCPA 2) Senior auditor	6	1) Bachelor in business administration	1
AUD 7	Mid-sized firm	1) Part-SOCPA 2) Semi-Senior auditor	10	1) Bachelor in Islamic banking	4
AUD 8	Large firm	1) SOCPA 2) Senior auditor	5	1) Bachelor in economy	3
AUD 9	Mid-sized firm	1) SOCPA 2) Junior auditor	12	1) Bachelor in financial accounting 2) MBA in financial accounting	1
AUD 10	Large firm	1) SOCPA 2) Senior auditor	15	1) Bachelor in financial accounting	9
AUD 11	Mid-sized firm	1) SOCPA 2) Junior auditor	9	1) Bachelor in economy 2) Master in accounting and finance	4

4.5 Data analysis

Initially, each social and environmental audited statement considered in the study sample was categorised based on the relevance of content, the materiality of social and environmental information and the statement time and scope. In doing so, a template was designed to be used as a criterion assessment to extract information from the external audit reports (the tempelate is available in the research Appendices). Corporate social and environmental reports that were assured by non-financial audit firms, such as engineering advisors, law firms or real estate and construction specialists, were irrelevant, and therefore, excluded from the study sample.

Qualitative data analysis was utilised to evaluate the primary data and secondary data collected through a combination of semi-standardised interviews and content analysis. The data collected from the statutory auditors and individual stakeholders were written in Arabic, which was the native language that was verbally used by all interviewees, who mostly opted not to record the interviews. The documented data were translated from Arabic to English through Google Translator and Microsoft Translator software, in which some statements were paraphrased to give the most accurate translation and relevant meaning. After the documentary analysis, the researcher summarised the dialogue and transcribed the translated interviews through Otter software to process relevant data and determine the details that were pertinent to the research questions. Whereas data gathered from the annual statements of Saudi public companies and external audit reports were all disseminated in the English language. Finally, secondary data collected through extensive literature checks were used as an additional insight into the analysis output.

4.6 Sampling techniques

Random sampling was used to generalise the collected data. The credibility of the gathered evidence is essential for reaching conclusions and recommendations that are based on the objectivity of the research findings. Therefore, the quality of the research findings was controlled based on the following:

1) Reliability

Reliability of the data was ensured through sourcing the secondary data only from various valid sources, such as academic journals and recognised internet websites. Whereas the researcher himself was engaged in the primary data collection to ensure its reliability.

2) Data validity

The validity of the primary data collected via semi-structured interviews was reviewed using validity testing software. In an attempt to ensure the validity of the interview data, study findings were gathered and verified from several interviewees with statutory auditors of recognised Saudi audit firms.

3) External validity

The external validity applied to the secondary data, over which the researcher had no control. However, it was essential for the researcher to ensure validity. Therefore, the researcher only used data that were published and recognised as valid by governmental and academic institutions. If there were conflicts in the findings, such sources were disregarded from the analysis to ensure validity.

4.7 Research ethics

Ethical considerations are essential matters to be considered in the investigation of aspects of social behaviour or practice, especially when examining participants' integrity, credibility and professional sensitivities. The rationale behind ethical considerations is to ensure that the research delivers outcomes based on fair, honest and unbiased processes (Bryman and Bell, 2015). The present study is designed to directly question individuals regarding the social and environmental auditing profession in Saudi Arabia. Therefore, the researcher is committed to compliance with ethical and moral codes related to interviews in social sciences, such as in the accounting and auditing disciplines. Ethical codes applied to research include principles that are commonly followed in business research to neutralise research techniques. The moral principles that this research considered for the planned interviews were anonymity and confidentiality protection, informed consent and freedom to withdraw, harm to participants and avoidance of deception.

4.7.1 Confidentiality and anonymity protection

The principle of confidentiality aims to prioritise the protection of the research data and participants' privacy. The application of anonymity obliterates the identity of participants from data obtained from them during the research stages, and this anonymised data is used for data analysis and conclusions drawn from the analysis (Neuman, 2013). As the current study was carried out with participants in the Saudi Arabian business community, confidentiality and anonymity were paramount to strengthen the integrity and credibility of the research project, particularly, as the data included voice recordings and transcripts.

4.7.2 Informed consent and freedom to withdraw

The ethical codes stress that before embarking on research interviews, participants should be well informed about the nature and objective of the research project. At this stage, the private details of data were anonymised as participants' confidentiality was respected as all interviewees willfully gave their consent to engage in the interviews. Introductory information about the research project was given to the interviewees, enabling them to be informed before engaging in the interviews. Participants have the right to decline to participate in the interview project or withdraw at any time during it, and participants may also decline to answer some or most of the questions during the interview. The idea of informed consent is that participants can engage in a fruitful discussion of interview topics without harm or coercion. Voluntary participation in the research interviews allowed participants to have room to provide valuable and sound inputs. Ultimately, the freedom and comfort given to the interviewees helped the researcher to reach rational conclusions.

4.7.3 Harm to participants

Another essential ethical requirement is that a research project was given due consideration to limit direct or indirect harm to participants. Direct communication through semi-structured interviews to extract data from the participant can cause different types of harm. In his elaboration of issues that can undermine research integrity, Neuman (2013) classified harms to participants as physical harm, legal harm, psychological harm, and harm to their professional situation. Thus, the interviewer bore in mind the potential risks of these harms in the design of research questions.

As the data of the interviewees were anonymised, and their confidentiality was respected, the empirical research is not associated with any illegality. Hence, the interviewed participants are deemed to be safe from physical or legal harm. Likewise, issues related to employment status and income details were excluded from interview questions, and therefore, professional harm was considered to be minimal. Some psychological harms could have occurred due to the participants' exposure to questions that required mental effort to articulate answers, and because interviews may have taken a long time (more than the pre-planned 1.5 hours).

The researcher mitigated the risk of psychological harm by informing the participants beforehand about the interview agenda and guidelines. Also, the researcher ensured that the interviews were conducted within appropriate conditions and places.

4.7.4 Avoiding deception

The notion of deception in a research project refers to a researcher's intention to conduct a study about certain issues but the explanation offered to participants contains a different intention, and thus, participants would be misled (Bryman and Bell, 2015). More specifically, participants should be given a transparent and full disclosure of the nature and purpose of the research to make an informed judgement regarding the research project and their participation in it. Ethical principles and guidelines regard any falsification of the participants' research data as unacceptable, especially if the researcher can reach particular research conclusions by deceiving participants (Neuman, 2013). Nonetheless, some critics of qualitative research methods argue that, in rare instances, the misleading of participants could be a research tactic to avoid the invalidation or alteration of interview results and to ensure an adequate degree of research integrity (Butler and Neuman, 1995). This method may involve withholding some information for sensitive, religious or cultural reasons, and after the interview, the researcher rationalises the deception in debriefing sessions (Johnson and

Christensen, 2008). Debriefing is a free dialogue between the principal researcher and each participant after interviews, in which unstated information about the study is disclosed, and any ethical area of concern for interviewees is addressed.

Throughout the interview stages, the researcher stated the information necessary for all listed participants (senior or junior auditors/accountants and stakeholders) regarding the nature and aim of the project and allowed them to comment on research questions freely and comfortably. It was crucial to minimise, as much as possible, the likelihood of deception in research interviews to enable the researcher to interpret data reasonably and deduce fair and honest conclusions.

4.8 Justifying the use of semi-structured interviews

The selection of a qualitative method for the present empirical study was due to its capacity to facilitate a systematic review of data collected from individuals or individual groups relevant to social and environmental reporting and auditing practices. The semi-structured interview approach has been frequently used in social and environmental accounting and auditing studies. Several instances indicate that a qualitative method aided scholars in obtaining insights into significant issues of corporate social reporting phenomena by semi-structured interviews (examples can be observed in studies by Adams, 2002; O'Donovan, 2002; Hedberg and Malmborg, 2003; Farneti and Guthrie, 2009). Other studies evidence that instrumentalising the semi-structured form of interviews is useful to explore and scrutinise the practice of social and environmental auditing (instances were seen in researches of Park and Brorson, 2005; Edgley et. al, 2010; Jones and Solomon, 2010; O'Dwyer, 2011; O'Dwyer et. al, 2011; El-Firjani et. al, 2014; and Edgley et. al, 2015). Thus, interviews are selected as an established research method to extract information from the interviewees concerning the social and environmental audit phenomenon in Saudi Arabia. The conduct of semi-structured interviews in previous related studies offered the present research the opportunity to review experiences of applying this qualitative method in the empirical examination of social audit practices.

A single focus on a review of secondary data for this research project would provide insufficient explanations regarding the phenomenon under investigation and would ignore other aspects that needed to be examined to reach a broad understanding of the underlying phenomenon (Guba and Lincoln, 1989). Due to the scarcity of investigatory studies on social and environmental audit practices in Saudi Arabia, direct interviews with social audit providers, corporate managers, and representatives of stakeholder groups enabled the researcher to obtain a broader view of the underlying issues of social auditing. The semi-structured interview method allowed the participants to provide further information, which served as valuable inputs for the data collection and analysis stages. The lens of the three theoretical perspectives (audit, legitimacy, and stakeholder theories) in the interview questions are crucial to consider various aspects of social audit practices. The first theoretical perspective, the audit theory, could aid the study by providing the basis for understanding key attributes and issues associated with the social auditing profession in Saudi Arabia, such as auditor ethics and independence, audit techniques and the audit expectations gap. The assumptions of the legitimacy theory were helpful to explain whether the audit of corporate social and environmental information disclosed by companies was publicly perceived as a legitimate organisational practice or whether there was concern regarding the legitimacy of social audit services in Saudi society. Finally, the propositions of stakeholder theory assisted the interviewer in formulating questions that facilitated the interpretation of the role of stakeholders in social auditing, and how stakeholder groups can coerce Saudi organisations and audit firms into, for example, expanding the social audit scopes.

In the semi-structured interviews, interviewees had the opportunity to elaborate on specific issues raised by the researcher, who asked the participants pre-determined questions and other following questions, based on the direction of discussions to reach a thorough understanding of the research problem, under study (Mason, 2002). Furthermore, the semi-structured interviews allowed the participants to agree or refuse to articulate their thoughts and opinions on the interview questions without justifying their decisions. On the negative side, semi-structured interviews occasionally take a lengthy period, which can lead to diverting the discussions into other unrelated or biased issues that could affect the accuracy and objectivity of data. Nevertheless, a researcher who direct the semi-structured is responsible for managing the course of conversation to encourage interviewees to focus on the research theme and avoid engagement in irrelevant details (Creswell and Creswell, 2017). As a result, the researcher ensured to control the semi-structured interviews by setting appropriate questions that serve the research objectives. Hence, the researcher sought relevant participants who are concerned with the research subjects, under investigation.

4.9 Summary

This chapter offered an overview of research philosophies and discussions of the study methodology, the semi-structured interviews and content analysis methods for extracting data for exploring social and environmental auditing. Due to the complex nature of social and environmental auditing, which includes a combination of non-quantified and quantified information, the study primarily embraced the interpretivist methodology and, to a lesser extent, the positivist methodology. As the audit of corporate social statements remains an emerging practice in the Saudi Arabian business environment with its published descriptive non-numeric reports, qualitative methods are embraced to investigate this phenomenon in its embryonic stage. The triangulation method is chosen to collect data from various sources. Two research approaches are selected to reveal different aspects of the social audit phenomenon and increase the credibility and validity of the research findings (Denzin, 1978). The next chapter discusses the first method of semi-structured interviews with statutory auditors and stakeholders to deduce their opinions on the nature of social and environmental auditing in the Saudi Arabian context. The second method, content analysis, is concerned with the audit reports that will be investigated in the sixth chapter.

Chapter Five: Analysis of interviews with statutory auditors and stakeholders on social and environmental auditing

5.1 Introduction

The present chapter is concerned with analysing the empirical findings obtained from the interviews with statutory auditors and stakeholders regarding their experiences and perceptions of social and environmental audits in Saudi Arabia. Also, this chapter outlines the obstacles that hindered the social audit's progress within the Saudi Arabian business community. The interview questions were structured in a way that helps to cover all professional aspects and stages of auditors' participation in social and environmental audit practices. The audit stages range from planning the audit engagement through performing the social audit operation until producing the audit report.

Specifically, the fifth chapter deals with the analysis of the first two main research questions elicited from the discussion of the gaps in the literature in the third chapter. Furthermore, this chapter deals with the analysis of auditors' response to the sub-questions related to the first two research questions (RQ1), (RQ2) and the third main question (RQ3) posed in the fourth chapter in section 4.3.4. The appending questions aim to encourage participants to elaborate on their thoughts about the social audit phenomenon. The research sub-questions are designed to help the researcher to get a comprehensive understanding of the direction of the interviews (Major et. al, 2013).

The present chapter discusses the main findings from the interviews with statutory auditors from different audit firms and stakeholders. All interviewees voluntarily agreed to participate in the study interviews via telephone calls from their audit offices in Saudi Arabia. Also, two interviewees gave their consent to record the conversations using a smart mobile device. Whereas the remaining interviewees declined the interviewer's request to start the discussions using a voice-recording device. The interviewed statutory auditors responded to all interview questions. However, some interviewees gave brief answers due to the limitation of their time. While two of the interviewed stakeholders thoroughly answered some of the interview questions, one refused to respond to the last four questions, claiming the lack of knowledge about the subject. All of the fourteen interviews were conducted in the Arabic language, which is the mother tongue of all interviewees. The interviews were translated into the English language via a translation online programme and an independent interpreter. The duration of interviews ranged from 35 minutes to nearly two hours, excluding break times upon interviewees' request for prayer or break times. During the telephone conversations, the interviewer wrote several notes to capture the pertinent data, and remove irrelevant and redundant data. The translation and the transcription processes of the 14 interviews took approximately 16 weeks to be finalised, and subsequently, analysed. For ensuring the confidentiality of interviewees data and statements, the notes of the interviews were kept anonymous. Details about the fourteen interviews with the statutory auditors and stakeholders are presented in the following table:

Table 5.1 Summary of interviews details

Interviewee code number	Interview Date	Group category	Communication medium	Interview length
STAK-REL2	17/05/2018	Religious stakeholder group	Telephone	48 minutes
AUD1	19/05/2018	Senior auditor	Telephone	51 minutes
AUD7	20/05/2018	Semi-senior auditor	Telephone	65 minutes
AUD5	22/05/2018	Junior auditor	Telephone	50 minutes
AUD8	26/05/2018	Senior auditor	Telephone	76 minutes
AUD6	29/05/2018	Senior auditor	Telephone	62 minutes
STAK-FM3	30/05/2018	Financial media - stakeholder	Telephone	87 minutes
AUD4	02/06/2018	Senior auditor	Telephone	56 minutes
STAK-REL1	05/06/2018	Religious stakeholder group	Telephone	45 minutes
AUD2	08/06/2018	Senior auditor	Telephone	73 minutes
AUD3	10/06/2018	Senior auditor	Telephone	54 minutes
AUD10	18/04/2019	Senior auditor	Telephone	114 minutes
AUD11	08/05/2019	Junior auditor	Telephone	35 minutes
AUD9	25/06/2018	Junior auditor	Telephone	73 minutes

This chapter contains three sections as follows. The first section casts light on the motives that stimulate statutory auditors to perform discretionary social and environmental audit services. Moreover, the section highlights the views of statutory auditors on the harmonisation and convergence of traditional audit methodology into the social and environmental audit space. From statutory auditors perspectives, issues related to the influence of social and environmental audit practices on the impartiality of auditors, and the inclusion of stakeholders in the social audit engagement are outlined in the section. The predictions of statutory auditors for the future of social auditing in Saudi Arabia concludes the section. The following section provides a focused discussion of stakeholders' opinions on social audit performance in the Kingdom.

Finally, the fourth section summarises the chapter.

5.2 Motives and techniques of social and environmental auditing

The present section deals with the statutory auditors' responses to the first two research questions (RQ1) and (RQ2) in five parts. The first part elaborates on the auditors' motivation for engaging in social and environmental auditing, considering that the social audit is a non-mandatory service in Saudi Arabia. The second part outlines interviewees' thoughts about the integration of financial audit methodology and techniques into social and environmental auditing in the Saudi business market. Furthermore, the second part elaborates on aspects related to the practical techniques used in the provision of social audit services. While the third part reveals the opinions of the interviewed auditors on the implications of social audits on their professional independence and ethics, the fourth part discusses the position of statutory auditors on stakeholder engagements in the social and environmental audits. In the final part, the viewpoints of the interviewed auditors on the future of social and environmental audits in Saudi Arabia are demonstrated.

5.2.1 The Islamic *Shari'a* law and social and environmental auditing

Issues surrounding the duality of the legal system in Saudi Arabia impact the statutory auditors' professional performance (as the study presented in the second chapter in section 2.5.3). The modern Saudi civil laws, such as the Saudi Arabian Monetary Agency (SAMA) rules, the Company Law, and the Capital Market Law, were built upon the contradiction between Islamic *Shari'a* law and Western civil principles (Alkahtani, 2016). Accounting and auditing standards and regulations of the SOCPA were also predicated on the duality of embracing Islamic *Shari'a* law and the challenges of adapting Western international standards, which may cause problematic issues for accountants and auditors. For example, when a case of a professional dispute occurs, one of the parties in the social audit engagement might favour Islamic laws, and the other would prioritise secularised rules over Islamic laws. In such circumstances, a resolution is reached outside the jurisdiction systems.

Arguably, the interviewed auditors accepted the idea of Islamising corporate governance activities, such as social and environmental disclosure, which should be exercised in comfort with Islamic laws. However, there is also a growing tendency for some statutory auditors towards considering the secular regulatory standards in their auditing. Although most aspects of the economic life in Saudi Arabia are influenced by Islamic values (McKee, et. al, 1999), the modern opposing secular standards in civil professions, such as accounting and auditing, caused accountants and auditors to acknowledge the complexity of globalising the business market (Nasir and Zainol, 2007). In the light of the above, this section discusses the comments of interviewed auditors in respect to their response to the research question (RQ2-a).

The interviewed statutory auditors offered different motivations based on their cultural backgrounds and professional knowledge and expertise. More importantly, the interviewees suggested that an agreed-upon national guideline is needed to regulate the social audit practice. As the interviewees argued, these guidelines should be consistent with the basis of the Islamic *Shari'a* law. At the same time, these guidelines should comfort with the internationally adopted standards by audit firms in the most developed economies.

Over the past two decades or so, Saudi companies were actively engaged in corporate social responsibility disclosure. Mandurah et. al. (2012) and Emtairah et. al. (2009) empirically investigated the motivation behind corporate managers' decision to disclose their social and environmental allegations. The rise of the corporate social responsibility movement in Saudi Arabian may motivate statutory auditors to audit the corporate social reports. From the interviewees' perspectives, the commitment to rendering social and environmental audit services in Saudi Arabia can be emanated from two sources, Islamic and non-Islamic motives.

5.2.1.1 Islamic Motivations for social and environmental auditing

The interview question (RQ2-a) aims to uncover whether religious and social factors influence the social audit practice in Saudi Arabia. Also, the researcher seeks to determine the degree to which auditors respond to social demands and pressures to pursue social and environmental audit services. Moreover, questioning statutory auditors about their tendency to perform social audit services attempt to understand their philosophical base behind considering social audit services as a legitimate mechanism. Notably, Saudi audit firms are ensuring to enhance their social acceptance in the business environment, especially after the auditing profession underwent severe issues that harmed their reputation in post-2014 and -2016 scandals[40] (Zureigat et. al, 2015).

The interviewed auditors expressed different motives for the provision of social audit services. But the primary driver for several interviewed auditors to carry out social audit engagements was the Islamic (*Shari'a*) doctrine and Saudi social values. The interviewees offered a collective view that since social and environmental disclosure is voluntarily practised, any proposed regulatory framework for social audits should be largely congruent with the Islamic doctrine and the norms of Saudi society. Most

[40] For more information visit:
https://www.thenational.ae/business/markets/deloitte-banned-from-audit-work-for-two-years-by-saudi-arabia-s-market-regulator-1.187569

respondent auditors hold the view that as Islamic *Shari'a* law is inclusive of all businesses, the accounting and auditing professions are expected to be performed within the boundaries of Islamic principles. A semi-senior auditor (AUD7), with more than ten years of experience in the financial service sector, gave examples of difficulties that he had faced in the review of the consistency of Islamic law with clients' social and environmental operations. The examples mentioned by AUD7 include the audit of information regarding non-financial donations, international philanthropy projects, and the narrative of corporate efforts to reduce environmental damages caused by global warming.

Two of the interviewed statutory auditors stated that the Islamic doctrine plays a dominant role in orienting social audit services (AUD9, AUD11). The interviewees AUD9 and AUD11 explicitly stated that the Islamic *Shari'a* law and teachings are stimulating statutory auditors to contribute to Saudi society with socially and environmentally responsible companies. For example, participant AUD11 postulated that: "as Islamic laws are enshrined already into financial accounting and auditing standards and frameworks, any proposed guidelines for social and environmental accounting and auditing also should not disregard Islamic values". The interviewee AUD9 gave further comments on dealing with the duality of Islamic laws and secular rules in the Saudi legal regulations, claiming that:

> "It is essential to balance between Islamic laws and modern secular regulation before promulgating professional standards for new accounting and auditing practices. In a conservative Islamic society, as in the case of Saudi Arabia, adopting both *Shar'ia* instructions and secular administrative structures to regulate environmental auditing or propose theoretical and professional frameworks should not violate the core of the

Shar'ia law. Saudi financial authorities, including the SOCPA, have succeeded in absorbing global accounting harmonisation and implementation of the International Financial Reporting Standards (IFRS). Ideally, Saudi authorities are expected to intervene, through its professional bodies, to regulate and monitor voluntary practices in the accounting and auditing profession and prevent another scandalous situation in the audit firms.

As far as I know, civil laws in Saudi Arabia are legislated based upon one or more of five primary sources, including the Holy Quran. First, the *Hadith* or *Sunna* that are authentic statements by the Prophet Muhammad, peace be upon him; while the second is the *Ijma* that refers to the consensus among prominent religious scholars about specific issues of a particular practice not envisaged in either the Holy Quran or the *Hadith*. The third source, the *Qiyas*, is the deducting of analogies to judge the legitimacy of a specific action or situation not explicitly mentioned in either the Quran or the *Hadith*. The *Qiyas* requires Muslim scholars to use reasoning by analogy based on the Quran and the *Hadith* to determine the legitimacy of the practice. The fourth source, *Ijtihad*, is contrary to the *Qiyas*, and require a Muslim jurists' independent reasoning relating to the legitimacy of specific rules or actions that are not covered in either the Quran or the *Hadith*.

In short, I (AUD9) believe that social and environmental auditing should not be structured fundamentally on a secular theoretical foundation. The statutory auditors should have the ability to compartmentalise the aspect of social audit practices into Islamic and secular categories, ensuring that the social audit is exercised in comfort with basic Islamic laws".

5.2.1.2 Non-Islamic motivations for social and environmental auditing

The varying motivation of statutory auditors between Islamic or semi-Islamic, and non-Islamic may stem from the influence of their religions and education, and professional experiences. Notably, according to a recent statement by the Secretary-General of the Authority of the Chartered Accountants (ACA)[41], the number of non-Saudi accountants and auditors in the Kingdom far outnumbered their Saudi counterparts in the accountancy and audit firms. Non-Saudis accountants and auditors include a combination of Muslim and non-Muslim accountants and auditors, who adhere to various religious ideologies and social beliefs. This diversity of religious and non-religious beliefs play an influential role in directing the statutory auditor's behaviour and tendency to voluntarily audit in the social responsibility-related activities (Khan, 1985; Jacobs, 2005; Dyreng et. al, 2012).

In his different viewpoint, the interviewee AUD10 asserts that religious imperatives do not necessarily motivate social and environmental audit exercises in Saudi Arabia. Considering that the Islamic teachings encourage believers to behave and act in a socially responsible manner, there are other non-Islamic incentives for statutory auditors to provide social audit services. For example, statutory auditors may aim to increase the profitability of their firms through social audit services, or enhance their social reputation, or participate in the corporate social responsibility movement. From the viewpoint of the interviewee AUD10, the international standardised guidelines[42] for auditing social and sustainability reports are more practical than establishing local guidelines based on the Islamic *Shari'a* law.

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[41] http://saudigazette.com.sa/article/529978

[42] The interviewee AUD10 referred precisely to the standards and guidelines of corporate social reporting of the AccountAbility organisation.

Indeed, the participant AUD10 pointed out that it is difficult to disentangle the influences of developments in accounting and auditing professions in the international stages from that in the Saudi Arabian context. More importantly, one of the respondents emphasises that:

> "As long as the Saudi government is determined to invite multinational corporations, foreign banks, global industrial, commercial and insurance companies and so on, and expanding and improving the Saudi stock market (Tadawul), and relaxing investment regulations to attract investors from abroad, I strongly support the idea that the social audit practice should be standardised in accordance with the international guidelines from the beginning, rather than setting and revising local guidelines. The obvious example is the amendments in the Saudi Company Law 1965 in 2015 that have been promulgated completely on inflexible religious principles without considerations of changes in the business environment within a country that is based on international energy and commerce" (AUD2).

Thus, the respondent above recommended that any future regulation of social and environmental auditing in Saudi Arabia should carefully balance between the minimum requirements of Islamic doctrine and the secularised international standards for sustainability assurance on the one hand, and between the political vision and social demands, on the other.

5.2.1.3 Summary

Social and environmental responsibility disclosure became an increasingly popular tool for corporate governance systems in Saudi companies (Habbash, 2016). Hence, it was crucial to question statutory auditors about this growing area of the corporate social responsibility phenomenon. One of the main aims of the study interviews is to determine the statutory auditors' willingness to expand on providing social audit services to avoid the loss of this opportunity to other non-audit professionals (Ballou et. al, 2006).

Surveys on global corporate sustainability reporting conducted by, for example, the ACCA, PricewaterhouseCoopers, and the European Sustainability Reporting Awards, played a pivotal role in directing the public attention to the importance of the audit of corporate social responsibility reports. Notably, one of the recognised international independent organisations, which views the global trends in corporate sustainability disclosure, showed an increasing tendency towards corporate social reporting in Saudi Arabia between 2007 and 2017[43].

The interviewees believe that statutory auditors can be key contributors to the progress of social auditing in Saudi Arabian through three aspects. First, from an ethical perspective, auditors can play a constructive role in environmental and social audit services and with other non-audit specialists. As a consequence, statutory auditors' efforts in verifying the accuracy and credibility of corporate sustainability information will receive social approval. The second aspect is related to the Islamic instructions, in which (Muslim) statutory auditors in Saudi audit firms can demonstrate their religiosity by engaging in voluntary social and environmental audits. When statutory auditors discharge their social responsibility and accountability towards the public, it is viewed as a religious exercise of obedience to the commands of Allah and his Prophet Muhammad PBUH[44], according to the interviewee AUD9. Whereas the third aspect is

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[43] (https://database.globalreporting.org/search/)

[44] The interviewee AUD9 refereed to the Prophet authentic Says of *Hadith*, urging Muslims to take the responsibility to safeguard the environment as:
Abu Hurairah (May Allah be pleased with him) reported: Messenger of Allah (PBUH) said, "Iman has sixty odd or seventy odd branches. The uppermost of all these is the Testimony of Faith: 'La ilaha illallah' (there is no true god except Allah), while the least of them is the removal of a harmful object from the road. And shyness is a branch of Iman." [Al-Bukhari and Muslim].

economic gains, in which the interviewed auditors believe that social audit services bring financial and non-financial benefits to audit firms as well as their clients and stakeholders. Indeed, the verification of corporate environmental and social responsibility disclosure matters, directly or indirectly, to a wide range of internal and external stakeholders in the Kingdom (AUD10, AUD11).

Regardless of the size of their audit firms, all interviewees support the provision of environmental and social auditing to gain or strengthen their Islamic or social reputation in their business environments. Notwithstanding that the interviewed auditors agreed on the need to standardise the social audit to enhance the quality of the audit service, their arguments differ on whether the audit practice should be regulated on secular or Islamic-based standards.

Obeying the Islamic law by being socially responsible is a priority for "Muslim" statutory auditors (AUD11). While Islamic values gave statutory auditors impetus for providing social audit practices, there are other non-religious motives related to professional, social, and economic aspects. For example, the statutory auditor AUD8 believes that the voluntary decision to audit companies' social and environmental reports stem primarily from the auditor's desire to boost the audit firm's social reputation, more than the Islamic image. The auditor's participation in the corporate social responsibility field supports the Saudi political ambitious plan, the Saudi Vision 2030, that aim to build a robust economy, make domestic businesses more responsible to the society, and attract further international investments[45]. A final comment was raised by the interviewee AUD10, who mentioned that the audit firms regard social reputation as an umbrella term that includes, among others, Islamic reputation.

[45] https://uk.reuters.com/article/uk-saudi-industry/saudi-seeks-to-attract-427-billion-with-industrial-programme-idUKKCN1PK0O5

Therefore, statutory auditors in Saudi audit firms have different inspirations to provide social audit services for their clients, regardless of the religious imperatives in the Kingdom.

The following table summarised the opinions of the interviewed auditors concerning the extent of Islamic and cultural influence on the development of social and environmental audit practices in Saudi Arabia:

Table 5.2 The opinions of interviewed auditors regarding the impact of Islamic and cultural factors on the social audit practice

Statutory auditors' perspective on the following:	Number of agreed views
Sustainability, social, and environmental audit service is an effective mechanism to boost the legitimacy of audit firms in Saudi Arabia.	3
Islamic values motivate statutory auditors to render social audit services.	9
There is a need for local standards and guidelines built upon Islamic law to regulate social and environmental accounting and auditing.	7
The social and environmental audits should be standardised and regulated based on International guidelines such as the AA1000AS.	4
Any proposed theoretical or professional guidance for social and environmental accounting and auditing should not violate Islamic principles.	3
If the regulatory body, the SOCPA, issues local guidelines to govern social audit practices, it is necessary to balance carefully between the international secular regulation and the basics of Islam.	1
Generally, there is also a growing tendency for some statutory auditors towards considering the secular regulatory codes in their audits.	4
Social and environmental auditing service is profitable, despite its high costs.	7

5.2.2 Harmonisation of traditional audit into social audit practice

As the social and environmental audit practice in Saudi Arabia remains in a nascent stage, there is a need to question the technical procedures that statutory auditors employ to provide the audit services. The auditing profession has fundamental steps that range from planning the audit to gathering evidence and evaluating the clients' internal control systems. Then, auditors validate clients' statements to ensure compliance with the Generally Accepted Accounting Principles (GAAP) or International Accounting

Standards (IAS). Finally, the auditor conveys the audit outcome to users of clients' statements (Jeppesen, 1998; Matthews, 2006; Whittington and Pany, 2010). Whereas the nature of social and environmental audit differs from that in traditional financial auditing in terms of dealing with issues in multidisciplinary areas and, mostly, a mix of non-financial qualitative and numeric information. Also, social audit engagements involve more sophisticated analysis than financial audits, which requires auditors to use quantitative and qualitative approaches to investigate corporate environmental activities (Gray et. al, 1991; Gray et. al, 1997; Power, 1994; 1996; 2003). Due to these differences between financial auditing and social and environmental audit practices, this part of the interview analysis is devoted to the participant responses to the research questions (RQ1) and (RQ1-a).

The three interviewees AUD9, AUD10 and AUD11 have agreed that statutory auditors' role in the social and environmental audit engagements is determined by the type of services that their clients demand. Social audit clients are mostly public companies from the industrial and petroleum sectors that voluntarily prepare sustainability reports, revealing information about environmentally-related activities (AUD10). A suggestion offered by the interviewees is that statutory auditors should concentrate first on minimising social audit risks by understanding clients' objectives from auditing their social and sustainability reports. In doing so, the interviewee AUD10 emphasise the importance of evaluating clients' internal systems in their corporate social responsibility departments with the assistance of the relevant non-financial consultants in the social audit team, if necessary.

Many suggestions regarding interdisciplinary issues in social audits are offered. One participant, who experienced the audit of banks' financial and non-financial reports (AUD4) asserted that:

> "... in the Saudi business market, the social and environmental audit practice cannot develop without cooperation between statutory auditors and other specialists from different professions. But the most important assistance for that multidisciplinary audit team is to benefit from a combination of specialists and experts in Islamic-related disciplines, especially in contemporary issues in Islamic accounting, auditing and economy".

Another auditor from a small audit firm who had an Islamic finance background (AUD1) explicitly professed that:

> "It is not reasonable that statutory auditors solely provide a professional judgement on stakeholders' information disclosed by reporting companies. I have been auditing several corporate reports from different industries for nearly two decades and dealt with clients' social and sustainability statements. The issue is that audit firms, except the international Big4 and their Saudi partners, do not have the financial ability and necessary professional skills to perform services such as verifying information related to Islamic legitimacy, engineering and chemistry, human resource management, industrial law and regulation and other non-financial areas. Indeed, financial auditors have succeeded in improving companies' internal control systems and providing advisory services and consultation in respect of tax or the Islamic tax (*Zakat*) over the past twenty-plus years. However, in the case of social and environmental auditing, undertaking a multi-task attestation is a very complex endeavour that necessitates extensive training and budget. From my viewpoint, the auditing of corporate social and environmental claims will broaden the gap between

> the Big4 audit partners and other audit firms, and eventually, lead this type of non-traditional auditing to become a monopolistic practice".

In other recommendatory suggestions, the participated interviewees stressed the importance of specifying the limits of statutory auditor's responsibilities in the social and environmental audit contract between the audit providers and their clients (AUD9, AUD11). The audit contract should specify the limits of the auditor-client professional relationship in order to safeguard the auditors' independence and avoid a potential conflict of interests (to be discussed later in section 5.2.3).

During the provision of social audit services, statutory auditors should consider the technical differences between the financial audit practice and the multi-disciplined audit engagement (AUD9, AUD10, AUD11). Unlike financial audit providers, who comply with the SOCPA regulations, social audit providers are not restricted by regulatory standards in the verification of corporate social and environmental reporting (AUD9, AUD11). The implementation of non-traditional audit methods in social and environmental audits require statutory auditors to be aware of the audit risks, and accordingly, examine sustainability reports with more due care and diligence. From their experiences in social auditing, most interviewees acknowledged the complexity in dealing with several issues, particularly in verifying quantified and unquantified non-financial information. The interviewee AUD10 commented: "…hiring specialists from other non-financial or multidisciplinary areas *per se* is not problematic. The issue is to translate the assessment of corporate environmental activities into a standardised form of wording for the audit reports". Furthermore, the participant AUD10 explained that the audit of sustainability reports requires the statutory auditors to improve their judging skills to assess the reliability and validity of the measurement tool used in social auditing.

The evidence-gathering process in social and environmental audits is another issue of concern. One interviewee criticised the approach that statutory auditors currently used to collect evidence, claiming that it is more akin to the traditional method used in financial auditing (AUD9). As the nature of information in the corporate social reports contains a mix of numeric and descriptive non-financial information, statutory auditors should give close attention to the evidence collection process. More importantly, the interviewees AUD10 and AUD11 prioritised the investigation of the materiality of evidence gathered to substantiate the judgement of statutory auditors on corporate social reports. Furthermore, the AUD10 respondent mentioned that statutory auditors should bear in mind that the analytical procedures of evidence in social auditing are more complex than in financial auditing. Hence, all interviewees asserted that it is paramount to assure the quality and materiality of the collected evidence in social auditing to minimise potential audit risks.

As highlighted by AUD2, AUD9 and AUD11, several instances demonstrate the high operational risks associated with the provision of social audit services in the Saudi Arabian context. Because of the complexity in verifying the contents of corporate sustainability reports, risks in social and environmental auditing may include risks equivalent to inherent and detection risks in financial auditing. For instance, auditors may encounter social audit risks in the assurance of disclosed pollution records, compliance with industry and environmental standards, and the review of health and safety systems of client companies. Despite that hiring specialists and consultants from other non-financial auditing fields would mitigate social audit risks, statutory auditors in Saudi Arabia still lack adequate skills and expertise to engage in a multidisciplinary audit team (AUD8, AUD10). The social audit risks can be addressed early if the auditors carefully draw the audit plan, which is the main focus of the next section.

5.2.2.1 The social and environmental audit plan

Audit planning is the first step that establishes the basis for the social audit services, especially the initial assessment of corporate reporting systems. From the respondent viewpoints, the social audit providers should design an audit plan that ensures:

(1) clear identification of social audit objectives and the time frame to complete the audit process;

(2) careful selection of appropriate techniques to audit the corporate social and environmental activities;

(3) careful consideration in estimating the costs and benefits of hiring specialists from multidisciplinary non-financial fields to participate in the social audit team. In most scenarios, the statutory auditors need consultations from non-audit experts for verifying the credibility of corporate environmental and social information, as stressed by the interviewee AUD9.

The interviewee AUD10 argued that the social audit process requires the audit practitioners to carefully measure, understand, and evaluate corporate social and environmental performance. The respondent AUD9 drew attention to two potential impediments to the progress of social audit practices, including audit planning. The first is related to the possible intervention of regulatory authorities, such as the SOCPA, to impose quasi-mandatory standards and determine the range of social audit fees. Therefore, this restricts the freedom and advantage of statutory auditors to perform the audit services. The second is related to the heightening of the expectation gap between the social auditors' goals and the stakeholders' perception of social auditing. Consequently, the social audit would broaden the expectation gap between auditors and clients companies on the one hand, and between auditors and in the general public, on the other. Hence, this may explain the unwillingness of some statutory auditors and non-financial specialists to standardise the service.

The audit planning is designed to determine the audit scope that entails a set of procedures that auditors should follow. Also, the audit plan includes an estimation of the time and costs for carrying out each stage of the audit process from evidence gathering to providing the audit outcome. In most audit cases in Saudi Arabia, social audit plans range between two years and four or five years, depending on the company management needs from the auditing (AUD2, AUD5, AUD9, AUD10, AUD11). Company managements often select long-term contracts to evaluate, validate, and strengthen their corporate social responsibility reporting system by independent external auditors (AUD9, AUD10).

Statutory auditors, in general, are inclined to long-term social audit contracts, as the respondent AUD9, who justified that inclination by stating that:

> "From my professional perspective, statutory auditors need time to design and manage a plan for the social and environmental audit process. That time is needed to understand the client's corporate environmental and social responsibility system, evaluate the quality of audit evidence, and coordinate with other specialists from other multidisciplinary areas. Considering these basic audit steps could assist in the analytical assessment of corporate sustainability reports".

Furthermore, the interviewee AUD11 expressed a supportive opinion for a long-term contract for providing social audit services. The interviewee stressed the importance of a long-term audit contract because it allows statutory auditors to take all necessary measures to examine the effectiveness of the corporate reporting system. As a result, statutory auditors have enough time to assess social audit risks, seek the most compelling evidence and sufficient information to reach a broader understanding of corporate sustainability disclosure.

A robust audit-planning process should encompass an assessment of various audit risks associated with social audit engagement. In social and environmental auditing, statutory auditors should concentrate on risk assessment more than in the traditional approaches in financial auditing (AUD10). In doing so, it is suggested that statutory auditors embrace non-traditional strategies with only the applicable financial audit techniques to accommodate the nature of social audit practice (AUD10, AUD11). For example, the assessment of air emission control and water management reports of petrochemical industries requires the usage of non-traditional techniques to determine the sufficiency and accuracy of the collected evidence and support the opinion of social auditors (AUD11). The interviewee AUD10 concluded that: "in this complex audit engagement, the primary aim is to mitigate the social audit risks to a reasonable level, and simultaneously, assist our clients by offering recommendations. The assistance of non-statutory auditors aid in identifying areas of weakness in clients' social and environmental accounting and reporting systems".

Overall, all interviewees showed a strong inclination to the long-term social audit agreements with the company management. The interviewees noted that the social audit contract should include details about the aim of the audit, areas of concern that companies need to address, estimated time for completing the social and environmental audit service.

5.2.2.2 The content of corporate social responsibility reports of Saudi companies

Generally, all interviewed auditors raised concerns regarding the ambiguous terminologies used in social and environmental audit reports to describe the audit processes of non-financial matters. Evidence from the literature has empirically indicated that in advanced industrialised economies, few traditional audit procedures are used successfully in the social audits, and therefore, scholars question the rationality and efficiency of the use of conventional audit techniques in such audits (Power, 1996; Humphrey and Owen, 2000). Unlike the universally accepted conceptual frameworks and regulatory codes employed in the classical financial audit practice, the social and environmental audits lack general regulatory principles and rules. Thus, the inconsistency in social audits inherently leads to the production of vague audit reports with an unclear attestation process. For example, a junior auditor, who assisted non-financial auditors in assuring social and environmental statements for a company in the petroleum and petrochemical industry, argued:

> "When auditors use a standardised form of traditional auditing wording, as a *lingua franca* among auditors, to review and attest the accuracy and credibility of corporate non-financial events, it may lead to an irrational or even misleading judgement. For instance, how the application of traditional audit standards in non-financial corporate activity can be viable in issues such as pollution measurement, compliance with environmental laws and health and safety systems" (AUD5).

This opinion indicates that the current use of publicly misunderstood audit terminology to convey a social audit outcome to the public leads to information asymmetry. Consequently, as the audit theory posits, the audit expectation gap is more likely to be broadened (Sikka et. al, 1998). The auditors, who participated in the interviews, emphasised the importance of promulgating national standards and regulation of the social auditing profession in ways akin to traditional auditing. The desire to promulgate regulatory codes for social audit practices should consider the consistency with Islamic values to avoid misconduct and exploitation by opportunistic auditors and corporate managers to beautify their reputations and social and sustainability positions of their client companies (AUD7).

There was a disparity between the comments made by the interviewed auditors who worked in large firms and their counterparts in mid-sized and small firms concerning the content and features of corporate social and sustainability statements. While the interviewed auditors from the large audit firms expressed satisfaction with some corporate social and environmental presentation in the agricultural and cement industries, other statutory auditors from the small and mid-sized audit firms criticised the random reporting of corporate social disclosure. However, some interviewees from the mid-sized audit firms (AUD3, AUD7, AUD9) regarded the quality and usefulness of corporate sustainability reports as somewhat fair, considering that social and environmental auditing services in the local market remained at an early developing level.

All interviewees enriched the discussion with their opinions on integrating traditional auditing methods, such as substantive tests and sampling techniques, with social auditing. They recognised that this was a complicated and challenging task, considering the level of expertise in the financial auditing industry in Saudi Arabia. Most of the interviewed auditors asserted that social audit practices in Saudi could improve through cooperation with international audit firms. For example, Saudi audit firms can benefit from the Big4 international audit firms from the UK, USA, and Australia that have experienced several social audit engagements in similar petrochemical sectors. The interviewees explained that the financial audit practice in Saudi Arabia had developed significantly and become standardised through similar cooperation with financial auditors from overseas. Two senior statutory auditors (AUD8, AUD4) from reputable audit firms stressed the importance of prioritising Islamic values in the practice of social and environmental auditing. Notably, the interviewees AUD2 and AUD5 commented that corporate sustainability statements sometimes include narrative details and unquantified information that could be a window-dressing mechanism to hide negative corporate environmental impacts and deceive the general public.

Indeed, the content of a corporate social responsibility report in one company differs from another company in the same sector. Whereas on a larger scale, the disclosed corporate social and environmental information in one commercial or industrial area is distinct from another industry, as respondent AUD9 noted.

All the eleven interviewed auditors, who engaged in at least one social and environmental audit engagement, experienced technical challenges in auditing corporate sustainability reports. The interviewees noticed that the content of corporate sustainability reports varies considerably. For example, the sustainability reports of the banking and telecommunication sectors contained more descriptive non-quantified details than in the real estate management and petrochemical industries reports that include a mix of numeric, narrative quantified information. The interviewed participants AUD9 and AUD10 observed that companies operating in the petrochemical and telecommunication sectors frequently disclosed social and environmental performance, unlike other companies in other industries. On an annual basis, company managements in the petrochemical and telecommunication companies disseminated a wealth of information about their socially- and environmentally-related activities. On the other hand, the banking and insurance companies usually publish descriptive financial and non-financial information about social contributions every four months. Whereas some companies in the cement and agriculture industry issued brief statements of their corporate social and environmental responsibility performance once every two to three months.

Consequently, the plans for auditing corporate social and environmental statements can significantly vary as there is a wide disparity between Saudi companies in social and environmental disclosure. This disparity is attributed to the unconstrained voluntary reporting of corporate sustainability information. Because of the absolute control of the content of sustainability reports by the chief executive officers (CEOs) and the limited number of influential shareholder groups, the interviewee AUD9 expressed concerns about corporate social and environmental reporting, stating that:

> "...before thinking to improve social audit services in Saudi audit firms, it is necessary to address today's chaotic social and environmental disclosure. I believe that statutory auditors are not fully aware of risks associated with the audit of corporate sustainability reports. The first and foremost step to tackle these risks is to call for governmental interventions, through the CMA and the SOCPA, to regulate the performance of these voluntary disclosures. In the social audit practice, statutory auditors can engage with the regulatory body in discussions to find out appropriate measures to minimise risks in the provision of social audits. The ultimate aim of these proposed initiatives is to boost the transparency and credibility of sustainability reports for Saudi companies".

The inconsistency in the sustainability reporting practice has rippled to the statutory auditors' performance, which led to widening the social audit expectation-performance gap. One of the interviewees pointed out the vagueness in giving an opinion on corporate sustainability and social statements (AUD10). One case mentioned by the interviewee AUD10 explained how social audits could increase the perception gap between the general public and the audit firms, stating that:

> "One statutory auditor from a particular audit firm reviewed the 2016 health and safety internal system of a large public company that operates in the cement sector. The statutory auditor offered an unqualified audit opinion without referencing a practical guide. In the subsequent year, another statutory auditor from the same audit firm evaluated the same internal system of that particular company but reached an unsatisfactory professional opinion. The second statutory auditor substantiated the adverse audit outcome with proofs of inadequate disclosure of health and safety information, non-compliance with industry standards, and inaccurate representation of companies' health and safety disclosure".

Meanwhile, the interviewee AUD11 attributed the contradiction in examining corporate social statements to the contrived randomness in using social audit techniques. Also, the interviewee AUD10 explained that the unsystematic exercises of social auditing had four causes that led to poor audit performance throughout the past decade or so. The first and foremost cause is voluntary disclosure, which allows clients companies to orchestrate a complex combination of numeric and narrative non-financial data. Therefore, voluntary reporting paves the way for manipulating the content of corporate social and environmental reports and serve the narrow interests of a particular shareholder or stakeholder group. From the AUD10's experience in the auditing field, companies often prepare corporate social responsibility reports without compliance with specific or clear guidelines and standards.

Furthermore, interviewee AUD10 claimed that statutory auditors neglect to refer to criteria to substantiate their professional judgement, unlike in the case of a financial audit. The second issue is the absence of coordination between audit firms and regulatory bodies. The interviewee AUD10 insisted that such coordination would minimise professional biases and random approaches in the social and environmental audit performance in the Kingdom. The third cause is the auditors' desire to maximise profitability from social audit services at the expense of improving the quality of social audit services. The interviewee AUD10 demonstrated that the avaricious inclination of audit firms towards social audit services would cause adverse effects and lead them to largely depend on non-financial audits and omit their primary activity to provide financial audits services. The final issue is concerned with the current condition of social audit is the statutory auditors' inclination to mimic audit firms in the developed economies, particularly the Big4 audit firms, without considering Islamic principles and Saudi social values. According to respondent AUD10, the unsystematic audit of corporate social responsibility reports has served only the private interests of corporate managers, influential shareholders, and specific audit firms. Notably, the interviewee's argument is somehow congruent with Roberts (2009) and Strathern (2000) arguments. The interviewee AUD10 criticised some Saudi companies for exploiting social and environmental reports for manoeuvring the delivered message and portraying optimistic views on their sustainability performance. The criticism includes the social audit service that, with its present status, is only helping to conceal the failure of corporate social performance or to beautify companies' image as good and accountable entities in the Saudi community. The respondent AUD10 showed concerns about the social audit services emanated from the high non-financial-audit consulting fees paid to the audit firms for providing social audit as consultancy services. The interviewee AUD10 feared that the expansion in social audit services could engender severe risks to audit firms and the auditing profession in Saudi Arabia. In the absence of the SOCPA approval or supervision of social audit practices, the issues would even be exacerbated, as the interviewee AUD10 stressed that:

> "In my view, the professional independence of statutory auditors in Saudi Arabia is arguably maintained. As long as the statutory auditors are oblivious to the high reputation risks from the social audit practice, it will cause a massive audit failure that potentially leads to a financial catastrophe in the Saudi financial services sector. I am referencing the bankruptcy of the large American Enron company in 2001 that collapsed one of the Big-5 audit firms worldwide because of its uncontrolled expansion of non-financial audit services. And the result is losing the audit licenses to practice in August 2002".

In conclusion, the interviewees emphasise the role of statutory auditors that they could play to overcome ongoing concerns associated with the voluntary social and environmental audit practices. The respondents advocate for a careful integration of financial audit techniques with social audit processes. Also, they called for the establishment of agreed social audit guidelines for local audit firms. The respondents encouraged the SOCPA, the financial audit firms, and the non-auditor specialists to take reformative steps to optimise social audit exercises and improve the quality of the audit services. During the last decade, financial audit techniques have been randomly employed in non-audit services by mostly large audit firms in Saudi Arabia, including the sustainability assessments and consultancy services.

Indeed, the competence and knowledge of statutory auditors in evaluating the quality of accounting information and the effectiveness of the internal control system are highly appreciated by Saudi public companies. However, some of the interview respondents raised doubts concerning the emerging risks from expanding the social and environmental audit services amid the absence of regulatory oversight or standardised guidelines for local Saudi audit firms. The majority of interviewees believed that the procedures of financial auditing and social audit practices are generally incoherent. But they argued that some financial audit techniques could be applicable in the social audit processes. In this vein, integrating social audits into financial audits can be discussed with the professional regulatory bodies, academic institutions, and relevant non-financial audit associations in Saudi Arabia (AUD10)[46]. Amid the uncontrolled issues surrounding the social audit practice, different explanations were given by the interviewed auditors to illustrate technical barriers of incorporating financial audit methods into social audit practices in Saudi Arabia. But there are other issues related to the conflict of interest, which threaten the statutory auditors' independence and ethics, which will be discussed from the interviewees' perspective in the next section.

The following table summarised the comments of the statutory auditors in the interviews regarding issues that technically hindered the development of social and environmental audits in Saudi Arabia:

[46] The respondent AUD10 urged on the necessity of consulting academic and professional bodies in advanced economies that experienced such issues in social audit as the United States, the United Kingdom, and Australia. At the same time, the advice from academic experts in local financial institutions such as the Saudi Accounting Association (SAA) http://www.saa.org.sa, are equally essential to propose applicable social audit guidelines.

Table 5.3 Interviewed auditors' comments on the applicability of financial auditing techniques for social auditing

Statutory auditors' perspective on the following:	Number of agreed views
There are concerns with the ambiguous terminologies used in social and environmental audit reports to describe the audit processes.	11
Long-term audit contracts (that range between two years and four or five years) are preferable to conduct a comprehensive examination of the client companies' social and environmental reporting system.	5
Statutory auditors should concentrate on risk assessment in social auditing more than in the traditional approaches in financial auditing.	2
Auditing the contents of corporate sustainability reports is associated with risks equivalent to inherent and detection risks in financial auditing.	8
The audit of sustainability reports require the statutory auditor to have multi-disciplined skills and cooperate with different non-financial audit specialists.	5
There is a need to harmonise traditional auditing techniques with social auditing standards.	10

5.2.3 Social audit impact on independence of statutory auditor

A key ethical aspect in the auditing profession is maintaining the independence of the external auditors before, during, and after the provision of financial audit services. The protection of the auditors' independence is likewise highly essential in social and environmental audit practices as it matters to a wide spectrum of non-stockholders. The correlation of social audit practices with auditors' impartiality will be discussed in this section from the interviewed auditors' perspectives. Indeed, the audit literature addressed the growing concerns regarding the influence of social audit services on the auditor's impartiality and whether or not the auditors can preserve their independence

(Power, 1994; 1997; Beets and Souther; 1999; Ball et. al, 2000; O'Dwyer and Owen, 2007; Perego, 2009).

In this section, the interviewer aims to highlight the opinions of auditors about the extent of impairment of social audits to the auditors' independence and ethics. Also, the interviewer seeks to address to what degree the financial auditing profession is influenced by the growing tendency to provide social audit services. Moreover, the section outlines the interviewees' suggestive solutions to ensure independence, whether in appearance or mind, during the provision of social and environmental auditing. Hence, the interviewed auditors were asked to respond to the research question (RQ1-b).

The respondent auditors agreed that the provision of social and environmental audit services over the last decade, or so, has a varying impact on auditor independence because statutory auditors have been involved in an audit engagement associated with conflict of interests with their clients and other stakeholders. For example, the AUD10 stated that:

> "In the early 2000s, Saudi companies started to seek independent external auditing to validate their sustainability and social responsibility claims. In turn, statutory auditors commenced non-traditional services for their clients, such as health and safety assessment and environmental and legal consultancy for maximising revenues from non-financial audit fees. Because large audit firms dominate social audit services, they might form close relationships with client companies. Such a relationship can heighten a negative public perception of auditor independence. The issue is that large audit firms provided social and environmental audits with the

> traditional financial auditing to the same clients or their subsidiaries. In the Islamic Saudi society, social audit services are monopolised by large audit firms, which is Islamically a prohibited act. Therefore, I strongly recommend that political authorities and relevant regulatory bodies should strictly supervise social and environmental audits in Saudi Arabia to safeguard auditor independence".

Another critical opinion of one of the interviewees claimed that the social audit engagements are associated with risks that could jeopardise their professional impartiality and ethics. Consequently, such risks could increase the level of reputational risk for their audit firm. As one of the recognised auditors in a mid-sized firm (AUD3) stated:

> "Social and environmental auditing in the Saudi financial services sector is a relatively new and complex engagement that needs academic exploring and professional training in non-financial audit areas. Despite that such audit involvement incurs a high cost and requires tremendous effort and time to verify corporate social statements, it is a profitable operation for audit firms. The idea of extending the auditors' responsibility and accountability to parties beyond corporate management and shareholders is eventually helpful to boost public comfort and trust in our role as financial auditors in Saudi Arabia. There is still a sense of discomfort and scepticism in our audit procedures, especially after the occurrence of financial scandals in the audited financial statements, namely for the audits of public companies' statements from the insurance and construction sectors in the stock market. If another scandalous failure occurs in the social and environmental audit services, the public mistrust will devastate

the reputation of financial auditors. Only well-trained and competent auditors could succeed in the social and environmental audit arena, and possess the ability to manage the potential risks and identify the lucrative opportunities in this non-traditional version of audit practice".

Moreover, the interviewed auditors recognised that ensuring independence and objectivity in judging corporate social responsibility reports is quite unachievable. According to AUD11, the rapid growth of social and environmental audit practices in the conservative Saudi society will effectively enlarge the current gap between statutory auditors' objectives and users' expectations of the social audit role in the business community. The provision of sustainability and other non-financial audits in Saudi Arabia had engendered negative consequences on the reputation of audit firms. As a result, financial media alarmed the public about fostering closer auditor-client relationships (AUD9). The respondent AUD9 added that "despite that the New Saudi Company Law 2015[47] imposes a mandatory of maximum five-years rotation for audit firms, the public distrust of social auditing, precisely, and financial auditing generally remains controversially high".

Although that the interviewed auditors acknowledged the threats of the social audit practice to the independence of statutory auditors and the auditing profession at large, they proposed reforms to mitigate these threats through a collaborative effort between statutory auditors, the Ministry of Commerce, the regulatory body (the SOCPA) and corporate managers.

The first suggested reform is presented by the interviewee AUD9, who stressed the

[47] https://www.idc.gov.sa/en-us/RulesandRegulations1/The%20saudi%20Companies'%20Law.pdf

necessity for identifying the underlying mechanisms to help in protecting the auditors' independence from social and environmental audit risks. The AUD9 added that "the SOCPA, as the auditing oversight body, should encourage statutory auditors to participate and debate in discussions over the introduction of a framework that outlines mechanisms for safeguarding social auditor's impartiality". The AUD2 proposed that the regulatory framework should not exclude the social audit coordination between statutory auditors and other non-financial auditors. Engineering consultants, environmentalists, and law firms are all pivotal to carrying out the social and environmental audits in Saudi Arabia. While the respondent AUD9 emphasised the internal reforms of social audit systems in statutory audit firms, the interviewees AUD10 and AUD11 suggested that the reform should extend to the Saudi New Company Law (2015) and the SOCPA articles regarding the auditors-clients relationships. The latter step is crucial for improving social audit services as the respondent AUD10 mentioned that: "...there is a need for mandating a robust governance system for audit firms-clients relationships. The political authority can take the first fundamental step to boost the quality of social and environmental audit services in the emerging economy of Saudi Arabia".

It is crucial to strengthen independence as an essential character of statutory auditors, especially within the provision of social and environmental auditing to reduce scepticism against audit firms, and boost social confidence in the social auditing profession. In doing so, the interviewed auditors AUD11 encouraged the regulators in the SOCPA to re-review the codes of ethics and re-define guidelines and principles that govern the statutory auditors' behaviour in the provision of financial auditing. More importantly, the interviewee AUD11 explicitly pointed out that:

"...professional independence, as an essential ethical character for statutory auditors, is a challenging matter to maintain when audit firms tend to provide social and sustainability audits or consultancy services with financial auditing for Saudi corporations. Precisely, as an experienced financial audit provider in the Kingdom, several risks are harming the auditors' independence, whether independence in appearance or in mind. These ethical risks emanate from the provision of social audit services with financial audits by one audit firm for the same public corporation or its subsidiaries and affiliated companies.

The social audit services are not only endangering the independence of auditors but also tarnishing the reputation of Saudi audit firms. Furthermore, what is puzzling is that the risks from social and environmental auditing are threatening statutory auditors' ethics and remained unaddressed for years. Neither the statutory auditors nor the professional body publicly discussed the effect of the voluntary provision of social audits on auditors' independence. Most Saudi public companies sought to attest their sustainability reports by only some large audit firms monopolists. When social audit services are performed without adhering to recognised standards and guidelines, self-interest independence may threaten auditors' ethics. Such audit risk has been increasing in the financial audit market due to the Islamically prohibited monopoly of social and environmental audit services. Most social audit services in the Kingdom are provided by large audit firms, in which statutory auditors from one audit firm simultaneously conduct social audit and financial audit services for the same client companies. In such

> circumstances, it is more difficult for statutory auditors to secure an unbiased professional judgement on either the corporate social statements or annual reports of one company, which have been audited previously by another statutory auditor in the same audit firm. I can confidently conclude that the uncontrolled version of social and environmental audit conducts decrease the chances for statutory auditors to make unbiased audit decisions, and more critically, expose statutory auditors to compromise their professional independence and objectivity".

One interviewee elaborated on religious and social barriers that may impede the social and environmental audit reforms, pointing out the uniqueness of the Islamic and economic significance of the Saudi Arabian environment (AUD9). Particularly, the interviewee AUD9 explained that the social views of Saudi investors on the concept of independence, as an ethical requirement for external auditors, differs from the public views on the independence of auditors in developed countries. As there are no mandatory regulations for the social accounting and auditing practices in Saudi Arabia, statutory auditors should be responsible and self-regulate their social audits exercises (AUD9, AUD11).

Despite that the SOCPA supervises the compliance of statutory auditors with financial audit standards promulgated by its board, the SOCPA alone does not have the authority to enforce any social and environmental audit reforms for enhancing auditor independence (AUD9). Thus, most of the interviewed statutory auditors urged that the ultimate responsibility for protecting the impartiality of statutory auditors from social audit risks rests with the statutory auditors themselves, then the government authorities, and finally, the SOCPA.

The following table summarised the main comments of interviewed auditors concerning the implication of social and environmental audit practice on the independence of statutory auditors:

Table 5.4 The interviewed auditors' opinions on the impact of social audit practices on the professional independence

Statutory auditors' perspective on the following:	Number of agreed views
Social and environmental audits have a varying impact on the independence of statutory auditors and could be a much higher cause for conflict of interests with their clients.	9
With the absence of clear criteria to determine the independence of statutory auditors in social audits, it is challenging to ensure freedom of bias in the judgement on corporate social responsibility reports.	3
The expansion in social and environmental audit services in Saudi Arabia will further enlarge the gap between statutory auditors' actual performance and the public expectations from the social audit role in the business community.	7
Social audits have facilitated fostering closer auditor-client relationships, which are viewed as a negative consequence on the reputation of audit firms, and more importantly, the statutory auditors' independence.	5
Proposals for reforming the social audit practice should extend to the Saudi New Company Law (2015) and the SOCPA articles and cover the auditor-client relationships.	6
The codes of ethics in the SOCPA articles should be re-reviewed and re-defined to update the guidelines and principles that govern the statutory auditors' performance and in the non-financial audit services.	1

5.2.4 Discussion of stakeholder engagement in the social audits

Stakeholder participation in social and environmental reporting and auditing is regarded as an effective tool to discharge corporate accountability only if it is not selective or restricted to the service of a few vested interests (Belal, 2002). The fundamental reason for promulgating global standards for corporate sustainability reporting and social auditing such as those drawn up by AccountAbility (AA1000AS) or the Global Reporting Initiative (GRI), is to regulate the stakeholder inclusion processes (Belal, 2002; https://www.accountability.org/standards/). Prominent scholars paid considerable attention to the role of auditors in the verification of the corporate dissemination of stakeholder information (for example, Gray 2001; O'Dwyer and Owen, 2005; 2007; O'Dwyer, 2011; Islam et. al, 2018). Intellectual debates regarding stakeholder involvement in social and environmental auditing and non-compulsory corporate social reporting revolve around the extent of stakeholder inclusion in the audit engagement and the criteria that should be applied to improve the validation of stakeholder inclusion in corporate social self-reported information.

The stakeholder involvement in the social audit practice within the developed economies context has been discussed in-depth in the social audit literature (for example, Gray, 2007; Ball et. al, 2000; Adams and Evans, 2004; Manetti and Toccafondi, 2012, amongst others). As companies in the developed economies have expanded in including information about stakeholder interests in social and environmental responsibility statements, stakeholder engagement became a frequent theme in the accounting literature (O'Dwyer and Owen, 2005; Deegan et. al, 2006; Unerman et. al, 2007). However, there is a shortage of investigative studies on stakeholder engagement in social and environmental accounting and auditing practices in developing and emerging economies. As many corporations in the emerging economy of Saudi Arabia have embarked on sustainability responsibility reporting since the 2000s, it is crucial to examine the views of statutory auditors on the inclusion of the stakeholders in the audit of corporate social reporting. The present section discusses the views of statutory auditors regarding the stakeholder consideration in social and environmental audits, and the socio-religious factors associated with stakeholder participation. Thus, this section primarily deals with the responses of the interviewed auditors to the second research question (RQ2).

The interviewees' responses varied considerably between acknowledging and downplaying the importance of stakeholder involvement in social and environmental auditing. Due to the differences in the responses to the research question (RQ2), this section delineates the interviewees' views on stakeholder engagement in three subsections. The first section is concerned with the supportive arguments for stakeholder inclusion in social and environmental audit practices. The second section is devoted to the interviewees' arguments that advocates for semi-inclusion of only relevant stakeholders in social and environmental audit engagements. The third section deals with the comments that oppose the involvement of stakeholders in social and environmental audit processes.

5.2.4.1 Suppporting views of stakeholder inclusion in the social and environmental auditing

In social audit practices, stakeholders inclusion is an effective procedure for enhancing corporate social responsibility disclosure (AUD10). Social and environmental auditors can aid their clients in designing and strengthening a system for managing company-stakeholder relationships, which can develop robust strategies for corporate stakeholder management.

Most importantly, the interviewee AUD10 asserted that statutory auditors should consider the Islamic and social constraints in auditing stakeholder engagement information in the clients' sustainability reports. In other words, the respondent AUD10 clarified that the Saudi public expects that the social audit providers are accountable for their assurance of the legitimacy of the reported details about stakeholder engagement. The interviewee AUD10 gave an example of an audit of stakeholder engagement information in sustainability reports of one of the Saudi banks, illustrating the negligence of statutory auditor's assurance role in considering consistency with Islamic laws and cultural norms. In short, an example is given about one of the banking management that disseminated information about dialogues with one of the salient stakeholder groups in regards to their social responsibility programmes for sponsoring small family-owned businesses, and funding or granting zero-interest loans for Small and Medium-sized Enterprises (SMEs). The respondent AUD10 criticised the social audit providers of that bank, stating that:

> "This particular social and environmental audit case in the Saudi audit market exemplify the failure of statutory auditors to verify the Islamic legitimacy of stakeholder information reported in the bank's social statements. Despite that the free-interest loans provided as part of the bank's contribution to small businesses is Islamically permitted according to the verification of the external social auditors, the social audit providers failed to provide a comprehensive social review on the legitimacy of the banks' social programme. For instance, the social auditors disregarded details related to the bank's stakeholder engagement and dialogue report that revealed that some of the bankrolled small projects are later confirmed to be un-Islamic".

The inclusion of stakeholders in the audits help to boost the credibility of corporate social and environmental reporting and reduce the audit costs (AUD10). Regardless of how statutory or social auditors communicate with stakeholders, it is the most efficient and cost-effective approach for understanding the stakeholder issues related to social activities of Saudi companies. The interviewee AUD10 claimed that rather than reviewing documents, direct meeting with the concerned individuals or groups, who have a direct or indirect stake in companies' social activities, is a valid evidence.

The interviewee AUD10 further commented that: "there is a strong inclination towards engaging in direct communication between the pertinent stakeholders and audit firms that provide social audit services for the sake of boosting the public confidence in the corporate social responsibility reporting and the social audit practices".

Generally, the interviewed statutory auditor AUD10 is satisfied with the current involvement of stakeholders in social audit practices. The interviewee AUD10 suggested that direct interaction between statutory auditors and stakeholders during the social audit process may simultaneously bring several benefits to the social audit service providers, the audited companies and their stakeholders. Nevertheless, the interviewee AUD10 acknowledged that direct engagement with stakeholders, as a way to perform environmental and social attestation services, is still rarely implemented, at least, in the respondent AUD10's audit firm.

However, among those who endorsed the consideration of stakeholders, there were disagreements in respect of the process that should be used to identify and classify those individual groups and institutions that were deemed to hold a pertinent stake, and regarding the most appropriate method of inclusion. These interviewees attributed these practical difficulties to two obstacles. First, the interviewees characterised stakeholder involvement as a daunting or quasi-impossible process because it required social auditors to determine an objective and cost-effective method to verify the accuracy and fairness of corporate responses to stakeholders' perceptions. The second difficulty emanate from the complexity of measuring organisational social and ethical performance, and assessing the relevance and materiality of stakeholders. Juxtapositing these findings with that from the literature (for example, from the studies of Adams and Evans, 2004; O'Dwyer and Owen, 2005; 2007; Gao and Zhang, 2006; Deegan et. al, 2006; Bebbington et. al, 2014) shows that the audit of stakeholder engagement information is a challenging task, albeit that most respondents encouraged stakeholder involvement in social audit procedures.

One benefit of auditing stakeholder engagement in sustainability disclosure, as emphasised by the interviewee AUD10, is the value that the audit service can add to the companies' stakeholders. The verified stakeholder engagement information is a valuable evidence for the audit of corporate social and environmental responsibility claims. Also, the audit of stakeholder information can serve the stakeholder interest by assuring that reporting companies' objectives are Islamically and socially aligning with (or not infringing) their values. Social audit services in Saudi Arabia are performed frequently by large audit firms that afford to hire specialists from the Islamic economy and law areas. A competent social audit team can gauge the effectiveness of corporate social responsibility reporting and ensure the accuracy of the disclosed stakeholder information. From the viewpoint of the interview respondent AUD10, "…the social audit function in Saudi Arabia cannot be an effective way for ensuring the consistency of companies' social responsibility policies with Islamic and cultural values without including stakeholder engagement information in the social audit plan".

As Saudi Arabia embrace Islamic ethics, the statutory auditors are expected to assure stakeholder information included in the corporate social and environmental reports with high integrity and due diligence (AUD1, AUD7). The interviewee AUD10 opined that: "the voluntary decision to ensure the credibility and accurate reflection of the disclosed stakeholder engagement information in the corporate social statements can potentially epitomise the culture of Islam in the auditing profession". Nevertheless, the interviewee AUD10 agreed that statutory auditors in Saudi Arabia are generally not inclined to communicate with stakeholders to substantiate their social and environmental audit process with valuable evidence. However, the interviewee AUD10 expected that the growing public pressure on audit firms to improve the quality of social audits would gradually direct statutory auditors to consider stakeholder involvement.

Thus, supporters of stakeholder inclusion collectively concluded that information made available to stakeholders could be evaluated only by the assistance of specialists in the Islamic law, and other non-social science academic and professional fields. The opponents of stakeholder involvement regarded it as an overwhelming endeavour but essential in social auditing, which only large audit firms could afford.

Interviewees stated that stakeholders from religious backgrounds inherently possess the most influential social power, which enabled them to coerce companies into reactions to specific demands. Similarly, interviewees generally considered that environmental audit engagements should include scholars and experts from sociology-related disciplines to determine the accuracy of corporate information related to socially dominant stakeholder groups.

Overall, stakeholder involvement in the social and environmental audit process has several potential benefits for the social audit providers, the reporting company, and the stakeholders' interests. The interviewees suggested that direct communication between social audit providers and the relevant stakeholders is the most practical approach to verify companies' allegations about their stakeholder management.

5.2.4.2 Supporting views of semi-inclusion of stakeholders in the social and environmental auditing

In another interview, the participant AUD9 supported, to a lesser extent, the audit of stakeholder engagement information disclosed in companies' social responsibility reports. There are societal risks associated with the audit of stakeholder engagement information that are not only related to the nature of Saudi Arabia, but also to other Gulf states. The risk in the voluntary audit of stakeholders information is related to the breach of an individual's private information or interests without official reasoning. The privacy concept is appreciated and highly protected as a sign of personal dignity in the Saudi Arabian society (AUD9). The interviewee AUD9 provided examples of corporate philanthropic activities that are conducted in coordination with religious institutions and quasi-government organisations. The interviewee AUD9 attempt to clarify the paradox in the audit of corporate social responsibility concerning philanthropy activities, stating that:

> "It is widely known that companies in Saudi Arabia voluntarily use their funds to donate to the needy and destitute individuals and families. Many corporate managers coordinated with recognised religious institutions to facilitate their philanthropic projects. One of the issues that generally hinders social audit development is auditing the corporate philanthropy, which puts auditors and their audit firms in a socially challenging situation of cultural boundaries.
>
> In my opinion, the audit of corporate philanthropic activities requires dealing with the verbal or written private information of companies' primary and secondary stakeholders. The personal details of entities that

hold a stake in companies' social activities (for instance, Islamic charitable organisations and their beneficiaries) are socially regarded as absolute secrecy within the Saudi cultural context. It is not Islamically and officially permitted to gain access to individuals' information related to Islamic and moral charity for conducting compulsory or non-mandatory audits. Otherwise, from my viewpoint, the audit of discretionary corporate philanthropy will be culturally unacceptable practice".

Also, the interviewee AUD9 gave another justification for limiting the scope of auditing stakeholder involvement information to specific stakeholders. In contrast to the opinion of the interviewee AUD10 who favours the audit of stakeholder inclusion over materiality, the respondent AUD9 views that it is more efficient to focus on the most critical stakeholders to the reported company. Notably, the stakeholder groups can play a significant role in fulfilling the Saudi companies' mission and accomplishing corporate social responsibility objectives. Indeed, it is difficult for statutory auditors alone to determine or assess the materiality of stakeholder information included in the company's sustainability report. However, the interviewee AUD9 recommended that statutory auditors use the international AccountAbility guidelines for materiality assessment. Also, it is crucial to consult experts in stakeholder management to determine the legality and validity of the company-stakeholder interactions, under audit investigation.

The statutory auditors are capable of collecting evidence about interactions between the company and its external and internal stakeholders. In particular, statutory auditors can apply their evidence-gathering skills in the financial reporting area to conduct the social audits, albeit it is challenging to analyse the relevance and materiality of non-financial information. "Stakeholders need to rely on non-financial information to assess corporate social and environmental performance. Statutory auditors need the assistance of experts in corporate public relations to validate stakeholder engagement information. Otherwise, from my viewpoint, without the collaboration with experts in stakeholder management, the audit of stakeholder engagement is unsubstantiated and not sound practice", the participant AUD9 commented.

In respect to direct communication with stakeholders, the respondent AUD9 implies that interacting with each stakeholder included in the social reports of the auditee company is unworthy. Instead, it is sufficient to contact individuals, groups, or institutions who possess a significant stake with the company, under social auditing. Public companies in Saudi Arabia often publish stakeholder information annexed to sustainability, social and environmental reports, which encompass details about the nature of stakeholder interests. Moreover, the interviewed statutory auditor AUD9 emphasised the critical role of corporate social responsibility departments in Saudi companies, namely, in the banking and telecommunication sectors. These departments have established stakeholder databases and assisted audit firms in carrying out social audit services. However, the respondent AUD9 criticised the validity of these databases, claiming that:

> "…although stakeholder database of some Saudi companies constitutes a valuable source for collecting data for social auditors, most of the available databases are outdated".

Alternative methods of gathering stakeholder engagement information to substantiate the social audit process were mentioned by the interviewee AUD9. Despite the widespread usage of various modern communication technology in the Kingdom, statutory auditors still favour the traditional communication methods to obtain or verify their clients' documents as proofs for interactions related to third parties. Examples of third parties include, among others, suppliers and creditors in the financial audit field, or stakeholders in the social audit arena. Particularly, the regular mailing is the most common contact method used by auditors to verify documents related to their clients' interests with stakeholders (AUD9).

While the interviewee AUD10 promoted the direct meeting as a viable method to reliably audit stakeholder engagement information, the respondent AUD9 strongly supported the mailing as it is the optimal medium used by Saudi audit firms. Because the statutory auditors are accustomed to dealing with documents as primary evidence in the financial audit conducts, the interviewee AUD9 believed that direct meeting with stakeholders is an inconvenient, costly, and unreliable method. In some social audit cases, however, the interviewee AUD9 suggested the use of face-to-face meetings between statutory auditors and stakeholders only to substantiate the written evidence collected through the traditional mailing method.

In the light of the above discussion, the interviewee AUD9 advocated that the audit of stakeholder engagement information should not be standardised, but rather focus on materiality and relevance measures. Due to religious and cultural constraints in the Saudi Arabian community, it is highly difficult for auditors to carry out the social audit processes, including evidence collection. Instead, it is more practical to narrow the non-compulsory audit of stakeholder engagement information to the extent that it does not breach the religious and cultural limits (AUD9). Social auditors should concentrate on the materiality of stakeholder engagements. They also should exclude religiously sensitive information from the audit scope (AUD9).

5.2.4.3 Opposing views to stakeholder participation in the social audit practices

In the third section, the statutory auditor AUD11 argued that the audit of stakeholder information to validate the company's social and environmental allegations erroneously add value to the social audit services. Mostly, when statutory auditors gather evidence to verify the accuracy of stakeholder information reported within corporate social statements, several challenges may hamper the social and environmental audit process.

Regarding the direct communication between the social audit providers and the stakeholders, the interviewed statutory auditor AUD11 explicitly doubted whether the relevant stakeholders stated objective opinions about the auditee company. As the interviewee AUD11 elaborated that:

> "....it is difficult, if not impossible, to ensure that individual or institutional stakeholders, who have interests in corporate sustainability reports, give an unbiased opinion about their engagement with the reported companies. There is a strong correlation between the complex companies-stakeholders relationships in the conservative Saudi and the difficulty in obtaining conclusive evidence that shows a fair reflection of companies' stakeholder engagement".

The interviewee AUD11 attributed the difficulty in contacting stakeholders to the barriers that social auditors encountered, implying the sophisticated interactions between Saudi companies with its shareholder-oriented governance systems and multiple stakeholders. Furthermore, the interviewee AUD11 stated that Saudi public and family-owned companies publish corporate sustainability reports that selectively disseminate information about the interests of particular stakeholder groups. It is a highly complicated process for statutory auditors to ensure the objectivity and transparency of stakeholder engagement information, especially if the stakeholders are in a close alliance with the reporting company or its fundamental stockholders. Thus, such selective disclosure would undermine the objectivity of the disclosed stakeholder engagement information.

Likewise, the interviewee AUD11 opposed the participant AUD9's idea of relying on the written documents as primary or secondary evidence to undertake proper social and environmental audits. The participant AUD11 further commented that:

> "Because of close relationships between the reported companies and their stakeholders, auditing stakeholder information does not need statutory auditors to collect and review unworthy evidence. It should be noted that the social and environmental auditing is a voluntary practice, in which the client companies or their stakeholders are not obliged to cooperate with the social audit team. Hence, the audit of stakeholder engagement is daunting and, to a large degree, risky task".

Statutory auditors encounter other various obstacles when auditing stakeholder information related to estimating social audit costs and the audit service hours and evaluating the cost-effectiveness of the initial social audit services. The interviewee AUD11 listed some challenges in managing the costs of gathering stakeholder information and balancing between the audit fees and the audit service quality in the context of voluntary social audit practices. As statutory auditors in Saudi audit firms lack the necessary skills and expertise to cover all aspects of the social audit services, it would be impractical to make wise decisions about non-financial audit costs. The cost of auditing stakeholder information may include high transportation costs to meet the stakeholders, especially in remote areas in Saudi Arabia (AUD11). Social auditors should, first and foremost, consider the importance of stakeholder inclusion according to the relevancy criteria. Afterwards, estimate the necessary cost of, for example, hiring the right non-financial consultants to help in the classification of stakeholders rather than the statutory auditors (AUD11).

In this sense, the interviewed auditor AUD11 opined that the audit of the disclosed stakeholder information is meaningless due to the obstacles that statutory auditors face in reaching a fair judgement based on reliable evidence. In the table below, the various comments on the consideration of stakeholder engagement in the social audit practices are summarised:

Table 5.5 Interviewed auditors' opinions on stakeholder engagements in social audit practices

The perspective of statutory auditors on the following:	Number of agreed views
Stakeholders participation in the social audit process is an effective mechanism for enhancing corporate social responsibility disclosure.	7
There are difficulties in grouping stakeholders based on their materiality and relevancy.	5
Direct meeting with relevant stakeholders to validate their engagement information disclosed in the companies' social statements is a successful tool for reducing audit costs, and adding value and credibility to the reported companies.	1
Instead of collecting invalid documents to review companies' engagement with stakeholders, direct meeting with the concerned stakeholders is more precise, sound, and valid evidence to support the social audit process.	1
Direct meeting with stakeholders to verify their information disclosed in corporate sustainability reports is an inconvenient, costly, and unreliable audit approach.	1
Social auditors should focus on the materiality and relevance of stakeholders rather than the inclusion to provide more efficient auditing of stakeholder engagement with the companies.	1
Statutory auditors can apply their evidence-gathering skills in the financial reporting context to social audit practices.	1
The voluntary audit of stakeholder engagements disclosed by client companies is meaningless. Due to the close relationships between the reporting companies and their salient stakeholders, it is almost unattainable to ensure objectivity and transparency in stakeholder information disclosed in the corporate social reports.	1
It is challenging to manage the costs of gathering evidence to substantiate the reported stakeholder engagement information in corporate social responsibility statements. Generally, statutory auditors lack the necessary skills and expertise to undertake the evidence-collection process of social audit services.	1

5.2.5 Statutory auditors views on the future of the social audit practice

The interviews with statutory auditors from different audit firms opined various thoughts and opinions concerning the future status of social and environmental audits based on current conditions in Saudi Arabia. Most of the interviewees viewed the social audit practice as being in its infancy, and they envision significant development opportunities in the foreseeable future. The Saudi government is determined to improve its economy and move to a more productive, diverse and sustainable economy (as discussed in the second chapter, in section 2.3.2), taking the Saudi Vision 2030 as a roadmap to achieve the ambitious national goals. One of the Saudi Vision 2030 goals is to expand the private business contribution to the Saudi economy. As corporate social and environmental reporting is one mechanism to deliver corporate social responsibility to the public (Gray, 2000; Deegan and Blomquist, 2006; Neu et. al, 1998; Islam and Deegan, 2008; Kolk and Perego, 2010), statutory auditors can play an integral role in achieving the Saudi Vision 2030 goals.

The interviewees envisioned the possible progress of social and environmental audit services, especially if the audit firms align their objectives with those of the Saudi Vision 2030 plan. However, the interviewees offered different perspectives as suggested solutions to overcome the social audit barriers they encountered in the past years. Despite the growing awareness of social audit practices among statutory auditors, the social and environmental audit services were performed in an unorganised manner, provided without clear referencing to international standards, and carried out by generally incompetent and inexperienced statutory auditors. Yet, there is a room for development through government interventions (AUD10).

The interviewees AUD10 and AUD11 emphasised the government role in regulating and improving the social and environmental audit practices in collaboration with the relevant professional regulatory bodies[48]. Furthermore, the interviewee AUD9 urged the Ministry of Commerce and the CMA to update the Saudi Company Law (2015) by mandating regulatory reforms concerning corporate social responsibility disclosure. Also, it is crucial to standardise the social audit practice with internationally recognised standards (i.e. the AccountAbility (AA1000AS), the GRI, or proposed local guidelines) to regulate the voluntary audit services (AUD10). The respondent AUD10 believed that introducing regulatory guidelines for social audit practices could play a key role in improving the quality of the social audit services in the Kingdom.

Regarding the issues surrounding the auditors' professional ethics and independence, two of the respondents (AUD9, AUD11) encouraged the regulatory body and the social audit providers to engage in active discussions about formulating ethical codes for the non-financial audit practices. Such proposed ethical codes for social audit practices should not contradict Islamic principles, the Saudi Company Law (2015), and the SOCPA standards (AUD11). The respondents AUD11 and AUD9 gave justifications for proposing ethical principles for social and environmental audit practices, stressing that the nature of social auditing differs fundamentally from that of financial auditing. As the interviewee AUD9 further explained that:

> "Promulgating a well-established ethical code for social auditing would be an important step to reform the social audit practices in Saudi Arabia. The

[48] The interviewee AUD11 listed some relevant professional bodies that may contribute to the social audit development in Saudi Arabia. The role of the related regulatory bodies could be helpful for specific inquiries in non-financial disciplinary areas to establish local social audit guidelines. For instance, supervisory quasi-government institutions can assist in standardising the social audit practice in non-financial areas such as in the Saudi Council of Engineering, or in the laws and regulations (the Saudi Bar Association https://sba.gov.sa/en/identification-of-sba-en/), or in real estate assessments (Saudi Authority for Accredited Valuers).

> social and environmental audits may remain a voluntary practice in the next few years. Nevertheless, this desired regulatory reform depends on the political will to accelerate the development of social audit practices. Because of the potential conflict of interests in social audits, mandating ethical guidelines to enhance the social auditor's independence from their clients is paramount".

In responding to the research question (RQ1-c), the interviewees expressed conflicting views about the structure of social and environmental audit reports. The interviewees recommended that social auditors should convey their conclusions to identified stakeholders. The interviewee AUD10 criticised the current forms of both corporate sustainability disclosures and social audit reports. Whereas the respondent AUD9 expressed a satisfactory opinion about the voluntary reporting of corporate social and environmental performance and the content of social audit reports. The main issue, as raised by the participant AUD10, is the usage of various ambiguous wording in the social audit reports. The respondent AUD10 listed some vaguely used terminologies such as "fairly represent the companies' sustainability performance", "review the credibility of corporate social responsibility claims", or "the corporate environmental report is free from material misstatements", that are subject to different interpretations. Consequently, the interviewee AUD10 urged audit firms to consult experts in linguistics and communication skills to take affirmative steps towards a unified social and environmental audit report in the future.

Seven out of the eleven interviewed auditors recommended three steps that are regarded as essential, which they urged the intervention of regulatory authorities (i.e the Consultative Council, the Ministry of Commerce, and the Capital Market Authority-CMA) and professional bodies to improve the quality of social audit practices. The first suggestion is the establishment of non-mandatory standards and regulations for corporate social responsibility management, including social and environmental appraisals, non-financial disclosure and external social assurance services. They suggested that internationally accepted guidelines and 'successful' social audit exercises performed by leading audit firms in the developed economies could offer ideal models for such a regulatory step. Nevertheless, proponents of such reformative initiatives noted that the basis of Islamic and conservative values should not be relinquished.

The second demand emphasised the role of academic institutions in including social and environmental auditing in their primary curriculum and training courses. The accounting and finance departments in the Saudi business schools and financial colleges are expected to provide present and future accounting students and practitioners extensive researches and teachings in the social and environmental audit field.

The final demand is concerned with improving the social and environmental audit conducts through increasing cooperative efforts between government ministries and the professional accounting and auditing body on the one hand, and designated auditors and professionals from related disciplines, on the other. The senior interviewed auditors AUD2, AUD6, and AUD8 bluntly stated that: "if coordination between all involved parties in the social and environmental audit area reach a consensus for such audit practice, the current practice will genuinely improve to a level that will attract more international investment in the petroleum, construction and entertainment industries".

Finally, the interviewees encouraged universities and colleges to participate in the development of social and environmental audit practices in Saudi Arabia. As the Saudi Vision 2030 aim to keep the local education systems and training programmes "abreast of modern economic development", and "in line with the needs of the local and global financial service markets[49]", the accounting and auditing departments in Saudi universities should bear two responsibilities. The first is related to establishing teaching programmes of contemporary issues of corporate social responsibility. Whereas the second responsibility is to assist audit firms in coping with the obstacles of social auditing through engaging in critical discussions between social audit practitioners and academic specialists in the corporate social responsibility-related disciplines. In the table below, the visions of the interviewed auditors on the status of the social audit practice in the future are listed:

[49] https://vision2030.gov.sa/en/programs/HCDP

Table 5.6 Interviewed auditors' views on the future of social audit practice

Statutory auditors' perspective on the following:	Number of agreed views
There should be a governmental intervention to regulate the voluntary audit of corporate social and environmental responsibility reports.	10
Social and environmental audit services are profitable, despite their high costs. And social and environmental audits are expected to continue to rise as companies are more likely to demand these audit services.	7
It is crucial to perform the social audit practice in accordance with internationally recognised standards, such as the AccountAbility AA1000AS, and the GRI or proposed local guidelines.	1
Any proposed ethical code for social audit practices should not contradict the Islamic principles and the Saudi Company Law (2015).	1
A unified social and environmental audit report is demanded to resolve or eliminate the vagueness and ambiguity of the audit wordings. Also, the terms used in the social audit reports need to be re-defined and clarified by the SOCPA to help to reduce the social audit expectation gap.	7
The accounting departments in Saudi universities should participate in developing social and environmental audit practices by taking two initiatives. One is to improve their curriculum to educate students about contemporary issues in corporate social responsibility reporting and social accounting and auditing professions. Whereas the second is to engage with social audit practitioners in discussions to propose standardised guidelines for social audit practices.	8

5.3 Stakeholders perspectives on the state of social and environmental auditing

The opinions of stakeholder groups regarding the social audit practice are essential for the present research to build a solid understanding of the social audit phenomenon and contribute meaningfully to the growing body of scholarly literature and knowledge in the organisational social responsibility area. While few studies have deduced the stakeholders' opinions on the state of social audit practices, most studies have investigated social audit conducts from the audit providers' or corporate executives' standpoints (for example, Jones and Solomon, 2010; Urzola, 2011; Manetti and Toccafondi, 2012; Edgley et. al, 2015; Canning et. al, 2019). Other studies employed the content analysis approach for sustainability audit statements (for example, Ball et. al, 2000; O'Dwyer and Owen 2005; 2007; Perego and Kolk, 2012). Urzola's (2011) study concluded that there is a growing gap between the perceptions of stakeholders and the performance of the audit providers due to different understandings of the role of financial auditors in social and environmental audit practices.

Interviews with three individual stakeholders from two influential groups in the Saudi society offered significant comments regarding the present situation of social and environmental audit practices. A journalist from the financial media elucidated the presumptions of stakeholders' influence on the corporate managers to carry out external social and environmental auditing. The journalist (STAK-FM3) elaborated:

> "As long as the assurance and audit of corporate sustainability reports are voluntarily exercised, corporate managers are more likely to assure specific information about their social and environmental activities that only serves the primary interests of shareholders. The scope of social audits should include the potential effect of corporate investments on the ecosystems, disclosed information about economic indicators such as employment rates, efforts to reduce environmental pollution and support small businesses. The current assurance and audit of companies' claims about providing free-interest loans to employees, and giving donations and humanitarian assistance to economically poor communities are not in the main interests of a wide range of stakeholders. I expect more improvement in the social audit practice by both company boards and audit firms".

Two stakeholder representatives of religious organisations expressed their satisfaction with companies' decisions to accompany their social and environmental disclosures with independent assurance. Regardless of the quantity, and type, or the way, of displaying corporate social, ethical and environmental information, one stakeholder (STAK-REL2) stated that sustainability auditing could add value to what is known as stakeholder management, which would help to boost corporate social accountability and transparency. The interviewee STAK-REL2 further elaborated that:

> "The Islamic doctrine promotes the virtue of delivering accountability of Muslim-owned corporations to all Muslims and non-Muslims in the society, where corporate activities take place. Discharging corporate accountability should include all living species and future generations. Such inclusion is an integral part of our religious obligation. Social and environmental auditing is one mechanism to release corporate accountability to the general public about the past, present, and potential impact of corporate activities. Therefore, the social audit practice is an institutional behaviour that cannot be compartmentalised into a religious and non-religious matter as all Muslim actions (individuals or organisations) are bound by Islamic laws and should publicly be held accountable. As the Holy Book, the Quran, states (in *Al-Baqarah* 2:284 chapter 3): *'To Allah belongs whatever is in the heavens and whatever is in the earth. Whether you show what is within yourselves or conceal it, Allah will bring you to account for it'*".

Table 5.7 The interviewed stakeholders' views on social audit practice

Stakeholders' views on the following statements:	Number of agreed views
Social and environmental audit practices need improvements by mandating official standards and regulations. As the current practice is selective and limited to serve the narrow interests of influential shareholders, the scope of social audits should be expanded.	1
The current quality of social audit services is satisfactory.	2
Social and environmental audit practices can enhance corporate accountability and transparency and assist companies to discharge their accountability to the public.	1
Islamic values promote social and environmental auditing as a means to improve corporate public accountability.	1

5.4 Summary of the chapter

The chapter provided a detailed discussion of the extensive semi-structured interviews with statutory auditors and stakeholders. The chapter also outlined the motivations of statutory auditors for engaging in voluntary social and environmental audit practices, showing that statutory auditors seek Islamic legitimacy and social approval from conducting these types of audits. However, some difficulties are hindering the progress of social audits in Saudi Arabia. These difficulties include, among others, risks threatening the independence of statutory auditors, inconsistency in audit procedures used to audit corporate social responsibility reports. Furthermore, some interviewees noted that statutory auditors lack the necessary skills, experience, and sound knowledge to carry out the social audit services or claim territory over the social audit space. Last but not least, the interviewees pointed out the difficulty in auditing the stakeholder engagement information disclosed in the social and sustainability reports.

Conversely, other interviewees from the statutory auditors group collectively agreed that the audit of corporate social and environmental statements was advantageous for both the auditors and auditees. From the statutory auditors' viewpoints, the provision of sustainability audit services for companies, whether by financial auditors alone or with non-financial multidisciplinary audit providers, contributed to the improvement of the auditing as a public profession and stakeholder accountability enabler. Also, they stated that the conduct of sustainability audit services to clients brought valuable profits to audit firms and elevated their reputations in the business community and the public domain. From the clients' perspective, social and environmental audits help to add trust and confidence for shareholders and stakeholders with the independently verified corporate sustainability reporting. Most importantly, corporate managers benefited from the non-conventional auditing as it strengthened the transparency and credibility of their social and environmental statements and delivered accountability to their stakeholder constituents.

From the interviewed stakeholders' perspectives, social and environmental auditing is an efficient mechanism to enhance corporate accountability and transparency for Saudi companies. Nevertheless, one of the interviewed stakeholder insisted that there is a need for regulatory decisions by related authorities to govern the social audit conducts and reduce the level of inconsistencies, and standardise the audit practice.

In the light of the three theoretical paradigms (the audit, legitimacy, stakeholder theories) elaborated in the third chapter, arguments raised by the interviewed auditors are analysed. The claims of the interviewed auditors to establish academic and professional frameworks and standards to protect the auditors' impartiality, and govern social and environmental audit conducts, are congruent with the proposals of the audit theory. The demands of statutory auditors to optimise the social audit practices are akin to the programmatic and technological elements of Power's (1997) arguments on the theoretical constructs of auditing. Moreover, from a legitimacy theoretical perspective, the interviewed auditors have articulated some of the motives behind the provision of social audit practices that relate to the desire for profit-making and extending the auditors' responsibility to the general public (Gray et. al, 1996). The interviewed auditors' idea of engaging in social and environmental auditing as a remedy for past failures for some audit firms is comparable to Suchman's (1995) strategy to repair an organisation's reputation to remain socially legitimate (Lindblom, 1993). The interviewees' inclination to perform social auditing to address public discomfort, anxiety, and frustration with financial auditing services exemplifies the assumptions of the managerial branch of stakeholder theory (Ullmann, 1985).

In summary, the auditors who participated in the semi-structured interviews took an optimistic view that the audit of corporate social reports is beneficial for auditors and their client companies, and ultimately for the Saudi business society. However, more steps are required to improve the social audit exercises. Coordinated efforts between the political, scholarly and regulatory professional bodies are needed to formalise agreed-upon principles and regulations, and to build a unified theoretical framework to standardise the social audit practice and reduce the associated professional risks.

Chapter Six: Content analysis of audit reports

6.1 Introduction

The chapter is concerned with analysing the content of social and environmental audit reports published within the annual reports of the Saudi public corporations for the fiscal years between 2014 and 2019. The analysis aims to achieve a broader understanding of the nature of social audit practices in the Kingdom. Furthermore, the present chapter casts light on the features of social audit exercises in Saudi Arabia from another methodological aspect, with the semi-structured interview method, to obtain additional data to aid understanding of the social audit phenomenon in Saudi Arabia.

For the investigation of the social audit reports sample, a template (attached in the research appendixes) is designed to assist the researcher in the assessment of audit reports and cover the main features associated with the social audit practices. Also, three primary considerations are taken into account for the analytical examination for the attempt to illustrate a fair representation of the non-traditional audit status in the Kingdom. The first is the company size that publicly issued the annual reports and how corporate operations affect the environment and stakeholder interests. Previous scholarly investigations concluded that large companies and their impact of environmentally-related operations on societies have attracted the attention of several stakeholders. Therefore, the size of the company is correlated with the social and environmental disclosure (Gray, 2007; Blanco and Souto, 2009; Simnett et. al, 2009; Kolk, 2010; Hassan et. al, 2020). Hence, the study considers the size of the company in the data collection. The second consideration is related to the entity responsible for rendering the social and environmental audit services: the audit firms. It is important to note that in the Saudi audit services market, social auditing is a non-compulsory requirement under the Ministry of Commerce's Company Act (Alsaad, 2007) or the auditing regulatory body's standards (the SOCPA). Due to the complex nature and financial burden of social audit practice, it has been dominated by large audit firms (Perego, 2009; Edgley et. al, 2010; Manetti and Toccafondi, 2012; KPMG, 2017). Professional issues of the social audit engagements are related to independence, ethical codes and technical knowledge of auditors, were examined in the literature (Power, 1991; Deegan et. al, 2006; O'Dwyer and Owen, 2007; Perego and Kolk, 2012). As these issues of social auditing were discussed through the study interviews in the fifth chapter, the present chapter seeks to address the reflection of social and environmental audit engagements on the structure of the audit reports. The final consideration for the sampling procedure concentrates on the details of the social and environmental audit reports, in which several indications of the audits undertaken are presented.

In the present chapter, sections are organised to describe the social audit reports and identify the main characteristics associated with audit narratives in respect to the external validation of corporate social responsibility claims. Accordingly, a discussion of the sample of audit reports seeks to provide additional answers for the research question (RQ3-a). The next section discusses the content of the social audit reports, aiming to provide sufficient explanations to the following sub-research questions (RQ1-a), (RQ1-b) and (RQ1-c). Particularly, the next section outlines information about the main features of the social audit reports and the outcomes of the audit examinations on the content of the reports. In addition, the section aims to illustrate answers about the components of social audit reports, including the used titles, terminologies, narratives and structures, and the technical procedures applied in the social audits. Furthermore, issues such as the application of guidelines and standards in the audit engagements, the inclusion of stakeholders, or any offered recommendations or suggestions by the auditors in the social audit reports, are discussed in the section. The followed section discusses the findings from the content analysis of the audit reports sample in the light of the three theoretical perspectives (audit, legitimacy, and stakeholder theories), which have been applied earlier in the semi-structured interviews.

Finally, the chapter concludes with a summary of the overall findings of the analysis process on the social audit reports sample.

6.2 Overview on the content of social and environmental audit reports

This section outlines the key features of the research sample of sustainability audit reports. The sample included sixty audit reports to be examined to find out how social and environmental audit practices are conducted on corporate statements of ten Saudi public companies. The study period covered the fiscal years between 2014 and 2019. The audit reports were examined to explore the social audit engagements in seven different industrial and commercial sectors. In general, the audited statements of companies in the study sample are amongst the leading companies in the Saudi economy and the Tadawul All-Share Index (TASI), accounted for approximately 10% of the Saudi market value[50]. Table 6.1 below shows general information about the study sample of Saudi companies and their respected social audit providers:

[50] The corporate figures of the Saudi stock market were taken from the Saudi popular financial news "Argaam": https://www.argaam.com/ar/monitors/ratios-summary/marketcap/3 Access date: 23/08/2021

Table 6.1 Information about the audited Saudi companies in the study sample (AT1)

The company	Industy	Capital (SAR)	The audit firm
1-Saudi Basic Industries Corporation (SABIC)	Petrochemical productions	30,000,000,000	KPMG-sustainability advisory department
2-National Industrialization Company (TASNEE)	Petrochemical productions	6,689,141,660	1) Ernst & Young & Co. 2) Dr. Mohamed Al-Amri & Co
3-Saudi Arabian Mining Company (MA'ADEN)	Mining	12,305,911,460	1) Ernst & Young & Co. 2) PricewaterhouseCoopers AlJuraid Co.
4-Saudi Electricity Co.	Utilities	41,665,938,150	1) Ernst & Young & Co. 2) KPMG Al Fozan & Partners
5-Savola Group	Food and Beverages	5,339,806,840	1) PricewaterhouseCoopers AlJuraid Co. 2) KPMG Al Fozan & Partners
6-National Shipping Company (Bahri)	Energy	3,937,500,000	1) Ernst & Young & Co. 2) KPMG Al Fozan & Partners

7-Etihad Etisalat Co. (Mobily)	Tele-communication	7,700,000,000	1) PricewaterhouseCoopers AlJuraid Co. 2) KPMG Al Fozan & Partners
8-Zamil Industrial Investment Co.	Construction	600,000,000	1) Deloitte & Touche Bakr Abulkhair & Co. 2) KPMG Al Fozan & Partners
9-Saudi National Bank (SNB)	Banking	44,780,000,000	1) Ernst & Young & Co. 2) KPMG Al Fozan & Partners
10-Saudi British Bank (SABB)	Banking	20,547,945,220	1) Ernst & Young & Co. 2) KPMG Al Fozan & Partners

The table above illustrates that five out of the six audit firms in the sample represents the Big4 international audit firms[51], corroborating the findings of Simnett's, Vanstraelen's, and Chua's (2009) comparative investigation on sustainability audit reports on a global scale. In other words, among the sixty audit reports, the majority of the study sample, or 90%, were produced by large audit firms. The audit reports of KPMG Advisory, Ernst & Young, and KPMG Al Fozan accounted for more than 80% of the social and environmental audit engagements. This finding is consistent with Fernandez-Feijoo et. al. (2018) study that observed a correlation between the level and quality of corporate social reporting and the likelihood that the audit provider is

[51] The "Big4 audit firms" is a common term used to refers to the following four audit firms: (1) Deloitte, (2) Ernst & Young, (3) KPMG, (4) PricewaterhouseCooper or PwC).

one of the Big4, rather than a non-Big4 audit firm. Their study confirms that corporate directors are inclined to approach the social audit services of one of the Big4 audit firms to boost the credibility of their disclosed social and environmental information. The present study also found a strong link between the level of corporate non-financial disclosure and the size of the audit firm that audited the corporate social statements. The more corporate social and environmental disclosures are associated with large companies, the more likely these companies select one of the Big4 audit firms. This observation is congruent with findings from the research interviews in the fifth chapter, which indicates that the large audit firms dominate the social and environmental audit market in the Kingdom.

Over the six consecutive years (2014-2019), all Saudi companies of the study sample, except the petrochemical iconic company SABIC and the two banks, have rotated their audit firms to review and audit their sustainability claims. Notably, SABIC is the only company in the sample that published stand-alone forms for its assurance of sustainability reports in the six years. Whereas the other nine companies integrated the auditing of their social and environmental activities with the traditional audits of their annual financial statements.

6.2.1 General features of social and environmental audit report

Despite the internationally growing trends of the audit of corporate social and environmental statements (KPMG, 2011, 2017), the majority of research studies pinpoints on several issues in regards to the overall quality of the undertaken audits, ranging from the ambiguity in auditors' wordings (Deegan et. al, 2006) to the apparent inconsistency in applying suitable standards and guidelines (Ball et. al, 2000; O'Dwyer and Owen, 2005; 2007; Simnett et. al, 2009; Basalamah and Jermias, 2005;

Manetti and Toccafondi, 2012; Perego and Kolk, 2012, Bepari and Mollik, 2016; Harymawan et. al, 2020). As discussed earlier in the third chapter, the social and environmental audit research-based literature have instrumentalised content analysis approach to investigate the variability in the social audit reports, aiming to address the gaps in knowledge of this emerging audit practice for future developments (Edgley et. al, 2010; Smith et. al, 2011; Bepari and Mollik, 2016). In the Saudi Arabian circumstance, ambiguity surrounding the social and environmental audit need to be addressed. For example, it remains unclear how statutory auditors carry out voluntary social auditing and to what extent the company management control the social and environmental audit processes (Owen et. al, 2000; Edgley et. al, 2010).

In this section, the study aims to provide information about the validation of the statutory auditors of the Saudi corporate social and environmental statements. The following table exhibits the fiscal years that each audit firm rendered social and environmental audit services for the ten Saudi companies in the study sample:

Table 6.2 The fiscal years of the social audit engagments

The company / The auditors	KPMG Sustainability Advisory	KPMG Al Fozan	ERNST & YOUNG	Dr. Al-Amari	PwC	Deloitte & Touche	KPMG Al Fozan and Ernst & Young co-audits
1- SABIC	2014-2019						
2- TASNEE			2014-2015	2016-2019			
3-MAADEN			2014-2017		2018-2019		
4-Saudi Electricity Co.		2016-2019	2014-2015				
5-Savola Group		2016-2019			2014-2015		
6-Bahri		2018-2019	2014-2017				
7- Mobily		2015-2019			2014		
8-Zamil Industrial Co.			2015-2019			2014	
9- SNB							2014-2019
10- SABB							2014-2019

Total number of audit engagements	6	15	17	4	5	1	12

The table 6.2 above reveals a significant dominance of large audit firms over the social audit practice in the Kingdom. The highest frequency of auditing corporate social and environmental information by a single audit firm was seen in the cases of Ernst & Young and KPMG Al Fozan. Ernst & Young and KPMG Al Fozan have performed social and environmental auditing for their client companies 17 and 15 times, respectively. Moreover, these two audit firms, along with the international KPMG-Sustainability Advisory, have long-lasting auditor-client relationships and the most continuous-time range of validating corporate social responsibility reports in the entire sample years (2014 to 2019). In the banking industry, the Saudi Arabian British Bank (SAAB) and the Saudi National Bank (SNB) appointed KPMG Al Fozan & Partners and Ernst & Young to audit their reports for the entire six fiscal years. Likewise, the SABIC board hired the international KPMG Advisory N.V to verify the accuracy of their environmental and social operations throughout the annual years 2014-2019. Such noticeable finding of long durability in the auditor-company relationships of social audit services raise concerns in respect to auditors' independence, which is more likely to be compromised or jeopardised (Power, 1994; 1997; Basalamah and Jermias, 2005; Alsaad, 2007; Perego, 2009; Chiang, 2010). The independence of auditors in the voluntary conducts of social and environmental auditing is an ongoing area of concerns. These concerns arise when companies and auditors operate closely in social audit engagements without complying with mandatory regulations (Power, 1994; Ball et. al, 2000; O'Dwyer and Owen, 2005; Deegan et. al, 2006; Chiang, 2010; Kouakou et. al, 2013). A large body of research has been critical about maintaining the professional independence of auditors in the provision of such unstandardised social audit services (O'Dwyer and Owen, 2005). O'Dwyer and Owen (2005) used aggregate data and content-analysis method to examine 41 sustainability assurance statements of large British companies. Their analysis revealed a high degree of managerial control exercised over the social and environmental audit providers. The management pressure exerted on social audit providers paves the way to manipulate the audit process and prioritise the corporate interests over the quality of audits (Deegan et. al, 2006). Arguably, imposing mandatory rotation of audit firms as a means to foster auditors' independence in financial audit conducts may be ineffective (Burke and Lee, 2015). However, the perseverance of auditors' independence remains a problematic aspect in social and environmental audit engagements (Ball et. al, 2000, O'Dwyer and Owen, 2005). Hence, the findings from table 6.2 illustrate an alarming issue in terms of preserving the independence of auditors, in which Saudi audit firms simultaneously provide financial auditing and social auditing services to the same clients for a lengthy time (Meuwissen and Quick, 2019). In such cases, a closer relationship between the company management and the statutory auditor can raise issues associated with reconciling the maintenance of professional independence with commercial sides of the social audit services, inherently leading to a conflict of interests (Boiral, et. al, 2019a). Conflict of interests can arise between companies and auditors, on the one hand, and between companies and their stakeholders, on the other. Consequently, the impartiality of the auditors can be undermined and threatened with the possibility of broadening the legitimacy gap of companies (Lindblom, 1993).

Although audit firms used slightly different phrases as titles for the audit reports of social and environmental audit services, only one audit firm (KPMG-Sustainability Advisory) specified the word "assurance" in the titles of their reports. The headings of audit reports also include frequent usage of the phrases "independent auditors' report", "assurance report of the independent auditor", and "auditors' report" to title the presentation of social and environmental assessments. The similarity in titling audit reports is observed in phrasing the word "independent" (AT3-i). Seemingly, statutory auditors aimed to point out that their social and environmental audit engagements are conducted by the impartial audit team, regardless of whether the auditors are specialised in financial auditing or another multidisciplinary non-financial area (AT3-k). Indeed, the few rotations of audit firms over the six consecutive years, coupled with, the application of various voluntary methodologies in social audit engagements (as discussed in the fifth chapter) are reflected in the audit report titles and beyond. The following table illustrates the titles used by audit firms in the research sample over the years 2014 to 2019:

Table 6.3 Tiles used by the audit firms

Audit firm	Title used for the social audit reports	Usage frequency
KPMG Advisory N.V.	Assurance report of the independent auditor	6
KPMG Al Fozan & Partners	Independent auditors' report	9
	Auditors' report to the shareholders	6
Ernst & Young & Co.	Auditors' report to the shareholders	5
	Auditors' report	2
	Independent auditor's report	10
Dr. Al-Amari & Co.	Independent auditor's report	4
PwC	Independent auditor's report	5
Deloitte & Touche	Auditors' report	1
KPMG Al Fozan and Ernst & Young co-audits	Independent auditor's report	12
Total audit reports		60

Among the sixty audit reports in the table 6.3 above, the word "independent" appeared more frequently than other words in the headings of the audit reports with more than half of the sample (57%). Also, the phrase "independent assurance" was used six times only by the KPMG Sustainability Advisory, the assuror of SABIC, who issued their sustainability statements separately from the annual financial reports 2014-2019. One observation from the table 6.3 shows that two audit firms (KPMG Al Fozan & Partners and Ernst & Young) used different titles interchangeably for their audit reports across the six years. Also, all of the audit reports, except for the reports of KPMG Sustainability Advisory, were integrated within the financial audit statements. Such integration can be viewed as one of the attempts by Saudi audit firms to demonstrate independence-in-appearance in the social audit engagements (response to the research sub-question RQ1-b) (AT3-i). The integration of social audit practices with the traditional financial audits was favoured by the interviewees AUD1, AUD4, AUD9, and AUD11. The interviewees also expressed their advocacy for expanding cooperation with non-financial audit experts in social audit engagements. These findings, however, confirm the claims of interviewees AUD9 and AUD10 that the inconsistency in social audit practices in Saudi Arabia, where social audit services are mostly performed with financial audit services to the same clients, would inherently endanger auditors' independence.

On the contrary, the long durability of the social audit contracts has been supported by the interviewee AUD11, insisting that it aids statutory auditors in understanding and improving the corporate social and environmental governance systems and enhancing the overall quality of audit services.

6.2.2 Scope of the undertaking audits on corporate social reports

The auditing of corporate social and environmental statements requires technical procedures specifically to be applied to ensure the credibility and accuracy of the disclosed corporate information. The responsibility of preparing and reporting the type and amount of social and environmental contents lies in the company management. The role of the auditors in the social and environmental audit endeavours is to determine the scope of the audit, which should be based on an agreed decision with the reported company (Adams and Evans, 2004; IAASB, 2013). The audit providers must maintain consistency between the determined audit scope and actual audit engagement (Deegan et. al, 2006). Also, the auditors are required by professional standards to identify and assess material area(s) to be audited (IAASB, 2013). Material areas in the corporate social and environmental statements are determined by the judgment of both corporate managers and external auditors. Materiality assessment requires audit providers to evaluate the factors that can potentially influence the decision-making process for the users of companies reports (IAASB, 2013). One impeding factor for external social auditing is the financial cost, which should be considered in the agreement of the scope of audit arrangement between auditors and corporate managers (Jones and Solomon, 2010). From an economic perspective, the added value of audit products to society is demonstrated through the relationship between the audit cost and the quality of the provided audit service (Power, 1997; 1999). Because of the cost-benefit analysis and the economic pressures on social audit exercises, Power (1996) asserts that the quality of sustainability audits is affected by the high audit costs. The high-cost constraints of social and environmental audit services justify the inclination of companies worldwide to lower the social audit scopes (Al-Hamadeen, 2007). Prominent theorists in the social audit area such as Rob Gray (2000) and Michael Power (1999; 2003), criticised the social audit practice due to the negative impact of its associated costs that degraded the quality of audits. Also, they lamented the auditors for carrying out social audit engagements with limited audit levels, which can lead to offering a false positive audit opinion on incomplete or distorted corporate social and environmental statements.

As the contents of corporate social and environmental statements and sustainability audit reports vary from one industry to another, the determination of material areas and audit scopes can be compromised by company management (Basalamah and Jermias, 2005). Nevertheless, Edgley, Jones and Atkin (2015) attributed the fragmented understanding of materiality assessment in social and environmental audit practices to the conditions in which the social audit profession is still in its infant development stage. Relevant international guidelines issued by regulatory bodies such as the GRI, FEE and AA1000AS, aim to standardise the social audit practices. These regulatory guidelines encompass the identification and classification of the audit scopes (IAASB, 2013). However, since the social and environmental audit practice is still evolving amid non-mandatory international or local regulatory standards, it needs time to reach advanced stages to be governed by internationally accepted sustainability assurance/audit standards. In this sense, unpredictability and inconsistency in determining the social and environmental audit scopes and procedures remain. Thus, such negativity impedes the role of social audit practice as a "social accountability enabler" (Bepari and Mollik, 2016: p. 678).

There are broad areas in the corporate social responsibility reports that can be subject to be audited. A large body of academic researches employed different categorical approaches in their content-analysis investigation of social and environmental audit phenomenon (for example, Ball et. al, 2000; O'Dwyer and Owen, 2005; 2007; Deegan et. al, 2006, Edgley et. al, 2010; Edgley et. al, 2015; Bepari and Mollik, 2016). For instance, in O'Dwyer's and Owen's (2007) content analysis of British sustainability audit statements, they categorised the scope of the audit statements into three parts: sustainability, social and environmental categories. Whereas the content analysis of Deegan, Cooper and Shelly (2006) classified the scope of social audits based on its audit-level engagement. In their categorical context, the audit scope ranges from a reasonable level of audits that leads to positive audit opinions, to a limited level of audits that produce a negative form of audit conclusions.

In the light of the discussion above, the present study found that all Saudi audit firms in the sample have informed their addressees about the social audit scope in the assurance/audit reports. In several cases in the sample, the audit scopes were predicated on the predetermined scope of the company management, who are equally responsible with the auditors in stating the scope in the final audit report (Adams and Evans, 2004). From an analytical observation of the audit reports in the sample, the audits included several social and environmental aspects (AT2-e), which can be catalogued into the following four parts: (1) health, safety and security contributions, (2) community and social services, (3) environmental protection and waste management, (4) miscellaneous activities, which include a combination of two or more of the three preceded corporate activities. Moreover, while the vast majority of audit reports in the study sample stated a reasonable level in the auditing of corporate social responsibility claims as a whole with the annual financial statements, only one audit firm declared a limited range of social audits. Particularly, the KPMG Sustainability Advisory, the external auditors of SABIC, explicitly identified the scope of their limited level of audits based on the scope informed by the SABIC management in their stand-alone sustainability reports (2014-2019). According to the audit reports in the research sample, audit firms classified the scope and limit of their social audits as in the following table:

Table 6.4 Social and environmental audit degrees and scopes (AT2-e, f; AT3-h)

Audit firm	Total social audits	Corporate activities covered in the audit scope	Level of audit
KPMG-Sustainability (Advisory division N.V.)	6	miscellaneous activities (health, safety and security contributions, and environmental protection)	limited
KPMG-Al Fozan & Partners	15	miscellaneous activities (all the three activities)	reasonable
Ernst & Young & Co.	17	miscellaneous activities (all the three activities)	reasonable
Dr. Al-Amari & Co.	4	miscellaneous activities (all sustainability aspects)	reasonable
PwC	5	miscellaneous activities (social services and environmental protection)	reasonable
Deloitte & Touche	1	community services	reasonable
KPMG-Al Fozan and Ernst & Young co-audits	12	miscellaneous activities (all sustainability aspects)	reasonable
Total	60		

The table 6.4 reveals that only Deloitte & Touche audit firm devoted their audit engagement to one category of corporate social responsibility activities. This category was the community and social services that were disclosed in the Zamil company's 2014 statements. Community and social services information include, for instance, narratives about Zamil's expenditures of one million Saudi riyals (approximately £194,000) on *Waqf* or mortmain property for the voluntary religious endowment for improving poor housing conditions in the Eastern city of Dammam. Three audit firms covered all the three classified corporate sustainability activities (KPMG-Al Fozan & Partners, Ernst & Young, Dr. Al-Amari & Co). Interestingly, the mid-sized non-Big4 audit firm, Dr. Al-Amari & Co, managed to afford the audit costs to provide reasonable degrees of social and environmental audit services for their petrochemical client, TASNEE, for the entire consecutive fiscal years (2016 to 2019).

In the case of the gigantic petrochemical company SABIC, their auditor, KPMG-Sustainability Advisory division, concentrated their audits from 2014 to 2019 on two categorical activities: environmentally-related control processes and health, safety and security management with a limited assurance level. Unlike the other five audit firms of Saudi companies in the research sample, the KPMG-Sustainability Advisory audit firm has focused on explaining the social and environmental audit procedures. The social and environmental assurance team of KPMG-Sustainability Advisory audit firm elaborated on the details of the assurance scopes throughout the years 2014-2019, ensuring that each given information is referenced with the page number of SABIC's data in the sustainability statements. It was also observed that the limited degree assurance of SABIC sustainability reports contained a mix of numeric, graphics and narrative qualitative data.

Intriguingly, the analysis above shows that while five out of the six audit firms in the sample carried out the social audit exercises with reasonable audit levels, some interviewees from the stakeholder group complained about the low quality and the insufficient audit levels of the social audit performance. In particular, the interviewee

STAK-FM3 from the financial media opposed the currently used limits in social and environmental auditing and calls for more elevation of audit degrees. On the contrary, the interviewed statutory auditor AUD9 advocated for reducing the scope and level of social audits to a minimal range due to economic constraints. In line with the study interviews in the fifth chapter, findings from table 6.2 confirm that Saudi audit firms generally favoured long-term over short-term contracts to provide social and environmental audits. Most lengths of social audit contracts in the sample ranged between six and four fiscal years. Lengthy six-fiscal-years of social audit contracts between companies and audit firms were seen only in the Big4 audit firms KPMG-Sustainability Advisory, the auditors of SABIC, in addition to KPMG Al Fozan & Partners and Ernst & Young, who co-audited the two banks SNB and SABB. Surprisingly, the mid-sized audit firm, Dr. Mohamed Al-Amri & Co., was among the audit firms that provided social audits for long four consecutive years (2016-2019) of TASNEE's statements.

Finally, most cases in the sample reveal that there is a frequent integration between the scopes of financial and social audits. Such evidence concur with findings from Urzola's (2011) investigation of sustainability assurance in the United Kingdom. Urzola (2011) conducted semi-structured interviews with representatives of sustainability management departments of ten British public companies, embracing an inductive approach for her study. Findings from Urzola's interviews underscore the inclination of audit firms to prioritise their client companies' interests rather than the society's. Despite that societal demands expect high levels of quality in the audit of corporate social responsibility statements, most audit firms conducted social auditing with limited levels (Deegan et. al, 2006). The integration of social audit scopes with that of the financial audit could be attributed to the desire of statutory auditors to control and minimise the cost and timing of their audit engagements and compromise audit fees for their client companies. For example, Urzola (2011) pointed out that some companies agreed to audit their sustainability reports with a mixed level of assurance in one audit engagement, ranging between reasonable and limited assurances. As a consequence, the findings from the present study, juxtaposed to results from previous studies in the relevant literature, evident that the audit of corporate social, ethical and environmental matters is more of an inconsistent and complex task than is straightforward. The complexity in social audit practice is regarded by academic researchers as a normal extension of the financial audit-styled practice, and should be governed by traditional audit frameworks and standards (Jones and Solomon, 2010). Standards and guidelines that are used as a guidance for the social audit practice in the Saudi audit firms are discussed in the next section.

6.2.3 Standards applied to the social audit engagements

Over the past two decades, growing trends of corporate social and environmental disclosures and audits were noticeable worldwide (O'Dwyer and Owen, 2007; KPMG, 2011; 2013; 2017; 2019). The external auditing of corporate sustainability reports has also accompanied the continuous growth of companies' social disclosures (Zadek, et. al, 2013; Bepari and Mollik, 2016; Wong, et. al, 2016). Several professional guidelines have fueled this growth by promoting the social audit practice among its auditors, and issued guidelines to standardise these types of audit practices. These guidelines and standards are introduced to aid the social audit practitioners in performing the audit engagement in an organised manner. An effective and sound audit of corporate sustainability reports leads to enhancing the quality, credibility and reliability of corporate reported information (Adams and Evans, 2004).

Despite that international guidelines and standards of sustainability reporting and auditing are not mandated by authorities in several countries, corporate managers have the choice to evaluate the efficacy of their social and environmental governance systems. Also, companies have voluntarily audited their sustainability reports through external audit firms (Perego and Kolk, 2012). However, while there is a growing awareness of the value and propensity for disclosing and auditing corporate sustainability information as a consenting practice, some governmental entities have mandated the disclosure and audit according to international and/or local standards. In some developed and emerging economies, social responsibility reporting and/or auditing have became mandatory or semi-mandatory practices. For example, in Japan, social and environmental reporting and auditing have been carried out by multinational companies to comply with the Ministry of the Environment (Perego and Kolk, 2012; Lee et. al, 2017). Likewise, large companies in Indonesia and South Africa commissioned social and environmental audits in response to related-government mandates (Basalamah and Jermias, 2005, Ackers and Eccles, 2015). Meanwhile, an observation on the United States market, the largest developed nation as the World Bank indicates in its most renowned ranking (www.worldbank.org), reveals that between 2013-2014 only less than 6% of companies audited their social and environmental reports by external third-party (Miller et. al, 2017).

Empirical evidence from the social and environmental audit literature shows that the most used standards were the ISAE 3000 of the IAASB (issued in 2004, and modified in 2008, 2013), and the AA1000AS of the London-based global AccoutAbility organisation (issued in 2003, and updated in 2008) (O'Dwyer and Owen, 2005; 2007; Deegan et. al, 2006; Mock et. al, 2007; Blanco and Souto, 2009; Manetti and Toccafondi, 2012; Bepari and Mollik, 2016; Alsahali and Malagueño, 2021). The ISAE 3000 are issued based on accountancy approaches by the IAASB, which is the independent standard-setting body that aims to regulate and enhance the quality of the accounting and auditing profession. Whereas the AA1000AS are established based on a systematic and holistic approach underpinned by the principles of materiality, completeness and responsiveness, with an emphasis on the inclusion of stakeholders in social audit engagements. Although the ISAE 3000 and AA1000AS standards are used together in single social audit engagements (O’Dwyer and Owen, 2005; Mock et. al, 2007), there are fundamental differences between the two standards. One difference between the two standards lies in the degree of audits suggested to carry out the engagement. While the ISAE 3000 differentiate between "reasonable" and "limited" assurance/audit levels (IAASB, 2013), the AA1000AS make a distinction between "high" and "moderate" levels in the assurance/audit engagements (AccountAbility, 2008).

Since compliance with related standards that deal with the sustainability audits is voluntary in most global business markets, the audit providers are the authoritative entity to choose the most suitable standard (Deegan et. al, 2006). The selection of particular standards depends on the type and scope of the social and environmental audit processes, and the needs of the client auditees and the relevant stakeholders (Deegan et. al, 2006). Audit firms are more inclined to employ the ISAE 3000 in their social audit engagements due to the nature of the standard that emanates from accounting principles (Deegan et. al, 2006; Edgley et. al, 2015; Manetti and Toccafondi, 2012; Farooq and De Villiers, 2018).

Three fundamental principles are required by the ISAE 3000 to be considered by the auditors in their assessment of corporate social performance for the intended users. These three principles are materiality, completeness and relevance, which should be taken as guidance to judge the corporate social reports based on the agreed subject matters with the client company management. The ISAE 3000 specifically encourage social and environmental audit providers to utilise substantive tests, analytical procedures and control tests in the conduct of the audit service (Manetti and Becatti, 2009). In other words, the ISAE 3000 require the auditors of corporate sustainability reports to perform any other type of audits, rather than the traditional financial audit, by using risk analysis methods, materiality assessment and other audit procedures to ensure data accuracy and credibility for only "intended users" (IAASB, 2013). However, prominent scholars criticised the reliance on the accounting approach in social and environmental audits as it is impractical to use a cautious accounting method to evaluate corporate sustainability performance. The accounting approach requires more innovative ways than merely focusing on data accuracy (O'Dwyer and Owen, 2005). The ISAE 3000 ensure that auditors are independent as it requires them to declare the state of their independence, level and location of the undertaken audits (IAASB, 2013). Nevertheless, some scholars criticised the ISAE 3000 for its myopic address of the materiality assessment and the disregard of stakeholder inclusivity in the audit engagement (O'Dwyer and Owen, 2005; Edgley et. al, 2015).

In contrast, the AA1000AS are designed to provide a comprehensive approach to hold companies accountable to stakeholders for their social and environmental actions. The AA1000AS concentrate on ensuring that the companies follow the aforementioned AA1000AS principles. More importantly, the AA1000AS aim to enhance the credibility of the reported sustainability information (AccountAbility, 2008). Because of the malleable nature and the lack of quantitative benchmarks of corporate social disclosure such as in the conventional income statements, the AA1000AS principles designed qualitative criteria to assist audit providers in judging the accuracy of corporate sustainability performance. The materiality principle instructs the audit providers to evaluate whether the usefulness and reliability of the information included in the corporate social responsibility reports are helpful for stakeholders to make decisions. Unlike that in the ISAE 3000 case, the materiality concept in the AA1000AS context is fundamentally characterised as a stakeholder-centred, underpinned by the inclusion and participation of stakeholders in the audit engagement (AccountAbility, 2008). Whereas the completeness principle requires the audit providers to ensure that their client company management determines and recognise material aspects of social and environmental activities and the stakeholders' needs. The responsiveness principle is concerned with the auditors' responsibility to assess the degree of the company's response to the demands and needs of stakeholders (AccountAbility, 2008).

The AA1000AS encourage audit providers to engage directly with stakeholders, especially when embracing a high degree of audit limits and aiming to reduce audit risks to minimal levels (AccountAbility, 2008). The scope range in the AA1000AS is broader than that in the ISAE 3000 as it considers the inclusion of stakeholders. Companies pursuing a stakeholder perspective are more inclined to prepare social and environmental statements based on the AA1000AS, as in the United Kingdom circumstance (Al-Hamadeen, 2007). Also, the cultural environment, where companies and audit firms operate, play a dominant role in directing the audits towards addressing the concerns of stakeholders. Therefore, companies that are situated in a stakeholder-oriented culture are more likely to audit their sustainability operations based on a "stakeholder-driven" approach. Whereas companies that operate in a shareholder-oriented environment are less likely to engage with stakeholders in the social audits (Simnett et. al, 2009). Nevertheless, some empirical studies evidence that social audit practitioners adopted the simultaneous use of the AA1000AS and the ISEA 3000, or referenced to the ISEA 3000 with another guidelines in auditing the corporate social reports (Al-Hamadeen, 2007; KPMG, 2011; Bepari and Mollik, 2016). Overall, the ISAE 3000 is the primary standard used globally by companies for sustainability auditing purposes, especially by audit providers who have financial accounting backgrounds (Deegan et. al, 2006; KPMG, 2011; Manetti and Toccafondi, 2012).

For the audit providers, key findings from the literature found that they exercised the social auditing as either accountant provider or non-accountant provider, or as both providers within a co-work audit team (Maltby, 1995; Deegan et. al, 2006; Edgley et. al, 2015; Bepari and Mollik, 2016). The absence of explicit consensus on the requirements or prerequisites for social audit conducts has resulted in offering social audit services by different multidisciplinary providers, including financial accounting (Deegan et. al, 2006). In social and environmental audit engagements, it seems that accountant providers are more willing to adhere to the professional standards of the ISAE 3000 than other providers with non-accounting backgrounds (Mock et. al, 2007; Manetti and Toccafondi, 2012; Farooq and De Villiers, 2018). This observation may explain the general tendency of companies to approach and appoint traditional audit firms (mostly the Big4 audit firms) rather than other non-accounting firms to evaluate and verify the accuracy and credibility of their sustainability reports (Manetti and Toccafondi, 2012). Notwithstanding the different levels of confidence are derived from social audit providers with different non-accounting disciplines, trust in the independence, professional credential and competence of accounting or external auditing providers is generally higher than in other social audit providers (Dixon et. al, 2004). Financial accountants and auditors are regarded as suitable providers for social and environmental auditing due to their affiliation with a profession of globally well-developed standards, reputable codes of independence and ethics, quality-control mechanisms, and ability to deliver consistent audit products (Mock et. al, 2007; Simnett et. al, 2009; Perego, 2009).

Academic researchers have supported the constructive role that accountants and auditors play in the social audit engagements, pointing out to the accumulative experiences and technical skills[52] that they possess and needed to discharge the social audits within

[52] These skills include evidence-gathering, materiality assessment, risk-averse, the design the internal control systems.

overarching and structured guidance (Dixon et. al, 2004; Deegan et. al, 2006; O'Dwyer and Owen, 2007). Such professional expertise and skills are appropriate to be applied when using standards such as in the ISAE 3000 case, which is based on accounting-driven metrics. But social and environmental audit necessitates other multifaceted professional skills beyond that of the traditional accountant/auditor potentials to improve the quality, rather than merely the accuracy, of corporate social responsibility statements (Boiral, et. al, 2019b).

Non-accountant providers of social audit services, as the other alternative group to accountant providers, possess a higher and diverse level of knowledge and experience concerning the content of corporate social and environmental responsibility reports (Simnett et. al, 2009). The backgrounds of non-accountant providers, who are often specialists from the engineering and environmental consultancy fields, are more helpful in evaluating corporate sustainability statements as a crucial step in sustainability audit engagements (Edgley et. al, 2015). For example, non-accountant providers are more flexible in materiality and risk assessment than financial auditors. Thus, non-accountant providers can deal with "inherent ambiguity in the non-financial assurance domain" (Canning et. al, 2019, p. 22). The diverse cognitive experience of the non-accountant providers lies in assessing the effect of corporate operations on the society and environment, enabling them to be more mobilised in their professional judgment and distance from system-based standards (Edgley et. al, 2015; Canning et. al, 2019). Unlike traditional accountants, who assess the financial consequences of corporate reports for the benefit of shareholders, non-accountant providers concentrate on ensuring completeness and fairness of corporate social information and offering recommendations for improving the client companies' control systems as an added value for both companies and relevant stakeholders (O'Dwyer and Owen, 2007). Thus, the influence of stakeholder logic on the non-accountant providers' assessment is a major driver for adopting standards that are built on a stakeholder-oriented rationale, as in the AA1000AS and GRI instances (Edgley et. al, 2015). Companies inclinations to non-accounting audit firms to assure sustainability statements have been noticeable in the past years. Evidence from studies such as in, particularly, O'Dwyer and Owen (2007) investigation showed that non-accounting firms outnumbered accounting firms in compliance with the AA1000AS, representing nearly 70% of the 57% of the sample, who comply with the stakeholder-based AA1000AS guidance.

However, there are drawbacks of the reliance on non-accountant specialists in social auditing because they embrace an open-scope and discretionary evaluative service with compliance to voluntary standards, which may endanger their state of professional independence. In such circumstances, the degree in auditors' independence is exposed to be compromised and may lead to providing "adverse or misleading audit opinions" on incomplete or distorted corporate social responsibility reports (O'Dwyer and Owen, 2007).

Nevertheless, an alliance between accountants and non-accountants in social audit engagements was noticed and endorsed in a recent study of Canning et. al. (2019), who contradicts findings from previous studies of, for example, Power (2003); O'Dwyer, (2011); and O'Dwyer et. al. (2011), that suggests that there are competing relationships between both audit providers. Canning et. al. (2019) uncovered collaborative interactions among accountants and non-accountants within the social and environmental audit teams that are based on trust and respect, rather than tension and marginalisation of each other. As traditional financial accountants/auditors have reinvented themselves to accommodate new auditable areas (Radcliffe, 1999), non-accountants similarly have restructured their methodologies to adapt to the social and environmental audit arena (Andon, et. al, 2015).

Such collaboration within a synergistic environment between the accountants and non-accountant specialists is viewed as a positive step to harmonise and unite their unique methodologies, tactic, and professional judgements to improve the overall quality of the social and environmental audit services.

In the light of the discussion above of social audit providers and the renowned sustainability audit-related standards, an observation on the Saudi Arabian context demonstrates interesting findings. First, all audit firms in the study sample omitted disclosing information about the disciplinary backgrounds of the providers who performed the assurance/audit services for their client companies. Nevertheless, the auditors of SABIC, KPMG-Sustainability Advisory, referred to production sites visits in various countries by their team for assuring non-financial indicators, stating that "to review the source data and the design and implantation of controls and validation procedures at local levels" (SABIC sustainability report, 2014, 2015, 2016, p. 79). As stated in their assurance reports, the KPMG-Sustainability Advisory audit team has geographically expanded the site visits in 2019 to review the accuracy of sustainability indicators and identify material misstatements in SABIC's environmental activities. The assurance of SABIC sustainability indicators, such as greenhouse gas intensity and energy consumption measures, implies that non-accountant specialists carried out the process. This inference is attributed to the belief that the assurance or audit of sustainability indicators is beyond the cognitive capacity of financial auditors. All audit firms in the study sample have stated the standards used to carry out the assurances or audits of Saudi corporate sustainability, social and environmental responsibility statements as presented in the table below:

Table 6.5 Standards adopted for social and environmental audit engagements (AT3-j)

Audit firms / Standards	KPMG Sustainability Advisory	KPMG Al Fozan	Ernst & Young & Co.	PwC	Deloitte & Touche	Dr. Al-Amari	KPMG Al Fozan Ernst & Young co-audits	Total
ISAE 3000	3							3
Dutch Standard 3000A	3							3
ISA		9	8	2		3	6	28
Generally accepted audit standards in Saudi Arabia		4	11	3	1	1	6	26
Total	6	13	19	5	1	4	12	60

The table 6.5 shows a majority of more than 90% (or precisely 54 out of 60 reports) of the audit reports in the sample were executed in accordance with the two traditional-based standards, generally accepted domestic auditing standards and the ISA (AT3-j). This finding contradicts previous studies of Deegan et. al. (2006), Edgley et. al. (2015), Manetti and Toccafondi (2012), Farooq and De Villiers (2018) that investigated the audits of corporate sustainability statements in the Western context, revealing a widespread compliance of the universal ISAE 3000 and AA1000AS frameworks by sustainability audit providers. The overwhelming reliance on locally accepted auditing standards in the provision of social and environmental audit services indicates that Saudi audit firms are more inclined to discharge their social audits within the norms of the domestic professional context. Such observation is consistent, to a large extent, with the opinions of the interviewed auditors AUD9 and AUD11 that directly advocated the establishment and adoption of domestic standards for the emerging social and environmental audit practices in the Kingdom. Moreover, the collective views of the statutory auditors to follow locally-established standards when rendering social audit services are justified by the interviewee AUD9 as it is a cautious step to operate within the social norms of the financial auditing profession, especially amid the anxiety and uncertainty surrounding these emerging, yet, complex audits. This position is also congruent with the findings of similar investigatory studies of sustainability audits in other developing economies (for example, the study of Basalamah and Jermias, 2005)[53], where a significant degree of ambiguity prevails among the sustainability audit practitioners.

Most Saudi audit firms in the research sample referred to the adopted professional standards of either the local SOCPA framework (the generally accepted audit standards in the Kingdom) or the ISA global framework. All of the Big4 audit firms in the study sample (KPMG Al Fozan & Partners, Ernst & Young, PwC, and Deloitte & Touche) have audited their clients' social and environmental claims as parts of the annual financial reports. From the table 6.5 above, it can be viewed that statutory auditors followed generally accepted audit standards and the ISA in 26 (or 43%) and 28 (or 46%) of audit cases, respectively.

Another results from the research sample showcase the inconsistency in implementing professional standards for the verifications of corporate social and environmental claims.

[53] The study of Basalamah and Jermias (2005) revealed that the Indonesian regulators, who monitor the accounting and auditing profession, issued their local compulsory standards for sustainability disclosure and assurance. Specifically, the standards under the Ministry of Environment Decree no. 42 (1994) for corporate reporting and auditing, and no. 30 (2001) for only audit services.

One case exemplifies the inconsistent application of professional standards is noticed in the KPMG Al Fozan & Partners' social audits of Savola Group's annual statements (from 2016 to 2019). While KPMG Al Fozan & Partners stated that the generally accepted audit standards were used as a professional reference to perform the audit in 2016, the ISA were replaced as the criteria for the social audits of the other three subsequent years. A similar pattern of incongruent social and environmental audit practice is observed in Ernst & Young's social and environmental auditing of MA'ADEN annual statements (from 2014 to 2017), and in the Zamil company circumstance (from 2015 to 2019).

On the other hand, the embrace of audit standards for non-traditional audit engagements is noticed in only the KPMG-Sustainability Advisory's reports, representing a small fraction of the study sample (only six audit reports or 10% of the sample). In contrast to several studies from the social and environmental audit literature (such as Edgley et. al, 2015, Manetti and Toccafondi, 2012, Farooq and De Villiers, 2018), only three audit reports (or 5%) of the study sample considered the ISAE 3000 as the audit criteria to provide professional judgment on the corporate sustainability statements. Likewise, the usage of the specialised guidelines for non-financial assurances or audits, the Dutch Standard 3000A, was referenced as a guidance by KPMG-Sustainability Advisory also in three cases (or 5%) of the research sample to gauge the effectiveness of the SABIC's corporate social responsibility reporting system for the period from 2017 to 2019.

Interestingly, as most interviewed statutory auditors advocated for promulgating local social audit guidelines based on Islamic and cultural values, the pioneering petrochemical SABIC corporation persistently adhered to international standards.

6.2.4 Stakeholder involvement in the audit reports

Stakeholder engagements in the social and environmental auditing are considered as one of the effective mechanisms for making the stakeholder inclusive in the audit of corporate social responsibility disclosure more robust process (Edgley et. al, 2010). The issues of stakeholder engagements in social audit practices have been examined in a couple of studies to evaluate their benefits in the audit processes and managerial capture (Adams and Evans, 2004; O'Dwyer and Owen, 2005; 2007; Power, 2007; Simnett et. al, 2009; Edgley et. al, 2010; O'Dwyer, 2011; Manetti and Toccafondi, 2012; Bepari and Mollik, 2016; Islam et. al, 2018).

Generally, research findings from the relevant literature illustrate conflicting perspectives from both audit practitioners and stakeholder groups sides regarding the importance of the internalisation of stakeholders' opinions in social and environmental audits as a tool to enhance organisational accountability and transparency for stakeholders and the society at large. On the one hand, some studies found a growing trend, albeit at a minimal level, in including stakeholders' information in the social and environmental audit processes (for example, O'Dwyer and Owen, 2005; 2007; Edgley et. al, 2010). Other studies, on the other hand, have criticised the way that stakeholder involvement has proceeded because the social audit practices are impeded by managerial capture and the corporate reporting system (O'Dwyer, 2001), and therefore, failing to address material issues concerning stakeholders' concerns (Bepari and Mollik, 2016). Moreover, the high cost associated with the inclusion of stakeholders in the social audit process is another impediment (Edgley et. al, 2010) that reflect the assertions of Power (1997; 1999) and Shearer (2002), who pointed out that the economic constraints prevent the stakeholder engagements. Financial impediment causes social audit providers to limit the audit scope and level, favouring professional capture and serving the interests of companies and shareholders rather than delivering public accountability (Smith et. al, 2011; Bepari and Mollik, 2016).

There are methods for considering stakeholders' views in the social and environmental audit processes (Edgley et. al, 2010). These methods include direct or indirect communication with stakeholders about the sustainability statements of their relevant companies. The communication with stakeholders aims to ensure that the discharges of corporate accountability are validated by an independent third-party.

Direct methods of stakeholder inclusion can be in the form of listening from stakeholder discourses in planned monologic dialogues, interviews or panels, and conducting a survey on stakeholders' views on the disclosed corporate sustainability information. Indirect communication with stakeholders can be conducted by attending two-way communication sessions between companies and their stakeholders or reviewing published information in the media outlets and internet searches about companies claims' on stakeholders.

From the analysis of stakeholder engagements in the Saudi audit firms in the research sample, it appears that statutory auditors dealt with the subject matters differently and, generally, took two contrasting positions. The first position is represented in KPMG-Sustainability Advisory's limited assurance of SABIC reports, which is a straightforward directionality towards stakeholder inclusivity in the sustainability programme (AT3-k, AT4-o). Over the six annual years (2014-2019), the sustainability assurance providers of SABIC have utilised a mix of direct and indirect audit methods to substantiate their professional opinions on the disclosed information in respect to SABIC-stakeholder communication. In their 2014 and 2015 sustainability assurance reports, the auditors of SABIC have instrumentalised the media search as an indirect tool to review and verify social, environmental, health and safety matters that concern the stakeholders[54] and the society (AT4-q). The analysis of the study sample also shows an indirect method of

[54] According to SABIC sustainability reports, the board management identifies salient stakeholder groups as suppliers and customers from Saudi Arabia and overseas, government ministries, and employees and international universities. Furthermore, SABIC management is determined to align its sustainability policy and social and environmental operations with the strategies of the United Nation's Sustainable Development Goals (SDGs) and the Saudi Vision 2030 (SABIC sustainability report, 2017, 2018, 2019).

stakeholder engagement through meetings with employees to verify the corporate social and environmental claims. Site visits to production factories in Saudi Arabia, European countries, the United States, China and India, were another indirect method that auditors consistently employed to review SABIC's allegations of efforts to mitigate corporate environmental risks on local communities. As the auditors of KPMG-Sustainability Advisory have shifted their adoption of assurance criteria from the ISAE 3000 to Dutch Standard 3000A from 2017 onwards, the assurances have broadened to cover more relevant social and environmental themes and issues that affect, or are affected by, the SABIC operations. One example is reflected in the 2019 assurance report when the auditors of SABIC expanded their assurance scope to include stakeholder engagement, and assessed SABIC's management-stakeholders dialogue and the reasonableness of decisions and conclusions made by the board management.

Although that KPMG-Sustainability Advisory's assurance of stakeholder inclusivity in the SABIC sustainability statements is somewhat encouraging, there are some reservations on the practicality of such audit implementation. It appears that the SABIC management control "the normative nature" of assurance practice as an enlightening and informative tool for the public. The assertions of Power (1994; 1997) and O’Dwyer and Owen (2005) are reflected in the assuror's emphasis on assessing the adequacy of the SABIC's internal sustainability control system rather than upholding organisational accountability and transparency for stakeholders. In other words, the sustainability assurances provided by KPMG-Sustainability Advisory added value primarily to SABIC from a managerial perspective rather than from a stakeholder perspective. This overriding concentration on management control systems undermines the role of social audit practice as a conduit for enhancing public accountability, and this negative audit role has been addressed by academic researchers in the normative literature (Gray, 2000; Ball et. al, 2000; Deegan et.

al, 2006; O'Dwyer and Owen, 2007; Mock et. al, 2007; Jones and Solomon, 2010; O'Dwyer et. al, 2011; Smith et. al, 2011). Furthermore, the limited assurance level and scope in the SABIC situation downplays the importance of sustainability assurance, which is supposed to be a social accountability enabler for the stakeholders (Manetti and Becatti, 2009). It can be inferred from adopting non-stakeholder-centric standards such as the ISAE 3000, that the sustainability assurance providers of SABIC are more influenced by a traditional shareholder and professional logic (as elaborated in section 6.2.3), and therefore, leading to deprioritise stakeholder engagement assurance options. The way of assuring stakeholder inclusion in the SABIC sustainability reports paralleled the description of the interviewee AUD10, who acknowledges that the consideration of stakeholder groups, excluding the shareholders, in the social and environmental auditing is a quite rare task in the Saudi-based business environment. The interviewee AUD9 supported the limited assurance level as exemplified in the case of SABIC sustainability reports. A reasonable level for sustainability assurance necessitates non-traditional auditors with sufficient knowledge and expertise in stakeholder management and environmentally-related science fields (AUD9).

Conversely, the second position of the other five Saudi audit firms shows opposing findings to the KPMG-Sustainability Advisory assurance statements. In other words, all audit reports in the study sample, except the KPMG Sustainability-Advisory assurance reports, illustrates a complete absence of stakeholder engagements in the audit reports. Despite that client companies claimed several efforts to deliver promises to their valued stakeholders and enhance corporate transparency, statutory auditors, seemingly, focused on narrow understating of materiality assessment in social audits, considering only financial implications from a non-stakeholder perspective (O'Dwyer and Owen, 2005; 2007; Solomon and Edgley, 2008).

The omission of stakeholder engagement information in most audit reports in the sample can be attributed to the dominance of the shareholder-oriented corporate governance model in Saudi Arabia (Salah, 2020), where corporate managers and audit firms are highly likely to prioritise shareholder interests. The impact of shareholders prioritisation over stakeholder engagement ripples in the wordings and structure of the audit reports, which are to be explored in the next two sections.

6.2.5 Addressee of audit reports

One of the main aspects of the social and environmental audit reports is the addressee of the audit engagements. Identifying a target group as the addressee of the social audit report indicates that audit objectives are directed to serve the interests of that particular group. As the audit of corporate social and environmental performance is a voluntary practice, auditors are in a position to convey the audit discourse to a broader range of addressees, who might or not have a stake with the audited company. Unlike in the traditional financial audit conduct, which is mandatorily required to report to the company's shareowners as the target audience, the nature of social audit engagement with its infinite number of sustainability issues complicates the identification process for specifying the "right" addressees (Deegan et. al, 2006). As a result, empirical evidence from the relevant literature found that auditors nominate numerous addressees in the audit reports, or in some cases, leave the audit report without an addressee (O'Dwyer and Owen, 2005; Deegan et. al, 2006; Bepari and Mollik, 2016). However, some scholars of the social and environmental audit discipline suggested stakeholder groups as the target addressee that should be included in the heading of the audit reports, referring to the principle that social audit practice is supposed to be a stakeholder accountability enabling tool (Adams and Evans, 2004; Bepari and Mollik, 2016). Whereas the ISAE 3000 recommends that the intended users of the audit statements should be selected based on the type and nature of each non-traditional financial audit service undertaken by auditors (IAASB, 2013).

From the exploration of audit reports through the study sample, all the six audit firms addressed their audit reports to a specified group, except in one case of the KPMG-Sustainability Advisory 2017 statement. Generally, it was highly evident that audit firms concentrated on directing the audit conclusions towards the capital providers of their auditees. All the Big4 audit firms (excluding KPMG-Sustainability Advisory) with their Saudi audit partners in the sample marginalised stakeholder groups by not including them as the addressee in the audit reports. Despite that some companies such as the Savola group and the Saudi Electricity Company disclosed abundant data about contributions to the welfare of stakeholders, their auditors, Ernst & Young, KPMG Al Fozan and PwC, constantly referred to the shareholders as the addressee. This research finding is a consequence of integrating the vast majority (90% of the sixty audit reports of the sample) of corporate social responsibility audits with the financial audits, which consider shareholder groups as the sole or primary consumers of audit reports (Simnett et. al, 2009). Only a small number (four audit reports or 7% of the study sample) of the audit reports pointed to "the readers of sustainability report" as the target audience for, precisely, the KPMG-Sustainability Advisory audits of SABIC's 2014, 2015, 2016, 2018 sustainability statements. The assurance statement of KPMG-Sustainability Advisory for the year 2019 was the only report that pointed to "the board directors of the company" as the addressee. Also, the KPMG-Sustainability Advisory 2017 assurance report was the only report in the sample with no addressee. The nomination of stakeholders as addressees did not appear in all audit reports in the study sample.

An essential aspect in directing an audit judgement message to a particular addressee is to select the type and amount of terminologies and wordings for non-verbal communication (Gray, et. al, 1997; Chong and Pflugrath, 2008). From the study sample, it appears that the audit firms used a similar writing style with almost unified wording and language to communicate with the addressees. Communication with addressees requires auditors to cover issues that supposedly satisfy the interests of addressees. Two signs can help in eliciting the ways that auditors employed to persuade the addressee, via the written audit reports, on the credibility of corporate social and environmental statements. The first sign is through the level of language used in the audit report, which will be discussed in the next section. While the second sign is the length of the audit report. In general, the length of audit reports can be seen in the number of pages that included the content of the audit conduct descriptions. The length of audit reports ranged between 1.50 to 3 pages in the stand-alone sustainability audit reports of KPMG-Sustainability Advisory (AT3-g). Whereas in the other integrated audit reports, the length of the audit reports is seen between 12 pages (in, particularly, the co-audits of the two banks SNB and SAAB) and one page (AT3-g). The one single audit report appears in most of the integrated audit reports in the study sample, reaching 22 (or 41%) out of 54 cases.

The table below encapsulates the observation of the addressees from the audit reports in the sample:

Table 6.6 Addressee of audit reports

Addressee / Audit firms	Readers of the sustainability report	The board of directors	Shareholders or stockholders	Not mention	Total
KPMG Sustainability (Advisory division N.V.)	4	1		1	6
KPMG Al Fozan & Partners			15		15
Ernst &Young & Co.			17		17
Dr. Al-Amari & Co.			4		4
PwC			5		5
Deloitte & Touche			1		1
KPMG Al Fozan- Ernst &Young co-audits			12		12
Total	4	1	54	1	60

An overview of the table 6.6 above shows that the findings contradict previous studies of O'Dwyer and Owen (2005) and Deegan et. al. (2006) on the UK and European business markets, concluding that most sustainability audit reports (73% for both studies) did not specify addressee. On the contrary, the present study shows a vast majority (98%) of audit reports of the sample determined addressees. Another finding illustrates that the percentage of audit reports with "boards of directors" addressee was minor (1%), contradicting with Bepari's and Mollik's (2016) examination on Australian companies that reveal around 70% of the audit statements were addressed to "the directors of the company". However, findings from the content analysis on the addressee of social audit reports found similarities with other studies. This study concurs with some findings from Bepari's and Mollik's (2016) investigation in respect of the absence of addressing stakeholders as addressees, and with the dominant percentage (85%) of social audit reports with determined addressee. Nevertheless, the users of social audit reports need to find out the outcome of social audit engagements, which is the theme of the next section.

6.2.6 The nature of audit conclusions

The professional opinion of auditors is the final judgement offered in the audit reports on client companies' statements based on their assessment. The auditor opinion is an essential informative measure to assist current and potential users of corporate statements in making decisions based upon audited information (Manetti and Becatti, 2009). In the social and environmental audit arena, the professional audit conclusion is also a significant channel for the users to gauge corporate performance based on sound and informed decisions (Deegan et. al, 2006). One of the main essences in the audit reporting is the wording style used by audit providers to deliver their opinions to intended users (Roebuck, et. al, 2000; Hasan et. al, 2003; O'Dwyer and Owen, 2005). More importantly, a clear description of the audit scope, levels, procedures, and auditors' responsibility in the audit engagements should be considered when delivering the audit opinions (Deegan et. al, 2006).

From the analysis of the study sample, it appears that there are insignificant differences in using wordings and terminologies by social audit providers to convey the audit opinions.

This observation of the almost similar written structure in the audit reports is attributed to the commonly used integration of social and environmental audit processes with the traditional financial auditing, which is featured in most of the audit reports in the sample. All of the sixty audit reports in the sample offered positive opinions regarding the corporate social and environmental responsibility reporting, expressing almost the same vocabularies used in the traditional audit reports. Except for the KPMG Sustainability-Advisory's reports, the audit reports used classical financial audit wordings for judging corporate sustainability claims such as "the statements present fairly, in all material aspects, the positions…". In the case of the KPMG-Sustainability Advisory's stand-alone reports, different wordings have been provided to present the auditor's opinion, stating that, for instance, "based on our procedures performed, nothing has come to the attention that causes us to believe that the sustainability information is not prepared, in all material respects, in accordance with the reporting criteria".

In terms of compliance with professional standards, according to the two relevant standards, ISAE 3000 and the AA1000AS, auditors should disclose the limitation in the audit conducts to mitigate misinterpretation by users of the audit conclusions. The AA1000AS standards further detailed the limits that to be stated in the final opinion to include the evidence-gathering process, the scope of audit engagements (AccountAbility, 2008). In respect to evidence collection procedures, the ISAE 3000 stipulate that audit opinions should be built on all collected evidence, whether it substantiate or refute the examined matters of the auditee (IAASB, 2013). Whereas the AA1000AS instruct social and environmental audit practitioners to document their professional opinions on the investigated subject matter in the audit engagement (AccountAbility, 2008).

The state of auditor's independence, as the cornerstone of the social auditing profession (Power, 1994; Deegan et. al, 2006; Mock et. al, 2007; Perego and Kolk, 2012; Smith et.

al, 2011), is addressed by the ISAE 3000, AA1000AS and other relevant standards to preserve and maintain objectivity in reaching an impartial audit conclusion. One instance is demonstrated in the AA1000AS standards by demanding auditors to avoid accepting social and environmental audit engagements if there is a conflict of interests or relationships between the auditors and the client companies on the one hand, and between the audit providers and the stakeholders of client companies, on the other (AccountAbility, 2008).

Overall, the audit reports of the sample referred to the independence status in either the headings or within the content, emphasising the limits of the audit provider's responsibility and offering descriptions on the scope of the audit services undertaken. However, from observing the content of all audit reports in the sample, there is a complete absence of considering the stakeholder engagements in the social audit processes, except in the limited assurance range in the KPMG-Sustainability Advisory statement of 2019. This finding question the validity of social and environmental audit practices in Saudi Arabia as a mechanism for stakeholder empowerment. It was also noticed from the study sample that audit providers have neither offered comments on the weaknesses of the corporate social reporting systems nor recommendations to improve the quality of sustainability disclosure of their client companies (AT3-n).

Hence, corroborating findings from the perspectives of the interviews with AUD9, AUD10, AUD11 in the previous chapter, statutory auditors are not fully aware of differentiating social audit approaches from that in financial audits. Consequently, statutory auditors tend to subordinate the audit of corporate environmental and social aspects to financial auditing. Moreover, the use of the similar elastic wording style of traditional financial auditing to express audit judgements on corporate sustainability matters, as the interviewee AUD10 claimed, would further expand the audit expectation gap (Sikka et. al, 1998).

Finally, only KPMG-Sustainability Advisory has detailed the review work undertaken to reach the professional conclusion about the accuracy and credibility in all its sustainability statements. According to KPMG-Sustainability Advisory's assurance reports, the review includes, among others, examining the effectiveness of SABIC's internal control system, reviewing the consistency in the application of relevant standards (the Dutch Standard 3000A and the ISAE 3000), and analysis of the environmental indicator (AT3-l). The remaining audit firms provided details only on traditional audit procedures to collect evidence for judging the financial statements of their clients. These five audit firms omitted the explanation of audit steps executed to gather corporate social and environmental information evidence.

6.3 Interpreting study findings with the consideration of theoretical frameworks

The above findings from the content analysis of the audit reports are examined with consideration of the social and environmental normative literature and the three theoretical perspectives (audit, legitimacy, and stakeholder theories). From the study sample, sixty-five (or 93%) of the sixty audit reports on social and environmental statements of Saudi public companies were found to be associated with the Big4 international audit firms. The studies of Mock et. al. (2007), Perego (2009) and Manetti and Toccafondi (2012) reached a similar finding, in which the Big4 audit firms are ranked as the highest in volume and quality in providing sustainability audit services, outnumbering social audit providers from other non-Big4 firms. Likewise, all client companies that audited their sustainability statements by the statutory auditors in the sample are regarded amongst the leading public companies in the Saudi business market (the Assessment Template, AT1). The tendency of Saudi large public companies to audit their social responsibility statements is perceived as a tool to gain social legitimacy (Lindblom, 1993) from the society is congruent with assertions of several studies in the relevant literature (Power, 1996; Simnett et. al, 2009; Kolk, 2010; Deegan and Unerman, 2011). However, the highly socially- and environmentally-sensitive activities that Saudi companies engaged in such as irresponsible petrochemical production, agriculture, mining and shipping transportation, have negatively positioned Saudi Arabia as one of the major contributors of CO2 emissions in the Middle East (Kahia et. al, 2020). The high levels of pollution and environmental degradation have been resented repeatedly by the Saudi public and elevated social anxiety and concerns (Taher and Hajjar, 2014). Because Islamic *Shari'a* law promotes principles of solidarity arrangement (*Takaful*) and vicegerency on the Earth (*khiläfah*) to oblige Muslims to be socially and environmentally accountable (as elaborated in section 2.4 of the second chapter), Saudi companies are expected to operate in a socially responsible manner.

Independent external auditing is one of the mechanisms that companies utilise to legitimise their operation (Deegan and Unerman, 2011; O'Dwyer et. al, 2011). The growing demands for external social and environmental audit services in Saudi Arabia exemplified the companies' inclination to seek (or boost) their social legitimacy through voluntary audit engagements. Findings from the assessment template (AT2-f) and tables 6.2 and 6.5 demonstrate that Saudi companies are increasingly inclined to audit their publicly disclosed sustainability reports by statutory auditors, who heavily relied on either local or global traditional audit standards in most (90%) of the study cases. The reliance of statutory auditors on the traditional auditing standards is one indication that statutory auditors of Saudi audit firms are accustomed to performing non-monitored social audit services in the course of conventional audits. This finding raises the likelihood of company management intervention to control the voluntary audit process (Power, 1999; Ball et. al, 2000; Adams and Evans, 2004; O'Dwyer and Owen, 2007; Jones and Solomon, 2010; Smith et. al, 2011). This issue of managerial control in social and environmental audits has been extensively addressed in early studies in the relevant literature, asserting that such control by managements displaces the focus on trust and quality of the audits to only enhancing the corporate image (Power, 1999). The conduct of social and environmental audits under the control of management leads to impairing the objectivity, transparency and efficiency, and the ability to discharge social accountability, which constitutes the pillars of the audit theory (Power, 1994; 1999). Professional independence of auditors in the provision of social and environmental audits has been heavily examined in the auditing literature (Power, 1994; 1997; Ball et. al, 2000; O'Dwyer and Owen, 2007; Chiang, 2010). The illustration of independence and responsibility of auditors and disclosing the degree of company management control over the audit conducts are ways to signify the quality of audit reports (Ball et. al, 2000). The content analysis of audit reports illustrates that all audit providers in the sample stated their independence in either the headings or within the narrative content of the audit reports. Thirty-four audit reports (57% of the study sample) showed the term "independent" in the titles to meet the ethical requirements of the auditing standards ISA or the ISAE 3000. Throughout all six years (2014-2019), the most frequent usage of the word "independent" in the headings of the audit reports appeared in KPMG Al Fozan with nine audit statements, followed by Ernst & Young, PwC, and Dr. Al-Amri with 10, 5, 4 audit statements, respectively. All audit providers noted their independence in the integrated audit reports. The most used statement in the integrated audit reports was: "We are independent of the (client company) in accordance with the professional code of conduct and ethics that are endorsed in the Kingdom of Saudi Arabia". Regarding the KPMG-Sustainability Advisory sustainability assurance of SABIC, all titles of its stand-alone reports included the term "independent assurance", with other statements made within the content, except the 2014 report, claiming independence from the SABIC management.

Findings relating to the scope of social and environmental audits demonstrate the extent of managerial influence on social audit engagements. The analysis of the contents of the KPMG-Sustainability Advisory's stand-alone assurance reports shows that the assurance provider determined the scope of their sustainability assurance based on the predetermined audit scope by the reporting SABIC company. An observation of SABIC's sustainability assurance statements (2014-2019) reflects the presence of managerial control and pressure exerted on the auditors. One assurance statement from SABIC explicitly stated that "for the last seven years we have used KPMG to increase our confidence in certain reported data". Also, the sustainability assurance providers affirmed that the scope of their limited assurance was predicated on the assurance scope disclosed in the reports of SABIC. Whereas in the other five audit firms, the social audit scopes are determined with that in the financial audit scopes based upon the communication and agreements with the reporting client companies. Scholarly studies criticised that the influencing role of companies on the social audit engagements undermines the audit efficiency and restricts the audit plan to cover material areas from a managerial perspective (Adams and Evans, 2004; O'Dwyer and Owen, 2007; Jones and Solomon, 2010; Urzola, 2011). Thus, the social and environmental audit conducts that fail to deliver transparency, efficiency, and more importantly, social accountability, is regarded as greenwashing tool to enhance companies' images (Marquis and Toffel, 2011).

Nevertheless, the professional techniques of financial auditors have historically led traditional audit firms to dominate the social audit market, mainly by the Big4 audit firms (KPMG, 2017). Power (1997) explained how the knowledge of traditional financial audit was transferred and transformed within the realm of social and environmental audit.

However, there are inherent difficulties in transforming financial audit methodologies and concepts into the social audit area that is known for its ambiguous qualitative data (O'Dwyer, 2011). Such challenges that may arise from the involvement of financial auditors in the new social audit spaces can be faced and contended by collaborative efforts between financial auditors and specialists from other relevant multidisciplinary fields (Canning et. al, 2019). The study findings indicated that social and environmental audit services are dominated by statutory auditors of traditional audit firms, constituting 90% of the study sample. In the light of the audit theory, the overall findings of the content analysis showed that the social and environmental audit performance in Saudi Arabia lacks consistency, efficiency and transparency, and is subordinated to the financial interests of client company managements. Furthermore, the tendency of the Saudi audit firms to fully integrate the social audit engagements with the financial audit processes is an ineffective way of discharging public accountability. Due to the insufficient or abstracted information that statutory auditors provided about the undertaken social audits, the validity of the social audit services, as a public accountability enabler, is questionable within the Saudi context.

The discharge of social accountability by companies should take into consideration the needs and expectations of several stakeholder groups in the social and environmental reporting and auditing (Gray, 2000; Adams and Evans, 2004; Gao and Zhang, 2006; Blanco and Souto, 2009; Edgley, et. al, 2010). The role of external auditors, as independent third-party, is crucial in assuring company-stakeholder communication on related reported subjects, and exploring the extent of risk and managerial capture in the corporate environmental reporting (Thomson and Bebbington, 2005). Thus, as Edgley et. al. (2010) asserted, the social auditing is one effective mechanism to direct companies' attitudes towards stakeholder inclusivity and position social audit providers as the voice of voiceless stakeholders. This role of social audit practice in verifying and improving company-stakeholder communication and stakeholder engagement processes is somewhat in line with the postulates of stakeholder theory, which their prominent proponents such as Freeman (1984) and Donaldson and Preston (1995) posited that stakeholder consideration is paramount for the success of companies.

The assumptions of stakeholder theory helped to explain matters of stakeholder inclusion and obtain a better picture of how the audit of stakeholder engagements is conducted. The study findings indicated that most (or 98%) audit reports did not demonstrate any reference to auditing of stakeholder engagement information (AT4). But there was a noticeable observation on the type of stakeholders revealed in only one of the assurance statements of KPMG-Sustainability Advisory. In their particular 2019 assurance statement, the auditors of KPMG-Sustainability Advisory stated the assurance of the SABIC company dialogue with a representative of employees, local communities and suppliers (AT3-m, AT4-p). Neither the assurance report nor the company statement disclosed details about the SABIC-stakeholder communication or location, length of dialogue time (AT3-m, AT4). With the absence of information on the SABIC-stakeholder engagement, it is unlikely to ascertain whether the dialogue is a one-way or an egalitarian communication form. As a result, it is unclear to determine the extent of managerial capture in the SABIC management-stakeholder dialogue. Although the stakeholder engagement assurance in the KPMG-Sustainability Advisory case is an encouraging step for other Saudi companies, its effectiveness in discharging stakeholder accountability is uncertain due to the inadequacy of the social audit practice.

The virtual absence of assuring companies' stakeholder engagement practice is noticeable in the study sample. It appears that some Saudi companies such as Savola Group, Bahri, SAAB and the SNB, disclosed information related to the stakeholder and social activities in their annual financial statements. However, most Saudi companies in the sample did not voluntarily audit their stakeholder engagement disclosure by external independent audit firms. This evidence is probably due to the nature of the Saudi society that value privacy principles even in non-compulsory business practices, as the interviewee AUD9 stated in the fifth chapter. Or it may be attributed to Saudi managers' will to maintain their managerial control over the corporate social responsibility systems and avoid external audits and scrutiny (Smith et. al, 2011). Nevertheless, the inclusion of stakeholder perspectives and the broad range of corporate sustainability issues in the external audits may be helpful to add value to the audit practice, audit providers and their client companies themselves (Edgley, et. al, 2010). External social auditors can help, through effective social audits, to decrease information asymmetry between company managements and their external stakeholders in voluntary corporate social and environmental reporting (Cuadrado-Ballesteros et. al, 2017).

6.4 Summary and conclusion

The present chapter aimed to gain further insights into the nature of social and environmental audit practice by applying the content analysis method to the audit reports. Insights obtained from the semi-structured interviews in the fifth chapter served to be juxtaposed to findings from the content analysis to build a broader picture of the social audit practice in Saudi Arabia. Moreover, this chapter addressed the research questions (RQ1-a), (RQ1-b), (RQ1-c), and (RQ3-a) by investigating a sample of sixty audit reports from another methodological angle. Generally, findings from the content analysis on audit reports can be summarised in four parts. The first part is related to the state of social and environmental audit practice in Saudi Arabia, where finding revealed that these audits are dominated and controlled by the Big4 audit firms with their local audit firms partners. As the study sample illustrated, 90% of the social audit engagements were provided by the

Big4 audit firms. Most of the executed social audit engagements (54 out of 60) were integrated with the traditional financial audits, indicating that statuary auditors are more accustomed to internalising financial audit knowledge and techniques into social audit processes (Power, 1997). This indication proves the collective views of interviewees (AUD9, AUD10, AUD11) that statutory auditors in Saudi Arabia are not aware of the differences between social audit and financial audit approaches. Thus, statutory auditors are more likely to deal with the audit of corporate environmental and social reports in a way akin to financial audit practices. The analysis also showed that statutory auditors conveniently adopt traditional accountancy-based standards to deal with non-financial qualitative data in social auditing. The adoption of financial audit principles mostly led to cautious, subjective and myopic audit assessments of material aspects in the social and environmental audit fields (Power, 1999; O'Dwyer and Owen, 2005; 2007; Edgley et. al, 2015). This inclination towards financial audit methodology in the emerging economy of Saudi Arabia may be attributed to two interrelated factors. The first factor is related to directing statutory auditors to shape the social audit by external pressure from their client companies, who usually hide behind the narrow interpretation of traditional accounting in social disclosure. The second is associated with the social audit costs derived from the efforts of financial auditors and corporate managers to limit the range of social and environmental audits. As the findings from the study exhibited, 54 of the 60 social audit engagements were subordinated to the financial auditing of client companies' annual statements. Also, all these forty-five integrated audit reports failed to provide adequate information about the social audits and used the vague wording style of financial audit opinions (Sikka et. al, 1998). The second main finding showed a collective awareness among statutory auditors about the statement of independence in social audit engagements manifested in most audit report headings. While the third finding outlined that the minority of statutory auditors (6 audit reports or 10%) of the study sample used the standards for social and environmental assurance/audit practices, the fourth finding revealed that most audit reports (59 audit reports or 98%) excluded stakeholder engagements from the social audits.

Although the social and environmental reporting and audit practices have substantially grown in the past decade, these practices were characterised by vagueness and uncertainty. Social auditing is supposedly a mechanism to assist companies in discharging social accountability and empowering stakeholders (Ball et. al, 2000; O'Dwyer, 2011). However, the inclination to serve the narrow interests of shareholders, rather than stakeholders, through the audit of corporate social responsibility statements is a common feature of shareholder-oriented culture as in the Saudi Arabian state.

Chapter Seven: Summary and conclusions

7.1 Introduction

In recent years, social and environmental audit practice has been growing, especially in industrialised economies, as a response to political and societal pressures and stakeholders' demands for corporate social responsibility disclosures (Mock et. al, 2007; Kolk, 2010; Zadek, et. al, 2013; Harymawan et. al, 2020). Every emerging profession in civilised societies has legitimacy and motives. However, social auditing and corporate social and environmental disclosure have been deemed repressive and non-emancipatory practices in Islamic Arab countries, even though the Islamic law encourages delivering accountability and transparency as a form of social justice (Kamla, 2007). In this vein, Saudi Arabia was the first state in the region that codified and enforced national environmental laws in 1992 by establishing the Ministry of Environmental Management and Protection[55] (Djoundourian, 2011). Furthermore, the Saudi Vision 2030 and the 2020 National Transformation Program have reflected the increasing political and societal awareness and commitment towards improving social and environmental sustainability (Alshuwaikhat and Mohammed, 2017). The flow of corporate information in the public domain is necessary to elevate transparency and accountability in the Saudi business environment to achieve the sustainable development agenda of Saudi Arabia's Vision 2030.

The present research contributes to the growing social and environmental audit literature. This study referred to a considerable body of literature that concentrated on investigating the social audit phenomenon from Western-based research perspectives. The principal aim of the study was to explore the nature of social audits within the context of conservative

[55] The ministry supervises all environment-related activities performed by individuals or domestic/international corporations under the law title 'Presidency of Meteorology and Environment Protection'. www.pme.gov.sa (Access date: 25 May 2018).

Islamic society. This study particularly extended prior exploratory studies that scrutinised external social auditing in emerging economies (Basalamah and Jermias, 2005; Alsaad, 2007; Harymawan et. al, 2020). Also, the insights obtained from the investigation of corporate social responsibility reporting and environmental and social auditing by prominent scholars were helpful for the present thesis (for example, studies of Gray and Collison, 1991; Dittenhofer, 1995; Power, 1997; 1999; Gray, 2000; 2001; Watson and Emery, 2004; Bebbington and Thompson, 2007; Rika, 2009; Chiang and Lightbody, 2004; Gillet, 2012; Harymawan et. al, 2020; Canning et. al, 2019).

This chapter is organised as follows. The second section offers a brief review of the past six chapters. In the third section, the empirical findings from the study investigation of the social and environmental audit practice in Saudi Arabia are presented. The fourth section outlines the study recommendations for improving the quality of social and environmental audit services. Also, this section offers suggestions, which are inferred from the study interviews, to develop the competence of statutory auditors to deal with the social audit engagements in Saudi Arabia. While the fifth section discusses the research limitations that were taken into account, the final section offers opportunities for future research in the sustainability, social and environmental reporting audits fields.

7.2 Review of the thesis

The study discussed the extent of statutory auditors' involvement in the verification of corporate social responsibility reports in the previous six chapters as follows:

The first chapter provided an introductory presentation of the research and its features and how this area of research has attracted scholarly attention over the past few decades. Also, the chapter offered a general overview of the historical role of lobby groups and NGOs in raising public awareness of the social audit movements since the 1970s. Furthermore, the study rationale, primary objectives and contribution to the literature are demonstrated.

Chapter two is concerned with the presentation of the research context, the Kingdom of Saudi Arabia, including a brief reference to the historical background of the political establishment, demographics and a description of the Saudi Arabian legal, constitutional and monetary systems. Moreover, details about the Company Law (2015), the regulatory body of accounting and auditing professions are outlined. Most importantly, the chapter highlighted the rise of corporate social responsibility activities over the past years and the voluntary disclosure of companies' social and environmental contributions to Saudi society.

Chapter three provided an in-depth discussion of the sustainability, social, and environmental audit literature, which constitutes the theoretical base of the study field. In addition, the three theoretical perspectives, the audit, legitimacy and stakeholder theories, are thoroughly discussed, and followed by addressing the gaps in the literature. The penultimate section examined the three elements of social audit practices: the social audit providers, the audit reports and stakeholders. The presentation of the main research questions concluded the chapter.

The fourth chapter introduced the selected research methodology and methods to evaluate the social and environmental auditing. The researcher embraced the interpretivist version of the epistemological philosophy to help to obtain a broader view of the dynamics of the social audit phenomenon. The triangulation method is selected to use two different research approaches, semi-structured interviews and content analysis, to collect data from various sources and increase the validity of research findings. The interviews with social and environmental audit providers and relevant stakeholders were used to elicit views from the involved parties in the social audit practice in Saudi Arabia. Whereas the content analysis was chosen to thoroughly investigate the audit statements and reach a closer examination of the role of statutory auditors in such social audits.

The fifth chapter dealt with the analysis of the research interviews with eleven statutory auditors and three representatives from the stakeholder groups regarding their motives for engaging in the audit of companies' sustainability reports. The interviewed auditors provided perspectives on their responsibility and accountability in the social and environmental auditing areas. The chapter also covered the discussion of the respondents' arguments on the applicability of financial audit techniques for social audit practice. In addition, the chapter addressed aspects related to stakeholder engagement in the social audits. Finally, the statutory auditors highlighted the obstacles that hindered the progress of the social and environmental audits and suggested future solutions to improve the practice in the Saudi Arabian business environment.

The sixth chapter expanded the exploration of the social audits by concentrating on the content analysis of the external audit reports within the Saudi Arabian context and obtaining additional evidence to support the research objectives. Findings from the content analysis offered a closer picture of how statutory auditors performed the audit of corporate social responsibility statements. Moreover, results from the content analysis showed information about the professional standards and approaches that statutory auditors adopted to carry out the social and environmental audit engagements.

The concluding chapter is introduced at the beginning of the section above.

7.3 Major findings

The present study analysed the content of audit reports and investigated the views, opinions, and perceptions of statutory auditors and stakeholders on the nature of social audit practices in the Saudi Arabian context. In the interviews part, the interviewed participants were categorised into two groups. The first is the statutory auditors from different audit firms. And the second is the stakeholder groups from the financial media and representatives of the religious establishment. Statutory auditors were from various small, medium-sized, and large audit firms. This study extended Alsaad's (2007) empirical explorations of social and environmental auditing in Saudi Arabia to include the perspectives of stakeholder participants with the statutory auditors and conduct content analysis of social audit reports. The extended investigation would offer a broader understanding of the social and environmental audit practice in, generally, the Islamic emerging economies, and in particularly, Saudi Arabia. Thus, the main findings that concluded from the empirical examination of the social audit phenomenon in Saudi Arabia are listed as in the following:

7.3.1 The main findings from the interviews with the statutory auditors

a) The interviewees provided opinions on their current role in social audit practices. They offered a collective view that the participation with a multidisciplinary team of non-financial audit experts in the audit of corporate social responsibility reports adds value to both company reports and audit services. Moreover, the discharge of social and sustainability auditing for client companies boosts the auditors' social legitimacy and reputation in the Saudi environment. As the users of audit reports viewed auditing as a public profession, the auditing role can be an effective mechanism for companies to deliver their social accountability to the relevant stakeholders and the local, regional or global society. Hence, the respondents advocated the provision of sustainability auditing to gain or strengthen the Islamic or social reputation for audit firms in the Saudi business environment.

b) In the audit of corporate social performance or stakeholder engagement information, it is essential to assess the quality and materiality of the collected evidence to minimise potential audit risks.

c) The social and environmental audit practice has a varying impact on the independence of statutory auditors due to various risks associated with such audits. Also, the social audit involve a potential conflict of interest with client companies, which may affect the stakeholders' interests.

d) There is a considerable disagreement among the interviewed auditors concerning the importance of stakeholder inclusion in social and environmental audit practices. The interviewees' opinions varied between supporting and opposing the stakeholder engagement in the social audits. On the one hand, the interviewees endorsed the inclusion of stakeholders as an effective tool for auditing companies' social responsibility statements and identifying the right stakeholders, whom might owe accountability. Also, social audit providers can assist their client companies in improving the management of company-stakeholder relations as a mechanism to boost corporate social performance. On the other hand, other interviewees argued against the audit of stakeholder involvement, claiming that it is a daunting, complicated, and costly audit task. One interviewee insisted that ensuring objectivity in the audit of stakeholder engagement information is challenging due to the strong relationships between the reporting company and its salient stakeholders.

e) There are concerns in using ambiguous terminologies and vague descriptions in social and environmental audit reports. The interviewees attributed such ambiguity and vagueness to the incompetence of statutory auditors to carry out social and environmental audits and the absence of the SOCPA supervision and agreed-upon standards and guidelines for social audit practices.

f) The interviewees criticised the randomness and inconsistencies in the social audit exercises that broadened the audit expectation gap, which led to another failure in the accounting and auditing professions.

7.3.2 The main findings from the interviews with stakeholders

a) Social audit practice is encouraged because it assists companies to discharge their responsibility and accountability to the society, which is considered an Islamic act. Moreover, social and environmental audit providers can play a constructive role in improving the quality of stakeholder management and enhancing corporate social accountability and transparency.

b) As corporate social responsibility reporting is a voluntary practice, it is highly influenced by subjective bias. The auditors should expand the scope of social and environmental audits to include the verification of companies' activities beyond the currently used scope, and assess the potential effect of corporate social performance on the environment.

7.3.3 The main findings from the content analysis

a) The vast majority of the social audit engagements in Saudi Arabia were executed by the financial auditors, who integrated traditional audit knowledge and techniques into the realm of social and environmental auditing. Many observed cases in the content analysis processes of the audit reports exemplified the integration between financial and social auditing. The statutory auditors' inclination towards adopting traditional accountancy-based standards (specifically, the ISAE 3000 and generally accepted financial audit standards) to deal with social auditing is one case that demonstrated these integrations. Two interconnected issues justify the overt reliance of statutory auditors on the financial-based audit standards in the provision of social and environmental auditing. One is the external influence of the shareholder-oriented culture and environment on the statutory auditors to direct the social auditing to serve the interests of shareowners and client companies, who usually favour traditional accounting methodologies over stakeholder-based standards. Whereas the other is the financial auditors' willingness, and probably under the pressure of their client companies, to restrict the range of social and environmental audits to minimise the audit costs. As a result, most findings from the content analysis of audit reports in the study sample illustrated that social audit practices were subordinated to the financial auditing of annual statements, failing to provide adequate information about the social audits.

b) The application of the standards designed for social and environmental assurance/audit practices is minor (only 6 out of 60 audit reports or 10%) as the client companies of Saudi audit firms favour combined social audit services with financial audits for their annual statements.

c) Similar usage of ambiguous and vague terminologies of traditional financial auditing appeared in the description of the social and environmental audit work undertaken.

d) In the headings of most audit reports in the research sample, the term "independent" is explicitly noted to refer to the state of independence in the social and environmental audit engagements.

e) The audit of stakeholder engagement in the corporate social responsibility statements is extremely rare in the study sample (one single report out of sixty audit reports), which reflects negligence or unawareness of statutory auditors of the importance of the inclusion of stakeholders in the social and environmental audit processes.

The following table encapsulates the similarities and differences between the study findings from the interviews and the content analysis examination:

Table 7.1 Comparing findings from the semi-structured interviews and content analysis method

The findings	Semi-structured interviews	Content analysis
The reliance on accountancy-based standards and guidelines (namely the ISAE 3000 and generally accepted auditing standards) and traditional audit techniques in the social audit conducts are frequently observed.	√	√
Inconsistency in identifying the scope and levels of social assurance/audit. And the social assurance/audit levels varied between either a limited and reasonable level.	√	√
Disclosing the state of the statutory auditors' independence in the social audit engagements is highly paramount.	√	√
The stakeholder engagements in the social and environmental audit processes are infrequent.	√	√
The disclosure of hiring non-accountant specialists or conducting environmental and social auditing with a multidisciplinary team is not clear.		√
Using the same ambiguous terminology and wording of financial auditing in the social and environmental audit reports.	√	√
Combining the social audit conclusions with that of financial auditing in one audit report is widely used.		√
Explaining the social audit procedures, for example, the evidence-gathering process and the used analytical methods.	√	
Abstract and unclear interpretation of the areas of corporate social responsibility activities that social auditing covered are noticed.	√	√
The social and environmental audit reports are addressed to shareholders and corporate managers rather than stakeholders.		√

7.4 Recommendations for enhancing social and environmental audit practices

As the Saudi Vision 2030 aims to enhance the living standards, achieve environmental sustainability, and promote organisational responsibility, statutory auditors are expected to be key contributors. Effective social auditing is helpful for Saudi companies to develop a robust reporting system, which enables capturing risks and detecting weaknesses areas in social accounting procedures.

Since the early 2000s, the financial media and some shareholder activists exerted pressure on Saudi audit firms to commence the social and environmental auditing with financial auditing and participate in the corporate social responsibility movement. The local stakeholder lobby groups urged Saudi audit firms to expand social auditing to cover social and environmental statements of NGOs and foreign investment companies that operate in the Kingdom.

In the light of the above discussions, the recommendations and suggestions elicited from the interviewees are crucial steps to strengthen the audit effectiveness in the verification of corporate social and environmental reporting in the future, which include the following:

1) The cooperation between the regulatory body (the SOCPA), statutory auditors, social audit providers from multidisciplinary fields, the Ministry of Commerce, and accounting and auditing academics to discuss the applicability of standardising the social and environmental audit practice. Also, adopting the international standards and guidelines for the audit of sustainability reporting such as the AA1000AS and the ISAE 3000 is recommended. In doing so, it is suggested to establish local standards for social and environmental audit practices that take religious and social boundaries into account.

2) An updated code of professional ethics for the audit practices is needed since Saudi audit firms have expanded their non-audit services to their clients with compulsory

financial audit services. Strict criteria are also required to preserve and maintain the independence of statutory auditors and mitigate the various risks to social audit practices. In the absence of ethical codes to ensure the impartiality of statutory auditors in social audits, it is difficult to eliminate bias from the auditors' judgment on corporate social responsibility reports.

3) Introducing training programmes for social and environmental audit practices under the supervision of the regulatory body, the SOCPA, to equip the statutory auditors with the necessary knowledge and skills for performing the audit of corporate sustainability, social and environmental reports more effectively and efficiently. The expertise of social audit providers from the Big4 audit firms (KPMG, Ernst & Young, PricewaterhouseCoopers (PwC), Deloitte) can help to design these training schemes. These programmes must, at least, encompass the areas of:

a) evidence collection techniques for the audit of stakeholder engagement information.

b) developing coordination skills to deal with specialists of multidisciplinary fields in the social audit team.

c) and finally improving the statutory auditors' ability to interpret and assess the non-financial information.

4) The accounting and auditing departments in Saudi universities and colleges should contribute to the development of social and environmental audit practices by:

a) indoctrinating social accounting and auditing education in their academic curriculums, and conducting in-depth research projects in the social accounting and auditing fields.

b) engaging in thorough discussions with the social audit practitioners and experts to address and resolve the technical difficulties in the social audit practices.

7.5 Research limitations

This study has limitations that should be taken into consideration. First, the study examined the social and environmental audit practices in only the Saudi Arabian context. Since the statutory auditor's duties in Saudi audit firms are similar to that in audit firms across the world, the findings from the present research point to general avenues for promoting improved social and environmental audit practices in, particularly, other emerging Islamic or Arab economies. Second, the study adopts a qualitative methodology supported by a content analysis approach and used semi-structured interviews to obtain data directly from the social audit providers and relevant stakeholders. Because of the scarcity of data and lack of previous investigations on social and environmental audits in Saudi Arabia, the interviews were viable to elicit information to obtain insights on the social audit phenomenon. Third, all interviews were conducted via telephone calls as it is a more cost-effective way in Saudi Arabia to conduct interviews. However, most of the invitations or requests for study interviews send to more than 20 statutory auditors and stakeholders were declined. Some of the statutory auditors and stakeholders requested a face-to-face meeting in their office in remote areas or far-distant cities in Saudi Arabia, which is costly for the research budget. Finally, this study aims to explore the nature of social and environmental audit practices from the statutory auditors' and stakeholders' perspectives only. In the Kingdom, social and environmental audits frequently fall under the umbrella of non-financial consultancy and advisory services in audit firms. Moreover, several stakeholders erroneously believe that social and environmental auditing is one of the industrial engineering services.

7.6 Future research opportunities

The present study contributed to the growing body of social and environmental audit literature by providing insights into the nature, strengths and limitations of social auditing phenomenon in the emerging and Islamic contexts, taking Saudi Arabia as the study case. This study empirically examined the social and environmental audit practices in Saudi Arabia, using semi-structured interviews to extract the opinions of respected parties about the issues surrounding the practices. Moreover, the content analysis was conducted on the audit reports to deepen the exploratory study and acquire a deeper understanding of social and environmental audit practices in the Kingdom. For future studies of the social audit phenomenon in the emerging Islamic and Arab countries, it is recommended that the researchers consider:

1) the investigation of the social and environmental audit practices from the perspectives of corporate managers, regulators from the SOCPA body, specialists of multidisciplinary and non-financial fields in the social audit team, and the relevant government officials from the Ministry of Commerce, to obtain diverse opinions about corporate social responsibility management to support the Saudi Vision 2030 agendas[56].

2) the extent of the cooperation and relationship between internal auditors and external auditors in the provision of social and environmental audits. A previous examination of the role of internal auditors in sustainability assurances in emerging economies concluded that stakeholders do not always appreciate internal auditing and demand independent or external audits (Ridley et. al, 2011). Conversely, another subsequent study by Soh and Martinov-Bennie (2015) surveyed hundred chief audit executives and internal auditors of

[56] Information about Vision 2030 is available at
http://vision2030.gov.sa/en (Accessed date: 29 May 2017)
Specifically, the auditing sector in Saudi Arabia is one of the critical fields of the Financial Sector Development Program as part of the Saudi Vision 2030's plan to enhance the quality of financial services. The Capital Market Authority (CMA) announced in December 2018 new articles for improving corporate transparency and strengthening the regulation of the audit practices to accommodate international auditing in developed economies.
https://cma.org.sa/en/MediaCenter/PR/Pages/Rules-Registering-Auditors-of-Entities.aspx
(Accessed 25 April 2019)

Australian corporations, and showed a high likelihood to prioritise the importance of internal auditing function to cope with corporate environmental issues. In the Saudi Arabian context, future studies in the sustainability auditing area have the opportunity to explore the extent of internal auditors and corporate managers influence on such voluntary sustainability audits. Also, future researches may investigate the degree of internal audit popularity and the demands for other non-financial audit services to conduct social audit engagements. More importantly, future studies can examine whether external social and environmental auditing will expand or fade away.

3) using other mixed-methods approach to analysing the social audit phenomenon. Research methods such as surveys or questionnaires could be helpful to update and expand the findings of the present study on the nature of social and environmental audits in the Kingdom. As the audits of corporate sustainability statements are growing in Saudi Arabia, data can be obtained from other sources to examine the social audit practices.

7.7 Conclusion

This thesis is a dedication for future researchers in the social and environmental auditing field in Saudi Arabia. The researcher is thankful to the statutory auditors and stakeholers who gave their time to conduct the interviews and help to complete this research project.

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Appendices

Appendix I: The Assessment Template of the Research

The Assessment Template (AT) for social and environmental audit practices

Main criteria	Secondary concepts and criteria
1) Corporations general information	a) The paid capital b) Percentage of issued shares for public trading c) Corporation size d) Corporation activities
2) Content of the environmental, social and sustainability audit reports	e) What area of social and environmental aspects that the audit reports cast light on? f) The extent of sustainability topics that the audit report cover, and whether or not corporate social and environmental claims are substantiated with quantitative details.
3) Statutory auditors who provide the sustainability and environmental audit services	g) The length of audit reports. h) The level and scope of the audited corporate sustainability/social reports. i) Indication of compliance with professional independence and ethics in the sustainability and environmental audit reports. j) The application to any international standards and guidelines for corporate social and environmental reporting in the auditing processes. k) Whether there is a declaration of engagement with other non-statutory auditors in a multidisciplinary team in the audit reports? l) Description of how the statutory auditors reached professional judgements on the corporate social allegations. For instance, whether there are collected evidence mentioned in the audit reports. m) Whether there is any reference to specific stakeholder inclusion in the

	sustainability and environmental audit operations? n) Are the social and environmental audit reports concluded with suggestions to improve the quality of corporate social responsibility disclosures of clients?
4) Stakeholders affairs in the social reports	o) Recognition of stakeholders' importance in the social and environmental auditing p) Type of stakeholders that the social and environmental audits included or concentrated on in the audit report. q) The length or scope of the stakeholder engagement auditing as stated in the audit reports.

Appendix II: Interview Questions

Part I: Auditors Interview Questions

1. Do you provide social and environmental auditing services for your clients? If so, what is the principle aim/motive of conducting such practice? And, does Islamic, social and cultural consideration play a role in motivating you to audit the clients social and environmental statements?

هل تقدمون خدمات المراجعة الاجتماعية والبيئية لعملائكم؟ اذا الاجابة بنعم، ماهو الدافع وراء تقديمكم لهذه الخدمات؟ وهل للاعتبارات الاسلامية والثقافية والاجتماعية دور في تقديم خدمة المراجعة والتحقق من صحة ومصداقية تقارير المسئولية الاجتماعية والبيئية لعملائكم؟

2. How do you determine the accuracy, clarity and credibility of your clients' social and environmental reports?

كيف تتأكدون من تحديد صحة ومصداقية ووضوح التقارير الاجتماعية والبيئية لعملائكم؟

3. In your professional viewpoint, which methods do you use for collecting evidence that are regarded as a useful and representational sample to complete the social and environmental auditing?

من وجهة نظر مهنية، ماهي الاساليب المنهجية لجمع الادلة التي تعتبر العينة الممثلة للقوائم الاجتماعية والبيئية ولاستكمال عملية المراجعة؟

4. To what extent does auditing can add completeness and credibility to the disclosed corporate social and environmental reports (as a means for discharging accountability to stakeholders)?

الى اي مدى يمكن لمهنة المراجعة ان تضيف مصداقية وصحة تمثيل قوائم العملاء الاجتماعية والبيئية للواقع؟ (كوسيلة للوفاء مسئوولية تجاه أصحاب المصلحة).

5. What is your opinion about stakeholders' involvement in the corporate disclosure process?

مارايك في مشاركة اصحاب المصالح بوجهات نظرهم ومطالبهم عند اعداد تقارير الشركات الاجتماعية والبيئية؟

6. What are the major difficulties do you encounter during the performance of social and environmental audit practice? And what are the challenges in obtaining information about stakeholder engagement?

ماهي الصعوبات التي تواجه المراجع المالي عند ممارسة مهنة المراجعة البيئية والاجتماعية وماهي التحديات المتوقعة في عملية جمع البيانات عن اصحاب المصالح ذوي العلاقة بالشركة محل المراجعة؟

7. Do you think that the social and environmental audit practice impairs your independence? What steps are taken to ensure or maintain independence when discharging the engagement?

هل تعتقد ان ممارسة المراجعة الاجتماعية والبيئية تضعف من استقلالية المراجع؟

واذا تعتقد انها تضعف الاستقلالية، ماهي الخطوات الممكن اتباعها لحماية وضمان استقلالية المراجع عند تقديم هذه الخدمة؟

8. Does the social and environmental audit practice is performed in accordance with a certain professional guidelines (for instance, the ISAE 3000 and/or AA1000AS)?

عند تقديمكم خدمة المراجعة الاجتماعية والبيئية، هل هناك معايير معينة يتم التقيد والاحتكام بها؟)على سبيل المثال معيار((ISAE 3000 و AA1000AS).

9. From your standpoint, what approaches should be adopted to improve the quality and credibility of social and environmental auditing and the preparation of the corporate social statements?

من خلال موقعكم المهني، ماهي المنهجية التي يمكن تبنيها لتحسين مصداقية وجودة اعداد ومراجعة تقارير المسئولية الاجتماعية والبيئية للشركات؟

10. Do you consider the comments and criticism by your clients and the professional body (the Saudi Organization for Certified Public Accountants -SOCPA) and the financial media for your engagements that you carried out?

عند اداء خدمة المراجعة الاجتماعية والبيئية، هل تاخذون في الاعتبار ملاحظات وتوصيات الهيئة السعودية للمحاسبين القانونين والخبراء والمختصين في المجال بوسائل الاعلام المختصة بالشؤون المالية والمحاسبية؟

Part II: Stakeholders Interview Questions

1. Why do you think that companies management tend to audit their social and environmental auditing statements? And what are the consequences of such auditing, if any?

في رأيكم، لماذا تتجه مكاتب المراجعة المالية للقيام بخدمات اضافية ذات طابع غير مالي مثل مراجعة تقارير الشركات الاجتماعية والبيئية؟ وماهي الاثار المترتبة من القيام بتقديم هذه الخدمات على سوق الخدمات المالية- ان وجدت-؟

2. To what extent does corporate social and environmental statements auditing add credibility and fair representation of these statements?

الى اي مدى يمكن ان يعبر تقرير المراجعة عن مصداقية وصحة اداء الشركات الاجتماعي والبيئي للواقع؟

3. Do you believe that audited social and environmental statements enhance accountability, legitimacy and transparency of corporate practices towards the Saudi society? Why or why not?

هل تعتقد ان مراجعة تقارير الشركات عن مسئوليتها والتزاماتها الاجتماعية والبيئية تضيف المصداقية والشرعية والشفافية في نظر المجتمع السعودي؟ لماذا اذا الاجابة بنعم او لا؟

4. In your viewpoint, what decisions could companies management take to boost completeness and credibility of social and environmental statements, and therefore, helps to better discharge corporate accountability?

من وجهة نظركم، ما القرارات التي يمكن تتخذها ادارة الشركات لدعم صحة ومصداقية تقاريرها عن الوفاء بمسئولياتها الاجتماعية والبيئية؟

5. What is your impression about assuring companies' claims about stakeholders' involvement within social and environmental reporting?

ماهو انطباعكم عن توجه الشركات للمراجعين للتحقق من صحة وسلامة الادعاء بمشاركة اراء أصحاب المصلحة في مراجعة تقاريرها عن المسئولية الاجتماعية والبيئية؟

6. How do you view the importance of stakeholders' engagement in social and environmental processes as an evidence to validate corporate social and environmental?

كيف ترى أهمية مشاركة أصحاب المصالح في عملية اعداد تقارير الشركات عن الاداء الاجتماعي والبيئي كدليل للتأكد من صحة وعدالة هذه التقارير؟

7. What is your view on the different categories of assurance providers (accountants and consultants) and how do they affect actual assurance performance?

كيف تنظر الى مشاركة عدة أشخاص من مختلف المهن والتخصصات (مثل المحاسب والمراجع المالي والمهندس البيئي والكيميائي) وغيره في عملية المراجعة الاجتماعية والبيئية وتأثير ذلك على أداء وجودة المراجعة؟

8. What is your view of the nature of independence of assurance providers?

ماهو تقييمك لطبيعة استقلالية المراجع في ظل تقديم خدمات المراجعة الاجتماعية والبيئية؟

9. What does the adoption of assurance guidelines (ISAE 3000, AA1000AS) bring to assurance statements?

ما الذي يمكن اضافته أو الاستفادة منه عند اتباع المراجع والمحاسب المالي لإرشادات ومعايير دولية مختصة بالقياس بالإفصاح مثل الاجتماعي والبيئي للشركات السعودية (ISAE 3000, AA1000AS)؟

10. What is your view on offering feedback about assurance statements?

ما هي نظرتك بخصوص إبداء أصحاب المصالح لأرائهم عن صحة وسلامة تقارير الشركات عن المسئولية الاجتماعية والبيئية؟

11. In an ideal situation, what do you think assurance providers should do more or different in the process of assuring sustainability reports?

في الظروف المثالية المتاحة، ماذا يمكن لمقدمي خدمات المراجعة الاجتماعية والبيئية عمله بشكل يضيف أو يحسن من إعداد عملائهم الشركات لتقارير التنمية المستدامة والمسئولية الاجتماعية؟