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IFRS Adoption, Corporate Governance, and Information Quality: Evidence From KSA

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Abstract:
This research aims to predict the effectiveness of implementing International Financial Reporting Standards (IFRS) in reducing earnings management in Saudi Arabia (KSA). Considering that earnings management is influenced by various factors, we also propose examining the impact of corporate governance strength on enhancing the reliability of accounting information. Empirical results are obtained from a sample of 51 Saudi listed firms observed from 2014 to 2020. Discretionary accruals (DA) are utilized to identify earnings management, estimated using Dechow et al.'s (1995) model. Subsequently, a multivariate regression analysis is conducted to explore the relationship between DA, IFRS adoption, and corporate governance structure. The main findings indicate that the independence of both the boards of directors and the audit committee has a significant negative impact on earnings management in Saudi industrial companies. However, the size of the board, the size of the audit committee, and the frequency of audit committee meetings do not appear to have a significant effect on DA. Therefore, we suggest that certain mandatory measures should be implemented to enhance the effectiveness of corporate governance mechanisms in a developing economy like Saudi Arabia (KSA).

Keywords: IFRS, Earnings Management, Discretionary Accruals, Corporate Governance, KSA**.**

Type: Research paper

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1. Introduction

In the last decade, Saudi Arabia has achieved great progress in several fields (economic, social, financial, etc.), especially after the release of the 2020 and 2030 visions.

On an international scale, the Kingdom of Saudi Arabia is a main actor in the Organization of the Petroleum Exporting Countries (OPEC), considered one of the big oil producers and a founder, and is considered the top oil producer in the world. Despite being a developing country, KSA has become a member of the G20, showing tremendous economic development since 2008. With respect to the legal system, the main source is Sharia, Islamic law derived from the Quran and the Sunnah. KSA applies Sharia in daily economic life as a source of legislation. In fact, many Islamic values are prescribed in the logic of good governance, especially the prohibition of "gharar" and treachery in business transactions (risk, uncertainty, and hazard).

Obviously, this will encourage capital formation, create incentives to engage in value-maximizing behavior, and lower the cost of capital. Moreover, good corporate

governance needs human resources with professional skills that allow them some discretion without compromising transparency and integrity. These principles are fundamental to Islamic finance practices.

Concerning companies' monitoring, we underline the role of three major bodies in charge: the Capital Market Commission, the Stock Exchange of Saudi Arabia (named AlTadawul), and SOCPA [1]. The interest given to corporate governance started in 2005 under the control of the Saudi Capital Market Authority, which has some issues with monitoring listed companies.

In 2006, the international financial crisis revealed significant Saudi corporate governance code weaknesses. Therefore, the code was revised in 2009 and again in 2017 as a response to the 2030 vision. This amendment is undertaken in order to improve transparency and market efficiency. In general, the new corporate governance construct seems to be closer to the Anglo-Saxon model than the continental one. Several issues have been underlined by the new Saudi corporate governance code, especially rules dealing with shareholder rights, board composition, and audit committee function.

Concerning accounting regulation, a Saudi local regulation has been achieved with the appearance of a body of accounting and auditing rules that were largely inspired by the USA regulation since 1986. Then, we had to wait until 2013, when SOCPA developed a new project to convert to IFRS with a plan to schedule the transition for firms other than financial institutions (PWC, 2014). This plan, besides SAMA requirements, makes financial institutions obliged to adopt IFRS.

Since 2017, mandatory compliance with IFRS has been implemented for all public limited companies. The transition strategy adopted by SOCPA is based on complete IFRS implementation. Only three exceptions to modify IFRS implementation are allowed: "promoting financial information relevance; deletion of accounting optional treatments; and avoiding treatments that contradict Sharia or other sources of Saudi national regulations" (PWC, 2014).

Given the huge changes in Saudi Arabia's regulatory and economic environment in the last decade, we consider it interesting to test the added value of these changes in financial information quality. Therefore, this paper assesses the correlation between IFRS adoption, the efficiency of internal corporate governance mechanisms, and accounting discretionary behavior. This paper can add many issues, especially to the existing academic and theoretical research. It can reveal how such economic and financial realities identified in developing countries could be tested and proven in emerging economies. Moreover, our study reveals how much regulatory and socio-economic specificities matter when studying the added value of IFRS in reducing DA.

The rest of the research is organized as follows: The next section describes the research hypothesis. Section 3 explains the sample and the empirical approach. The main results are presented and discussed in Section 4. Finally, Section 5 concludes.

2. Literature Review and Hypothesis Development

IFRS Adoption and Earnings Management

The impact of IFRS adoption on earnings management has been a big focus both for listed firms and academic communities. We find many international studies dealing with IFRS adoption decisions and earnings management for public firms, mainly after the compulsory implementation of these standards in the EU since 2005.

Cai et al. (2008) observed a sample of 32 countries for the period from 2000 to 2006 to detect earnings management. They establish that both voluntary and forced adoption of IFRS decrease discretion in financial statements.

The same result has been found by Barth et al. (2008), who observed an international sample of 21 countries. They confirm a positive relationship between the adoption of IFRS and the quality of financial disclosure. In the same perspective, Capkun et al. (2011) conducted a comparative analysis among 29 countries of the EU, split into groups mainly of voluntary versus mandatory adopters. They conclude that voluntary firms adopting IFRS (before 2005) manage less of their earnings compared to mandatory firms adopting IFRS (in 2005). In Australia, Chua et al. (2012) found that better financial information quality is provided under IFRS rather than local Australian Accounting Principles. In China, Zhou et al. (2009) demonstrate a decrease in earnings smoothing after the implementation of IFRS. They conclude that the high quality of IFRS is certainly behind the improvement in reliability and relevance of accounting information.

Latridis (2010) examines the implementation of IFRS and its advantages regarding information quality in the UK. The study provides empirical evidence that IFRS adoption severely constrains the extent of discretionary managerial behavior, which is related to a timelier recognition of losses and therefore allows more accurate measures of firm value.

In Europe, using literature analysis, Irina (2015) tested the effect of IFRS implementation on financial information reliability compared to national accounting standards. The study's sample consists of 30 research articles published in several reviews ranked in the ProQuest database. The author concludes that both institutional countries' specificities and firms' characteristics influence the nature of IFRS adoption's impact.

In France, Jeanjean and Stolowy (2008) establish that accounting manipulation increases post-IFRS implementation. Recently, Capkun et al. (2016) noted a rise in earnings smoothing, especially after the mandatory adoption of IFRS (2005) and within countries allowing early IFRS implementation. These findings could be explained by the large extent of flexibility provided by IFRS, which is essentially due to the limited guidelines related to the implementation of these new standards.

As shown from previous literature, a lot of studies dealing with IFRS and earnings management exist, especially after the mandatory implementation of IFRS in Europe (2005). However, we should underline that research conducted in developed countries is very limited.

In South Africa, Daniel Ames (2013) didn't find any significant amelioration in financial statement content post-IFRS adoption. Moreover, the author supported the idea that the value and relevance of major balance sheet components are greatly changed post-adoption.

In KSA, and given the recent adoption of IFRS, empirical studies in this area are limited. El Zoubi (2017) raises the question of the benefits of IFRS implementation in KSA for listed companies. He conducts a survey to assess the opinions of 78 people (both preparers and users of financial statements). The results predict that IFRS adoption in Saudi Arabia will have many advantages for different users of financial statements. This fact was emphasized mainly after 2009, when the Kingdom of Saudi Arabia became a member of the G20 [1].

Mohammed Faisal Hassan (2019) explores the potential differences between financial information issued using IFRS and that issued using local Saudi accounting principles. In the light of the empirical analysis, the author deduces the existence of major disparities between two sets of financial variables calculated under IFRS and local Saudi accounting principles. Alnodel (2018) conducted an empirical analysis of 21 insurance

companies during the period 2007–2014 to assess the improvement of financial information quality post-IFRS implementation. Using the Ohlson model (1995), the author finds an important increase in the information content of financial statements associated with the firm's size and profitability rather than the IFRS adoption decision. Recently, Hasheda, A. et al. (2021) used a sample of public Saudi companies to test the joint impact of corporate governance structure and IFRS on financial statement quality. The empirical findings show that both the size of the board of directors, the size of the audit committee, and the frequency of audit committee meetings are negatively associated with the relevance of accounting information. Moreover, the authors show that both the independence of the board and the audit committee significantly improve the accounting relevance of financial statements.

From previous literature and given the conflicting results of empirical evidence, we suggest testing this proposal:

H1: There is a significant association between IFRS adoption and earnings management in KSA.

Board of Directors' Characteristics and Earnings Management

Jensen et Meckling (1976) argue that the board of directors is one of the most important supervisors of the managerial team by reducing interest conflicts. However, in the light of literature, it appears that the role played by the board is extremely related to some features, such as the independence of its members and its size. According to Wan Abdullah et al. (2018), the extent of discretionary accounting behavior is significantly associated with the effectiveness of the board of directors (measured by size and independence), especially post-IFRS implementation in Malaysia.

In KSA, Articles 16 to 41 of the Saudi Corporate Governance Code (2017) contain detailed guidelines for the functions of the Board of Directors, such as the nomination of the Chairman, percentage of independent directors, and members' expertise.

Board Size

Many authors argue that firms with large boards, which generally include diversified and experienced members, benefit from more appropriate monitoring (Akhtaruddin et al., 2009; Brown et al., 2011). However, other researchers have established that smaller boards communicate and coordinate within work teams better than large ones (Abbott et al., 2004). Obviously, this should raise the transparency and reliability of firms' financial disclosure processes (Al-Shaer et al., 2017; Juhman, 2017). The inefficiency of large boards is often explained by the difficulty of reaching consensus when taking great decisions, such as how to ameliorate the transparency of accounting reports. Moreover, given the size of the board, it could negatively affect the sense of responsibility of each director. In fact, Vafeas (2000) deduces that smaller boards are more efficient in supervising tasks compared to larger ones. Beasley (1996) concludes that the number of members on the board is positively associated with deceitful financial statements.

Concerning earnings management, it appears from previous literature that better financial reporting policies are mainly ubiquitous in firms with a large board of directors (Góis, 2009; Farber, 2005; Ditropoulos & Asteriou, 2010). Whereas, another line of research establishes that a large board leads necessarily to less earnings management (Ahmed et al., 2006; Chalaki et al., 2012).

Therefore, and based on conflicting previous findings, we suggest testing this proposal:

H2.1: There is a significant association between board size and earnings management in KSA.

Board Independence

The independence of the board of directors occupies a very important place in Saudi governance regulation, namely in the SCGC. A set of articles from 20 to 28 has been devoted to several issues related to members independence. Thus, the board is invited to check the full independence of the members each year. To better guarantee boards' independence, the new SCGC doesn't allow the nomination of a CEO, each person who has been the previous chairman of the board in the first year following his retirement. Moreover, the Saudi Code requires that at least one-third of directors be non-executive.

From an academic point of view, many authors have reported that the quality of financial reports is improved when the board is independent (Botti et al., 2013; Ahmed & Duellman, 2006). It is well established by Xie et al. (2003) that the board's independence contributes significantly to reducing agency problems within contractual relationships. Other authors, such as Peasnell et al. (2000), show that the manipulation of discretionary accruals is much less prevalent in firms with a high percentage of independent directors. These latter are expected to add professional values, experience, and more vigilance regarding management control (Cornett et al., 2008). According to Klein (2002), financial treachery decreases tremendously with the weight of independent directors on the boards of American firms. In this study, we suggest testing this proposal:

H2.2: There is a significant association between the board members' independence and earnings management in KSA.

Audit Committee Effectiveness and Earnings Management

Besides the board of directors, the audit committee is considered the center piece of the corporate governance structure since it serves as an efficient link between the board of directors and the external auditor. However, the effectiveness of this control tool depends extremely on some characteristics, especially its independence, size, and frequency of meetings. In KSA, and since the release of the new CGC, the existence of an audit committee has become mandatory for all public Saudi firms.

Audit Committee Size

In KSA, Article 54(a) of the SCGC deals with several aspects of the constitution of the audit committee. For example, it is noted that the committee's size couldn't be less than three, elected among shareholders by vote of the general assembly. Among audit committee members, at least one must be an independent director and one an expert in the financial accounting field.

From previous literature, it has been established that financial reporting quality proxied by earnings management extent is significantly better within firms with large audit committee sizes (Cornett et al., 2008). However, another line of research denied the negative link between accounting discretion and audit committee size (Baxter & Cotter, 2009; Davidson et al., 2005). Given the mixed empirical findings from previous literature, we suggest testing this proposal:

H3.1: There is a significant association between audit committee size and earnings management in KSA.

Audit Committee Frequency Meeting

According to Song and Windram (2004), the number of audit committee meetings improves financial reporting quality. Moreover, Ebrahim (2007) argues that this audit committee feature reduces extremely discretionary managerial accounting behavior. Xie et al. (2003) report that there is a poor correlation between audit committee meetings and earnings management. Whereas Song and Windram (2000) discover that the frequency of meetings greatly improves the efficacy of the audit committee.

Differently, Davidson et al. (2005) and Baxter and Cotter (2009) reveal no meaningful association between the frequency of audit committee meetings and the reduction of earnings management. Therefore, based on these mitigated results, the suggested theory is as follows:

H3.2: There is a significant association between audit committee meeting frequency and earnings management in KSA.

Audit Committee Independence

According to Article 54(a) of the SCGC in KSA, at least one of the audit committee members should be independent and at least have expertise in financial accounting fields. Moreover, Article 54(b) of the new SCGC claims that the audit committee chairman shall be an independent director.

Concerning academic literature, Knapp (1987) insists on the relevance of the independence of the members of the audit committee in order to assess the efficiency of the audit committee. For instance, Baxter & Cotter (2009) explain that the frequency of earnings management declines with the independence of the audit committee. The independence of the audit committee is linked to a lower discretionary accrual, as demonstrated in several studies (Akhtaruddin & Haron, 2010; Mohamad & Sulong, 2010; Yuen et al., 2009; Klein, 2002). However, another line of research, such as Siregar and Utama (2008), highlights the minimal effect of audit committee independence on constraining earnings management. Therefore, we recommend the following hypothesis:

H3.3: There is a significant association between audit committee independence and earnings management in KSA.

3. Methodology

Sample Selection

Through this research, we aim to explore the impact of IFRS implementation on discretionary accruals in Saudi listed firms. To achieve this, we analyze data from two periods: before and after the adoption of IFRS. Our sample consists of 51 industrial companies listed on the Saudi stock market (Tadawul) and covers the period from 2014 to 2020. We manually extracted the data from the annual reports available on the stock market website (https://www.saudiexchange.sa). Table 1 provides an explanation of the main criteria we used for sample selection.

Table1: Sample Selection

Initial sample	135 firms
Firms excluded from the sample:	
Financial institutions (banks, insurances….)	17
Nonindustrial companies	25
Companies with missed data (information about corporate governance structure unavailable)	42
Final sample	51

Measurement of Dependent Variable

To measure earnings management, we employ the discretionary accruals (DA) approach. Previous literature offers various models for estimating DA, and for this study, we choose to use the Modified-Jones Model of 1995 (Dechow et al., 1995). This model has demonstrated superior performance in detecting earnings management compared to other models. Therefore, we predict the following equation:

$$ACCRit = \alpha 0 + \alpha 1\,(REVit - RECit) + \alpha 2\,PPEit + \varepsilon it)\ (1)$$

Where $ACCR_{it}$ is the total accruals; REV_{it} is the change in revenue calculated by the change in sales it is relative to sales it-1; REC_{it} is the change in net account receivable in year t relative to year t-1 and PPE_{it} is the gross value of property, plant, and equipment in year t. and discretionary accruals will be the residuals ε_{it} estimated from equation (1).

Measurement of Independent Variables

We examine the impact of implementing IFRS by generating a model that includes a dummy variable representing the adoption of IFRS using panel data.

Earnings management, as a managerial behavior, depends on several factors beyond IFRS adoption. Therefore, we also focus on the impact of firms' corporate governance structures. Specifically, we consider the effectiveness of the board of directors (size, independence of directors) and the audit committee (size, independence, and meetings). Table 2 summarizes the different variables used in regression 2 and their measurements.

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Table 2: Variables Definition and Measurement

Dependent variable: Discretionary accruals	**Measuring tool** Modified-Jones Model of 1995 (Dechow et al, 1995).	**Variable code** DA
Independent variables: 1.IFRS adoption decision	Dummy variable: 1 if observation from 2017-2020(post-IFRS adoption) 0 otherwise(pre-IFRS adoption)	IFRS

2.Effectiveness of the board of directors: Board size Board independence	 Number of board members Percentage of non-executive members	 BOARDSIZE BOARDINDEP
3.Audit committee effectiveness: Audit committee size Meeting frequency Audit committee independence	 Number of members of the audit committee Number of the meeting of the audit committee per year Percentage of audit committee members independent	 AUDCOMSIZE AUDCOMEET AUDCOMIND

The previous variables will be used to conduct our multi-variate regression as following:
$DA_{it} = \alpha + \beta 1$ IFRSADOP $_{it} + \beta 2$ BOARD$_{it} + \beta 3$ AUDCOMCEFF $_{it} + \xi_{it}$ (2)

4. Empirical results

In this section, we present and explain the main empirical findings obtained from statistical tests, including descriptive statistics and multivariate regression. These tests allow us to examine our theoretical propositions, particularly the role of IFRS in constraining earnings management in the Saudi context. We manually collected our data from the annual reports available on the stock exchange website (https://www.saudiexchange.sa). Table 1 provides an explanation of the main criteria we used for sample selection.

Descriptive Statistics

Table 3 presents illustrative statistics for the 51 manufacturing Saudi firms observed from 2014 to 2020.

Table 3: Descriptive statistics

Variable	Mean	Std. Dev.	Min	Max
	Number of observations=357			
Total assets	1.30e+10	4.56e+10	1.80e+07	3.40e+11
Net income	6.01e+08	2.97e+09	-1.96e+09	3.19e+10
Discretionary accruals	-.0351637	.0073742	-.0649153	-.006466
Board size	8.517964	1.78868	4	15
Audit committee size	3.641566	.9003967	3	8
Number of observations=357 and Period=2014-2020				

The mean total assets of our sample is 1.30e+10 SAR, with a relatively high standard deviation of 4.56e+10. Net income, as an indicator of performance, has a mean of 6.01e+08, suggesting a normal financial situation for the selected industrial companies. Furthermore, the mean value of discretionary accruals estimated from the modified Jones model (-0.0351637) indicates negative earnings management. The board of directors in our sample consists of 4 to 15 members, while the audit committee consists of 3 to 8

members. These sizes reflect the significance placed on the internal corporate governance structure and the adherence to the Saudi corporate governance code (2017). Additionally, the size of the board of directors in our sample appears to comply with the provision of the Saudi corporate governance code (Article 16: the number of board members shall be suitable for the size and nature of the company's activities).

Earnings Management Before and After IFRS Adoption

Before running the linear regression, we first implement an analytical comparison of discretionary accruals by dividing our sample into two periods= from 2014 till 2017 and from 2018 till 2020. We use the student test of means comparison to assess how significant are the differences in earnings management are before and after IFRS adoption in KSA.

Table 4: Comparative Analysis of Discretionary Accruals Before and After IFRS Adoption in KSA

	Test student test means comparison					
variable	**obs**	**Mean**	**Std.Err**	**Std.Dev**	**[95% Conf. Interval]**	
DA before IFRS adoption	153	-.0338582	.0007422	.0081976	-.0353275	-.0323889
DA after IFRS adoption	204	-.0354325	.0005572	.0061541	-.0365356	-.0343295
diff		.0015743	.0009533	.010529	-.0003129	.0034615
		mean(diff) = mean (DA-PRE-IFRSADOP – DA-POST-IFRSADOP) Ho: mean(diff) = 0 degrees of freedom = 121				t = 1.6515
		Ha: mean(diff) < 0	Ha: mean(diff) != 0		Ha: mean(diff) > 0	
		Pr(T < t) = 0.9494	Pr(|T| > |t|) = 0.10		Pr(T > t) = 0.0506	

Table 4's results show that the student test of means comparison effectively eliminates the null hypothesis of mean equality (t=1.6515, p=0.1). As a result, we observe a large variation in the number of discretionary accruals as a proxy for earnings management prior to and following the implementation of IFRS in KSA. We additionally advise discussing the findings from the linear regression (2) that examined the connection between earnings management and IFRS adoption in the Saudi context in order to better support our conclusions.

Regression Results

We initially estimate both models with fixed effects and random effects to determine the most appropriate approach for data analysis. This allows us to conduct Hausman tests, where the null hypothesis states that there is no systematic difference between the coefficients estimated by the two approaches. The alternative hypothesis is inconsistent with the coefficients under random effects, but both hypotheses are compatible under fixed effects.

We perform the Hausman test on both models (1 and 2) to decide between using a random or fixed-effects model. The findings support Hausman's null hypothesis at a 5% significance level. This indicates that the random-effects model is the more suitable econometric approach. Consequently, we rely on the results of the random-effects estimation for subsequent analysis. Table 5 presents the outcomes of the primary regression (Model 2) using Jones (1991) as an estimator for discretionary accruals (AD) and covering the entire period (2014–2020) before and after the adoption of IFRS in Saudi Arabia. The R2 value, approximately 20%, is within the normal range compared to previous research conducted in Saudi Arabia (A. Hasheda et al., 2021).

As shown in Table 5, the variable IFRS has a significant negative coefficient (-0.21 with a p-value of 1%). This indicates that the implementation of IFRS reduces earnings management in Saudi industrial firms, supporting Hypothesis 1. Our findings align with those of Alnodel (2018) in the Saudi context, Barth et al. (2008) in the EU, Chua, Cheong, and Gould (2012), and Zhou, Xiang, and Ganguli (2009) in various Asian countries.

The results obtained from the 51 Saudi manufacturing companies regarding the effect of IFRS can be explained by the enforcement of these high-quality standards by SOCPA for listed companies since 2017. Proper enforcement is crucial for achieving high compliance with IFRS and ensuring the effectiveness of these standards in producing high-quality financial reports (Mbir, et al., 2020). Additionally, the significant changes in the Saudi economic context over the past decade, particularly the increased openness to foreign investments, make the alignment with international accounting standards fitting with the economic and political vision.

Furthermore, the results demonstrate that the independence of both the board of directors and the audit committee has a significant negative impact on earnings management in Saudi industrial firms. Table 5 reveals two negative coefficients for the variables BOARDIND and AUDITCOMMIND, which are significant at the 5% level. These empirical results confirm Hypotheses 2.2 and 3.3 and are consistent with previous literature, particularly Klein (2002) and Akhtaruddin & Haron (2010). However, our results regarding the independence of the board of directors and the audit committee contradict some other studies (Ruth et al., 2011). Regarding the variables board size and audit committee size, despite displaying negative coefficients, their effect on constraining earnings management is still non-significant. The coefficients associated with these two variables are -0.06 and -0.002, respectively (with p-values > 10%). Thus, we reject Hypotheses 2.1 and 3.1.

Finally, concerning audit committee meeting frequency, no significant effect has been observed for this variable, as indicated by a positive and non-significant coefficient (0.01446 with a p-value > 10%). Therefore, we cannot confirm Hypothesis 3.2. This outcome is consistent with the work of Bedard et al. (2004) and Davidson et al. (2005).

In summary, our findings suggest that the impact of corporate governance on earnings management in the Saudi context is nuanced and varies across different corporate governance factors. This conclusion aligns with empirical evidence from other socio-political contexts. Previous literature has shown that there is no definitive evidence that companies with stronger governance practices exhibit less earnings management (Larcker et al., 2007; Klein, 2002). Indeed, as highlighted by Irina (2015), country-specific and firm-specific factors significantly influence the extent to which IFRS adoption affects accounting practices.

It is important to note that specific corporate governance systems in the Kingdom of Saudi Arabia, particularly the independence of the board of directors and the audit

committee, effectively support the positive impact of IFRS adoption on the quality of financial reporting. This observation can be attributed to the fact that all listed companies are required to implement the code based on a "comply or explain" basis, as outlined in the policy (AlQahtani, 2014). The mandatory implementation of a robust governance structure within the Saudi context may promote greater alignment with IFRS provisions. Prior to and after the implementation of IFRS in Saudi Arabia, we observe a significant difference in the level of discretionary accruals, which serves as a proxy for earnings management.

Table 5 : Multivariate Regression Results

DA	Coef.	Std. Err.	z	P>|z|	[95% Conf. Interval]	
IFRS	-.016866***	.0006889	-2.45	0.0014	-.0030369	-.0003363
Size of board	-.0060345	.0002824	-0.21	0.831	-.0006139	.0004933
Indmem BD	-.050023*	.0028618	-0.28	0.09	-.0064114	.0048068
Size of the audit committee	-.000279	.0005209	-0.54	0.592	-.0012999	.0007419
Audit committee independence	.052645**-	.0002242	0.95	0.052	-.0004274	.0004514
Audit committee meeting frequency	.01446	.000356	1.24	0.779	-.0043567	.0005647
_cons	.0216935	.0031586	6.87	0.85	.0155027	.0278843
				R2= 0.19		

*,**,***denotes respectively significance level at 10%, 5% and 1%.

5. Conclusion

In addition to examining the internal corporate governance structure in the Saudi context, the goal of this research is to determine how the implementation of IFRS affects the reduction of earnings management. Empirical evidence is presented using panel data from 2014 to 2020, consisting of 357 firm-year observations from 54 Saudi enterprises. We estimate discretionary accruals using the Modified Jones model as a proxy for earnings management.

The main findings of our research confirm that the implementation of IFRS significantly reduces discretionary accruals. This conclusion is based on a comparison of discretionary accruals before and after the adoption of IFRS, as well as a multivariate analysis on panel data. However, the findings regarding the corporate governance structure of Saudi enterprises vary depending on the specific corporate governance factor examined. We find that the independence of the audit committee and board of directors is a key factor in reducing earnings management. However, the size of the board, the size of the audit committee, and the frequency of audit committee meetings do not significantly impact earnings management in the Saudi context.

We believe that this study has several practical implications. Firstly, the community of Saudi regulators (such as SOCPA and bourse control) should emphasize the benefits of implementing effective internal corporate governance structures, profiles, and obligations, particularly with regard to the audit committee and board of directors. Secondly, the Saudi research community should dedicate more efforts to draw better conclusions in this emerging field and explore stronger methodological approaches to detect earnings management that are suitable for the socio-political specificities of Saudi Arabia.

While our empirical analysis has made a significant academic contribution to accounting research, there are a few limitations to this study. Firstly, the sample used represents only a small portion of the vast number of Saudi enterprises, which may limit the external validity of the recorded empirical results. Secondly, our study focused primarily on the internal corporate governance structure, while external corporate governance factors (such as audit quality) should be considered to better assess discretionary management behavior. Lastly, this research analyzes earnings management using discretionary accruals, but the literature provides other tools for measuring earnings management, such as real earnings management. Therefore, considering real earnings management in future studies would be a fruitful avenue for further research. Additionally, conducting a comparative analysis with other countries, particularly those in the GCC region with similar socio-economic realities to Saudi Arabia, would provide regulators with a better understanding of Saudi Arabia's progress in achieving IFRS standards.

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