The adequacy of the legal aspects of the audit committee in the joint stock companies according to the Saudi Corporate System: A comparative study

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INTRODUCTION

The Joint stock companies are considered the most type of commercial companies that have great interest among the various legal organizations, where these companies are considered of the most important economy episodes of any state as it affect a wide array of investors in the community, as well as this kind of companies is considered the base of the existence of the financial markets, and from the legal aspects that was established by the regulator is to promote the concept of internal control in the joint stock company along with many other regulatory rules and procedures such as the appointment of auditor or inspection from regulators. Many countries have wised up after the collapse of many companies in the world to the subject of a high degree of importance is that one of the reasons for the collapse was the move away from the scene of shareholders in the company's operation and the transfer of the image are almost unclear about what is going on within the company.\(^1\)

In the face of these data, law found a new method to enhance shareholders' and the Board of Directors' control on the work and activities of the company through the appointment of an internal audit committee holds control over the work of joint stock company functions,

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\(^1\)the collapse of the US Enron is considered the most famous collapse cases in the world, see detailed: Ihsan Saleh Almataz, ethics of review career and dealers with it: the collapse of Enron and the lessons learned. King Abdulaziz University magazine . Economics and Management, vol. 22, issue. 1.2008, pp. 255 et seq.
and in front of determining the responsibility of the shareholder and the lack of attention of small shareholders to the matters of the company to the members of the Board of Directors and executive management that control the company and the exploitation of shareholders the means used to hide legitimacy to the actions and behaviors that they carry out within the company.¹

Real practice shows that the shareholders of the joint stock company convinced with what the Board of Directors tell them of depicting bright for the company and that things are moving in the right direction, in a way that makes shareholders trust what is provided by the Council, and despite the fact that the General Assembly of the shareholders elect an external auditor with the task to express an opinion about what the Council offered to him of financial statements, However, there is a missing link the General Assembly of the shareholders cannot get ahold of it, namely: What happens within the company? Are the Board of Directors and executive management of the company going for the better? Therefore it was necessary to find a way to find the missing link through the creation of a monitoring mechanism in the company supports control in it, plugging the shortfall; providing for the formation of an internal oversight committee monitors the company's business and prepare its real reports about what is going on within the company, not just to express an opinion on the information submitted to it. This committee to become a liaison between the internal and external audit on the one hand, and between the board and shareholders on the other hand, the early warning system for any bypass or deviation could be up in the joint stock company.²

Research Problem

The idea to set up this research on the Audit Committee on the work of the joint-stock companies of addressing the Saudi regulator in the system of the new companies and issued in 2015 to the subject of the audit committee and the introduction of this modern regulatory device in joint-stock companies where the fourth chapter in corporate system is dedicated to materials (101 and up to 104) to reach the organization of one of the most important regulatory aspects of the joint-stock companies. It seems clear that the Saudi regulator is moving towards strengthening the regulatory aspects of joint stock companies, and the Saudi regulator wanted rationing and the introduction of a new regulatory system, which the audit committee, seeking toward the transition from the check-in the introduction of the audit committee to cram their existence stage by stage, but in front of those amendments that came out by Saudi regulator albeit very important for the reasons we have mentioned previously, it is necessary to know whether this organizational Creation includes all the aspects that make the audit committee an instrumental organ in strengthening control over the joint-stock companies.

Accordingly, the researcher is trying through this paper to highlight and review the strengths of the organization and the failures or deficiencies or ambiguities in the provisions of the Audit Committee, we cannot fail to say here that this subject Due to its recent organization in Saudi Arabia, we are faced with a lack of jurisdictional explanations and lack of jurisprudence in this Subject.

The researcher is trying through this study to answer the following question: What is the adequacy of the legal aspects of the Audit Committee in joint-stock companies, according to the Saudi corporate system? The answer to this question requires the answer to what the sub-questions which are:

1. What's the new that the Saudi regulator added on the subject of the audit committee?
2. What is the legal nature of which was adopted by the Saudi organizer of the Audit Committee?
3. What are the powers, functions and rights of the Audit Committee?
4. What are the legal responsibilities of the Audit Committee?

Research Goals

In light of the release of the new Saudi companies' system for the year 2015, the researcher had the following reasons and motives for choosing this subject:
- Definition of the audit committee through a statement of its inception and appearance factors and its organizational structure.
- Statement of the mechanism of the review Commission, and the similarities and differences between it and the External Auditor and internal control.
- Indicate the role of the audit committee in monitoring the work of the joint stock company.
- Determine the nature and scope of responsibility of the Audit Committee.

The limits of the study

The study used in this research confined to studying the legal aspects of the Audit Committee in joint-stock companies, according to the Saudi regime companies for the year (2015) compared with the law of the Jordanian companies for the year 1997 and the law of the Egyptian companies for the year 1981 and the English Companies for the year 2006 and then to get to know the legal regulation of the Audit committee and draw similarities and differences between these legal systems.

¹See Dr. Obouzayd Radwan, a joint-stock companies in accordance with the provisions of Law No. 159 of 1981 and the public sector, Dar Arab Thought, 1983, p 12
RESEARCH METHODOLOGY

Addressing the subject of the audit committee on the work of joint stock companies and to the lack of independent legal studies and research specialized in this area and the lack of jurisprudence and judicial decisions requires us to rely first and foremost on the texts of the Saudi corporate system and comparative analysis of laws.

The Research Plan

This research was divided to an introduction and two topics and is as follows:
- **The first topic**: the concept of the Audit Committee and its role in monitoring the work of the joint stock company.
- **The second topic**: the nature and scope of responsibility of the Audit Committee.

The First Topic: The concept of the Audit Committee and its role in monitoring the work of the joint stock company

We will talk in this section to two independent requirements: **First requirement** we will talk about the nature of the Audit Committee, and **The second requirement** we devote to talk about the role of the audit committee in monitoring the work of the joint stock company.

First requirement: The nature of the audit committee

Research in the nature of the audit committee requires dividing this requirement into two sections, in the first section we will talk about the emergence of the Audit Committee and the factors behind its appearance, while the second section we devote to talk about the organizational structure of the Audit Committee.

Section I: The emergence of the Audit Committee and appearance factors

First, the emergence of the Audit Committee

Audit committees received great interest after the failures of financial turmoil in major financial firms.

The emergence of the audit committee in Saudi Arabia

Saudi Arabia is one of the first Arab countries, which focused on the subject of audit committees, as enacted in (1994) Ministerial Decree No. (903) dated 08/12/1994, issued by the Ministry of Commerce and specialized in the formation of audit committees in Joint Stock companies in the Kingdom of Saudi Arabia, which text in its first article that: "in every joint stock company a committee of non-executive board members is formed called the audit committee." The resolution also stated that the selection of its members is a decision of the General Assembly of shareholders.

The emergence of the audit committee in The Egyptian Arabic Republic

The idea of establishing the audit committee appeared when Council and General Capital Market Authority of Directors Resolution No. (30) issued at 06/18/2002 on the constraint rules and continuing rules and the delisting of securities at Cairo and Alexandria Stock Exchanges. In 2005, the governance rules of Egyptian companies stipulate to set up an audit committee, and define its functions and organizing meetings. In 2008, the Egyptian Institute of Directors issued a work of audit committee's guide to be complementary to the Lord evidenced by the rules of corporate governance issued in 2005. The Egypt's Corporate Governance guide in its third issue in 2016, also stressed on the formation of the Audit Committee, and defines its functions and regulates its meetings.

The emergence of the Audit Committee of the Hashemite Kingdom of Jordan

The idea of the audit committee in Jordan appeared when the text of the Securities Act of 2002 to compel the board to form a committee the law called it "Audit Committee" and in 2008, the text of the rules of governance of companies listed on the Amman Exchange Stock companies evidence that the Joint Stock company's board must form an audit committee, and the guide select the functions and powers of the Commission.

The emergence of the audit committee in the United Kingdom

Audit committees are not considered a recent phenomenon in Britain, where the audit committee of the British railway company was found since 1872, and in 1987, the Bank of England and the British Ministry of Industry encourage the public Joint Stock companies to embrace the idea of audit committees.

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1 See Dr. Abdul Wahab Al Nasr Ali. Dr.ShehadehSaedShehadeh, auditing and corporate governance in the Arab and international contemporary business environment, University House, Alexandria, 2006/2007, pp. 331
2 See item (2.3.1) of the Egyptian Guide to Corporate Governance for the year 2016
3 See Article (46) of the Securities Act of 2002
4 See chapters II and V of the rules of governance of companies listed on the ASE 2008 companies guide.
5 Naim Dahmash, audit committees (establishment, tasks, responsibilities, and their role in promoting advice, an article published on the Internet: http://www.infotechaccountants.com/forums/showthread.php/5832
Then the idea of establishing the audit committee emerged when the Commission issued a report (Cadbury) and the problem of the Financial Reporting Council (FRC) of the London Stock Exchange in 1992. In 1999, a report was issued (Turnbull), which stressed the importance of the role that the audit committees can play in improving and strengthening the internal control system.

In 1998, the unified code of corporate governance was issued (The Combined Code On Corporate Governance), which was amended in 2003, 2006, 2008, 2010 and 2014, included the need for the board of directors to form a review committee (Audit Committee) is checked how the composition and responsibilities.

Definition of the Audit Committee

The audit committee can be defined as stated in the Saudi system companies as: a committee of the General Assembly in a joint stock company with a membership of people of non-executive board members either shareholders or others in order to monitor the company’s business.

The definition of the audit committee, according to the rules of corporate governance in Egyptian companies  and Jordan, and English, it is a committee formed by the Board of Directors, for his help in ensuring that the financial statements, and the study of the internal control situation in the company and the study conditions of the auditor.

Second, the factors of emergence of Audit Committee

There are many factors that helped the emergence of the audit committee represented in the increasing cases of financial failure of many companies and the increasing incidence of fraud and manipulation by the increasing desire of companies to strengthen oversight of their activities, and to ensure the integrity of the application of accounting principles and increase the effectiveness of the internal control structure of the company, and the presence of some of the pressures the external Auditor and the need for stakeholders to contribute to the administrative mechanism of control and management control as an agent for them, especially on financial matters.

Third, the organizational structure of the Audit Committee

We will discuss the subject of the organizational structure of the Audit Committee, through a statement of how the formation of the audit committee and the qualifications required of the Commission, and the mechanism of action of the Commission.

a. The formation of the Audit Committee

In accordance with the new Saudi regime companies, the Audit Committee is formed by decision of the Ordinary General Assembly, they are not members of the Board of Directors Executives from both shareholders and others, the number of members not less than three or more than five, though determined in the decision tasks Committee controls work and rewards its members.

While we find that the constraint rules and continuing rules and the delisting of securities at the Egyptian Stock Exchange, and the rules of corporate governance of the Egyptian companies have decided to form a review committee of the Independent Board of Directors where they are not less than three, one of them an expert in financial and accounting affairs, the Committee may include non-executive members in the case of the lack of a sufficient number of independent, corporate governance and approved the appointment of one or more members from outside the company and the chairman of the Committee must be independent and the majority of its members are of independent or non-executive.

The Jordanian governance rules, decided that the Audit Committee Board of Directors comprising non-executive directors, no fewer than three where two of them at least must be from the independent members, and we find that the corporate governance English rules decided that the Governing Council must establish a review committee consisting of at least three members, and in the case of small companies two members, where the members of the Committee must be of the board of non-executive independent directors.

2 Section : (C.3), The UK Corporate Governance Code 2014.
3 See item (2/3) Egypt’s Guide to Corporate Governance for the year 2016.
4 See chapters II and V of the rules of governance of companies listed on the ASE 2008 companies guide.
5 Section : (C.3), The UK Corporate Governance Code 2014.
6 See Dr. Abdulwahab Al Nasr Ali, Dr. Mr. Shehadeh Saed Shehadeh, ibid., pp. 313 et seq., Dr. Mohammed Mustafa Suleiman, corporate governance and the role of board members and executives, University House, Alexandria.
7 See Article (101) of the Saudi system companies.
8 See Article (7) the constraint rules and continuing rules and the delisting of securities at the Egyptian Stock Exchange of 2002, and its amendments.
9 See item (2.3.1) of the Egyptian Guide to Corporate Governance for the year 2016.
10 See Chapter II of Part One of the rules of governance of companies listed on the ASE 2008 companies guide.
11 Article (15 / A) of the instructions of exporting companies, and the accounting standards and auditing standards for the year 2004 Stipulated that the members of the Audit Committee must be from the Board of Directors.
12 See Section (C.3.1), The UK Corporate Governance , Code, 2014.
b. Qualifications of the members of the Audit Committee:

Saudi Corporate system did not provide the conditions that must be met by members of the audit committee, either of qualifications or expertise. While we find it to be the availability of the conditions and qualifications and experience of the member of the Audit Committee, practically it is unreasonable to assign a member of the audit committee in a joint stock company without qualifications or at least experience in financial and accounting matters, and that the omission of structured text such conditions will to the appointment of people who do not possess the qualifications and expertise that supports the effectiveness of the work of this committee into a joint stock company.

From the above it is clear that the Saudi regulator linked the formation of a committee review with the decision of the Ordinary General Assembly, and therefore the committee is subject to General Assembly control without interference from the board, and we see that this will lead to the activation of the role of this committee by associating them with the highest authorities in the company, and the Saudi regulator members of the Committee did not limit that be from the board, but gave the General Assembly the freedom to decide the formation of the members of the board of Directors but only if not two, of executive members, as authorized the formation to be of the shareholders or others and this, in our view reinforces the role of these and gives them greater effectiveness in performance.

The Jordanian governance rules stipulated that all the members of the Audit Committee should have a knowledge and expertise in financial and accounting matters, and one of them at least has the previous working experience in the field of accounting or financial matters, or to be carrying a scientific qualification or Professional Certificate in Accounting or Finance or other related fields. English governance rules also committed that the audit committee should include at least one member who has a modern and suitable experience in financial matters (Recent and relevant Financial Experience).

c. The work of the audit committee mechanism:

After the formation of the audit committee - as aforementioned - The Committee shall carry out its tasks through the mechanism of action which are described as follows:

- Committee meetings

Saudi corporate system gave AGM in joint-stock companies to determine the validity of the audit committee functions, controls work and rewards its members as the AGM is the full jurisdiction in the formation of the Audit Committee.

Committee's work plan:

Because the plan includes a description of the work to be undertaken by the Commission over the next year in the form of programs, and the company must put adequate means at its disposal to help them to perform their work, and an example of that statement with the help of experts whenever necessary, and allow them to request legal advice, financial or administrative or technical adviser of any external experts.

- The preparation of the audit report:

The Saudi corporate system makes it compulsory in Article 104 on the Audit Committee's consideration of the Company's financial statements, reports and notes provided by the auditor and express its views on them, if any, and it shall also prepare a report on its opinion on the adequacy of the internal control system in the company and what they did other work intervention within its competence, and on the board of Directors to deposit sufficient copies of the report at the main company's Center before the date of the General Assembly of at least ten days, to provide all of the wishes of the shareholders of a copy of it, the report recited during the regular General Assembly.

As Article 128 of the Saudi corporate system committed the Board of Directors and within thirty days from the date of the General Assembly approval of the financial statements and the directors' report and auditor's report and the report of the Audit Committee to deposit copies of the documents mentioned in the Ministry of Trade and Industry, as well as the Capital Market Authority if contribute listed on the Stock Exchange.

Section II: the role of the audit committee monitoring the work of the joint stock company

The Audit Committee plays an important role in the control of joint stock company, through its following actions:

First: maintaining the integrity of the financial performance of the company

Saudi corporate system and the list of Arabia corporate governance - As the rules of the Egyptian, Jordanian and English governance - interested in the functions of the audit committee, in maintaining the integrity of the financial performance of the company. Through undertaking an audit of financial statements and periodic and annual screening procedures to be followed in the preparation and review of annual "Financial Statement", and resolve differences in views between the company

See the first section of Chapter V of the rules of governance of companies listed on the ASE 2008 companies guide

See Article (15 / H / 2) of the Instructions disclosure exporting companies, accounting standards and auditing standards for the year 2004.
management and the auditor. The committee studies accounting policies and gives opinion relating it, and studies the possibility of manipulation and fraud in the financial statements (Fraud Financial Statement).1

Secondly: the follow-up of internal control work:

The Audit Committee plays an important role in monitoring the internal control work, and is studying the effectiveness of the internal control system in the company, and this must be explained in the annual report of the Audit Committee. The audit committee also study and discuss the internal control management plan and follow up the implementation of internal control recommendations.2

Third: follow the company’s relationship with the External Auditor

The Saudi and Egyptian and Jordanian and English governance companies agree on the Audit Committee to pursue the company’s relationship with the External Auditor, through the nomination of the auditor and the preservation of the independence of the auditor, and to ensure the effectiveness of audits carried out, and the impact of any other actions of to calculate the company on this independence. As the Audit Committee to express an opinion regarding the authorization commissioned the auditor to perform services for the benefit of the company as opposed to a review of financial statements (Non-Audit Services) which also took by the English governance rules.3

Fourth: access to records and documents of the company:

Saudi corporate system gave the committee the right to inspect the company’s records and documents, and request any clarification or statement from the members of the board of directors or executive management.

Fifth: The General Assembly’s call for the company to convene:

Granting the Saudi corporate system in Article 103 of the Audit Committee have the right to ask the Board of Directors of contributing to invite the General Assembly to convene, in cases stipulated by the system, namely: - The Board of Directors obstruct the work of the Audit Committee: The fact that the Board of Directors obstructing the work of the Audit Committee may be a presumption that the existence of irregularities and violations can gloss it wants a non-detectable. In such case, the Audit Committee shall include in its request cases and the work done by the Board of Directors to obstruct the work of the Commission. We believe that this will make the Board more cooperative with the Audit Committee. - The company suffered substantial damage or loss: It is intended to harm any action that would harm the company assets or profits or reputation or threaten its existence, the loss meant the grave is that of the company's loss of half of the paid up capital at any time during the financial year.

The Second Topic: The nature and scope of responsibility of the Audit Committee

Introduction

After explaining the tasks and duties carried out by the Audit Committee in the contributing company, the legal nature of the Audit Committee must be determined and what is the scope of its responsibility. Which requires the division of this section into two requirements, the first requirement shows the legal nature of the Audit Committee, and the second requirement we devote to talk about the legal responsibility of the Audit Committee.

First requirement: the legal nature of the Audit Committee

To determine the legal nature of the Audit Committee in the shareholding companies extremely important in terms of identifying the legal status of this committee and the nature of its business, and this requirement is divided into two branches: we will talk in the first section on the audit committee liaison, according to the Saudi regime companies. The second section we will talk about the Audit Committee link in comparative legislation.

2 See item (5/5/2) rules and standards of corporate governance in the Arab Republic of Egypt for 2011 Article (7) Directory of the Rules under and continued under the write-off of securities the Egyptian Stock Exchange of 2002 and its amendments. Also: Article (15/7) of the Instructions disclosure exporting companies, accounting standards and auditing standards for the year 2004, as well as ZabihollahRezaee, Supra, p.171
3 Principles of Auditor Independence and The Role of Corporate Governance in Monitoring an Auditor's Independence, Astatement of The Techencal Committee of The International Organization of Section Commissions (IOSCO), October, 2002, p.2
5 Section (C.3.2), The UK Corporate Governance, Code, 2014
6 See Article (103) of the Saudi corporate system
7 See Article 150 of the corporate system
Section I: Audit Committee in accordance with the Saudi corporate system.

Article (101) of the Saudi corporate system states that: "By resolution of the Ordinary General Assembly in joint-stock companies review committee are not members of the Board of Directors of the company or others, and if the number of members nor less than three nor more than five, and define the tasks in the decision of the Council and its controls, and rewards its members."

In analyzing the text of the article above, we find that the Saudi regulator limit the formation of the Audit Committee by a decision of the Ordinary General Assembly in joint stock companies¹. This means that this committee is one of the committees of the General Assembly and the Assembly considers eye on the company's business, as well as on the Board of Directors. Accordingly, shareholders are doing to appoint an agent for them in carrying out surveillance on the company's business and the work of the Board of Directors.

Section II: liaison of Audit Committee with the comparative legislation

We already shown that the Saudi regulator making the Audit Committee linked with the General Assembly, since the latter form a committee to review and determine the functions and controls work and reward its members. However, this legal situation is different in comparison legislation, we find that Jordanian law make the audit committee - linked with the Council of management of the Joint Stock Company, as the Board of Directors has the responsibility of the formation of the Audit Committee and determine their functions and determine rewards and as stipulated in article (15 / a) of the instructions disclosure exporting companies, accounting standards and auditing standards for the year 2004 issued on the basis of the Jordanian Securities Act.

As it is the case in the Jordanian and Egyptian legislation, the English corporate governance rules making the formation of a committee review of the jurisdiction of the Board of Directors so that the formation of this committee of board members independent non-executive directors to have at least one member of the committee who has experience in financial matters ² in order to promote the success of the company.

And it is clear to us that the Audit Committee in accordance with legal regulations above is a committee of the Board of Directors formed by the council from among its members in order to assist in the completion of its duties, and the Council will determine its powers and terms of reference and follow-up work to ensure the effectiveness of its role.

It is noted that some legal systems - as is the case in the Jordanian regime and the English - restricted the formation of the audit committee of the board members, while other systems - as in the Egyptian legal system - allowed to be engaging non-members of the Board of Directors or a member from outside the company in the membership of the audit Committee.

The second requirement: the responsibility of the Audit Committee

As noted above that the system of the Saudi companies differs from other legal regulations that it makes the Audit Committee of the General Assembly and not the Board of Joint Stock Company. As the audit committee considered and according to the legal adapts to it as an agent of the shareholders in the company and within the limits of the task entrusted to them, they are subject to civil liability resulting from their actions and mistakes or willful neglect or unintentional in accordance with the provisions of the general rules on liability.

Therefore, responsibility of the Audit Committee differs according to the affected parties where liable can be held for shareholders and the company; the responsibility can also be towards the Board and can be toward others. This will be clarified in the following two sections.

Section I: responsibility towards the shareholders and the company

The responsibility of the Audit Committee to the Shareholders (the General Assembly) based on the rules of contractual liability in the event of breached its obligations to the Audit Committee and resulted in actual harm directly affects shareholders and company providing the a causal relationship between the fault and the damage. As the tasks and obligations of the Audit Committee determined by the Ordinary General Assembly resolution as well as the provisions of the Companies Law; the Audit Committee anyway, did not implement fully its obligations or partially or carried out on the face of defective then we are in the process of

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¹ Article (93/3) of the Saudi corporate system states that: "The issue of General Assembly resolutions by an absolute majority of the shares represented at the meeting, the company's system, the foundation did not provide for the highest percentage."

² The UK corporate Governance Code, 2014,(C.3.1)
among the images of an Audit Committee in error disclosure of the Commission what it stood secrets of the company as a result of its work. Committee has to be informed on all company documents, records, so the company is in possession of secrets which cast forth an obligation not to disclose those secrets, either the General Assembly or a third party. As in all cases, the Commission must take into account the public interest of the company in line with the limits of their competence and its specific action by the General Assembly and the corporate system.

The responsibility of the audit committee to the company as a legal entity separate from the shareholders on the basis of tort liability on the basis of its legal obligations towards the company through the availability of the pillars of the tort and the damage done and the causal relationship.

With regard to the party that brings a claim of responsibility in this regard, we are in front of several quarters as follows:

**First, the Lawsuit held by the Company**

The company has the right as a legal entity to sue responsibility to the members of the audit committee - individually or collectively - because of errors they made while performing their duties regulators, which gave rise to the detriment of the company, the company decided in such a case the prosecution through its legal representative (board of directors). Shareholder cannot raise the lawsuit if set up by the company.

**Second, the lawsuit set up by the General Assembly**

The association may bring an action against the members of the Audit Committee, to demand compensation for the damage done to its members as a result of committing the errors such as preparing a report by the committee on the safety of the administrative and financial aspects of the company led to the purchase of a set of shares by Shareholders with high value, and on this basis the General Assembly when directly lawsuit should prove what was wrong of the audit Committee and the damage that hit, and the causal relationship between the fault and the damage. The compensation, which governs in this case is limited to members of the General Assembly nor would the company do, as required to suit also the members of the General Assembly that they are still shareholders in the company when the lawsuit.

**Section II: responsibility towards the Board of Directors and third parties**

There is no doubt that the work of the Audit Committee and reports depends upon the shareholders and the company and the board of directors and third parties who deal with the company, and we will talk about the responsibility of the audit committee to the board of directors and third parties as follows:

**First: the responsibility of the Audit Committee toward the Board of Directors**

Noted above that the Audit Committee are not related to the board of directors in accordance with the decision of the Saudi corporate system, and therefore the Board of Directors can Accountability Audit Committee through the company and not independently from it, as the legal representative of the company.

In comparative legislation such as Jordanian, Egyptian and English legislation, the responsibility of the Audit Committee is toward the Board of Directors, as it is the one which takes responsibility for the errors committed by the Audit Committee, which can damage either the company or the shareholders or third parties, according to base liability followed by about a business and as the Audit Committee trace the Board of Directors, the Council shall be deemed responsible for the mistakes. This has been confirmed by court decisions that’s if an error committed during the performance of his duties, the employer responsible for this error on the basis of another error exists on the part of the employer due to negligence in the selection of subsidiaries or control it or redirected, this failure is not accepted from the employer by that resides a proof for a reversed and this prove the responsibility of the employer and then followed by the employee for a strong causal link between the wrongful act of the follower in the case is proven and the his job. Thus, the basis for considering the responsibility of the Board of Directors is assuming error by him through neglecting control of the work of the Committee.

**Second: the responsibility of the audit committee toward the third parties**

The importance of the reports submitted by the audit committee is not confined to the shareholders or the company or the board of directors. The other party dealing with the Company is also one of the target audiences of the existence of this committee, and third parties such as Companies' Creditors and bondholders and anyone else dealing with the prosecution of the company's Audit Committee, claiming civil liability when it proved that the actions of the Commission and its reports have caused harm to him personally and claim him, and

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1. See detailed the responsibility of the Board of Directors. Dr. Wahbah Zuheili, Ibid, pp. 218
3. See: Dr. Wahbah, Zuheili, Ibid, pp. 218
examples are: Issuance of the audit committee report on the safety of the company’s procedures and financial dealings and that the Governing Council is working within the administrative and legal controls and that the company is making progress in the field of production and the reduction of debt, prompting third parties to grant the company a long-term loan, and then it is clear that the Audit committee presented a figurehead report does not reflect the actual reality of the company , and that the company is heading towards deadlock and an inability to pay. In such a case the third parties, which granted a loan to the company relying on the reports of the audit Committee can raise civil liability suit against the audit Committee and claim compensation for the damage it had suffered as a result of the contract with the company based on those reports.

Based on the foregoing, anyone who is claiming responsibility for the audit committee has to prove the Shortening or neglect of the Commission , and the reason for this is that the default or negligence by the Audit Committee is supposedly because the obligation of the Commission is an obligation of due diligence to audit work whether achieve the desired objective of formation of the committee or not achieved.

CONCLUSION

After we finished the review of the legal aspects of the Audit Committee on the work of the joint-stock companies we reached a series of conclusions and recommendations are as follows:

RESULTS

- The Saudi regulator was the only one from other compared laws that states the Audit Committee must be linked with the General Assembly of JSC while the majority considered legislation Audit Committee an auxiliary committee of the Board of Directors.
- The Saudi corporate system did not provide the conditions to be met by members of the Audit Committee.
- The study concluded the existence of differences between the audit committee and the auditor and internal control.
- The audit committee, according to the Saudi corporate system is considered a paid agent for shareholders. In Joint Stock Company while it is one of the components of the Board of Directors in accordance with the compared legislation such as Jordanian, Egyptian and English legislation.
- Saudi corporate system as well as comparative legislation did not provide the responsibility of the audit committee to shareholders or the company or third parties, whether civil or criminal responsibility.

RECOMMENDATIONS

- Need to amend the system of the Saudi companies providing for the terms and conditions of the qualifications and clear to the members of the Audit Committee in terms of qualifications and experience because this committee has supervisory technical tasks require specific accounting,legal and financial experiences and qualifications . And not to leave this matter of the General Assembly and to ensure the verification purpose of the existence of this committee to be effective means of control.
- Need to amend the system of the Saudi companies by providing accountability of the audit committee in the event of not commitment the agreed duties with the General Assembly or stipulated by the system, and determine the shape of the suit, duration and compensation for the damage that may inflict upon the shareholders and the company, and others, in addition to the revenue explicit provisions about the accountability of the members of the Audit Committee partly in committing acts determined by the system.
- The comparative legislation follow the Saudi regulator and text on comprehensive legal rules governing the Audit Committee on joint-stock companies, because of this Committee of the utmost importance in strengthening control over the joint-stock companies. In addition to the need to link this Committee and the General Assembly, not the board of directors to ensure the carrying out its functions independently and away from any pressures they may be exposed to.

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