ISSN 2278-3091
Volume 8, No.1.1, 2019
International Journal of Advanced Trends in Computer Science and Engineering
Available Online at http://www.warse.org/IJATCSE/static/pdf/file/ijatcse0881.12019.pdf
https://doi.org/10.30534/ijatcse/2019/0881.12019

Impact of Audit Quality on Earnings Management: Case of Lebanon

Fleur C. Khalil[#1], Rita G. Yammine
[#]Faculty of Business and Commercial Sciences, USEK
Jounieh, Lebanon
[1]fleurkhalil@usek.edu.lb

ABSTRACT
The lack of transparency in financial statements in Lebanon is a chronic problem that induced less confidence of the shareholders. This paper addresses the latter in order to have a better understanding about how audit quality affects the level of earnings management in companies operating in Lebanon. The findings will help *inter alia* remedy issues such as fraud, fiscal evasion, and enhance the legitimacy of the financial statements. The audit quality is measured by the audit firm size, and the level of earnings management is measured by the discretionary accruals reported in the financial statements. Using an empirical study with a sample of 50 companies operating in the Lebanese market, the research findings suggest that the level of earnings management of audited companies is significantly lower compared to non-audited companies. There no significant difference between mandatory and voluntary audits in mitigating earnings management, Companies audited by large auditors proved to have a significantly lower level of earnings management than companies audited by small auditors. Finally, the effect of Big 4, the four largest international audit firms in the world, in mitigating earnings management does not significantly differ from other auditors, yet it was proved that the odds of having a high level of earnings management is lower when companies are audited by Big 4 audit firms.

Keywords: Audit quality, earnings management, discretionary accruals, financial statement

1. INTRODUCTION

Audit quality is one of the factors affecting the financial information credibility as perceived by the investors and other stakeholders. Since managers may have several reasons to overstate reported earnings, such as the positive relation between the firm's earnings and their annual bonus or promotion, auditors constrain earnings management that are mainly measured by the discretionary accruals recorded. Per previous studies [1] understatement of earnings may also be used to minimize the firm earnings by reporting negative discretionary accruals for tax purposes. Recent research [2] has established that financials audited by Big 4 audit firms are more reliable and accurate since lower earnings management is reflected through lower discretionary accruals in the financial statements. It is important to mention that Big 4 are the four largest international accounting firms in the world, namely Deloitte, Ernst & Young, KPMG, and PwC.

In the Middle East, and specifically in Lebanon, the emerging economies and the little risk of litigation for auditors due to the absence of effective disciplinary mechanism affect the audit quality. The earnings management may not be properly controlled as expected, and the audit quality may not differ between Big 4 and non-Big 4 auditors. Consequently, the investors' reliance on the auditor choice, for the assessment of the accuracy of financial information can be questioned.

The purpose of this paper is to evaluate whether earnings management is affected by the audit quality measured by the audit firm size in Lebanon. Earnings management are measured by the percentage of discretionary accruals reported, disregarding whether it is positive or negative. Such endeavor is sought to shed light on the best means enabling the issuance of true and fair financial statements of the audited company.

The results of similar studies in Greece [3] and Turkey [4] disagree with the hypothesis stating that there is a negative correlation between earnings management and audit quality due to the audit environment in these countries. *A contrario*, quality constrains earnings management in the USA and other developed countries [5].

This paper is structured as follow: (i) a literature review introduces the audit quality in Lebanon, (ii) a subsequent part states the hypotheses, (iii) the methodology design is presented, and (iv) the collected data is analyzed in the framework of a quantitative approach whence the hypothetical claims are investigated and the findings are inferred in the context of the Lebanese market.

2. LITERATURE REVIEW

2.1 Corporate Governance

The role of shareholders is to appoint the managers they believe they are capable to help them achieve the objectives of the company. Thus, corporate governance aims to align the interests of owners and managers and to improve the growth of the corporation. When the relation between corporate governance and business performance needs to be measured, accounting data-based criteria are considered more reliable than market-based criteria [6]. The accounting model is calculated on accrual basis. It is important to mention that accruals are recorded on financial statements based on management estimations. Further, the risk of having misstated accruals reported, due to management override of controls or fraudulent acts, increases and may deviate management interests from shareholders' interests. The latter induces a weaker corporate governance within the organization which may highly affects its performance towards objectives achievement.

2.2 Audit Purpose

Business leaders may have the tendency to report unrealistic numbers and mislead their stakeholders to avoid reporting losses, or inflate annual earnings that are sometimes linked to their personal bonuses and promotions. Therefore, the investors' trust in the published financial statements is negatively affected and needs to be restored by an independent party.

Consequently, the place of audit committee within organizations became more and more important, as its role is to oversee the financial reporting process and constrain earnings management [7]. The audit committee decisions rely on the reports of two audit sources: the internal and external auditors. This introduces the pertinent role of auditors whereby they ensure the credibility and reliability of financial statements for the board of directors and other stakeholders [9].

2.3 Agency Theory

The agency theory arises from the corporate governance and explains the relationship between the shareholders (principals), and the executives (agents) of a company [9]. Researches have defined two types of agency theory: the positive agency theory and the normative agency theory [10]. The positive agency theory highlights the situations in which both parties may have unaligned goals. For this purpose, it focuses on the control mechanisms that can be implemented to limit behaviors of self-serving and self-interest. However, the normative theory is a more general theory that may be used to define multiple relationships.

The agency theory has a fundamental problem, *i. e.* the principal cannot control the behaviors of the agent that may deviate his objectives from the principal ones to maximize his own personal benefits [11]. Three reasons may lead to agency theory problems: information asymmetry, moral hazard, and adverse selection. Information asymmetry is when one of the parties (the agent or the principal) has more information than the other [12].

In general, the agent is exposed to more information due to this supervision on the daily tasks done in the organization whereas the principal is only exposed to the information reflected in the results of the organization. Consequently, information asymmetry may lead to what is called 'moral hazard', whence the agent or the principal uses the available information for his own benefits. Another result of information asymmetry is an adverse selection that arises when the principal is unable to assess the ability or the effectiveness of the agent for a managerial position.

The information asymmetry should be reduced by the role of external auditors. External auditors are appointed by the shareholders to provide an opinion on the financial statements prepared by management, and make sure it is free from any material misstatement due to error or fraud and in accordance with accounting standards.

2.4 Audit in the MENA region and Lebanon

In the Middle East and North Africa (MENA), a general corporate governance code is adopted by almost all countries. Recently, the presence of audit committees in large companies and banks became a mandatory requirement by the governments of these countries especially after the financial crisis in 2008. However, countries of the MENA region still share the same cultural and historical backgrounds that influence on the organizations where significant inequalities and lack of controls are found.

In most of the MENA region countries, external auditing is required for private sector companies and is performed by local and international firms including Big 4 companies. External auditors may rely on internal auditors' work to assess the risks of the organizational processes [13]. Recent research show that external auditors in Saudi Arabia are not satisfied from the internal auditors' work due to the lack of independency, unqualified staff, and lack in trainings programs in the organizations [14]. Thus, they decide not to rely on internal audits which increases their scope of work, time, and audit fees.

The Lebanese culture, similar to the culture of the MENA countries, with *inter alia* a lack of legal requirements for companies, have made the corporate governance in Lebanon less efficient than other countries. To remedy the latter, the government has set in the recent period new requirements for the companies operating in Lebanon relevant to the composition of the board of directors' committees. However, 14% of the companies operating in Lebanon have audit committees, with only 18% of these committees operating efficiently [15].

Many efforts were also done by the Lebanese Government to apply the International Accounting Standards (IAS). However, there were no mechanisms set to ensure IAS compliance except in the banking sector. The IAS seemed very complicated for small and medium size enterprises that have limited knowledge in these standards, hence the risk of having errors in the financials is increased. Even though audit firms perform audits in accordance with the International Standards on Auditing (ISA), the quality of the audits varies significantly due to the lack of supervision on the auditing profession.

The number of audited companies in Lebanon has increased in the last decade for three main reasons: first, new foreign investments were announced, the companies involved are mandatorily required by the parent company to be audited; second, investors and creditors became more interested in the credibility of the financial statements, thus requesting audited information before taking their decision; third, several companies voluntarily choose to be audited, whether to improve the accounting quality or to benefit from the positive perception of the market for audited financial statements.

3. HYPOTHESES DEVELOPMENT

As the shareholders rely on the auditor's judgements to guarantee disclosure, transparency and accountability, the auditors have a key role to play to ensure that the financial statements give a true and fair view of the company, and that reasonable and prudent judgments have been made regarding earnings management. It becomes relevant to investigate whether the audit quality differentiated by the auditor size have an impact on the level of earnings management measured by the discretionary accruals in companies operating in Lebanon.

3.1 Audit effect on earnings management

1) *Audited vs Non-audited companies*

During the financial crisis of 2008, the earnings quality decreases, especially in countries with weak controls and low investor protection level [16], despite the increase in the audit quality due to the audit risk increase [17]. Previous researches show a positive relation between the audit quality and the level of investor protection in which the company audited operates [16, 18, 19, 20]. It has been revealed that markets that have greater penalties for audit failure, have a larger investment level and a higher audit effort, associated with a higher audit quality and consequently leading to a lower level of earnings management [21].

Prior research found that audited financial statements are perceived by the stakeholders as more reliable and more credible than non-audited ones [22]. The monitoring role of auditing helps improving the accounting quality by limiting the opportunistic behaviors of managers [23]. Thus, audits are a constraint to earnings management.

In Lebanon, the level of investor protection is low, due to the non-stable economic and political situation, in addition to the weak penalties associated to audit failure or resource diversion. The first hypothesis of this study is developed accordingly:

H1a. The level of earnings management is significantly lower for audited companies than non-audited companies.

2) Mandatorily vs Voluntarily audited companies

In Lebanon, unlimited partnership companies are not mandatorily required to be audited. However, some companies still choose to be audited. As for limited liability companies, audit is also optional. It only becomes mandatory under one of the following conditions: number of partners above 20, capital above LBP 30 million, or specific request by partners representing a minimum of 1/5 of the capital. Banks, joint stock companies, holding companies, and offshore companies are mandatorily required to be audited.

Previous study has shown that audited financial information is considered more reliable by the lenders when setting the interest rate, which helps the company to have a lower cost of debt [24]. Consequently, companies may voluntarily choose to be audited, not only for improving the quality of the accounting information, but also to benefit from the perception of a more reliable and accurate information [25].

Studies have shown that mandatory audits do not necessarily guarantee high quality information because companies may not be committed to improve the information quality and comply with the accounting standards [26]. Accordingly, the audit requirements in Lebanon may not necessarily increase the audit quality performed for mandatorily audited companies; and voluntarily audited companies may only be seeking the improvement of the stakeholders' perception towards financial statements. Hence, the second hypothesis in this study is as follows:

H1b. There is no difference in the level of earnings management reported by voluntarily audited companies and the mandatorily audited ones.

3.2 Audit quality measured by audit firm size

1) Large auditor firms vs Small auditor firms

Previous studies have highlighted the importance of audit characteristics on constraining earnings management and improving accounting quality [27, 28]. Among these characteristics, researchers have identified the auditor specialization [29], the audit fees [30], the auditor tenure [31], and the audit firm size [32] as measures of audit quality.

However, the most common measure for audit quality is the audit firm size where large auditors are considered to have higher technical expertise, more independence [33], higher audit fees, and higher audit quality [34]. The size of the firm can be measured by the audit firm assets: office size, number of employees, and market share.

The size of audit firms operating in Lebanon vary from small (Lebanese local firms), middle tier (*e.g.* Grant Thornton, BDO, Moore Stephens) to large audit firms (Big 4 companies, *i.e.* Deloitte, Ernst & Young, KPMG, and PwC).

The following hypothesis is formulated to determine if the impact of the audit firm size is positively related to the earnings management in the Lebanese market:

H2a. Companies audited by large auditors report a significantly lower level of earnings management than those audited by small auditors.

2) Big 4 vs Non-Big 4 audit firms

Big 4 audit firms (Deloitte, Ernst & Young, PwC, and KPMG) are internationally known for the high audit quality. The big offices size, the high experience in all industries, and the reputation in the market are all factors positively associated with the audit quality [35]. Big 4 auditors tend to be more conservative, which reflects lower discretionary accruals reported in the financial statements and consequently, a lower level of earnings management [36]. The auditor effectiveness, negatively associated with the earnings management level, is affected by two major factors: the auditor conservatism, and the visibility and litigation risk of auditors [37].

Auditors' conservatism is explained by the fact that they prefer accounting choices that decrease income instead of the ones that increase income. As for the visibility and litigation risk, big auditor firms may incur higher losses in case of failure, both on the economic level, due to their high cost engagements, and on the reputational level, because they are well known in the market [38].

However, studies have shown that in a context with lower visibility and litigation risk, the incentives to maintain a high quality of work and protect the reputational image will be reduced, making the audit quality provided by large auditors, including Big 4 auditors, similar to other firms' audits [39, 40, 41].

It is investigated herein whether the Lebanese firms choosing non-Big 4 firms have higher level of earnings management reflected by the discretionary accruals in the reported financial statement, whereby the following hypothesis is stated for this study:

H2b. Companies audited by one of the Big 4 audit firms report a significantly lower level of earnings management than those audited by non-Big 4 audit firms.

4. RESEARCH METHODOLOGY

4.1 Data Collection, Sample Description and Empirical Framework

Since companies operating in Lebanon are not mandatorily required to publish their financial information online, the access to information is limited. This research uses a quantitative method by collecting primary data from 50 companies, including non-audited companies, mandatorily audited companies and voluntarily audited companies, through a questionnaire sent to managers.

The purpose of this inquiry is to collect data reflecting the financial status of the company, to assess the level of earnings management, in addition to its audit firm size being a measure of the audit quality.

The sample is divided by the auditor choice of these companies, and includes companies audited by Big 4 (42%), middle tier (33%), or small audit firms (25%) and by the audit status as non-audited companies (20%), mandatorily required to be audited (46%), and are voluntarily audited (34%). For diversification purpose, companies from different sectors are considered to make the sample more representative of the Lebanese market.

The response rate of the total sample is 60%, distributed as follow: 23% of non-audited companies, 40% of mandatorily required to be audited, and 37% are voluntarily audited; 39% of Big 4 audit firms, 22% of middle tier, and 39% of small audit firms.

4.2 Characteristic of Variables

Total accruals are management's estimates about cash flows for making accounting earnings better reflect the firm's economic performance. However, two types of accruals are differentiated here: non-discretionary and discretionary accruals. Non-discretionary accruals are imposed by the accounting standards and are a consequence of the operating activities of the company.

According to previous studies [1, 27] discretionary accruals give managers the opportunity to manipulate earnings, hence it is considered as reliable factor to measure the level of earnings management. In this study, we used the discretionary accruals as measure of the earnings management: companies may have the tendency to manage earnings downward to pay less taxes, knowing that the income tax applied on companies operating in Lebanon is 15% on profit, or to increase earnings to reflect a better financial position for lenders (banks and financial institutions).

The audit quality is measured by the size of the audit firm: large audit firms (Big 4), middle tier (other international companies), small (Lebanese local firms).

5. RESULTS AND ANALYSIS

Quantitative analysis are performed using the Chi-square test of association in SPSS® 23.

5.1 Audited vs Non-audited companies

The first hypothesis H1a shows a significant association between the status of the company (audited/non-audited) and the level of earnings management measured by the percentage of discretionary accruals reported, $\chi^2(4) = 16.660$, and $p = 0.002$. The latter association is strong with Cramer's V = 0.745.

Non-audited companies with discretionary accruals between 50% and 70% report a higher level of earnings management than audited company with a standardized residual of 2.1. Non-audited companies with discretionary accruals above 70% report a higher level of earnings management than audited company with a standardized residual of 2.2. There is no clear evidence of significant difference in companies with discretionary accruals below 50%.

Based on the odds ratio calculation, one can conclude that the odds of audited companies having discretionary accruals above 50% over the odds of non-audited companies with discretionary accruals above 50% is equal to 0.018 (0.045/2.5). The latter means that the odds of non-audited companies having discretionary accruals above 50% are 55.55 = $(0.018)^{-1}$ times higher than audited companies with similar discretionary accruals.

These results are consistent with the idea that auditing in companies operating in Lebanon provides a constraint for earnings management activities.

Furthermore, an additional analysis is performed on the collected data to test if the effect of auditing is the same when companies have incentives for increasing earnings to reflect a better financial position and when companies have incentives to report lower earnings to decrease the tax expense. Data for the audited companies are only considered. The difference in the level of earnings management between companies reporting net negative accruals (or decreasing earnings) and companies reporting net positive accruals (or increasing earnings) is tested.

The Chi-Square test shows that there is a significant association between both variables, $\chi^2(3) = 9.196$, and $p = 0.027$. This association is moderately strong with Cramer's V = 0.632.

Results shows that the level of earnings management is lower when audited companies report positive accruals than when it reports negative accruals. Hence, one can conclude that audits help mitigate earnings management behaviors, but have a better effect in mitigating increasing earnings behaviors than decreasing earnings behaviors.

5.2 Mandatorily vs Voluntarily audited companies

The second hypothesis H1b shows a significant association between the status of the audited company being mandatorily or voluntarily audited, and the level of earnings management measured by the percentage of discretionary accruals, $\chi^2(3) = 8.022$, and $p = 0.046$. This association is moderate with Cramer's V = 0.591.

Voluntarily audited companies with discretionary accruals between 30% and 50% report a higher level of earnings management than mandatorily audited company with a standardized residual of 1.3. Voluntarily audited companies with discretionary accruals between 50% and 70% report a higher level of earnings management than mandatorily audited company with a standardized residual of 0.8. Though, the difference is not significant since the absolute value of the standardized residuals is below 1.96 in all cases.

Furthermore, odds ratios indicate that although all types of audits, whether voluntary or mandatory, help to control earnings management behaviors as already reported in the results of the first hypothesis, the effect of mandatory audits is slightly higher than the effect of voluntary audits. Auditors seem to be more lenient when performing voluntary audits, what may be due to the lower controls imposed on the audit quality in this setting, since the controls set and effectively applied by the government for audit quality are mainly focused on the mandatory audits.

5.3 Large auditors vs Small auditors

The third hypothesis H2a shows a significant association between the variable auditor size (large/middle tier or small) and the level of earnings management, $\chi^2(3) = 12.652$, and $p= 0.005$. This association is strong with Cramer's V = 0.742.

Companies audited by small audit firms with discretionary accruals between 30% and 50% report a higher level of earnings management than companies audited by large auditors with a standardized residual of 1.9. For other levels of discretionary accruals, there is no evidence of significant difference.

Based on the odds ratio calculation, the odds of companies audited by small auditors having discretionary accruals above 30% over the odds of companies audited by large auditors with discretionary accruals above 30% is equal to 48.19 (8/0.166). The latter means that the odds of having discretionary accruals above 30% is 48 times higher when companies are audited by small auditors than when companies are audited by large auditors.

Hence, companies audited by large and middle tier auditors report a lower level of earnings management than companies audited by small auditors. This may be explained by the lack of technical audit knowledge in the local Lebanese audit firms, and the higher reputational risk faced by large auditors, which justifies the effort in detecting earnings management.

5.4 Big 4 vs Non-big 4 auditors

The fourth hypothesis H2b shows a significant association between companies audited by one of the Big 4 audit firms and level of earnings management, $\chi^2(3) = 7.818$, and $p= 0.05$. This association is moderate with Cramer's V = 0.583.

The difference in the level of earnings management between companies audited by Big 4 and companies audited by non-Big 4 audit firms is not significant since the absolute value of the standardized residual is below 1.96 in all cases.

Based on the odds ratio calculation, the odds of companies audited by non-Big 4 auditors having discretionary accruals above 30% over the odds of companies audited by Big 4 auditors with discretionary accruals above 30% is equal to 1.8/0.125 = 14.4.

Even though the level of earnings management does not significantly differ between companies audited by Big 4 audit firms and others audited by non-Big 4 audit firms, the odds of having discretionary accruals above 30% is 14 times higher when companies are audited by non-Big 4 auditors than when companies are audited by Big 4 auditors. This could be explained by the enhanced audit knowledge of Big 4 auditors as international audit quality standards are required and regularly monitored.

6. CONCLUSION

The level of earnings management proved to be lower when companies are audited, as auditing help to limit earnings management. Audits are more effective in mitigating income-increasing behaviors than income-decreasing behaviors.

Also, there no significant difference between mandatory and voluntary audits in mitigating earnings management. However voluntary audits also deter earnings management but in a lesser extent than mandatory audits. This is mainly due to the higher litigation risk faced by mandatory audits in Lebanon.

Companies audited by large auditor firms (Big 4 or other international audit firms) proved to have a significantly lower level of earnings management than companies audited by small auditors (local Lebanese audit firms), which could be explained by the low technical knowledge small auditors have compared to large auditors.

However, the effect of Big 4 audit firms in mitigating earnings management does not significantly differ from other auditors, yet it was proved that the odds of having a high level of earnings management is lower when companies are audited by Big 4 audit firms.

In view of these findings, the Lebanese Government can encourage more companies to prepare financial statements in accordance with the International Accounting Standards (IAS) and seek to receive unqualified opinion from an external auditor. Further, the Government can implement more strict criteria pertaining to audit quality and issuance of financial statements for companies operating in Lebanon. Also, training workshops should be organized to enhance the sensitivity of local auditors to laws and procedures, hence improving the quality of their audit.

Though this study contributes to compelling results regarding the effect of audit quality on the level of earnings management in companies operating in Lebanon, the number of responses received is minor compared to the Lebanese market. Consequently, investigating the findings in diverse industry sectors results is missing. An extended future study, completed by secondary data collected from historical financial statements of companies, will tackle the latter aspect.

REFERENCES

[1] Dechow, P., Ge, W., & Schrand, C. "Understanding earnings quality: A review of the proxies, their determinants and their consequences". *Journal of Accounting and Economics*, *50*(2), 344-401, 2010. https://doi.org/10.1016/j.jacceco.2010.09.001

[2] Carson, E., Simnett, R., Trompeter, G., & Vanstraelen, A. "The impact of group audit arrangements on audit quality and pricing", 2014.

[3] Tsipouridou, M., & Spathis, C. "Audit opinion and earnings management: Evidence from Greece". In *Accounting Forum* (Vol. 38, No. 1, pp. 38-54), 2014. https://doi.org/10.1016/j.accfor.2013.09.002

[4] Yasar, A. "Big Four Auditors' Audit Quality and Earnings Management: Evidence from Turkish Stock Market". *International journal of business and social science*, *4*(17), 2013.

[5] Lin, J. W., & Hwang, M. I. "Audit quality, corporate governance, and earnings management: A meta-analysis". International Journal of Auditing, 14(1), 57-77, 2010. https://doi.org/10.1111/j.1099-1123.2009.00403.x

[6] Arora, A. “Literature Review Assessing the Relationship between Corporate Governance and Firm Performance”. In Compendium of Research Papers of National Conference on Managing tomorrow: Issues and Challenges by DY Patil Institute of Management Studies, Pune (Vol. 2, No. 1, pp. 394-424), 2015.

[7] Cohen, J. R., Hoitash, U., Krishnamoorthy, G., & Wright, A. M. “The effect of audit committee industry expertise on monitoring the financial reporting process”. *The Accounting Review*, *89*(1), 243-273, 2013. https://doi.org/10.2308/accr-50585

[8] Bunget, O. C., & Dumitrescu, A. C. “Detecting and Reporting the Frauds and Errors by the Auditor”. *Annales Universitatis Apulensis: Series Oeconomica*, *11*(1), 117, 2009.

[9] Jensen, M. C., & Meckling, W. H. “Theory of the firm: Managerial behavior, agency costs and ownership structure”. *Journal of financial economics*, *3*(4), 305-360, 1976. https://doi.org/10.1016/0304-405X(76)90026-X

[10] Gilson, R. J., & Gordon, J. N. “The agency costs of agency capitalism: Activist investors and the revaluation of governance rights”. *Columbia Law Review*, 863-927, 2013.

[11] Krause, R., & Bruton, G. “Agency and monitoring clarity on venture boards of directors”. *Academy of Management Review*, *39*(1), 111-114, 2014. https://doi.org/10.5465/amr.2013.0032

[12] Agoglia, C. P., Hatfield, R. C., & Lambert, T. A. “Audit team time reporting: An agency theory perspective”. *Accounting, Organizations and Society*, *44*, 1-14, 2015. https://doi.org/10.1016/j.aos.2015.03.005

[13] Brody, R. G. “External auditors' willingness to rely on the work of internal auditors: The influence of work style and barriers to cooperation”. *Advances in Accounting*, *28*(1), 11-21, 2012. https://doi.org/10.1016/j.adiac.2012.02.005

[14] Alktani, S., & Ghareeb, A. “Evaluation of the quality of the internal auditing position in the public sector in Saudi Arabia: An applied study”. *Global Review of Accounting and Finance*, *5*(1), 93-106, 2014. https://doi.org/10.21102/graf.2014.03.51.06

[15] Chehaita B. & Bakkour D. “The role of the external audit in the corporate governance of Lebanon”. *The Certified Accountant, Lebanese Association of Certified Public Accountants*, 44; p. 86-98, 2011.

[16] Persakis, A., & Iatridis, G. E. “Earnings quality under financial crisis: A global empirical investigation”. *Journal of Multinational Financial Management*, *30*, 1-35, 2015. https://doi.org/10.1016/j.mulfin.2014.12.002

[17] Bronson, S. N., Ghosh, A. A., & Hogan, C. E. “Audit Fee Differential, Audit Effort, and Litigation Risk: An Examination of ADR Firms”. *Contemporary Accounting Research*, 2016.

[18] Leuz, C., Nanda, D., & Wysocki, P. D. “Earnings management and investor protection: an international comparison”. *Journal of financial economics*, *69*(3), 505-527, 2003. https://doi.org/10.1016/S0304-405X(03)00121-1

[19] Behn, B. K., Choi, J. H., & Kang, T. “Audit quality and properties of analyst earnings forecasts”. *The Accounting Review*, *83*(2), 327-349, 2008. https://doi.org/10.2308/accr.2008.83.2.327

[20] Houqe, M. N., Van Zijl, T., Dunstan, K., & Karim, A. W. “The effect of IFRS adoption and investor protection on earnings quality around the world”. *The International journal of accounting*, *47*(3), 333-355, 2012. https://doi.org/10.1016/j.intacc.2012.07.003

[21] Jaggi, B., & Low, P. Y. “Joint effect of investor protection and securities regulations on audit fees”. *The International Journal of Accounting*, *46*(3), 241-270, 2011. https://doi.org/10.1016/j.intacc.2011.07.003

[22] Huguet, D., & Gandía, J. L. “Cost of debt capital and audit in Spanish SMEs”. *Spanish Journal of Finance and Accounting/Revista Espanola de Financiacion y Contabilidad*, *43*(3), 266-289, 2014. https://doi.org/10.1080/02102412.2014.942154

[23] Dedman, E., & Kausar, A. “The impact of voluntary audit on credit ratings: evidence from UK private firms”. *Accounting and Business Research*, *42*(4), 397-418, 2012. https://doi.org/10.1080/00014788.2012.653761

[24] Minnis, M. “The value of financial statement verification in debt financing: Evidence from private US firms”. *Journal of Accounting Research*, *49*(2), 457-506, 2011. https://doi.org/10.1111/j.1475-679X.2011.00411.x

[25] Bischof, J., & Daske, H. “Mandatory disclosure, voluntary disclosure, and stock market liquidity: evidence from the EU bank stress tests”. *Journal of accounting research*, *51*(5), 997-1029, 2013. https://doi.org/10.1111/1475-679X.12029

[26] Clatworthy, M. A., & Peel, M. J. “The impact of voluntary audit and governance characteristics on accounting errors in private companies”. *Journal of Accounting and public policy*, *32*(3), 1-25, 2013. https://doi.org/10.1016/j.jaccpubpol.2013.02.005

[27] Dichev, I. D., Graham, J. R., Harvey, C. R., & Rajgopal, S. “Earnings quality: Evidence from the field”. *Journal of Accounting and Economics*, *56*(2), 1-33, 2013. https://doi.org/10.1016/j.jacceco.2013.05.004

[28] Demerjian, P. R., Lev, B., Lewis, M. F., & McVay, S. E. “Managerial ability and earnings quality”. *The Accounting Review*, *88*(2), 463-498, 2012. https://doi.org/10.2308/accr-50318

[29] Bills, K. L., Jeter, D. C., & Stein, S. E. “Auditor industry specialization and evidence of cost efficiencies in homogenous industries”. *The Accounting Review*, *90*(5), 1721-1754, 2014. https://doi.org/10.2308/accr-51003

[30] Blay, A. D., & Geiger, M. A. “Auditor fees and auditor independence: Evidence from going concern reporting decisions”. *Contemporary Accounting Research*, *30*(2), 579-606, 2013. https://doi.org/10.1111/j.1911-3846.2012.01166.x

[31] Yuan, R., & Zhang, X. “Audit Tenure, Industry Specialization and Audit Quality”. *Journal of Accounting and Economics*, *2*, 001, 2014.

[32] Knechel, W. R., Krishnan, G. V., Pevzner, M., Shefchik, L. B., & Velury, U. K. “Audit quality: Insights from the

academic literature". *Auditing: A Journal of Practice & Theory*, *32*(sp1), 385-421, 2012.

[33] Fernando, G. D., Abdel-Meguid, A. M., & Elder, R. J. "Audit quality attributes, client size and cost of equity capital". *Review of Accounting and Finance*, *9*(4), 363-381, 2010. https://doi.org/10.1108/14757701011094571

[34] Choi, J. H., Kim, C., Kim, J. B., & Zang, Y. "Audit office size, audit quality, and audit pricing". *Auditing: A Journal of Practice & Theory*, *29*(1), 73-97, 2010. https://doi.org/10.2308/aud.2010.29.1.73

[35] Skinner, D. J., & Srinivasan, S. "Audit quality and auditor reputation: Evidence from Japan". *The Accounting Review*, *87*(5), 1737-1765, 2012. https://doi.org/10.2308/accr-50198

[36] Cano-Rodríguez, M. "Big auditors, private firms and accounting conservatism: Spanish evidence". *European Accounting Review*, *19*(1), 131-159, 2010. https://doi.org/10.1080/09638180902989426

[37] Van Tendeloo, B., & Vanstraelen, A. "Earnings management and audit quality in Europe: Evidence from the private client segment market". *European accounting review*, *17*(3), 447-469, 2008. https://doi.org/10.1080/09638180802016684

[38] Sundgren, S., & Svanström, T. "Audit office size, audit quality and audit pricing: evidence from small-and medium-sized enterprises". *Accounting and Business Research*, *43*(1), 31-55, 2013. https://doi.org/10.1080/00014788.2012.691710

[39] Ajona, L. A., Dallo, F. L., & Alegria, S. S. "Discretionary accruals and auditor behaviour in code-law contexts: An application to failing Spanish firms". *European Accounting Review*, *17*(4), 641-666, 2008. https://doi.org/10.1080/09638180802172479

[40] Chen, H., Chen, J. Z., Lobo, G. J., & Wang, Y. "Effects of audit quality on earnings management and cost of equity capital: Evidence from China". *Contemporary Accounting Research*, *28*(3), 892-925, 2011. https://doi.org/10.1111/j.1911-3846.2011.01088.x

[41] Hope, O. K., Langli, J. C., & Thomas, W. B. "Agency conflicts and auditing in private firms". *Accounting, Organizations and Society*, *37*(7), 500-517, 2012. https://doi.org/10.1016/j.aos.2012.06.002