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## The Implications of Ownership Structure and Audit Quality on Financial Reporting Quality: Evidence from Egypt

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**Abstract:** Financial reporting reliability and accuracy are very crucial to evaluating the management's stewardship and making wise financial decisions, high audit quality supports the financial reporting quality (FRQ) and is an indicator of its accuracy. The ownership structure plays an important role in firm performance, offers regulators insights into how to enhance corporate governance, and helps firms become more efficient. This study explains how the audit quality and ownership structure can enhance FRQ and depict the business's financial position. The research sample is 40 non-financial firms listed in the Egyptian stock market (EGX) from 2018 to the year 2022. Results find an insignificant relationship between audit quality and FRQ. Results find that blockholder ownership has a significant positive impact, managerial ownership has an insignificant impact, and institutional ownership has a significant negative impact on financial statement quality. The model finds that board size has a positive significant relationship and firm size has a negative significant relationship with FRQ. This study contributes to the corporate governance and financial reporting literature and enlightens policymakers on the current situation regarding audit quality and current business pressures for profit maximization.

**Keywords:** *Financial Reporting Quality, Audit Quality, Ownership Structure, Corporate Governance.*

**JEL:** *M41, M42*

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## **Introduction**

One of the primary functions of management is financial reporting, which allows them to account for their stewardship. Managers of publicly traded firms are required to develop and deliver annual financial reports to the company's owners, shareholders, as well as other interested parties including creditors, analysts, the government, and the general public so that they can evaluate the reporting entity's operations and financial standing (Mesbah & Ramadan, 2022).

Financial reporting reliability and accuracy are very essential for retaining firms' financial performance and to achieve efficient market operations. This assurance is supported by an objective quality of audit. However, external audits conducted by quality auditing principles can highlight how relevant organizations apply accounting principles and help to ensure that their financial reporting is helpful, transparent, and trustworthy.

Recently, there have been enormous obstacles that affect the reliability and credibility of financial reporting. Recent financial crises, accounting fraud, economic downturns, and failures are the primary drivers of the current corporate governance discussion and its prominence (Brown & Caylor, 2006). Giant firms like Enron, WorldCom, Parmalat, Arthur Andersen, Freddie Mac, HealthSouth, and Tyco International made up the majority of these corporate failures. These failures have a negative effect on share prices, capital markets, and investors' significant losses. Investors clamor for improved systems to increase transparency and responsibility of corporate executives and have pushed the accounting profession to update its practices and move to digital era as a result of these corporate scandals. As a result, the ownership structure contribution to improving corporate governance procedures has received considerable attention and emphasis. Therefore, the major goal of financial reporting is to give diverse users access to information about the financial performance and position of the reporting organization that they may use to evaluate the management's stewardship and make wise financial decisions. This means that financial reports that are issued but do not provide the information that their users need do not serve their intended function. An independent audit would help organizations strengthen their internal controls, risk management, and corporate governance standards, which would improve their financial performance.

Financial statements are the final result of the accounting process and allow users to assess an entity's performance, financial condition, sources of cash flow, and change in capital. Poor financial reporting has contributed to a lot of firm disasters over time. Internal control issues, a failing to embrace digital transformation, and a delay in publishing financial reports all contributed to this. Disregarding the value of digital technologies for

organizations has never been riskier. The capacity to use digital technology is essential for a business to be competitive in today's market.

Auditing aims to carry its duties out effectively, correctly, and in accordance with established standards (Babayeva & Manousaridis, 2020). Examining the fairness and accuracy of the company's statements should give the auditor a sense of the overall outlook of the financial statements. This makes it possible for investors to evaluate a company's value more clearly and make justifiable decisions (Ivungu et al., 2019). The financial failure, going concern concerns or the declining financial position for any company doubts the role of auditors, thus recently the concept of audit quality become very important. High audit quality supports the financial reporting quality (FRQ) and is indicator for accuracy of the company's financial status (Alhababsah, 2019).

The ownership structure is a critical factor in studies of corporate governance because it establishes who has the final word in the corporate entity. The relationship between ownership structure and company performance became popular in empirical studies. The ownership structure plays an important role in firm performance, offers regulators insights into how to enhance corporate governance, and helps firms become more efficient. Additionally, a significant relationship between ownership structure and firm performance was discovered, and this correlation may be one of the methods for reducing agency problems (Alkurdi, et al., 2021).

The concentration of ownership has one of the most major factors that can enhance the supervisory role of major shareholders Business groups. (Khanna & Rivkin, 2001), family-owned businesses (Bertrand & Schoar, 2006; Chua, et al., 2012), limited partnerships (Hitt et al., 2001), and publicly traded companies with significant institutional investors are just a few examples of the many different types of concentrated ownership (Hoskisson et al., 2002).

Accordingly, this study aims at studying the relationship between both audit quality and ownership structure on the FRQ. The study explains how the quality of auditing and the structure of ownership would can enhance the financial reporting and depict clearly the financial position for any company. The study is divided into sections; the first one is the introduction, followed by the second section theoretical framework, literature review and hypotheses development. The third section is methodology and regression model results, followed by fourth and fifth sections; conclusion and discussion.

## Literature Review and hypotheses development

### *Theories supporting the contextual framework*

The agency theory emerged from the modern corporation and the separation between ownership and managers where the agency theory assumes that managers are self-interested seekers who prefer to maximize their personal benefits at the expense of stockholders (principals) that may lead in some situations to moral hazards (Akpanuko & Umoren, 2018).

Regarding the effect of ownership structure; previous research has not been able to settle on whether family owners drive up or drive down agency costs. From one angle, family shareholders can be crucial in reducing agency conflict (alignment role). The alignment theory contends that because controlling family owners' and other owners' interests are congruent, there is no harmful conflict between them, decreasing expropriation concerns. Given the correlation between the need for a higher audit quality and the seriousness of the agency problem, this alignment view reduces the incentive to demand a high audit quality (Villalonga & Amit, 2006). Besides combining elements from the theories of agency, property rights, and finance, Economists attempted to develop a theory of the ownership structure of the firm. The degree of ownership rights concentration and the nature of the owner can both be used to identify ownership structures (Pierce, 2019).

### *Audit Quality and Financial Reporting Quality (FRQ)*

Auditing aims to carry its duties out effectively, correctly, and in accordance with established standards (Babayeva & Manousaridis, 2020). Examining the fairness and accuracy of the company's statements should give the auditor a sense of the overall outlook of the financial statements. This makes it possible for investors to evaluate a company's value more clearly and make justifiable decisions (Ivungu et al., 2019).

Audit quality is the possibility of finding and identifying significant misstatements in the client's accounting system which can be explained by high audit quality financial report if there are no substantial misstatements. Since there is no clear definition of high audit quality and the differences in by users, auditors, authorities, and society will differ. While auditors may see high audit as successfully carrying out all tasks necessary for the firm's audit procedure, users of financial reports may understand that it indicates the lack of misstatement. Regulators can consider it as having to do with professional standards observation (Almaleeh, 2021).

As stated by Orazalin and Akhmetzhanov (2019), the big four's assurance services are linked to higher-quality audits, which promote more open and trustworthy corporate disclosure practices. Big 4 audit firms are linked to more established brand names and must therefore maintain their

reputation by offering higher-quality auditing services. Because larger international audit firms have stronger incentives to protect their independence and objectivity, audit quality rises as an audit firm's size increases. This idea is that Big Four audit firms deliver higher quality audits as evidenced by lower earnings management. Lugli and Bertacchini (2022) found that the big 4 have higher technology investments than non-big 4 which have affected audit quality significantly.

Public Company Accounting Oversight Board (PCAOB), Center of Audit Quality, and International Auditing & Assurance Standards Board have all issued audit quality frameworks. A group of indicators that may be substituted for audit quality was an attempt made by each of these frameworks. The purpose of this framework is to raise awareness of the many audit quality components that can be regarded as "key drivers" that increase the possibility that quality audits are consistently carried out at various levels. These levels are engagement level, firm level, and national level. This framework includes five components that serve as indicators of the quality of audits. First Inputs which contain values, ethics, behaviors of auditors, their abilities, expertise, skills and knowledge. Second processes that primarily concentrate on the quality of control methods such as the execution of audit and test activities, using auditing standards. Third outputs which contain the report of financial statements, auditor opinion and auditor reports of management. Fourth interaction which is based on any relationship with stakeholders or stockholders in the process of audit such as auditors, clients, management, third parties, and employees. Finally, contexts that emphasize governance, corporate processes, information systems, laws and regulations, and the litigation environment (Almaleeh, 2021).

Audit quality can be achieved by group of actions such as audit firm rotation to replace audit firms after a specified amount of time. The term "audit firm rotation" refers to the regular replacement of an organization's external auditors. It is reflected by the amount of time that has passed between a customer acquiring one audit firm and acquiring another audit firm for the same client's external audit needs. The audit company (External Auditors) that provides the review of the financial statements of an organization before publication is changed periodically in regions where audit firm rotation is practiced; 3 years, 2 years, etc. The potential issue of familiarity between the staff of the audit company and the client can be resolved by rotating external auditors. Due to the audit firm's ability to become more familiar with the client's internal control and accounting systems over time, certain studies, while few, have found a negative correlation between audit firm rotation and audit quality. The auditor's independence is primarily maintained by the audit firm switching from time to time because there should be a limit to

familiarization to prevent any threats (Okolocha, & Iliemena, 2019). The Regulation set a 10-year limit on the length of an auditor's or an audit firm's audit activity in a specific audited company and the minimum time frame is one year. In addition; Audit lag is the period of time that the audit took to complete, starting on the day that the company's books were closed and ending on the day that the audit report was published. The type of auditor opinion such as modified audit opinions or disclaimer of opinion is used as indicator for simply insufficient information available to fully audit your financial statements, the auditor's report will declare as much.

There are several reasons in favor of replacing audit fees for audit quality. Several examples of evidence supporting the link between audit fee and audit quality. The fees that an audit firm receives is expected to cover the full cost of the audit, the hours spent performing the audit, the knowledge and expertise required, and the volume of work involved in a specific audit. As a result, there is no set charge for all audit functions because it depends on specific factors and the circumstances of a given audit. As no audit firm would want to incur losses at the completion of an audit, he makes due with a small workforce of auditors when the audit is paid less than is necessary. He also works to keep the cost of the entire process within a set range. The quality of an audit is dependent on the level of planning, which is seen to be a function of the audit fee. The level of planning is therefore based on the audit price (Okolocha, & Iliemena, 2019).

Another indicator for audit quality is audit firm size which is measured by three measurements; Log (Revenues), Log (Offices), and Log (Headcounts), it can be measured by big 4 as well. Mesbah and Ramadan (2022) declared that larger audit firms have more independent auditors who are more likely to spot and identify errors in their customers' financial statements, resulting in high-quality financial reporting. Large audit firms are more risk-averse to lawsuits arising from fraud or misrepresentation irregularities because they want to protect their reputation, and they are more fearful of any public problems or errors in auditing. Because of this, audit firm size and audit independence have a positive relationship.

Hasan et al., (2020) examined the audit quality and audit committee's moderating impact on FRQ. The sample was list of all trading firms that were regularly and continuously listed on the Bursa Malaysia published between 2013 and 2018 was first compiled. Finding businesses that released comprehensive financial statements between 2013 and 2018 is the second step. The results showed that FRQ (FRQ) proxy real earning management (REM) and audit committee independence are both benefited by the Audit Quality Big 4. The conclusion explained that the association between the audit committee and the FRQ proxy is shown to be strongly moderated by audit quality.

Technology is the main indicator for better audit and accounting quality; there are plenty of literature that discussed the impact of technology on FRQ. Phornlaphatrachakorn and Na Kalasindhu (2021) examine the impact of digital accounting on the accuracy of financial reporting. The specimen was Thai listed companies were chosen as the study's sample. 768 surveys were distributed, and 331 of them received replies, resulting in the data collection. Digital accounting has a positive effect on FRQ, the results of the study showed that digital accounting has a significant effect on FRQ. In conclusion, Future studies may rethink the moderating effects of digital transformation to maximize additional advantages and take it into account as both an independent variable and an antecedent variable.

Mangifera and Mawardi (2022) examine and identify the main forces behind digital transformation for bettering financial results in the midst of the COVID 19 epidemic. 104 small company players in the food and beverage industry who have embraced e-commerce and fintech were included in the quantitative study sample. Surakarta. The results showed that the in order to fulfil consumer expectations and enhance performance for company sustainability, small culinary enterprises must increase their digital skills and expertise. This is demonstrated by the strong beneficial impact of digital transformation on increasing financial performance. In conclusion, In the food and beverage industry, it was claimed from the viewpoint of micro and small enterprises that their desire to undergo a digital transformation that affects their financial performance during the Covid19 epidemic.

Etchi and Tarkpah (2019) investigate and analyze the financial reporting methods have changed as a result of technology. The sample has been used as a qualitative methodology, along with interpretative research techniques. The primary data came from six semi-structured interviews with financial report preparers, ranging from managers to senior associate that were selected by purposeful sampling. The findings further imply that technology has an impact on a firm's capacity to connect with stakeholders, as well as the security of sensitive data and the accuracy of financial statistics. In the end, the study added to our understanding of how technology is used in financial reporting. The research acted as a manual for regional audit companies, educational institutions, and the government on how to include or enhance institutional financial reporting processes.

Ogunbade et al. (2021) examine the impact of audit quality on financial reporting quality in 11 Nigerian listed deposit money banks. Data are extracted from audited annual reports for ten years, 2009-2018. They find that only audit fees affect FRQ significantly. Another study Isaac (2022) investigates the relationship between FRQ and audit quality French listed companies. He used Big 4 as a proxy for audit quality and Discretionary

accruals are estimated using the Jones Model and the Modified Jones Model. The results find that the client of the big 4 record higher levels of accruals and real earnings management due to low litigation audit risk in France. In the same line is Khalil (2022)'s study that investigate the relationship between audit type- choice whether big 4 or not- and FRQ in the Pakistani banking Industry from 2011 to 2018. The results do not detect any differences between the two types of the audit firm in relation to FRQ.

Sharawi (2022) examine the mediating effect of audit quality on the relationship between the effective audit committee and FRQ in 77 non-financial Saudi listed firms from 214 to 2021. Rainsbury et al. (2009) examine the relationship between audit committee quality and FRQ in 87 New Zealand firms in 2001. They find that there is no relation between them and they suggest further studies on the earnings quality.

According to the previous literature, the following hypothesis is tested to reach the research objectives:

***H<sub>1</sub>: There is a significant positive relationship between Audit quality and financial reporting quality.***

### ***The ownership Structure and Financial Reporting Quality (FRQ)***

Ownership is essential to a company's strategy, structure, and governance. The interpretations and concepts that are closely related to ownership, such as possession, property, and property rights, are heavily debated in economic concepts and law. Ownership is typically thought of as a collection of rights, the most significant of which are control, exclusion, and possession. Public investors trade companies' shares on the open market with public ownership. The ownership structure may affect the choices that businesses make. Ownership concentration within a company is the measure for the decision-making control; less concentration means more minority power, whereas more concentrated business ownership means that the company has strong control over its own decision-making (Foss et al., 2021).

Ownership is not just a significant variable, but also a highly complex one because it can be examined from a variety of angles, including shareholder composition, shareholder identity, and the relationship between ownership and the right to vote. Abdulsamad & Yusoff (2019) found that ownership structures have an impact on managers' rewards and the effectiveness of the company, they are essential to corporate governance. The distribution of equity in terms of shares and votes, as well as the identities of the equity shareholders, define the ownership structure. In general, both internal and external owners may be included in an ownership structure. Managers and employees are inside owners, while people, groups, and the government are outside shareholders (Pierce, 2019).

The ownership structure is important as it refers to the proportion of equity capital shares that each party owns. Every shareholder group has a unique set of financial goals and strategies for increasing their funding. The different shareholders have varying strategic decision-making authority, which could impact a company's efficiency. The role played by ownership structure in company's financial performance became popular for offering regulators insights into how to enhance corporate governance, and helps firms become more efficient. Additionally, a significant relationship between ownership structure and firm performance was discovered, and this correlation may be one of the methods for reducing agency problems (Alkurdi et al., 2021).

Abdulsamad and Yusoff, (2019) state that ownership structure is measured using different measurements which are managerial ownership, block holder ownership, Institutional ownership, ownership concentration, foreign ownership, family ownership, and public ownership.

Managerial ownership is recognized as the managers held stocks percentage including commissioners and directors. In managerial ownership, managers act as an investor, enables them to oversee company's strategies (Agustia et al., 2018). Managerial ownership is important where the manager also serves as a shareholder, which allows managers to control the company and determine what strategies and policies the company will adopt. Ownership by managers has a favorable impact on corporate social responsibility. As if managerial ownership rises, the corporate disclosure's corporate social responsibility will also increase in width (Agustia et al., 2018). Moreover, managerial ownership can reduce agency costs if the percentage of the ownership structure is increased which would strengthen corporate governance (AbdelMegeid, 2021).

Kusumawati and Setiawan (2019) declare that managerial ownership has a significant rule as it can reduce a manager's overzealous behavior within the organization. Additionally, the amount of share ownership may have an impact on the actions of managers who are increasingly involved in managing the business so that the company's value occasionally rises. High-share ownership managers are more likely to act in the business's best interests. Another instance of low share ownership tends to act in ways that could be detrimental to the business for personal gain. As a result, the value of the company is impacted by managerial ownership because the manager has a greater stake in the company through share ownership and will optimize his operations to increase the value of the stock and maximize his profits. As stated by Abdel Megeid (2021); equity shares owned by all board members and their families divided by the total number of shares outstanding at the end of the fiscal year is how to measure managerial ownership.

Abdel Megeid (2021) states that foreign ownership or control of companies with headquarters outside of the country of origin or of businesspeople who are not citizens of the country of origin. When multinational corporations with operations in several nations make substantial, long-term investments in a foreign nation, usually through foreign direct investment or acquisition, this is known as foreign ownership. When a multinational corporation buys at least 50% of a business, the multinational business becomes a holding company, and the corporation that is acquiring the foreign investment becomes a subsidiary.

The term "foreign" describes stock in corporations that are held by residents of other nations. To capture majority ownership, a dummy variable is set to equal 1 if foreign investors hold more than 50% of the stock in an enterprise and 0 otherwise, this is the measurement of foreign ownership (Abdel Megeid, 2021). Regarding the family ownership; the role that family members play as controlling shareholders is subject to a variety of defenses.

Hjelm and Sundin (2016) find that institutional ownership is defined as the proportion of a company's stock that is held by mutual or pension funds, investment companies, insurance firms, private organizations, trust funds, or even other sizable organizations that look after other people's money. As a result, institutional ownership of a company is equal to one minus the percentage of non-institutions that own its shares (i.e., individual investors. Institutional investors' preference is likely larger than individual investors for those companies. As stated by Abdel Megeid (2021), institutional ownership is measured by the amount of share capital held by investment firms in a company at the end of its fiscal year.

Wahdana, et al. (2022) study 90 Indonesian state-owned companies to study the effect of stock ownership, characteristics of the audit committee, and independent board of commissioners on creative accounting practices from 2016-2020 period. Results show that managerial ownership has a negative effect on creative accounting practices. The expertise of the audit committee has a positive effect. Institutional ownership, independent board of commissioners, audit committee activity and independence have no effect.

Raslan & Attia (2021) examined the impact of ownership structure i.e. institutional and family ownership on earning management manipulations and firm performance in the 100 most actively traded shares non-financial companies in the Egyptian stock market (EGX) from the years (2006 to 2013). The results show that institutional ownership is more value creator than family ownership. Raslan & Attia declared that more concentrated ownership can lead to high agency cost and more vulnerability in financial systems and may lead to financial crisis.

According to the previous literature, the following hypotheses are tested to reach the research objectives:

***H<sub>2</sub>: There is a significant relationship between Ownership structure and financial reporting quality.***

***H<sub>2a</sub>: There is a significant positive relationship between Blockholder ownership and financial reporting quality.***

***H<sub>2b</sub>: There is a significant positive relationship between Managerial ownership and financial reporting quality.***

***H<sub>2c</sub>: There is a significant negative relation between Institutional ownership and financial reporting quality.***

## Methodology

In this section, the research is to depict the relationship between ownership structure and auditing quality on FRQ. The relationship between independent and dependent variables is tested by using descriptive analysis, correlation, and multiple regression model.

### *Sample and Data Collection*

The research sample is 40 non-financial firms listed in the EGX from different sectors and 5 years' time period from 2018 to year 2022 comprising 200 observations. The independent variable is the FRQ measured by non-discretionary accruals (NDA). The study has two independent variables are audit quality (AQ) and ownership structure. The researcher adds four control variables (sales growth, leverage, board size, and firm size) to enhance the relationship.

Most of the data for this study is extracted from primary source of information such as corporate annual reports obtained from EGX100 company websites. The financial statements of companies are included in these annual reports, but there are additional disclosures and sections dedicated to providing information about each firm's Ownership structures. The financial statements, annual reports, and websites of the companies are used in data collection for NDA, audit quality, and control variables. The ownership structure is extracted from the company's announcements on (Mubashir.com). Secondary data from the literature review including research equation, variables, and measurements are used in data collection.

$$NDA_{i,t} = \alpha + \beta_1 A\_Q_{i,t} + \beta_2 OS\_B_{i,t} + \beta_3 OS\_M_{i,t} + \beta_4 OS\_I_{i,t} + \beta_5 G_{i,t} + \beta_6 L_{i,t} + \beta_7 BS_{i,t} + \beta_8 FS_{i,t} + e$$

**Where:**

$NDA_{i,t}$  = Financial Accounting quality

$\alpha$  = Model constant

$\beta_1$ -  $\beta_4$  = Regression Coefficients

$A\_Q_{i,t}$  = Audit quality

$OS\_B_{i,t}$  = Ownership structure measured by Block Holder

$OS\_M_{i,t}$  = Ownership structure measured by Managerial Holder

$OS\_I_{i,t}$  = Ownership structure measured by institutional investors

$G_{i,t}$  = Sales Growth

$L_{i,t}$  = leverage

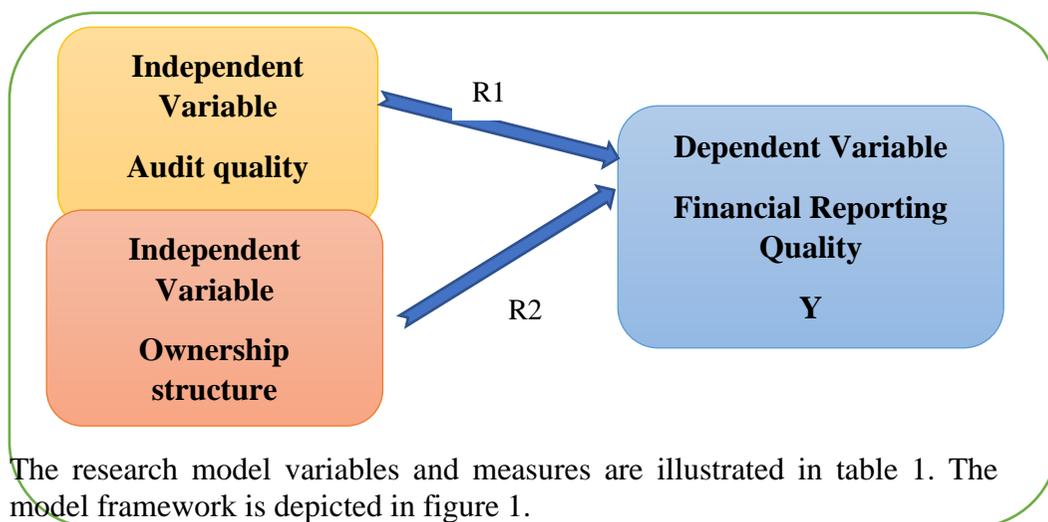
$BS_{i,t}$  = board size

$FS_{i,t}$  = Firm Size

*Table 1. Variables and Measurements*

<b>Dependent Variables(Y):</b> <b>Financial Reporting quality</b>	<b>Earning management:</b> Modified jones model	Isaac (2022); Hasan et al., (2020)
<b>Independent Variables</b>	<b>Measurement</b>	<b>References</b>
<b>Audit quality (A_Q) X<sub>1</sub></b> Non-discretionary accruals (NDA) are indicator for Financial Reporting quality	Dummy variable (Big 4=1, not Big 4=0).	Lugli and Bertacchini (2022); Isaac (2022); Hasan et al. (2020),
<b>Ownership Structure (OS) X<sub>2</sub></b>	<ul style="list-style-type: none"> <li>➤ Block Holder: % of holders by large external numbers. <b>(OS_B) X<sub>2a</sub></b></li> <li>➤ Managerial Holder: % of holders by board members. <b>(OS_M) X<sub>2b</sub></b></li> <li>➤ Public Ownership: % of holders by institutional investors. <b>(OS_I) X<sub>2c</sub></b></li> </ul>	Moslemany and Nathan (2019).
<b>Control Variables</b>		
Sales Growth ( <b>G</b> ) X <sub>3</sub>	Difference in sales	Shahwan (2021).
Leverage ( <b>L</b> ) X <sub>4</sub>	Total Assets / Total Liabilities	Jessica& Edi (2020)
Board Size ( <b>BS</b> ) X <sub>5</sub>	Number of boards of directors' members	Shahwan (2021).
Firm Size ( <b>FS</b> ) X <sub>6</sub>	Natural logarithm of total assets	Firnanti & Pirzada (2019).

Fig 1. Research Framework: it shows the impact of both Audit Quality and ownership structure on Financial Reporting Quality



The research model variables and measures are illustrated in table 1. The model framework is depicted in figure 1.

#### Data analysis for Research Model

Table 2. Descriptive Statistics

Model 2	N	Minimum	Maximum	Mean	Std. Deviation
X2a: OS B	200	26.28%	94.87%	61.7987%	15.28653%
X2b: OS M	200	0.00%	68.00%	2.5035%	7.51584%
X2c: OS I	200	0.00%	92.18%	37.7698%	27.95314%
X3: G	200	-134.540	56.880	-.44281	10.416620
X4: L	200	.000	278.790	5.32594	22.441739
X5: BS	200	1	16	8.03	2.732
X6: FS	200	4.542	10.975	7.89316	1.575287
Y=NDA	200	-17555114363.990	31484092002.280	960260540.80805	3925322702.846813
Valid (listwise)	N200				

Table 2. shows the descriptive analysis for research model; where the ownership structure is measured by block holder, managerial, and institutional ownership. Block holder's minimum is 26.28%, maximum is 94.87%, mean is 61.7987% and standard deviation is 15.28653%. regarding managerial; minimum is 0.00%, maximum is 68.00%, mean is 2.5035% and standard deviation is 7.51584%. Institutional minimum is 0.00%, maximum is 92.18%, mean is 37.7698% and standard deviation is 27.95314%. The dependent variable is FRQ (NDA) minimum is -17555114363.990, the maximum is 31484092002.280, mean is 960260540.80805 and standard deviation is 3925322702.846813.

Table 3. Pearson Correlation

Model		<b>X1: A_Q</b>	<b>X2b:</b>						
			<b>X2a: OS</b>	<b>BOS_M</b>	<b>X2c: OS_I</b>	<b>X3: G</b>	<b>X4: L</b>	<b>X5: BS</b>	<b>X6: FS</b>
<b>X1: A_Q</b>	Pearson Correlation	1							
	Sig. (2-tailed)								
	N	200							
<b>X1: OS_B</b>	Pearson Correlation	.149*	1						
	Sig. (2-tailed)	.035							
	N	200	200						
<b>X2: OS_M</b>	Pearson Correlation	-.013	.003	1					
	Sig. (2-tailed)	.859	.965						
	N	200	200	200					
<b>X3: OS_I</b>	Pearson Correlation	.228**	-.009	.003	1				
	Sig. (2-tailed)	.001	.904	.965					
	N	200	200	200	200				
<b>G</b>	Pearson Correlation	.048	-.020	-.009	.058	1			
	Sig. (2-tailed)	.500	.780	.904	.414				
	N	200	200	200	200	200			
<b>X5: L</b>	Pearson Correlation	-.030	-.036	-.020	-.051	.003	1		
	Sig. (2-tailed)	.678	.612	.780	.474	.967			
	N	200	200	200	200	200	200		
<b>X6: BS</b>	Pearson Correlation	.173*	-.036	-.036	.021	.017	-.060	1	
	Sig. (2-tailed)	.014	.612	.612	.765	.811	.402		
	N	200	200	200	200	200	200	200	
<b>X8: FS</b>	Pearson Correlation	-.125	-.072	-.013	.228**	.048	.112	.190**	1
	Sig. (2-tailed)	.077	.308	.859	.001	.500	.115	.007	
	N	200	200	200	200	200	200	200	200
<b>Y=NDA</b>	Pearson Correlation	.140*	.060	.060	-.166*	.022	-.031	.183**	-.127
	Sig. (2-tailed)	.049	.396	.396	.019	.758	.664	.009	.074
	N	200	200	200	200	200	200	200	200

\*\* . Correlation is significant at the 0.01 level (2-tailed).

\* . Correlation is significant at the 0.05 level (2-tailed).

Table 3 shows that there is a significant positive correlation between A\_Q with NDA at 0.049. The table shows that there is a positive correlation between OS\_I and firm size at 0.001 and a negative correlation between OS\_I and NDA at .019. There is a positive correlation between board size and NDA at 0.007 and 0.009. These results declare that audit quality, and board size has a positive relation with FRQ. While results show a negative relationship between institutional ownership and FRQ. Pearson correlation does not support any relationship between both blockholder and management ownership with FRQ.

Table 4. Regression Model Summary

Model2	Overall significant	Adjustment R square
Regression Model	0.00	0.135

Table 4 shows that the P-value of the test is 0.00 compared to  $\alpha$  which is 0.00 < 0.05, that means the regression model fits and affects the model better than the model with no independent variables. The  $R^2$  is **13.5%** which means that the independent variables (Ownership structures, audit quality, Sales growth, firm size, leverage, the board size) can explain 13.5% of the change in the dependent variable FRQ.

### Regression Model Results

Table 5. Model Regression Results

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
<b>(Constant)</b>	-2601543591.134	1959626019.876		-1.328	.186
<b>X1: A_Q</b>	805110927.165	550756972.804	.103	1.462	.145
<b>X2a: OS_B</b>	70004172.116	19023533.625	.273	3.680	.000***
<b>X2b: OS_M</b>	23926698.479	34605169.877	.046	.691	.490
<b>X2c: OS_I</b>	-40830734.285	10093737.898	-.291	-4.045	.000***
<b>X3: G</b>	18975967.595	25086466.331	.050	.756	.450
<b>X4: L</b>	4594284.180	11782030.501	.026	.390	.697
<b>X5: BS</b>	369847000.914	102088416.506	.257	3.623	.000***
<b>X6: FS</b>	-336812441.404	171563283.063	-.135	-1.963	.05*

a. Dependent Variable: Y=NDA

Table 5 shows the results from the multiple regression model; the table shows that both OS\_B and BS have a significant positive impact on NDA (i.e. has a significant positive impact on FRQ). Furthermore, OS\_I and FS have a significant negative impact on NDA.

These results show that whenever the OS\_B increases by one unit, NDA will increase by 70004172.116. As well as institutional has a significant impact on NDA thus whenever the institutional increases by one unit, NDA will decrease by 40830734.285. Furthermore, board size has a significant

impact on NDA whenever board size increases by one unit, NDA increases by 369847000.914. Moreover, firm size has a significant impact on NDA thus whenever the firm size increases, NDA will decrease by -336812441.404. Thus,  $H_{2a}$  and  $H_{2c}$  are accepted:

*H<sub>2a</sub>: There is a significant positive relationship between OS\_B and FRQ*

*H<sub>2c</sub>: There is a significant negative relation between OS\_I and FRQ*

Other variables have no effect on NDA; the OS\_M, sales growth, leverage, and audit quality has insignificant impact on NDA. Then  $H_1$  and:  $H_{2b}$  are rejected:

*H<sub>1</sub>: There is a significant positive relationship between A\_Q and FRQ*

*H<sub>2b</sub>: There is a significant positive relationship between OS\_M and FRQ*

These results are illustrated in more details in table 6 to explain the differences between expected and actual results from the regression model.

*Table 6. Model Regression Expected and actual Results*

<b>Variables</b>	<b>Expected</b>	<b>Model</b>	<b>P-value</b>
X1: A_Q	-ve	+ve	0.145
X2a: OS_B	+ve	+ve	0.000**
X2b: OS_M	+ve	+ve	0.490
X2c: OS_I	-ve	-ve	0.000**
X3: G	+ve	+ve	0.450
X4: L	+ve	+ve	0.696
X5: BS	+ve	+ve	0.000**
X6: FS	-ve	-ve	0.051***

## Discussion

The results from the regression model are illustrated in table 7 with reference to the research hypotheses and the literature supporting these results. Results could not find any relation between audit quality and FRQ; this is an indicator for the low audit quality in Egypt by the big 4 and it is recommended to enhance audit quality according to the recent technology and tools. Then  $H_1$  is rejected:

*H<sub>1</sub>: There is a significant positive relationship between A\_Q and FRQ*

The majority of companies in Egypt are family-companies where ownership structure is less dispersed and more concentrated (Raslan & Attia, 2021). Unlike developed countries; This concentration of ownership in Egypt is found to be owned or held by the government, families or large corporations. The ownership in Egypt is concentrated (block) either by government, or by family-owned companies (Raslan & Attia, 2021). Regression model results

show that there is a significant positive relationship between OS\_B and NDA practices at 0.000 significance level. Thus, H<sub>2a</sub> is accepted:

*H<sub>2a</sub>: There is a significant positive relationship between OS\_B and FRQ*

According to the agency theory; managers are more concerned about their own interests rather than the interests of the shareholders. The regression model couldn't find any relationship between managerial ownership and FRQ, the reason may be that with greater control and large institution shareholdings, then H<sub>2b</sub> is rejected:

*H<sub>2b</sub>: There is a significant positive relationship between OS\_M and FRQ*

Results show that there is a significant negative relationship between OS\_I and NDA practices at 0.000 significance level. Institutional ownership in Egypt is found to be influenced by who control and manage the companies i.e. family ownership instead of the composition of the board of directors. Institutional ownership in Egypt is found to be influenced by who control and manage the companies i.e. family ownership instead of the composition of the board of directors. Institutional investors might also be less risk-averse than those with concentrated ownership (Thomsen and Pedersen, 2000). In Egypt; institutional ownership is small percentage and unlike other countries the two main categories of institutional investors are investment funds and insurance firms (Donald, 2004), in Egypt most institutional ownership is by banks and other companies. Emphasized that, in contrast to shareholders who own small holdings in the company, larger shareholders are expected to be more active in monitoring managers. H<sub>2c</sub> is accepted:

*H<sub>2c</sub>: There is a significant negative relation between OS\_I and FRQ*

Regarding the control variables, the model find that board size has a positive significant relationship at 0.000 and firm size has a negative significant relationship with NDA practices at 0.05.

*Table 7. Model Results Link with Literature and Research Hypotheses*

<b>Hypotheses</b>	<b>Accepted/ Rejected</b>	<b>Literature supports the results</b>	<b>Literature opposing the results</b>
<b>H<sub>1</sub></b> : There is a significant positive relationship between A_Q and FRQ	Rejected Insignificant relationship	Firnanti & Pirzada (2019 ) Shahwan (2021).	Adeyemi & Fagbemi (2020)
<b>H<sub>2</sub></b> : There is a significant relationship between OS and FRQ	Partially accepted	Firnanti & Pirzada. (2019 ).	Fagbemi et al. (2020).
<b>H<sub>2a</sub></b> : There is a significant positive relationship between OS_B and FRQ	Accepted	Firnanti & Pirzada. (2019 ).  (Shahwan., 2021 ).	Fagbemi et al. (2020).

<b>H<sub>2b</sub></b> : There is a significant positive relationship between OS_M and FRQ	Rejected	Firnanti & Pirzada (2019). Shahwan, (2021).	Fagbemi (2020).	et al.
<b>H<sub>2c</sub></b> : There is a significant negative relation between OS_I and FRQ	Accepted	Firnanti & Pirzada (2019). Shahwan (2021)	Fagbemi (2020).	et al.

## Conclusion

This study aims at examining the impact of ownership and audit quality on FRQ. Results find an insignificant relationship between audit quality and FRQ; this result may be due to the measurement of audit quality which is a dummy variable for Big 4. It is recommended for future research to find a more comprehensive measure that would reflect quality and digitalization in auditing to achieve more reliable results.

According to the statistical results and regression model results; block holder ownership has a significant positive impact on financial statement quality. Block holder ownership structure shows their importance in enhancing FRQ and controlling management manipulations after the global financial crisis which increases earning management practices by management. Results find that managerial ownership has an insignificant impact on FRQ due to the small percentage of managerial ownership in Egyptian companies that limits the managerial power on the shares of the companies. Results show that institutional ownership have a significant negative impact on financial statement quality; these results may be due to the insignificance control that institutional ownership have in the Egyptian companies due to the family-owned nature of most Egyptian listed companies in the EGX.

Regarding the control variables, the model find that board size has a positive significant relationship with FRQ and firm size has a negative significant relationship; which means that whenever the board size increases and company size decreases, the FRQ increases as well.

It is more logic that large company's size has stronger corporate governance and internal control, but due to the recent rapid changing financial environment and the pressure that stakeholders put on their companies. FRQ appears to decrease in large firms due to the lack of internal control and the higher pressure on large firms to maximize their profits. The results support the notion that large board size represents more control and surveillance ability than small ones, Board size is found to be a controller for earning management practices; then, FRQ increases when the board size is larger.

This study contributes to the corporate governance and financial reporting literature and enlightens policy makers for the current situation

regarding audit quality and current business pressures for profit maximization. The ownership in Egypt is concentrated either by government, or by family-owned companies; the family director's investment decisions are not necessarily in line with other shareholders. Therefore, it is important for the regulatory bodies such as EGX, Securities Commission, and Committee of Egyptian Code of Corporate Governance to consider the percentage of concentrated ownership among the Egyptian listed companies and to control this percentage that might threaten the minority shareholders and affect the shares trade by investors (Raslan & Attia, 2021).

The research results can't be generalized because it is applied to 200 observations through 5 years (2018-2022). The measures of variables in this study are limited and it is recommended for further research to add more measures. The quality of financial reporting is measured by non-discretionary accruals through modified Jones model, the measure of audit quality can be measured by other variables such as; audit tenure, auditor independence, audit committee and audit fees. It is recommended to further investigate the moderating effect of other variables on the relationship between ownership structure and audit quality on FRQ to enhance this relation. Covid -19 is one of the factors that should be considered.

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