Arab International University

Faculty of Business Administration

Graduation Project

The Impact of Audit Fees and Audit Market Concentration on Audit Quality an Applied Study in Damascus Security Exchange (DSE)

By:

Hussam Shhada Judi Al Sadat Noor Al Hnide

Academic Advisor: Dr. Rasha Al Jerd

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JUDI

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ABSTRACT

This research was aimed to explain the relationship between audit fees, audit market concentration, and audit quality.

To achieve that goal the research depended on practical study; by extracting an actual data from the (24) companies' financial reports of the registered companies at Damascus Securities Exchange (DSE), from different sectors (Industrial, Service, Agricultural, Trading), that data were about the external auditor fees, audit quality, and audit market concentration ratios which were measured by the research, the extracted data were then analyzed by using descriptive statistics, simple and multiple linear regression test, ANOVA test, and Scheffe test to examine the research hypothesis.

The research found that there is a significant positive influence of the audit fees on audit quality, and a significant reversed influence of the audit market concentration level on audit quality.

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Chapter 1
General Framework

Introduction

Audit as a service is meaningful only if the stakeholders have confidence in the auditor's opinion. The potential collapse of one of the major audit firms could disrupt the availability of the audited financial information on large companies, damage investor trust and impact stability of financial system. Therefore, there are concerns that small number of audit firms have become too dominant and that the failure of one of them would cause major disruption to the economy. It's understandable that there is a huge interest of measuring audit market concentration and highlight the ratios of it (Huber, 2011).

And audit fees are the external auditors charge according to the rendered services should be determined between the auditor and the clients, it is in the interest of both client and auditor, so the auditor sends an engagement letter, preferably before the commencement of the engagement, to help in avoiding misunderstandings with respect to the engagement. Auditing fees should be a fair reflection of the value of the professional services performed for the client, taking into account many considerations (Abdullah, 1990).

And audit Quality is a complex subject, there is no analysis of it that has achieved universal recognition, and there is much controversy debate around term of audit quality. The International Auditing and Assurance Standards Board (IAASB) explained means of audit quality that it encompasses the key elements that create an environment which maximizes the likelihood that quality audits are performed on a consistent basis and a quality audit is likely to have been achieved by an engagement team was sufficiently

knowledgeable, skilled, and applied a rigorous audit process and quality control procedures that complied with law, regulation and applicable standards (The International Auditing and Assurance Standards Board [IAASB], 2014).

And because of the importance of measuring the audit market concentration as mentioned above, audit fees, and audit quality in this research the research tried to measure the relationship between the audit fees on audit quality on one hand, and audit market concentration on the audit quality on the other hand in DSE financial reports' companies.

Problem of Research

The professional fees represent the amount the company under audit (audit client) pays for the external auditor for conducting the audit process by following the international auditing standards which form the frame work the auditor depends on to examine the financial reports of the company . Auditing fees vary according to the client size, complexity of client transactions, and many other aspects.

It's assumed that audit quality is achieved when the procedures and processes related to an audit are fully and accurately conducted in a manner consistent with the International Standards on Auditing, International Standard on Quality Control (ISQC) and carried out by appropriate auditor has the ability to do this accurately in Suitable conditions ensure a suitable working environment for auditors to be the result the financial statement accurately reflect the underlying economic reality for client and substantiation that through gathering sufficient appropriate audit evidence.

The topic of audit market concentration has been addressed from various aspects in many economic sectors during studying the determinants of concentration and the consequences thereof, and its importance comes from

Audit market concentration is a very important concept in the auditing field, it measures the contributions of each audit firm in the auditing market, and it shows us if there's any monopoly from the audit firms.

Because of the importance of each of the audit fees and the audit market concentration on the quality of the audit, the research addressed the relationship between audit fees, audit market concentration and audit quality by asking the following two questions:

1- Is there an impact of audit fees on audit quality?
2- Is there an impact of audit market concentration on audit quality?
3- Is there an impact of audit fees and audit market concentration on audit quality?

Purposes of Research

The research goals were to:

- Clarify the impact of audit fees on audit quality
- Clarify the impact of audit market concentration on audit quality
- Clarify the impact of audit fees and audit market concentration on audit quality

Significance of Research

- **Academic Importance** enriches and adds value to the academic library which specialized in audit fees, audit market concentration, and audit quality, whereas the research contributed to present the level of audit market concentration in the registered companies in DSE, extract the audit fees from the financial reports and minutes of boards, and measure the audit quality by reviewing many opinions regarding it and finally depend on the type of audit report in the number of misstatements. Ultimately, show the relationship between audit market concentration, audit fees, and audit quality.
- **Practical Importance** This research helps supervisors and regulators of DSE by showing them audit market concentrations ratios for the auditors who are auditing the listed companies in DSE, clarifies the high ratios of audit market concentration demanding the regulators to set restricted rules to reduce their percentages. In addition to that, the research clarifies that audit fees ranged between very low and high amounts, encouraging the supervisors and regulators of DSE to control the process of determining audit fees. Plus, the research

presents that audit quality is not related to Big 4[1] or non-Big 4 audit firms so the regulators and auditees need to open the door in front of all auditing firms not only the Big 4 firms. Finally, it shows the relationship between audit market concentration, audit fees, and audit quality.

Literature Preview:

1) Study of (Sulaiman et al., 2020) titled: **"Perspectives of Audit Quality: An Analysis"**

The aim of his paper was to review the research literature and publications relevant to audit quality. The authors identify three main perspectives (academic research, professional and regulatory) related to audit quality that could add to our understanding of the concepts and factors affecting audit quality in practice. For each reviewed perspective, the authors present and summarize the key findings. Design/ Methodology/ Approach: This study reviews a total of 84 empirical studies and publications ranging from year 1980 to year 2016. Further, this paper links academic research to publications on the topic issued by professional practitioners and regulators. And the research findings based on the analysis, revealed the main findings: Theoretical contribution/ Originality: It provides some guidance for future academic research related to audit quality. Practitioner/ Policy implication: The research and reports reviewed in this paper will be useful to researchers, audit practitioners, policymakers and others who are concerned with the quality of audit

[1] Big 4 Audit Firms: Earnest & Young – Deloitte – KPMG - PWC

services to understand the various conceptions of audit quality and the important factors affecting audit quality in practice. Research limitation/ Implications: The analysis of the audit quality from the three main perspectives provided in this study paves the way for embarking on promising and relevant future research, which is needed to further substantiate and enrich the academic understanding on concepts and factors affecting audit quality. More research is needed to understand this issue better and to move towards a policy resolution.

2) Study of (Lasyoud et al., 2020) titled: **"Joint audit, audit market concentration, and audit quality: Perceptions of stakeholders in the UAE"**

The present study was intended to scholarly explore auditors' perceptions regarding joint audits; whether it can improve audit quality. To reach this goal, participants were enrolled from Big 4, non-Big 4, and other stockholders. In addition, the present study examined the perception of the same stakeholders in terms of how audit concentration affects the audit market in the UAE. Being a qualitative study, 12 semi-structured interviews were conducted to collect required data; 4 face to face and 8 through using Google forms. The finding of the study revealed mixed perception regarding joint audits; it may improve audit quality at the cost of high fees and free-rider problems. Findings of the study has practical implication for policymakers of emerging economies around the globe, such as policymakers who can make joint audits as compulsory. Another significance of the present work is that it has allowed for the perception of stakeholders, who are at the center of the controversial subject of joint audits and audit market concentration. The study suggested that there is a need for removing language

barriers; it will benefit some firms in the form of directly communicating with auditors either in English or in Urdu.

3) Study of (Huang et al., 2020) titled: **"Audit Market Concentration, Audit Fees, and Audit Quality: Evidence from China"**

The researchers in this study investigated the effects of audit market concentration on audit fees and audit quality in China, where competition is intense and the legal environment is relatively weak compared with developed countries. Analyzing 12,334 firm-year observations for the period 2001 to 2011, they found a significant positive relation between concentration and audit fees. Path analysis showed that concentration improves client earnings quality and reduces the need for auditors to issue modified audit opinions through increased audit fees. Additional analysis indicated that the increased audit fees and client earnings quality resulting from increased concentration are associated with a lower likelihood of executives and auditors being sanctioned by regulators for audit failures. Their results suggested that concentration improves audit quality indirectly through increased audit fees and this positive indirect effect offsets the negative direct effect of concentration on audit quality. By separating the direct and the indirect effect of concentration on audit quality, their study would explain why previous studies that do not have a separation document mixed evidence. Their findings informed regulators that actions taken to eliminate the indirect effect of concentration, for example restricting the upper bound of audit fees, could produce unintended outcomes such as decreased audit quality.

4) Study of (Alsmadi et al., 2020) titled: **"The effect of audit fees on disclosure quality in Jordan"**

This study examined the effect of audit fees, audit firm size and audit opinion on the quality of disclosures. It focused on a sample of low-quality financial statements in Jordan that have been reported as breaches by the Jordanian Securities Commission (JSC). Data were collected from the financial statements of the manufacturing and services companies listed on the Amman Stock Exchange (ASE) during the period 2009 to 2016. The logistic regression results suggested that audit fees had a positive significant effect, while audit opinion has a negative significant effect on actual violations. However, audit firm size was found to be insignificant in relation to the level of violations.

5) Study of (L. Gunn et al., 2019) titled**: "Audit market concentration, audit fees, and audit quality A cross-country analysis of complex audit clients"**

This study aimed to show the cross-country variation in Big 4 audit market structure across 28 countries to examine the effects of Big 4 audit market concentration on audit pricing. Results indicate that audit fees charged to relatively complex clients are higher when the audit market is more heavily concentrated within the Big 4 group of auditors. This finding is consistent with regulator concerns that higher market concentration leads to a lack of competition. Reinforcing this interpretation, they found that the results only hold for subsamples of clients where non-Big 4 auditors are likely to be less credible

substitutes for Big 4 auditors: relatively large clients, clients with international operations, and clients that use IFRS. Importantly, the researchers also find that within-Big 4 concentration is negatively associated with audit quality within these same sub-samples.

6) Study of (Hay, 2017) titled: **"Audit Fee Research on Issues Related to Ethics"**

This research reviewed research that became available from 2006 to 2016 on four issues related to audit fees—fee level, dependence, non-audit fees, and firms that have a significant non-audit services business. Examining the research shows consistent evidence about two issues, namely that audit fees for new engagements are lower and that non-audit services affect independence in appearance. There are two further issues about which there is some concern. First, there are occasional studies reporting evidence that non-audit services provided by an auditor are associated with a loss of independence indicated by lower audit quality, even though most research does not support this conclusion. Second, there has been recent concern about growth in non-audit services to non-audit clients and there is some preliminary evidence that audit quality is lower in firms that have more extensive non-audit businesses. In general, although audit fee research does not convey a message that there are widespread ethical problems, the body of research shows that there are some risk areas.

7) Study of (Atawneh, 2016) titled: **"Factors Affecting the Audit Profession Market Concentration in Jordan and Its Impact on Financial Reports Quality"**

The results of the study showed that there are statistically significant effects of the factors determining the concentration phenomenon relevant to the audit office specifications for the quality of audited financial reports issued by companies subject to audit in the companies listed on the Amman Stock Exchange. Also the results of the study showed a positive effect of statistical significance on the size of the audit office on the quality of audited financial reports in the companies listed on the Amman Stock Exchange.

8) Study of (Atawneh, 2016) titled: **"Factors Affecting the Audit Profession Market Concentration in Jordan and Its Impact on Financial Reports Quality"**

The objective of this study was to empirically investigate the impact of audit market concentration on financial reports quality. Data were collected from financial statements of the companies listed on Amman Stock Exchange for the year 2014, out of a total of 217 companies listed on ASE; data of 65 companies were obtained by using stratified random sample. To achieve the objective of this study the researcher used the methodology of both descriptive and analytical approaches such as means, standard deviations, and using simple and multiple regression analysis to test the hypotheses of the study in addition to Pearson and Kendall tests. The results showed that there was significant relationship between factors affecting audit market concentration related to audit firms specifications

that were determine as audit firm size, reputation and experience and financial reports quality. Further, results showed a significant relationship between the efficiency of the client corporate governance structure and financial reports quality. Moreover, results revealed that client's firm size had less impact on financial reports quality comparing with efficiency of the client corporate governance structure.

9) Study of (Peleias et al., 2015) titled: **"Determinants of Audit Fees: a Study in the Companies Listed on the BM&FBOVESPA, Brazil"**

This paper analyzed the determinants of audit fees paid by companies listed on the BM&FBOVESPA. Data referring to listed companies for 2012 show a positive relationship between fees and the variables size, client's complexity, and Big N auditors. The risk perceived by the auditor demonstrated to affect the values of fees differently in larger and smaller clients. In smaller clients, the results suggest that the auditor charges lower fees to more leveraged and riskier clients, contrary to the hypothesis that the auditor might charge higher fees as a reward for his risk. In turn, in larger clients, the results demonstrate that clients with higher risk, as measured by liquidity and leverage, or those having stronger governance practices, tend to spend more on auditing. As for changing the auditor, the results pointed out that larger clients pay less in the first year of audit. These results qualify the findings of Hallak and Silva (2012), suggesting the need for further research with temporally more extensive bases.

10) Study of (Mališ and Brozović,2015) titled: **"Audit Market Concentration – Evidence from Croatia"**

Statutory audit is designated to protect the public interest and has a significant impact on the overall economy. There are concerns that the Big Four audit firms have become too dominant and that the collapse of one of these firms would disrupt the whole financial system. In terms of revenues received, the total market share of the Big Four audit firms for listed companies exceeds 90% in a vast majority of European Union Member States. Prior studies have shown that high audit market concentration limits the choice of auditor for large companies and sets a high barrier of entry for mid-tier audit firms, while the effect on audit quality and audit fees is still unclear. Therefore, the regulators are considering reforms to dilute the Big Four's dominance and improve competition in the audit market. The paper reviews the proposed and implemented measures that are the most common, together with their advantages and drawbacks. In addition, the characteristics of the audit market in Croatia are investigated, with a focus on market concentration measured by standard measures such as the Concentration rate, the Herfindahl-Hirschman Index and the Gini coefficient. According to market shares based on total clients' assets and revenues, the audit market for listed companies is moderately to highly concentrated, with a decrease in the five-year period (2013 compared to 2008). The results were: the concentration rate 4 is doubled when the market share is based on the auditor's revenue, which is consistent with the increase of other two measures. According to these indicators, the audit market of listed companies, based on the random sample, is moderately to highly concentrated.

11) Study of (Eshleman, 2013) titled: **"The effect of audit market concentration on audit pricing and audit quality the role of the size of the audit market "**

The goal of this study was to show that the effect of audit market concentration on the level of audit fees depends on the size of the audit market (i.e., the size and/or number of clients in the local geographic area). When the audit market contains fewer clients and/or those clients are small in size, audit fees are increasing in audit market concentration. In additional tests, the researchers examine whether the relationship between audit market concentration and audit quality also depends on the size of the audit market. The evidence suggests that audit quality is higher in markets where both audit market concentration and audit market size are high.

Hypothesis

The research examines the following:

H1: There is a significant impact of audit fess on audit quality.

H2: There is a significant impact of audit market concentration on audit quality.

H3: There is a significant impact of audit fees and audit market concentration on audit quality.

Methodology

If the research methodology is the procedural steps used, then the methodology of this research is the following steps:

1) Reviewing books and theses and studies related to the subject of the research

2) Assume hypotheses that represent the relationship between variables.

3) Going back to the financial reports of the companies listed on the Damascus security Exchange for the years 2008, 2009, 2010, 2013, 2014 and 2015 and extract the type of auditor's report with any notes from the auditor on the company's performance, the research also reviewed the minutes of board board of directors and the financial reports for companies to know the audit fees paid to the auditors accredited to the Damascus Security Exchange for the same period. The financial reports of the corporates were also used to find out the name of the auditor, whereby the names of the auditors were used to measure the audit market concentration during that period.

4) Analyze the data collected from the previous step and test the hypotheses according to the SPSS statistical program

5) Derive conclusions and suggest recommendations

Chapter 2
Audit Fees

Introduction:

As is well known, the external auditor provides his services in return for fees obtained from the company, and these fees depend on many factors, including the reputation and reputation of the audit office and the time spent in the audit process, as well as the strength and efficiency of the internal system and continuity in dealing with the audit office with the company

Upgrading the profession of external auditing and whoever engages in it requires attention to the fees charged by the auditor, which must be commensurate with the effort made in the auditing process, and in contrast to it, the auditing process will be merely dropping the imposition from both parties (the external auditor and the company) and thus the process will drop its feasibility and importance both for the company and the beneficiaries From the results of the external audit work, Therefore, in this theoretical framework.

First: Audit fees

Definition of audit fees: Audit fees mean that the company pays to the external auditors conducting the audit in accordance with international auditing standards within a specified time period. Auditing cost consist mainly of the salary and benefits of office and field personal, travel costs, and other costs necessary to the audit and related support activities, the fees equal the estimated cost of staff time and the actual cost of travel for those activities, plus margin of profit.

External auditors, who undertake auditing services for a client, assume the responsibility to perform such services with integrity and objectivity and in accordance with appropriate technical standards, the responsibility is discharged by applying the professional skill and knowledge that external auditors in public practice have acquired through training and experience (Arens and Lebbecke, 2000).

Second: Consideration that should be taken when setting AF

The fees that the external auditors charge according to the rendered services should be determined between the auditor and the clients, it is in the interest of both client and auditor, so the auditor sends an engagement letter, preferably before the commencement of the engagement, to help in avoiding misunderstandings with respect to the engagement. Auditing fees should be a fair reflection of the value of the professional services performed for the client, taking into account many considerations, (Abdullah, 1990) determined the considerations should be taken when setting the auditing fees:

- The skill and knowledge required for the type of professional services involved.
- The level of training and experience of the persons necessarily engaged in performing the professional services.
- The time necessarily occupied by each person engaged in performing the professional services.
- The degree of responsibility that performing those services entails.
- The client ability for payment the auditing fees, and the importance of the report for him.
- The direct cost of the auditing process.
- The date of the client request.

Third: The forms of auditing fees contracts

The type of audit contract was manipulated at three levels:

1- Fixed fees contracts:

According to (Abdullah, 1999), a fixed fees contract is one where the audit fees are determined before the performance of audit work and the risks of task uncertainty is borne by the auditor. Fixed fees contracts provide incentives for a least cost audit effort since any excess of fees over costs will

be retained by the auditor. The auditor under the fixed fees contract that obtained through tendering will be paid the pre-determined fees regardless of any disputes with management. Therefore, an auditor under a fixed contract that obtained through tendering might be less likely to report a discovered misstatement than an auditor with a variable contract because of client pressure, i.e. the client has more bargaining power (Chang and Monroe, 1994)

2- **Variable fees contracts:**

Variable fees contracts are only determined after evidence acquisition based on hourly or daily charges for actual time devoted to an engagement so that auditors are more likely to expand more effort to discovering material misstatements (Abdullah, 1999). The variable contract auditor's fees have not been previously determined; the auditor has to be paid for audit work done.

A common approach develops standard rate for each category of audit personnel and applies these standard rats to time charged by that category plus any direct expenses.

3- **Contingent fees contracts:**

Contingent fees are fees calculated on a predetermined basis relating to the outcome or result of a transaction or the result of the work performed (Abdullah, 1999; Kornish, 2000). An auditor is prohibited by rule 302 from arranging for a fees contingent upon the outcome of an examination (AICPA, 2000). The purpose of this rule was to help maintain objectivity and independence: "Contingent fees result in the auditor having a mutual interest with audit client in the outcome of the work performed" (SEC Fact Sheet, 2000).

"Solely for purposes of this rule, fees are not regarded as being contingent if fixed by courts or other public authorities, or, in tax matter, if determined based on the results of judicial proceedings or the findings of governmental

agencies". (Taylor and Glezen, 1997). Accordingly, a firm should not enter into any fees arrangement for an assurance engagement under which the amount of the fees is contingent on the result of the assurance work or on items that are the subject matter of the assurance engagement. This prohibition eliminates some obvious independence issues, such as the one in which the firm pays the auditors more for favorable (high earnings) reports than for unfavorable reports. An auditor's legal liability disciplines the auditor from reporting too favorably when facing a flat fee. (Kornish, 2000). The reason why contingent fees are prohibited for audit engagement is evident. A wide variety of net income amounts can be produced in financial statements, depending on which accounting methods are followed. Financial statements belong to the client; still, auditors are in a position to influence the financial results (Taylor and Glezen, 1997).

Fourth: Organizing Audit Fees in Syria

Statement No.10 approving the minimum auditor fees external auditor association in Syria published by its Board of Directors in its statement No. 25 o 4/8/2017 decision No. 10 of 2017 regarding the approval of the minimum fees for the auditor as per the following:

Fifth: RQ: How do auditors determine audit fees throughout the audit process?

Simunic (1980), was one of the first studies, which tried to explain how audit fees are determined. **His study** sees audit fees as a joint determination of the quantity **(the q-component) and the price (the p-component)** and he argues that, although audit fees are determined by these two components, both individual components are not observable in the market, because **only the audit fee as p*q** can be observed.

This distinction between **the p- and q-component** of audit fees.

Statement No. 10

The board of directors of the association in its session No. (25) dated 4/8/2017

In accordance with the provisions of the bylaws and the Law on Organizing the Profession No. 33 of 2009.

It decided the following:

- Article (1): Our statement No. (60) Of 2014 is amended so that the auditor's fees will be approved…

N	Type of institution	Instead of fees/SP
1	Individual facility	50,000
2	A solidarity company or recommendation	75,000
3	A limited liability company	100,000
4	Private joint stock company	200,000
5	Unlisted public shareholding company	500,000
6	Listed public joint stock company	800,000
7	Non-residential associations	50,000
8	Residential cooperative societies	Fee allowance: According to the instruction of the General Union for Housing Cooperation.
9	Arab, regional and international organizations	500,000
10	Branches of foreign the companies	500,000
11	Organizations and unions and their branches	150,000

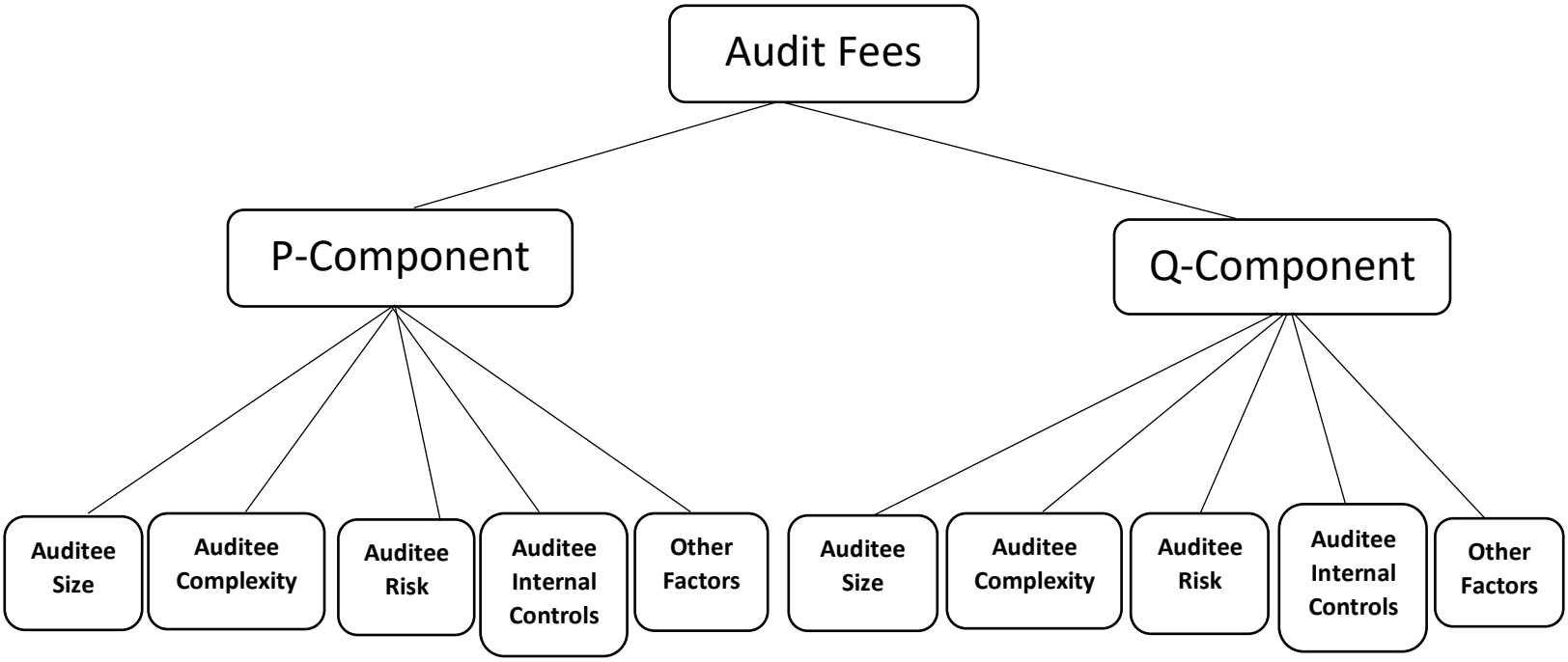
- Article (2): The Board of Directors confirms to colleagues that it is necessary to adhere to the minimum fees defined in Article (1).
- Article (3): Fellows can estimate their fees in excess of the proposed minimum in light of the size and activity of the facility being audited, but not less than the specified minimum.
- Article (4): This decision informs who needs to be implemented
  Damascus 4/8/2017

"The p-component" will either reflect the risk premium or the presence of more experienced auditors at an auditee leading to a higher average hourly rate. Next to the pricing model, Simunic (1980) also argued that certain **factors** are influencing audit fees. The most important factors, he argued, are **size, complexity** and **problems** with **certain financial statement** components of the client being audited. With the reasoning above in mind, what is the internal started inputting AF? From the data analysis it appeared that a clear line between the technical budget and the commercial budget within audit fee determination has to be made. The technical budget is often prepared by the (senior) manager and forwarded to the partner-in-charge for further discussions.

The auditors at the Big 4 audit firm see the following factors as influential on the technical budget: the size, complexity, riskiness, internal controls and general characteristics of the client as well as the current rules and regulations they have to apply to. When the technical budget has been agreed upon internally, the commercial budget will have to be made. This happens in negotiations with the client. The auditors at the Big 4 audit firm considered the following aspects to be of influence in determining the commercial budget: the characteristics of the partner, some general characteristics of the client and some other aspects like timing of the audit. These aspects were not researched before, which makes it a theoretical contribution to the existing literature. When the commercial budget has been agreed upon and nothing changes within the client's environment this will also be the final audit fee that the client has to pay.

However, when things deviate from the ideal situation or things change in the client's environment, the auditor often has to do additional work, which could change the final audit fee that the client has to pay. As can be seen from all the different arguments made above, there seem to be many factors which an external auditor needs to take into account when determining the level of audit fees.
As the following framework:

Graph No. 1 (Q and P factors)



(Maarse, 2018, p.14)

1) The size of the auditee

According to Hay et al. (2006), the size of the client that is being audited, is the most frequently found variable that determines audit fees. Found a significant positive relationship between this variable and audit fees. This is in line with the study of Simunic (1980), where the size of the auditee was introduced as a control variable. He argued that size should be measured by looking at the size of assets at year's end of a firm, because auditors rely on using a sample for their assessments to which also the year's end assets belong. Given this fact, the auditor could determine that the audit fee should be higher, because the auditor needs to take a bigger sample which leads to more work for the auditor. This means that, in this situation**, the q-component** for the auditor increases. However, the relationship between audit fees and client size is unlikely to be linear, because the external auditor should be able to achieve some economies of scale when it comes to delivering the audit services when the client size increases (Simon and Francis, 1986). However, they do not mention why **the p-component** should be kept constant, because it might very well be that external auditors consider the size of a company as an equivalent to more exposure from the different stakeholders. These parties demand much information from the firm, including high quality financial statements. When something then goes wrong during the audit process, a lawsuit will be more often started by stakeholders of the relatively bigger audit client, compared to a smaller audit client where there is less exposure. To compensate for this fact, the external auditor might also ask for a higher fee, which leads to an increasing **p- component** next to the already increasing **q-component.**

2) The complexity of the auditee

Another factor that is frequently found to be determining audit fees is the complexity of the auditee. When, for example, the extent of decentralization and diversification become greater, more decisions need to be made. In addition to this, decisions that have to be made will be more diverse. These notions lead to an increase in decision

centers, which have to be monitored in order to check if they are making the decisions that are in the best interest of the company

(Simunic, 1980). The implementation of the Foreign Corrupt Practices Act (FCPA) of 1977 in the United States is a further confirmation that there are relatively more problems when people want to obtain information of large and decentralized companies. The FCPA requires that listed firms in the United States need to meet the accounting provisions, which state that their books should be transparent and should have a system of adequate internal controls for accounting in place, the increased decentralization and diversification of companies could lead to a higher loss exposure for the external auditor (Simunic, 1980). When as an auditee becomes more complex, more time must be spent in order to arrange, coordinate and execute the audit plan. This would lead to an **increase in the q-component** for the external auditor, eventually leading to a higher audit fee as well (Gerrard et al., 1994). Take, for example, the number of estimations that is needed to be made for certain journal entries. Journal entries, which need many estimations, like participations, could lead to a higher complexity for the external auditor, because estimations are more subjective than journal entries without estimations and these estimations could also lead to some discussions between the client and the external auditor (Knechel & Salterio, 2017).

When the auditor needs many hours to discuss the estimations of certain journal entries, he also should consider that there are more hours put into the client than previously planned, leading to an **increased q-component.** Gerrard et al. (1994) argued if an auditee is more complex, the number of difficulties that arise would also increase, together with the level of those difficulties when performing an audit of the financial statements. With a higher level of difficulty, it is more likely that the manager of an audit firm decides that more experienced auditors need to look at the problems in the financial statements and these experienced auditors are likely to receive, on average, a higher hourly wage than the relatively less experienced auditors, leading to an increase in **the p-component** of audit fees. Look, for

example, again at the situation of journal entries which are based on estimations made by management. More often than not, estimations will be discussed with management by the more experienced auditors who have a higher hourly wage. This means that next to an increase of demanded working hours, there also occurs a need for more experienced auditors when dealing with estimations. Overall, the relationship between auditee complexity and audit fees is expected and found to be positive, there are several considerations an auditor should take into account throughout the audit process when auditing a complex client to be able to deliver an adequate audit.

3) The risk of the auditee

Gist (1992) determinants for 95 publicly owned US firms, for example, he finds that the variables 'return on investment' and 'long-term debt to total assets', which were proxies for financial distress of the auditee, were significant in relationship to the height of the audit fees. This means that an auditor would charge a higher audit fee when the firm is in financial distress, because the risk of loss sharing is higher when this is the case.

It thus seems that the factor of risk in its relation to audit fees should be disentangled further into the concepts of 'audit risk' and 'business risk'**. Audit risk** is the risk that an external auditor issues an opinion on the financial statements, which later turns out to be incorrect in spite of the auditor's efforts to conduct a well-designed and effective audit. Although it seems, **at first,** that the auditor cannot do much about this risk and thus **the q- and p-component** of audit fees **do not seem to change**.

Knechel & Salterio (2017) argue that audit risk can be further dissected into 'the risk of material misstatements' and 'detection risk'. Risk of material misstatements is the risk that the financial statements of the auditee are misstated in some way prior to audit. They argue that the auditor cannot influence this risk directly in the

current period, because it often has to do with the accounting- and internal control system of the auditee. However, detection risk, which is the risk that an auditor fails to detect a mistake in the financial statements of the auditee, is something that the auditor can reduce to virtually zero. It never will be zero, because an auditor will use samples when conducting an audit and this means that not every single transaction can be reviewed for misstatements. They might, however, **reduce** this risk through putting in more audit effort, which seems to imply that **the q-component** of audit fees **increases** with this kind of risk. This means that the auditor should consider how low he wants to put the detection risk of a client, because a lower detection risk means more work for the auditor and thus most likely a higher audit fee, but a high detection risk means less work for the auditor, but more chance of missing a material misstatement.

However, the authors do not reason how the auditor should consider this risk and its relationship with audit fees. The most likely option for the auditor would be to **increase the p-component** of the audit fees to compensate for the possible litigation risk. A prime example that requires the auditor to possibly change the reputational risk and litigation risk is the use of fair values.

Various studies argue that the increased discretion used to estimate fair values by management increases agency costs. In turn, the auditor should re-evaluate both their reputational risk and their litigation risk, because management can use these estimations for their own benefit and not that of the stakeholders (Ramanna and Watts, 2010; Watts, 2006).

In sum, it can be concluded that the concept of risk has many dimensions, which are dissected in many different visions of risk and could all be possible considerations for the auditor to take into account when auditing a client. It also seems that the various concepts of risk each determine a part of the audit fees in its own way. Where **reducing detection risk**, for example, could **increase the q-component** of audit fees, and **engagement** risk might **increase the p-component** of audit fees by adding a risk premium to the audit fees.

4) **The internal controls of the auditee**

While the auditor should give assurance that the financial statements are presented fairly, the auditee could also have internal controls which help them to produce fairly presented financial statements. This means that the audit process of the external auditor is also affected by the internal controls of the auditee in one way or the other (Knechel, 2001). In the course of the early 2000's there became increasingly more attention to the internal controls of a company.

This happened because of a series of corporate scandals which came to light. Scandals like WorldCom, Enron and Ahold were eye-openers for policymakers and they decided that there should be more focus around the internal controls of a company. One of the most important steps in this redirected focus on the internal controls of a company was the introduction of the Sarbanes-Oxley act in 2002.

One of the key internal controls of a company is **the audit committee.** The job of the audit committee is to monitor financial reporting and disclosure. However, there could be two lines of reasoning about how the presence of an audit committee affects the height of audit fees that have to be paid by the company. On the one hand, you have the audit committee that might request that a certain level of audit quality has to be met. This could mean that the external auditor has to work at least a certain number of hours when the audit committee requests them to meet the required level of audit quality (Jack, 1993). These hours could further increase, because the engagement partner of the audit should discuss results, attend meetings and prepare reports for the audit committee (Goodwin-Stewart & Kent, 2006). As can be concluded from the reasoning above, **the number of hours** could **increase** for the external auditor when there is an audit committee present, because they could demand more audit effort leading to an increase in **the q-component** of the audit fees. Since most of this increased work is for the audit partner, it could also be argued that this leads to an increase in **the p-component,** because more hours have

to be planned for the partner which has the highest hourly wage in an audit firm. Goodwin and Munro (2004), find that auditors perceive the presence of an audit committee as increasing manager and partner time on that client which leads to a higher audit fee. When this is the case, it could be argued that the audit committee and the external auditor are complementary committee present thus also wants a strong corporate governance culture and would be prepared to pay a higher audit fee (Singh & Newby, 2010). However, it could also be argued that the presence of an **audit committee increases** the level of internal control of a company which leads to **less control risk** for the auditor and results in less substantive testing being done by the external auditor (Collier and Gregory, 1996; Felix et al. 2001). This means that there is an opposite effect to the reasoning made above and **the q- component** of the audit fees will **decrease**, because less substantive testing means less work for the external auditor. If this is the case, it means that the internal monitoring function and the external monitoring function could be seen as partly substitutive of each other (Singh & Newby, 2010). Next to the presence of an audit committee, companies could also perform an internal audit on the financial statements themselves. However, for the same reasons as the presence of an audit committee, the usage of an internal audit can both be seen as a substitute or a complement to the use of an external auditor.

5) **Other factors affecting audit fees**

While the factors discussed above seem to be the most important ones for external auditors in the literature to date, it should be recognized that external auditors might perceive several other factors as possible reasons for a change in the audit fee.

A) Some of these other possible reasons found in the literature will be discussed in the paragraphs below. One of the factors that also seems to affect the height of audit fees is the type of industry that a company is operating in. The type of industry in which the company operates could matter for audit fee determination by the auditor. Certain industries have more rules and regulations compared to other industries. The

banking industry, for example, has many rules and regulations for a wide array of financial products each with their own level of complexity (Castro et al., 2015). This added layer of complexity not only could **increase the p-component** of audit fees, since more experienced auditors will most likely be put on these kind of companies, but also **the level of risk could increase**, leading to a higher risk premium. On the other hand, you have the retail industry, which has relatively easy transactions leading to lower audit fees on average, because of the lower complexity involved.

B) One other factor that also could lead to a change in the determination of audit fees is audit tenure find that there is a positive relationship between audit fees and audit tenure. This means that if the external auditor is new at the client, the audit fees should be relatively low compared to a client who has the same auditor for several years. One reason for this result could be that auditors use a low-ball tactic, where they decide to lower the height of audit fees in an extreme way in order to reel in the client. This reduction in audit fees could then be compensated by other non-audit services for which the client has to pay huge sums of money or by gradually increasing the audit fee for the client as years pass. (Hay et al., 2006).
However, it could also be the case that, as time progresses, the external auditor gets a better understanding of the client and the environment in which it operates, which could lead to a more effective and efficient audit process. This could result in a reduction in audit fees over the years, because the auditor can work more efficient leading to a **decrease in the q-component** of audit fees.

Chapter 3
Audit Market Concentration

Audit Definition

Auditing is a systematic process of objectively obtaining and evaluating evidence regarding assertions about economic actions and events to ascertain the degree of correspondence between the assertions and established criteria and communicating the results to interested users. Sarbanes-Oxley and the PCAOB prohibit professional service firms from providing any of the following services to an audit client:

1- Bookkeeping and related services

2- Design or implementation of financial information systems

3- Appraisal or valuation services

4- Actuarial services

5- Internal audit outsourcing

6- Management or human resources services

7- Investment or broker/dealer services

8- Legal and expert services (unrelated to the audit)

(J. Ramsay et al., 2010).

First: Audit Market Concentration

The topic of concentration has been addressed from various aspects in many economic sectors during studying the determinants of concentration and the consequences thereof, he showed that they focus of the market can be construed as a strategic competitive advantage for facilities.

It's believed that there are several factors driving audit market concentration:

- Complexity of accounting standards
- The requirement for auditors with global reach
- The reputational risk of choosing an auditor outside of the Big Four.
- The significant infrastructure investment required by a global audit firm.

There are two dimensions for audit market concentration, the first dimension, B4SHARE (Big Four Share), is the Big 4 market share (as a group) relative to non–Big 4 accounting firms. B4SHARE is measured by the percentage of total clients audited by the Big 4 firms within country-industry-year groupings, where industries are defined using 2-digit SIC codes. Calculating B4SHARE within industry groupings allows Big 4 concentration to vary across industries in a country-year. Results are robust to alternative measures of industry market share using percentages of total clients' sales and assets audited, as well as calculating B4SHARE within country-year groupings without regard to industry. The second dimension of market concentration, CONCEN, is the concentration of supply within the dominant Big 4 group of accounting firms. Big 4 supply will be least concentrated when market shares are equal, and more concentrated when one or two of the Big 4 firms have

dominant market shares relative to the other Big 4 auditors. There may also be less contestability of audit clients due to capacity constraints when the Big 4 market share is dominated by one or two larger firms.

Second: Measuring Audit Market Concentration

To calculate the degree of concentration, there is no internationally accepted method for measuring the market concentration. In the audit sector (Francis et al., 2012), there are many models used to measure market concentration, which depends on the market share of the controlling companies, such as the HHI-four-firm focus ratio, MS market share, indices Hirschman – Herfindahl ratio concentration. The market of the auditing profession in the world during the last 25 years is moving towards concentration, and its impact has increased as a result the merger of some companies and the exit of other companies such as Anderson Arthur until there are four. Major auditing firms control the largest share of public joint stock companies in the world, he explains the transformations that took place between the major auditing companies, to decrease from the eight largest companies to the four largest companies. The market of the auditing profession in the world during the last 25 years is moving towards concentration, and its impact has increased as a result the merger of some companies and the exit of other companies such as Anderson Arthur until there are four major auditing firms control the largest share of public joint stock companies in the world.

Third: Factors affecting the concentration of the auditing profession market:

A) Factors related to the specifications of the audit office

There are many specifications in auditing offices, both international and local which significantly affects the audit process and its procedures.

1- The size of the audit office

The size of the audit office is an important issue in the audit profession market, as the size of the office, the number of its members, and its geographical spread, play an important role in its ability to compete better in the market of auditing and achieve the required quality. Also, the size of the audit office makes it able to face the pressures arising from the demand for its services, especially the international offices (Al Atawneh, 2016, p.25). The size of the audit office usually contributes to provide a diversity of services provided for better customers whereas the major offices provide more audit services and affirmatively works on its services provided (Al Atawneh, 2016, p.26).

2- Audit Office Reputation

The reputation of auditing firms is an effective factor in concentrating the auditing profession in certain companies and offices without the other. As some of these studies have shown a positive effect of the reputation of the audit office and the attention of audited companies to choose offices that have a good professional market reputation. Consequently, the reputation of auditing offices usually depends on many factors in building them, such as the ethical behavior of the auditor who performs this process, in addition to the office's response to customers' desires from companies and what it does towards developing the expertise of its cadres, and perhaps these rectifiers

play a positive role in building the reputation and fame of audit firms (Francis & Ke, 2006), (Krishnan et al., 2005).

From this standpoint, there are several major variables that affect the reputation of audit firms, which can be limit it to the following:

1- The techniques used in the audit office, the more the office uses modern information technology and high-performance computer software the more affected his reputation in the audit market (Najm, 2012).

2- Lawsuits filed and cases brought against the audit (Al-Bakouri, 2014) and disciplinary sanctions office implemented against him from the various official and regulatory authorities (Ibrahim, 2009, p88).

3- Specialization in the service provided to corporate clients, where the audit offices that have the high market concentration and controlling markets in providing auditing service within specific specializations that will make her gain great knowledge in the specialized sectors such as the banking sector and the industrial sector and other sectors (Abu Issa, 2008).

3- Audit office experience

The experience of the audit office is an important specification in the auditing profession sector where the experience in these offices plays an important role in the quality of its business, including processes and procedures used in it (US. GAO, 2004). The availability of expertise, scientific qualification and practical competence among the auditors working in the audit offices is necessary to ensure the quality of the professional performance in carrying out the audit work, and that any failure in these businesses reflects negatively on the reputation of the office, which by its nature reflects its experience in the markets in general (Noor, 2007, p.76), (Al-Bakouri, 2014).

And because the expertise that auditing firms possess is one of the elements of their success, continuity, and concentration in the market, there are a set of factors that relate to auditing offices in terms of expertise and their impact on the quality of their professional performance, (Al-Bakouri, 2014), (Randal, 2015) where these factors can be identified:

- Experience of the auditor working in the audit office
- Supervising and following up the work of auditors
- Compliance with the auditing standards adopted in the countries in which the audit offices operate
- Specialization in specific sectors

(Al Atawneh, 2016, p.29).

B) Factors related to customer specifications

1- The size of the client company audited

The size of companies is usually seen as an important component of their reputation and value, which is usually represented in its assets and book value, and the industrial activities it undertakes. The size of the company and its activities that may be complex and risky are considered when conducting audits, and when determining what the auditing offices will receive for their service (Al Atawneh, 2016, p.34).

The audit is essential, as the big audit offices (Big Four) usually look at the size of the audited company.

In addition, the size of the company that is subject to audits directly affects when agreeing to the audit, as these offices may set special conditions for companies to accept. In the same context, the size of the company being audited is considered one of the most important factors identified in the

selection of the audit office, fees and other matters. As the size of the audited company also plays an important role in the audit process compared to large companies, where its activities are many and its operations are more complicated than other small size companies (Al Atawneh, 2016, p.34-35).

2- The presence of a corporate governance system in the audited companies

The emergence of governance led to interest in controlling accounting practices through established procedures which guarantees transparency through corporate audit committees, which aims to ensure the accuracy of financial report. It is worth that the financial failures in several major international companies were among the most important reasons and motives that prompted the establishment of audit committees. Where the audit committee oversees the preparation of financial reports, it works as a link between the board of directors and the external auditor, ensuring its independence in improving performing his duties, and the audit committees are seen as an important component of corporate governance. Also the audit committees are considered a tool to develop the audit in the broad sense, where it came up with an idea providing the necessary technical control means to protect the stakeholders and parties involved in the installations from by providing additional assurances that the boards of directors fulfill their responsibilities fully, efficiently and in full effectiveness. (Al Atawneh, 2016, p.36-37).

Fourth: Causes of audit market concentration

Measured by revenues or fees received, the Big Four audit firms as a group dominate the audit market for listed companies in the majority of European

Union countries, with a market share which exceeds 90% (European Commission, 2010). There appear to be several reasons why auditing has become so concentrated on four global firms. The degree of concentration in the audit market has arisen as a direct result of market forces and, in particular, the demand from investors for audit quality as well as appropriate capability to undertake complex audits across the world (House of Lords, 2011a). Large audit firms can achieve greater economies of scale by spreading certain fixed costs over an expanded client base. Their size enables them "to develop sufficient technical expertise and the ability to conduct work globally to meet the needs of complex multinational audit clients and to do so at lower costs than could be provided by smaller audit firms" (The United States Government Accountability Office, 2008). Besides global reach, reputation is also an important driver. The Big Four audit firms are perceived as being better at offering value added services on top of the audit and providing insurance against reputational risks. According to the survey conducted by Oxera (2006), less than 10% of the United Kingdom FTSE 350 companies surveyed would consider using a mid-tier firm, which again highlights the importance of perception and reputation in this market. Since the International financial reporting standards are recognized as being complex, a significant amount of technical expertise is required by the audit firms to adequately advise their clients (Chartered Institute of Management Accountants, 2010). The Big Four firms have more people in their technical departments and their staff have more experience in dealing with similar issues with other multinational businesses. Moreover, it is easier for them to attract and retain high quality experts.

Therefore, the internationalization of business, reputation, complexity of accounting standards, infrastructure investments and economies of scale are all factors that represent a major barrier to market entry for medium-sized audit firms.

Fifth: Levels of audit concentration

Measuring the levels of audit concentration was the subject of many studies done by regulators and individual researchers. Commonly used measures of concentration are the Concentration ratio, the Herfindahl-Hirschmann Index, the Gini coefficient and the Lorenz curve as a graphic representation of inequality in the distribution. However, the results of different studies are not always comparable because of different methods of calculating the indicators and use of different input data. Nevertheless, most studies agree that the level of audit concentration in most European countries is very high. The ESCP Europe (École Supérieure de Commerce de Paris) analysis from 2009 showed that EU Member States can be divided into four groups according to the overall share of the Big Four audit firms, based on the aggregated turnover of companies audited by a certain audit firm. Group 1 represents countries with relatively low overall market concentration with the share of Big Four auditors less than 10%, like the Czech Republic, Estonia, Hungary, Poland and Slovenia (Mališ and Brozović, 2015).

On the other hand, countries with a share of Big Four auditors above 30% belong to Group 4 (i.e. Denmark, Luxembourg, Sweden and the United Kingdom). Concentration levels on listed companies are very different from overall market concentration levels, especially for companies listed on the regulated national stock exchange. For the 21 analyzed Member States, 19 Member States are highly concentrated with a Herfindahl-Hirschmann Index

(HH Index) above 2000, while only two states are moderately concentrated with an HH Index between 1000 and 2000 (i.e. France and Greece). The EU average for the HH Index is 3094 (Le Vourc'h, Morand, 2011). The research published in 2010 by Grant Thornton confirms the dominance of the Big Four firms in the biggest Western economies. It found that the Big Four firms had an 84% share of audits in G8 countries and 70% worldwide. The only big European economy where the mid-tier firms have a sizeable market share of large company audits is France, where joint audits are mandatory (Mališ and Brozović, 2015).

However, in many fast-growing emerging economies, audit markets are more open. For example, in India the Big Four share is only 41% and in China 14%, where the majority of companies are audited by firms other than the Big Four or mid-tier, many of them national firms (Huber, 2011). It should be noted that the Chinese audit market is very young, since the development began in the 1980s, but with a great potential, driven by broader enterprise reforms, the development of capital market and foreign investment (Yang et al., 2003). When considering the United Kingdom audit market, which is a subject of many studies, in 2010, the Big Four auditors audited 99 of the FTSE 100 leading firms and around 240 of the next-biggest FTSE 250. In some important market segments like banking, the degree of concentration is even greater, since only three of the Big Four auditors audit UK banks (House of Lords, 2011a). In addition, switching rates are low: around 4% on average for all listed companies and 2% on average for FTSE 100 companies (Oxera, 2006).

This data shows that the Big Four's domination of the large firm audit market in the UK is almost complete. Studies in the United States show similar

results. According to the Government Accountability Office (2008), 82% of large public companies (i.e. Fortune 1000) saw their choice of auditor as limited to three or fewer audit firms. In 2006 four largest audit firms audited 98% of companies with total revenue above 1 billion USD and 96% companies in the category above 500 million USD company revenue. Although the market is concentrated overall, the degree of market concentration and the extent to which the largest firms dominate declines with the size of public companies. Due to a number of studies that confirm the domination of a few large audit firms, it is justified that many regulators and interested parties are concerned about the effect of such high market concentration on competitiveness, audit quality and vulnerability of the whole financial system. (Mališ and Brozović, 2015).

Sixth: Consequences of high audit market concentration Studies on the effects of high audit concentration primarily investigated these five segments:

1) Barriers to entry for mid-sized audit firms

2) Limited choice of auditors for large companies

3) The effect on the level of audit fees

4) The impact on audit quality

5) Financial system vulnerability.

Significant barriers to entry into the audit market for large companies are the consequence of the high market power of the Big Four audit firms. These main barriers are in particular lack of size or insufficient capacity in terms of number of auditors in mid-tier audit firms, limited geographical reach of mid-

tier audit firms, a strong preference among large companies to choose the Big Four auditors because of their reputation, resistance among companies and the absence of incentives to change the audit firm (Le Vourc'h, Morand, 2011). Oxera's analysis of the economics of entry by mid-tier firms into the UK FTSE 100 (Financial Times Stock Exchange) and FTSE 250 segments indicates that the current market structure is likely to persist. Market entry is not attractive to firms outside the Big Four due the perception bias against mid-tier audit firms, the high costs of entry, a long payback period for any potential investment and significant business risks (Oxera, 2006). Oligopoly market structure with a few strong audit firms and a high barrier of entry seems to be persistent, which is dangerous because it makes it challenging for regulators to take corrective measures to mitigate or eliminate any adverse effects of high concentration. Limited choice of auditors follows from the high concentration and entry barriers, especially for large companies. The reduction in the number of active audit firms in the market and especially in the number of top tier firms reduces client choice and increases the likelihood of conflicts of interest. Companies may find it increasingly difficult to identify a top tier firm that neither audits nor provides other sensitive services to a major competitor (Beattie et al., 2003). The United States Government Accountability Office found that 82% of the large companies surveyed see their auditor choice as limited to the Big Four because those firms have the technical expertise, capacity and reputation to undertake those audits (Bloom, Schirm, 2008).

The relationship between Audit Market Concentration and Audit Fees

Over one third of the UK FTSE 350 audit committee chairs do not feel that their company has sufficient choice of auditor (Oxera, 2006). Such a market

structure where there are only few audit firms on the supply side and a larger number of clients on the demand side can lead to disorders such as a rise of audit fees or a reduction of audit quality. In theory, oligopoly market structure may result in oligopoly firms using their market power to increase the price of their goods or services. The effect of the high audit concentration on audit fees remains unclear because various studies have yielded different results. For example, the Oxera study, based on data for 1995-2004 from the United Kingdom, showed that market concentration and market share of a given auditor in a given sector/year both have a statistically significant and positive impact on audit fees (Oxera, 2006).

On the other hand, Eshleman (2013) finds that the effect of audit market concentration on the level of audit fees depends on the size of the audit market. When the audit market contains fewer clients and/or those clients are smaller in size, audit fees are increasing in audit market concentration. In markets where there are a large number of clients and/or the clients are large in size, audit market concentration leads to lower audit fees. In the end, the United States Government Accountability Office analyzed the statistical relationship between audit fees paid by more than 12000 companies from 2000 through 2006. It has come to the conclusion that public companies operating in industrial sectors with more concentrated audit markets were not paying higher audit fees than companies in sectors with less concentrated audit markets. Although audit fees increased significantly on average for all sizes of firms, the study indicated that factors other than concentration appear to explain audit fees (The United States Government Accountability Office, 2008).

Therefore, it is obvious that the results depend on research design and the country in which the research was conducted, which means that a unique conclusion cannot be derived.

The relationship between Audit Market Concentration and Audit Quality

A similar situation applies to the effect on audit quality. From the one perspective, higher concentration could be associated with higher audit quality by enabling the auditor to maintain independence. If the auditor depends less on a single client and if there is a reduced probability of the client switching auditors, the auditor is in a better negotiation position to limit client-driven earning manipulations.

On the other hand, audit firms with significant market power have the potential to reduce the quality of their services because the lack of competitive alternatives would limit clients' ability to obtain services elsewhere. It is unclear and difficult to empirically test which of these scenarios prevails (Mališ and Brozović, 2015). Boone et al. (2012) found evidence that auditor concentration manifests itself in increased auditor tolerance for earnings management by clients. Big Four dominance does not appear to harm audit quality and is in fact associated with higher earnings quality, after controlling for other country characteristics that potentially affect earning quality (Francis et al., 2013).

In addition, the US Government Accountability Office and ESCP Europe found no compelling evidence that audit quality was compromised due to market concentration (Bloom & Schirm, 2008; Le Vourc'h & Morand, 2011).

Regardless of the vague effect of high concentration on audit quality, it is clear that such a market structure does not contribute to the stability of the financial system. Audit as a service is meaningful only if the stakeholders have confidence in the auditor's opinion. The potential collapse of one of the major audit firms could disrupt the availability of audited financial information on large companies, damage investor trust and impact the stability of the financial system. Therefore, there are concerns that the Big Four audit firms have become too dominant and that the failure of one of them would cause major disruption to the economy (Huber, 2011). It is understandable that regulators are considering reforms to dilute the Big Four's dominance and improve competition in the audit market.

Seventh: Possible reforms to reduce the audit market concentration

There are many proposals on the reform of the audit market in order to reduce concentration, but few of them have actually been implemented. Institutions like the European Commission, ESCP Europe, the Institute of Chartered Accountants in England and Wales, the United States Government Accountability Office and the Selected Committee of Economic Affairs from the House of Lords have all released reports and studies on this subject (Mališ and Brozović, 2015). Many of the proposed measures overlap, with the following measures being most frequently mentioned:

a) Mandatory audit firm rotation

b) Mandatory joint audit

c) Regular mandatory tendering of audit contracts

d) Change in ownership arrangements for auditors

e) Reform of the law of unlimited liability

f) Elimination of covenants which are restricting the choice of auditors

g) Establishment of the contingency plans for the potential demise of a Big Four audit firm.

A) Mandatory audit firm rotation is a measure that would limit the period of years that an audit firm could serve as the auditor for a particular company. It could potentially reduce concentration to the extent that more opportunities are provided for midsize and smaller firms to compete to provide audit services to public companies (The United States Government Accountability Office, 2008). Moreover, clients and their auditors would have less incentive to build persistent client-auditor ties, which can also have a positive impact on auditor independence (Gerakos, Syverson, 2015). Italy is one of the European Union Member States in which the rotation of audit firms has been mandatory since 1974. The maximum rotation frequency is nine years corresponding to three three-year mandates. In addition, there is also a minimum cooling-off period of three years before the previous auditor can be reappointed. Similar rules exist in Brazil, South Korea, Singapore and India, while Spain, Austria and Canada have abandoned rotation rules (Le Vourc'h, Morand, 2011).

Opponents to the rotation often argue that mandatory rotation would not necessarily reduce concentration because large public companies would likely rotate to another one of the largest firms. Rather, costs for both audit firms and their clients would increase (The United States Government Accountability Office, 2008). Hess and Stefani (2012) even predict that such measures would result in auditor changes from smaller to larger audit firms, thereby increasing supplier concentration (Hess, Stefani, 2012). Therefore, it is difficult to reach a consensus. However, the case of Italy does not go in

favor of this measure, since the Italian audit market has one of the highest Herfidahl-Hirschman Indexes for listed companies (Le Vourc'h, Morand, 2011).

B) Joint audits are defined as audits in which two or more auditors simultaneously carry out the audit, which means that they issue a single audit report and share responsibility for the audit (Hess and Stefani, 2012). In order for it to be effective, there should be a ban on the appointment of two Big Four audit firms. This would contribute to the growth of midtier firms, enabling them to reach critical size on a national basis. Today France is the only EU Member State requiring by law joint audits for statutory audits of listed companies that publish consolidated accounts. In addition, France has a lower than average concentration level and a mid-tier firm that is present on the main index market segment. There are several benefits of joint audits. It lowers the level of concentration and favors the development of mid-tier and small audit firms. Furthermore, it minimizes the risk of demise of one of the Big Four auditors, since the joint auditor would much more easily take on its counterpart's work than a new entrant. It could potentially improve audit quality by increasing the overall number of cross-checks (Le Vourc'h, Morand, 2011). However, there are costs and risks that come along with this measure. The presence of two auditors increases coordination costs, especially in a consortium of a larger and smaller audit firm.

Moreover, audit fees are expected to be higher and the risk of inconsistencies in methodologies is increased (Hess, Stefani, 2012). That is why Denmark dropped mandatory joint audits for listed companies in 2005 (Le Vourc'h & Morand, 2011). Taking into account its benefits and drawbacks, this measure needs to be considered as a serious option for lowering concentration levels.

C) Another possible measure is mandatory tendering with full transparency as regards the criteria according to which the auditor will be appointed. It could be a useful measure to make the audit market more dynamic, considering the currently low switching rates. Regarding the frequency of tendering, the Institute of Chartered Accountants in England and Wales (2011) recommends that the tendering process should be conducted at least every eight years.

On the other hand, the UK Select Committee on Economic Affairs suggested that UK FTSE 350 companies carry out a mandatory tender of their audit contract every five years, adding that the audit committee should be required to include detailed reasons for their choice of auditors in their report to shareholders (House of Lords, 2011b). The main drawbacks identified during the study conducted by the ESCP Europe are related to increasing costs for both companies and audit firms. Moreover, such a measure could lead to a decline of audit quality if it results in price wars. Severe competition between auditors might enable clients to take advantage of the situation to negotiate lower prices. Consequently, audit quality could suffer (Le Vourc'h & Morand, 2011). Despite these drawbacks, mandatory tendering would definitely increase transparency in the audit market. All European Union Member States require a majority of voting rights in audit firms to be held by qualified auditors, as stipulated in the European Commission Eighth Directive

Some have interpreted these specifications more strictly than others by requiring 75% or more of the owners of audit firms to be qualified auditors (Oxera, 2007). These requirements were intended to preserve audit quality by ensuring auditor independence. However, such a rule might limit the growth opportunities for audit firms, which is one of the barriers to the entry of small

and mid-tier audit firms to audit market of larger clients. Allowing parties other than the audit firm's partners to own or invest in audit firms could increase these firms' financial resources and allow them to hire the additional staff needed to serve larger companies (Mališ and Brozović, 2015). The United States Government Accountability Office (2008) interviewed midsize and smaller audit firms in order to explore the potential effectiveness of this measure. Several of them said that access to capital did not pose a significant barrier to expansion because firms currently raised sufficient capital through traditional channels such as loans. In their experience, shortage of qualified staff in the labor market rather than limited access to capital was their primary impediment to growth.

Therefore, it seems that this measure would not contribute much to the reduction of audit concentration and the strengthening of small and midsized companies, but to the contrary could have an adverse effect on the auditors' independence.

D) And E) It has been argued that auditors' unlimited liability discourages non-Big Four auditors from taking on large listed clients. Placing caps on auditors' potential liability would limit the overall amount that an audit firm would have to pay in connection with a lawsuit involving the work it performed for one of its clients. Even though the basic harmonization regime for statutory audit is unified with the European Directive, the liability part is left to the discretion of each of the Member States. Practices from different countries show that statutory auditors' liability can take different forms. For example, Spain has adopted a proportionate liability regime in 2010, which means that statutory auditors are now only responsible for the amount of

damage equal to their share of liability, but not for that of other people if those people cannot pay (Mališ and Brozović, 2015).

On the other hand, the liability of statutory auditors in Germany is limited by a monetary cap set in the German Commercial Code (Dufour et al., 2014).

F) Another possible measure is to ensure equal competing conditions for all participants in the audit market. It would mean publicly disclosing or even banning all restrictive covenants. Restrictive covenants (i.e. "Big Four-only" clauses) are clauses or requirements in contractual agreements between companies and their banks that state that only a Big Four audit firm can provide audit services to the company (Le Vourc'h & Morand, 2011). No particular measure has been taken to prohibit restrictive covenants in Europe and there is still a lack of data measuring how widespread this practice is. Prohibition on bank covenants is expected to have a positive impact on market competition since they are one of the barriers to the development of the midtier audit firms.

G) In order to limit the vulnerability of the financial system in case of the collapse of one of the big audit firms, contingency plans and living wills for major audit firms have been suggested. Similar packages have already been discussed and introduced for large financial institutions, due to the experience from the latest global financial crisis.

Contingency plan should allow for a rapid resolution in the event of the demise of a major audit firm, avoid disruption in the provision of audit services and prevent further structural accumulation of risk in the market (European Commission, 2010). Living wills would have the same goal, laying

out all the information the authorities need to separate the good from the failing parts of an audit firm so disruption to the financial system from a collapse would be minimized (House of Lords, 2011b). It is evident that there are a number of possible measures. The reason why they are not widely applied probably lies in the fear that their disadvantages overcome possible benefits. Moreover, there is no clear and convincing evidence that a high concentration reduces audit quality and level of competitiveness, which is why regulators are still reluctant to take serious actions. In any case, it is necessary to carry out further research on this issue (Mališ and Brozović, 2015).

Eighth: The Law That Organize Audit Market Concentration in Syria

The auditor shall be appointed for a period of one year, renewable for up to four years, if the appointment is for an office. In the case of the company, the company responsible for the audit and the work team must be changed every four years (Law No. 33, 2009).

Chapter 4
Audit Quality

This chapter includes the meaning of audit quality, and its framework. In addition to that, it explains briefly audit quality indicator, audit professional indicators, audit result indicators, and users of audit quality indicator.

1- The Meaning of Audit Quality

Audit Quality is a complex subject, there is no analysis of it that has achieved universal recognition, and there is much controversy debate around term of audit quality.

In Australia Professor Roger Simnett define audit quality that it will ensure that the financial statement accurately reflect the underlying economic reality and the audit quality linked to the quality of the accounting information and quality of the systems at client that includes the internal control plus the quality of management and how can anyone else prepare the information.

Also the Public Accounting Company Oversight Board (PCAOB) in USA define audit quality as meeting investors' needs for independent and reliable audits and robust audit committee communications on financial statements, including related disclosures, assurance about internal control and going concern warnings. (Public Accounting Company Oversight Board [PCAOB], 2013, P.3) Where also discussed audit quality where can be viewed it from several perspectives. One is an auditor's operating in full compliance with professional auditing standards and applicable law. A second is an auditor's meeting the needs of a public company's investors, and the marketplace, for independent, effective, and reliable audits of the company's financial statements, conducted by auditors who exercise due professional care, including professional skepticism; such audits, among other things, reduce the risk of material errors or accounting fraud and provide timely reporting of material weaknesses in the company's internal control over financial reporting (internal control), and of going concern issues. A third is facilitating, as part of the process, the timely and effective supply of information, most importantly to the company's audit committee and public investors. The result should be robust

audits that provide "reasonable assurance [that] the financial statements are free of material misstatement," and "present fairly, in all material respects, the financial position of the Company . . . in conformity with generally accepted accounting principles. In one sense, the higher the level of audit quality, the more certain users are that financial statements are free of material misstatements (PCAOB, 2015, P10&11).

International Auditing and Assurance Standards Board (IAASB) explained meaning of audit quality that it encompasses the key elements that create an environment which maximizes the likelihood that quality audits as performed on a consistent basis and A quality audit is likely to have been achieved by an engagement team that Exhibited appropriate values, ethics and attitudes; sufficiently knowledgeable, skilled, and experienced and had sufficient time allocated to perform the audit work; Applied a rigorous audit process and quality control procedures that complied with law, regulation and applicable standards; Provided useful and timely reports; and Interacted appropriately with relevant stakeholders. (The International Auditing and Assurance Standards Board [IAASB], 2014, P.4).

Its assumed that audit quality is achieved when the procedures and processes related to an audit are fully and accurately conducted in a manner consistent with the International Standards on Auditing, International Standard on Quality Control (ISQC) and carried out by appropriate auditor has the ability to do this accurately in Suitable conditions ensure a suitable working environment for auditors to be the result the financial statement accurately reflect the underlying economic reality for client and substantiation that through gathering sufficient appropriate audit evidence.

2- Farm Work of Audit Quality

Albeit the term 'audit quality' is difficult to` define but a framework of 'audit quality' has been identified by International Auditing and Assurance Standards Board (IAASB) and also by Public Company Accounting Oversight Board (PCAOB).

3- IAASB Farm work

The (IAASB) was published Audit Quality framework in February 2014 Holistic framework covering all key stakeholders in the financial reporting supply chain. The Framework describes factors contributing to audit quality at engagement, audit firm and national levels, for financial statement audits with the aim of encourage key stakeholders explore ways to improve audit quality and facilitate a greater dialogue between them on the topic and Raise awareness of the key elements of Audit Quality , which includes inputs, process, outputs, Interactions and Contextual Factors, during which it is possible to create an environment which maximizes the likelihood that quality audits are performed on a quality at the engagement, audit firm and national levels, for financial statement audits The Framework also demonstrates the importance of appropriate interactions among stakeholders and the importance of various contextual factors (IAASB, 2014, P.7&8).

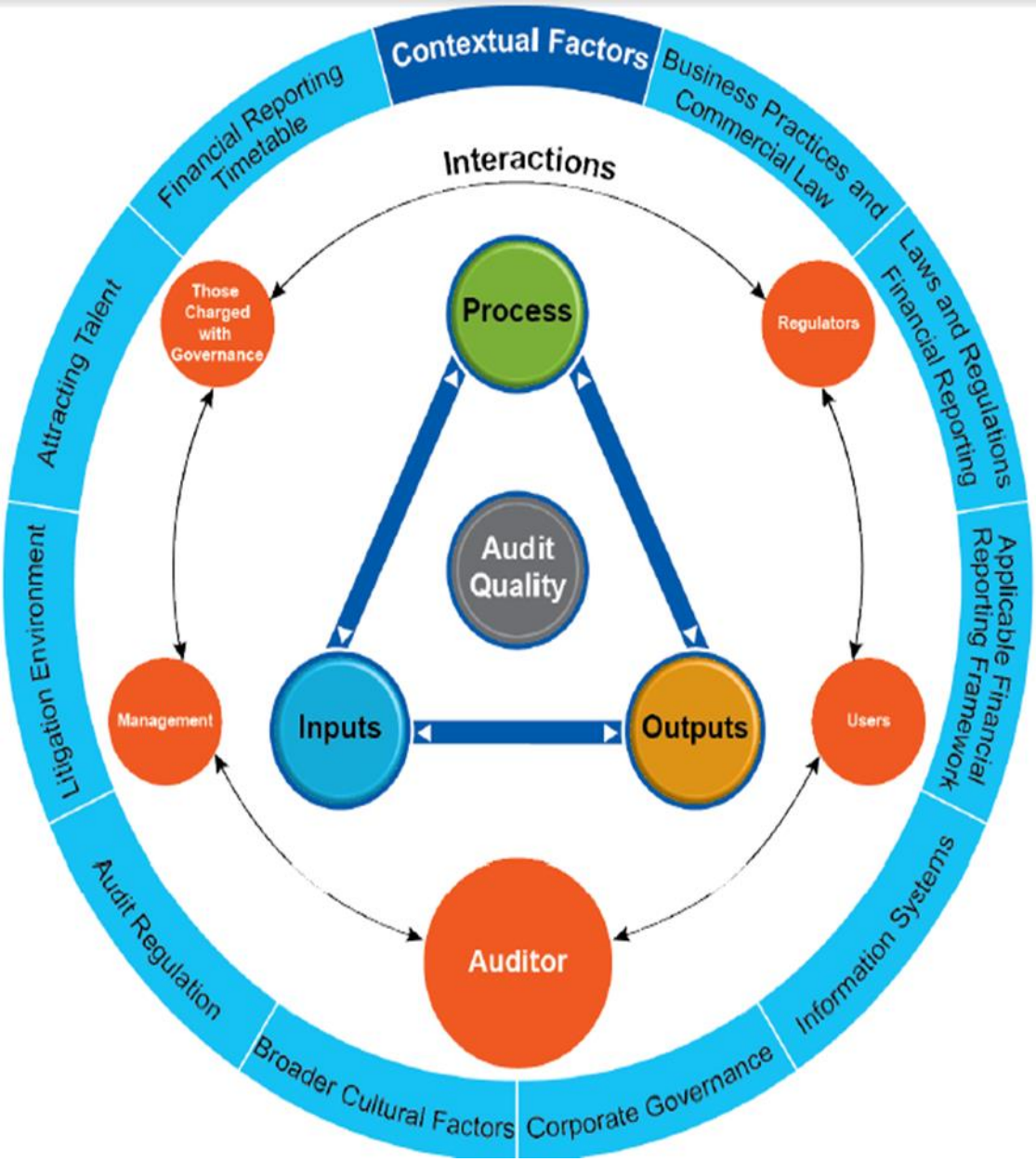
The first element is the inputs and means that Quality audits involve auditors are Exhibiting appropriate Values, Ethics and auditors being Attitudes Being sufficiently knowledgeable, skilled, and experienced and having sufficient time allocated to them to perform the audit work (IAASB, 2014, P.10).

The second elements is Process and means Quality audits involve auditors applying a rigorous audit process and quality control procedures that comply with laws, regulations and applicable standards (IAASB, 2014, P.10).

The third element is result of Quality audits and be outputs that are useful and timely. They are described in relation to the full reporting supply chain and include

outputs from The auditor, The audit firm, The entity, Audit regulators and Outputs include reports and information that are formally prepared and presented by one party to another, as well as outputs that arise from the auditing process that are generally not visible to those outside the audited organization (IAASB, 2014, P.10).

Graph No. 2 (Key Elements of IAASB Audit Quality Framework)



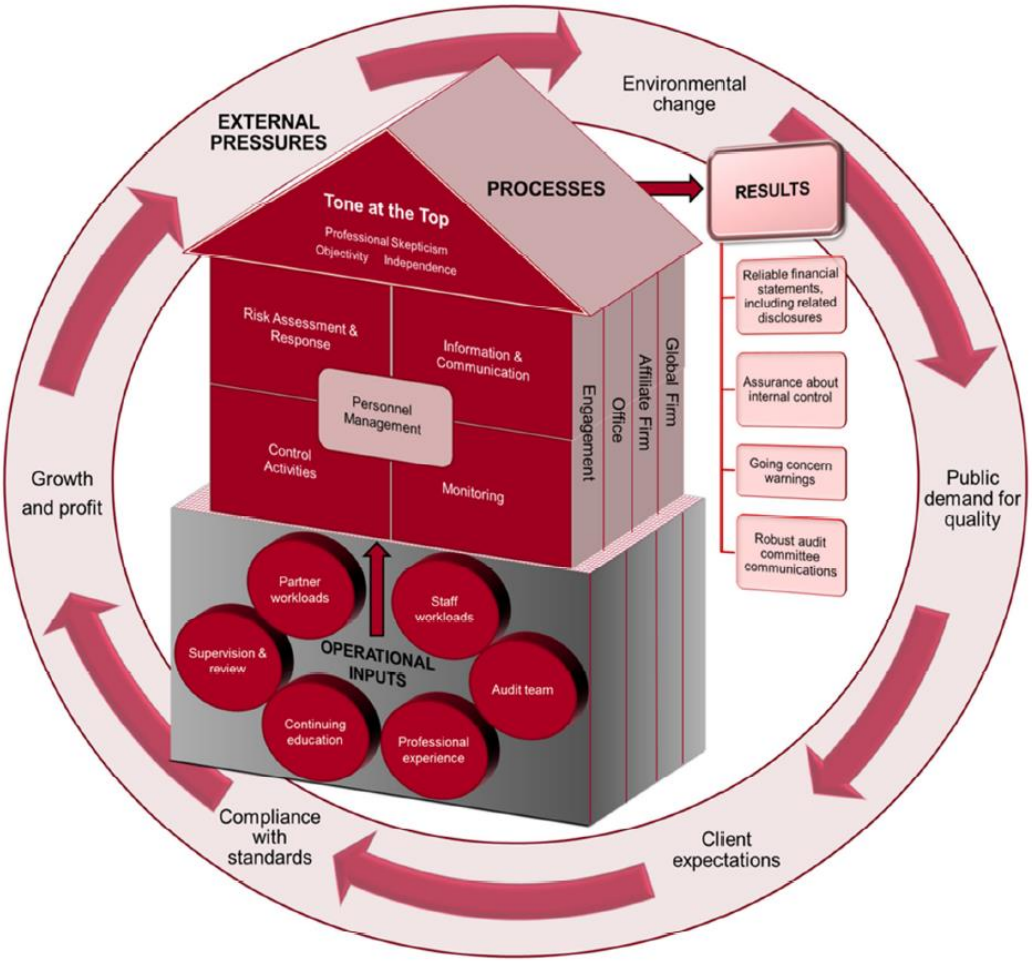
(IAASB, 2014, P.8)

The fourth element is Interactions while the primary responsibility for performing quality audits rests with auditors, audit quality is best achieved in an environment where there is support from other participants in the financial reporting supply chain. Each stakeholder plays an important role supporting high-quality financial reporting and the way in which they interact may impact audit quality. Where increased interaction is promoted in the Framework for Audit Quality. management , regulators , those charged with governance and users must be interact with each other and with auditors and auditors also must be Interacting with them To create an interactive environment that contributes to preparing high-quality financial reports and achieving audit quality (IAASB, 2014, p.11).

The fifth element is contextual Factors involves applicable financial reporting framework, audit regulation, law and regulations related in financial reporting, corporate governance, business practices and commercial law, financial reporting timetable, information systems, litigation environment, broader cultural factors and attracting talent and these contextual factors – have the potential to impact the nature and quality of financial reporting and, directly or indirectly, audit quality. Where appropriate, auditors respond to these factors when determining how best to obtain sufficient appropriate audit evidence (IAASB, 2014, p.12).

- PCAOB Framework

Graph No. 3 Audit Quality Framework



(PCAOB, 2013, p.6)

The framework for analyzing audit quality, developed by the AQI project in May 2013 and discussed in this concept release, has three parts: (i) audit professionals or input, (ii) audit process, and (iii) audit results. As indicated above, the audit professionals portion of the framework includes indicators relating to auditors' availability, competence, and focus, with emphasis on the details of staffing and experience; audit process includes indicators relating to tone at the top and leadership, incentives, independence, infrastructure, and monitoring and

remediation; and audit results includes indicators concerning financial statements, internal control, timely reporting of going concern issues, communications between auditors and audit committees, and enforcement and litigation. The framework focuses as much, if not more, on factors that have not heretofore been observable generally those relating to audit professionals and process – as on those that have, relating to audit results (Public Company Accounting Oversight Board [PCAOB], 2015, P.11).

The framework also acknowledges that external pressures, such as rapid environmental change and pressures for growth and profit, influence audit quality (PCAOB, 2013, p.5).

The framework depicts that quality activities and results occur at several levels, including the engagement team, office or region, affiliate firm and global firm levels (PCAOB, 2013, p.5).

- Audit Quality Indicators

Independent audit has been part of the financial reporting supply chain for a considerable time. This has resulted in more consideration being given to the quality of an audit and what audit quality means, how it could be defined and how it could be measured Therefore, currently no common approach to measuring audit quality, a number of initiatives or proposals have recently been issued by nine bodies world-wide One of them is Public Company Accounting Oversight Board (PCAOB)in USA and these nine bodies world-wide which set out Audit Quality Indicators (AQIs) that might be used to measure audit quality However, audit quality remains an elusive construct for both to define and to measure and the aim from AQIs are provide a basis for comparison across different audits and audit firms. Another important potential benefit of AQIs is enhanced by the transparency of information available for discussion with those charged with governance and audit committees And characterized audit quality indicator That most popular them is the quantum of hours of training undertaken per person as it is included in eight of the initiatives.

AQIs such as internal engagement quality reviews and external inspections are found in six initiatives, while the number of audit staff per audit partner, and years of experience are found in five. However, this does not mean that these indicators are 'better' than those appearing less frequently are (Federations of European Accountants [FEE], 2016, P.2&3).

- Audit Quality Indicators by Public Company Accounting Oversight Board (PCAOB):

The Public Company Accounting Oversight Board issued concept about audit quality indicators include the content and possible uses of a group of potential "audit quality indicators." The indicators are a potential portfolio of quantitative measures that may provide new insights about how to evaluate the quality of audits and how high quality audits are achieved. Taken together with qualitative context, the indicators may inform discussions among those concerned with the financial reporting and auditing process, for example among audit committees and audit firms. Enhanced discussions, in turn, may strengthen audit planning, execution, and communication. Use of the indicators may also stimulate competition among audit firms focused on the quality of the firms' work and, thereby, increase audit quality overall (PCAOB, 2015, P.1).

These Twenty-eight potential indicators are quantitative and operate in an integrated manner along with contextual information for each audit or related comparison and focuses on two levels engagement level firm level, in addition for that, these indicators are fall into three groups: (PCAOB, 2015, P.2&3).

- The first is audit professionals and includes measures dealing with the A) availability, B) competence and C) focus of those performing the audit (PCAOB, 2015, P.2).
- The second is audit process, and includes measures about an audit firm's D) tone at the top and E) leadership incentives, F) independence, G) attention to

infrastructure and H) record of monitoring and remediation (PCAOB, 2015, P.2).

- The third is audit results, and includes I)financial statements, J)internal control, K) going concern, L)communications between auditors and M) audit committees and enforcement and litigation (PCAOB, 2015, P.3).

First: Audit professional indicators divided into availability, competence and focus

A) Availability Indicators includes:

A1) Staffing Leverage Indicator measures the time of experienced senior personnel relative to the volume of audit work they oversee. Staffing leverage Indicator on Engagement Level by use the Ratio of firm audit partners' chargeable hours to chargeable hours of all other engagement personnel and also measure Ratio of firm audit partners' chargeable hours to firm audit managers' chargeable hours finally measure the Ratio of firm audit managers' chargeable hours to chargeable hours of all staff below manager. Staffing leverage Indicator measures on Firm Level by use the Ratio of audit partners' chargeable hours for the engagement to chargeable hours of all other engagement personnel and also measure the Ratio of audit partners' chargeable hours for the engagement to chargeable hours of audit managers' on the engagement and finally measure is the Ratio of audit managers' chargeable hours for the engagement to chargeable hours (FEE, 2016, P.21).

A2) Partner Workload Indicator generates data about the level of work for which the audit engagement partner is responsible and the number of claims on his or her attention. Partner Workload indicator measures on Engagement Level by use the Chargeable hours managed by audit engagement partner for all public and private clients for the current year (planned) and prior year (actual), then measures Number of public clients, and number of private clients, whose audits are managed by the audit engagement partner and audits for which that partner is a, also measures quality control reviewer, noting those with calendar year-ends, for the current year

(planned) and prior year (actual) and finally measures . Audit engagement partner's utilization percentage for the current year (planned) and prior year (actual).Partner Workload indicator measures on Firm Level by use the Average chargeable hours managed by public company audit engagement partners for all public and private clients for the current year (planned) and prior year (actual) and also measures Public company audit engagement partners' average utilization percentage for the current year (planned) and prior year (actual) (FEE, 2016, P.21).

A3) Manager and Staff Workload Indicator would provide information about the workload of audit managers and audit staff. Manager and Staff Workload indicator on Engagement Level measures for managers and audit staff, respectively: Utilization percentage for the current year (planned) and prior year (actual), also measure through use Average hours worked per week measured from day after clients' year-end date through audit opinion date, for all engagements, by personnel level. Manager and Staff Workload indicator measures on Firm Level through use the Manager and audit staff average utilization, respectively and also measure through use Manager and audit staff average chargeable hours at different periods within the year (e.g., during periods of peak audit workload) (FEE, 2016, P.21).

A4) Technical Accounting and Auditing Resources. This indicator measures the level of a firm's central personnel (or other resources engaged by the firm) available to provide engagement teams with advice on complex, unusual, or unfamiliar issues and the extent to which they are used in a particular engagement. This indicator measures on Engagement Level through use Technical resource chargeable hours as a percentage of total engagement hours. this indicator measures on Firm Level through use the Size of a firm's "National Office" or other technical audit resources as a percentage of its total audit personnel, using a and also through use "full-time -equivalent" measurement to account for individuals who spend only part of their time on technical resource matters (FEE, 2016, P.21).

A5) Persons with Specialized Skill or Knowledge Indicator measures the use in an audit engagement of persons with "specialized skill and knowledge," other than accounting and auditing personnel counted as technical accounting and auditing resources under indicator Technical Accounting and Auditing Resources. These individuals may be firm personnel or the firm may retain them. Persons with Specialized Skill or Knowledge indicator measures on Engagement Level through use Chargeable hours by persons with specialized skill or knowledge (except as counted as technical resources under indicator Technical Accounting and Auditing Resources), in total and by functional specialty, as a percentage of an engagement's current year (planned) and prior year's (actual) total chargeable hours. Persons with Specialized Skill or Knowledge indicator measures on Firm Level through use the Chargeable hours of persons with specialized skill or knowledge (except as counted as technical resources under indicator Technical Accounting and Auditing Resources) in total and by functional specialty, as a percentage of a firm's actual chargeable hours. (FEE, 2016, P.22).

B) Competences Indictors

B1) Experience of audit personnel Indicator measures the level of experience of members of a particular engagement team and the weighted average experience of firm personnel generally. Experience of audit personnel indicator on engagement level for partners, managers, staff auditors, specialists, and engagement quality reviewers use the number of years on the engagement and then use the number of years in present assignment and personnel level and use number of years with the firm and in the auditing profession. Experience of audit personnel indicator measures on firm level by use the average experience for total audit personnel, also measures through use weighted average years of experience for partners, managers, staff auditors, and specialists respectively (FEE, 2016, P.22).

B2) Industry Expertise of Audit Personnel Indicator addresses the experience of senior members of the audit team, as well as specialists, in the industry in which

the audited company operates. Industry expertise of audit personnel indicator measures on engagement level through use number of years of cumulative experience of partners, audit managers, specialists, and engagement quality reviewers, respectively, in the audited public company's industry (FEE, 2016).

B3) Turnover of audit personnel indicator measures turnover, that is, transfers to other engagements or movement to other firms, at the engagement and, more generally, at the firm, level. Turnover of audit personnel indicator measures on engagement level through use percentage of prior year's partners, managers, audit staff, specialists, and engagement quality reviewers, respectively, that have left the firm or been reassigned to another audit engagement within the firm. Turnover of audit personnel indicator measures on firm level through use the percentage of partners, managers, audit staff, and specialists, respectively that have left the firm or left the firm's audit practice, in the preceding 12 months (FEE, 2016, P.22).

B4) Amount of Audit Work Centralized at Service Centers Indicator measures the degree to which audit work is centralized by the audit firm at service centers. Amount of audit work centralized at service centers indicator measures on engagement level through use percentage of total engagement audit work (by chargeable hours) whose performance is carried out on a centralized basis at service centers. amount of audit work centralized at service centers indicator measures on firm level through use the percentage of audit work (by chargeable hours) whose performance is carried out on a centralized basis at service centers (FEE, 2016, P.22).

B5) Training Hours per Audit Professional Indicator focuses on the hours of relevant training—including industry-specific training—that members of the engagement team, and of the team's firm, have received. Training hours per audit professional indicator measures on firm level through use the annual accounting and auditing training hours, and industry-specific training hours for partners, audit managers, staff auditors, specialists, and engagement quality reviewers, respectively

and also measures through use total independence and ethics training hours for personnel groups in "a". Training hours per audit professional indicator measures on firm level through use the average annual accounting and auditing training hours, and industry-specific training hours, in total and for partners, managers, staff auditors, specialists, and engagement quality reviewers, respectively and also measures through use average independence and ethics training hours for personnel groups in "a" (FEE, 2016, P.23).

C) ***Focus of those performing the Audit***

C1) Audit Hours and Risk Areas Indicator measures the time spent by members of the audit team at all levels on risk areas identified by the firm during audit planning. Audit hours and risk areas indicator measures on engagement level through use the total chargeable hours, and percentage of hours, by significant risk area for partners, managers, audit staff, technical accounting and auditing resource personnel, specialists, and the engagement quality reviewer, respectively, for the current year (planned) and the prior year (actual). Audit hours and risk areas indicator on firm level for audits by industry, computed separately, average chargeable hours overall and by significant risk area for partners, managers, audit staff, technical accounting and auditing resource personnel, specialists, and the engagement quality reviewers, respectively, for the prior year (actual) (FEE, 2016, P.23).

C2) Allocation of Audit Hours to Phases of the Audit Indicator measures the effort and staffing the audit devotes to audit planning, interim fieldwork, and audit completion. Allocation of audit hours to phases of the audit indicator measures on engagement level through use the current year's (planned) and prior year's (actual) total chargeable hours for each related audit phase (i.e., planning, quarterly reviews, interim field work, final field work up until report release date, and post-field work

until audit documentation completion date) for partners, managers, the audit staff, technical resources staff, specialists, and the engagement quality reviewer, respectively. Allocation of audit hours to phases of the audit indicator measures on firm level through use the percentage of hours of the firm devoted respectively to planning, quarterly reviews, interim field work, final field work up until report release date, and post-field work until audit documentation completion date for partners, managers, the audit staff, technical resources staff, specialists, and engagement quality reviewers (FEE, 2016, P.23).

Second: audit possess indicators divided into Tone at the Top and Leadership, Incentives, Independence, Infrastructure and Monitoring

D) Ton at the top and leadership

D1) Results of Independent Survey of Firm Personnel this indicator measures an audit firm's "tone at the top" through use of a survey tool. This indicator measures on firm level through use the anonymous independent surveys of current and former firm personnel about "tone at the top," quality of supervision and training, and the extent to which the firm promotes an environment that favors speaking up about potential issues, and promotes and rewards professional skepticism (FEE, 2016, P.23).

E) Incentives

E1) Quality Ratings and Compensation Indicator measures the potential correlation between high quality ratings and compensation increases and the comparative relationship between low quality ratings and compensation increases or decreases. Quality ratings and compensation this indicator on firm level through use the first percentage of partners and managers, respectively, with exceptional performance ratings on audit quality the second. Percentage of partners and managers, respectively, with exceptional quality ratings who receive above average

increases in compensation the third percentage of partners and managers, respectively with low quality ratings the finally average percentage compensation increase or decrease for partners and managers, respectively, with low quality ratings (FEE, 2016, P.24).

E2) Audit Fees, Effort, and Client Risk this Indicator provides insight into the relationship between engagement or firm audit fees and hours, on the one hand, and levels of client risk, on the other. Audit fees, effort, and client risk this indicator measures on engagement level through use the percentage change from prior year in each of: (i) audit fees and (ii) chargeable hours for partners and managers, respectively, together with whether client was identified by firm as high risk. Audit fees, effort, and client risk this indicator measures on firm level through use the percentage change from prior year in each of: (i) total audit revenues charged to public company clients and (ii) chargeable hours for partners and managers, respectively, together with percentage of firm's public company clients assessed as high risk (FEE, 2016, P.24).

F) Independence

F1) Compliance with independence requirements indicator measures several elements of a firm's independence training and monitoring program and the importance it assigns to that program (FEE, 2016, P.24).

F2) Compliance with Independence Requirements Indicator measures on engagement level through use the percentage of engagement personnel subject to firm's personal independence compliance reviews. In addition, measures through average of mandatory independence training hours per engagement team member (FEE, 2016, P.24).

F3) Compliance with Independence Requirements Indicator measures on firm level through use the first percentage of firm personnel subject to firm's personal independence compliance reviews annually ,the second average of mandatory

independence training hours per audit employee and other firm professional employees covered by commission independence rules (whether or not involved in the firm's audit practice), respectively ,the third percentage of issuer audit engagements subject to firm internal quality control reviews over independence compliance annually. ,the fourth level of investment in centralized support for, and monitoring of compliance with, independence requirements per 100 public company audit clients (for firms with 500 such clients) and finally percentage of public company audit clients lost due to independence violations (FEE, 2016, P.24).

G) Infrastructure

G1) Investment in Infrastructure Supporting Quality Auditing Indicator measures the amounts audit firms invest, in people, process, and technology, to support the base on which quality auditing depends. Investment in infrastructure supporting quality auditing indicator measures on engagement level through use the investment in engagement team as a percentage of revenue generated on engagement. Investment in infrastructure supporting quality auditing indicator measures on firm level through use the investment in audit practice as a percentage of firm revenue (FEE, 2016, P.24).

H) Monitoring and remediation

H1) Audit Firms' Internal Quality Review Results Indicator contains information about the internal quality reviews conducted by each audit firm. Audit firms' internal quality review results indicator measures on engagement level through use the results of any internal quality inspections of audits of the engagement client, including number (if any) of audit deficiencies of a magnitude similar to a PCAOB part i finding. Audit firms' internal quality review results indicator measures on firm level through use the percentage of public company audits subjected to internal quality review inspections by audit firm, also measure through use percentage of such inspections with one audit deficiency of a magnitude

similar to a PCAOB part i finding and then measure through use percentage of such inspections with more than one such audit deficiency (FEE, 2016, P.25).

H2) PCAOB Inspection Results Indicator contains information about PCAOB inspection results relating to the engagement or the audit firm involved. PCAOB inspection results indicator measures on engagement level through use the results of any PCAOB inspections of audits of the engagement issuer as well as the number and nature of any part i findings identified. PCAOB inspection results indicator measures on firm level through use the first number and percentage of PCAOB-inspected audits that result in a ,the second number and percentage of PCAOB inspected audits that result in more than one ,the third number and percentage of PCAOB inspected audits that led to a restatement and the finally number, nature, and dates of quality control defects dealt with in released part ii PCAOB inspection reports , if any, combined with information about firm's subsequent remediation efforts (FEE, 2016, P.25).

H3) ***Technical Competency Testing Indicator*** seeks to measure the level of technical competence of a firm's audit personnel, and the success of efforts to keep up that level of competence. Technical competency testing indicator measures on engagement level and firm level through use the content requires study (FEE, 2016, P.25).

Third: audit result indicators

I) ***FINANCIAL STATEMENT***

I1) Frequency and Impact of Financial Statement Restatements for Errors Indicator measures the restatements for error of financial statements whose audit the audit firm has performed. This indicator measures on engagement level through use the number and magnitude of audit practice's restatements for errors at engagement level, computed annually. This indicator measures on firm level through use the number and percentage (of audited financial statements) of an audit practice's restatements for errors, computed annually, and magnitude of those restatements. In addition, measure through use the audit firm's top five annual restatements measured by the magnitude of those restatements (FEE, 2016, P.25).

I2) Fraud and other Financial Reporting Misconduct Indicator is concerned with reporting of fraud and other financial misconduct, at both the engagement and audit firm levels. Fraud and other financial reporting misconduct indicator measures on engagement level and firm level through use the content requires study (FEE, 2016, P.25).

I3) Inferring Audit Quality from Measures of Financial Reporting Quality this Potential Indicator focuses on whether (and which) measures of financial reporting quality used by investment analysts, academics, and regulators can also be used as measures of audit quality (FEE, 2016, P.25).

J) ***Internal control***

J1) Timely Reporting of Internal Control Weaknesses this measure captures the extent to which an audit firm identifies material weaknesses in an issuer's internal controls over financial reporting on a timely basis. This measure measures on engagement level through use the same as firm level but concerning audit reports for the engagement client. This measure on engagement level use the first percentage of findings of material weakness in internal control over financial

reporting with no corresponding: (i) restatements for errors or (ii) known errors and the second percentage of: (i) restatements for errors, or (ii) known errors, with no corresponding material weakness in internal controls over financial reporting identified in the prior year (FEE, 2016, P.26).

K) Going concern

K1) Timely Reporting of Going Concern Issues Indicator focuses on the timeliness of the auditor's use of a going concern paragraph in its opinions. Timely reporting of going concern issues indicator measures on engagement level through use the same as firm level "a," but concerning audit reports for the engagement client. Timely reporting of going concern issues indicator measures on firm level through use the number and percentage of audit reports with no going concern reference in the year preceding an engagement client's financial distress, e.g., bankruptcy, troubled debt restructuring, troubled buyout, or bailout and also measure use the five largest issuers by market capitalization from the above indicator (FEE, 2016, P.26).

L) Communications Between Auditors and Audit Committee

L1) Results of Independent Surveys of Audit Committee Members this indicator measures the effectiveness of the communication between auditors and audit committees through use of a survey tool. This indicator measures on firm level through use the anonymous independent survey of audit committee members overseeing one or more of a firm's audit engagements, to evaluate level and quality of communication between auditors and clients (FEE, 2016, P.26).

M) Enforcement and Litigation

M1) Trends in PCAOB and sec Enforcement Proceedings this indicator measures board or sec proceedings in audit and audit-related matters against an audit firm. This indicator measures on engagement level through use the public, sec or board enforcement proceedings, measured over the preceding five years, against the

firm or its partners, with respect to the engagement client. This indicator measures on firm level through use the public, sec, or board enforcement proceedings, measured over the preceding five years, against the firm or its partners, with respect to audit matters (FEE, 2016, P.26).

M2) Trends in private litigation this indicator focuses on private litigation involving the audit firm. Trends in private litigation this indicator measures on engagement level through use the frequency, nature, and results of private litigation relating to firm's audit work for the engagement client. Trends in private litigation this indicator measures on firm level through use the frequency, nature, and results of private litigation relating to firm's public company audit practice (FEE, 2016, P.26).

Users of Audit Quality Indicators (AQIs)

The potential primary users and range of uses of AQIs can be summarized as follows:

First user Audit Committees: can use AQIs in Assess reporting risk and audit quality, Retain and compensate auditors and Oversee auditors (PCAOB, 2015, P.18).

Second user Audit Firms: can use AQIs in Assess and manage risk, Improve quality control efforts and, ultimately, audit quality And Identify root causes of audit deficiencies and remediate weaknesses .(PCAOB,2015,P.18)

Third user Investors: can use AQIs in Assess reporting risk and Vote shares (PCAOB, 2015, P.18).

fourth user PCAOB and other Regulators: can use AQIs in Inform policy-making, Assist root cause and quality control projects And Stimulate public discussion of, and market demand for, quality (PCAOB, 2015, P.18).

Other users of AQIs could include company management, the business press, academics, and the general public. As noted above, the indicators are intended to function as a balanced portfolio, and the initial assumption is that the portfolio would be the same for all users. Different classes of users could receive different levels of disclosure of AQI data (PCAOB, 2015, P.18).

Chapter 5
Practical Study

First: Research Population and Sample

The society of the research contained of the financial reports of the corporates which work in Damascus.

The sample of this research was as follows:

The financial reports and the minutes of boards for the registered corporates in Damascus Security Exchange for the period (2008 to 2010) and (2013 to 2015)

Variables/Year	2008	2009	2010	2013	2014	2015
Audit Fees	4	22	3	5	6	6
Audit Quality	22	24	24	24	24	24
Audit Market Concentration	22	22	24	24	24	24
Total Number	22	22	24	24	24	24

The reason of the small number of the taken data regarding audit fees is that not all the registered corporates disclosed them, because they considered it a special and sensitive information.

Audit fees were taken as mentioned above from the financial reports, they were mentioned in them as a total number called (professional audit fees).

Audit Quality was measured by adopting an opinion which says that “The Audit Quality can be measured by the audit report type and the number of misstatements discovered by the auditors”, there were many opinions about the audit quality but the research adopted this way because of the limited disclosed data from the corporates of DSE.

Audit market concentration was measured by measuring the number of auditee for each external auditors who are registered in DSE.

The following is a statement of the names of external auditors for the corporates of DSE:

Table No. 1

Tamim
Husrieh
Ahmad Al Masri
Awni Zakieh
Majanni
Jawad and Abdullah Maksoor
Nazem Al Kadri
Mohammad Marwan Sheikh Khaled
Sharabati
Mohideen Al aKhteeb
Usamah Tabbarah & Co. Nexia International & Lutfi Alsalamat
Fouad Bazerbashi
Kahtan Al Syoofi
Al Tinawi
Tadmor and Brice
Farzat Al Imadi
Al Yaghshi
Mohammad Maher Wehbe
Moustafa Al Jajeh

Second: Statistical Tests and Analysis which were used in the research:

- Descriptive statistics.
- Simple and multiple linear regression test
- ANOVA test.
- Scheffe test.

Third: Data Analysis:

a) Descriptive Statistics:

1) According to the research variables:

Table (2), Descriptive Statistics of research variables

	Std. Deviation	Mean	Maximum	Minimum
Fees	1351364.806	1333367	6210000	100000
Quality	1.55	1.77	9.00	1.00
Concentration Ratios	0.10554757	0.0498737	1.00000	0.00000

The table shows the mean for fees, quality, and concentration ratios, where the average values are: for fees 1333367, quality 1.77, and for market concentration 0.049, the maximum values for audit fees 6210000, audit quality 9, and for audit market concentration 1.

2- According to research years (2008-2015):

Table (3) Descriptive Statistics of research variables by Research Years

	Concentration Ratios	Quality	Fees
	Mean	Mean	Mean
2008	0.04924	1.50	339563
2009	0.04167	1.41	1752404
2010	0.04167	1.46	362167
2013	0.04167	1.92	1521000
2014	0.08333	2.33	847040
2015	0.04167	1.96	1275000
Total	0.04987	1.77	1333367

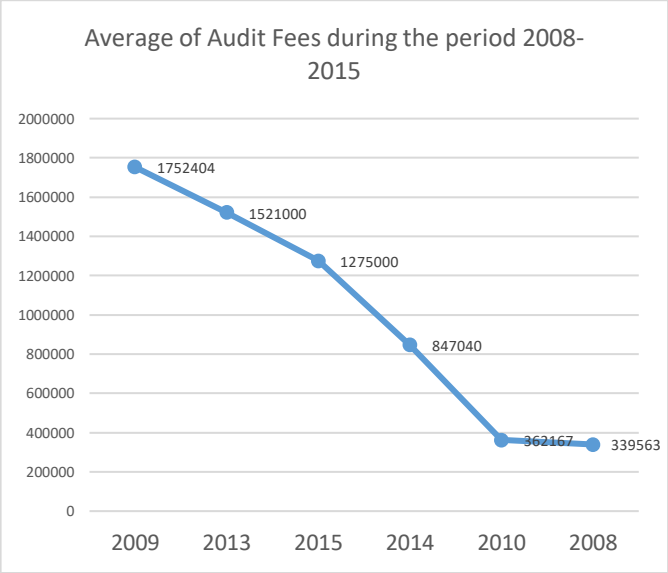
The table shows the mean of the fees, quality, and concentration ratios during the period from 2008-2015 (the research period), the highest value of

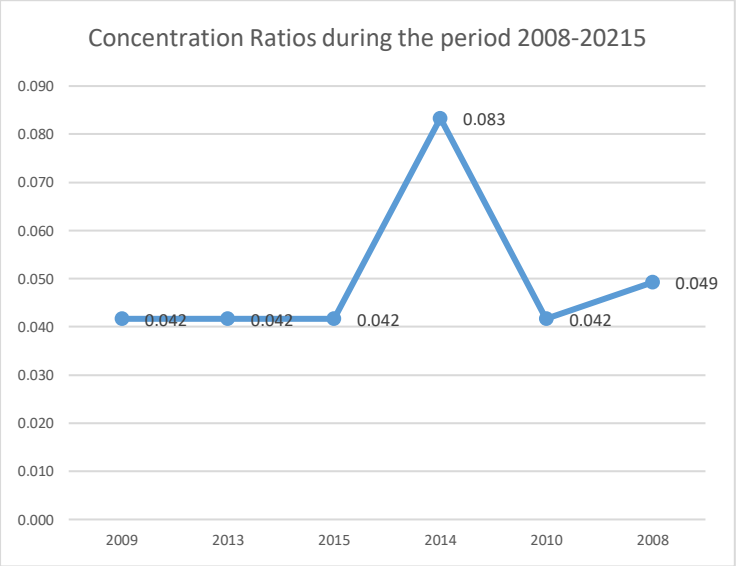
fees was in 2009, where the mean was 1752404, then in 2013 (1521000), while the lowest was in 2008 amounted to (339563).

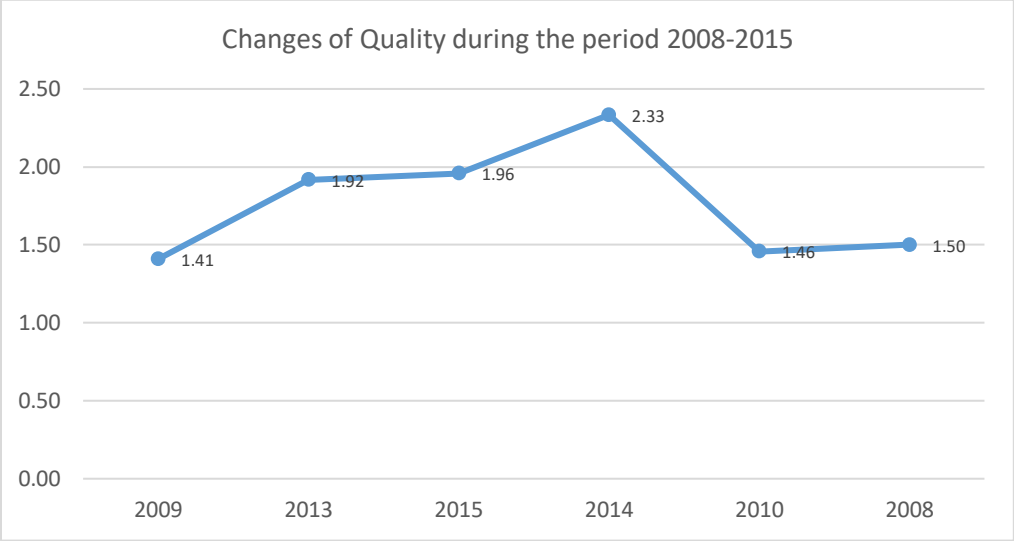
As for quality, the highest value of quality was in 2014, with an average of 2.33, then in 2015 with a quality of 1.96, and the lowest quality was in 2009, when it reached (1.41).

And for concentration ratios, the highest concentration value was in 2014, where the average concentration was 0.083, then 2008 with an average of 0.049, while the lowest concentration rate was in 2009.

Graph No. 4






Changes of Quality during the period 2008-2015
2.50
2.00
1.50
1.00
0.50
0.00
1.41
1.92
1.96
2.33
1.46
1.50
2009
2013
2015
2014
2010
2008

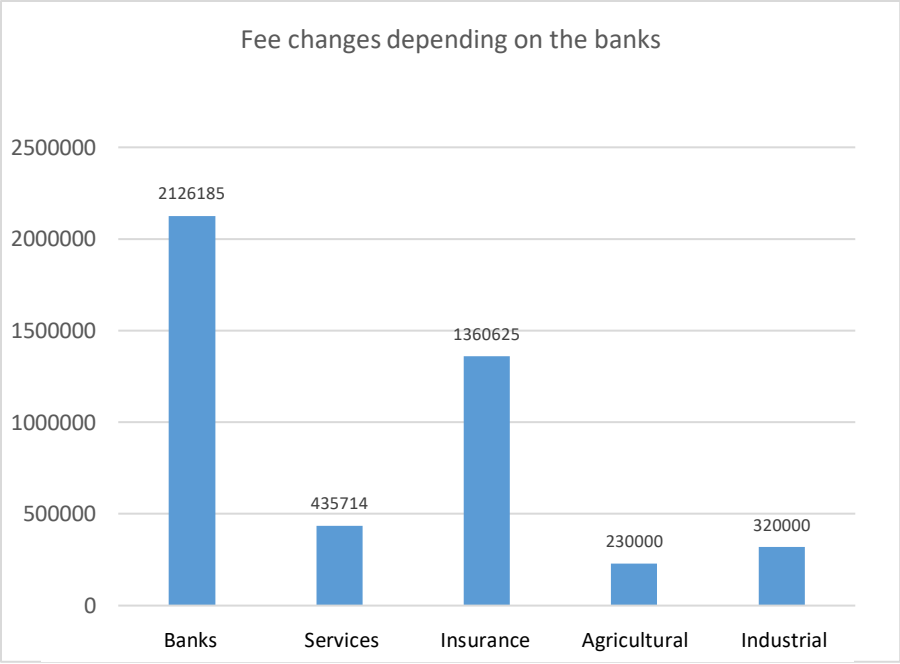
3- Audit fees changes according to the sectors of sample:

Table (4) Descriptive Statistics of Auditing Fees by sectors

		Maximum	Minimum	Std. Deviation	Mean
Fees	Banks	6210000	263250	1502783	2126185.00
	Services	2050000	100000	717469	435714.29
	Insurance	2900000	795000	735830	1360625.00
	Agricultural	300000	175000	64711	230000.00
	Industrial	400000	200000	109545	320000.00
	Total	6210000	100000	1351365	1333367.07

The table shows the mean values of fees, quality, and concentration ratios according to the sectors, the highest value of fees was in banks 2126185, then in the insurance sector 1360625, and finally in the agricultural sector 230,000.

Graph No. 5



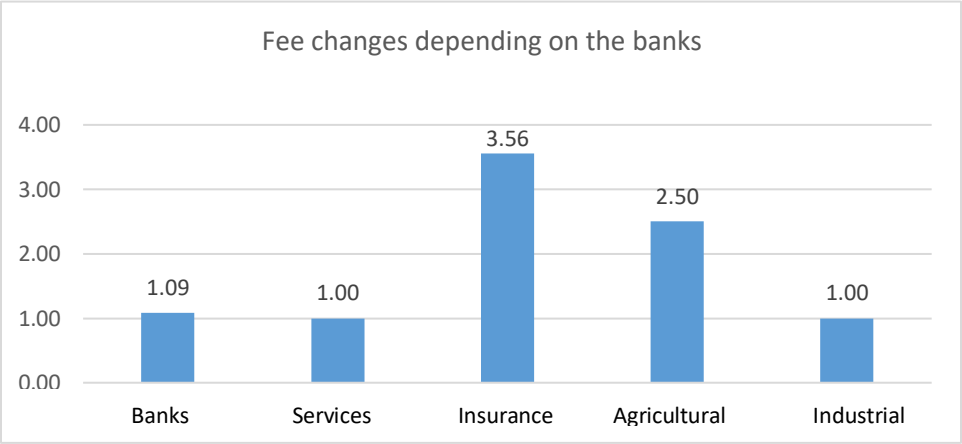
4- Quality changes according to the sectors of sample:

Table (5) quality descriptive statistics by sectors

		Maximum	Minimum	Std. Deviation	Mean
Quality	Banks	3.00	1.00	0.363	1.09
	Services	1.00	1.00	0.000	1.00
	Insurance	8.00	1.00	1.731	3.56
	Agricultural	9.00	1.00	3.209	2.50
	Industrial	1.00	1.00	0.000	1.00
	Total	9.00	1.00	1.547	1.77

The table shows the mean of the quality values according to the sectors of sample, the highest value for quality was in insurance 3.56, then for the agricultural sector 2.5 and finally for the industrial sector 1.

Graph No. 6



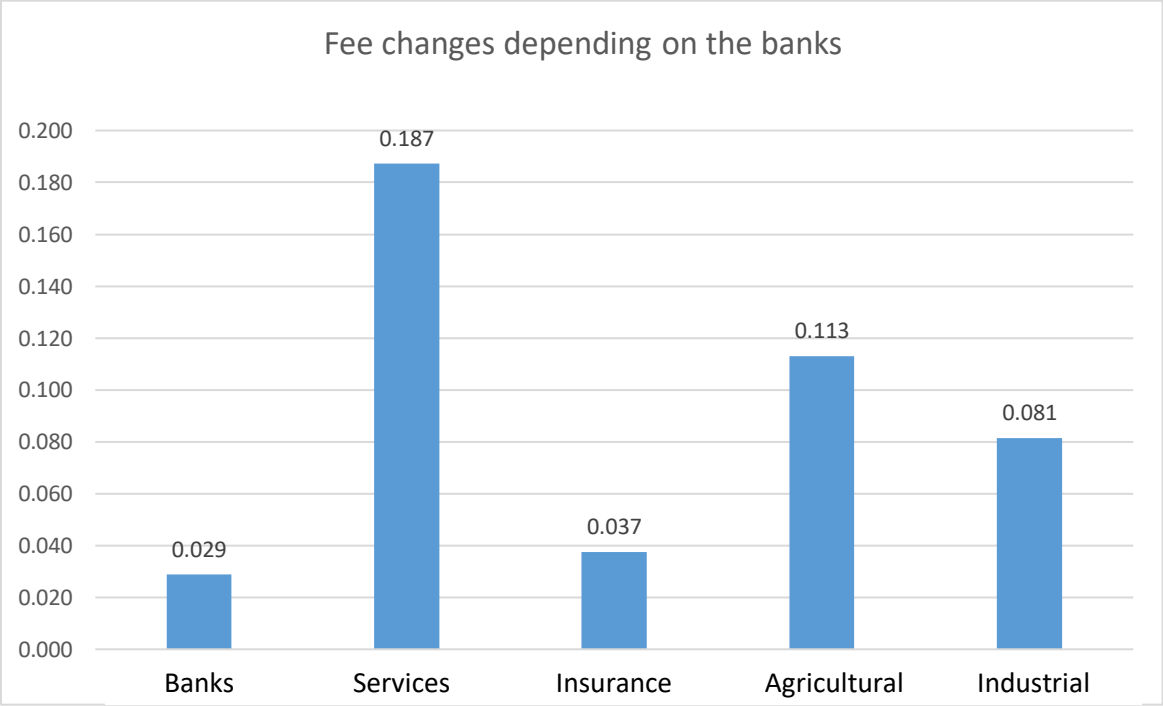
5- Concentration changes according to the sectors of sample:

Table (6) concentration descriptive statistics by sectors

		Maximum	Minimum	Std. Deviation	Mean
Concentration Ratios	Banks	1.000	0.000	0.112	0.029
	Services	0.318	0.083	0.083	0.187
	Insurance	0.125	0.000	0.037	0.037
	Agricultural	0.167	0.042	0.061	0.113
	Industrial	0.364	0.000	0.142	0.081
	Total	1.000	0.000	0.106	0.050

The table shows the mean of the concentration percentage values according to the sectors, the highest concentration percentage was in the services sector 0.187, and then in the agricultural sector was 0.113, and finally in the banking sector 0.029.

Graph No.7



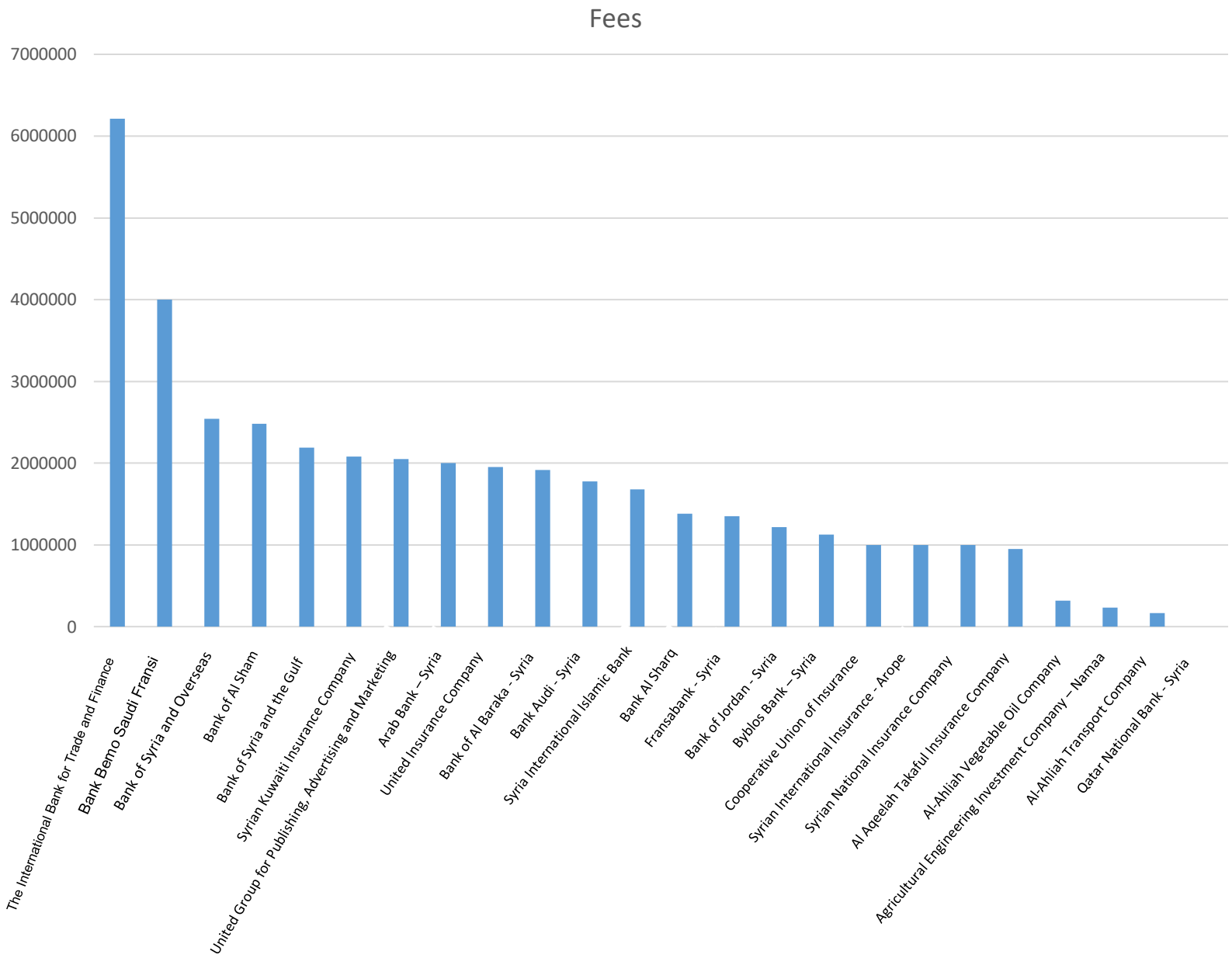
6- Variable changes according to the sample:

Table (7) descriptive statistics, concentration percentages by banks

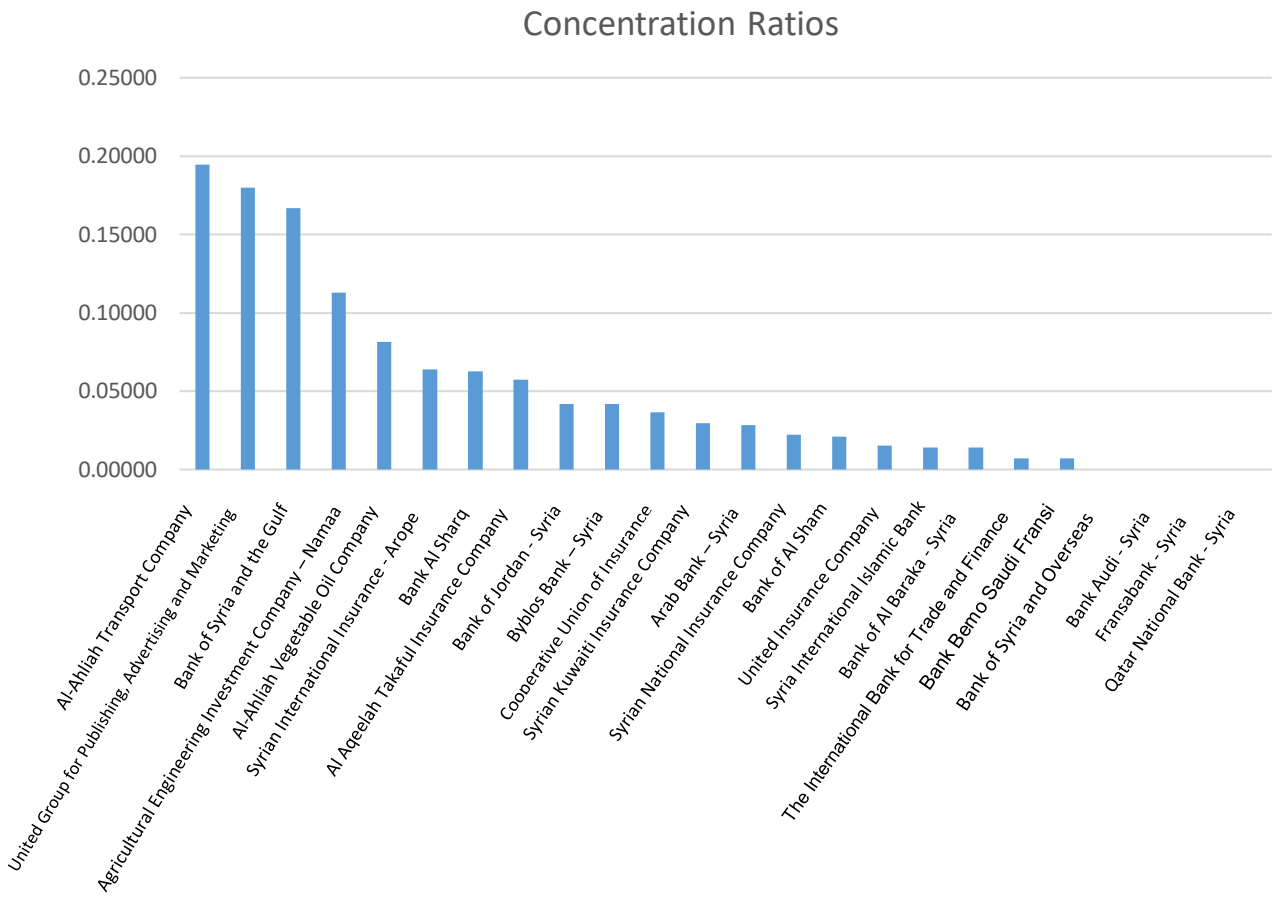
	Concentration Ratios	Quality	Fees
	Mean	Mean	Mean
Cooperative Union of Insurance	0.03662	3.7	1000000
Arab Bank – Syria	0.02841	1.0	2000000
Syrian International Insurance - Arope	0.06376	2.3	1000000
Al-Ahliah Vegetable Oil Company	0.08144	1.0	320000
Al-Ahliah Transport Company	0.19444	1.0	166667
Syrian Kuwaiti Insurance Company	0.02967	3.7	2080000
Syrian National Insurance Company	0.02210	3.5	1000000
United Group for Publishing, Advertising and Marketing	0.17992	1.0	2050000
The International Bank for Trade and Finance	0.00694	1.3	6210000
Bank of Jordan - Syria	0.04167	1.0	1215000
Bank of Al Baraka - Syria	0.01389	1.0	1918333
Bank of Al Sham	0.02083	1.0	2479643
Bank Al Sharq	0.06250	1.0	1380000
Byblos Bank – Syria	0.04167	1.0	1127000
Bank Bemo Saudi Fransi	0.00694	1.0	4000000
Syria International Islamic Bank	0.01389	1.5	1681208
Bank of Syria and the Gulf	0.16667	1.3	2188750
Bank of Syria and Overseas	0.00000	1.0	2541121
Bank Audi - Syria	0.00000	1.0	1775000
Qatar National Bank - Syria	0.00000	1.0	
Fransabank - Syria	0.00000	1.0	1350000
United Insurance Company	0.01515	4.0	1950000
Agricultural Engineering Investment Company – Namaa	0.11301	2.5	230000
Al Aqeelah Takaful Insurance Company	0.05745	4.2	952500

- The International Bank for Trade and Finance had the highest paid fees, which was amounted at (6210000), then Bemo Saudi Fransi Bank with an average of (4,000,000), while the lowest paid fees was in The National Transport Company.
- Al-Aqeelah Takaful Insurance Company had the highest quality which was amounted at (4.2) then The United Insurance Company with a mean of (4.0), while the lowest quality was in Qatar National Bank - Syria.
- The National Transport Company had the highest concentration level, which is (0.19), and the United Group for Publishing, Advertising and Marketing with a mean of (0.17), while the lowest concentration level was in Qatar National Bank – Syria.

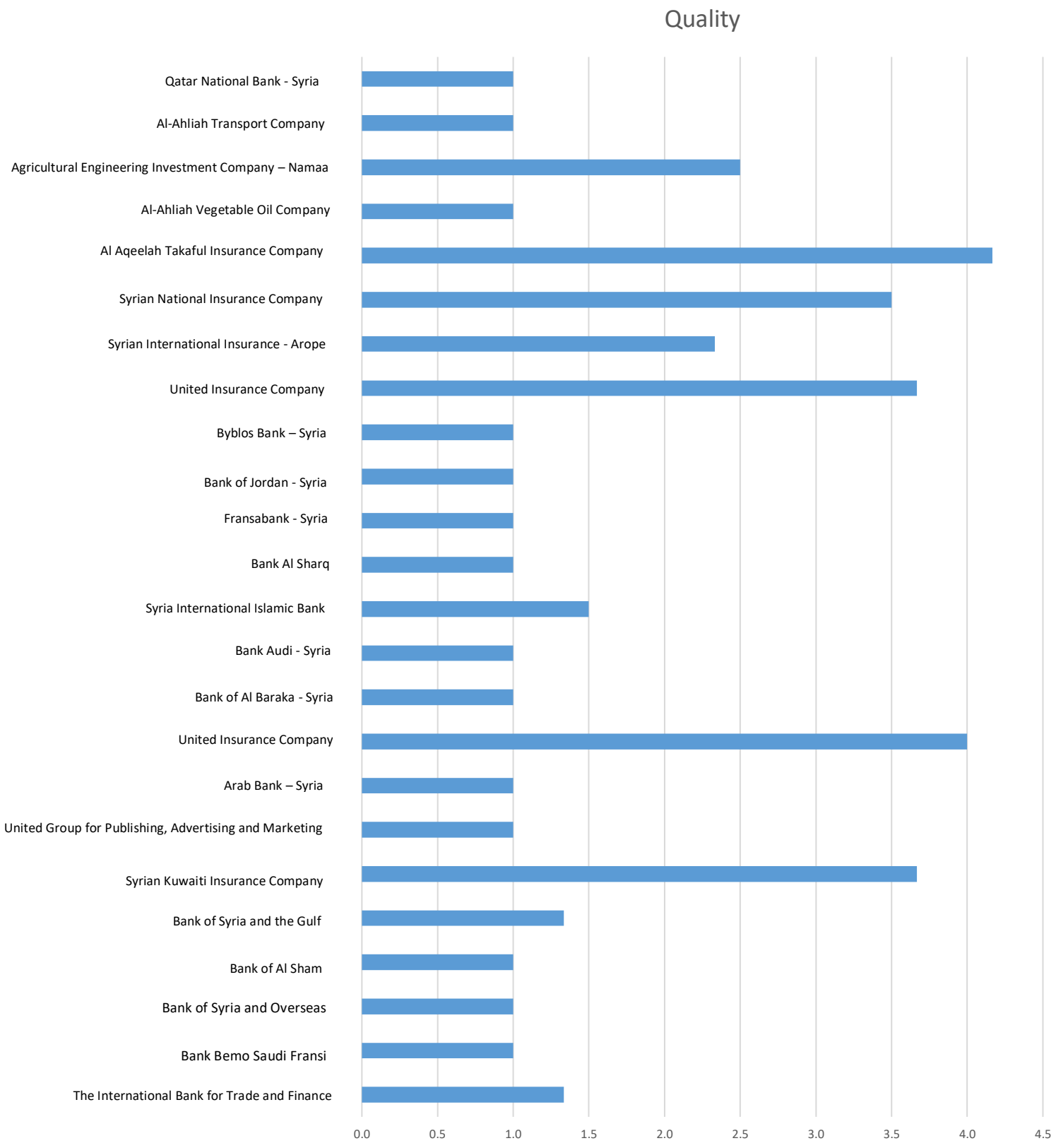
Graph No.8


Fees
7000000
6000000
5000000
4000000
3000000
2000000
1000000
0
The International Bank for Trade and Finance
Bank Bemo Saudi Fransi
Bank of Syria and Overseas
Bank of Al Sham
Bank of Syria and the Gulf
Syrian Kuwaiti Insurance Company
United Group for Publishing, Advertising and Marketing
Arab Bank – Syria
United Insurance Company
Bank of Al Baraka - Syria
Bank Audi - Syria
Syria International Islamic Bank
Bank Al Sharq
Fransabank - Syria
Bank of Jordan - Syria
Byblos Bank – Syria
Cooperative Union of Insurance
Syrian International Insurance - Arope
Syrian National Insurance Company
Al Aqeelah Takaful Insurance Company
Al-Ahliah Vegetable Oil Company
Agricultural Engineering Investment Company – Namaa
Al-Ahliah Transport Company
Qatar National Bank - Syria

Graph No. 9


Concentration Ratios
0.25000
0.20000
0.15000
0.10000
0.05000
0.00000
Al-Ahliah Transport Company
United Group for Publishing, Advertising and Marketing
Bank of Syria and the Gulf
Agricultural Engineering Investment Company – Namaa
Al-Ahliah Vegetable Oil Company
Syrian International Insurance - Arope
Bank Al Sharq
Al Aqeelah Takaful Insurance Company
Bank of Jordan - Syria
Byblos Bank – Syria
Cooperative Union of Insurance
Syrian Kuwaiti Insurance Company
Arab Bank – Syria
Syrian National Insurance Company
Bank of Al Sham
United Insurance Company
Syria International Islamic Bank
Bank of Al Baraka - Syria
The International Bank for Trade and Finance
Bank Bemo Saudi Fransi
Bank of Syria and Overseas
Bank Audi - Syria
Fransabank - Syria
Qatar National Bank - Syria

Graph No. 10


Quality
Qatar National Bank - Syria
Al-Ahliah Transport Company
Agricultural Engineering Investment Company – Namaa
Al-Ahliah Vegetable Oil Company
Al Aqeelah Takaful Insurance Company
Syrian National Insurance Company
Syrian International Insurance - Arope
United Insurance Company
Byblos Bank – Syria
Bank of Jordan - Syria
Fransabank - Syria
Bank Al Sharq
Syria International Islamic Bank
Bank Audi - Syria
Bank of Al Baraka - Syria
United Insurance Company
Arab Bank – Syria
United Group for Publishing, Advertising and Marketing
Syrian Kuwaiti Insurance Company
Bank of Syria and the Gulf
Bank of Al Sham
Bank of Syria and Overseas
Bank Bemo Saudi Fransi
The International Bank for Trade and Finance
0.0
0.5
1.0
1.5
2.0
2.5
3.0
3.5
4.0
4.5

b) Assumptions Test:

1- "**There is a significant impact of audit fess on audit quality**".

Linear regression test was performed to examine this hypothesis

Table (8) Coefficient of correlation and determination of independent variable variables (Audit Fees) and dependent (Quality)

Sig.	F	Adjusted R Square	R Square	R	Model
0.000[b]	18.047	0.135	0.143	0.378[a]	1
a. Predictors: (Constant), Fees					
a. Dependent Variable: Quality					

The table shows the correlation coefficients (relationship) between the independent and dependent, where the value of correlation coefficient R is 0.378, and that the coefficient of interpretation is 0.14, which means that the **audit fees** explain 14.3% of the changes in quality, as the following table shows the F = 18.04, and the significance (sig = 0.000), which < sig = 0.05.

Table (9) Statistical Functions of (Audit Fee) and (Quality)

Sig.	t	Standardized Coefficients	Unstandardized Coefficients		Model	
		Beta	Std. Error	B		
0.000	4.442		0.345	1.532	(Constant)	1
0.014	3.315	0.378	0.000	5.750E+00	Fees	
a. Dependent Variable: Quality						

The table indicates the value of t and the significance (sig = 0,000) this indicates that there is a significant effect of the audit fee on its quality and any increase in audit fee will increase in quality.

So H1 **"There is a significant impact of audit fess on audit quality**" is accepted.

2- "**There is a significant impact of audit market concentration on audit quality**"

Linear regression test was performed to study the effect of the independent variable (concentration ratios) and dependent (quality).

Table (10) Coefficient of correlation and determination of independent (concentration ratios) and dependent (quality)

Sig.	F	Adjusted R Square	R Square	R	Model
0.045[b]	3.763	0.025	0.034	0.183[a]	1
a. Predictors: (Constant), Concentration Ratios					
b. Predictors: (Constant), Concentration Ratios					

The table shows the correlation coefficients (relationship) between independent and dependent, where the value of R is 0.183, and the R Square = 0.034, which means that (concentration ratios) explain 3.4% of the changes in quality, which is F = 3.76, and the (sig = 0.045), which is < sig = 0.05.

Table (11) Statistical Functions of the (Concentration Ratios) and (Quality)

Coefficients[a]						
Sig.	t	Standardized Coefficients	Unstandardized Coefficients		Model	
		Beta	Std. Error	B		
0.000	11.873		0.145	1.727	(Constant)	1
0.048	-3.706	-0.183	1.232	-0.870	Concentration Ratios	
a. Dependent Variable: Quality						

The table indicates that the value of t = 0.048.

So H2 "**There is a significant impact of audit market concentration on audit quality**" is accepted.

3- "**There is a significant impact of audit fees and audit market concentration on audit quality**".

Multiple linear regression test was performed to study the effect of the two independent variables (audit fees and audit market concentration ratios) and the dependent (audit quality) using the ENTER method.

Table (12) Coefficient of correlation and determination of independent (fees and concentration ratios) and dependent (quality)

Adjusted R Square	R Square	R	Model
0.101	0.102	0.321[a]	1

a. Dependent Variable: Quality

b. Independent Variables: Concentration Ratios, Fees

The table shows the correlation coefficients (relationship) between the independent and dependent, where the value of R is 0.321, and that the Adjusted R Square is 0.10, which means that the audit fees explain 10.2% of the changes in quality, as the following table shows the F = 3.316, and the (sig = 0.010), which < sig = 0.05.

Table (13) ANOVA Analysis

ANOVA[a]						
Sig.	F	Mean Square	df	Sum of Squares	Model	
0.010[b]	3.316	0.284	2	0.568	Regression	1
		2.442	141	344.320	Residual	
			143	344.889	Total	
a. Dependent Variable: Quality						
b. Predictors: (Constant), Concentration Ratios, Fees,						

The following table also shows that F = 3.31, and (sig = 0.01), which is < sig=0.05, which confirms the significance of the linear regression model.

Table (13) the statistical functions of the independent (audit fees and concentration ratios) and the dependent (quality)

Sig.	t	Standardized Coefficients	Unstandardized Coefficients		Model	
		Beta	Std. Error	B		
0.000	12.168		0.143	1.735	(Constant)	
0.013	3.135	0.221	0.021	1.797E+02	Fees	1
0.041	-3.467	-0.189	0.001	-0.0450	Concentration Ratios	
a. Dependent Variable: Quality						

The table indicates that the value of the independent effect (audit fees and concentration ratios) is statistically significant according to the value of t, and this indicates that there is a significant impact of the effect of audit fees and concentration ratios on its quality and any increase in audit fees will lead to an increase in quality and any increase in concentration ratios will decrease quality.

So H3 "**There is a significant impact of audit fees and audit market concentration on audit quality**" is accepted.

- Study the differences in changes (concentration percentages, quality, and fees) depending on the sector:

One Way Anova test was conducted to compare the differences by sector

Table (12) statistical functions to test the differences for the values of (percentages of concentration, quality, and fees) according to the sector

ANOVA						
Sig.	F	Mean Square	df	Sum of Squares		
0.001	5.914	7516957956814	4	30067831827257	Between Groups	Fees
		1270989657167	41	52110575943859	Within Groups	
			45	82178407771117	Total	
0.000	33.575	41.477	4	165.909	Between Groups	Quality
		1.235	135	166.776	Within Groups	
			139	332.686	Total	
0.000	8.027	0.075	4	0.299	Between Groups	Concentration Ratios
		0.009	139	1.294	Within Groups	
			143	1.593	Total	

In terms of comparing the differences (for audit fees) by sector, where Sig = 0.001, which is smaller than 0.05, and therefore there are significant differences in the audit fees depending on the sector and they are in favor of the banking sector.

Table (13)

Fees		
		Scheffe$_{a,b}$
Subset for alpha = 0.05	N	Sector
1		
230000.00	5	Agricultural
320000.00	5	Industrial
435714.29	7	Services
1360625.00	8	Insurance
2126185.00	21	Banks

In terms of comparing differences (quality) by sector, where Sig = 0,000, which is smaller than 0.05, and therefore there are significant differences in quality depending on the sector, which are in favor of the agricultural sector.

Table (14)

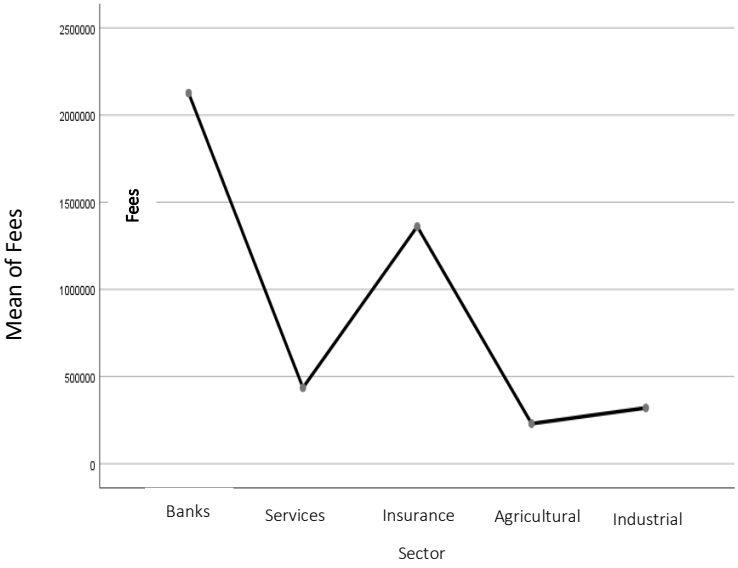
Quality				
				Scheffe$_{a,b}$
Subset for alpha = 0.05			N	Sector
3	2	1		
		1.00	12	Services
		1.00	6	Industrial
	1.09	1.09	80	Banks
2.50	2.50		6	Agricultural
3.56			36	Insurance

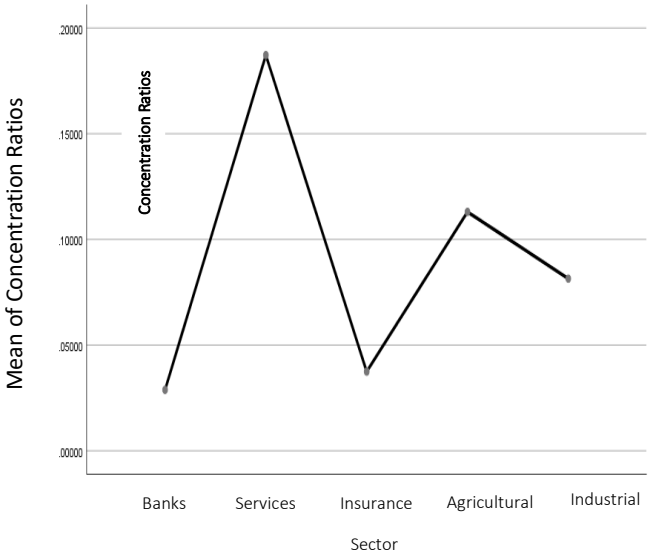
In terms of comparing the differences (for concentration percentages) by sector, where Sig = 0,000, which is smaller than 0.05, and therefore there are significant differences in the audit fees depending on the sector, which are in favor of the services sector.

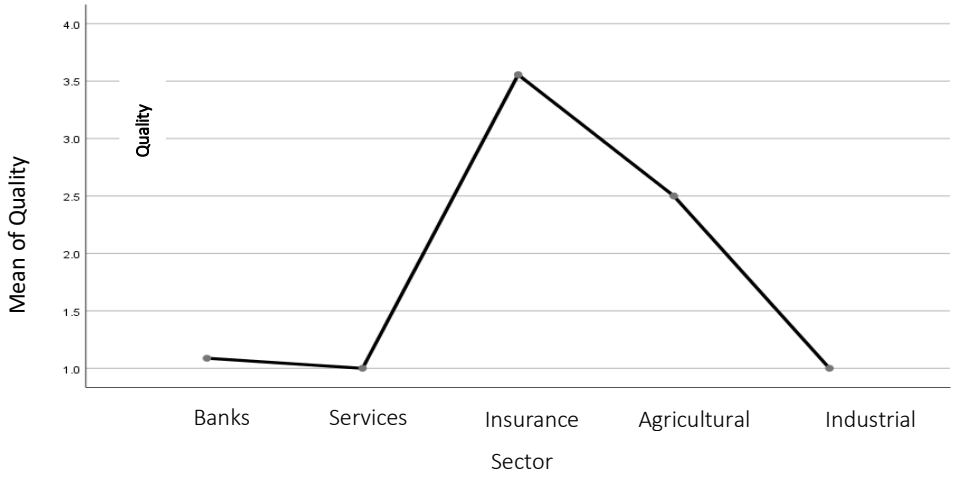
Table (15)

Concentration Ratios			
			Scheffe$_{a,b}$
Subset for alpha = 0.05		N	Sector
2	1		
	0.029	84	Banks
	0.037	36	Insurance
0.081	0.081	6	Industrial
0.113	0.113	6	Agricultural
0.187		12	Services

Graph No. 11






Mean of Quality
Quality
4.0
3.5
3.0
2.5
2.0
1.5
1.0
Banks
Services
Insurance
Agricultural
Industrial
Sector

Chapter 6
Research Results & Recommendations

First: Research Results

1- There is a positive significant impact of audit fess on audit quality.
2- There is a negative significant impact of audit market concentration on audit quality.
3- There is a significant impact of audit fees and audit market concentration on audit quality.
4- The highest value of audit fees was in 2013 were the mean was (1521000), where the lowest value in 2008 amounted to (339563), which means that the audit fees is increasing after the crisis.
5- Regarding the audit quality, the research noticed that audit quality was increased from 2009 with mean of (1.41) to the year 2015 where the mean was (1.96). Which means that the audit quality is increasing after the crisis.
6- The audit market concentration ratios were increased from 2009 with a mean (0.041) to 2014 with a mean of (0.083). Which means that the audit market concentration is increasing after the crisis.
7- The highest value of audit fees was in the bank sector then in the insurance sector, and the lowest fees was in the agricultural sector.
8- The best audit quality was in the insurance sector, and the lowest was in the industrial and the service sectors.
9- The highest percentage of audit market concentration was in the service sector, and the lowest audit market concentration percentage was in the bank sector.
10- The highest audit fees were paid for the auditor of International Bank of Finance and Trading amounted to (6210000), and the lowest was paid for the Al-Ahliah Transport Company amounted to (166667).

11- The highest audit quality level was in Al Aqeelah Takaful Insurance Company with a mean of (4.2), and the lowest audit quality level was in Qatar National Bank .

12- Al-Ahliah Transport Company had the highest level of concentration which means that it rarely changes its auditor.

13- Al-Ahliah Transport Company had the highest level of concentration which means that it rarely had changed its auditor, and Qatar National Bank had the lowest level of concentration which means that it had changed its auditor more frequently.

14- Audit fees interpreted 14.3% of the changes in audit quality, and there is a positive impact of audit fees on audit quality.

15- Audit market concentration interpreted 3.4% of the changes in audit quality, and there is a negative impact of audit market concentration on audit quality.

Second: Recommendation

1) The research recommends from the Association of Certified Syrian Accountants and the regulators of accounting in Syria to form laws more strict to decrease the audit market concentration in Syria. Because the current regulations which were mentioned in the research allow the auditor to continue the same client for four years, and this regulations were formed in 2009 but its result has not effect on audit market concentration positively.
2) The research recommends from the Association of Certified Syrian Accountants and the regulators of accounting in Syria to form laws regarding audit fees because as the research showed the fees varies widely between the external auditors. And the current law which organizes audit fees is still not effective.
3) The research recommends to increase the audit quality in the lowest quality in audit firms as the research showed, the quality was in low levels in the industrial and the service sectors.
4) As the research achieved that there's a positive relationship between the audit fees and audit quality, audit regulators and practitioners shall consider audit fees more seriously when performing and applying for audit engagement.
5) As the research achieved that there's a negative relationship between the audit quality and audit market concentration, , audit regulators and practitioners shall consider this, and adopt one of the possible reforms

to reduce the audit market concentration as mentioned in the theoretical part such as: mandatory audit firms rotation, mandatory joint audit, regular mandatory tendering of audit contracts, change in ownership arrangements for auditors, reform of the law of unlimited liability, elimination of covenants which are restricting the choice of auditors, and establishment of the contingency plans for the potential demise of a Big Four audit firm

6) When the research extracted the data from the financial reports there were a huge limitations in the disclosed data, so the research recommend to increase the types and amounts of disclosures by the companies to enable the researchers to do more studies that improve the career.

References List:

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