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A Review Of The Literature: Arab Countries' Corporate Governance And External Auditing

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Abstract

The objective of the paper is to assessment and inspect the association among Arab countries' corporate governance and external auditing. Reliable sources were used to obtain relevant material, which was then examined to find publications that matched the study's objectives. The results show that countries like Algeria and Iraq received the most papers. Articles can only last 8 years, and the bulk of them use secondary data or a time series data technique. Studies using a survey methodology had tiny samples, the majority of the respondents were accountants. The majority of studies and articles about the subject were given to listed firms. It is suggested recommended future research examine the association in other contries and use both qualitative and quantitative methods with superior sample sizes or time frames to improve generalizability.

Keywords: Earnings management, Internal Auditing, External auditing, Corporate governance.

Introduction

In view of the financial and economic crises that have affected the majority of the economies of developed and developing nations over the past 20 years, corporate governance has gained significant relevance (Alaaraj, 2018, 2017, 2016). These emergencies prompted weighty misfortunes in global organizations, particularly American and European organizations. The authoritative disappointment expanded organizations and control of monetary records and amplify benefits at high charges with non-adherence to the boundaries of expert and moral way of behaving. For these and different reasons prompted the liquidation and difficulty of enormous organizations have harmed a large number of financial backers, investors and lenders. As monetary emergencies strengthened, it became important to foster instruments to screen the administration of the organization productively and really, this is the thing has been named corporate administration as a cutting edge administration style for directing the interrelationship between the organizations and abroad, which characterizes the obligations of each party to safeguard the privileges of the investors and different partners.

Many international companies have failed in recent years, and as a result, regulatory bodies were required to reduce administrative and financial corruption by corporate departments in support of transparency and credibility. This was done to protect the interests of the interested parties in the company as a whole in the financial reports provided by these companies. As a result, the so-called corporate governance was activated to activate supervision and control as well as a review process. (Farid, 2014).

The audit profession, as different professions confronting many difficulties considering the progressions in the business climate, whether financial or political changes or mechanical improvements, for example, the one that the world is seeing on a nonstop premise, which puts on the shoulders of lawful accountants critical obligations to stay aware of these progressions and work fair and square of the professions, The effect of these progressions and advancements is a significant figure molding the eventual fate of the profession.

In accordance with international auditing standards, the external auditor is required to consider four key aspects, including: "(1) the technical competence of internal audit staff; (ii) exercise due professional care; (iii) the objectivity of internal audit in terms of status and reporting lines for the internal audit function; and (iv) communication between internal and external audit" (Monroe and Stewart, 2011, pp. 466-467). In order to assure the accuracy and legitimacy of the financial reporting, the external audit is a crucial step for the shareholders. A number of variables, including the independent and experience of the external auditor, the external auditor's understanding of the industry, and the external auditor's reputation, all play a role in determining the quality of the external audit (Al-Ghamdi and Ali 2012).

The laws and rules governing the profession are modified frequently, and society's expectations of Chartered Accountants as an objective authority with an impartial viewpoint are rising as well. Mechanism, and its impact can be seen on the decision-making, separation, and evaluation events affecting auditors' costs during the development of the job market and the future of audit firms in the marketplace (Abdullah, 2016).

The Role which has provided by external auditor in solidification the company governance remains unclear. The increased chances for fraud and legal compliance must be taken into account by auditors as well as to the more conservative sections of financial statements. In order to have a reasonable assurance that serious misstatements that arise from falsified actions, such as bribery, are discovered and disclosed, they are under increased pressure to plan and conduct an audit (Kassem & et, al., 2016).

The role of the external auditor entails identifying and communicating potential risks or uncertainties that pose a threat to financial institutions. This is an integral part of the audit process when examining financial statements. By doing so, senior management is equipped to make timely and informed decisions regarding the challenges and risks faced by these institutions. The duties and obligations of external audit to conduct a precise basic examination of money related explanations in arrange to provide an unbiased specialized supposition on the decency of these articulations and their representation of the truth, and this conclusion is the result of its discoveries and its suggestions for all pertinent parties that take it into consideration when making its choices. Financial, performs auditing tests and actions in accordance with generally accepted auditing standards, and uses adequate professional care, as the report contains the facts and findings of the auditor. By doing so, the auditor has fulfilled his obligations and felt confident in his ability to advocate for appropriate information and financial statements while adhering to all requirements of the global structure.

As can be observed, one of the biggest worldwide corporation scandals involves flaws in independent external audit services. Company scandals and economic problems will be minimized to a ratio if he provides services of an equal caliber to his independent external audit services. Therefore, the independent external audit is a crucial component of sound corporate governance. As a result, it is crucial that businesses select an impartial auditor while also paying attention to the audit's quality (Fooladi and Farhadi, 2011).

Going before ponders devoted on a few issues that are related to corporate administration. In any case, the external auditing set up less care and it isn't clear to what amplify the external auditing can influence the corporate administration. For this reason, this consider points to audit and look at the writing to recognize the association between external auditing and corporate governance.

The taking after segment examines the technique, outline of past considers, discoveries, and heading of upcoming effort as well as concluding comments.

Despite the fact that many businesses attempt to implement internal control over financial and non-financial practices, this is insufficient as external control must express an opinion about the veracity of the financial reports and the data they contain by seeking out mistakes and dishonest practices that aim to alter the meaning of financial reports in order to further personal interests or to influence the choices of their users. The accuracy and reliability of a company's financial facts are guaranteed by auditing. For participants in the capital market, auditors perform two crucial roles: informational and protective (Hakim and Omri, 2010).

Methodology

The current research provides a literature review to determine how external auditing affects corporate governance. This paper gathers information from current databases to deal with the issue because of this. To identify associated studies, keywords like corporate governance, external audits, and their combinations were employed. The paper occasioned in more than 200 articles. Be that as it may, the articles were decreased to 11 papers that have looked into the association between external auditing and corporate governance. The number of articles is a sign of the need of considers that bargain with our issue. The articles were extricated at that point sifted and screened. To begin with screening incorporates the repetition of articles. Within the second screening, the perusing of title and theoretical was conducted. The remaining papers were thoroughly reviewed for the third screening. A total of eleven articles about corporate governance and external auditing have emerged from this. The approach for selecting studies that are relevant to this issue is shown in Figure 1.

Figure 1: Steps of choosing the researches

Summary of the Articles

Companies that utilize earnings management produce accounting earnings that are less reliable and do not accurately reflect the fundamental financial success of the business. By diminishing investor confidence in financial reports and perhaps resulting in poor decisions, results management methods degrade the quality of reported earnings and their usage for a variety of purposes, including investment decisions. On the other side, corporate governance uses monitoring mechanisms to stop managers' opportunistic behavior, enabling firms to have more reliable and high-quality reported accounting earnings. Therefore, it is crucial to research the extent of the impact of governance systems on earnings management since behaviors related to earnings management affect the quality and reliability of accounting information and thereby deceive stakeholders.

According to Manita et al. (2020), external auditors' role in corporate governance is to make sure that the management and Board of Directors are acting in the best interests of the shareholders. External auditors can help shareholders by verifying that the company's internal controls are reliable and effective by upholding objectivity. By collaborating with the audit committee and engaging with internal auditors, external auditors can also help the Board of Directors have a more effective control over the financial reporting process. The "audit expectations gap" must be addressed, nevertheless, as the audit function can only do so much to fight fraud. The external auditor cannot be expected to find every instance of fraud or mistake during an audit.

The looked into ponders have basically centered on the external auditing and corporate governance. For illustration, within the research conducted by Atwa and Abd (2019), the creators pointed to distinguish the part of factors connected to the quality of external audit, and variables related to corporate governance in dipping the exercise of earnings management in industrial and service companies listed in the Amman Financial Market, and the study create the phenomenon of the practice of management earnings in all industrial and service companies that were chosen as a test for study and within the different a long time of study extended amid (2011-2014), and the existence of a favorable effect for the time period of the auditor's report's release to switch the external auditor and not audit the Earnings Management exercise, as well as the existence of a negative statistical influence for the size of the audit office and the type of report of the auditor on the exercise of Earnings Management in firms.

The paper of Khalaf and Ali (2018) which inspected the key role of external auditor in protective banks from risks and continuity and highlighting problems legislation and endorsements in the growth of standard standards and rules to control the performance of banking, and the paper recruit that the independence of external auditor on international auditing standards Basel's recommendations lead to high efficiency of banking risk management auditing.

Belkhairi (2018) inspected the influence of external audit in the initiation of the internal control system, over its valuation by the auditor and is the first step in the application of his task, and the identification of the system's faults and strengths, the study discovered that using an internal control system can aid in achieving objectives. The organization's internal control system is examined by the external auditor using a variety of techniques.

The purpose of Lshlash's (2018) study was to investigate how corporate governance practices might raise the caliber of external audits. The study found an association between the internal control system, the use of corporate governance tools by the Board of Directors, and the efficacy of external audits.

The study of Trish (2017) designed to define the extent to which external audit in Algeria subsidized to the application of corporate governance. The sample of the study contained of 103 accountants and an expert. It was determined that external auditors contribute strongly to the application of corporate governance.

The Ahtitash study (2017) sought to shed light on the influence of the caliber of external audit as an external corporate governance instrument on the accuracy of financial statements. 90 accountants and accounting specialists from Algeria make up the study sample. The study came to the conclusion that the audit office factors, auditor factors, and audit implementation factors all had a statistically significant impact on the accuracy of the financial statements, while differences in trends occur as a result of the experience of the external auditor. Audit office representation. Audit office representation of an international audit office. Audit office membership in a network of audit offices.

The goal of Saeed and Lashash's (2015) paper, which examined how Algeria's acceptance of corporate governance influenced the level of external audits and establish that the existence of independent members on the board of directors, in addition to the institution's large number of creditors and stockholders, have an advantageous effect on increasing audit quality.

The study by Al-Mubashir (2014) used a descriptive analytical approach and relied on the complete enumeration technique to categorize the features related to internal audit quality in firms listed on the Stock Exchange of Palestine and to state the kind of association between all of these features and earnings management; Due to the study's small sample size, which was comprised of only (49), it relied on a survey to achieve its objectives, which were distributed to managers of departments and heads of departments of internal audit in all companies listed on the Palestine Exchange. The primary findings of the study include there is no correlation between internal audit quality and the decline of earnings management in the enterprises under research despite the fact that all companies listed on the Palestine Exchange practice earnings management and have quality internal audit roles.

The focus of the article in (Alabdullah et al., 2014) was on the history of corporate governance and its origins at a period when the audience and the vast majority of researchers believed the Sarbanes-Oxley Act and legislation in the United States of 2002 were responsible for its existence and guiding principles. This study was developed using a thorough literature assessment, the author's years of experience in accounting, management, and corporate governance, in particular, as well as other relevant fields. Conclusion: Despite widespread misunderstandings and controversy during the 2000s, when corporate governance first emerged, the practice actually dates back more than a century. Investors and organizations should also be aware of this report.

Mashhadani and Al-Fatlawi's (2012) study aimed to determine how the application of corporate governance affected the use of earnings management techniques by certain companies, taking advantage of the flexibility in accounting standards to select between different accounting modalities and policies, interfering with measures and accounting disclosures to affect the accounting figures determined on them, and. The study discovered that lowering Earnings Management techniques has an effect on corporate governance procedures.

In order to determine the extent of the independence requirements for external auditors in the state of Kuwait, Al-

Rashidi (2012) conducted a study. In the study, the researcher used a descriptive analytical technique. From this community's unclouded (75) individuals, a purposive sample was selected, and 62 questionnaires were recovered and made accessible for analysis. There are now results. According to the group that includes accounting auditors, users of financial statements, control and supervision parties, and those who are more effective in this regard, the independence requirements for external accounting auditors in the state of Kuwait are not available. There are challenges in establishing the independence requirements for the state's external accounting auditors.

Darwish (2007) asserts that in order for institutional investors worldwide to accept the direction of their investments, there must be a high level of governance. Furthermore, the general public put pressure on politicians to take action to protect their interests as a result of bankruptcies and financial disruptions brought on by poor management and the abuse of power.

Various firm theories linked to corporate governance are studied in this study by (Ping and Andy, 2011). The effectiveness of various legislative frameworks for implementing corporate governance is assessed. The rule derived from the ruling in the case of Foss v. Harbottle and the derivation action that governs the protection of minority interests are also discussed. A fresh subject is emerging in the field of corporate governance due to globalization. The prioritised performance standards of a corporation's nation of origin and registration are no longer the only standards that apply to it. Government officials, regulators, stock exchanges, trade associations, and even institutional investors are pushing for the globalization of capital markets and, as a consequence, for a common set of corporate governance standards. In any case, we ought

Results

The discoveries of this study was getting utilizing the recurrence examination. Data of the articles were extricated and gaged to show the discoveries in shapes of figures and tablesThe findings include the country of origin, the year of publication, the sample size, the methodology used, and the connection between corporate governance and external auditing.

Country of Origin

Figure 2 shows the country of origin for the respondents to the survey. It can be seen that Algeria has the most elevated rate of considers with 37% taken after by Iraq with 18%, Middle easterner Inlet Countries, Saudi Arabia, Jordan, Kuwait, and Palestine has 9% of the reviewed thinks about.

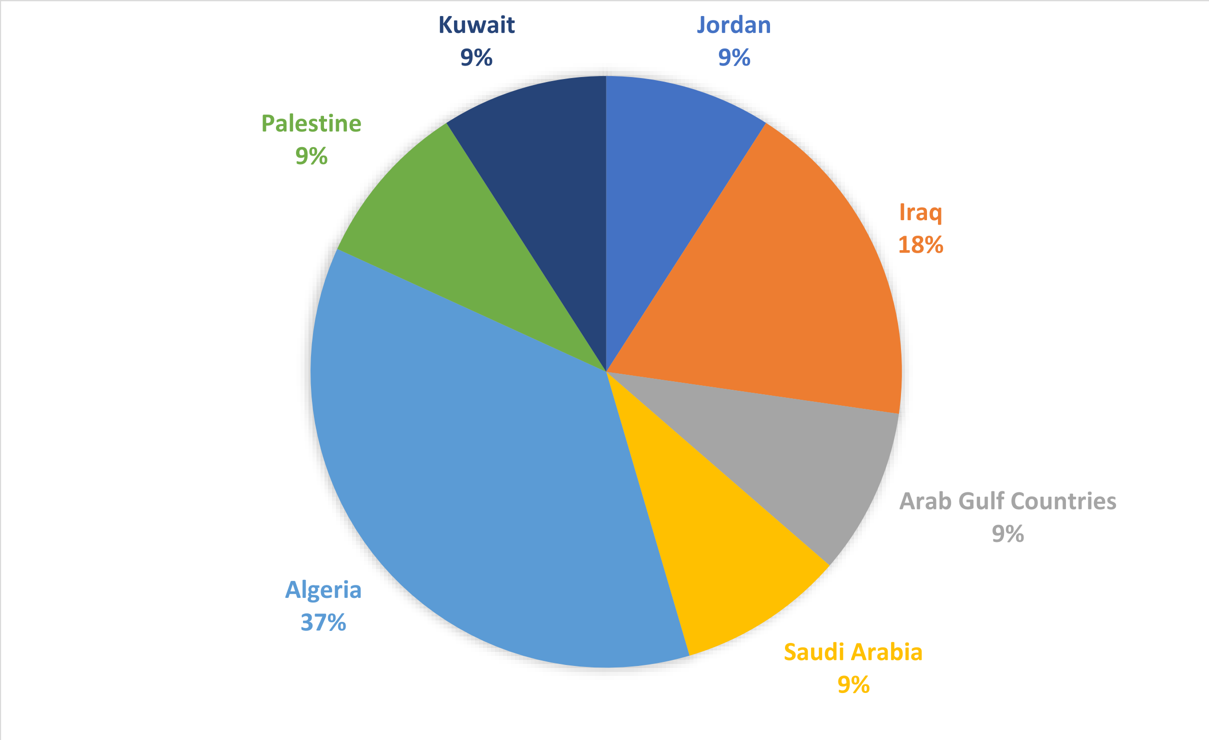

Figure 2: Country of Origin

Period of Studies

The investigations show that secondary data and time series data still span a time period of at least one year and a maximum of eight years. The time period under discussion is depicted in Figure 3.

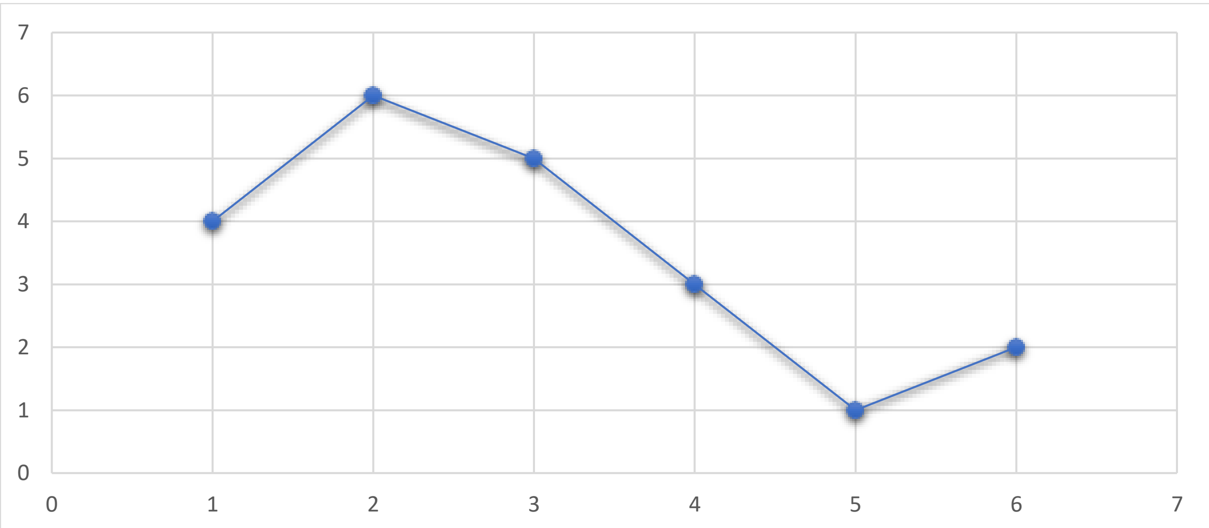

Figure 3: Period of the Studies

Type of Data Collected

The type of data gathered is shown in Figure 4. It shows that 64% of those who responded to the study used the secondary data technique to look at how external auditing and corporate governance relate to one another. A total of 36% of the time used the main data approach, which included a survey.

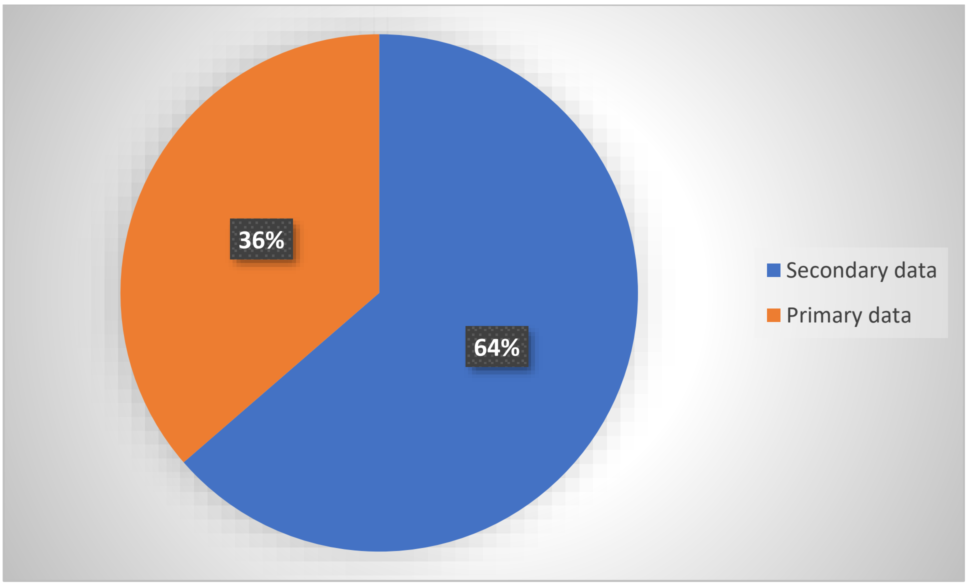

Figure 4: Type of Data

Sample Size

In studies that used surveys as a means of data collection, the sample size was capped at almost 100 participants, all of whom were accountants with experience in auditing and governance. The test estimate of the survey's thoughts regarding employment is shown in Figure 5. The least significant number of responders who expressed an opinion was 49, while the most significant was 103.

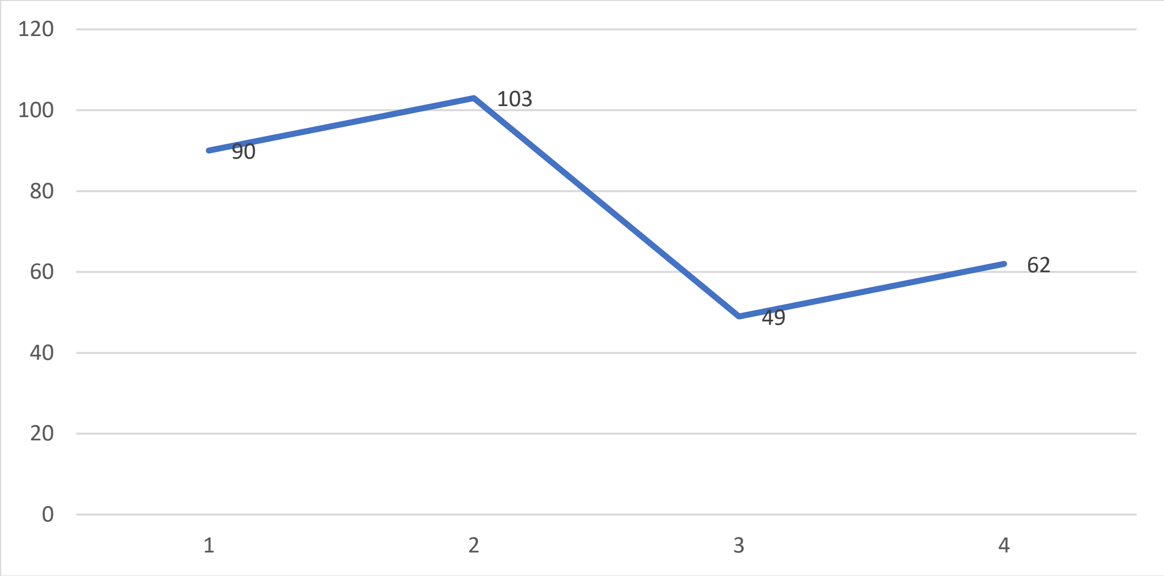

Figure 5: Sample Size

Organizations

In the organization where the studies were displayed, banks, listed and non-listed corporations, as well as industrial and service companies are all divided. Figure 6 depicts the types of businesses. It appears that 37% of the studies have utilized the listed companies. By listed companies, it implied that all sort of companies listed in a stock market. The non-listed companies accounted to 27% of the looked into thinks about. Studies that centers on businesses such as banks accounted to 27% whereas thinks about on industrial and services division accounted to 9%.

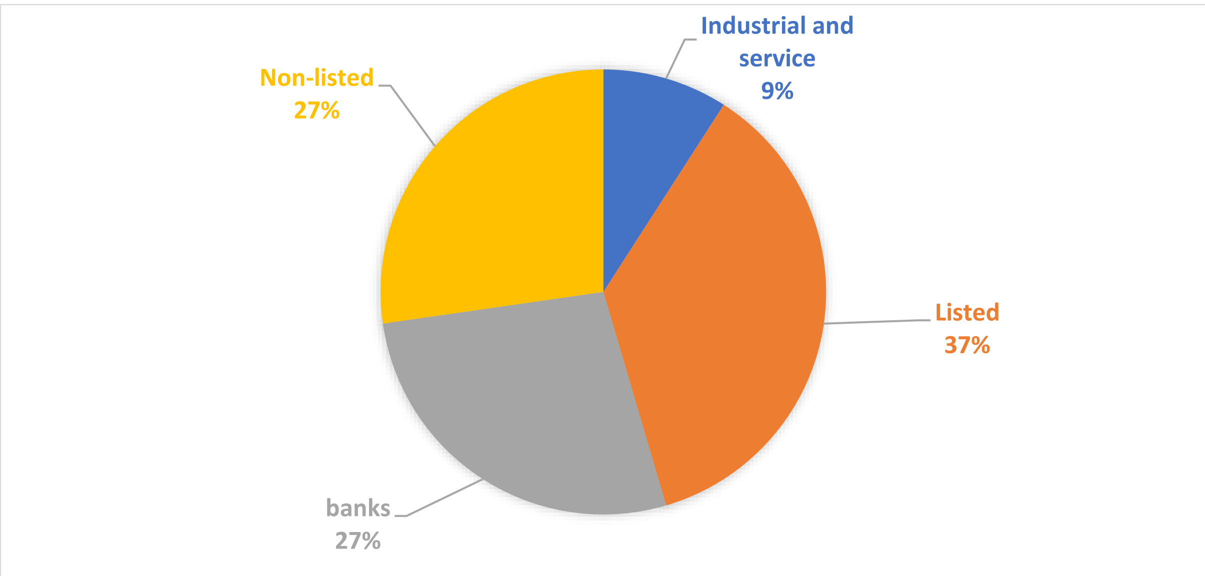

Figure 6: Type of Companies

Year of Publication

The number of articles published over the past eight years has increased. The number of articles has increased substantially between 2012 and 2019. The study's timing, which included papers up until May 2019, could be to blame for the low volume of articles in 2019. The year that each of the surveyed articles was published is shown in Figure 7.

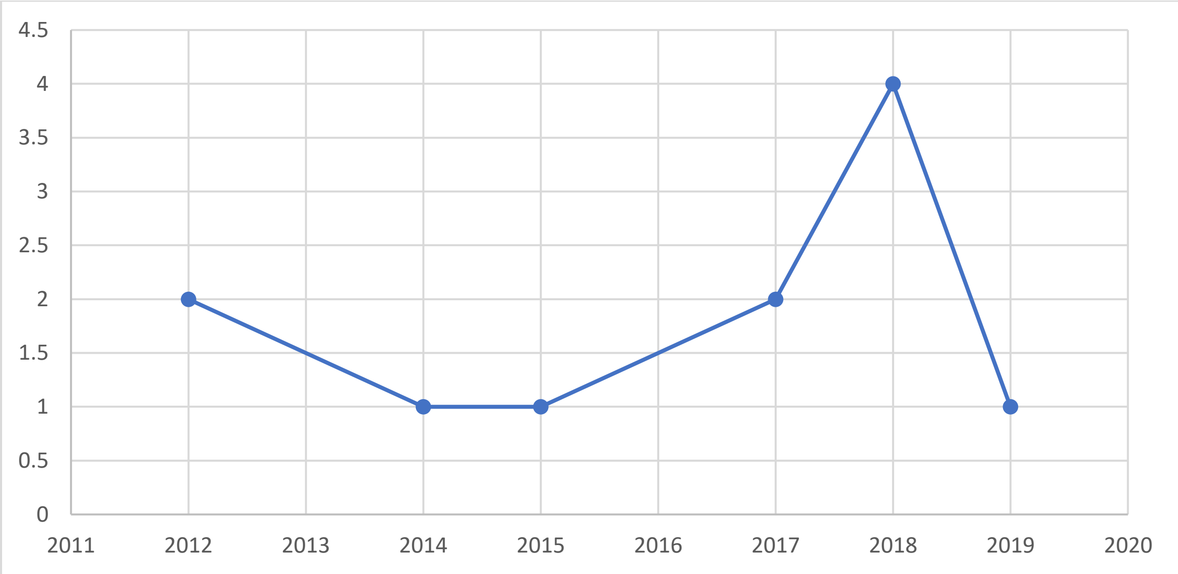

Figure 7 : Year of Publications

Relationship between External Auditing and Corporate Governance

To maximize its worth, auditors are required to increase fairness and trust, promote employee conduct within organizations, and lower the likelihood of financial and administrative misconduct. Additionally, internal auditors are essential to increase fairness and trust, enhance workplace morale, and lessen the risk of financial and administrative conduct.

Companies that employ earnings management produce accounting earnings that are less reliable and do not accurately reflect the underlying financial success of the business. The quality of reported earnings and their usage for a variety of objectives, including investment decisions, are degraded by results management methods, which diminish investor confidence in financial reports and may result in poor decisions.

To accomplish the primary goal of presenting a judgment on the financial accounts, the external audit profession is required to implement recognized standards (Awadi, 2016). The external auditor provides professional services to the business community, and as the profession has grown, so have the auditor's services.

These services now include financial statement audits, information system design, tax services, feasibility studies, and raising financial literacy.

A company's internal controls are reviewed and evaluated, and its financial statements are audited, as part of the external governance system known as external auditing, which helps to prevent material misstatements. Higher-quality auditors are more likely to reveal errors and irregularities found during the audit and are less likely to tolerate questionable accounting practices. The efficacy of a company's monitoring role is therefore assumed to be influenced by the external auditor, which reduces the likelihood of earnings management.

Preceding studies have inspected the potential influence of external auditing on corporate governance. The discoveries demonstrated that external auditing is a instrument that can improve the corporate governance. External auditing improves the risk management of banks (Khalaf and Ali, 2018). External auditor has a key role in examining and enhancing the internal control system (Belkhairi, 2018; LShlash, 2018). External auditing also is organized as an instrument of external mechanisms of corporate governance on the reliability of financial statements (Ahtitash, 2017). External auditing has a main influence on applying the corporate governance (Trish, 2017; Al-Rashidi, 2012). Researchers are with the opinion that external auditing can categorize the weaknesses of the institution and provide reference to improve the financial statement and financial disclosure (Saeed and Lashash, 2015). Thus, it can be said that external auditing is a method through which companies can apply corporate governance, enhance financial disclosure, and raise the caliber of financial statement preparation.

Limitation and Future Work

There are a few restrictions that beneficial to specify in this study. to begin with, this think about centers on the. Thus, the conclusions cannot be widespread to the internal auditing which has different determination and device. The results were derived from articles published and related to the Arab countries. In addition, number of the articles is limited. For this reason, future research is recommended to expand the results of this study by conducting a contrast between the internal and external auditing and their contributing to the corporate governance. Future research efforts are urged to broaden the scope by investigating external audits and their effect on corporate governance from an international perspective instead of limited to the Arab countries.

This will increase the number of articles that address the subject from a worldwide viewpoint and improve the study's generalizability. A study of a particular nation is advised because Algeria and Iraq were the subjects of the majority of the articles we reviewed. To determine the function of external auditing in corporate governance, studies in other Middle Eastern or Southeast Asian nations could be accomplished. The majority of the studies that were assessed and used the secondary data approach were carried out over a minimum of 1 year and a maximum of 8 years. Future research should start in 2008, the year the economic crisis began, and extend the study duration to 10 years.

The time series technique or the use of secondary data performs better than the use of primary data or questionnaires. It is advised that future studies conduct both qualitative and quantitative studies using a questionnaire. Experts can be interviewed for the qualitative studies utilizing an interview strategy or a focus group approach, and results pertaining to external auditing and its function can be given. Additionally, a greater number of respondents can participate in the questionnaire approach. Prior research only included 103 respondents, therefore expanding the sample size to almost 200 will enhance the study's generalizability.

The literature review has intensive on listed and non-listed companies in general. However, there aren't many sector-specific studies, such as those that concentrated on banks, industries, or services. Therefore, it is advised that future research concentrate on studies relating to the industrial and service sectors before turning to studies on banks. The number of studies examining the connection between corporate governance and external auditing is also limited. Future research is strongly encouraged to examine the problem, the reciprocal effects between the two variables, and the connection to earnings management.

Conclusion

This article investigates how corporate governance and external audits are related in Arab countries. Reliable sources for related literature were consulted, and screening was done to choose the papers that were appropriate for this investigation. The results show that the most articles were established in nations like Algeria and Iraq. Studies can only last for eight years if they use secondary data or a time-series data technique. Studies that used a survey methodology had tiny samples, and the majority of the respondents were accountants. Listed companies received the popular of the studies and articles related to the issues is increasing. In order to improve the goals of the study that aid decision makers, the author advised that future publications investigate the link in other locations and take into account qualitative and quantitative approach utilizing larger size or time frame.

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