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Impact of IFRS Adoption on Earnings Management Practices: Evidence from Saudi Arabia

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Abstract
Purpose: This paper aims to study the impact of the adoption of International Financial Reporting Standards (IFRS) on Earnings Management (EM) by measuring the Discretionary Accruals (DAA) of firms listed in the materials sector in the Saudi Stock Exchange.

Design/methodology/approach: The Earnings Management (EM) level measured using Discretionary Accruals (DAA) calculated using the (Modified Jones (1995) Model). The study community consisted of 40 firms listed in the materials sector in the Saudi Stock Exchange, during the period 2014-2019. Binomial test and Two Related Samples Tests (Wilcoxon Test) used to test the study hypotheses and achieve the study aims.

Findings: There are presence indications of Earnings Management (EM) practices in firms listed on the Saudi Stock Exchange, there is a difference in Earnings Management (EM) practices due to adopt International Financial Reporting Standards (IFRS) for the preparation of the financial report, also decline in Earnings Management practices due to adopt International Financial Report Standards (IFRS).

Research limitations/implications: The study did not include the years 2020/2021 to avoid the effects of Covid 19.

Practical implications: The study results provide evidence of importance quality of business organization in the Saudi Stock Exchange ،the necessity for regulators and supervisors (such as the Capital Market Authority) to exert great pressure on firms listed on the Saudi Stock Exchange to provide true and fair reports.

Originality/value: The study enriches the literature by covering the Saudi Stock Exchange, which is one of the largest emerging financial markets. This study also provides a picture of the impact of IFRS adopting on Earnings Management practices in the Saudi firms.

Keywords: Discretionary Accruals (DACC), Earnings Management (EM), International Financial Reporting Standards (IFRS), Saudi Stock Exchange.

Introduction

In 1985, Healy wrote one of the most important papers on accounting, entitled "The Impact of Extra Rewards on Accounting Decisions," which was the first scientific paper to raise the risk of earnings management. The paper confirmed, through a practical empirical approach, that corporate executives make accounting policy decisions and accounting alternatives in order to maximize their earnings-related compensation. Healy has shown that the relationship between declared earnings and the value of directors' compensation is linear, up to a certain level. Healy drew a diagram of this relationship so that as the earnings escalated, the value of directors' compensation increased due to the size of earnings growth. ''*However, this relationship does not last long, as it reaches a stage where earnings can no longer grow in a way that achieves the desired compensation rate for managers. At this point, executives make decisions to change accounting policies to manage earnings to return to strong earnings growth and achieve the* *desired compensation''* (Healy, 1985)*.* According to the Healy and Wahlen (1999) approach, earnings management practices arise if management uses personal judgment in financial reporting and in structuring transactions to change financial results either to mislead shareholders and investors about the performance of the company, or to influence contractual results based on accounting results. Through a change in the maturity process, a deviation from normal business practice, or both at the same time.

Accounting standards have reduced the chances of manipulating accounting figures through so-called rule-based standards. Another trend is the principles-Based Standards, adopted by the international accounting standards. Because International Financial Reporting Standards (IFRS) allow the use of different accounting methods to address the same events and thus the flexibility of management's selection of accounting estimates, there is a belief that standards-based principles allow the management of earnings more than standards-based rules. The study by Ahmed et al. (2013), provided evidence of a marked increase in the income account resulting from the accrual basis as well as a significant reduction in the timing of loss estimates for companies in countries that adopt IFRS as compared to countries that rely on national standards. Another stream of research (Ipino and Parbonetti, 2017) indicates that companies tend to replace Earnings Management (AEM) with Real Earnings Management (REM), in conjunction with the mandatory adoption of IFRS. These studies support the opinion that IFRS often represents stricter accounting standards than generally accepted GAAP, thereby limiting management judgment. While the third method found no significant differences in earnings management before and after the adoption of International Financial Reporting Standards (IFRS) by (Ipino and Parbonetti, 2011 and Doukakis, 2014).

Since Saudi Arabia joined the G20 in 2009, the adoption of International Financial Reporting Standards (IFRS) has become an important event in the Kingdom's economic development. These efforts culminated in the adoption of International Financial Reporting Standards (IFRS) for the banking and insurance sectors of the Saudi Stock Exchange in 2009, and then for the rest of the Saudi Stock Exchange in January 2017. Some authors believe that the adoption of IFRS will have implications for accounting information. Alsuhaibani (2012) anticipated some negative impact, especially in the short term. Alnodel (2018) believes that the adoption of IFRS increases the importance of accounting information. Hassan (2019) found that there are differences between the resulting variables that apply to the two sets of International Financial Reporting Standards (IFS) and Saudi Standards (GAAP).

The market value of companies listed on the main market estimated at 9.8 trillion Saudi riyals ($2.62 trillion). The Saudi Stock Exchange (Tadawul) is the largest capital market in the Middle East and North Africa region. As of December 2019, Tadawul is the ninth largest stock exchange in the world. This study seeks to understand the impact of the adoption of International Financial Reporting Standards (IFRS) on earnings management by comparing the discretionary accruals of firms listed in the materials sector (which holds 20% of 2019 trades) before and after the adoption of IFRS.

This paper aims to study the impact of the adoption of International Financial Reporting Standards (IFRS) on earnings management by measuring the discretionary accruals of firms listed in the materials sector on the Saudi Stock Exchange.

Literature review and hypotheses Development

Agency theory is an important, yet controversial, theory based on the assumption that managers will maximize a firm's value. As managers have sought to gain the trust of owners through trying to maximize property and stabilize income, they sometimes resorted to a policy of income adjustment based on the principle of consistency in advertising earnings according to proportions (stable) at the end of each financial period (Aflatooni and Nikbakht, 2010). This done by increasing the percentage of deductions in a period of high earnings and their distribution in the low earnings period. The manager then gives a misleading connotation to the decision maker. This means that the administration's use of the change in earnings implications is done in order to influence the significance of accounting figures (especially accounting earnings), not for objectives strategy by exploiting the flexibility involved in some accounting policies.

- Practice Earnings Management:
The phenomenon of earnings management means deliberately distorting earnings values in order to show a different reality, to change the implications of the financial statements, or to guide the decision maker to make calculated decisions in advance.

Schipper (1989) defined earnings management as a deliberate intervention in the process of preparing financial statements in order to achieve some special gains. According to Healy and Wahlen (1999), management conducts earnings management by applying its self-assessment in the transmission and handling of financial information to amend the financial report in order to give the owners a false impression or to influence any contractual action based on financial reporting. Rosenfeld (2000) found earnings management methods affect the income shown on the financial statements, do not achieve real economic benefits, and may in fact lead to long-term damage.

Based on previous definitions, we can conclude that earnings management practices are followed by management when managers use the flexibility available to them to choose between methods and accounting policies with the aim of influencing the firm's earnings either by increasing or decreasing.

There are varieties of earnings management methods. Management may consider some information not significant, do not disclose it, and justify it by following the requirement of relative importance (Betty et al., 2002; Arens et al., 2003). Management may also delay expenditure by recycling expenses as capital expenditures and distributing them over subsequent years. Management may also accelerate the recognition of sales revenue as income for the same year even though it belongs to more than one fiscal year or increase the volume of goods supplied in the last quarter (Betty et al., 2002). Accounting figures may also include fictitious expenses or phantom revenues, or may recognize some contingency expenses as normal expenses (Yoon et al. 2006), and other methods for misleading the decision-makers and influencing them. So, there are different seen on the issue of earnings management. The first being the importance of complying with accounting standards, and that any practice that does not comply with accounting standards is a violation of the purpose of misleading users by manipulating the figures of published financial statements, which will reflect negatively in the long term, moreover (Healy and Wahlen, 1999, Betty et al., 2002, and Arens et al., 2008). Those who are opposed to the idea of earnings management and who cite the financial crises of major companies in the world and the bankruptcy of these companies.

The second view is the opinion of the proponents of the idea of earnings management, where they believe that earnings management is smart practices by accountants and managers aimed at the beautification of income and financial status and do not violate the principles and standards of accounting. Accountants and managers use their intelligence to choose the best ways and applications to reach the best income and financial position (Mulford and Comiskey, 2002; Mckee, 2005).

A clear distinction must made between earnings management and fraud. (Brown, 1999) notes that earnings management does not violate accounting principles and standards, and a violation of accounting principles and standards is fraud. Despite the difference between fraud and earnings management, these two matters have the same effect on the financial report.

It may be in the interests of management to increase earnings or reduce earnings, depending on the objectives that management seeks to achieve. Many of the papers sought to analyze the motives of managers in the use of earnings management methods. Merchant and Rockness (1994) believe that the survival and persistence of the company may be a motive for influencing accounting figures. Sweeney (1994) argues that getting loans is a stimulus to earnings management. Healy and Wahlen (1999) noted that contracting is a major driver of management's adoption of earnings management practices, as the contract based on the accounting results achieved by the company. As well as gaining advantages when negotiating with unions and other management-driven approaches to earnings management practices, managers may adopt earnings management practices to influence the market. This occurs when managers recognize a relationship between declared earnings and the market value of a company (Dechow et al., 2000; Scott and Pitman, 2005). Yield management of earnings to influence policymakers and government agencies Bartov et al. (2000) suggest that fluctuations in earnings are an indication of monopoly or impotence, both of which prompt the state to intervene. Habbash and Alghamdi (2015) concluded that there are four incentives for Saudi managers to manage earnings: increasing wages, avoiding losses, obtaining bank loans, and increasing the share price. Al-Moghaiwli (2010), Alsuhaibani (2012), add a motive to increase the compensation or bonus that executives get.

Few studies have focused on earnings management practices in Saudi companies. Alsehali's (2006) study, which examined the relationship between total accruals and earnings management incentives, points to the manipulation of benefits by Saudi company managers. Alhadab and Al-Own (2019) found that Saudi companies do practice Earnings Management in the areas of classification, timing, disclosure, and estimation, and that practices do not comply with GAAP.
Therefore, we conclude that the use of the flexibility involved in some accounting policies and the excessive exercise of personal estimates is a practice of earnings management. Based on this, the first study hypothesis formulated:
H1- Saudi Stock Exchange firms adopt earnings management:

- Earnings Management and IFRS adopting:
The endless need for accounting systems that serve decision-makers around the world has led to the creation of accounting standards designed to encourage venture capitalists to invest. Accounting standards-setting bodies have reduced opportunities to manipulate accounting numbers through so-called rule-based standards, as in Saudi Arabian standards that have shifted. Another trend is the standards-based standards adopted by the International Accounting Standards, which recently adopted in Saudi Arabia. Barth et al. (2008) indicate that the adoption of IFRS improves the information available to market participants in some ways. Chen et al. (2010) points out that IFRS can reduce the practices of earnings management methods by limiting personal judgment in determining the accounting numbers.

On the other hand, IFRS allows the use of different accounting methods and methods to address the same economic events and phenomena, and thus gives management the flexibility to choose accounting estimates on the one hand, and on the other hand, the flexibility to defer or provide recognition resulting from the use of the accrual basis of accounting. Consequently, it offers a range of options depending on the company's position and the regulations governing the country in which it operates. It believed that standards-based standards allow for more earnings management than rules-based standards. (Elena et al., 2009) indicates "*some investors feel that the principles-based system provides a lot of discretion to management, and others fear that information contained in large-scale disclosures may be lost under GAAP*". Alsuhaibani (2012) indicates that the application of IFRS has some negative impact, especially in the short term. Ahmed et al. (2013) found evidence of a significant increase in earnings management practices in countries that adopt International Financial Reporting Standards. Wijayana and Gray (2018) investigated whether differences in earnings management explained by the degree to which IFRSs implemented. The study concluded that the variation in earnings management explained by the degree of application of accounting standards before and after the adoption of IFRS. Hassan (2019) sought to identify and measure the impact of the adoption of International Financial Reporting Standards (IFRS) on the non-financial sectors of the Saudi Stock Exchange and concluded that there are differences between the financial statements prepared in accordance with IFRS and the statements prepared in accordance with Saudi Standards. The study noted these differences in net profit and assets.

Thus, the hypothesis of the second study formulated as:
H2-There are statistically significant differences between earnings management before and after the adoption of IFRS.

- Impact of IFRS adoption on earnings management
Numerous empirical studies have sought to determine the impact of the adoption of International Financial Reporting Standards (IFRS), which we indicated gives a lot of discretion to

management, on earnings management practices. These studies have produced conflicting results. Some of these studies believe that the adoption of IFRS has led to increased management practice and earnings management practices. This finding reached by Ahmed et al. (2013), which sought to determine the effects of the mandatory adoption of IFRS on quality accounting using a sample of more than 1,600 companies from 20 countries that adopted IFRS as compared to a standard sample of companies from 15 countries that did not adopt IFRS. The study found evidence of a significant increase in random and aggressive entry rates and a significant decline in the timing of non-verification of value for companies in countries that adopt IFRS. The study concluded that the quality of accounting decreased after the adoption of IFRS. Ferentinou and Anagnostopoulou's (2016) study confirmed that the nature of the rules set out in the IFRS, which confer discretion to managers, allowed managers to use earnings management practices. Mongrutab and Winkelriedb (2018) found no improvement in transparency after the adoption of IFRS. Like the Kouki (2018) study, no other study found that the adoption of international standards for voluntary financial reporting associated with investor protection has no impact on earnings management.

On the other hand, Barth et al. (2008) found that companies applying international accounting standards showed lower earnings management practices than companies applying national standards did. Chen et al. (2010) concluded that IFRS could reduce earnings management practices by limiting personal judgment in determining accounting numbers. Alsuhaibani (2012) expected that "the adoption of IFRS in Saudi Stock Exchange will have some negative impact in the short term." Alnodel (2018) sought to see whether the adoption of IFRS has increased the importance of accounting information for insurers listed on the Saudi Stock Exchange. The study found that the book value of the shares becomes less valuable when IFRS standards are used compared to Saudi standards and that profits become the most valuable.

Thus, the hypothesis of the third study formulated:
H3- IFRS adopting leads to increased earnings management practices in Saudi Stock Exchange firms.

Design and research methodology
Study Data Analysis:
In this section, the hypotheses of the study tested by examining the extent of the practices of firms listed on the Saudi Stock Exchange and studying the impact of adopting International Financial Reporting Standards (IFRS) on earnings management on the Saudi Stock Exchange.

- Study community:
The study population consists of firms listed in the materials sector on the Saudi Stock Exchange. During the study period (2014–2019), the study period includes before the adoption of and after the adoption of IFRS. The materials sector constitutes about 24% of the firms listed on the Saudi Stock Exchange. Moreover, this sector accounted for 20% of the trading volume during the year 2019. The study did not include the years 2020 and 2021 to avoid the effects of COVID 19.

- Data:
The study collected corporate boards of directors' reports and published financial data for firms listed on the Saudi Stock Exchange during the period (2014–2019).

Study Variable
Discretionary Accruals calculated using the Modified Jones (1995) Model for calculating and determining accruals require the following steps:

Step 1: Total Accruals Calculate: To Calculate Total Accruals we use the cash flow statement form**:** Using the formula below,

$$TACCI\,t = ONII\,t - OCF\,I\,t$$

TACC It: represents the company's total accruals during the study period.
ONI It: represents the company's operating net income during the study period.

OCF It: represents the firm's operating cash flow during the study period.

-Step 2: Measurement of Non-Discretionary Accruals: The Jones model used to estimate model coefficients.

$$\frac{TACC_{i,t}}{A_{i,t-1}} = \alpha_1\left(\frac{1}{A_{i,t-1}}\right) + \alpha_2\left(\frac{\Delta REV_{i,t} - \Delta REC_{i,t}}{A_{i,t-1}}\right) + \alpha_3\left(\frac{PPE_{i,t}}{A_{i,t-1}}\right) + E_{i,t}$$

TACC: represents Total Accruals in a Year.
A-1: denotes total assets in the year t-1.
REV It: represents the change in sales in the company's year.
REC It: represents the change in the company's trade receivables over the course of the year.
PPE: represents property, plant and machinery.
α_1, α_2 and α_3 represent the features of the slope model.

-Step 3: Specify Non-Discretionary Accruals (NDACC): the form calculated in the previous step.

$$NDACC_{i,t} = \alpha_1\left(\frac{1}{A_{i,t-1}}\right) + \alpha_2\left(\Delta REV_{i,t} - \Delta REC_{i,t}\right) + \alpha_3\left(PPE_{i,t}\right)$$

NDACC: stands for Non-Discretionary Accruals.

Step 4: Determine the Discretionary Accruals (DACC): Using the following equation:

$$DACC_{i,t} = TACC_{i,t} - NDACC_{i,t}$$

Step 5: Determine the average discretionary accruals:
By dividing the sum of discretionary accruals per firm by the number of study periods, then compare the average discretionary accruals to the average discretionary accruals. If the discretionary accruals in the period are greater than the average discretionary accruals, this means that the firm has earnings management practices.

Hypothesis testing
H1*: Saudi Stock Exchange firms adopt* earnings management:
This part seeks to see to what extent firms have earnings management practices to make sure that we will use the discretionary accruals calculated according to the modified Jones model in the period (2014–2019).

After calculating the discretionary accruals for firms during the study period, we will calculate the absolute value of the discretionary accruals for each firm during the period of the study and the average of these values. If the absolute value in a given year exceeds the average, it is a sign that the firm has earnings management practices during that year and gives a fictitious variable (1). If the absolute value in a given year is less than the average, it is a sign that the firm has earnings management practices during the year and gives a fictitious variable (zero).
Table (1) shows a discrepancy in the use of discretionary accruals during the study period, with an average of 42.55 and a standard deviation of 26.44. The highest value of average discretionary accruals recorded in 2019, at 135.46, and the lowest value recorded in 2016.

Table (1): Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Y14	40	3557.18	308184361.10	22.8714	57. 782
Y15	40	6138.10	16251825003.0	5.943	26.260
Y16	40	734.52	355188643.20	3.7028	7.0988
Y17	40	1088.85	5833260372.00	57.914	92.489
Y18	40	8043.84	20621025.59	83.8107	126.21900
Y19	40	8428.22	22060756.28	135.4643	156.65144
Average)	40	8943.60	9651115833	42. 5511	26.4412
Valid N (listwise)	40				

The binomial test used when the experiment has two possible outcomes (i.e., increase or decrease) and we have an idea of the probability of an increase. The test run to see if the observed results differed from what was expected.

Table (2) shows that firms practiced earnings management practices during the study period in varying proportions. The highest dividend management practice was in 2015, when it reached 70%. The lowest percentage was 35% in 2016 and 2017. Given the advantages of this test in that it compares the distribution of real views with the hypothetical distribution, significant values less than 0.05 indicate that the distribution of observations is different from the hypothetical distribution. Which appears in 2015-2018. The rest of the year has shown values greater than 0.05.
These results partially support the research hypothesis. Accordingly, the study concluded that *There are indications that firms listed on the Saudi Stock Exchange adopt earnings management practices.*

Table (2): Binomial Test

		Category	N	Observed Prop.	Test Prop.	Exact Sig. (2-tailed)
Y14	Group 1	.00	21	.53	.50	.875
	Group 2	1.00	19	.48		
	Total		40	1.00		
Y15	Group 1	1.00	12	.30	.50	.017
	Group 2	.00	28	.70		
	Total		40	1.00		
Y16	Group 1	.00	26	.65	.50	.081
	Group 2	1.00	14	.35		
	Total		40	1.00		
Y17	Group 1	.00	26	.65	.50	.081
	Group 2	1.00	14	.35		
	Total		40	1.00		
Y18	Group 1	1.00	11	.28	.50	.006
	Group 2	.00	29	.73		
	Total		40	1.00		
Y19	Group 1	1.00	14	.35	.50	.081
	Group 2	.00	26	.65		
	Total		40	1.00		

H2-There are statistically significant differences between earnings management before and after the adoption of IFRS:
In this part of the analysis, we will seek to see the differences in the earnings management practices resulting from the adoption of the International Financial Reporting Standards (IFRS). We seek to see if data tracks natural distribution. Alternatively, not. To find the type of statistical test we must use according to the nature of the data, if the data follows the normal distribution, we use parametric tests, and if the data does not track the normal distribution, we use nonparametric tests.

Table (3): One-Sample Kolmogorov-Smirnov Test

		GAAP	IFRS
N		120	120
Normal Parameters[a,b]	Mean	205545899.41	53776413.3360
	Std. Deviation	1555101571.82	534576761.4675
Most Extreme Differences	Absolute	.467	.473
	Positive	.467	.473
	Negative	-.447-	-.460-
Test Statistic		.467	.473
Asymp. Sig. (2-tailed)		.000[c]	.000[c]

a. Test distribution is Normal.
b. Calculated from data.
c. Lilliefors Significance Correction.

The result of the One-Sample Kolmogorov-Smirnov Test in table (3) shows that the value (Sig 0.05) of the pre-and post-adopting IFRS variables therefore confirms that the study data does not follow the natural distribution, on which we may use nonparametric tests. We can use two related sample tests (Wilcoxon Test) using the SPSS packet.

The descriptive statistics in Table (4) show a variance in the use of discretionary accruals during the study period compared to the average estimated accruals before and after the adoption of International Financial Reporting Standards (IFRS). We can see from table (4) that the average discretionary accruals after the adoption of IFRS was lower than compared to the average discretionary accruals before the adoption.

Table (4): Descriptive Statistics

	N	Mean	Std. Deviation	Minimum	Maximum	Percentiles 25th	50th (Median)	75th
GAAP	120	203837667	15486668	734.52	16251825003	155964.99	1496403.6	23717706.25
IFRS	120	53329083	53234845	1088.85	5833260372	60699.571	209702.92	1327342.83

Table (5): Ranks

		N	Mean Rank	Sum of Ranks
IFRS - GAAP	Negative Ranks	77[a]	68.61	5283.00
	Positive Ranks	43[b]	45.98	1977.00
	Ties	0[c]		
	Total	120		

a. IFRS < GAAP
b. IFRS > GAAP
c. IFRS = GAAP

Table (5) provides The Frequencies some data on comparing the change in the value of discretionary accruals before and after adopting the International Financial Report Standards (IFRS). We can see from the table that 77 firms have decreased the value of discretionary accruals after adopting IFRS. The table also shows that 43 companies have increased the value of discretionary accruals after adopting IFRS.

Through table (6), which provides the Test Statistics table, we can find out whether these changes, due to adopting IFRS, show that the value of Z was (-4.329) and that significant values are less than 0.05. This result confirms significant differences at 0.05 between the value of discretionary accruals using GAAP and IFRS.

Table (6): Test Statistics

	IFRS - GAAP
Z	-4.329-[b]
Asymp. Sig. (2-tailed)	.000

a. Wilcoxon Signed Ranks Test
b. Based on positive ranks.

Accordingly, the study found that there was a difference in earnings management practices because of the adoption of International Financial Reporting Standards (IFRS) for the preparation of the financial report. This confirms the validity of the study hypothesis.

H2-There are statistically significant differences between earnings management before and after the adoption of IFRS.

In addition, the results of the Wilcoxon Test confirm that 77 firms have reduced the value of the estimated benefits after their adoption (IFRS). While 43 firms increased, the value of the estimated receivables after their adoption (IFRS), the results means that adopting IFRS caused

a decrease in Discretionary Accruals because of the adoption of International Financial Reporting Standards.
This confirms the fault of the hypothesis of the study. Therefore, we reject the hypothesis of the study.
H3- IFRS adopting leads to increased earnings management practices in Saudi Stock Exchange Firms.
We accept the null hypothesis.
- IFRS adopting leads to a reduction in earnings management practices in Saudi Stock Exchange Firms.

Contributions and conclusions

This study sought to determine the earnings management practices on the Saudi Stock Exchange and the impact of adopting International Financial Reporting Standards (IFRS) on these practices, as well as research on the role of the IFRS certification process in reducing earnings management practices.

According to the findings of the study, there are indications of earnings management practices in firms listed on the Saudi Stock Exchange. According to Healy (1985), managers allow earnings as long as they are able to grow in a way that achieves the desired compensation. If earnings growth stops, so that earnings are no longer able to grow to achieve the desired reward ratio, executives make accounting decisions to manipulate policies and figures to manage the earnings figure to return to strong earnings growth. Until when looking at earnings in Saudi companies, we find that the consolidated earnings in 2013 amounted to SR 2350 million, and in 2014 they reached SR 3041 million, with a growth rate of 29.4%. The changes in 2015, when the growth rate decreased by 23.8%, and then the earnings returned with a very large growth rate (18.9%) in 2018. A significant change in earnings growth is a sign of earnings management practices (Annual Reports 2014-2015-2016-2017-2018-2019-2020-Capital Market Authority).

The study also found that there is a difference in earnings management practices due to the adoption of IFRS; this result is consistent with the findings of several studies (Barth et al. 2008; Chen et al. 2010; Ahmed et al. 2013; Ferentinou and Anagnostopoulou. 2016; and Sohn. 2016). Nurunnabi (2019) found significant differences between Saudi GAAP and IFRS. Hasan's study (2019) concluded that Adoption of (IFRS) showed differences in total assets, net income and other elements in the financial statements.

The study found that there was a decline in earnings management practices due to the adoption of IFRS; this finding is consistent with findings (Barth et al. 2008 and Chen et al. 2010). This result attributed to several reasons, including:

The quality of business organization in the Saudi Stock Exchange means the existence of policies and regulations that allow business development (Gomber et al. 2018).
Regulators and supervisors (e.g., the Capital Market Authority) exert pressure on listed companies on the Saudi Stock Exchange to give real and fair reports. (Dechow et al., 2000; Klein, 2002).
-The existence of mandatory corporate governance systems on the Saudi Stock Exchange that provide protection for investors. Ding and et al. (2007).
-Provide oversight mechanisms at the corporate level through the Board of Directors and its committees. Beasley (1996).

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