

University Of Bahrain

**College of Business
Administration**



Department of Accounting

**Ownership Structure and Audit Quality:
Evidence from the GCC Countries**

**A Thesis Submitted in Partial Fulfillment of the Requirements for the
Master of Science Degree in Accounting**

Submitted by

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Supervised by

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Assistant Professor
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**Kingdom of Bahrain
May - 2023**



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Thesis Discussion Committee Decision

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Program: Masters in Accounting	
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The Discussion Committee met on 15-May-23 In Room S1B-242 & MS Teams. Upon discussing the student whose details are stated above in public, the discussion committee recommends the following:

The student is awarded a grade A in the thesis subject.

- ☐ Without making any changes to the thesis.
- ☒ After making the modifications attached with this decision.

Discussion Committee Members Approval:

Name

Signature

- | | | |
|-----------------------------------|---------------------|-----------------------------|
| 1. Dr. Salah Abdel-Hafeez Mostafa | (Advisor) | <i>Salah A. Haffez</i> |
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First of all, I would like to thank God for giving me strength, power and patience to take such a step to complete my academic career and finish all my requirements for graduation to obtain a Master of Science degree in accounting from the University of Bahrain, and I would like to thank all those who provided me with help and support for being an essential element to this success.

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Abstract

The main objective of the current study is to examine the relationship between the ownership structure and the audit quality in the GCC. The developing countries' corporate governance systems are witnessing weaknesses, which causes imbalanced relationship between external and internal mechanisms of their governance systems. With the existence of ownership concentration issue in the GCC countries, where the rights and values of minority shareholders might be expropriated, the audit quality association with ownership structure was examined to investigate the impact of each type of shareholders in the GCC on the audit quality. For this purpose, a sample was selected from the six countries of the Gulf Cooperation Council (Bahrain, KSA, Kuwait, Oman, Qatar and UAE), which includes all companies listed in the industrial sector, whereby all financial sector listed firms were excluded. The relationship of the current study was examined through three main statistical tests, these are descriptive statistics, Pearson correlation coefficient statistics, and the Multivariate analyses. The findings of the Multivariate analyses for model 1 show that only three independent variables have a significant positive association with the audit quality (family, government and foreign ownerships), while model 2 results reveal that only two independent variables were positively associated with the quality of auditing (financial institutional and government ownerships). The study indicates a need for future research through some recommendations. It recommends to focus on financial sector's listed firms as they are excluded in this study. It also recommends extending the period of the examination for more than six years to get more improved results. Besides, it is suggested for future research to consider other types of ownerships, and other measurements of audit quality for comparison purposes.

Keywords: *Audit quality, Concentrated Ownership, Shareholders, GCC Countries*

Declaration

Name: Zainab Jalal Abdulkarim Ebrahim

Student's ID number: 20123433

This thesis titled “**Ownership Structure and Audit Quality: Evidence from the GCC Countries**” is submitted to obtain a Master of Science Degree in Accounting from University of Bahrain. This declaration is to clarify that this thesis is my original version of work, except for the citations, which are identified throughout the study.

Signature:

Date:

Dedication

To my parents, my family and
to everyone who supported me from the beginning until the end of the
journey

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List of Acronyms

Acronym	Full Name
GCC	Gulf Cooperation Council
IFRS	International Financial Reporting Standards
NASDAQ	National Association of Securities Dealers Automated Quotations
DFSA	Dubai Financial Service Authority
SOCPA	Saudi Organization for Chartered and Professional Accountants
PCAOB	Public Company Accounting Oversight Board
ISA	International Standards on Auditing
ADAA	Abu Dhabi Accountability Authority
FAA	Financial Audit Authority
SAI	State Audit Institution
FAD	Financial Audit Department
IFIAR	International Forum of Independent Audit Regulators
DIFC	Dubai International Financial Centre
KAAA	Kuwait Association of Accountants and Auditors
PA	Principal-Agent Theory
PP	Principal-Principal Theory
AQ	Audit Quality
SCA	Securities and Commodities Authority
ASB	Auditing Standards Board
AICPA	American Institute of Certified Public Accountants
GAAS	Generally Accepted Auditing Standards
GAAP	Generally Accepted Accounting Standards
SEC	Security Exchange Commission
DAC	Discretionary Accruals
UAE	United Arab Emirates
KSA	Kingdom of Saudi Arabia

Chapter One: Introduction to the Study

1.1 Introduction

1.2 Research problem

1.3 Research questions

1.4 Research objectives

1.5 Research importance

1.6 Research motivation

1.7 Research structure

1.8 Chapter summary

Chapter One

Introduction to the Study

1.1 Introduction

During the period between the late 1990s and early 2000s, numerous financial scandals were discovered which led to the bankruptcy of many companies and layoffs of many employees, as they have negatively impacted the economy in some countries. When the investigations were done, it was found and proved that the main reason behind such scandals was the collusion of the engaged audit firms.

According to Dodd (2022), in 2001, Arthur Andersen, which was one of the “Big 5” audit firms, had assisted Enron to hide its debts through avoiding reporting them in their statement of financial position. This had resulted in losing \$74 billion of shareholders’ wealth; besides, many employees lost their jobs. In addition, WorldCom’s CEO, had intentionally inflated the assets as well as revenues in 2002, through creating a fraudulent account to report fake transactions by capitalizing the operating expenses instead of expensing them. The scandal ended up with more than 30,000 individuals losing their jobs, in addition to the loss of over \$180 billion by shareholders (University of South Carolina, 2021).

Moreover, Satyam, an accounting firm, had manipulated revenues and cash balances in 2009 (Forbes, 2009). In 2018, KPMG auditors were strongly criticized due to the failure of disclosing the reality of Carillion, a construction company, this resulted in making KPMG accountable to Parliament. During the same year, KPMG was fined £2.1 million for poor auditing to Ted Baker for the years 2013 and 2014 (Dodd, 2022).

According to (The Free Library, 2014), the Interior Ministry of United Arab Emirates had reported 16,175 fraud cases in 1997. In 1999, a banking fraud in amount of \$360 million by an expatriate businessman led to enforcement of new banking law, maintain international accounting standards, increase the bank capital.

The most recent fraudulent behavior was conducted in Abu Dhabi, by Granite Construction company in August 2022, which inflated its earnings from a project without recording the costs of it. The company was fined as well by \$12 million for such fraud (Dodd, 2022).

David Dunckley, the head of Grant Thornton – an international audit firm – had raised a question concerning who should bear the responsibility for such financial scandals' occurrence. He stated that the auditors are not the only blamed party here, because even if the auditors did their best to detect any fraud, it is the firms' responsibility at the first place to prevent such behavior from being carried out, this could happen through implementation of the best corporate governance practices and procedures (Dodd, 2022).

As a conclusion, the most important factors for carrying out fraud and deceive shareholders are the weaknesses in firms' governance systems and the independence issues of the external auditors, which in turn would threaten the quality of the audit. In fact, the corporate governance mechanisms are divided into two types which are internal and external. According to (Payne and Moore, 2022), the previous research is mostly focusing on the internal mechanisms of governance such as ownership structure, board characteristics, rewards, and incentives of the management, etc., while the external mechanisms are just as important. Such mechanisms are resulting from the external environment of the corporation to

strengthen the governance systems and practices such as external auditors, legal or political representatives, competitors, etc. (Payne and Moore, 2022).

(Tipurić, Tušek, and Filipović, 2009) are stating that good corporate governance systems rely heavily on a well balanced relationship between the external and internal supervisory mechanisms, specifically, the board structure as a supervisory internal mechanism, and the external auditing as a supervisory external mechanism. They are insisting that these mechanisms are very critical for the development of any governance system. The role of the board of directors is to connect the shareholders with the management of the firms, where the shareholders elect and select the members of the board to oversee the management's operations (Tipurić, Tušek, and Filipović, 2009). However, by looking into this relationship from another angle, a further issue should be taken into consideration. The existence of controlling shareholders might lead to bias selection of board members, which is based on achieving personal benefits, with less or no regard to the rights and benefits of the other minor owners. This is what is referred to (ownership concentration), another internal corporate governance mechanism.

Given the fact that shareholders are subjected to weak protection in the developing countries, the ownership concentration is a corporate governance element which provides major shareholders with greater power (Vishny and Shleifer, 1997), and it is an interesting subject to be studied in both developing as well as developed countries. Thus, it is important to define the concept of concentrated ownership, which is the case in which a small number of owners are owning most of the shares (Ehsan, 2014). In other words, it is one of the mechanisms of the governance system by which the major shareholders are controlling and influencing the management of the company to act according to their own interests, at the expense of the minor shareholders' owners (Madhani, 2019).

This explains another pole of the agency theory, which transfers the dispute between the management and the shareholder to be between the shareholders themselves, as controlling shareholders would seek expropriation of the minority shareholders' rights to achieve their own goals and objectives. This is what the (Principal-Principal Theory) – a branch of the agency theory – explains. Herein lies the importance of having an effective corporate governance system, which would facilitate the process of resolving disputes between majority and minority owners (Madhani, 2019).

Since the independent auditors are the monitoring tool utilized by the shareholders, that enhance their confidence with the firms' financial statements (Alhababsah, 2019), the study in hand aims at investigating the association between two mechanisms of corporate governance in Gulf Cooperation Council¹ (GCC) countries, which are the quality of external auditing as external mechanism and ownership structure as internal mechanism, with taking into consideration the ownership concentration, and highlighting the various types of corporate ownerships because different types of owners would have different views of business, investment strategies and incentives which influencing the way they exercise their controlling rights (Aguilera and Jackson, 2003) and (Lim, How, and Verhoeven, 2014). The examination of the current study applies to the industrial sector of the listed firms in GCC countries.

The reason behind choosing firms of the industrial sector with excluding the financial sector companies is to control the study and to attempt to get more comparable and reliable results, as the financial sector firms are subjected to specific laws imposed by their central banks. Whereas the selection of the GCC countries refers to the scarcity of similar research in such region, so the current

¹ The Gulf Cooperating Council comprises from six countries: Kingdom of Bahrain, Kingdom of Saudi Arabia (KSA), Kuwait, Oman, Qatar, and United Arab Emirates (UAE).

study is an addition to the few studies conducted on these countries which are related to ownership concentration as it examines five types of ownerships. In addition, the GCC countries' economies are characterized among the emerging economies which require examination of their audit quality in the presence of concentrated ownership issue.

1.2 Research problem

Developing countries are witnessing a decline in corporate governance systems compared to developed countries (Alhababsah, 2019). Considering that the GCC countries are classified among the emerging economies, their governance systems still subjecting to improvement, which indicates a possible imbalance in the relationship between internal and external governance mechanisms. To the best of the researcher knowledge, there is a scarceness in studies that dealt with the different types of concentrated ownership (as an internal mechanism) and the quality of external auditing (as an external mechanism) in the GCC countries. In the presence of governance systems that need to be developed, it is important, according to the researcher, to investigate the relationship between concentrated ownership and the quality of external auditing in the six GCC countries. Accordingly, current research tries to investigate such associations.

1.3 Research questions

Referring to the problem of the current research, the researcher will answer the following main question:

- Does the ownership structure impact the audit quality in the listed firms in GCC countries?

In addition, the research will answer the following five questions to solve the research problem:

- Is there any association between family ownership and audit quality?
- Is there any association between financial institutional ownership and audit quality?
- Is there any association between government ownership and audit quality?
- Is there any association between foreign ownership and audit quality?
- Is there any association between non-financial institutional ownership and audit quality?

1.4 Research objectives

The main objective of this research is to examine the association between audit quality and ownership structure in the listed companies of the GCC countries, and how the different types of concentrated ownerships are affecting the audit quality as an external mechanism of corporate governance. This is through measuring the variables of the study by applying two regression models to investigate the association, i.e., audit quality, the dependent variable, will be measured by two proxies, audit firm size and financial reporting quality. While the five types of concentrated ownerships, the independent variables, (family, financial institutions, government, foreign and non-financial institutions ownerships) will be measured by the percentage of ownership. These general objectives could be achieved through conducting the following examinations:

- To examine the relationship between family ownership and audit quality.
- To examine the relationship between financial institutional ownership and audit quality.
- To examine the relationship between government ownership and audit quality.
- To examine the relationship between association between concentrated foreign ownership and audit quality.
- To examine the relationship between non-financial institutional ownership and audit quality.

1.5 Research importance

The importance of this research lies in the fact that it deals with a topic that has been studied mostly in developed countries, while developing countries suffer from shortage of research in similar area, which is the ownership concentration and audit quality (Alhababsah, 2019). In addition, most of the previous studies did not consider the different types of concentrated ownerships while some authors have strongly recommended to do so (Aguilera and Jackson, 2003) and (Lim, How, and Verhoeven, 2014). Moreover, studies dealing with corporate governance mostly focus on the internal mechanisms, while paying less attention to external mechanisms that are no less important (Tipurić, Tušek, and Filipović, 2009). As developing countries, the GCC countries lack such research, which makes these six countries neglected and unstudied. Therefore, the current study targets the GCC countries to study the several types of concentrated ownerships and their impact on the audit quality, which contributes to filling the gap in the accounting research.

This research is distinguished from other studies in that it reviews most of the diverse types of concentrated ownerships in the GCC, based on a selected sample from listed companies in the industrial sector of GCC stock markets. The study is conducted over a period of 6 years from 2015 to 2020, which brings the

total observations to 1124. In addition, the current study measures the quality of auditing in the GCC by using two different proxies, while most of the studies were depending on the commonly used proxy, which is the audit firm size. This research will use the audit firm size and the quality of financial reporting to measure the audit quality in GCC countries. Thus, to the best knowledge of the researcher, there are no similar studies in the GCC region.

The outcomes of the in-hand study are contributing to increase the awareness of regulatory bodies in GCC countries to work hard for further enhancement to the audit and accounting professions, through developing and forcing more regulations that would increase the quality of such careers. through discussing what it means by audit quality and how the various types of ownerships are affecting it.

1.6 Research motivation

The past years have witnessed many cases of financial scandals, one of the most important causes of which - according to the investigations - is the weakness of the companies' governance systems. If some of these cases have occurred in the developed countries, then what will be the case in the developing countries whose governance systems suffer from deficiencies? For instance, the GCC countries' commercial laws are generally insufficient and do not provide the required safeguards to protect shareholders from fraud and other misconduct (The Free Library, 2014). In addition, according to the Standard and Poor (S&P) Global Ratings² evaluation, it was demonstrated that the ownership concentration is an existing issue in the GCC, where many firms are being controlled by small number

² S&P Global Ratings: an organization based in the United States, it is a branch of the S&P Global that prepares financial research and analyses on stock, bonds and commodities.

of major shareholders who might expropriate the rights of other non-controlling owners, due to independence problems with the board members (Trade Arabia Business News Information, 2021). Moreover, another most important incentive for conducting this research is the significance of the external auditing process and its effective role in protecting the rights of shareholders, which makes the researcher shed light on the quality of auditing in the GCC.

1.7 Research structure

This research comprised from six chapters which are structured as follows:

Chapter one: Introduction to the Study

It is the first chapter of the research where the introduction is presented. The research problem is demonstrated in the next section, followed by the questions to be answered by the objectives of the study. Finally, the chapter presents the research's importance and motivations.

Chapter Two: Theoretical Framework of the Study

The second chapter is concerned with the theoretical framework of the research. It is started with a brief introduction about the chapter contents, followed by a detailed explanation about the research theoretical framework, then the chapter provides a background of the GCC countries' economies and corporate governance status, as well as how auditing and accounting professions are being regulated.

Chapter Three: Literature Review and Hypotheses Development

The third chapter starts with a brief introduction, then the next section presents a general overview about the relationship of the study. Further, it is discussing the testing hypotheses formulated for each independent variable of the research.

Chapter Four: Methods and Procedures

The chapter begins with an introduction discussing the contents of the study. Then the sampling information is presented, followed by the collection of the data. Moreover, the chapter provides explanations regarding the identification and measurement of all variables. Finally, the models of the research are demonstrated.

Chapter Five: The Statistical Analyses and the Results of the Study

The chapter begins with an introduction, then it presents three main statistical analyses which are: the descriptive statistics for all variables of the study, the Pearson correlation to identify any significant association between the variables, and the Multivariate analyses.

Chapter six: Conclusions and Implications of the Study

The last chapter presents the conclusion of the current study, the implications as well as the limitations. In addition, it provides recommendations for future research.

1.8 Chapter summary

This chapter is addressing the purpose of the study, which is to investigate whether the different types of controlling shareholders in the GCC countries' listed companies have a significant relationship with the audit quality. The chapter has also discussed the objectives of the research, the research problem, the study's significance and motivation, and the structure of it.

Chapter Two: Theoretical Framework of the Study

2.1 Introduction

2.2 Principle-Agent (PA) theory

2.2.1 Definition

2.2.2 Agency theory problem

2.3 Principal – Principal (PP) theory

2.3.1 Definition

2.3.2 Principal – Principal agency problems

2.4 Corporate governance in emerging economies

2.4.1 Corporate governance in GCC

2.4.2 General background of GCC countries, corporate governance codes, and auditing regulations

2.4.2.1 Bahrain

2.4.2.2 Kingdom of Saudi Arabia (KSA)

2.4.2.3 Kuwait

2.4.2.4 Oman

2.4.2.5 Qatar

2.4.2.6 United Arab Emirates (UAE)

2.5 Chapter summary

Where:

TAC_{it} = Total accruals for firm (i) in year (t)

TA_{it-1} = Logarithm of firm (i) total assets in year (t-1)

ΔREV_{it} = Change in revenues for firm (i) in year (t-1)

ΔREC_{it} = Change in receivables for firm (i) in year (t-1)

PPE_{it} = Property, plant and equipment for firm (i) in year (t)

ε_{it} = Error term for firm (i) in year (t)

$\alpha_{1,2,3}$ = Coefficients

4.4.2 Independent variables

Independent variables would be measured through defining the different types of concentrated ownership (family, financial institutions, government, foreign and non-financial institutions) and examining the percentage of outstanding shares held by the controlling shareholders in each category, i.e., if a shareholder owns a significant portion of the total shares of the firm, then he / she would be considered as a controlling owner. According to the previous research, a percentage of more than 5% would be considered as a concentrated ownership (Alhababsah, 2019; Zureigat, 2011; Khasharmeh and Joseph, 2017; and Nelson and Mohamed-Rusdi, 2015), hence, the owner would be classified as major shareholder. For further clarification, please refer to the following:

4.4.2.1 Family ownership (FAM)

To find the value of family ownership, the proportion of outstanding shares held by controlling family owners would be investigated. To do so, shareholders owning

more than 5% of total shares, holding similar family names, were considered as major shareholders.

4.4.2.2 Financial institutional ownership (FIN)

In order to measure it, a percentage greater than 5% of total outstanding shares held by financial institutions – these are banks, insurance companies and any fund providing institution – would be examined and reported.

4.4.2.3 Government ownership (GOV)

To find out shares held by governments in GCC, the researcher has considered all GCC states, their ministries, and any governmental organizations that control the majority of the outstanding shares of the firms as equivalent to concentrated governmental ownership. Thus, any government representative – as mentioned above – with a share portion $> 5\%$ is a controlling owner.

4.4.2.4 Foreign ownership (FOR)

Any company or individual that does not belong to the country under investigation is considered as a foreign owner. For instance: during examining the shareholders' data in KSA companies, any firm belongs to the rest five GCC countries (Bahrain, Qatar, UAE, Kuwait and Oman) or any other country around the world were considered as foreign firms. Accordingly, the outstanding shares held by such members will be reported as values to this variable if greater than 5%.

4.4.2.5 Non-financial institutional ownership (NONFIN)

This group of owners constitutes any type of local business firm other than financial institutions. In this case, any firm – as a shareholder – owns above 5% of total outstanding shares will be classified as a major shareholder.

4.4.3 Control variables

The models of the current study include four controlling variables, these are Firm Size (SIZE), Firm Leverage (LEV), Return on Assets (ROA) and Industry Type (INDUS). The purpose of having these variables is to control the relationship between the study's variables. i.e., these variables will control the impact of the explanatory variables over the dependent variable. The reason behind the selection of such proxies is to be in line with previous research.

4.4.3.1 Firm size (SIZE)

According to research conducted by DeFond, (1992) titled “*The Association Between Changes in Client Firm Agency Costs and Auditor Switching*” it was stated that the company's size is significantly associated with its choice of audit firm. Another study held by (Manry, Mock, and Turner, 2008) indicated that the association between client size and quality of audit is significant. Further, a positive relationship was found between firm size -as a controlling variable- and audit firm size as a result of an empirical research to investigate the effect of ownership structure on audit quality in Bahrain (Khasharmeh and Joseph, 2017).

On the other hand, it was proved that firm size is a significant element in predicting differences in the extent of financial disclosures among organizations

(Lang and Lundholm, 1993) and (Naser, 1998). According to (Soyemi and Olawale, 2019), large companies –due to their diverse and wide business– are in need to borrow funds more compared to small firms, consequently, they are requested to provide a considerable amount of financial disclosures to the financial institution as well as the public. This would help to predict a significant relationship between firm size and financial reporting quality (audit quality).

In this study, firm size would be measured by calculating the logarithm of total assets amount of each company in the sample. This measurement is inline with (Nan-yan and Jun-rui, 2008).

4.4.3.2 Firm leverage (LEV)

It was highlighted in a prior research that companies with higher debts are subject to higher audit fees due to the higher efforts, more audit works and time spent by the audit firms to achieve a comfort zone that the risk of audit is reduced, hence, material misstatements are mitigated which enhances the quality of financial reporting (Nelson and Mohamed-Rusdi, 2015). This can lead to the conclusion that higher audit fees, plus more hours of audit work are associated with higher audit quality. This argument supports the result found by Yatim, Kent, and Clarkson, (2006) which states that a significant relationship exists between client debt and audit fees –a proxy of audit quality–. Khasharmeh and Joseph, (2017) have found a positive association between firm leverage and quality of audit. Furthermore, a previous study by Nan-yan and Jun-rui, (2008) has indicated that firm leverage could impact on the type of audit opinion, hence, audit quality.

Although there are several ways to measure this variable, i.e., some research utilized total debt divided by total assets, another studies used the total liabilities

over the total assets formula. This research will use total debt to total assets which is consistent with (Yatim, Kent, and Clarkson, 2006) and (Khasharmeh and Joseph, 2017).

4.4.3.3 Return on assets (ROA)

ROA is a ratio interpreting the profitability of the company. (Guizani and Abdalkrim, 2020) have studied the relationship between the audit quality and ownership structure, they have used the audit fees as a proxy to measure the audit quality and demonstrated that ROA is significantly affecting the audit fees. While in recent research conducted by (Athavale, *et. al.*, 2022) to investigate the association between diversity of signing auditors and audit quality in China, it was found that a negative and significant relationship exists between ROA and audit quality that was measured using the auditors' opinion type. Consistent with previous research, this research will use the ROA as a controlling variable in both models.

4.4.3.4 Industry type (INDUS)

By referring to the study of (Guizani and Abdalkrim, 2020), it was proved that manufacturing firms are associated with higher audit quality as such firms are usually having more complicated transactions compared to service type companies, which indicates a positive relationship. It is worth to indicate that most of GCC listed companies that were included in the sample were classified as manufacturing firms, i.e., the total sample has 672 firm-year observations that were categorized as manufacturing (coded as 1) out of the total 1124 observations, while the service

companies will be coded as 0. Hence, this variable was added to the models of the research as controlling variable.

The summary of the definitions, measurements and expected results of the variables of the study is presented in Table 4.4 below.

Table 4.4: Details of the variables of the research

Variables	Abbreviation	Definitions and measurements
<u>Dependent variable:</u>		
Audit quality (AQ)		
Model (1) Audit Firm Size	AUSIZE	A dummy variable equals to (1) if the audit firm was from Big 4 audit companies and (0) otherwise.
Model (2) Financial Reporting Quality	FRQ	The quality of firm's financial information and note disclosures in its financial reports (measured through applying the modified Jones Model explained above).
<u>Independent variables:</u>		
Family Ownership	FAM	Percentage of concentrated family ownership if > 5%.
Financial Institutional Ownership	FIN	Percentage of concentrated financial institutions ownership if > 5%.
Government Ownership	GOV	Percentage of concentrated government ownership if > 5%.
Foreign Ownership	FOR	Percentage of concentrated foreign ownership if > 5%.
Non-Financial Institutional Ownership	NONFIN	Percentage of concentrated non-financial institutions ownership if > 5%
<u>Control variables:</u>		
Firm Size	SIZE	The logarithm of firm's total assets
Firm Leverage	LEV	Firm's total debts divided by its total assets
Return on Assets	ROA	Firm's total net income divided by its total assets
Industry Type	INDUS	Firm's industry type which equals to (1) if the firm was classified as manufacturing and (0) if it provides services

4.5 Models of the study

In order to reach the objective of the study of examining how the different types of concentrated ownerships are affecting the audit quality, this research has applied two models to interpret the mentioned relationship. The researcher has measured the dependent variable (AQ) by using two proxies as stated previously, one input measure and one output measure. In the first model, the audit quality was measured using the audit firm size as whether it is a Big 4 company or not, as it is commonly used by many researchers.

The second model is using the financial reporting quality to measure the audit quality in addition to the first one, as it is most likely to be applied on GCC firms due to the availability of the related data. Both models will have the same independent and control variables. Consequently, the following models' equations have been developed and would be ran in the Statistical Package for Social Sciences (SPSS) software to get the analytical results:

Model (1):

$$AUSIZE = \beta_0 + \beta_1 FAM_{i,t} + \beta_2 FIN_{i,t} + \beta_3 GOV_{i,t} + \beta_4 FOR_{i,t} + \beta_5 NONFIN_{i,t} + \beta_6 SIZE_{i,t} + \beta_7 LEV_{i,t} + \beta_8 ROA_{i,t} + \beta_9 INDUS_{i,t} + \varepsilon_i$$

Model (2):

$$FRQ = \beta_0 + \beta_1 FAM_{i,t} + \beta_2 FIN_{i,t} + \beta_3 GOV_{i,t} + \beta_4 FOR_{i,t} + \beta_5 NONFIN_{i,t} + \beta_6 SIZE_{i,t} + \beta_7 LEV_{i,t} + \beta_8 ROA_{i,t} + \beta_9 INDUS_{i,t} + \varepsilon_i$$

Where:

AUSIZE and FRQ are proxies for audit quality

β_0 is constant;

$\beta_{1,2,\dots,9}$ are the parameters; and

ε_i represents the error term.

4.6 Chapter summary

This research has used two models to test the developed hypotheses and satisfy the purpose of it. The dependent variable was measured by using two different proxies. The investigation comprised from a sample of 230 firms that are listed in GCCs' stock exchange, based on data collected for a period of six financial years starting from 2015 until 2020. The data was collected from several resources, but mainly from firms publicly published annual reports and the financial data database (Thomson Reuters). After all, the methods, variables' measurements, and definitions, as well as the established models of the study were all presented and discussed in this chapter.

Chapter Five: The Statistical Analyses and the Results of the Study

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Chapter Five

The Statistical Analyses and the Results of the Study

5.1 Introduction

After the data was collected, the total observations generated will be ran into the SPSS software to analyze the results of the research. This chapter will present the findings of three main statistical analyses for the 1124 observations of the GCC listed firms. These analyses are as follows:

Descriptive statistics that present the mean, minimum, maximum as well as the standard deviation for all of the variables of the study. Then the Pearson correlation will be discussed to interpret the associations between the dependent variable (representing the audit quality) and the independent variables (the ownership types). i.e., since the study uses two models, the analyses will show the association between the AUSIZE and the ownership structure on one hand, while on the other hand it will show the association between the FRQ and the ownership structure. After all, the chapter will discuss the multivariate regression analyses for the two models to discover how the five types of controlling shareholders are impacting the audit quality in GCC. In addition to the above-mentioned statistics, the tolerance and variance inflation factors (VIF) test will be implemented to examine any potential multicollinearity between the variables of the study. The test will also show the impact of the control variables in each model. In addition, the testing hypotheses of the current research will be discussed in accordance with the revealed results.

5.2 Descriptive statistics

Descriptive statistics will be divided into three sections showing the minimum, maximum, mean and the standard deviation of all variables. The first one will present the dependent variables, the second section is for the independent variables, while the control variables are represented by the third one.

5.2.1 Descriptive statistics of the dependent variables

Table 5.1 below shows the descriptive statistics of the dependent variable, the audit quality, which was measured by two proxies. The first one is the FRQ that used the modified Jones model by Dechow, Sloan, and Sweeney, (1995) to find the value of the DAC, while the second is the AUSIZE. On the one hand, the table shows that the firms of GCC countries are practicing earnings management by an average of 0.581. In addition, the standard deviation was found to be 0.493. Further, the results reveal that the minimum value of earnings management is -0.899, while the maximum value of earnings management is 0.793. These results indicate that the selected sample of GCC firms are tending to manipulate their earnings either by overestimating or underestimating them. In other words, the sample firms are increasing their earnings by around 79.3% and decreasing their earnings by around 89.9% which means that the audit quality in the GCC is affected by the quality of its financial reporting.

On the other hand, the table also presents that among the selected sample firms, 654 firms are being audited by a Big 4 audit firm, while only 470 firms are being audited by a small audit firm (non-Big 4). i.e., around 58.2% of the total

sample are choosing a Big 4 auditor to enhance the audit quality compared to 41.8% of the firms that chose a small audit firm.

Table 5.1: Descriptive statistics of the dependent variable

Variable	Abbreviation	Minimum	Maximum	Mean	Std. D.
Discretionary Accruals	DAC	-0.899	0.793	0.581	0.493
		Non-Big 4		Big 4	
Audit Firm Size	AUSIZE	470 (41.8%)		654 (58.2%)	

5.2.2 Descriptive statistics of the independent variables

The descriptive statistics of all independent variables are presented below in Table 5.2. The independent variables represent five types of ownership concentration which have been discussed in Table 4.4.

Family ownership is the first independent variable, and it refers to the major shareholders from the same family who hold more than 5% of the total shares. The results reveal that FAM has a mean of 0.057, this means that on average, around 5.70% of the selected companies are being controlled by families in the GCC countries. Moreover, the table shows that the maximum value of family owners is 0.85 while the minimum value is 0, and the standard deviation resulted is 0.149.

The second independent variable is the financial institutions' ownership. This type of shareholder is represented by banks, insurance companies and any other financial institution who owns more than 5% of the total shares of the company. In GCC, the mean of such ownership is 0.021 as per the results. That is, on average, 2.1% of ownerships belong to financial institutions. The standard deviation found is the lowest compared to other independent variables with a

0.084, which implies that this data is less spread out compared to other independent variables. Although the maximum value of FIN is 0.61, it still represents the smallest portion of ownerships in the selected sample from the GCC. Which means that the FIN is the least common type of concentrated ownership in the selected sample. The minimum value of FIN is 0.

The third independent variable is government ownership. This type of ownership is concentrated when any governmental body holds above 5% of the total shares of the firm. The table below shows that the average level of governmental concentrated ownership in the selected firms is 0.066, which is approximately 6.6%. Further, the results show that the maximum value of the concentrated GOV is 0.99 while the minimum value of the concentrated GOV is 0. The standard deviation of GOV is found to be 0.151.

The fourth independent variable is foreign ownership. This type of concentrated ownership takes place when any foreign body (holds foreign nationality) owns more than 5% of the total shares of the company. The statistics show that the mean of the concentrated FOR is 0.365 which implies that on average, around 36.5% of ownerships is concentrated by foreign shareholders in the GCC selected sample. The standard deviation of FOR is the highest compared to other independent variables at 2.030, which means that the data is more spread out compared to other independent variables. In other words, this result implies that the concentrated FOR is the most common type of concentrated ownerships in the GCC selected sample. Moreover, the maximum value of concentrated FOR is 1, which means that one or more companies are 100% controlled by non-financial institutional shareholders, while the minimum value of concentrated FOR is 0.

The last independent variable is the non-financial institutions ownership. This type of concentrated ownership occurs when any local business – other than

financial institutions – owns greater than 5% of the total shares of the company. According to the results, the mean of the concentrated NONFIN is 0.408. This result indicates that on average, approximately 40.8% of ownerships are concentrated by NONFIN owners. The standard deviation of NONFIN is 0.363. The minimum value of concentrated NONFIN is 0, while the maximum value of the concentrated NONFIN is 0.27.

Table 5.2: Descriptive statistics of the independent variables

Variable	Abbreviation	Minimum	Maximum	Mean	Std. D.
Family Ownership	FAM	0.000	0.85	0.057	0.149
Financial Institutions ownership	FIN	0.000	0.61	0.021	0.084
Government Ownership	GOV	0.000	0.99	0.066	0.151
Foreign Ownership	FOR	0.000	1.00	0.365	2.030
Non-Financial Institution Ownership	NONFIN	0.000	0.96	0.408	0.363

5.2.3 Descriptive statistics of the control variables

The descriptive statistics of the control variables used in this study are presented in Table 5.3 below. These variables are firm size, firm leverage, return on assets and industry type. The first control variable is SIZE which has a mean of \$8.553 billion, and a standard deviation of \$0.805 billion. The minimum value of SIZE is \$6.39 million while the maximum value of SIZE is \$11.11 billion.

The second control variable is the firm leverage. The variable has an average of \$0.450 billion. In addition, the standard deviation as per the results is \$0.565 billion. The minimum amount of LEV is \$0.01 million which indicates that at least

one or more firms are having huge amounts of assets compared to small amounts of debts. The maximum value of LEV is \$7.46 billion.

The next control variable is the return on assets. The analyses show that ROA has a mean of \$0.034 million. It has a standard deviation of \$0.099 million. The minimum value of ROA is \$-0.50 million which implies that at least one or more firms are incurring losses on their assets, while the maximum amount of ROA is \$1.17 billion.

The last control variable is industry type. The total firm-year observations of 1124 were split into two types of industries, that is, service firms and manufacturing firms. The results reveal that 452 firms of the total firm-year observations are classified as service firms while 672 of them were categorized as manufacturing companies. i.e., around 40.2% of the total sample are providing services while 59.8% are producing products. This indicates that the most dominant industry type in the GCC countries is the production sector. These industries include the production of oil and gas, food and beverages, industrial conglomerates, construction materials, textiles and leather, iron and steel, chemicals, pharmaceuticals as well as power production.

Table 5.3: Descriptive statistics of the control variables

Variable	Abbreviation	Minimum	Maximum	Mean	Std. D.
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Firm Size	SIZE	6.39	11.11	8.553	0.805
Firm Leverage	LEV	0.01	7.46	0.450	0.565
Return on Assets	ROA	-0.50	1.17	0.034	0.099
		Services		Manufacturing	
Industry Type	INDUS	452 (40.2%)		672 (59.8%)	

5.3 Pearson correlation results

In this section, the association between the dependent variable, audit quality (AQ), independent variables (ownership types) and the control variables will be presented by the Pearson correlation. Since the current research is measuring the dependent variable by using two different proxies (2 models), the Pearson correlation was applied for the two models to investigate the significant associations between the dependent variable in each model, and other variables of the study.

5.3.1 Pearson correlation results (model 1)

In model 1, the AQ was measured by the audit firm size (AUSIZE). Hence, the below table (Table 5.4) presents the significant associations between the AUSIZE and some independent and control variables. For instance, the results show a significant association between AUSIZE and the following independent variables (FIN, FOR, and NONFIN).

Table 5.4 shows that there is a significant weak positive correlation (0.075) between the dependent variable, AUSIZE, and the independent variable, FIN. Which implies that the FIN is negatively associated with the audit quality which supports the view stating that the existence of major financial institutions as shareholders, will lead them to seek own benefits which make the high audit quality to be less requested.

The Pearson correlation results reveal that there is a significant moderate negative association (-0.307) between the dependent variable, AUsIZE, and the independent variable, FOR. This means that the concentrated foreign ownership is positively associated with the audit quality. This supports the view stating that companies are seeking high audit quality by appointing one of the Big 4 audit firms when major foreign shareholders existed.

In addition, the results show that there is a significant weak positive correlation (0.090) between the dependent variable, AUsIZE, and the independent variable, NONFIN. Which implies that the concentrated non-financial institutional ownership is negatively associated with the AQ. This result is in line with the view that the existence of major non-financial institutional shareholders will reduce the audit quality as they will seek achieving their own goals, benefits and strategies by investing in another firm, and this might require them to not consider the audit quality.

Regarding the control variables, the Pearson correlation analyses reveal that there are some significant associations between the dependent variable, AUsIZE, and some control variables. For instance, the table below shows a significant correlation between AUsIZE and two control variables which are firm size (SIZE) and return on assets (ROA).

Table 5.4 indicates a significant positive below the moderate correlation (0.258) between the dependent variable, AUsIZE and the control variable, SIZE. Which implies that the firm size is negatively associated with the audit quality, which is against the view that the greater the size of the firm, the higher audit quality would be. Similarly, the results show a significant positive weak correlation between AUsIZE and the ROA at (0.124). Which means that the ROA is

negatively associated with the AQ. This is in line with the view stating that the higher the profitability of the firm, the lower the audit quality would be demanded.

In contrast to the preceding, the Pearson correlation reveals that there is a very weak insignificant association between the dependent variable AUsIZE and the independent variables FAM (-0.023) and GOV (0.058). It also shows a very weak insignificant association between the dependent variable, AUsIZE, and the control variables LEV (0.009) and INDUS (0.015)

To sum up, Table 5.4 shows that the dependent variable, AUsIZE, is significantly associated with different values with only three independent variables out of five namely, FIN, FOR, and NONFIN. These variables indicate a negative association against the predictions, except for the FOR which shows a positive sign of association.

In the current Pearson correlation, some significant below the moderate associations were found between the independent variables. According to Table 5.4, the independent variable, FOR, has negative significant associations with other independent variables, FAM and GOV with (-0.223) and (-0.248) respectively. Further, the results reveal a moderate positive significant correlation between the independent variable, FAM, and the control variable, LEV with (0.286). These values indicate that there is no multicollinearity between the variables of the study, as the correlation values were below (0.7).

Table 5.4: Pearson correlation analysis (model 1)

	AUSIZE	FAM	FIN	GOV	FOR	NONFIN	SIZE	LEV	ROA	INDUS
AUSIZE	1									
FAM	-0.023	1								
FIN	0.075*	-0.072*	1							
GOV	0.058	-0.152**	0.017	1						
FOR	-0.307**	-0.223**	-0.130**	-0.248**	1					
NONFIN	0.090**	-0.053	-0.036	-0.048	-0.012	1				
SIZE	0.258**	-.0103**	0.062*	0.169**	-0.001	-0.009	1			
LEV	0.009	0.286**	0.019	-0.047	-0.050	0.009	0.029	1		
ROA	0.124**	0.066*	-0.025	0.078**	-0.056	-0.048	0.094**	-0.066*	1	
INDUS	0.015	-0.069*	0.095**	0.051	-0.038	-0.089**	0.143**	-0.155**	0.049	1

* Correlation is significant at the 0.05 level (2-tailed); ** Correlation is significant at the 0.01 level (2-tailed)

Notes: 1- Significant correlations are presented in bold;

2- Dependent, independent and control variables are defined in Table 4.4;

3- Pearson correlation was performed for all variables;

4- All coefficients are based on 1124 observations for the years (2015-2020).

5.3.2 Pearson correlation results (model 2)

In model 2, the AQ was measured by the financial reporting quality (FRQ) which was in turn, measured by the discretionary accruals (DAC). The below table (Table 5.5) presents the significant associations between the DAC and some independent and control variables. For instance, the results show a significant association between DAC, the dependent variable, and one independent variable only, which is FIN. It also shows a significant association between the DAC and some control variables, these are SIZE and LEV.

Table 5.5 shows that there is a significant below the moderate negative correlation (-0.227) between the dependent variable, DAC, and the independent variable, FIN. Which implies that the FIN is positively associated with the audit quality. This supports the view stating that the more shares controlled by financial institutions, the greater amounts of disclosures will be. In other words, the existence of major financial institutional owners would result in lower earnings management practices and higher financial reporting quality, i.e., higher audit quality.

For the control variables, the Pearson correlation analyses indicate that there are some significant associations between the dependent variable, DAC, and some of the control variables. For further clarification, the table below (Table 5.5) shows a significant correlation between DAC and two control variables which are firm size (SIZE) and firm leverage (LEV).

Table 5.5 shows a significant positive weak correlation (0.077) between the dependent variable, DAC and the control variable, SIZE. Which implies that the firm's size is negatively associated with the audit quality. This is in line with the view stating that large firms will have lower audit quality. In other words, big size firms might have complex transactions, which will lead in some cases to misappropriate accounting. This might end up with low audit quality as the number

of financial disclosures might not be fair enough. Similarly, the results show a significant negative strong correlation between DAC and the LEV at (-0.656). This implies that the firm leverage is positively associated with the audit quality, and this supports the view stating that the higher the debts of the firm, the lower opportunity to manipulate earnings would be. i.e., firms with more debts might tend to maximize the amount of financial disclosures which in turn would increase the audit quality.

In contrast to the previous results, the Pearson correlation shows that there is a very weak insignificant association between the dependent variable, DAC and the independent variables FAM (0.016), GOV (-0.051), FOR (0.047) and NONFIN (0.008). It also shows a very weak insignificant association between the dependent variable, DAC, and the control variables ROA (-0.003) and INDUS (-0.034)

To sum up, Table 5.5 shows that the dependent variable, DAC, is significantly associated with only one independent variable out of the five, which is FIN. Financial institutional ownership indicates a positive association which is consistent with the current study's expectation.

Further, some significant below the moderate associations were found between the independent variables of the study. Referring to Table 5.5, the independent variable, FOR, has negative significant associations with other independent variables, FAM and GOV with (-0.213) and (-0.252) respectively. These values indicate that there is no multicollinearity between the variables of the study, as the correlation values were below (0.7).

Table 5.5: Pearson correlation analysis (model 2)

	DAC	FAM	FIN	GOV	FOR	NONFIN	SIZE	LEV	ROA	INDUS
DAC	1									
FAM	0.016	1								
FIN	-0.227**	-0.076*	1							
GOV	-0.051	-0.155**	0.034	1						
FOR	0.047	-0.213**	-0.142**	-0.252**	1					
NONFIN	0.008	-0.054	-0.037	-0.047	-0.013	1				
SIZE	0.077**	-0.100**	0.033	0.163**	-0.003	-0.007	1			
LEV	-0.656**	-0.012	0.181**	0.040	-0.038	-0.006	-0.071*	1		
ROA	-0.003	0.051	-0.006	0.047	-0.065*	-0.020	0.103**	0.007	1	
INDUS	-0.034	-0.080**	0.104**	0.057	-0.047	-0.087**	0.142**	0.027	0.048	1

* Correlation is significant at the 0.05 level (2-tailed); ** Correlation is significant at the 0.01 level (2-tailed)

Notes: 1- Significant correlations are presented in bold;

2- Dependent, independent and control variables are defined in Table 4.4;

3- Pearson correlation was performed for all variables;

4- All coefficients are based on 1124 observations for the years (2015-2020)

5.4 Tolerance and variance inflation factors

Although the preceding Pearson correlation for the two models has indicated that there is no multicollinearity between the variables of the research, a further test was performed to reveal any potential multicollinearity between all explanatory variables. Table 5.6 below shows the values of the Variance Inflation Factors (VIF) for all variables in the two models. For model 1, the minimum amount of the VIF is for the independent variable, NONFIN, which equals to 1.010, while the maximum amount is 1.808 for the control variable, INDUS. In addition, the table shows that the minimum amount of VIF in model 2 is for the independent variable FAM, which equals to 1.110, whereas the maximum amount of VIF is for the control variable SIZE, which is 1.538.

According to (Pallant, 2013), if the tolerance amounts were close to 0, there will be a higher probability of multicollinearity. Since the assessment indicates tolerance amounts greater than 0.5, and VIF values less than 2, no multicollinearity exists between the variables of the study.

Table 5.6: Tolerance and variance inflation factors

	Model 1			Model 2		
	B	Tolerance	VIF	B	Tolerance	VIF
(Constant)	-0.553			-0.082		
FAM	-0.299	0.891	1.122	-0.013	0.901	1.110
FIN	0.104	0.965	1.036	-0.035	0.899	1.112
GOV	-0.280	0.886	1.129	-0.027	0.761	1.314
FOR	-0.463	0.846	1.182	-0.001	0.830	1.205
NONFIN	0.020	0.990	1.010	0.000	0.811	1.233
SIZE	0.158	0.789	1.267	0.001	0.650	1.538
LEV	0.005	0.635	1.575	0.004	0.771	1.297
ROA	0.498	0.601	1.664	0.541	0.732	1.366
INDUS	-0.036	0.553	1.808	0.001	0.691	1.447

ownerships. Based on the previous literature arguments and conclusions, five testing hypotheses were developed to examine the relationship between the audit quality and each type of above-mentioned ownership.

Chapter Four: Methods and Procedures

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Chapter Four

Methods and Procedures

4.1 Introduction

This chapter presents the research design constructed to examine the relationship between audit quality and ownership structure –represented in five different types of ownerships– in all GCC countries. To do so, an evidence obtained through applying two regression models to investigate the association between the variables of the research which are: Audit Quality (AQ) as a dependent variable measured by audit firm size and financial reporting quality using the discretionary accruals, the five types of shareholders indicated earlier as independent variables, as well as four controlling variables, that are Firm Size (SIZE), Firm Leverage (LEV), Return on Assets (ROA) and Industry Type (INDUS). Furthermore, the chapter addresses all the details regarding the selected sample of the study, as it also presents an informative background concerning the audit quality definitions and measurements.

4.2 Sampling of the study

The aim of the current study is to find out how different types of shareholders could influence the quality of external auditing. For this purpose, the six countries of the GCC were selected to conduct the above-mentioned investigation, and the types of concentrated ownerships were examined and analyzed in each country to find out the impact of each shareholder's classification on the auditing process quality.

In order to study the relationship, a total sample consisting of 230 companies from the industrial sector of all the GCC countries was selected, while banks, financial institutions and insurance companies listed within the financial sector were excluded. This choice is because such firms are subjected to some special laws imposed on them by the central banks of each country, in addition, the researcher aimed at obtaining more relative results through managing the sample of the study.

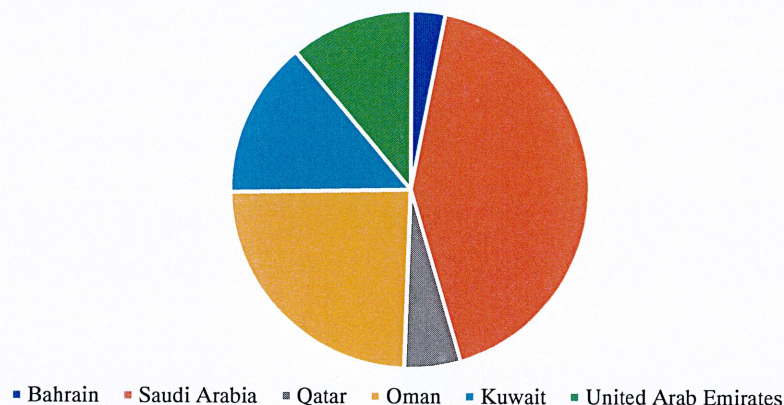
The selected sample comprises from 7 companies that were listed in Bahrain Bourse, Tadawul by KSA has 85 firms which is considered as the largest share of the sample, in addition to 40 companies listed in Kuwait Stock Exchange, where in Oman - Muscat Stock Exchange – there were 53 listed firms. This is in addition to 12 firms that were listed by Qatar Stock Exchange, and finally, UAE Stock Exchange that has a total of 33 listed companies. The relationship has been studied over six financial years extending from 2015 to 2020 which brings the total observations to 1380. The purpose of choosing this time span is to use the most recent data to ensure its validity. It is worth mentioning that the researcher did not include the data related to the financial year 2021 as most of the selected companies did not publish their annual financial results at the time of data collection.

Once the data were completely collected, the total observations were reduced to 1124, this is because some companies did not publish their annual reports related to the old financial years, or even some of them tend to publish the latest financial report only. The collected sample details of the GCC countries are presented in Table 4.1 below:

Table 4.1: Details of the selected sample of the GCC listed companies

Country	Number of listed firms	Number of all companies	%	Number of observations before exclusion	%	Number of excluded observations	%	Number of observations after exclusion	%
Bahrain	43	7	3%	42	3%	6	2%	36	3%
KSA	223	85	37%	510	37%	39	15%	471	42%
Kuwait	163	40	17%	240	17%	76	30%	164	15%
Oman	111	53	23%	318	23%	50	20%	268	24%
Qatar	50	12	5%	72	5%	12	5%	60	5%
UAE	73	33	14%	198	14%	73	29%	125	11%
Total	663	230	100%	1380	100%	256	100%	1124	100%

Figure 4.1: Distribution of the sample based on the country



From Table 4.1 and Figure 4.1 above, it can be noted that KSA has the largest portion of the total sample, as it contributed by 42% of the total sample compared to Bahrain that has only 36 observations out of 1124 which represents 3% only of the total sample.

Table 4.2 below shows the distribution of the five types of concentrated ownerships among the GCC listed firms. It is presenting that the foreign concentrated ownership is the most common type of controlling shareholders in the GCC countries, as it shows that 702 of the firm-year observations are controlled mainly by foreigners, where 384 of which are Saudi Arabian firms. While the table

demonstrates that the least common type of controlling owners is the financial institutions, which equals to 84 firms only. Besides, the data shows that Bahrain and Qatar have no financial institutional controlling shareholders.

Furthermore, the country-wise ownership distribution indicates that Bahrain, Oman, and UAE listed firms are mostly controlled by non-financial institutional owners, while the listed firms in Kuwait are mainly controlled by foreign shareholders. Also, the table shows that the government and foreign ownerships are the most concentrated type of ownerships in Qatar.

Table 4.2: Details of concentrated ownership distribution among the GCC countries

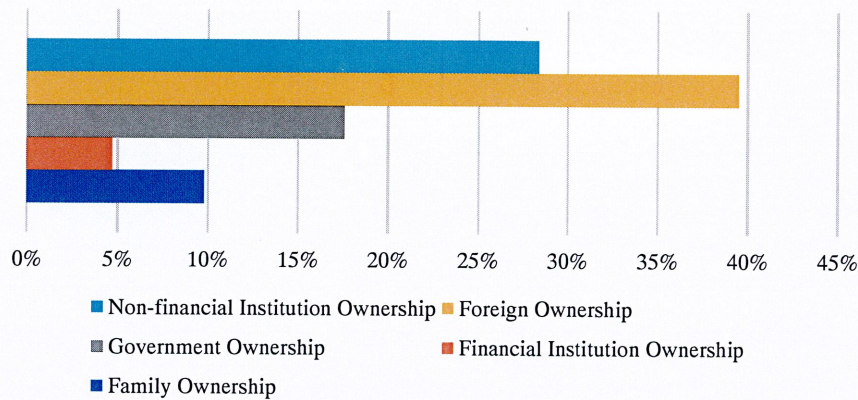
Country	Family Ownership	Financial Institution Ownership	Government Ownership	Foreign Ownership	Non-financial Institution Ownership	Total
Bahrain	6	-	-	24	30	60
KSA	66	36	102	384	102	690
Kuwait	24	6	12	96	90	228
Oman	54	24	126	144	186	534
Qatar	6	-	30	30	24	90
UAE	18	18	42	24	72	174
Total	174	84	312	702	504	1776

Figure 4.2 presents the percentages of the ownership distribution in the GCC countries. The concentrated foreign ownership is almost 40% among the selected sample, which is the highest portion in the figure. While the financial institutional ownership is only about 5%, which is the least portion in the sample.

It can be concluded from table 4.2 and figure 4.2 that the GCC countries are seeking to attract foreign investors to strengthen their economies through

expanding to international markets, which also might indicate that such countries would keep improving their governance systems to attract more foreigners.

Figure 4.2: Distribution of ownerships in the GCC countries



It has been observed that the industries in the industrial sector of the six countries diversify in each country. For instance, in Bahrain Stock Exchange, industries were classified into 6 groups, while Saudi Stock Exchange contributed to the sample by the largest number of industries which were divided into 25 groups. In addition, it has been observed that Kuwait, Muscat -Oman- Stock Exchanges have classified the listed companies within the industrial sectors into 16, 18 industrial groups respectively. While industrial companies in Qatar were classified into 6 groups by Qatar Stock Exchange. Finally, UAE has 12 industrial groups in the sample.

4.3 Data collection

It was previously mentioned that this research seeks to study the relationship between audit quality and concentrated ownership. Hence, the study has applied two models for such examination. In order to collect the required data, several resources were utilized. These are: annual reports of all selected companies that are published on their websites for the financial years from 2015 to 2020. In addition, the audited financial statements of each company were investigated to collect the data related to the empirical work of the study, in addition to the shareholders' data –if the needed data were disclosed–. Otherwise, the data related to shareholders was collected either from companies' websites, or other financial websites such as (Decypha.com) which is an online database for Middle East financial data. Further, the independent auditors' reports were examined to measure the dependent variable (AQ) through applying the first model of the study. Moreover, another database was utilized by the researcher to gather particular numeric financial data, which is Thomson Reuters Eikon, which can reduce the time that would be consumed in collecting the data compared to if it were collected manually. Finally, previous related studies were examined to investigate prior literatures that were already discussed throughout the research.

4.4 Measurement of variables

The study aims at examining the relationship between audit quality as a dependent variable, and ownership structure represented by the five types of owners, these are: family ownership, financial institutional ownership, government ownership, foreign ownership and non-financial institutional ownership which function as independent variables. The current research is measuring the audit quality by using two proxies which are audit firm size and financial reporting quality, which

indicates that the researcher has applied two models to get the results. The models include four control variables that are firm size, firm leverage, return on assets and industry type. The sections below present further discussion regarding each variable type.

4.4.1 Dependent variable

Audit quality (AQ)

The importance of the audit is reflected in the value added to the companies' financial reports, i.e., the higher the quality of the audit, the more confidence the investors have in the company's accounting numbers and the more accurate their decisions would be (Ussahawanitchakit and Sudsomboon, 2009). For this reason, the demand for financial reports of high audit quality is increasing by owners and investors, which indicates that the primary function of the auditing process is to ensure protection of shareholders' rights by providing financial facts and detecting any attempt to mislead them. This will only be achieved by making a greater effort on the part of the auditors to ensure a high audit quality (Al-Ajmi, 2009).

4.4.1.1 Definition and measurements

Many researchers have defined the concept of audit quality, including (DeAngelo, 1981) who defined it as the probability that the auditor could find accounting errors of the company and report them in the independent auditors' report. While (Bradshaw, Richardson, and Sloan, 2001) are indicating that the quality of the audit is defined as the financial auditor's willingness to disclose any manipulation or deliberate error by the company's management, especially if this error threatens its financial position. This is in addition to what (Baotham and Ussahawanitchakit,

2009) had mentioned in this regard, he expressed the term audit quality as the possibility of not issuing a clear audit opinion in the event of any serious accounting errors that would impact on the decisions of owners and investors negatively.

These definitions are paying more attention to the auditing process and the efforts of the auditors. However, there are other opinions regarding the mentioned definition, i.e., audit quality is not only limited to how the auditor works, but it also has a deeper view, which is related to the extent to which the investor could trust what the audit firm has disclosed in its reports which refers to the quality of financial reports. This could be concluded from what has been decided by the Auditing Standards Board¹⁶ (ASB) of the American Institute of Certified Public Accountants¹⁷ (AICPA), as the board has amended the auditing standards - Generally Accepted Auditing Standards (GAAS)- on December 15, 2001 to include 4 special “Standards of Reporting” which stipulated that the auditor must provide reasonable assurance that the financial statements were prepared according to the Generally Accepted Accounting Principles (GAAP) and are free from material misstatements (American Institute of Certified Public Accountants, 2001). Further, by referring to the Security Exchange Commission¹⁸ (SEC), it was stated that the audit quality is identified as how willing are the investors to depend on the financial statements of the companies.

Considering the definitions above, it can be understood that the concept revolves around the quality of financial reports and the efficiency of the audit

¹⁶ ASB: a senior committee appointed by the AICPA to provide auditing, assurance, and quality control standards as well as providing guidance for practicing and reporting on audit engagements. Obtained from AICPA website (<https://www.aicpa.org>).

¹⁷ AICPA: an American professional association of certified public accountants, which includes over 428,000 members in 130 countries. Obtained from AICPA website (<https://www.aicpa.org>).

¹⁸ SEC: an independent governmental agency of the US, that was established after the wall street crash in 1929. Its main objective is to enforce the law against market manipulation. Obtained from SEC website (<https://www.sec.gov>).

process itself, which makes the measurement of audit quality a subject of discussion. In fact, many researchers have studied the audit quality, however, they found no consensus or agreement on a specific proxy to measure it. Therefore, the researchers resorted to using several different measures, and this is due to what the researcher interprets as the meaning of the audit quality.

For further clarification, (Manry, Mock, and Turner, 2008) have decided to use the discretionary accruals as a proxy to measure the audit quality. Their choice is in line with what other researchers suggested, they have linked the audit quality with earnings quality, i.e., they are arguing that the existence of high earnings quality is a result of high audit quality. Hence, they used discretionary accruals through applying cross sectional modified Jones model to measure audit quality (Jones, 1991; Dechow, Sloan, and Sweeney, 1995; Kotharia, Leone, and Wasley, 2005; Defond, Erkens, and Zhang, 2014). In addition, Kneche and Vanstraelen (2007) are stating that the disclosure of the “Going Concern Issue” in the independent auditors’ report is considered as an indicator of the quality of the audit. Furthermore, Chen, Sun, and Wu (2010) have measured the quality of the audit through examining the type of auditor’s opinion regarding the company’s financial accounts (i.e., unqualified, qualified, adverse or disclaimer), while Li and Lin, (2005) have utilised the disclosure of non-audit fees in order to measure the quality of audit in their study “*The Relation between Earnings Management and Audit Quality*”.

4.4.1.2 Input and output measures of AQ

Furthermore, it was found that DeFond and Zhang (2014) had both classified audit quality measures into two main groups: input measures and output measures. These categories were also applied by (Knechel, *et. al.*, 2013). On the one hand,

the output measures are concerned with the results – outputs – of the auditing process such as the independent auditors' opinions, existence of going concern issues, or the quality of financial reporting of the unaudited financial statements. On the other hand, input measures are related to the inputs of the auditing process and they are divided into two main subgroups which are audit firm characteristics and auditor-client contracting features (Veerman and Benjamin, 2018).

(Abdullah, Ismail, and Jamaluddin, 2008) used the audit firm size as a proxy to measure the quality of audit which is the most popular type of proxies in accounting empirical research. This argument agrees with what was stated by other researchers (Francis, 2004; Behn, Choi, and Kang, 2008; DeAngelo, 1981; Chen, *et al.*, 2011). An earlier study conducted by (Francis and Wilson, 1988) who had interpreted the usage of audit firm size as a measure of audit quality, they have argued that big audit firms have their own brand names in the market, so it is a kind of motivation to keep their reputation protected through providing investors with high audit quality.

In consistency with the previous studies, the current research is using one input measure to determine the value of the audit quality which is the audit firm size. To measure the value of audit quality, the independent auditors' report will be investigated to indicate whether the company is being audited by one of the Big 4 audit firms. The value will be presented as a dummy variable, i.e., the value of audit quality will be 1 if the company is being audited by a Big 4 auditor, 0 otherwise.

In addition, the current research is also using one output measure of audit quality to investigate the association of the study, which is the quality of financial reporting (FRQ). The reason for this selection lies behind the logic that the higher number of financial disclosures, the more probability that the auditors will be able

to detect earnings management which increases the audit quality. This implies that financial reporting quality is a crucial part of audit quality (DeFond and Zhang, 2014). This proxy was used by several other studies to find the value of the audit quality. Examples are (Choi, *et al.*, 2010; Francis and Yu, 2009; Francis, Michas, and Seavey, 2011; Gunny and Zhang, 2013; and Lim, Ding, and Charoenwong, 2013). The most widely used method of measuring this proxy is to find the value of the discretionary accruals through applying modified Jones model by Dechow, Sloan, and Sweeney, (1995), (Veerman and Benjamin, 2018).

To apply the model, the total accruals (TAC) value comprises from two elements: the first element is the non-discretionary accruals (NDAC), while the other is the discretionary accruals (DAC). This is shown in (Equation 1) below:

$$TAC_{it} = NDAC_{it} + DAC_{it} \quad (\text{Equation 1})$$

The first step is to find the value of the TAC for a given firm (i) in a given year (t) by subtracting the cash flow from operations (OPCF) from the net income before extraordinary items (NETIN) as presented in (Equation 2).

$$TAC_{it} = NETIN_{it} - OPCF_{it} \quad (\text{Equation 2})$$

After computing the TAC, the next step is to determine the NDAC value by adding its components.

$$\frac{TAC_{it}}{TA_{it-1}} = \alpha_1 \frac{1}{TA_{it-1}} + \alpha_2 \frac{\Delta REV_{it} - \Delta REC_{it}}{TA_{it-1}} + \alpha_3 \frac{PPE_{it}}{TA_{it-1}} + \varepsilon_{it} \quad (\text{Equation 3})$$

Chapter Three: Literature Review and Hypotheses Development

3.1 Introduction

3.2 Audit quality and ownership structure

3.2.1 Audit quality and family ownership

3.2.2 Audit quality and financial institutional ownership

3.2.3 Audit quality and government ownership

3.2.4 Audit quality and foreign ownership

3.2.5 Audit quality and non-financial institutional ownership

3.3 Chapter summary

Chapter Three

Literature Review and Hypotheses Development

3.1 Introduction

Although ownership concentration was largely discussed in the previous studies as a corporate governance mechanism (Barroso, Ali, and Lesage, 2018; Habib and Jiang, 2015; Tee, *et al.*, 2017), the literature pays little consideration to the types of the shareholders (Alhababsah, 2019). The types of owners are highly recommended to be considered when studying ownership structure by Aguilera and Jackson (2003) and Lim, How, and Verhoeven, (2014). This is because of different strategic objectives of various types of owners may affect the behaviours of the management for the benefit of the controlling owners at the expense of minor shareholders, that is in turn, expected to have an impact on the external auditing quality (Desender, *et. al.*, 2013).

Such arguments have created the rationale behind studying the impact of ownership structure on the quality of auditing, especially in the GCC region, as (Al-Shammari, PhilipBrown, and Tarca, 2008) have argued that although the number of audit failures reported in the GCC is low, it is still cannot be considered as a positive sign to audit quality. In addition, it was claimed that the auditing and accounting professions are still under development (Aljaaidi, Abidin, and Hassan, 2021).

Accordingly, this chapter will discuss and present the previous studies regarding the ownership structure and the audit quality. For instance, the chapter will discuss the arguments of previous researchers and what was stated in their research regarding this association, as it will address the types of concentrated

ownerships that were investigated in the previous studies which were found to be in relation with the quality of auditing. This chapter will also present the various findings of previous researchers in this regard.

The most common types of concentrated ownerships that have been discussed and examined in the current research are family ownership, financial institutional ownership, government ownership, foreign ownership and non-financial institutional ownership which based on previous studies, have been concluded that they have either significant or insignificant associations with the audit quality. In addition, the chapter will address the research hypotheses for each type of the above-mentioned ownerships in order to conduct the intended examination.

3.2 Audit quality and ownership structure

Many researchers have addressed the issue of ownership concentration as a corporate governance mechanism. For instance, (Habib and Jiang, 2015) have studied the impacts of corporate governance facets on audit and financial reporting qualities in China regarding state control over Chinese listed companies. They have argued that firms owned by the government have lower qualities in terms of audit and financial reporting compared to other entities which refers to several reasons. Less effectiveness resulted from weak governance practices is the first reason, as the competition between companies controlled by the state is low. The second reason is reflected in the mandatory fragmentation of ownership into various levels, which causes the gap between interests of different classes of shareholders to become wider, which in turn would lead to more PP agency issues. Furthermore, (Bozec, 2007) had examined the association between corporate governance mechanisms and concentrated ownership for a sample from listed

firms in Canada's Toronto Stock Exchange. They have found that their results are in line with the expropriation hypothesis, which implies that controlling owners are having the motivation to keep inadequate internal controls to allow expropriation.

As it was stated earlier, many of the previous studies (Barroso, Ali, and Lesage, 2018; Habib and Jiang, 2015; Tee, *et al.*, 2017) are heavily focusing on the general concept of ownership concentration with less regard to identifying the types of the controlling shareholders. Although different types of owners have different objectives, plans, strategies, motivations and monitoring abilities. There is a scarcity of research regarding the types of concentrated ownerships in the GCC countries. Accordingly, the next sections will focus on presenting the types of ownerships in the GCC, along with the testing hypotheses that are relevant to the current study.

3.2.1 Audit quality and family ownership

Arguments concerning family ownership and audit quality have ended up with mixed results. Earlier research had not been able to determine if family owners raise or reduce agency expenses (Lim, How, and Verhoeven, 2014; Anderson and Reeb, 2003; Chrisman, Chua, and Litz, 2004). On one hand, and according to the alignment argument, family shareholders could contribute to reduce the cost of agency conflict. This argument proposes that the conflict between family owners and other owners is minimized as their interests are united (aligned). Accordingly, expropriation of other (non-family) shareholders' rights would be reduced (Chrisman, Chua, and Litz, 2004). As a result, Niskanen, Karjalainen, and Niskanen, (2010) and DeFond and Zhang, (2014) have argued that the demand for high audit quality would be reduced due to united interests. Ultimately, they found

that the audit quality is positively associated with the agency problem, i.e., the more conflicts between principals, the higher demand would be for audit quality.

On the other hand, a study was conducted by (Wang, 2006) to investigate the association between earnings quality and family ownership. The empirical test demonstrates that the existence of family owners is relevant with greater managerial opportunistic behaviors (earnings management). The study based on an argument stating that the higher level of family shareholding, the greater probability to expropriate the rights of non-family owners would be, as the family members are the ones who occupy the higher positions which enables them to impose control over the management. In this situation, a PP agency problem exists, thus, to safeguard the rights of minority shareholders and to alleviate this agency issue, a high audit quality is necessary.

In addition to the above, it is vital to consider the family reputation concept when studying family ownership. In this context, (Anderson and Reeb, 2003) have mentioned that the families' names and reputations are crucial to improve the firms' values and positions. i.e., when the company's name is tied up with the family's name (owners' names), the shareholders would seek a high firm reputation to avoid business failure as this would bring them shame. Thus, they tend to spend more in monitoring expenses to ensure high performance, such as audit cost. This is in line with what was argued by Alhababsah, (2019), who had conducted an empirical analysis considering different ownership structure types and audit quality in Jordan. The results were supportive to (Anderson and Reeb, 2003) arguments. i.e., they have found a significant positive association between family ownership and the audit quality. Unlike (Guizani and Abdalkrim, 2020; Niskanen, *et al.*, 2011; Darmadi, 2016; and Ho and Kang, 2013) who found a

significant negative association between the concentrated family ownership and the audit quality.

In fact, gulf countries' societies are strongly seeking to uphold the family name, where the principle of the family name and reputation prevails, which are closely linked to its success, especially in the business world. This research would go with Alhababsah, (2019) and Anderson and Reeb, (2003) assumptions, and would assume that GCC firms would seek protection to their reputation, hence, safeguard the family name through investing more in auditing costs. Which implies that there will be higher demand for high audit quality. Accordingly, the following hypothesis is formulated:

H1. *There is a significant positive association between family ownership and audit quality.*

3.2.2 Audit quality and financial institutional ownership

Many studies have agreed on the point stating that financial institutions are considered one of the most important types of shareholders –especially the banks–. However, opinions were divided between those who argue that the presence of banks as owners contributes to enhance the quality of auditing, while others see the opposite (Alhababsah, 2019).

(Abdullah, Ismail, and Jamaluddin, 2008) assumed that financial institutional owners have more influencing power compared to individual shareholders. According to (Warfield, Wild, and Wild, 1995), the more shares owned by financial institutions, the lower earnings management and the more earnings' disclosures. In addition, it was argued that the presence of financial institutional shareholders can contribute to decrease fraud probability (Sharma,

2004). (Chan, Lin, and Zhang, 2007) and (Kane and Velury, 2004) have examined the association between financial institutional ownership and audit quality using the audit firm size as a measure, they found that the higher number of shares owned by financial institutions, the more demand would be to ask for a high quality of auditing, thus, it is more likely that the audit would be conducted by one of the Big 4. This finding is in line with the previous studies of (Alhababsah, 2019; Barth, Caprio, and Levine, 2008; Coffee, 1991; Khasharmeh and Joseph, 2017; Elsayed and Wahba, 2013; Gillana and Starks, 2000; Alfraih, 2016; and Guizani and Abdalkrim, 2020) who found that the financial institutional ownership is positively associated with the audit quality.

Furthermore, financial institutional owners are assumed to have greater controlling power, better business experience and sources of funds when talking about financial type of institutional shareholders such as: commercial banks, mutual funds, pension funds, etc., therefore, it is more likely that firms would seek higher audit quality to ensure effective performance (Bushee, 2001; Vishny and Shleifer, 1997; Pound, 1988). While discussing the funding sources, it is worth to mention that banks are considered as special investor due to the reason that they can be a fund provider and owner at the same time, which reveals that they exert higher power on management so that if agency problem exists, and the agency costs were too high, the bank will refrain from lending to the owned firm. Thus, the management will strive to have high audit quality to enhance their monitoring process.

In contrast, because of the direct and close interaction between the bank –as a shareholder– and the firm, the managerial decisions of the company might be affected, and this would lead to poor investments which in turn would result in unfavorable firm performance. (Lin, Zhang, and Zhu, (2009) and Coffee, (1991))

have supported this argument by assuming that the bank might tend to prioritize its own advantage at the expense of the owned firm in case that the bank acts as an investor and a fund provider, where the interests between both parties would be in conflict. A clear example is when a bank provides a high interest loan to a company it owns, it is obvious to note that in this case the bank is considering its own benefit by seeking higher profits. Consequently, it is anticipated for the high quality of audit to be less requested by the financial institutions' shareholders (Alhababsah, 2019). Such arguments are supported by the result found by (Alshammari, 2014), as a significant negative impact was found for the financial institutional ownership on the quality of auditing.

Commercial banks are the most common type of financial institution in Gulf countries, and they are subject to rigorous rules and regulations so that they are operating under their central banks' supervision. Thus, it is fair to expect that GCC banks will require the investee firms to provide high level of integrity and assurance through having high audit quality as a monitoring tool. As a result, the second testing hypothesis is formulated as follows:

H2. *There is a significant positive association between financial institutional ownership and audit quality.*

3.2.3 Audit quality and government ownership

A governmental shareholder is a unique type of shareholder, as it represents the country, which implies that the firms are connected to regulators, rules and policies setters. In fact, governmental ownership is represented by everybody who acts and speaks in the name of the government. This study has considered the ministries and any governmental institution as a governmental owner.

A substantial amount of research has been conducted to study the effects of government-company relationships on company's performance in terms of financial reporting and external audit qualities (e.g., Liedong, Rajwani, and Azaaviele, 2015; Qian, Pan, and Yeung, 2011; Lux, Crook, and Woehr, 2011; Guedhami, Pittman, and Saffar, 2014; and Habib, *et al.*, 2018). A positive relationship has been found between firms connected to government and their performance in a study conducted by (Lux, Crook, and Woehr, 2011) who have applied the meta-analysis to examine the relationship. In a research prepared by (Chaney, Faccio, and Parsley, 2011), it was anticipated that due to the governmental ownership, firms would be strictly regulated and heavily controlled, thus the quality of accounting is classified as high, and because accounting, financial reporting and auditing are complementary topics, it goes without saying that high audit quality is expected too.

In addition, Guedhami, Pittman, and Saffar, (2014) have investigated the “*Auditor choice in politically connected firms*” and discovered that companies with government concentrated ownership tend to hire Big 4 audit firms to enhance their credibility and financial reporting quality. Such results are supported by (Alhababsah, 2019) as his research had revealed a significant positive association between government ownership and audit quality. The result is also consistent with (Nelson and Mohamed-Rusdi, 2015) and (Wahab, Zain, and James, 2011) While other studies have found no association existed between the concentrated governmental ownership and audit quality such as (Niemi, 2005).

Further, it was argued that government connected firms are less likely to encounter opportunistic managerial behavior as they are enjoying higher level of transparency when audited by Big 4 auditors. Moreover, (Khan, Mihret, and Muttakin, 2016) have select a sample comprising from non-financial Bangladeshi

listed companies to explore the association between state-company relationships and agency problem to assess whether the quality of external auditing could impact on such relationship. The empirical test reveals that connected companies in Bangladesh are suffering from high agency costs compared to their unconnected peers, thus high audit quality is highly demanded to mitigate the agency problem.

Conversely, government owners might be less motivated to invest in monitoring costs due to some political interests (Lim, How, and Verhoeven, 2014). Furthermore, in some cases, government representatives prefer ambiguity to cover or hide companies' failures, consequently, the probability of appointing auditor with a high quality would be minimized (Johnson and Mitton, 2003). This argument is in line with what has been found by (Ben-Nasr, Boubakri, and Cosset, 2015) who have pointed out that firms owned by government are associated with high discretionary accruals where fair earnings information are less likely to be available. This finding is consistent with (Chen and Al-Najjar, 2012) who found a significant negative association between the governmental ownership and the quality of auditing. These findings indicate that firms controlled by the state would have greater motivation to reduce financial reporting transparency, hence, decrease earnings quality in order to hide possible "tunneling" practices –which are activities of transferring corporate resources to controlling owners to harm other non-controlling minor shareholders (Johnson, *et. al.*, 2000)– to satisfy political interests if exists.

As it was demonstrated earlier in the current research, the six GCC countries are still seeking to develop their governance systems through imposing regulations and principles that specifies the rights and duties to safeguard the shareholders, and because they gave the shareholders great importance, they have emphasized on regulating the external auditing and accounting professions to ensure a high audit

quality that satisfies the owners' needs and requirements. Thus, the third testing hypothesis is formulated as follows:

H3. *There is a significant positive association between government ownership and audit quality.*

3.2.4 Audit quality and foreign ownership

Governments are seeking to attract foreign investors, who contribute to the strengthening and growth of their economy through providing capital to finance existing or new industries, which in turn would create business opportunities that would boost productivity. The presence of foreign shareholders is critical to the company itself because it enhances investors' confidence in the company's financial reports. This claim corresponds to what Jiang and Kim, (2004) mentioned during their research of foreign ownership in Japan, as they have stated that the company owned by foreigners is enjoying a high level of financial information transparency. Another study conducted by Zureigat, (2011) to investigate the impact of the ownership structure over the audit quality of the listed firms in Jordan using the audit firm size as a proxy to measure audit quality, the study indicates that companies tend to increase audit quality by appointing one of the Big 4 audit firms when foreign shareholders existed.

According to Niemi, (2005), foreign-owned companies are usually characterized by having complex transactions due to differing legal requirements related to financial information, thus, as the complexity increases, the auditors would make greater effort to minimize the probable opportunistic behavior by the management resulted from conflicted interests and to ensure safeguard to shareholders. Therefore, these companies are always seeking greater control over their management through hiring qualified audit firms to enhance the investors'

trust in their accounting numbers. Previous literatures have used the audit fees as a measurement of the quality of audit, and the results have indicated that audit fees tend to increase when the transactions are getting more complicated, i.e., when a foreign ownership is presence (Salleh, Stewart, and Manson, 2006; Abdullah, Ismail, and Jamaluddin, 2008; Zureigat, 2011; Goodwin-Stewart and Kent, 2006; and Nelson and Mohamed-Rusdi, 2015), in other words, their studies reveal that the concentrated foreign ownership is positively associated with the audit quality. This result is also consistent with (Alhababsah, 2019), (Khasharmeh and Joseph, 2017) and (Wahab, Zain, and James, 2011).

In contrast, Kim, Kang, and Jin-Mo, (2010) has stated that the existence of foreign owners might end up with greater agency problems. He supported his claim by citing several reasons. First, geographical distance, as the owners who are physically close to the company have access to information more comfortably compared to those who live far away, which results in information asymmetry issue. The second reason is the language factor, as it is –in some cases– affecting the communication process negatively and leads to information asymmetry problem.

Attracting foreign investments is considered as one of the top goals in any country to boost its economy, therefore, it is expected that governments would be concerned with developing the corporate governance systems and seek to urge companies to enhance financial disclosures in order to enhance investors' confidence. This is applicable to the GCC countries as the governments have enacted the necessary legislations to insure effective governance systems. In addition, the English language is a main subject to be studied from primary school and it is a major requirement to get a job as it is considered as the world language. Therefore, communication is getting more effective between countries and the

information asymmetry problem is expected to be controlled. Further, foreign shareholders from western countries are giving the corporate governance high attention, so it is expected that they would demand high audit quality. Consequently, the following research hypothesis is developed:

H4. *There is a significant positive association between foreign ownership and audit quality.*

3.2.5 Audit quality and non-financial institutional ownership

The non-financial institutions represent any business entity operating as manufacturer or/and services provider other than financial services. Since the financial institutions such as banks and insurance firms are operating under the supervision of its associated central bank, the manufacturing and service firms are subject to different regulations (Alhababsah, 2019). While the current study's scope is based in the GCC countries, then the companies in such industries are being regulated by their associated Ministry of Commerce in each country.

In fact, it was found that the previous studies that have investigated the topic of ownership structures did not pay much attention to this type of shareholder. In accordance with research conducted by (Alhababsah, 2019) considering ownership types in Jordan, the institutional ownership was classified into financial and non-financial, due to what was stated in this regard by Grossman and Hart (1986) who argued that non-financial companies are investing in other firms for several reasons, which are their intention to increase their income and to expand their business. Also, such firms might plan to control the firm they have invested in to get their business integrated. In addition, Dinga, Abdella, and Kormie, (2011) have stated that non-financial firms have an incentive to invest in other firms to

diversify their business as a strategy. Further, another research conducted by Alwshah, (2009) has raised a question regarding how well the non-financial institutions are exerting their monitoring authority. For example, in some cases the institutional shareholders' representatives are being selected based on personal or business relationship with the investee firm instead of appointing them for their experience (Alwshah, 2009). Accordingly, this might weaken the monitoring role of the non-financial institutional shareholders. However, in overall the institutional shareholders are expected to play better monitoring role than individuals as they have more experience (Alhababsah, 2019). With regard to the investigation conducted by Alhababsah, (2019) to examine the relationship between audit quality and ownership structure, it was concluded that no significant relationship existed between non-financial institutional ownership and the audit quality.

As stated above, since this area did not gain much attention from the previous literature, the current research will consider it as it was found that there is large portion of such shareholders in the GCC countries. Therefore, the following research hypothesis is developed:

H5. *There is a significant positive association between non-financial institutional owners and the audit quality.*

3.3 Chapter summary

This chapter has addressed the previous studies that are related to the current study's topic which is the audit quality and ownership structure. The audit quality acts as a dependent variable, while the various types of ownerships represent the independent variables. The chapter has discussed five selected ownerships that are family, financial institutional, government, foreign and non-financial institutional

2014). In other words, a country's economy is classified as an emerging, when it has some characteristics of a developed economy, and it is getting more involved with the international economy as it develops. Which means that an emerging economy is the route to turn out to be a developed economy. In order to categorize a country as having an emerging market, it should be characterized as fast growing, having high levels of productivity, open to international trading to attract local and foreign investors (Corporate Finance Institute, 2021).

2.4.1 Corporate governance in GCC³

This research highlights the relationship between the ownership structure and audit quality in GCC countries. From the explanation provided earlier regarding the emerging market economy, it could be said that GCC countries are considered as having emerging economies. According to an article that was published in Dubai by (Trade Arabia Business News Information, 2021) under the title “*Corporate governance in GCC ‘needs improvement’*”, the GCC firms are still falling beyond what is required by the S&P Global ratings. The article has explained the main causes for corporate governance problems of GCC countries' entities, it has addressed the independence of board of directors, ownership concentration and the risk of management weaknesses at the top of its list. From this standpoint, it is worth stating that the corporate governance systems in GCC countries are still struggling despite the developments they encountered during the past years.

Regarding the review conducted by the S&P Global Ratings about the efficiency and strengths of governance practices of GCC countries, it was indicated that the financial sector as well as the large non-financial firms have gained stronger ratings as they are facing increased regulatory oversight, control, and

³ All information is obtained from Trade Arabia Business News Information website (<https://www.tradearabia.com>)

transparency. Likewise, firms with state ownership tend to increase oversight of some fundamental governance practices.

Further, the S&P Global Ratings assessment has revealed that many GCC corporations are being controlled by concentrated ownership where the rights of shareholders with limited ownership are being expropriated. Such companies have board members with less independence from owners. In addition, the review signaled that such directors might be less experienced with a lower number of qualifications compared to directors with similar positions in other firms. Also, risk management was evaluated as weak in some sectors. All these weak points have contributed to the GCC corporate governance failures as stated by the S&P Global Ratings view. However, due to several levels of oversight and their greater connection with external financial markets, GCC banks usually have superior governance practices.

Although the economies of the GCC countries are passing through a stage of development and growth, a relative decline was experienced by the private sector as it is being controlled by family members who have successfully diversified their enterprises through engaging with growing industries. It was found that most GCC listed entities are being controlled by a small number of controlling shareholders – one or two as it was stated by the article.

The article had also confirmed that the issue of concentrated ownership is not exclusive to GCC countries. it was observed that most of the Swedish enterprises are being directed and controlled by their founding families despite having governance systems with better safeguards compared to GCC corporations. On the other hand, government ownership has contributed to mitigate the negative impact of concentrated ownership due to the heavy requirements of guarantees to

ensure safe business environment. Saudi Arabia and China are examples of countries where the government is an important owner of its listed companies.

In the context of what the article reported regarding the corporate governance failures, it had mentioned that the main causes of owner or agent fraud as well as financial reporting failings are represented in the below:

- Inadequate supervision over board members;
- Inadequate external monitoring procedures;
- Insufficient disclosures; and
- Lack of market regulation.

Moreover, it was stated that controlling owners could influence the independence and effectiveness of the directors. i.e., controlling shareholders might have the power to control critical organizational and managerial decisions such as appointment of board members, structure of board committees, and it could be extended to influence the organization's strategic decisions, and this is what the S&P Global Ratings agrees with. Ultimately, this would end up with a working environment that suffers from insufficient controls and regulations. Hence, the need for external monitoring and supervision functions such as external audits would be increasingly desired to ensure safeguards to other shareholders with minimal participation in organization's decisions. This implies that the calls for more regulatory laws and high audit quality would increase in order to mitigate the impact of the opportunistic behaviors of controlling shareholders.

Despite the existence of such problems in the corporate governance systems in the GCC, these countries were and still are actively seeking to improve their systems to guarantee the rights of all stakeholders, especially the shareholders. The GCC countries have paid a great attention to enact regulations that would safeguard the rights of all shareholders without exception, as they are focusing on

some of the main pillars that provide all owners with the necessary protection from any opportunistic behavior by the controlling owners or even by the management under their control. The efforts to develop the corporate governance systems, and to raise auditing and accounting qualities in GCC are presented below.

2.4.2 General background of GCC countries, corporate governance codes, and auditing regulations

On May 25, 1981, the six countries comprising from Bahrain, Kingdom of Saudi Arabia, Kuwait, Oman, Qatar and United Arab Emirates, agreed to establish the GCC, according to an agreement signed in the Kingdom of Saudi Arabia, specifically in Riyadh city. These countries have special relations and common factors, including: the Islamic religion, geographical space, political systems, and the Arabic language (Ministry of External Affairs, 2013). Given the economic situation in the GCC countries, it is worth saying that it has been classified as fast growing and prosperous. The main reason was the flourishing of the oil and gas industry from the year 2000 to 2019, as it witnessed a significant growth in the Nominal GDP annual rate by 8.91% in 2019 (it has increased from USD377.69 billion to USD1,659.88 billion) (Assad and Alshurideh, 2020).

With reference to an article prepared by Martini, *et al.*, (2016) regarding “*The Outlook for Arab Gulf Cooperation*”, it was claimed that the corporate society in the GCC comprised mainly from firms from various nationalities that are considered as branches of foreign corporations. It also includes locally established firms which are owned by families – in most cases –. However, the ownership of such companies is not restricted to the family members only, rather it is distributed among many different shareholders.

Despite the economic development that the GCC countries are going through, they are still among the developing countries whose governance system is considered below the international investors' required threshold (Swedan and Ahmed, 2019). Due to fact that foreign investors are not often present in the Gulf countries to closely observe how the company's operations are going, they rely heavily on the correctness and credibility of the financial information issued by it, which were audited by the independent external auditor. Here comes the role of the audit firm in enhancing the quality of its work to ensure that investors and all shareholders obtain accurate financial information to protect their rights. In fact, the Gulf countries have paid great attention to develop the quality of their auditing, by enacting specific laws and taking some necessary measures and procedures.

For example, the International Financial Reporting Standards (IFRS)⁴ is being applied by all GCC countries. According to the website of the IFRS organization, it was stated that the standard setters are monitoring the adoption and application of the IFRS accounting standards in 167 jurisdictions which include the six GCC countries. In Kuwait, the IFRS standards are required to be applied by all listed firms, financial institutions, and any other companies that are subjecting to the Kuwait Commercial Companies Laws. Also, all the companies listed on Dubai National Association of Securities Dealers Automated Quotations (NASDAQ), Dubai Financial Service Authority (DFSA) as well as Abu Dhabi Securities Exchange are required to comply with IFRS accounting standards, while listed firms on Dubai Financial Market (PJSC) are permitted to do so. In addition, Saudi Arabia listed firms are required to adopt and apply IFRS standards, this is applicable to the banks and insurance companies as well. Moreover, in Bahrain,

⁴ IFRS: A set of accounting rules that regulate the preparation of financial statements of public companies, to make them consistent, transparent, and easy to compare around the world (Investopedia, 2022).

Qatar, and Oman, the local public firms are obliged to comply with the IFRS standards, along with listed foreign companies⁵ (IFRS, 2022). Besides, the auditing procedures are regulated in each country by its concerned authority.

The below sections presenting an elaboration of the GCC's improvements in their governance systems to protect shareholders' rights, as well as the auditing and accounting regulations to enhance the quality of auditing and accounting professions:

2.4.2.1 Bahrain⁶

The government in Kingdom of Bahrain –represented in the Ministry of Industry, Commerce and Tourism– has issued the decree no. (19) in March 2018 for the purpose of establishing code of governance which aims at providing companies with the policies and procedures to offer them with the best and proper ways to run their business. For instance, the governance has been based on several basic pillars comprising from the following:

- Justice, which implies that the board of directors shall provide fair and equal treatment for all types of shareholders, employees as well as related parties regardless of personal interests.
- To ensure that the shareholders, investors and related parties receive fair, accurate and free from material misstatements information on time, and when required for the purpose of making decision.
- Accountability, which means that the management bears full responsibility for its decisions before the shareholders.

⁵ All information is obtained from International Financial Reporting Standards website (<https://www.ifrs.org>)

⁶ All information is obtained from the Ministry of Industry, Commerce and Tourism website (<https://www.moic.gov.bh>)

- Responsibility, which means that the management shall conduct its duties taking into account integrity, credibility, and work ethics without bias to any class of shareholders.

Bahrain paid great attention to auditing profession by forcing some regulations. According to the Ministry of Industry, Commerce and Tourism in Bahrain, the legislative decree no. (15) was issued concerning external auditors. It regulates the auditing procedures, auditors' duties and obligations in several chapters as follows:

chapters 2 and 3 discuss the auditors' registration conditions and procedures, chapter 4 presents the powers of concerned directorate which is responsible for maintaining auditors register and issuing as well as renewing registration certificates, handling the complaints against auditors and investigate violations attributed to them, and control the auditors' performance to ensure high quality and compliance with this law. Chapter 5 addresses the responsibilities and obligations of the auditors, on top of which is the auditors' commitment to accounting and auditing standards authorized in the kingdom as mentioned in Article (21), Article (20) has also clearly stated that auditors in Bahrain are obliged to abide to international auditing standards and principles, and to comply with integrity and honesty principles during auditing practice to show commitment with professional ethics which would contribute to enhance the quality of audit. While the disciplinary responsibilities of the auditors as well as the penalties are discussed in chapters 6 and 7 respectively.

2.4.2.2 Kingdom of Saudi Arabia (KSA)⁷

The Resolution Board of the Capital Market Authority of the Kingdom has amended the regulations text of corporate governance in 2017. It includes two chapters pertaining to the rights of shareholders, the most interesting part is that these chapters were highlighted at the top of regulations in the text, which gives the topic great importance.

The second part of the Saudi code is separated into two chapters concerning the rights of the shareholders. Chapter 1 is concerned with the general rights, while chapter 2 is for the rights related to the meetings of the general assembly. Each chapter is discussed in 6 Articles. For instance, Article 4 of the first chapter is related to “*Fair treatment of shareholders*” which focuses on shareholders’ rights protection through ensuring equality among them. This would occur through the board’s commitment not to take side with any shareholder, regardless of their share class. Article 5 is concerned with “*Rights related to shares*” which emphasizes on the laws that guarantee to shareholders exercising all rights associated to shares.

Article 6 is concerned with “*Shareholder access to information*”. It stipulates that all information provided to shareholders should be clear, complete, accurate, non-misleading and to be submitted in a timely manner, whenever requested. Further, the remaining articles (Articles 7, 8 and 9) concerning the general rights are related to “*Communicating with shareholders*”, “*Electing the board members*” and “*Distribution of dividends*” respectively.

⁷ All information is obtained from Kingdom of Saudi Arabia Capital Markets Authority website (<https://www.cma.gov.sa>)

KSA has its own professional organization to regulate auditing and accounting professions. The Saudi Organization for Chartered and Professional Accountants (SOCPA) was established in 1992 in Saudi Arabia according to royal decree, which stipulates that its operations must be monitored by the Ministry of Commerce. The organization's main objective is to develop, review, and approve accounting and auditing standards that are being followed by all companies (listed and unlisted) (Deloitte, n.d.).

In addition, SOCPA is responsible for keeping the audit quality intact through some taken procedures such as employing the quality controls to its performance; regulating the processes of accounting and auditing professions; providing training and qualifications to their accounting and auditing experts through conducting professional exams; and increasing the confidence of the community in the auditing and accounting professions. Also, the organization grants a license to practice the profession to all the 301 audit firms –which includes Big 4 audit firms as well—⁸.

2.4.2.3 Kuwait⁹

The Capital Markets Authority Board of Commissioners in Kuwait has handled a meeting on 19th June 2013 to discuss the regulations to be enforced concerning corporate governance. The conference ended up with issuance of 11 governance rules, each rule has its own principles bringing the number of principles to 32. It is worth mentioning that the board has created a separate rule concerning regulations of shareholders' rights. This is what the law stipulated regarding this matter:

⁸ All information is obtained from Saudi Organization for Chartered and Professional Accountants website (<https://www.socpa.org.sa>)

⁹ All information is obtained from Kuwait Capital Markets Authority website (<https://www.cma.gov.kw>)

- In order to ensure justice and equal treatment for all shareholders, the firm shall clearly define the general rights of owners without considering their classification.
- The firm must ensure constant inspection to guarantee accuracy and credibility of owners' information.
- The firm should seek to urge shareholders to contribute to its meetings.

On the other hand, Kuwait was concerned with auditing regulations. Kuwait Association of Accountants and Auditors (KAAA) was established in 1973 with respect to the decree law no. (5) to enhance the quality of accounting profession to keep public interest protected. The association is consisting of 180 members from 135 jurisdictions, their most important objective is to create, adopt and implement international standards to ensure high quality performance. It's major responsibilities involve providing development for accounting and auditing professions on a continuous basis under the control of the Ministry of Commerce and Industry, it is also obliged to coordinate with the examination committee to conduct professional exams for accountants and auditors to provide profession certification in addition to keep members register¹⁰.

2.4.2.4 Oman

The Capital Markets Authority in Sultanate of Oman has replaced the 2010 governance code with a new one that has been published in July 2015 which all listed companies are subjected to (Pice Waterhouse Coopers, 2016). The code was amended in 2016 by Oman Capital Market Authority, and it includes the rules and

¹⁰ All information is obtained from Kuwait Association of Accountants and Auditors website (<https://www.ifac.org>)

principles concerning the protection of shareholders' rights through stipulating several pillars comprising from the following:

“*Transparency*”, which is concerned with providing all information to all shareholders and investors in a timely manner without restrictions. “*Accountability*” which implies that the board members are accountable for all their actions and decisions before the shareholders. In addition, the code insists on “*Fairness*” when it comes to dealing with owners, which means that all shareholders should be treated equally with no regard to any personal interest. The last principle is “*Responsibility*”, which focuses on ethical concepts such as integrity, honesty and faithfulness of the company toward society. It also includes a separate principle (Twelfth Principal) named “External Auditor” to regulate the process of auditing that aims at protecting the firms' owners¹¹.

In addition, (Baatwah, Ahmed, and Salleh, 2014) have studied the audit quality in Oman, the investigation has concluded that the audit quality in Oman is gaining the regulators' consideration heavily. For instance, it was stipulated in Omani Commercial Companies Law 4/47 that all joint stock firms as well as companies with limited liability must hire an independent auditor on a yearly basis to provide assurance that their financial statements are prepared in accordance with IFRS and are free from material misstatements. The law has also stipulated the types of reports that shall be provided to the shareholders and investors, in addition to how and when these reports are to be provided.

Although Oman has no independent regulatory authority –like the SOCPA in KSA– to oversee the performance of the auditors, plus the fact that these regulations may fall behind many regulations that are of developed countries,

¹¹ All information is obtained from Oman Capital Markets Authority website (<https://www.cma.gov.om>)

however, many areas of auditing laws have been covered, compared to other developing countries where such regulations have not been addressed (Baatwah, Ahmed, and Salleh, 2014). Examples could include the following: requiring all audit firms operating in Oman to adopt and apply the International Standards on Auditing (ISA)¹²; the appointment of the audit firm should be done by the firm's board of directors as well as the shareholders in each year; the auditor must be changed after four consecutive financial years; preventing the auditor from providing any non-audit service, and in case of any, such services must be reviewed and approved by the firm's audit committee. As it was stated by (Baatwah, Ahmed, and Salleh, 2014), such regulations would enable the audit committee to monitor the performance of the external auditor and to evaluate the independence of the same.

2.4.2.5 Qatar¹³

Qatar Financial Markets Authority has also considered the importance of shareholders and investors relationships to companies, by highlighting shareholders' rights together with the management's duties, through issuing the code of governance for all companies listed on its stock market that regulates the way of conducting their business. The code has included a separate chapter in its text stipulating the articles related to shareholders' rights.

It is worth mentioning that the chapter has started with Article 29 that focuses on "*Shareholders equality in rights*". These rights include the right to obtain share on profits, receive fair and equal treatment by the firm's management,

¹² ISA: A set of professional standards and guidelines concerning auditors' responsibilities when providing audit opinion regarding the firm's financial information (FSB, 2015).

¹³ All information is obtained from Qatar Financial Markets Authority website (<https://www.qfma.org.qa>)

participate in board meetings and vote to decisions taken, get access to all information with no restriction, elect board members, access to ownership register and major transaction. Such rights shall contribute to protecting the rights of all owners. The remaining articles of the chapter (Articles 30 – 37) discuss the above rights separately in more detail.

Further, the audit firms' operations in Qatar are at the top priorities of the Qatari government, as they are responsible for the accuracy and credibility of the financial statements. Also, the audit firms in Qatar are seeking auditors with high skills in financial reporting, experience in the field, well knowledgeable, capable to report on the status of the financial position of the business and prepare the independent auditors' report. Besides the audit of financial statements services, the audit firms are providing other services to enhance the quality of accounting numbers, disclosures, procedures and controls, these consist of tax audit, cost efficiency audit, internal audit, company statutory audit, risk management, corporate governance audit, data quality and controls, business processing controls (Aviaan Accounting, 2021).

Qatar Financial Markets Authority has issued the “*Rules for External Auditors and Financial Evaluators of Listed Entities & Entities Subject to the Authority's Jurisdiction*” to regulate the auditors as well as the auditing process. It is worth mentioning here that the authority has allocated two articles (Articles 9 and 10) to demonstrate the obligations of the external auditor as well as all the entities subject to the authority's jurisdiction, respectively. For further clarification, the responsibility of auditors to comply with ISA comes at the top of the list. It also indicated that the auditor shall maintain confidentiality of information related to the company being audited, in addition to maintaining full independence by the audit firm and its accountants. The article has also mentioned that the auditor must

comply with preparation and implementation of internal controls, provide continuous training to its accountants to keep high professional conduct according to the latest international practices and standards.

2.4.2.6 United Arab Emirates (UAE)¹⁴

With regard to the amended code of corporate governance in UAE in 2020, the chairman of the Securities and Commodities Authority (SCA) had paid the shareholders' rights much attention to ensure their protection. The code is divided into several chapters discussing the regulations to be complied with by the firms' boards. Among those chapters, the code has addressed the "*Rights of shareholders and stakeholders*" in chapter 5 (Article 48). Article 48 presents the rights of the shareholders that are related to their eligibility to exercise their rights as owners. For instance, the article insists on the shareholders' rights to:

- Receive shares from the earnings to be allocated;
- Receive shares of company's assets in the event of liquidation;
- Attend the meetings of general assembly, contribute to debates, and to vote on decisions;
- Sell shares; and
- Review and inspect the firm's financial documents including statements, reports and records.

The chairman of the SCA has also stipulated the laws regarding "*The required controls to ensure shareholders' practice of their rights*" in (Article 49). Such controls include the provision of all necessary information to all shareholders to enable them practicing their rights, the provision of the opportunity to all shareholders to have effective participation in company's meetings, raise any

¹⁴ All information is obtained from Securities and Commodities Authority website (<https://www.sca.gov.ae>)

question related to the topics of the discussions, and to receive answers from the board or the auditor. Furthermore, the code has stipulated that any restriction imposed by the firm's management to prevent the shareholders from exercising their rights is prohibited. Such regulations could guarantee that the UAE government is spending great effort to provide shareholders with an environment of high protection standards.

For regulating auditing and accounting professions, UAE has assigned four audit regulatory agencies whose main role is to regulate the auditing process either in a direct or indirect way as follows:¹⁵

Three of them are under the control of the government like Abu Dhabi Accountability Authority (ADAA), the Financial Audit Authority (FAA) and State Audit Institution (SAI). While the Dubai Financial Services Authority (DFSA) is an independent regulatory body specialized in the private sector (Malagila, Bhavani, & Amponsah, 2020).

Each body has its own role and audit related regulations, it is worth to mention that the FAA was originally named as Financial Audit Department (FAD), it was changed to FAA in 2018, based on law no. (4) which was issued by His Highness Shaikh Mohammad Bin Rashid Al Maktoum –as stated by (Malagila, Bhavani, and Amponsah, 2020)–. The main responsibilities of the FAA include issuing laws and regulations that manage the preparation as well as the presentation of financial statements; providing review and audit services to unified financial statements; conducting investigations to find any incompliance with its regulations by companies under its control; providing audit and accounting proficiency to firms subject to its control.

¹⁵ All information is obtained from Abu Dhabi Accountability Authority website (<https://www.adaa.gov.ae>), from Financial Audit Authority website (<https://www.faa.gov.ae>) and from Dubai Financial Service Authority website (<https://www.dfsa.ae>)

ADAA is one of the International Forum of Independent Audit Regulators (IFIAR) members. The forum includes 54 jurisdictions with the purpose of boosting the audit quality throughout the world. The ADAA had clearly stated that conducting the audit processes based on the ISA to enhance the quality of auditing is its priority. The Authority's major objective is to improve the credibility, transparency and accountability principles for all governmental organizations in Abu Dhabi, whether these entities are domestic or international. With regard to auditing, the authority is mainly responsible for providing independent audit services for companies under their control, to ensure fair preparation and presentation of financial reporting, compliance with their policies, and to ensure audit quality for all firms subject to their regulations. Further, in order to improve the quality of audit, ADAA is conducting specific investigations to the audited financial statements, to ensure high audit quality work of the entity's external auditor, also to secure fair presentations of company's financial position.

In addition, the SAI was created in consequence to the issued federal law no. (7) in 1976. It represents the UAE government auditor who is mainly accountable for examining the accounts of all governmental institutions to safeguard public funds, improve corporate governance systems, boost the transparency and accountability, and to discover any fraud in such institutions.

Finally, DFSA is an independent regulatory body that is responsible for regulating the financial services in Dubai. The authorization exists to regulate and register financial institutions that provides financial services in or from the Dubai International Financial Centre (DIFC). The fundamental goals of the DFSA include sustaining credibility, transparency of the services provided by the financial institutions to boost the public's confidence in such services and to safeguard all users of the financial reports, in addition to preventing any cause that could lead to

harm the reputation of the DIFC or the financial institutions in it. Regarding enhancing audit quality, DFSA has specified six chapters in its law to regulate audit procedures in Part (8), these chapters are discussing the following: general prohibitions of auditing, registration of auditors and audit principles, withdrawal of registered auditors, appointment and exclusion of auditors, auditors duties and obligations of auditors of disclosure to the DFSA.

Based on the facts provided above, it can be concluded that although the GCC countries are classified within the developing economies, they are spending great efforts to enhance the public trust in their governance systems, as well as the accounting and auditing professions through the rules and regulations imposed by the related regulatory bodies, which ultimately will lead to greater quality of performance.

2.5 Chapter summary

This chapter was specified to discuss the accounting theoretical framework that predicts the association between the ownership structure and audit quality. Thus, the principal – principal theory was considered and discussed, which is a branch of the agency theory. In general, the reason behind discussing agency theory is due to the fact that the quality of auditing is affected in the event of any financial violations practiced by the company's management, which would ultimately harm the shareholders and investors. However, since the current study aims at examining the relationship between the types of major shareholders and the audit quality, another branch of the theory was presented, which is the principal – principal theory. The chapter has defined and discussed the wide concept of agency theory,

then it addressed the narrower branch of it. In addition, the chapter has presented the problem of concentrated ownership in the emerging countries, through highlighting the main issues and improvements concerned with the GCC countries' governance systems as well as how the audit and auditors are being controlled and regulated in each country to ensure high quality of auditing.

Chapter Two

Theoretical Framework of the Study

2.1 Introduction

This chapter aims to introduce the accounting theories raised due to the conflict of interests between shareholders. Initially, it was argued that the need for external audit had begun when the agency issue existed, as the agents might act for their own benefit at the expense of the principals (Alhababsah, 2019). Jensen & Meckling (1976) have stated that the role of auditors is to mitigate the impact of conflicting interests between agents and principles, which will reduce information asymmetry for both parties.

Thus, it is clearly obvious that in a case where the agency problem is large, the auditor needs to work hard to provide high audit quality. In practice, agency problems are not only limited to management and owners. Rather, it is extended further to include the disputes between the shareholders themselves. Accounting theorists identify and discuss many types of agency issues. The in-hand study will discuss two types of agency theories (that are principal – agent agency theory “PA” and principal – principal agency theory “PP”) to correctly differentiate them and would investigate the relationship between the PP and audit quality (AQ).

2.2 Principle-Agent (PA) theory

2.2.1 Definition

For more than 25 years ago, the agency theory was considered as one of the most important accounting theories that have been studied throughout accounting history. It provides insights to better understand the theoretical framework

regarding the practices and relationships within the firms between owners (principals) and management (agents) (Bouckova, 2015).

Agency association was defined by Jensen (2000) as an agreed upon relationship which requires one or more parties known as (principals) to hire another party who known as (agent) to act on behalf of the principals. This implies that the agent has some power to make decisions in the owners' interest. Bouckova (2015) believes that this relationship is based on an agreement between both parties. Hence, it is assumed that PA relationship is established as a result of mutual interests between them. i.e., the principal would employ the agent to represent him in certain actions through providing him with the necessary authority. In contrast, the agent would expect himself to be rewarded for doing so.

Furthermore, it was argued that principals together with agents are self-interest motivated depending on the varying degree of available information and preferences. On the one Hand, the principal is supposed to bear the risk as a capital provider, while on the other hand, the agent is required to bear the risk upon making decisions in the principal's favor (Lambert, 2001).

2.2.2 Agency theory problem

As mentioned above, PA theory assumes that an agent is hired to behave on behalf of the principal. This brings our attention to a critical question; what if the agent's objectives are inconsistent with those of the principal? Here comes the problem of agency theory where the agent's actions and behaviors would not be directed towards the principal's best interest. i.e., the agent might seek maximization of his own benefits (Bouckova, 2015).

Akerlof (1970) stated that the agency theory is associated with the issue of information asymmetry which occurs when one party has more information than the other. Since the agent is involved in the day-to-day business operations directly, in most cases the advantage of being better informed would be gained by him. In fact, the existence of information asymmetry issue is an indicator of failed allocation of resources.

With reference to the study conducted by Bouckova (2015) regarding “*Management Accounting and Agency Theory*”, it was mentioned that information asymmetry between management and owners can be very existed which would lead to lack of information that in turn, would result in insufficiently considered decisions made by the owner. It is worth to mention that in this case, the principal would incur more monitoring costs as an attempt to monitor the agent’s behavior. To illustrate, when asymmetric information is highly available, the management (agent) performance would be overseen by the owner (principal) through the final financial results only due to lack of information, thus, the manager could exploit the situation for his own benefit as the owner might be forced to incur higher monitoring costs to be able to oversee the agent’s behavior. Audit fees and information system cost are examples of such monitoring costs that would contribute to minimize or eliminate - if possible - the biased performance of the management.

In addition, since the main concept of PA theory is to segregate the ownership and the management, it was argued that the nature of such ownership-management relationship is linked to the problem of agency theory (Bouckova, 2015). This segregation can in somehow provide the management with the free chance to behave opportunistically through considering its own interest at first place. Opportunistic behaviors can take many forms, it includes deceiving

shareholders through providing them with manipulated results, misappropriations of assets, excessive consumption, etc.

To mitigate the risk of agency issues, several types of costs can be incurred by the shareholders to reduce the managers' biased performance. These comprise from the following:

- **Monitoring costs:** as discussed above, these are to oversee the agents' behaviors closely to eliminate the impact of the separation between ownership and management, such as external audit fees.
- **Bonding costs:** these costs are utilized to link managers' interests with those of owners. Remunerations to directors and rewards provided to managers are examples of such costs that might decrease the probability of behaving for their own benefit.
- **Residual losses:** represented in all other costs resulting from the inconsistent interests of both parties. According to Fama and Jensen (1983), residual risk was identified as "risk of the difference between stochastic inflows of resources and promised payments to agents".

PA theory has been studied by Baiman (1990) who stated that principal-agent theory is a branch of the general agency theory and confirmed that asymmetric information exists in all PA models where the agent has better access to information while the principal is not able to gain such information without incurring additional costs.

In general, it is logical that the more complex the business environment, the greater possibility to monopolize the information by the management, which will lead to incur higher monitoring costs to reduce the effect of conflicting interests.

This implies that the principal might be required to incur higher costs of the information system, higher audit fees and even spend higher remunerations. Here the question comes, how could the cost of audit mitigate the impact of inverse benefits? Do audit firms provide the shareholders with high quality information that they need?

Another research titled as “*The Influence of Agency Conflict Types I and II on Earnings Management*” was investigated by Abdul-Hamid and Popoola (2016) who have indicated that the agency theory has two types, type I is the previously discussed principal-agent model, while type II is the agency problem arising from the conflict between principals only! i.e., majority and minority shareholders.

The next section will discuss the second branch of the agency theory and will explain its risks and how it can be mitigated.

2.3 Principal-Principal (PP) theory

2.3.1 Definition

It was stated that corporate governance investigation had centered –to a great extent– on principal-agent clashes, whereas it pays the disputes among other members within the governance structure less attention or even ignored it. However, the predominance of controlling shareholders along with the rare existence of protection to minor owners –especially in developing countries– is shifting the core of the struggle within the firms from owners and management to controlling and minority shareholders (Young, *et. al.*, 2003). This section will address the concept of the principal-principal (PP) theory and will present the causes and consequences related to the same.

PP theory was defined by (Dharwadkar, George, and Brandes, 2000) as the conflict resulting from incongruent objectives between those of major controlling shareholders and shareholders with minimal controlling power. This would cause the problem of expropriation of the rights or values of the minor shareholders (Vishny and Shleifer, 1997). The term “expropriation” was defined as “*the action or practice undertaken by a state or an authority to dispossess someone’s property for public or private benefit*”, which implies that only few shareholders would have the power of making decisions due to their existence in an environment that suffer from weak supervising activities and inadequate segregation of duties.

2.3.2 Principal-Principal agency problems

As it was mentioned earlier, the main problem caused by the PP theory is the expropriation of minority shareholders’ rights by the majority owners because of conflicting objectives between them (Dharwadkar, George, and Brandes, 2000).

With respect to an investigation conducted by (Johnson, *et. al.*, 2000), it was stated that the expropriation practice could take many forms that are legal, illegal and in between. From an economic perspective, such action might include related parties’ transactions where the majority shareholders would intend to sell securities or corporate assets to related parties at a lower value than the market price (Chang and Hong, 2000). While from a social point of view, controlling owners might intend to hire their family members in top managerial positions to demonstrate more power as the family interests would overcome the interests of the minor shareholders (Claessens, *et. al.*, 2000).

In fact, expropriation phenomena emphasize the adverse impacts of the ownership concentration. It was stated that the negative effects of concentrated ownership raised from the existence of the weak protection system or lack of

litigations that contribute to restrict opportunistic behaviors of controlling owners against the minor shareholders (Carney and Gedajlovic, 2002).

Claessens, *et. al.*, (2000) and Vishny and Shleifer, (1997) have examined the expropriation practice in Asian countries as they are considered as developing countries with under development corporate governance systems. They found that majority owners are motivated to seek private benefits at the expense of others due to the reason of insufficient safeguards to minor shareholders' rights.

This critical PP problem has raised the need to ensure higher protection to the minor owners' rights due to the increased expropriation concerns of controlling shareholders. In turn, this would increase the need for a high audit quality in order to minimize such concerns.

2.4 Corporate governance in emerging economies

With reference to an investigation conducted by (Young, *et. al.*, 2003) regarding “*Principal-Principal Agency*”, it was argued that the term of corporate governance was rarely confronted before the 1990s. it was stated that the countries with more developed economies can cope with the opportunistic behavior of the controlling shareholders due to the existence of a better protection to minor shareholders compared to those countries with emerging economies (Porta, *et al.*, 1998).

When it comes to define the term “Emerging Economy”, it is worth mentioning that it was derived from the more commonly used term “Developing Economy”. Since the older term is not adequate to classify the world's economies, a new economic category was introduced by the economist Antoine Agtamael in 1980 to classify the economy that lies in the middle status, i.e., between the developed and developing markets (Daniela-Neonila, Roxana-Manuela, and Dicu,

5.5 The multivariate analyses

The multivariate analysis is conducted through the SPSS to examine the influence of the five types of concentrated ownerships which act as independent variables (FAM, FIN, GOV, FOR, and NONFIN) on the dependent variable, audit quality. In general, the current investigation is based on two models, the first model is measuring the audit quality by using the audit firm size, while the second model had measured the quality of audit using the discretionary accruals proxy.

But, at this stage, and for analyzing purpose, each model was tested twice which creates 4 sub-models. This step was taken to investigate the impact of the four control variables (SIZE, ROA, LEV, and INDUS) on the initial two models. For further clarification, in Table 5.7 for model 1, the control variables were eliminated in (model 1a), while they were included in (model 1b). Similarly, in Table 5.8 for model 2, the control variables were eliminated in (model 2a), while they were added in (model 2b). Taking into consideration that models 1a and 1b are using one measure of audit quality (AUSIZE) while models 2a and 2b are using the discretionary accruals to measure the quality of audit. The objective of the multivariate analyses is to achieve the objectives of the current research and to test the hypotheses of the study formulated in section 3.2.

5.5.1 The multivariate analyses (model 1)

Table 5.7 presents the multivariate analyses for models 1a and 1b of model 1. The results show the impact of independent variables (FAM, FIN, GOV, FOR, and NONFIN) on the dependent variable (AUSIZE) in model 1a, while model 1b is showing the impact of independent and control variables (SIZE, ROA, LEV, and INDUS) over the dependent variable (AUSIZE).

In model 1a, the P-value is 0.000, which means that the model is very significant as the value is lower than the two tailed level of significance ($\alpha = 0.05$). the model has F-value of 2.198 with R^2 equals to 0.112. The model has an Adjusted R^2 of 0.075 which means that 7.5% of the variations in AUsIZE, the dependent variable, is explained by the independent variables (family ownership, financial institutions ownership, government ownership, foreign ownership, and non-financial institution ownership).

The t-statistics of the independent variables in this model are tested for significance. The independent variable FAM is significant at (0.001) with a t-statistics of (-3.229). Further, the independent variable FOR is significant at (0.000) with a t-statistics of (-10.879). while the t-statistics for the independent variable NONFIN is (2.849) and the variable is significant at (0.004).

Accordingly, the multivariate analysis for model 1a reveals that two independent variables (family ownership and foreign ownership) have a negative significant impact on the AUsIZE with significant levels of (0.001) and (0.000) respectively, which is lower than the two tailed level of significance ($\alpha = 0.05$). This implies that FAM and FOR are positively associated with the dependent variable, audit quality. The model also shows that the independent variable, NONFIN has a positive impact on the AUsIZE with a significant level of (0.004), which is also lower than the two tailed level of significance ($\alpha = 0.05$). This means that NONFIN has a negative impact on the dependent variable audit quality. Consequently, among all these results, only FOR and NONFIN associations with AUsIZE are consistent with the Pearson correlation coefficient. While FAM has no significant association with the dependent variable as per the Pearson correlation analysis.

While in model 1b, the P-value is 0.000, which means that the model is very significant as the value is lower than the two tailed level of significance ($\alpha = 0.05$). the model has F-value of 2.904 with R^2 equals to 0.189. The model has an Adjusted R^2 of 0.183 which means that 18.3% of the variations in AUsIZE, the dependent variable, is explained by the independent variables (family ownership, financial institutions ownership, government ownership, foreign ownership, and non-financial institution ownership) and the control variables (firm size, firm leverage, return on assets and industry type).

The t-statistics of the independent variables as well as the control variables in this model are tested for significance. The independent variable FAM is significant at (0.003) and a t-statistics of (-3.016). This model also shows that the independent variable GOV is significant at (0.003) with a t-statistics of (-2.960), while model 1a did not reveal a significant impact for this variable. Moreover, the independent variable FOR is significant at (0.000) with a t-statistics of (-11.606). while the t-statistics for the independent variable NONFIN is (3.012) and the variable is significant at (0.003).

Regarding control variables, the model resulted in two significant associations between two control variables (firm size and return on assets) and the dependent variable, AUsIZE. The control variable SIZE has a significant level of (0.000) with a t-statistics of (9.233), while the control variable ROA is significant at (0.000) with a t-statistics of (3.661).

Consequently, the multivariate analysis for model 1b reveals that three of the independent variables (family ownership, government ownership and foreign ownership) have a negative significant impact on the AUsIZE with significant levels of (0.003), (0.003) and (0.000) respectively, which are lower than the two tailed level of significance ($\alpha = 0.05$). This implies that FAM, GOV and FOR are

positively associated with the dependent variable, audit quality. The model also shows that the independent variable, NONFIN has a positive impact on the audit firm size with a significant level of (0.003), which is also lower than the two tailed level of significance ($\alpha = 0.05$). This means that NONFIN has a negative impact on the dependent variable audit quality.

For control variables, both variables (SIZE and ROA) have a positive impact on the AUSIZE. i.e., SIZE and ROA are both significant at (0.000) which is lower than the two tailed level of significance ($\alpha = 0.05$). in other words, SIZE and ROA are influencing the dependent variable, audit quality, negatively.

Based on the above, the results are in accordance with the Pearson correlation findings, except for the independent variables FAM and GOV which have no significant associations with the dependent variable as per the Pearson correlation analysis.

Accordingly, it can be concluded that the first hypothesis (H1) stating that *“There is a significant positive association between family ownership and audit quality”* is accepted for model 1 as it reveals a significant positive impact of family ownership on audit quality. This result is consistent with (Alhababsah, 2019) and (Anderson and Reeb, 2003), while it contradicts the findings of (Guizani and Abdalkrim, 2020; Niskanen, Karjalainen, and Niskanen, 2011; Darmadi, 2016; and Ho and Kang, 2013).

While the second hypothesis (H2) stating that *“There is a significant positive association between financial institutional ownership and audit quality”* is rejected for model 1 as the analyses shows no significant association between the financial institutional ownership and the audit quality.

In addition, the third hypothesis (H3) which declares that *“There is a significant positive association between government ownership and audit quality”* is accepted, as the results indicate that the concentrated governmental ownership is positively associated with the quality of auditing. The result is consistent with (Alhababsah, 2019; Lux, Crook, and Woehr, 2011; Wahab, Zain, and James, 2011; and Nelson and Mohamed-Rusdi, 2015). Some previous studies have a contradict result, such as (Guizani and Abdalkrim , 2020; Ben-Nasr, Boubakri, and Cosset, 2015; and Chen and Al-Najjar, 2012), as they have found that the governmental ownership is negatively associated with the audit quality. However, some other researchers has found that no significant association existed between the government ownership and the quality of auditing like (Niemi, 2005).

Furthermore, the fourth developed hypothesis (H4) which implies that *“There is a significant positive association between foreign ownership and audit quality”* is accepted for model 1, as the model shows that the foreign concentrated ownership is positively associated with the quality of auditing. This result is in line with previous studies of (Salleh, Stewart, and Manson, 2006; Abdullah, Ismail, and Jamaluddin, 2008; Zureigat, 2011; Goodwin-Stewart and Kent, 2006; Nelson and Mohamed-Rusdi, 2015; Alhababsah, 2019; Wahab, Zain, and James, 2011; and Khasharmeh and Joseph, 2017).

Finally, the last hypothesis (H5) which says that *“There is a significant positive association between non-financial institutional owners and the audit quality”* is rejected for model 1, as it resulted in a significant negative association between the non-financial institutional ownership and the audit quality.

It can be observed from the below table that adding the control variables to the model has increased the significance of the variables. i.e., by adding the control variables in model 1b, the independent variable GOV became significant at 0.003, while in model 1a it has no significance. Also, the R^2 change has increased from 0.075 to 0.108, which implies that the addition of the control variables is adding more explanatory power to the model.

Table 5.7: Multivariate analyses (models 1a and 1b)

	Model 1a			Model 1b		
	B	T	Sig.	B	T	Sig.
(Constant)	0.782	8.592	0.000	-0.553	-3.803	0.000
FAM	-0.318	-3.229	0.001	-0.299	-3.016	0.003
FIN	0.162	0.972	0.331	0.104	0.648	0.517
GOV	-0.117	-1.204	0.229	-0.280	-2.960	0.003
FOR	-0.453	-10.879	0.000	-0.463	-11.606	0.000
NONFIN	0.020	2.849	0.004	0.020	3.012	0.003
SIZE				0.158	9.233	0.000
LEV				0.005	0.208	0.836
ROA				0.498	3.661	0.000
INDUS				-0.036	-1.272	0.204
No. of Obs.		1124			1124	
R^2		0.112			0.189	
Adjusted R^2		0.075			0.183	
R^2 change		0.075			0.108	
F-value		2.198			2.904	
P-value		0.000			0.000	

Dependent Variable: AUSIZE

5.5.2 The multivariate analyses (model 2)

Table 5.8 presents the multivariate analyses for models 2a and 2b of model 2. The results show the impact of independent variables (FAM, FIN, GOV, FOR, and NONFIN) on the dependent variable, discretionary accruals (DAC) in model 2a, while model 2b is showing the impact of independent and control variables (SIZE, ROA, LEV, and INDUS) over the dependent variable (DAC).

In model 2a, the P-value is 0.048, which means that the model is significant as the value is almost at the two tailed level of significance ($\alpha = 0.05$). the model

has F-value of 0.480 with R^2 equals to 0.053. The model has an Adjusted R^2 of 0.024 which means that 2.4% of the variations in the dependent variable, DAC, is explained by the independent variables (family ownership, financial institutions ownership, government ownership, foreign ownership, and non-financial institution ownership).

The t-statistics of the independent variables in this model are tested for significance. The model shows that only the independent variable FIN is significant at (0.043) with a t-statistics of (-1.168).

As a result, the multivariate analysis for model 2a indicates that only one independent variable (financial institutional ownership) has a negative significant impact on the dependent variable, discretionary accruals, with a significant level of (0.043), which is lower than the two tailed level of significance ($\alpha = 0.05$). This implies that FIN is positively associated with the dependent variable, audit quality. In other words, the existence of banks, insurance companies or any other financial institutions as major shareholders will lower the earnings management practices which would enhance the audit quality.

Consequently, the association between FIN and DAC is consistent with the Pearson correlation coefficient.

Whereas the P-value of model 2b is 0.000, which means that the model is very significant as the value is lower than the two tailed level of significance ($\alpha = 0.05$). the model has F-value of 0.473 with R^2 equals to 0.079. The model has an Adjusted R^2 of 0.073 which means that 7.3% of the variations in the dependent variable, discretionary accruals, is explained by the independent variables (family ownership, financial institutions ownership, government ownership, foreign

ownership, and non-financial institution ownership) and the control variables (firm size, firm leverage, return on assets and industry type).

The t-statistics of the independent variables as well as the control variables in this model are tested for significance. The independent variable FIN is significant at (0.018) with a t-statistics of (-0.920). In addition, the model indicates that the independent variable GOV is significant at (0.025) with a t-statistics of (-1.214), while model 2a did not reveal a significant impact for the same variable.

For the control variables, the model resulted in only one significant association between the control variable (firm leverage) and the dependent variable, DAC. The control variable LEV has a significant level of (0.000) with a t-statistics of (0.682).

Therefore, the multivariate analysis for model 2b reveals that only two independent variables (financial institutional ownership and government ownership) among the five independent variables have a negative significant impact on the DAC, with significant levels of (0.018) and (0.025) respectively, which are lower than the two tailed level of significance ($\alpha = 0.05$). This implies that FIN and GOV are positively associated with the dependent variable, audit quality. This indicates that the more shares owned by financial institutions or governments, the lower earnings management as the firms will provide more financial disclosures, which will increase the audit quality.

For control variables, only firm leverage has a positive impact on the DAC. i.e., LEV is significant at (0.000) which is lower than the two tailed level of significance ($\alpha = 0.05$). In other words, LEV is affecting the dependent variable, audit quality, negatively. Which implies that the greater amounts of debt in a firm

would create an opportunity for the management to manage its earnings, which in turn, would result in low audit quality.

Based on the above, the result of the independent variable FIN is in accordance with the Pearson correlation findings, but the result of the independent variable GOV is not consistent with the Pearson correlation analysis as it has no significant associations with the dependent variable. For the control variables, LEV association with the dependent variable is not consistent with the result as per the Pearson correlation, as it is showing a positive association, unlike the multivariate analysis.

To sum up, the first hypothesis (H1) saying that “*There is a significant positive association between family ownership and audit quality*” is rejected for model 2, as the multivariate analyses shows no significant association existed between the family ownership and the audit quality.

Besides, the second hypothesis (H2) which implies that “*There is a significant positive association between financial institutional ownership and audit quality*” is accepted for model 2 only, as the findings indicate that the financial institutional ownership is positively associated with the audit quality. Such result is in line with the findings of (Alhababsah, 2019; Barth, Caprio, and Levine, 2008; Coffee, 1991; Khasharmeh and Joseph, 2017; Elsayed and Wahba, 2013; Gillana and Starks, 2000; Alfraih, 2016; Guizani and Abdalkrim, 2020; Chan, Lin, and Zhang, 2007; and Kane and Velury, 2004). However, the result is not consistent with (Alshammari, 2014), as a significant negative association was demonstrated between the financial institutional ownership and the audit quality.

Also, the results conclude that the third hypothesis (H3) which declares that “*There is a significant positive association between government ownership and*

audit quality” is accepted for model 2, as it indicates that the concentrated governmental ownership is positively associated with the quality of auditing. The result is consistent with (Alhababsah, 2019; Lux, Crook, and Woehr, 2011; Wahab, Zain, and James, 2011; and Nelson and Mohamed-Rusdi, 2015).

The fourth developed hypothesis (H4) which implies that “*There is a significant positive association between foreign ownership and audit quality*” is rejected for model 2 as it shows no significant association between the foreign ownership and the audit quality.

Finally, The fifth hypothesis (H5) which says that “*There is a significant positive association between non-financial institutional owners and the audit quality*” is rejected for model 2, as it indicates no significant association existed, and this is consistent with the result found by (Alhababsah, 2019) who examined this type of shareholders and concluded that no significant association presents.

From the below table, it can be noted that adding the control variables to the model has resulted in an increased significance. For further clarification, the significance of the model has increased from (0.048) in model 2a, to (0.000) in model 2b. In addition, by adding the control variables, the independent variable GOV became significant at 0.025, while in model 1a it has no significance. Also, the R^2 change has increased from 0.024 to 0.049, which indicates that more explanatory power is added to the model by adding the control variables.

Table 5.8: Multivariate analyses (models 2a and 2b)

	Model 2a			Model 2b		
	B	T	Sig.	B	T	Sig.
(Constant)	-0.055	-7.959	0.048	-0.082	-2.384	0.000
FAM	0.016	0.637	0.524	-0.013	-0.540	0.589
FIN	-0.050	-1.168	0.043	-0.035	-0.920	0.018
GOV	0.002	0.090	0.928	-0.027	-1.214	0.025
FOR	-0.005	-0.452	0.651	-0.001	-0.143	0.886
NONFIN	-0.001	-0.420	0.675	0.000	0.222	0.824
SIZE				0.001	0.219	0.827
LEV				0.004	0.682	0.000
ROA				0.541	6.727	0.495
INDUS				0.001	0.145	0.885
No. of Obs.		1124			1124	
R²		0.053			0.079	
Adjusted R²		0.024			0.073	
R² change		0.024			0.049	
F-value		0.480			0.473	
P-value		0.048			0.000	

Dependent Variable: DAC

5.6 Summary of the findings

This section will summarize the results of the current study based on multivariate analyses. Such analyses were implemented to examine the impact of several types of concentrated ownerships on the audit quality that was measured by two different proxies, the audit firm size and the discretionary accruals. Some of the results were consistent with previous studies that were conducted in different countries. Table 5.9 presents the summaries.

Table 5.9: Summary of hypotheses results (models 1 and 2)

Hypotheses	AUSIZE	DAC
H1: There is a significant positive association between family ownership and audit quality	Accepted	Rejected
H2: There is a significant positive association between financial institutional ownership and audit quality	Rejected	Accepted
H3: There is a significant positive association between government ownership and audit quality	Accepted	Accepted
H4: There is a significant positive association between foreign ownership and audit quality	Accepted	Rejected
H5: There is a significant positive association between non-financial institutional owners and the audit quality	Rejected	Rejected

5.7 Chapter summary

The current chapter has presented the statistical analyses applied to investigate the association between ownership structure and audit quality in GCC listed firms. It shows the descriptive statistics for all variables of the study, in addition to the Pearson correlation for the two models of the research to examine their significance, plus the tolerance and inflation factors to test any possible multicollinearity between the variables of the study. Besides, the multivariate analyses for the four sub-models. The chapter also presented the results of the research testing hypotheses related to the effect of the five types of concentrated ownership on the quality of auditing.

Chapter six: Conclusions and Contribution

6.1 Introduction

6.2 Conclusions

6.3 Contribution of the study

6.4 Limitations of the study

6.5 Recommendations

Chapter Six

Conclusions and Contribution of the Study

6.1 Introduction

The current research aims at investigating the impact of the various types of concentrated ownerships in the GCC countries on the audit quality. For further clarification, this research examines the association between the different types of controlling shareholders (family ownership, financial institutional ownership, government ownership, foreign ownership, and non-financial institutional ownership) and the audit quality of the GCC listed firms. The study was conducted for a period of six years from 2015 to 2020, for a sample of 1124 firm-year observations. The research used two proxies to measure the audit quality, the audit firm size, and the quality of financial reporting. The financial reporting quality is measured by the discretionary accruals using the modified Jones model by (Dechow, Sloan, and Sweeney, 1995).

To test the developed hypotheses of the study, a total of four statistical tests were implemented, these are descriptive statistics, Pearson correlation, tolerance and variance inflation factors, and the Multivariate analyses for the two regression models. In addition, this chapter presents the conclusions of the study after the results of the analyses have been revealed. Finally, the contribution of the current research to the accounting literature will be presented, as well as the study's limitations and recommendations built upon on the findings of the study.

6.2 Conclusions

Current research examines the impact of ownership structure on the quality of auditing in the GCC. To the best knowledge of the researcher, no similar studies have been implemented in this region, as it has considered various types of ownerships (family ownership, financial institutional ownership, government ownership, foreign ownership, and non-financial institutional ownership) for all the six GCC countries (Bahrain, KSA, Kuwait, Oman, Qatar and UAE). The study was conducted for six financial years from 2015 to 2020, for all firms listed in the industrial sector. The total firms subjected to the investigation is 230 listed firms. To examine the association between the ownership structure and the audit quality, two models were developed. The audit quality was measured using two different proxies, model 1 has measured the audit quality by the audit firm size, while model 2 has used the financial reporting quality which was measured by the discretionary accruals using the modified Johns model by (Dechow, Sloan, and Sweeney, 1995). Both models were investigated using a total of four statistical analyses that are descriptive statistics, Pearson correlation coefficient, tolerance and variance inflation factors and the multivariate analyses.

The multivariate analyses of model 1 reveal that only three independent variables out of the five were significantly associated with the audit quality, these are (family ownership, government ownership and foreign ownership). The results concluded that there is a significant positive association between family ownership and audit quality, as the current study supports the argument stating that the more shares controlled by families, will result in higher demand for audit quality. Further, the model resulted in a significant positive association between the government ownership and audit quality, which supports the current research's argument that the existence of major governmental shareholders will lead to higher audit quality.

In addition, it was found that foreign ownership has a significant positive impact on the quality of auditing, which agrees with the study's argument that the presence of controlling foreign owners will lead to higher audit quality.

On the other hand, the multivariate analyses of model 2 shows that only two independent variables were significantly associated with the audit quality, these are (financial institutional ownership and government ownership). The model concluded that the concentrated financial institutional ownership is positively associated with the audit quality, which supports the study's argument that the more shares owned by financial institutions, the greater provision of financial disclosures which lead to higher audit quality. Also, it was found that the governmental ownership has a significant positive association with the audit quality, this is in line with the research's argument that the more shares owned by government, the greater audit quality would be through providing fair number of financial disclosures.

However, some independent variables have no association with the audit quality. For instance, model 1 shows that financial institutional ownership has no impact on the audit quality while non-financial institutional ownership is negatively associated. Whereas model 2 indicates that family ownership, foreign ownership and non-financial institutional ownership have no significant association with the quality of auditing.

6.3 Contribution of the study

This research will contribute to accounting literature from two sides. On the one hand, it contributes to the accounting theoretical research as it is dealing with the principal-principal theory of conflicts between shareholders only, that is to the best

of the researcher's knowledge, there is not much attention to it, especially when talking about the GCC countries as developing economies. On the other hand, the research is contributing to empirical accounting research from many aspects.

First, to the best knowledge of the researcher, this study is one of the first studies in GCC countries which discusses the issue of concentrated ownership through addressing the diverse types of controlling shareholders, and how they can affect the audit quality. Second, the current study contributes to corporate governance research through discussing an important external mechanism of it, as the commonly studied area in corporate governance literature is the internal mechanisms, which contributes to the enhancement of the governance systems. Further, the study is spotting the light over the governance systems as well as the accounting and auditing regulations in GCC, which could increase the awareness of regulatory bodies there to work hard to achieve a governance system that provide safeguard to all stakeholders, besides improving the audit and accounting professions to reach high standards of quality. Moreover, using the financial reporting quality to measure the audit quality is contributing assess the accuracy and reliability of the financial reports in the GCC. Finally, the current research sheds the light on the agency problems by studying the association between ownership structure and audit quality, which can help researchers to identify possible gaps in governance to be studied and propose suggestions to mitigate them.

6.4 Limitations of the study

This study is subjected to some limitations which are represented in the following:

First, the study is implemented for a period of six years, while it can be done for extended periods to allow further improvement of results. In addition, previous

research has studied other types of ownerships which couldn't be examined in GCC countries due to disclosures' issues. Moreover, some data was collected manually which resulted in a higher portion of missing data, as some firms tend to remove old years' data. Finally, the study is examining the audit quality in GCC countries. Although there are so many proxies used in the preceding empirical accounting research, the selection of audit quality proxies in GCC was restricted by difficulties in measurement.

6.5 Recommendations

With reference to the above limitations, it is recommended for future research purposes to focus on the listed firms in the financial sector in GCC or any developing country, to examine the audit quality while subjected to a high regulatory environment. Also, future studies may extend the examination period to get more improved results. Besides, future research can consider more types of shareholders when studying ownership structure in GCC, or any developing or developed countries. Furthermore, future research may use different proxies to measure the audit quality in GCC or other developing countries for comparison purposes. It is also recommended for future research to consider the impact of the COVID-19 pandemic on the auditing profession when studying the audit quality.

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List of Appendixes

Appendix A: Details of the industries included in the sample in each country

Country	Industry groups
Bahrain	Aluminum; Construction and Engineering; Fishing and Farming; Food Processing; Restaurants and Bars; and Ship Building
KSA	Agricultural Chemicals; Commodity Chemicals; Computer and Electronics Retailers; Computer Hardware; Construction and Engineering; Construction Materials; Construction Supplies and Fixtures; Diversified Chemicals; Diversified Industrial Goods Wholesalers; Drug Retailers; Electric Utilities; Electrical Components and Equipment; Fishing and Farming; Food Processing; Home building; Industrial Conglomerates; Industrial Machinery and Equipment; Iron and Steel; Oil and Gas Refining and Marketing; Oil and Gas Transportation Services; Paper Products; Pharmaceuticals; Restaurants & Bars; Specialty Chemicals; and, Textiles and Leather Goods
Kuwait	Auto Vehicles, Parts and Service Retailers; Commodity Chemicals; Construction and Engineering; Construction Materials; Electrical Components and Equipment; Fishing and Farming; Food Processing; Industrial Conglomerates; Industrial Machinery and Equipment; Integrated Oil and Gas; Iron and Steel; Oil and Gas Drilling; Oil and Gas Exploration and Production; Oil and Gas Refining and Marketing; Oil Related Services and Equipment; and Restaurants and Bars
Oman	Aluminum; Commodity Chemicals; Construction and Engineering; Construction Materials; Construction Supplies and Fixtures; Electric Utilities; Electrical Components and Equipment; Fishing and Farming; Food Processing; Independent Power Producers; Iron and Steel; Non-Alcoholic Beverages; Oil and Gas Refining and Marketing; Oil Related Services and Equipment; Restaurants and Bars; Specialty Chemicals; Specialty Mining and Metals; and Textiles and Leather Goods
Qatar	Commodity Chemicals; Construction Materials; Food Processing; Industrial Conglomerates; Oil and Gas Drilling; and Oil and Gas Refining and Marketing
UAE	Construction and Engineering; Construction Materials; Construction Supplies and Fixtures; Fishing and Farming; Food Processing; Industrial Conglomerates; Integrated Oil and Gas; Non-Alcoholic Beverages; Oil and Gas Drilling; Oil Related Services and Equipment;

	Pharmaceuticals; and Ship Building
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Appendix B: List of firms included in the sample of the study

Company Name	Country	Industry Group Name
Aluminum Bahrain B.S.C.	Bahrain	Aluminum
Bahrain Family Leisure Company B.S.C.	Bahrain	Restaurants & Bars
Bahrain Flour Mills Co B.S.C.	Bahrain	Food Processing
Bahrain Ship Repairing and Engineering Company	Bahrain	Shipbuilding
Delmon Poultry Co. B.S.C.	Bahrain	Fishing & Farming
Inovest B.S.C.	Bahrain	Industrial Conglomerates
Nass Corporation B.S.C.	Bahrain	Construction &
ACICO Industries Co.	Kuwait	Construction Materials
Al Eid Food Company	Kuwait	Food Processing
Al Kout Industrial Projects Company	Kuwait	Commodity Chemicals
Al Masaken International Real Estate Development	Kuwait	Homebuilding
Al Soor Fuel Marketing Company	Kuwait	Oil & Gas Refining and
Arabi Group Holdings	Kuwait	Auto Vehicles, Parts &
Boubyan Petrochemical Co.	Kuwait	Industrial Conglomerates
Burgan for Well Drilling Trading and Maintenance	Kuwait	Oil & Gas Refining and
Coast Investment and Development Co.	Kuwait	Industrial Machinery &
Combined Group Contracting Co.	Kuwait	Construction &
Danah Al Safat Foodstuff Co.	Kuwait	Food Processing
Energy House Holding Company	Kuwait	Oil & Gas Exploration and
Equipment Holding Co.	Kuwait	Construction &
First Investment Co.	Kuwait	Integrated Oil & Gas
Gulf Cable and Electrical Industries Co.	Kuwait	Electrical Components &
Gulf Franchising Holding Co.	Kuwait	Diversified Industrial
Gulf Petroleum Investment Company	Kuwait	Oil Related Services and
Heavy Engineering Industries and Shipbuilding	Kuwait	Construction &
Hilal Cement Company	Kuwait	Construction Materials
Independent Petroleum Group	Kuwait	Oil & Gas Refining and
Jiyad Holding Co.	Kuwait	Industrial Conglomerates
Kuwait Cement Company	Kuwait	Construction Materials
Kuwait Company for Process Plant Construction and	Kuwait	Construction &
Kuwait Foundry Co.	Kuwait	Iron & Steel
Kuwait Hotels Co.	Kuwait	Restaurants & Bars
Kuwait Portland Cement Co.	Kuwait	Construction Materials
Kuwait Syrian Holding Co.	Kuwait	Industrial Conglomerates
Livestock Transport & Trading Co.	Kuwait	Food Processing
MEZZAN HOLDING CO	Kuwait	Food Processing
Mushrif Trading and Contracting Company	Kuwait	Construction &
National Consumer Holding Company	Kuwait	Industrial Conglomerates
National Industries Company	Kuwait	Construction Materials
National Industries Group Holding	Kuwait	Industrial Conglomerates
National Petroleum Services Company	Kuwait	Oil Related Services and

Oula Fuel Marketing Co.	Kuwait	Oil & Gas Refining and
Palms Agro Production Co.	Kuwait	Fishing & Farming
Qurain Petrochemical Industries Co.	Kuwait	Commodity Chemicals
Salbookh Trading Co.	Kuwait	Construction Materials
Senegy Holding Company	Kuwait	Oil & Gas Drilling
Specialties Group Holding Company	Kuwait	Industrial Conglomerates
Abrasives Manufacturing Company	Oman	Industrial Machinery &
Al Anwar Ceramic Tiles Co.	Oman	Construction Supplies &
Al Anwar Holdings	Oman	Industrial Conglomerates
Al Batinah Development and Investment Holding Co.	Oman	Industrial Conglomerates
Al Batinah Power	Oman	Independent Power
Al Fajar Al Alamia	Oman	Commodity Chemicals
Al Hassan Engineering	Oman	Construction &
Al Jazeera Steel Products	Oman	Iron & Steel
Al Jazeera Services Company	Oman	Restaurants & Bars
Al Kamil Power	Oman	Electric Utilities
Al Maha Ceramics Co.	Oman	Construction Supplies &
Al Maha Petroleum Products Marketing Company	Oman	Oil & Gas Refining and
Al Oula Company	Oman	Construction Materials
Al Suwadi Power	Oman	Independent Power
A'saffa Foods	Oman	Food Processing
Construction Materials Industries	Oman	Construction Materials
Dhofar Beverage and Food Stuff Company	Oman	Non-Alcoholic Beverages
Dhofar Cattle Feed	Oman	Food Processing
Dhofar Fisheries and Food Industries	Oman	Food Processing
Dhofar Generating Company	Oman	Electric Utilities
Dhofar Poultry	Oman	Fishing & Farming
Galfar Engineering and Contracting	Oman	Construction &
Gulf International Chemicals	Oman	Specialty Chemicals
Gulf Mushroom Products	Oman	Fishing & Farming
Gulf Stone Company	Oman	Construction Materials
Muscat Gases	Oman	Commodity Chemicals
Muscat Thread Mills	Oman	Textiles & Leather Goods
National Aluminum Products	Oman	Aluminum
National Biscuit Industries	Oman	Food Processing
National Gas	Oman	Oil & Gas Refining and
National Mineral Water	Oman	Non-Alcoholic Beverages
National Pharmaceutical Industries Company	Oman	Pharmaceuticals
National Real Estate Development and Investment Co.	Oman	Construction &
Oman Cables Industry	Oman	Electrical Components &
Oman Cement	Oman	Construction Materials
Oman Ceramic Company	Oman	Construction Supplies &
Oman Chlorine	Oman	Commodity Chemicals
Oman Chromite	Oman	Specialty Mining &

Oman Fisheries	Oman	Food Processing
Oman Flour Mills	Oman	Food Processing
Oman National Engineering & Investment Co.	Oman	Construction &
Oman Oil Marketing	Oman	Oil & Gas Refining and
Oman Refreshment	Oman	Non-Alcoholic Beverages
Oman Textile Holding Company	Oman	Textiles & Leather Goods
Omani Euro Food Industries	Oman	Food Processing
Phoenix Power	Oman	Independent Power
Raysut Cement	Oman	Construction Materials
Renaissance Services	Oman	Oil Related Services and
Salalah Mills	Oman	Food Processing
Shell Oman Marketing	Oman	Oil & Gas Refining and
Sohar Poultry Co.	Oman	Fishing & Farming
Sweets of Oman	Oman	Food Processing
United Power	Oman	Electric Utilities
Aamal Company	Qatar	Industrial Conglomerates
Gulf International Services	Qatar	Oil & Gas Drilling
Industries Qatar	Qatar	Industrial Conglomerates
Mesaieed Petrochemical Holding Co.	Qatar	Commodity Chemicals
Qatar Aluminum Manufacturing Company	Qatar	Aluminum
Qatar Fuel Company	Qatar	Oil & Gas Refining and
Qatar Gas Transport Company	Qatar	Oil & Gas Transportation
Qatar Industrial Manufacturing Company	Qatar	Industrial Conglomerates
Qatar National Cement Company	Qatar	Construction Materials
Qatari Investors Group	Qatar	Construction Materials
Widam Food Company	Qatar	Food Processing
Zad Holding Company	Qatar	Food Processing
Abdullah Abdul Mohsin Al Khodari Sons Co.	KSA	Construction &
Advanced Petrochemical Co.	KSA	Commodity Chemicals
Al Ahsa Development Co.	KSA	Industrial Conglomerates
Al Aseel Company	KSA	Textiles & Leather Goods
Al Babtain Power and Telecommunication Co.	KSA	Construction &
Al Baha Investment and Development Company	KSA	Industrial Conglomerates
Al Gassim Investment Holding Company	KSA	Fishing & Farming
Al Hassan Ghazi Ibrahim Shaker Co.	KSA	Electrical Components &
Al Jouf Agricultural Development Co.	KSA	Fishing & Farming
Al Jouf Cement Co.	KSA	Construction Materials
Al Kathiri Holding Co.	KSA	Construction &
Al Moammar Information Systems Co.	KSA	Computer Hardware
Al Yamamah Steel Industries Company	KSA	Iron & Steel
Aldrees Petroleum and Transport Services Co.	KSA	Oil & Gas Refining and
Almarai Company	KSA	Food Processing
Al-Omran Industrial and Trading Co.	KSA	Electrical Components &
Alujain Holding Corp.	KSA	Commodity Chemicals

Anaam International Holding Group Co.	KSA	Food Processing
Arabian Cement Co.	KSA	Construction Materials
Arabian Pipes Co.	KSA	Iron & Steel
Aseer Trading Tourism and Manufacturing Co.	KSA	Industrial Conglomerates
Ash Sharqiyah Development Co.	KSA	Fishing & Farming
Astra Industrial Group	KSA	Pharmaceuticals
Baazeem Trading Company	KSA	Diversified Industrial
Basic Chemical Industries Co.	KSA	Diversified Chemicals
Bawan Co.	KSA	Construction Materials
City Cement Co.	KSA	Construction Materials
Development Works Food Co.	KSA	Restaurants & Bars
Eastern Province Cement Co.	KSA	Construction Materials
Electrical Industries Company	KSA	Electrical Components &
Hail Cement Co.	KSA	Construction Materials
Halwani Brothers Company	KSA	Food Processing
Herfy Food Services Co.	KSA	Restaurants & Bars
Jazan Development Company	KSA	Fishing & Farming
Methanol Chemicals Co.	KSA	Diversified Chemicals
Middle East Specialized Cables Company	KSA	Electrical Components &
Najran Cement Co.	KSA	Construction Materials
Nama Chemicals Co.	KSA	Specialty Chemicals
National Agriculture Development Co.	KSA	Food Processing
National Building and Marketing Company	KSA	Construction Materials
National Gas and Industrialization Co.	KSA	Oil & Gas Refining and
National Gypsum Company	KSA	Construction Supplies &
National Industrialization Co.	KSA	Commodity Chemicals
National Metal Manufacturing and Casting Co.	KSA	Iron & Steel
National Petrochemical Co.	KSA	Commodity Chemicals
National Shipping Company of Saudi Arabia	KSA	Oil & Gas Transportation
Northern Region Cement Co.	KSA	Construction Materials
Qassim Cement Co.	KSA	Construction Materials
Rabigh Refining and Petrochemical Co.	KSA	Oil & Gas Refining and
Raydan Company	KSA	Restaurants & Bars
Red Sea International Co.	KSA	Homebuilding
Sahara International Petrochemical Co.	KSA	Commodity Chemicals
Saudi Advanced Industries Co.	KSA	Industrial Conglomerates
Saudi Arabia Fertilizers Co.	KSA	Agricultural Chemicals
Saudi Arabian Amiantit Company	KSA	Industrial Machinery &
Saudi Arabian Mining Co.	KSA	Commodity Chemicals
Saudi Arabian Refineries Co.	KSA	Oil & Gas Refining and
Saudi Automotive Services Co.	KSA	Oil & Gas Refining and
Saudi Basic Industries Corporation	KSA	Commodity Chemicals
Saudi Cable Co.	KSA	Electrical Components &
Saudi Cement Company	KSA	Construction Materials

Saudi Ceramic Co.	KSA	Construction Supplies &
Saudi Chemical Company	KSA	Drug Retailers
Saudi Electricity Company	KSA	Electric Utilities
Saudi Fisheries Co.	KSA	Food Processing
Saudi Industrial Export Co.	KSA	Diversified Industrial
Saudi Industrial Investment Group	KSA	Commodity Chemicals
Saudi Kayan Petrochemical Co.	KSA	Commodity Chemicals
Saudi Paper Manufacturing Co.	KSA	Paper Products
Saudi Pharmaceutical Industries and Medical	KSA	Pharmaceuticals
Saudi Steel Pipes Company	KSA	Iron & Steel
Saudi Vittrified Clay Pipe Company	KSA	Construction Materials
Saudia Dairy and Foodstuff Co.	KSA	Food Processing
Savola Group Company	KSA	Food Processing
Southern Province Cement Company	KSA	Construction Materials
Tabuk Agricultural Development Co.	KSA	Fishing & Farming
Tabuk Cement Co.	KSA	Construction Materials
Umm Al Qura Cement Co.	KSA	Construction Materials
United Electronics Company	KSA	Computer & Electronics
United Wire Factories Co.	KSA	Iron & Steel
Wafrah for Industry and Development Co.	KSA	Food Processing
Yamama Cement Company	KSA	Construction Materials
Yanbu Cement Company	KSA	Construction Materials
Yanbu National Petrochemicals Co.	KSA	Commodity Chemicals
Zamil Industrial Investment Co.	KSA	Industrial Conglomerates
Abu Dhabi National for Building Materials Co.	UAE	Construction Materials
Abu Dhabi National Oil Company for Distribution	UAE	Oil & Gas Refining and
Abu Dhabi Ship Building	UAE	Shipbuilding
ADES International Holding	UAE	Oil & Gas Drilling
Agthia Group	UAE	Food Processing
Al Khaleej Investment Company	UAE	Fishing & Farming
Al Qudra Holding	UAE	Industrial Conglomerates
Amira Nature Foods Ltd.	UAE	Food Processing
Arabtec Holding	UAE	Construction &
Arkan Building Materials Company	UAE	Construction Materials
Dana Gas	UAE	Integrated Oil & Gas
Drake and Scull International	UAE	Construction &
Dubai Refreshments	UAE	Non-Alcoholic Beverages
Emirates Refreshments	UAE	Non-Alcoholic Beverages
Fujairah Building Industries Co.	UAE	Construction Materials
Fujairah Cement Industries Co.	UAE	Construction Materials
Gulf Cement Co.	UAE	Construction Materials
Gulf Pharmaceutical Industries	UAE	Pharmaceuticals
Gulfa Mineral Water and Processing Industries Co.	UAE	Non-Alcoholic Beverages
International Holding Company	UAE	Food Processing

Lamprell	UAE	Oil Related Services and
National Cement Co.	UAE	Construction Materials
Orascom Construction	UAE	Construction &
Polarcus Ltd.	UAE	Oil Related Services and
RA International Group	UAE	Industrial Conglomerates
Ras Al Khaimah Cement Co.	UAE	Construction Materials
Ras Al Khaimah Ceramics	UAE	Construction Supplies &
Ras Al Khaimah for White Cement and Construction	UAE	Construction Materials
Ras Al Khaimah Poultry and Feeding Co.	UAE	Fishing & Farming
Sharjah Cement and Industrial Development Company	UAE	Construction Materials
Shelf Drilling Ltd.	UAE	Oil & Gas Drilling
Unikai Foods	UAE	Food Processing
United Foods Co.	UAE	Food Processing

Appendix C: Detailed Descriptive Statistics

Frequency Tables

AUSIZE				
	Frequency	Percent	Valid Percent	Cumulative Percent
.000	470	41.8	41.8	41.8
Valid 1.000	654	58.2	58.2	100.0
Total	1124	100.0	100.0	

INDTYPE				
	Frequency	Percent	Valid Percent	Cumulative Percent
.000	452	40.2	40.2	40.2
Valid 1.000	672	59.8	59.8	100.0
Total	1124	100.0	100.0	

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
DAC	1124	-.899	.793	0.58115	.493493
FAM	1124	.000	.850	.05787	.149809
FIN	1124	.000	.613	.02171	.084835
GOV	1124	.000	.987	.06628	.151392
FOR	1124	.000	1.000	.36547	2.030037
NONFIN	1124	.000	0.966	.40832	.363275
SIZE	1124	6.390	11.112	8.55298	.805595
LEV	1124	.0112	7.462	.45034	.565347
ROA	1124	-.497	1.165	.03417	.099457
Valid N (listwise)	1124				

ملخص البحث

هيكل الملكية وجودة التدقيق: دليل من دول مجلس التعاون الخليجي

الهدف الرئيسي من الدراسة الحالية هو فحص العلاقة بين هيكل الملكية وجودة التدقيق في دول مجلس التعاون الخليجي. تشهد أنظمة حوكمة الشركات في البلدان النامية نقاط ضعف، مما يؤدي إلى عدم توازن العلاقة بين الآليات الخارجية والداخلية لأنظمة الحوكمة الخاصة بها. مع وجود قضية تركيز الملكية في دول مجلس التعاون الخليجي، حيث يمكن مصادرة حقوق مساهمي الأقلية، تم فحص ارتباط جودة التدقيق بهيكل الملكية للتحقق من تأثير كل نوع من المساهمين في دول مجلس التعاون الخليجي على جودة التدقيق. لهذا الغرض، تم اختيار عينة من دول مجلس التعاون الخليجي الست (البحرين والمملكة العربية السعودية والكويت وعمان وقطر والإمارات العربية المتحدة)، والتي تشمل جميع الشركات المدرجة في القطاع الصناعي، حيث تم استبعاد جميع الشركات المدرجة في القطاع المالي. تم فحص علاقة الدراسة الحالية من خلال ثلاثة اختبارات إحصائية رئيسية، وهي الإحصاءات الوصفية، وإحصاءات معامل ارتباط بيرسون، والتحليلات متعددة المتغيرات. تظهر نتائج التحليلات متعددة المتغيرات للنموذج 1 أن ثلاثة متغيرات مستقلة فقط لها ارتباط إيجابي كبير بجودة المراجعة و هي (ملكية الأسرة وملكية الحكومة والملكية الأجنبية)، بينما تكشف نتائج النموذج 2 أن متغيرين مستقلين فقط ارتبطا بشكل إيجابي كبير بجودة التدقيق و هما (الملكية المؤسسية والملكية الحكومية). تشير الدراسة إلى الحاجة إلى البحث في المستقبل من خلال بعض التوصيات، حيث توصي بالتركيز على الشركات المدرجة في القطاع المالي حيث تم استبعادها في هذه الدراسة، كما توصي بتمديد فترة الفحص لأكثر من ست سنوات للحصول على المزيد من النتائج المحسنة. إلى جانب ذلك، يُقترح على البحث المستقبلي النظر في أنواع أخرى من الملكية، وقياسات أخرى لجودة التدقيق لأغراض المقارنة.

الكلمات المفتاحية: جودة التدقيق، الملكية المركزة، المساهمون، دول مجلس التعاون الخليجي

جامعة البحرين

قسم المحاسبة



كلية إدارة الأعمال

هيكل الملكية و جودة التدقيق: دليل من دول مجلس التعاون الخليجي

أطروحة لاستكمال متطلبات الحصول على درجة الماجستير في برنامج المحاسبة

إعداد

زينب جلال عبدالكريم
الرقم الجامعي: ٢٠١٢٣٤٣٣

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جامعة البحرين

مملكة البحرين

مايو ٢٠٢٣