

AUDIT MARKETS IN THE SIX MEMBER STATES OF GULF CO-OPERATION COUNCIL COUNTRIES (GCC): A REVIEW AND SYNTHESIS OF THE LITERATURE

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ABSTRACT

Studies about the GCC countries' markets have been ignored for decades in the past particularly because of the restrictions imposed into the foreign stock ownership, the lack of common accounting and auditing regulations, and uncertainty of economic and political conditions (e.g., Al-Shammari, Brown, and Tarca, 2008; Bley and Chen, 2006; Hussain, Islam, Gunasekaran and Maskooki, 2002). There are increasing openness and integration of GCC with the global economy which, in turn, has created push-and-pull factors that are contributing to changing the institutional framework environment, new regulated financial, accounting, auditing regulations, and corporate governance codes. In a like manner, external audit laws have been enacted in GCC to regulate the auditing profession (e.g., Hawkamah and IFC, 2008; Harabi, 2007; Al-Basteki, 2000; Shuaib, 1999; Arnett and Danos, 1979). Subsequently, after these recent developments, GCC is found to be a profitable business environment for local, regional, and foreign investors (e.g., Gulf Base, 2009; Al-Shammari et al., 2008; Al-Hussaini and Al-Sultan, 2008; Bley and Chen, 2006). We review theory and evidence relating to the earlier and recent issues on accounting and auditing in the marketplace of the six member states of the gulf co-operation council countries, namely; Saudi Arabia, Qatar, Oman, Kuwait, UAE and Bahrain. We offer a simple review of earlier and recent developments and the similarities and differences in the environments of these markets. It reveals that the institutional framework related to accounting and auditing in GCC is still under-development. Further, the existing institutional framework lacks of enforcement and it ignores the Arab-political and cultural settings.

Keywords: Audit Market, GCC Countries.

Introduction

Gulf Co-operation Council (GCC) represent the six oil-based Arab members of Saudi Arabia, Bahrain, Kuwait, Qatar, Oman, and United Arab Emirates. There are a paucity of research exists about the GCC markets. Reasons for the lack of concern about these markets stem from the restrictions imposed into the foreign stock ownership, the lack of common accounting and auditing regulations, and the uncertainty of economic and political conditions (e.g., Al-Shammari, Brown, and Tarca, 2008; Bley and Chen, 2006; Hussain, Islam, Gunasekaran and Maskooki, 2002). In the meantime, GCC have adopted and developed a large scale of economic and market strategies and policies that transit them to market-orientated economies.

These strategies and policies include: (a) High oil prices; (b) low interest rates; (c) a 100% foreign ownership; (d) a strong international oil demand; (e) a good conditioned geo-political environment; (f) acceleration of reform measures; (g) strong increase in privatization programs since 1995; (h) growth of assets of central banks; (i) the lifting of investment restrictions since 1990s; (j) the strength of the GCC corporate sector; (k) low aggressive taxing regimes and (m) the improve of accounting and auditing regulations. Immediately after these developments, GCC region is found to be a profitable business environment for local, regional, and foreign investors (e.g., Bley and Chen, 2006; Al-Shammari, Brown, and Tarca, 2008; Bley and Chen, 2006; Al-Hussaini and Al-Sultan, 2008; Kamal, 2007; Gulf Base, 2009).

The aforementioned recent strategies and policies implemented in GCC have led to a new regulated financial, accounting, auditing regulations, and corporate governance codes. External audit laws have been enacted in all GCC member states to regulate the auditing profession from as early as 1962 (e.g., Al-Basteki, 2000; Shuaib, 1999; Arnett and Danos, 1979). Further, corporate governance in GCC differs widely and are at different stages (e.g., Hawkamah and IFC, 2008; Saidi and Kumar, 2007; Harabi, 2007). Nevertheless, the contribution of these developments to the accounting and auditing profession is still low. According to Al-Gahtani (2006), accounting and auditing profession in GCC is mainly concerns about issues relate to recording financial transactions, keeping source documents, preparing financial statements, and auditing financial statements by licensed auditors. The remainder of the paper is structured as follows. Section 2 reviews and synthesizes the extant literature. Section 3 concludes.

A Review And Synthesis Of The Literature

Similarities of the Audit Markets in GCC

Accounting and auditing profession in GCC is mainly concerns about issues relate to recording financial transactions, keeping source documents, preparing financial statements, and auditing financial statements by licensed auditors (Al-Gahtani, 2006). GCC countries in general share many common features in legal framework of the company law, accounting and auditing standards, and auditing profession practice law, in addition to economic and cultural ties. Company laws and their amendments required financial statements to be audited by one auditor or more, to be submitted to government departments, and auditors are subject to penalties for breach of company law. Eventually, the responsibilities imposed into auditors in GCC are similar to those of developed countries (Auditing Profession Practice Law of Qatar [30/2004]; Auditing Profession Practice Law and its amendments of Saudi Arabia [12/1991]; Auditing Profession Practice Law of Kuwait [5/1981]; Auditing Profession Practice Law of Bahrain [26/1996]; Auditing Profession Practice Law of UAE [22/1995]; Auditing Profession Practice Law of Oman [77/1986]).

Enforcement bodies, government departments, stock exchanges, or central banks are working to the best of the stakeholders in which penalties will be applied for non-compliance. Further, securities markets, independent government entities, and their regulations are now enacted to protect investors, to set up directors' rights and responsibilities, to establish mechanisms in order for monitoring the issuing of securities, and to develop and broaden the capital markets. It is worth to highlight that in 1982 GCC countries have taken a further effort to establish a Commercial Cooperative Committee that unification and harmonization the accounting and auditing regulations and practices in the region is its main objective. This committee consists of the Ministry of Commerce or Finance of the six states of GCC. Up to date, the Committee has placed into practice several regulations. These include: auditors of GCC citizenship are allowed to register and practice profession in any member state of their choice since 1987, citizens of GCC member states are permitted to invest in stocks listed on any stock exchange and in any joint stock company in GCC countries since 1988, joint stock companies of any GCC member states are allowed to enlist on any GCC stock exchange of their choice since 1989, GCC citizens are allowed to establish joint stock companies in any country of the GCC since 1994, and a unified company law is issued to be as a guidance for the member states since 1998 (Bley and Chen, 2006; Hussaini and Al-Sultan, 2008).

In addition, the supreme council in GCC approved the establishment of Cooperation Council Accounting and Auditing Organization (GCCAAO) in December 1998 in its summit meeting held in United Arab Emirates. It is stated in the regulation that GCCAAO works under the supervision of commerce cooperation committee "Ministries of Commerce in Member Countries" as an independent entity with a separate budget and it enjoys the privileges and immunities as the ones adopted by the GCC countries. In 2001, Riyadh has been chosen as the residence of GCCAAO. Representatives of member countries in the general assembly were elected as members of the board for the first session (4 years). Three members were represented by each member state in GCC besides the representative of the Secretariat General. Thus, the total number of the members in GCCAAO is nineteen. In the front, the establishment of GCCAAO is considered a further inauguration to promote the accounting and auditing profession and establish coordination and integration among the six members of GCC.

In spite of the fact that GCCAAO has influenced a little in the accounting practices among GCC countries, it has been successfully achieving the following issues related to accounting and auditing regulations and profession in GCC. These include: (1) approving conceptual framework of financial accounting (objectives and concepts); (2) reviewing, developing, and preparing accounting standards; (3) reviewing, developing, and preparing auditing standards; (4) reviewing, developing, and preparing codes of ethics and professional conduct; (5) proposing unified regulations for practicing the profession in GCC countries; (6) conducting general rules for fellowship examination; (7) conducting general rules for continuous professional education; (8) reviewing audit quality; (9) conducting GCCAAO membership criteria; (10) establishing a center for studies and information; and (11) issuing a period newsletter (GCCAAO, 2009a, 2009b).

Specifically, the proposed unified regulations for practicing the profession in GCC in 2004 was a result of study conducted by GCCAAO that compared the regulations adopted in GCC countries for practicing the profession with the 1997 unified guidance regulations issued by GCC Secretariat General. It has been concluded that differences exist in the regulations of practicing the profession among GCC. Therefore, it is recommended that differences exist among GCC should be matched and consequently a unified regulation for practicing the profession should be issued and adopted by GCC countries to go in the same line with economical development attended to be achieved by GCC countries (GCCAAO, 2009a).

It is worth to highlight that the unified regulation for practicing the profession in GCC stated in Chapter (2), Article (4) that goes as in order for a candidate to be registered as a certified Public Accountant , the following conditions should be provided: (1) a citizen of GCC; (2) of full legal capacity; (3) Of good conduct; not convicted of doctrinal punishment or of an offense involving moral turpitude or breach of trust, unless rehabilitated; not subjected to a disciplinary decision discharging him from governmental service, unless three years have lapsed since the taking of such disciplinary decision; (4) a holder of a Bachelor's degree in Accountancy or any other equivalent Certificate as may be deemed acceptable by the competent authorities in charge of equivalency of degrees; (5) able to pass the exam determined by GCCAAO; (6) fully dedicated to practice the profession. However, a Certified Public Accountant may practice other types of activities provided that such activities are not incompatible with the code of ethics of this profession according to the conditions laid down by the executive by – laws; and (7) has a practical experience in the field of accounting for at least 3 year after obtaining the qualification of bachelor degree as referred to in clause (4). Moreover, it is regulated in chapter (5), Article (16) that a Certified Public Accountant's office name shall carry the personal name of the Certified Public Accountant himself/herself or the name of one and \or two of the Certified Public Accountants and a statement that refers to a partnership in case of a partnership company.

Further, it is stated in Article (21) that a Certified Public Accountant shall not be entitled to audit the accounts of enterprises or companies in which he has a direct or indirect interest, as specified in the executive by - laws. Further, Article (22) states that a Certified Public Accountant shall not be entitled to audit the accounts of joint stock companies, banks and public corporations unless he has a minimum of five years of professional practice from the date of obtaining the license. As well as this, in Chapter (9), termed audit firms, it is stated in Article (45) that licensed Certified Public Accountants in GCC are allowed to form a partnership company with licensed foreign natural or legal audit firm registering in their countries for at least ten continued years as following: (1) the foreign audit firm's representative shall be a partner in the new formed audit firm in GCC for at least five years; and (2) he \she will be subject to all the conditions of registered CPA mentioned above in Chapter (2), Article (4) except the condition stated in (1) relates to the citizenship of GCC and he \she shall be given a visa of residence , as specified in the executive by – laws.

In addition, in Article (49), it is stated that the number of GCC citizens working in foreign audit firms should at least be 20% in the type of sole foreign Proprietorship, and 30% in the type of foreign partnership

or Corporation Company (Gulf Cooperation Council Accounting and Auditing Organization, 2009b). In the context of the six member states of GCC, each member state's auditing profession practice law is similar in its regulation to the other members states' auditing profession laws, in particular, and to the unified regulation for practicing the profession in GCC issued by GCCAAO (Auditing Profession Practice Law of Qatar [30/2004]; Auditing Profession Practice Law and its amendments of Saudi Arabia [12/1991]; Auditing Profession Practice Law of Kuwait [5/1981]; Auditing Profession Practice Law of Bahrain [26/1996]; Auditing Profession Practice Law of UAE [22/1995]; Auditing Profession Practice Law of Oman [77/1986]).

All the same, GCC countries' company laws mandates that the annual financial statements of a listed company to be audited by at least one registered external auditor with the ministry of commerce. The company can have one licensed auditor or more than one to be appointed during the ordinary general assembly in which the auditor's remuneration and term of appointment should be determined. At the company foundation time, the founders can appoint an auditor to carry out auditing until constituent general assembly is held. In the case of appointing more than one auditor, auditing duties should be carried out separately by each auditor and they shall be jointly liable for auditing. The board of directors have the right to replace the existing auditor whom has been appointed by the general assembly if auditing duties have not performed properly and this issue shall be presented to the general assembly at its next meeting to resolve it.

Further, the auditor must not be a chairman, a member of the board of directors, a managing director, a person assuming any administrative or supervision work, and/or a second-degree relative of a person supervising the company's management or accounts. Also, the auditor must not buy or sell his auditee's shares. Furthermore, the auditor shall express his opinion about all the issues related fulfilling his duties, and in particular, the company's balance sheet. His report must be prepared in accordance with the international auditing principles and standards or the standards approved by the competent authority; and the following issues should be included in the report: (1) the information necessary for auditor's work satisfactory has been obtained; (2) the balance sheet and the profit and loss account showing the actual financial position of the company, and have been prepared with respect to the international standards or the standards approved by the competent authority, and whether the company law's articles have been implemented by the company; (3) regular accounts have been maintained by the company;

(4) the stock taking has been undertaken by the company in conformity with the accepted principles; (5) the data included in boards of directors' report are in accordance with what the company's records stated; and (6) violations of the provisions of the law or the company's articles of association must be reported. In addition to this, the auditor is responsible for the accuracy of the details included in his report in his capacity as the representative of all the shareholders and his responsible for any damage caused to the company as a result of his mistake.

Besides, the board of directors and at least 25% of the shareholders of the capital have the right to request to change the auditor during the financial year. In such case, board of directors must call for a meeting of the ordinary general assembly to discuss the replacement request after fifteen days of submitting it. In the same line, the request also must be sent to the auditor to respond to it in a written format document that must be submitted later before at least five days of the meeting of the ordinary general assembly. The chairman of the board of directors or the board member representing him must read the request and the reasons along with the auditor's written respond to the ordinary general assembly to take an action based on that. Any procedures taken and not implemented the mentioned procedures would be considered null and void. Equally important, the auditor has the right to resign during a suitable time of his work with the company and he is subject to submit a written request to the board of directors. He shall include a report of any further notices to be highlighted to the shareholders and creditors that should be presented to the general assembly. The board of directors must call the ordinary general assembly for a general meeting to consider these issues in a period that does not exceed thirty days from the date of submission. The auditor must be responsible for any damages caused by the company as a result thereof (Bahrain Company Law [21/2001]; Kuwait Company Law and Its Amendments [15/1960]; Oman Company Law and its amendments [4/1974]; Qatar Company Law [5/2002]; Saudi Company Law [6/1965]; Federal Law [8/1984] on Commercial Companies and its Amendments)

Stock markets in the GCC were ignored for decades in the past possibly because of the restrictions imposed on foreign stock ownership, the lack of common accounting and auditing regulations, and the uncertainty of economic and political conditions. On the contrary, they are rapidly growing nowadays towards liberalized movements. There are several factors that influence on the attraction of local, regional, and international investors towards GCC markets as the following: (a) High oil prices; (b) low interest rate; (c) a 100% foreign ownership; (d) strong international oil

demand; (e) good conditioned geo-political environment; (f) acceleration of reform measures; (g) strong increase in privatization activities that began in 1995; (h) growth of assets of central banks; (i) the lifting of investment restrictions in the 1990s that has attracted foreign investment; (j) the strength of the GCC corporate sector; and (k) low aggressive taxing regimes (m) the issue of accounting and auditing regulations (Bley and Chen, 2006; Al-Shammari, Brown, and Tarca, 2008; Bley and Chen, 2006; Al-Hussaini and Al-Sultan, 2008; Kamal, 2007; Gulf Base, 2009

In each GCC member state, the Disciplinary Committee of the Ministry of Commerce can punish the auditor of committing any violation to accounting, auditing, and company laws. This indicates that the comprehensive of audit functions vary among the six member states of GCC. Specifically, it appears that the comprehensiveness of the audit function in both Kuwait and Oman is stronger than that in Saudi Arabia, Qatar, Bahrain, and the United Arab Emirates. The number of qualified audit reports is increasing in both Kuwait and Oman. At the same time, there is an absence of qualified audit reports in Saudi Arabia, Qatar, Bahrain, and the United Arab Emirates (Hussaini and Al-Sultan, 2008). It is predicted that the variations among GCC countries in accordance to comprehensiveness of the audit function will give rise to the differences in the audit market environment.

While this is true about GCC countries, there are also some differences exist among the six member of GCC in the environment of their audit markets. The level of enforcement of the company laws, accounting and auditing standards, and auditing profession practice laws are different among GCC countries. Furthermore, Bahrain, Kuwait, and Oman have adopted fully IASs. While, Saudi Arabia, Qatar, and the UAE have adopted IASs for banks and finance and investment companies referred to as a partial adopters. In the same line, adoption dates of IASs differ among the six member states of GCC. In addition, the International Auditing Standards (ISA) are enforced to be used by Bahrain, Oman, Kuwait, and Qatar. To demonstrate, only Kuwait and Oman to the recent time that have taken real action to punish auditors for breaching of reporting requirements. As well as this, some differences are in place regarding auditors' qualifications and professional training requirements and according to Healy and Palepu (2001) that this situation may affect the credibility of audit reports and financial statements (Bley and Chen; Al-Hussaini and Al-Sultan, 2008). Thus, it is expected that the existence of differences among the six member states of GCC in terms of their national frameworks will lead to different audit market environments.

Differences of the Audit Markets in GCC

Kingdom of Bahrain

Currently, 24 accounting firms operate to provide audit services in Bahrain market. These accounting firms are ranging from local firms, foreign branches, to international firms including the big four of Ernst & Young (E&Y), Deloitte & Touche (D&T), PricewaterhouseCoopers (PWC), and KPMG. KPMG and D&T work as a joint venture, and E&Y and PWC operate as international firms' branches. Indeed, E&Y and BDO Jawad Habib are the only accounting firms registered with United States Public Company Accounting Oversight Board (PCAOB). The Central Bank of Bahrain (CBB) issues accounting rules for banks and the listed companies in BSE. Conventional financial institutions are required to comply with the IASs/IFRSs (Al-Ajmi, 2008; Joshi, Bremser, Hemalatha, and Al-Mudhaki, 2007). While, Islamic financial institutions are required to comply with the accounting and auditing standards regulated by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) based on the Ministerial Decision No. 6, issued in 1998. The AAOIFI is the organization responsible for setting standards for all the Islamic financial institutions licensed in Bahrain depending on Shari'a principles and rules and IASs/IFRSs (Joshi et al., 2007; Al-Ajmi, 2008). The main objective of AAOIFI is to develop accounting and auditing standards for Islamic financial institutions based on Sharia'a principles and rules (AAOIFI, 2007).

In the same line, the impact of globalization, the rapid growth of the economic size of the country and its openness, the pressure imposed by multinational corporations and the recent long term policy to attract foreign investment may be represent other reasons that make Bahrain to require a compliance with International Financial Reporting Standards (IFRS), whereas auditing firms are subject to comply with International Standards on Auditing (ISA). These requirements are subject to all companies incorporating to in Bahrain, including financial institutions in which financial institutions are also subject to comply with the Financial Standards regulated by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI). In so doing, if AAOIFI standards do not exist for certain cases, financial institutions are required to comply with the relevant standards of IFRS. The same case is applicable to conventional bank licensee units. Generally, the standard of financial reporting in Bahrain is high and largely consistent, as users of financial statements largely require compliance with international standards. This trend is being encouraged by more rigorous requirements amongst

users such as bankers and shareholders (AAOIFI, 2007; Hussain, Islam, Gunasekaran, and Maskooki, 2002). Nonetheless, an institution parallel to the Public Company Accounting Oversight Board does not exist in Bahrain (Al-Ajmi, 2008; Asiri, 2009).

Additionally, CBB mandates financial institutions to audit their financial statements at one of the Big Four audit firms. Importantly, accounting firms in Bahrain are subject to obtain two licenses: one for practicing professional auditing, and the second one to offer audit services to financial institutions. Statistics on audit firms' share in the market indicate that there is a dominance of audit services in Bahrain market by Big Four in which 82.5% of the listed companies in BSE are audited by Big Four and the remaining 17.5% are audited by Non-Big Four (Al-Ajmi, 2008). Auditors are appointed on a yearly basis by stockholders at their annual meetings based on article (205) paragraph (e), Bahrain Commercial Law No. (21), 2001. In a real life course, boards of directors have the utmost power to appoint auditors and decide their remuneration. Auditors' responsibilities in the Bahraini framework have been regulated in several Acts. These include: the Auditors Act (1996), Company Commercial Law (21/2001), Central Bank of Bahrain and Financial Institutions Law (2006), and the CBB's Rulebooks volumes 1 to 6 (Asiri, 2009; Al-Ajmi, 2008).

For the financial institutions, the CBB depends to appoint auditors on article (16), paragraph (e) of the central Bank of Bahrain and Financial Institutions Law, No. (64) of 2006. Specifically stated in the law that appointment of auditors must be approved by the Central Bank in a yearly basis. In addition, in the case of changing auditors, the Central Bank must be informed of the reasons for changing. In the current time, only Big Four, accounting firms, audit small financial institutions. CBB's internal guidelines permit Non-Big 4, audit firms, to audit small investment companies. In fact, all companies incorporating in Bahrain are subject to audited by one audit firm, unlike the other countries in the region that require two auditors to operate audit on the financial statements of the listed companies (Asiri, 2009; Al-Ajmi, 2008; Joshi et al., 2007; Hussain, Gunasekaran, and Maskooki, 2002). In Bahrain, audit firms are not subject to be switched by law after a certain number of years. In the practice, some cases of audit firms that have been switched after an audit failure is detected. On the contrast, the CBB mandates auditors in financial institutions to switch auditing partners at least every five years (Asiri, 2009; Al-Ajmi, 2008).

The establishment of the Bahrain Stock Market took place in 1957, with the IPO of the National Bank of Bahrain. The BSE is an independent legal entity that is self-regulated by its Board of Director. Its chairperson

should be the Minister of Commerce and Agriculture and joined by members of the Ministry of Finance and National Economy, the Bahrain Monetary Agency and the Bahrain Chamber of Commerce. Three indices are the main track of the BSE: the Bahrain All Share Index, The Dow Jones Bahrain Index and the Estirad Index. The market capitalization has risen from US\$2.7 billion in 1989 to US\$13 billion in 2004 (Asiri, 2009; Federation of Euro-Asian Stock Exchanges, 2009a). For the time being, there are only 49 listed companies that have been categorized based on their activities in the market with a GCC and foreign investing allowance in their shares. This classification includes commercial bank, investment, services, insurance, industrial, hotels & tourism, preferred share, closed company and non-Bahraini companies (Al-Hussaini & Al-Sultan, 2008). Thereafter, many local shareholding companies started to take place, reaching the peak in the beginning of the 1980s. Over the years, the BSE has developed to become one of the active emerging stock market among Arab countries. The initial listed of companies was 29 firms in 1989, whereas the number increases up to 45 listed companies in 2004 (Asiri, 2009). Importantly, trading of shares of operating public shareholding companies used to carry out in a non-official market called "Al-Jowhara." Since then, the Government and the International Finance Corporate (IFC) conducted a feasibility study indicating the beneficial outcomes of establishing an official Bahrain Stock Market. Because of this, Bahrain Stock Exchange (BSE) officially was established by issuing Amiri Decree No. 4 in 1987 (Asiri, 2009; Al-Ajmi, 2008).

Indeed, based on Amiri Decree No. 10/1999 GCC citizens are allowed to own a 100% of the Bahraini listed companies' shares and non-GCC citizens are permitted to own up to 49% of the Bahraini listed companies except for both Bahrain Flour Mills Company and Delmon Poultry Company whose shares are not allowed to be owned by foreign. In either event, there are only ten companies (mostly financial institutions) that are allowed for foreigners to own up to 100% of their shares. Regarding foreign ownership, ownership for foreigners can increase up to 100% ownership of new industrial entities and establishment of representative offices or branches of foreign companies without local partners (Bahrain Chamber of Commerce and Industry, 2009). Initially, foreign-owned companies may establish to regionally distribute services and may operate within domestic market if they do not pursue domestic commercial sales exclusively. Regarding tax, Bahrain imposes taxes only into oil production and a municipal tax of 10% on residential rents. Despite the fact that trading at Bahrain Stock Exchange is conducted electronically, an automated clearing, settlement, and depository system ensures subsequent settlement procedures to be limited to two days (Bahrain

Stock Exchange, 2009; Bley & Chen, 2006). As a matter of fact, there are three shareholder groups who have a considerable equity ownership in the listed companies in BSE. These groups are: (a) the government and its agencies; (b) dominant families; and (3) the institutional investors. These three groups usually have representatives on the companies' boards of directors and consequently have better access to the internal information (Al-Shammari, Brown, and Tarca, 2008). Further, the Bahrain Stock Exchange depends totally on the external auditor's report as a major source of financial information providing a "true and fair view" in which it is a major requirement for companies to enlist their shares on BSE. In this case, audited financial statements are subject to be submitted to the BSE by the board of directors of each listed company that has to comply with accounting regulations promulgated by the Ministry of Industry and Commerce (Al-Hussaini & Al-Sultan, 2008).

Up until this time, accounting and auditing regulations in Bahrain are still governed by the codes of commercial law (21/2001) (earlier Law (1975) substantially amended) (Al-Ajmi, 2009; Al-Gahtani, 2006). Accounting and auditing profession in Bahrain is generally concerns about issues relate to recording financial transactions, keeping source documents, preparing financial statements, and auditing financial statements by licensed auditors (Al-Gahtani, 2006). Bahrain does not establish a body to set accounting and auditing standards. It has adopted fully the International Accounting Standards (IASs) and their successors the International Financial Reporting Standards (IFRSs). Since 2004, Bahrain has become a member of IFAC. The country has not developed any local accounting and auditing standards that possibly because the dominance of multinational companies and international financial institutions. Particularly, Bahrain is considered an international financial center, there is a large number of banks operating in Bahrain that look at IASs as a benchmarks for making comparisons, and the small size of the country leads to a lack of expertise to develop standards and the high cost that might be incurred (Joshi and Al-Mudhahki, 2001).

Accounting firms in Bahrain sign the audit reports issued by them and not the partners who supervise the audit engagements. In such case, it is considered a short in the legal sanction for the auditors to use their names signing the audit reports of auditees incorporating in Bahrain (Al-Ajmi, 2008). Independent audit committees are required to be formed by all unlisted financial institutions and for listed financial institutions, law does not require it, however. Boards of directors are the persons in charge to nominate audit committee members after an approved passed by the CBB (Al-Ajmi, 2008; Al-Shammari et al., 2007a, 2007b).

Enforcement bodies, government departments, stock exchanges, or central banks are working to the best of the stakeholders in which penalties are implied for non-compliance. Further, securities markets and their laws regulating them as an independent government entities are now enacted to protect investors, to set up directors' rights and responsibility, to establish mechanisms in order for monitoring the issuing of securities, and to develop and broaden the capital markets. Based on Article (27), the Ministry of Industry and Commerce (MIC) establishes a committee known as a disciplinary committee. This committee composes of the Chairman, who works as a judge from the Civil High Court, appointed by the Minister of Justice, and two other members that are majored in auditing appointed by the MIC. The committee formed is in charge of the cases referred by the MIC that are related to misconduct; violations of professional requirements, violations of Commercial Company Law, and serious negligence. When in fact, litigation risk is very low in the market of Bahrain (Asiri, 2009; Al-Ajmi, 200).

Specifically, there are only three cases recorded in the entire history of Bahrain. The first case was the one related to the General Trading and Food Processing Company in 1994. The person involved in this case was the accountant of the company that the court ruled against him. The second one was that related to the Bahrain Islamic Investment Company in 2002. This case involved E&Y in which this case had been settled down out-of-court and the partner engaging in the case was asked to leave the company. The third case of violation was the one of Bahrain Saudi Bank in 2002. In this case, the auditor had not been taken to the court and the action taken against him was a replacement. However, things have changed over the course of time, especially after the failure of the Bahrain Saudi Bank. CBB' role in making sure that the stability of the financial system ensures certain high levels of audit quality in auditing financial institutions. Indeed, the increase in the number of foreign investors will lead to an enhancement in the efficiency of the judiciary system, an increase in the materialization of risk, governmental privatization programs, and a reduction in the government ownership in the listed companies. As a result, the probability of materialization of litigation risk is expected to increase (Asiri, 2009; Joshi and Al-Mudhahki, 2001).

In Bahrain, earnings restatements are unfamiliar cases in the market. The only case has been detected between the time of 1957 and 2007 was that of General Trading and Food Processing Company in 1994. The case went on as the newly appointed auditors restated the figures of the profit in the financial statements. It is a common case in Bahrain to find companies outsource their internal audit services to audit firms

particularly because companies look at this process as a way to reduce costs of auditing. Therefore, there is no need to establish an internal audit department with expertise staff that is not used during the year. While this is not true about financial institutions, in which the CBB does not allow the financial institutions to outsource their internal audit services to audit firms except in emergency cases such as the resignation of the staff or illness. Moreover, such emergency case might be limited by the CBB to only a short period of time, not exceeding one year (Al-Shammari, Brown, and Tarca, 2007a, 2007b).

The Bahrain Accountants Association (BAA), established in 1972 as a non-governmental organization, has a very limited role in developing the audit profession in Bahrain. Most of its activities are about academic affairs including conducting seminars, workshops, and public lectures. However, BAA has not any regulatory or supervisory powers that can be imposed into the accounting and auditing professionals in Bahraini market. The most important role is practicing by BAA is to enforce any requirements to maintain independency of auditors (Asiri, 2009; BAA, 2008a, 2008b). In abroad manner, Bahrain market is characterized as a market controlled by few accounting firms, a large number of uncommon cases of switching audit firms, a weak degree of enforcement of regulation related to audit industry, with an exceptional case of those related to the financial institutions, a low liquidity stock market, and a substantial number of institutional setup (Al-Ajmi, 2008).

Kingdom of Saudi Arabia

Accounting and auditing regulations are still governed by the codes of commercial laws in all member states of the Gulf Co-operation Council (GCC) countries except for Kingdom of Saudi Arabia where Saudi Organization for Certified Public Accountants (SCOPA) was established in 1991 to work under the supervision of the Ministry of Commerce to enhance the accounting and auditing profession and all issues with correspondence to the development and upgrading of the profession (SCOPA, 2009a; Al-Gahtani, 2006). The accounting profession in Saudi Arabia is somewhat weaker if compared with that in the Western countries. Surprisingly, litigation risk is very low. To date, there has been any case of audit failure recorded during the business history of Saudi Arabia (Al-Sehali and Spear, 2004).

To some considerable extent, all the recent developments in accounting and auditing profession as mentioned earlier have changed the concept and nature of audit professional practices in Saudi Arabia. Recently, the

rapid growth of the existence of the Big Four audit firms in the Saudi market also contributes to the development of audit market. However, audit profession is still subject for several shortcomings as following: (1) a weak implementation of a lot of audit professional regulations and instructions. This environment raises many critical questions regarding the role of the audit control programs that have been implemented fully since the issuance of Resolution No. 2/2 regarding audit control in 1995 and the regulation an implementation of the professional audit practicing Law in 1991. Therefore, this situation may indicate to some deficiencies in audit regulations, standards, professional codes of conduct, and the absence of audit control programs; (2) the widespread of a low audit fee phenomenon; and (3) the Monopoly is substantially practicing by some audit firms. The recent statistics indicate that 78% of the audit firms' income (102 audit firms) in Saudi Arabia is generated by 11 audit firms where there only 53% licensed auditors are working in them (Al-Angaree, 2004). It is worth to highlight that US; Arthur Anderson & Co (AAC) used to audit 30% of the companies incorporating in Saudi Market (Al-Abbas, 2006).

The existence of Saudi joint stock companies can be traced back to the mid 1930s by the time when the first joint stock company, Arab Automobile, was established. Specifically, privatization program implemented in the early 1960s have increased the rapid growth of the SSE such as the privatization of several electricity companies. In 1975, there were about 14 public companies on the Saudi ground that have existed particularly because of the rapid economic development and the Saudization program. The existence of SSM (Tadawul) stayed behind informal until 1984 when a Ministerial Committee composed of the Ministry of Finance and National Economy, Ministry of Commerce and Saudi Arabian Monetary Agency (SAMA) was formed to consider the regulation and development of the SSE (Tadawul). At the time of establishing SSM (Tadawul), the task of regulating and monitoring the market activities was authorized to SAMA. Electronic trading and settlement systems were implemented in 1988. Thereafter, the task has been passed to the Capital Market Authority (CMA) that has been established in July 2003 by the Capital Market Law based on the Royal Decree No.(M/30). The establishment of SSE (Tadawul) is carried out based on the Council of Ministers approval in March 2009 as a joint stock company (Saudi Stock Exchange, 2009a).

To date, there are 136 listed companies in SSE (Tadawul) (Saudi Stock Exchange, 2009b). Due to the economic global crisis and the decrease in oil prices, market capitalization at SSE (Tadawul), the largest market

in the region, experienced a decline of US\$254bn in spite the fact that 16 new listings have entered the market. The decrease in the market capitalization stood at US\$265bn in 2008 (Global Investment House, 2008). In terms of foreign investment, Saudi government encourages foreign investors to Saudi certain sectors such as energy and technology based on Investment Law issued in 2000, but it is still restricted to take local partners in some sectors too. Furthermore, the law allowed full foreign ownership of Saudi property and licensed projects in which the General Investment Authority (SAGIA) has been established to facilitate investors' procedures (Ministry of Commerce and Industry of the Kingdom of Saudi Arabia, 2009a). In comparison to the time before the year 2000, foreign investors were limited to a 49% share of joint ventures with Saudi local partners. In fact, 100% ownership is still not permissible in upstream oil, pipelines, media and publishing, insurance, telecommunications, defense and security, health services, wholesale and retail trade sectors. In the same line of encouraging foreign investments, taxes imposed into company profits are reduced from 45% to 30% (2009 Index Economic Freedom, 2009h; MEDEA, 2009).

Initially, three groups of shareholders have been determined as the major equity owners in SSE (Tadawul). The groups are: (a) the government and its agencies; (b) dominant families; and (3) the institutional investors. These three groups usually have representatives on the companies' boards of directors and consequently have better access to the internal information (Al-Shammari, Brown, and Tarca, 2008). The Central Bank in Saudi Arabia forces banks and finance and investment companies to comply with IASs referring to Saudi Arabia as a partial adopter of IASs. Importantly, the adoption would meet the extensive requirement of local and international investors to receive in depth information and make comparability among financial reports. Mainly, SSE (Tadawul) relies completely on the external audit report of the listed banks and finance and investment companies to investigate their compliance with IASs, company law and the central bank requirements. The Central Bank in Saudi Arabia works in a tie manner with the Ministry of Commerce to guarantee the required compliance. The Central Bank monitors banks as at least two registered external auditors with the Ministry of Commerce must be appointed to audit bank financial statements and report any violations with IASs compliance and other regulations to the central bank. To date, there is not any single case of violation has been reported in Saudi Arabia (Al-Hussaini and Al-Sultan, 2008). Recently, the rank of Saudi Arabia is number 59 among world countries in terms of economic freedom index (Heritage Foundation, 2009a).

State of Qatar

Little knowledge is known to public about accounting and auditing in Qatar. There is a great gap between the level of economic development and the accounting and auditing development (Al-Khater and Nasser, 2003). Up until 1974, there was not any type of accounting and auditing guidelines unless Law No. (7) was issued to provide external auditors with guidelines on operating audit in Qatar. Afterwards, a basic Company Act No. (11) was issued in 1981 to provide guidelines to the incorporating companies in Qatar. Later, in 1998 Company Act No. (9) was regulated as an amendment for the previous Act of 1981 (Naser, Al-Hussaini, Al-Kwari, and Nuseibeh, 2006).

On the whole, Qatar does not develop its own national accounting standards and it does not adopted the International Accounting Standards (IASs). A professional body to set national accounting and auditing standards and/or to adopt the International Accounting Standards and develop them based on the country context does not exist on the Qatari ground. However, a scientific association of accountants has been recently established to form the accountants association. Consequently, DSM does not mandates the listed companies to comply with specific accounting standards. Nevertheless, the Qatar National Bank (QNB) makes it mandatory for national banks to comply with IASs and to have their financial statements audited by two independent auditors from the Big Four that are currently dominating the audit market in Qatar (Alattar and Al-Khater, 2007). In short, national accounting and auditing standards do not exist except for banks in which all financial and reporting requirements and auditing procedures are placed in the commercial code and the company law. In addition, Qatar Central Bank (QCB) has regulated particular requirements that local and foreign banks must comply with besides the IASs.

In 1995, Doha Securities Market (DSM) was established based on Decree Law (14). The operation of DSM has been carried out in 1997 with 17 listed companies and 5 brokerage firms. In the time of the establishment, trading activities used to be conducted manually until 2002 when they have been conducted in a fully electronically basis with electronic central clearing and settlement. Qatar Exchange was established in June 2009 that replaced Doha Securities Market (DSM) based on Law No. 33 and its amendments in 2005. Qatar Exchange is a new formation of a long-term strategic vision of the Doha Securities Market achievements and the leading position of NYSE Euronext in the global markets. This new formation has taken a phase of a strategic partnership between

Qatar Holding and NYSE Euronext. QE and NYSE Euronext would work together to boost up liquidity, transparency, product range and participation in the market. In 2008, there are 43 listed companies in QE with a market capitalization of US\$76.65bn. These listed companies have been categorized into banking and financial sector, insurance sector, industrial sector, and service sector (Qatar Exchange, 2009a). In fact, Qatar has recorded the highest GDP per capita income in the world that has been estimated at US\$68467 in 2008 (Qatar Exchange, 2009b).

On the subject of foreign ownership in shares, The Qatar government encourages overseas investment in Qatar. It is allowed for foreigners to invest in shares up to 49% with prior approval except for agriculture, industry, health, education, tourism, and projects involved in the development of natural resources where full or majority foreign ownership is allowed. As well as this, some sectors are limited 100% to Qatari investors or as a government monopoly. Foreign companies are subject to employ a local agent, and investment projects are screened. Regarding foreign ownership, ownership for foreigners can rise up to 100% ownership of new specified sectors and/or establishment of representative offices or branches of foreign companies without local partners (Gulf Co-Operation Council Organization, 2009b). In terms of financial institutions, the Qatari government must approve foreign investment in banking and insurance and has shares in two prominent insurers (Heritage Foundation, 2009f). Indeed, income and profit taxes are the only taxes imposed on corporations. It rates from 5% to a maximum of 35% of net profit (Encyclopedia of the Nations, 2009b). In the meanwhile, three groups of shareholders have been identified as the significant equity owners in QE. These groups are: (a) the government and its agencies; (b) dominant families; and (3) the institutional investors. These three groups usually have representatives on the companies' boards of directors and consequently have better access to the internal information (Al-Shammari, Brown, and Tarca, 2008).

The Central Bank in Qatar mandated banks and finance and investment companies to comply with IASs referring to Qatar as a partial adopter of IASs. Importantly, the adoption would meet the extensive requirement of local and international investors to receive in depth information and make comparability among financial reports. Mainly, QE relies completely on the external audit report and provisions of Company Law of the listed companies to make sure that the audited financial statements reflect "true and fair view" and compliance with company law and for the listed banks and finance and investment companies to investigate their compliance with IASs, company law and the central

bank requirements. The Central Bank in Qatar works strictly with the Ministry of Commerce to assure obligatory compliance. The Central Bank monitors banks as at least two registered external auditors with the Ministry of Commerce must be appointed to audit bank financial statements and report any violations with IASs compliance and other regulations to the central bank. To date, there is not any single case of violation has been reported in Qatar (Al-Hussaini and Al-Sultan, 2008). Recently, the rank of Qatar is number 48 among world countries in terms of economic freedom index (Heritage Foundation, 2009a). It is worth to highlight that the establishment of Doha Securities Market (DSM) and the intensive privatization program implemented by the government create the necessity to regulate Company Law No. (11) for the year 2002 (Al-Khater and Nasser, 2003).

United Arab Emirates

United Arab Emirates (UAE) is a federation of seven states, termed emirates that include Abu Dhabi, Dubai, Sharjah, Ajman, Umm al-Quwain, Ras al-Khaimah and Fujairah. In the UAE, there are two central bodies that are authorized by the government to issue the corporate financial reporting requirements. These include the Ministry of Economy and Planning, and the Central Bank. In the same line, the Accountants and Auditors Association (AAA) operates as an official body to enhance the accounting profession to international practices in the country based on a Ministerial Decree (Aljifri and Khasharmeh, 2006). In either event, Aljifri and Khasharmeh (2006) recommend several recommendations related to accounting and auditing environment in UAE in their study investigating the corporate reporting practices in UAE. These include enhancing an effective accounting education system, enhancing and developing accounting and auditing standards and regulations, and establishing accounting and auditing centers at the major universities in UAE in order for them to collaborate with the recognized international organizations such as IASB and to conduct extensive researches in accounting and auditing issues (Khanna, 1999; Aljifri and Khasharmeh, 2006).

UAE has adopted the IFRS as to increase its legitimacy of attracting foreign investments. Therefore, it has been put in a mandatory basis for all banks and domestic companies listed at Dubai International Financial Center to comply with IFRS. Importantly, the UAE government recently tries to reform its regulatory, legal and economic structures in order to create a good-conditioned environment for the adoption of western-

style financial reporting standards. There is a strong presence of the Big Four, audit firms, in the UAE since 1952 when Ernst and Young has been serving some companies in the country (Irvine, 2008). In the same line, Deloitte has been operating in UAE since 1964, KPMG since 1973, and PricewaterhouseCoopers is on the ground for about 30 years. All the Big Four require their clients to comply with IFRS in presenting their financial reports (Khanna, 1999).

In the meantime, UAE tries to diversify its economy to not depend only on oil and gas. It has expanded its international trade, banking, tourism, real estate, and manufacturing sector. A large scale of opportunities has been offered to the foreign investment through establishing free trade zones for multinational corporations to find a place in the Middle East to establish their headquarters. Initially, ports such Jebal Ali Free Zone and Port Rashid in Dubai have been ranked among the world's 10 busiest places that is particularly because free trade zones are tax free with short regulatory requirements and a substantially low cost of labor (Irvine, 2008). Notably, there are only a handful of UAE companies that are open to foreign investment. In such case, the culture of public accountability and transparency exist in a very weak role possibly because much of the country's wealth is controlling by powerful private interests. Further, the level of secrecy in the country is very high due to the absence of a regulatory body to which financial information is reported (Irvine, 200).

There are three stock exchanges in United Arab Emirates (UAE) as the following: (a) NASDAQ Dubai (formerly called the Dubai International Financial Exchange (DIFX)); (b) Dubai Financial Market (DFM); and (c) Abu Dhabi Securities Exchange (ADX) (formerly Abu Dhabi Securities Market (ADSM)). NASDAQ Dubai, opened in September 2005 at Dubai International Financial Centre (DIFC), the world's fastest growing international financial centre, is located in the Financial Free Zone, opened in 2004. NASDAQ Dubai works as the international stock exchange between Western Europe and East Asia and provides trade on the exchange in multi-currency for international and local listings. By the same token, standards implemented in NASDAQ Dubai are comparable to ones implied in leading international exchanges in New York, London, and Hong Kong. Even more, a unique mix of regional and international brokers has been functionalized for investors to easily access NASDAQ Dubai. The main shareholder of the NASDAQ Dubai is Borse Dubai, a holding company for the government ownership of the two stock exchanges in Dubai, with a two-third stake and NASDAQ OMX Group owns one third of the shares. Equities, equity derivatives, Dubai Gold Securities, structured products, Sukuk (Islamic bonds) and

conventional bonds are currently listed with a market capitalization of US\$14.13 billion in 2008. Indeed, NASDAQ Dubai is regulated by the Dubai Financial Services Authority (DFSA) (NASDAQ Dubai, 2009; Kapur, 2009).

Dubai Financial Market (DFM) was established based on Resolution No.14 of 2000 from the Ministry of Economy. It works as a public institution having its own independent corporate body. DFM takes a legal form of a public joint stock company in the UAE. The real operation of DFM has started in March 2000. In addition, the trading of its shares began in March 2007 on an automated screen-based trading system (Dubai Financial Market, 2009a, 2009b). Now, electronic trade is provided by Brokerage Firms at DFM as a facility to their clients via World Wide Web, internet (Dubai Financial Market, 2009c). There are 65 listed companies at Dubai Financial Market based on category of sector; banks, investment and financial services, insurance, real estate and construction, transportation, materials, consumer staples, telecommunication, and utilities. Most of the companies listed are UAE-based companies and a few dual listing for companies based in other MENA region countries (Dubai Financial Market, 2009d).

The establishment of Abu Dhabi Securities Exchange (ADX) (formerly Abu Dhabi Securities Market) [ADSM] was in November 2000 based on Local Law No. (3) of 2000. The aim of establishing ADX is to trade shares of UAE companies in several trading centers and branches outside Abu Dhabi such as those in Al Ain, Fujairah, Sharjah, and Ras Al-Khaimah. It is important to note that DFM trades shares of other public UAE companies where investors can also trade ADSM shares with some of the brokers based at DFM. To date, there are 67 listed companies in ADX with a market capitalization of US\$68812.202m in 2008 (Abu Dhabi Securities Exchange, 2009a, 2009b; Federation of Euro-Asia Stock Exchanges, 2009c).

With respect to foreign investment, it is restricted to a 49% ownership and subject to a share of a local partner. Full ownership of 100% is allowed in the free zones. In 2002, there were 11 free trade zones in UAE with the most successful and largest one that locates in Dubai called Jebel Ali Industrial Free Zone (JAFZ) through which 2000 companies from over 100 countries are incorporating in there. Free zones in the UAE are exempted from corporate and personal tax and all import and export duties. When in fact, tax rates differ among emirates in which each emirate has its own decree on corporate tax and there is no personal income tax imposed in UAE. Recently, financial sector has become more active in the UAE economy with an increasingly prominent from the Islamic banks. There are 23 local banks, foreign banks (with more

than 700 branches), over 60 investment companies, and other financial institutions. In terms of tax, UAE does not impose any federal income tax into businesses rather than the income tax decree is enacted at the level of each emirate, except for the foreign banks and the oil companies to which these decrees are restricted. There is a 20% income tax imposed into the foreign banks in the Emirates of Abu-Dhabi, Dubai and Sharjah. As well, oil companies pay a flat rate of 55% on their taxable income in Dubai and 50% in the other Emirates besides the royalties on production. On the other hand, personal incomes are not subject to be taxed in the six Emirates of UAE. Furthermore, most Emirates impose municipal tax into annual rental paid at 5% for residential premises and 10% for commercial premises (Emirates E-Government, 2009; Heritage Foundation, 2009j; Encyclopedia of Nations, 2009c).

Moreover, in an effort to varying the economical activities, United Arab Emirates embarks new policies to widen privatization program. Specifically, privatization in UAE has been conducted in sectors of real estate, industry, logistic, information technology, banking, contracting, services industry, media and publishing, tourism, health, education, and telecommunication (Federation of UAE, Chambers of Commerce, and Industry, 2009). In the context of UAE, three shareholders groups are the major equity owners in SSE (Tadawul). These groups are: (a) the government and its agencies; (b) dominant families; and (3) the institutional investors. These three groups usually have representatives on the companies' boards of directors and consequently have better access to the internal information (Al-Shammari, Brown, and Tarca, 2008). The Central Bank in United Arab Emirates requires from banks and finance and investment companies to comply with IASs referring to UAE as a partial adopter of IASs when in fact UAE is not an IFAC member. Importantly, the adoption would meet the extensive requirement of local and international investors to receive in depth information and make comparability among financial reports. Mainly, the three exchanges rely completely on the external audit report of the listed banks and finance and investment companies to investigate their compliance with IASs, company law and the central bank requirements. The Central Bank in UAE works closely with the Ministry of Commerce to guarantee the required compliance. The Central Bank monitors banks as at least two registered external auditors with the Ministry of Commerce can be appointed to audit bank financial statements and report any violations with IASs compliance and other regulations to the central bank. To date, there is not any single case of violation has been reported in UAE (Al-Hussaini and Al-Sultan, 2008). To date, the rank of United Arab Emirates is number 54 among world countries in terms of economic freedom index (Heritage Foundation, 2009a).

State of Kuwait

Kuwait Accountants and Auditors Association (KWAAA), established in 1973 as a non-governmental organization, has a very limited role in developing the audit profession in Kuwait. Most of its activities are about academic affairs including conducting seminars, workshops, and public lectures. However, KWAAA has not any regulatory or supervisory powers that can be imposed into the accounting and auditing professionals in Kuwaiti market (KWAAA, 2009). Kuwait National Bank was the first public shareholding company established in 1952 in Kuwait to start share-trading inauguration (Bely & Chen, 2006). Organizing the actual Kuwait Stock Exchange (KSE) as an independent financial entity was carried out in 1983 as Amiri Decree was issued (KSE, 2009a). Two years after the Iraqi attack to Kuwait in 1990, the KSE stayed closed. It is worth to mention that the trading in securities become more efficient as electronic trading and settlement system are implemented in 1995 (Bely & Chen, 2006).

With respect to share ownership, Kuwait encourages foreign companies to invest on large scale as part of the country strategy to diversify the economic activities and decrease its dependency on oil exports. Before 2000, foreign investment was not allowed in banking and insurance sectors and was limited up to 49% of ownership shares. But, things have been changed in May 2000 by passing the Indirect Foreign Investment Law by the Kuwaiti government. It goes to permit for foreigners to purchase up to 100% of the shares of the companies listed in KSE except for banking sector. Also, foreigners are restricted to invest in the upstream petroleum and downstream gas and petroleum sectors. Thereafter, the Kuwaiti government passed a liberalized Foreign Investment Law No.(3) in 2001, a long with five-year privatization program enacted in July 2001. Besides, foreigners are no longer required to have Kuwaiti partners to open a business in Kuwait, but foreigners engaged in commercial activities either directly or indirectly are subject to a 15% income tax and zero personal income tax.

In addition, GCC companies with foreign ownership structure are subject to income tax to the extent of the foreign ownership structure (Kuwait Chamber of Commerce and Industry, 2009; Gulf Co-Operation Council Organization, 2009a; KSE, 2009b; KSE, 2009c; Encyclopedia of the Nations, 2009a; Adel, 2009; Heritage Foundation, 2009b). The indices that represent the main track in KSE are sectoral indices, which include banking, investment, real estate, insurance, food, industrial, services, industrial, and non-Kuwaitis. In addition to the mutual funds, and

parallel market that are listed in KSE. The market capitalization has fallen from \$142bn in 2005 to \$99bn in 2008 due to the drops in oil prices and the global economic crisis. The stock market crisis experienced by KSE is considered one of the worst in the Kuwait's financial history to decline the market capitalization. Consequently, there should be an institutional intervention in the market to overcome this crisis and recently the Kuwaiti government is implementing feedback corrections on the ground (Albawaba, 2009).

Currently, there are 221 listed companies in KSE that have been categorized based on sectors (KSE, 2009d). It is worth to highlight that there are three shareholder groups who have a considerable equity ownership in the listed companies in KSE. These groups are: (a) the government and its agencies; (b) dominant families; and (3) the institutional investors. These three groups usually have representatives on the companies' boards of directors and consequently have better access to the internal information (Al-Shammari, Brown, and Tarca, 2008). It is worth to mention that audited financial statements are subject to be submitted to the KSE by the board of directors of each listed company that has to comply with accounting regulations promulgated by the Ministry of Industry and Commerce. With this in mind, all listed companies in KSE are required to implement IASs referring to Kuwait as a full adopter of IASs.

The rapid growth and opening up of KSE and the multinational corporations' pressure make Kuwait as an IFAC member fully adopts IASs and the notion that the adoption would meet the considerable demand of local and international investors to receive detailed information and make comparability among financial reports. Notably, there are conflicting opinions and mixed results concerning compliance with AISs particularly because of the lack of formal coordination between the surveillance department in the Ministry of Commerce and the KSE in which each party is carrying out its own monitoring. The Surveillance Department of the Ministry of Commerce depends totally on the external auditor's report to check the companies' compliance with IASs and the company law requirements other than IAS 1. When in fact, the Surveillance Department in KSE accounts on audited financial statements and the provisions of the securities law to monitor in greater detail listed companies' compliance with company law requirements and IASs. In 2001, a possible case was detected for not disclosing significant liabilities in the financial statements and the result was a dismissing of a member of the board of directors, the company's general manager, and the external auditor. Similarly, the Central Bank of Kuwait as a major responsible for supervising banks and finance and investment depends

totally on the audit report for monitoring compliance with IASs and other regulations (Al-Hussaini and Al-Sultan, 2008). So that, the rank of Kuwait is number 50 among world countries in terms of economic freedom index (Heritage Foundation, 2009c).

Sultanate of Oman

In June 1988, the Royal Decree (53/88) was issued to establish the Muscat Securities Market (MSM). The objective of establishing MSM is to regulate and control the Omani securities market and to participate, effectively, with other organizations for setting up the infrastructure of the Sultanate's financial sector. There has been a continuous growth in the market's activities which is an added value to restructure MSM as an electronically trading and settlement system in 1998 by two Royal Decrees (80/98) and (82/9). MSM works as a public organization with independent legal entity regulated by the Capital Market Authority (CMA). It usually takes two days for settlement procedures through a settlement bank with a settlement Guarantee Fund (SGF) to be carried out. To date, there are 236 listed companies in MSM categorized in three main markets and five sectors. The three main markets are organized market, parallel market, and third market. And, the five sectors are banking and investment, mutual funds, industry, bonds, and service and insurance. The market capitalization in MSM has risen from US\$ 15268.9334 in 2005 to US\$ 20550.7383m in 2008 (Federation of Euro-Asian Stock Exchanges, 2009b).

Foreign investment in MSM is subject to several advantages in an effort from the government to diversify the economic activities. These include: (a) zero restrictions on capital and profit transfers; (b) low corporate tax rate of 12% and zero personal income tax are imposed into registered companies in Oman either companies owned by local or international firms; (c) subject to government approval, foreign investment is permissible in many sectors up to 100%. Still, bank sector ownership is limited to 10% with approval required from the Central Bank of Oman; and (d) Oman government has implemented privatization programs to increase investment opportunities (Muscat Securities Market, 2009a, 2009b, 2009c; Global Trade Alert, 2009; 2009 Heritage Foundation, 2009d; Oman Chamber of Commerce and Industry, 2009). It now appears that three shareholder groups have a considerable equity ownership in the listed companies in KSE. These groups are: (a) the government and its agencies; (b) dominant families; and (3) the institutional investors. They usually have representatives on the companies' boards of directors

and consequently have better access to the internal information (Al-Shammari, Brown, and Tarca, 2008). Eventually, the board of directors of each listed company that has to comply with accounting regulations promulgated by the Ministry of Industry and Commerce has to submit audited financial statements to the MSM by.

Equally, all listed companies in MSM are required to implement IASs referring to Oman as a full adopter of IASs in spite of the fact that Oman is not an IFAC member. The rapid growth and opening up of MSM and the multinational corporations' pressure make Oman fully adopt IASs and the notion that the adoption would meet the considerable demand of local and international investors to receive detailed information and make comparability among financial reports as a country is heading towards market-oriented economy. The Capital Market Authority (CMA) in the Muscat Securities Market (MSM) founds a Surveillance Committee that consists of representatives from the Ministry of Commerce and Muscat Securities Market, with responsibility to supervise companies' compliance with IASs and other regulations. The Surveillance Committee relies on the independent audit report and provisions of Company Law. Immediately following, two cases of IASs violations were detected. In one of the detected cases, the Disciplinary Committee of the Ministry of Commerce issued a warning to the external auditor for not disclosing the violation. In either event, banks and finance and investment companies are the responsible of supervising of the Omani Central Bank in which the later depends totally on the independent audit report for monitoring IASs compliance and other regulations (Al-Hussaini and Al-Sultan, 2008). In the meantime, the rank of Oman is number 43 among world countries with respect to economic freedom index (Heritage Foundation, 2009a).

Conclusion

There are increasing openness and integration of the GCC countries with the global economy and how this openness and integration have created push-and-pull factors that are contributing to changing the institutional framework environment. These factors include: Anti-Money Laundering and Counter-Terrorist Financing (AML/CTF), Basel banking supervision core principles, and international obligations and agreements resulting from entry into WTO, Regional trade Agreements (RTAs) and Free Trade Agreements (FTAs). Moreover, international institutions, such as the IMF, World Bank, WTO and the BIS have played a role in providing technical assistance and building knowledge and capacity. However, it

is clear reported that the institutional framework related to accounting and auditing in GCC is still underdevelopment . Further, the existing institutional framework lacks of enforcement and it ignores the Arab-political and cultural settings.

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