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The Effect of Audit Quality on Financial Reporting Quality

Abstract

This study examines the effect of audit quality on financial reporting quality. It contributes to current accounting and auditing literature by providing empirical evidence on the effect of different audit quality proxies on financial reporting quality. Audit firm fees, audit firm tenure and audit firm size are used as proxies for audit quality. On the other hand, earnings management and accounting conservatism are used as proxies for financial reporting quality. These variables were measured using secondary data obtained from the financial statements of 152 firms listed in the Egyptian stock market in the period from 2016 to 2020 representing 608 firm-year observations, excluding non-financial firms due to their special nature. Results provided evidence of a positive relationship between audit firm size and audit firm fees on one hand and financial reporting quality on the other. However, results showed a negative relationship between audit firm tenure and financial reporting quality. These results provide evidence that financial statement users can trust the financial reports audited by Big 4 audit firms more than the financial reports audited by non-Big 4 audit firms. This provides implications for standard setters to focus more on the audit quality performed by non-Big 4 audit firms. Additionally the results provided implications for standard setters to control the audit firm tenure so as not to exceed 3 years, to maintain the high financial reporting quality.

Keywords: Financial reporting quality, audit quality, audit firm tenure, audit firm size, audit firm fees, earnings management, and accounting conservatism.

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أثر جودة المراجعة على جودة التقارير المالية

ملخص البحث

يهدف هذا البحث إلى دراسة أثر جودة المراجعة على جودة التقارير المالية. وترجع أهمية البحث إلى استخدامه عدة مؤشرات لقياس جودة المراجعة و هي أتعاب مكتب المراجعة، عدد السنوات التي أقضاها مكتب المراجعة مع العميل، وحجم مكتب المراجعة على الجانب الآخر، واستخدمت الدراسة إدارة الأرباح والتحفظ المحاسبي لقياس جودة التقارير المالية. وقد تم الحصول على البيانات من خلال القوائم المالية للشركات المدرجة في سوق الأوراق الماليه المصريه في الفتره من ٢٠١٦ إلى ٢٠٢٠ مما أنتج ٦٠٨ مشاهدة بأستثناء الشركات المالية نظراً لطبيعتها الخاصة. وقدمت الدراسة أدلة تجريبية على وجود علاقة إيجابية بين كلاً من حجم مكتب المراجعة و أتعاب مكتب المراجعة من جهة و جودة التقارير المالية من جهة اخرى. و توفر هذه الدراسة أدلة تجريبية لمستخدمي القوائم المالية على إمكانية الأعتماذ علي التقارير المالية التي تم مراجعتها من خلال مكاتب المراجعة الكبيرة (Big 4) أكثر من تلك التي تم مراجعتها من قبل مكاتب المراجعة الأخرى. بالإضافة إلى ذلك تتصح الدراسة ألا يزيد عدد السنوات التي يمضيها المراجع مع العميل عن ثلاث سنوات للحفاظ على جودة التقارير المالية.

الكلمات المفتاحية: جودة التقارير المالية - جودة المراجعة - حجم مكتب المراجعة - أتعاب المراجعة - ادارة الأرباح - التحفظ المحاسبي.

1- Introduction

Shedding light on financial reporting has increased in the early 21st century, due to the increasing accounting scandals, thus there are raising demands for disclosure and accounting standards formulation and coordination, that uncovered the low quality of financial reporting. The value of accounting reporting is the mirror of financial reporting quality. Nowadays, the importance of having a clear and complete definition of financial reporting quality has increased. (Gibson 2013; Sunder 2016; Barrios, Lisowsky, and Minnis 2019) revealed that financial reports are vital for companies to attract capital and human resources ,and they provided evidence that internal and external stakeholders use financial reports in making their decisions, and these users could be; prospective investors who use the financial reports in deciding whether or not they should buy shares in a certain company, suppliers who use financial reports to help them in deciding whether or not they should supply a certain company with their products, even the labor union use the financial reports to state their wants and needs when they debate for the employees, additionally , the company's managers use the financial reports to state the profitability of the company and to make resource allocation decisions based on the detailed information of the cost of production, finally, financial reporting helps the company to follow its liquidity by looking over the assets and liabilities, and this will aid the managers in controlling and dealing with the company's debts.

Setiyawati et al. (2020) argued that financial statements are the core of financial reports, and they are indicators of the company's economic position in the current period, and to have high-quality financial reports, financial statements need to be as accurate as possible and free from material errors. (DeFond and Zhang, 2014; El-Deeb 2015) provided evidence that companies need an external auditor that has enough experience and knowledge to express an independent audit opinion about the fair presentations of the financial statements, and the responsibility of an auditor is not only to reveal any breach of accounting standards in financial statements but also to give affirmation over financial reporting quality and they are responsible for misleading financial statements and low financial reporting quality that can ruin the reputation of the

company so reduce the share prices and cause the company legal problems and inaccurate decision making.

(Tariverdi, et.al. 2012) believed that one of the reasons beyond decreasing financial reporting quality is earnings management, whereby, managers make judgments in financial reporting compatible with their gains and interests and are misleading to other stakeholders and it give false information about the true economic performance of the company. Earnings management may negatively affect the quality of financial reporting, because the managers may misreport and twist the true financial performance of the company, to take the opportunity to serve themselves and thus, make inaccurate future operating cash flow expectations. Therefore, high-quality financial reporting can be achieved if management's opportunistic opinions are restricted, and this could be attained through accounting standards and beholding the role of auditors in providing accuracy and authenticity to financial reports and controlling the audit quality they provide.

Different measures were used as proxies for the audit quality in past literature and this can be shown by; Carey and Simnett (2006) who provided evidence that long audit tenure can negatively affect the auditor's tendency to issue a going concern audit opinion, and breach earnings standards, which can ruin the audit quality and reduce the financial reporting quality. Moreover, Choi, et.al. (2010) used the abnormal audit fees which is the difference between actual audit fees and the expected normal level of audit fees, as a measure of audit quality on earnings management. In addition, Gerayli, et.al, (2011) used auditor size, auditor industry specialization, and auditor independence as three different measures for audit quality and he studied their effect on earnings management. They provided evidence that auditor size, auditor independence, and auditor industry specialization, have a negative effect on earnings management and thus on the financial reporting quality. This research contributes to the auditing and accounting literature by providing empirical evidence using a sample of non-financial firms in the Egyptian stock market, that could give a better understanding of the effect of audit quality on the financial reporting quality by

focusing on audit firm tenure, audit firm size, and audit firm fees as the measures of audit quality and studying their effect on the financial reporting quality, that will be measured using the earnings management, and accounting conservatism

The study is organized in the following pattern. After this introduction, section 2 reviews the theoretical framework, section 3 reviews the literature review and hypothesis development, section 4 presents the research methodology, section 5 presents the results of empirical studies and section 6 presents the conclusion and recommendations.

2- Theoretical framework

Isaac (2019) argued that over the last few years, the agency relationship and related costs caught the awareness of many studies, because of their significant effect on the value of the firm. Studies (Soliman et.al. 2014 & Singh et.al. 2003) provided lots of evidence that the separation of ownership and control between managers (agents) and shareholders (principles) created a conflict between them. This could be attributed to the different interests between them, as managers always strive for their goals that attain short term profits and high compensation, in contrast to shareholders who always strive for decisions that attain long term profits. the interests of the principles and agents are not aligned so the principle-agent problem (agency conflict) arises.

Cheng & Indjejikian, (2009) supported the importance of internal and external corporate mechanisms in reducing agency costs. Internal mechanisms include board of directors' structure, ownership's structure and control, directors' share ownership, gender diversity, audit committees, internal audit departments, and external mechanisms such as audit quality, legal system, government regulations, market competition, takeover activities, media exposure, public release and assessment of financial statements (Waweru and Port 2018).

(Onuorah et. al. (2016) examined the relationship between corporate governance and financial reporting quality in a Nigerian company. They used a set of selected companies in the Nigerian Stock Exchange market like commodities, brewers, banking, beverages, oil, and gas. and the corporate governance

mechanisms used are board structure (size and independence), quality of external audit (the presence of an auditor among the big 4), audit quality (audit committee size), and board experience. They used the data for these companies from 2006 to 2015. The results of their findings showed that there is a significant positive effect between the board structure (size), board experience, and the quality of external audits, on the financial reporting quality. While the audit quality (size of the audit committee) and the board structure (independence) harm the financial reporting quality.

Abbadi et. Al., (2016) studied the effect of corporate governance quality on earnings management in Jordan as an emerging economy. To conduct their research, they used a panel data set for firms (industrial and service companies) listed in the Jordan Stock Exchange markets from 2009 to 2013. They measured corporate governance mechanisms using an index represented by the board of directors, board meeting, audit and nomination, and compensation committee. The results of their studies stated that there is a negative relationship between all corporate governance mechanisms examined and earnings management, stating that if the quality of corporate governance, the earnings management will decrease causing an improvement in the transparency and reliability of financial reports.

Zehir and Zagrni (2020) examined the relationship between internal and external corporate governance mechanisms and earnings management as one of the measures of financial reporting quality from an international perspective. Their study relied on a meta-analysis of 75 studies, and they used audit quality as the external corporate governance mechanism and audit committee and board of directors as the internal corporate governance mechanism. The study provided evidence that the board of directors, audit committee, and audit size can significantly lower the earnings management which in turn will increase the financial reporting quality.

3- Literature review and hypotheses development

3-1 Literature review

Herath and Albarqi (2017) believed that financial reporting quality represents the financial statements that issue exact, accurate, and fair information about the economic performance and financial position of an entity, the definition is according to Financial Accounting Standard Board (FASB), in addition, they believed that the worldwide accounting scandals that happened in the early 21st century have shed the light on the weaknesses in financial reporting, thus, it is critical to provide a high quality of financial reporting, because it will help the users of the financial reports to make better investment decisions; in addition, it will enhance the market efficiency.

Additionally, Herath and Albarqi (2017) found that there are qualitative and quantitative elements for high-quality financial reporting agreed upon in the Conceptual Framework for Financial Reporting of the FASB and the IASB (2008). The qualitative characteristics of financial reporting quality are divided into fundamental qualitative characteristics and enhancing qualitative characteristics; the fundamental qualitative characteristics are relevance, reliability, and faithful representation while the enhancing qualitative characteristics are understandability, comparability, and timeliness. On the other hand, the International Accounting Standard Board (IASB) states that the qualitative characteristics of financial reporting cannot determine the financial reporting quality alone, thus many experts in this field start to make studies to determine the quantitative elements or the influences on the financial reporting quality and then use these influences as measures to the financial reporting quality.

These influences include Earnings Management, Corporate Governance Practices, Capital Markets, Internal control, Internal Reporting Systems,

Accounting Standards, Information Technologies, and Accounting Information Systems, Auditing, Accounting Conservatism, Financial Restatements, Company Reputation, Culture, Business Ethics, Chief Executive Officers (CEO) Age, CEO inside debt holdings, the Entity Size, Age, and the Board Size. The two influences that will be used in measuring the financial reporting quality in this research are earnings management and accounting conservatism.

Healy and Wahlen,(1999); El Diri, (2018) and Thanh (2021) believed that earnings management is the act of overcasting financial reports made for external stakeholders and it is used by the management to tamper the firm's income to go in parallel with the firm's goals and this manipulation can hurt the quality of information given to investors and as the entity engages more in earnings management, the financial reporting quality of these entities will be adversely affected. Studies (Healy, 1985; Cahan, 1992; DeAngelo et al., 1994; Dechow, et.al., 1995; Strakova, 2021) provided evidence that there are major motives that drive managers to use different techniques of earnings management and these motives include compensation contract; debt covenant; the political costs; the manager reputation; providing information to investors. Several earnings management techniques are used by managers and the technique used is based on their motives. Strakova (2021) argued that there are eight real earnings management techniques of which 4 are most widely used which are; Big Bet on the future, flushing investing portfolio, throwing out a problem child, shrinks the ship. Additionally, there are 16 accrual-based earnings management techniques of which 4 are most widely used which are; cookie jar reserve, big bath, accounting change, operating, and non-operating earnings.

Accounting conservatism can be known as the accounting policies that cause downward alignment of accounting net asset value comparative to economic net asset value, in other words, accounting conservatism makes the company demand to prepare their financial statements with a very high level of verification and accuracy, and it requests the company to record all the possible debts and losses, but only record gains or profits when they are completely recognized (Ruch and Taylor 2015). Studies (LaFond, el.al. 2008; Abernathy, 2010; Herath

and Albarqi, 2017) provided evidence that not only is accounting conservatism considered an important feature and proxy for the financial reporting quality, but also it braces the managers' opportunities to manipulate earnings and is considered as one of the responsibilities of the audit committee. Kothari et al. (2010) believed that financial reporting is essential for evaluation by equity investors and performance evaluation, referred to as efficient contracting. When the financial reports are conservative, they will be appropriate for evaluation by stakeholders. Watts(2003a) found that there are four explanations for conservatism, which are contracting explanation, litigation explanation, income tax explanation, regulatory explanation, and regulators. In addition, Zhong and Li (2017) believed that the four main parties that demand conservatism is; debt holders, shareholders, auditors, and regulators.

Despite the fact that some studies support the pros associated with conservative financial reports, some other studies (Ruch and Taylor 2015;Ahmed and Duellman, 2007) believed that conservatism is not an eligible characteristic in financial reporting, and they supported their studies by providing evidence that over conservative auditors not only may result in misleading financial reporting figures for investors and other stakeholders as the values estimated in the financial reports may not always be accurate, because by using conservatism the value of assets must be recorded immediately after purchasing and if the amount of those assets increase, it will not be increased in the financial statements while being conservative , but also conservatism may underestimate the future value of the firms in the financial reports , which occurs because auditors who use conservatism will not record any potential for profits until they are in their hands , but will record any possible losses, and because debts happen quicker than profits in major companies, the future value of the companies will always be less than the reality , and this may significantly affect the investors and stakeholders decisions.

Studies (Gao (2013); Mashoka et al. (2018); Haque et al. (2019); Krismiaji & Astuti (2020)) showed mixing results on the relationship between accounting conservatism and earnings management, additionally, all of these studies

provided evidence that there is a significant relationship between accounting conservatism and earnings management. Studies (Gao (2013), Haque et al. (2019)) found that there is a significant negative relationship between accounting conservatism and earnings management, by providing evidence that as conservatism increases, the financial reports will be of a higher quality and earnings management will consequently decrease, as they believe that by following conservatism, managers will be caged and will not be able to manipulate the figures in the financial statements, on the other hand, (Mashoka et al. (2018); Krismiaji & Astuti (2020)) believed that there is a positive relationship between accounting conservatism and earnings management and they provided evidence that conservative companies will give the managers higher chances to manipulate figures in the financial statements, because by using conservatism, the value of assets must be recorded immediately after purchasing and if the amount of those assets increase, it will not be increased in the financial statements, in addition, conservatism may underestimate the future value of the firms in the financial reports, which occurs because auditors who use conservatism will not record any potential for profits until they are in their hands, but will record any possible losses, and because debts happen quicker than profits in major companies, the future value of the companies will always be less than the reality, and this may significantly affect the investors and stakeholders decisions (Ruch and Taylor 2015), and thus they believed that the higher conservatism in financial statements, the higher earnings management.

3.2 Hypotheses development

Studies by (Collis and Jarvis (2002) ; Salleh and Jasmani (2014)) provided evidence that auditing is a critical medium in getting accurate financial and management information for a company and the quality of auditing should be a very critical proxy to shed light on while the auditing is performed by the auditors, thus, in the coming part, the effect of different audit proxies on financial reporting quality will be illustrated in more detail.

3-2-1 Audit fees and financial reporting quality

(Dao et. al., 2012; Muzatko and Teclezion, 2016; Nkemjika et al., 2017; Martinez and Moraes 2017; Ganesan et al., 2019; Alves 2021) provided evidence of a positive relationship between audit fees and financial reporting quality. Muzatko and Teclezion (2016) investigated the relationship between audit fees and earnings management as a proxy for financial reporting quality, their results showed a positive relationship between the audit fees and financial reporting quality, supporting previous studies that found that higher audit fees will reduce the earnings management, by giving the auditors higher incentives to work more precisely and caging the managers from manipulating the earnings, thus providing higher audit quality and higher quality of financial reporting. On the other hand, (Choi et al., 2010; Krauss et al., 2014; Pham et al., 2017; Jia, 2018) provided evidence for a negative relationship between audit fees and financial reporting quality. Moreover, Markelevich and Rosner (2013) found a negative relationship between audit fees and financial reporting quality using a sample of 286 fraud firms. Their results provided evidence that there is a positive relationship between the auditors' fees (Audit fees and non-audit fees) and fraudulent financial statements. They also found that when the auditor fees increase, the economic bond between the auditors' firms and their clients increases, causing a reduced auditors' independence in detecting and reporting earnings management in financial statements, which means low financial reporting quality.

Based on the previous discussion, the researcher will support the first group of studies which states that there is a positive relationship between audit firm fees and financial reporting quality by providing evidence that, as the audit fees increases, the audit quality may increase, and the restatements and accruals may decrease and auditors may be better in detecting earnings management as they may have incentives to work with better performance, thus, causing a higher financial reporting quality, therefore the first research hypothesis can be formulated as follows:

H₁: There is a significant positive relationship between audit firm fees and financial reporting quality.

3-2-2 Audit firm size and Financial Reporting Quality

Studies showed mixing evidence for the effect of audit firm size on financial reporting quality. The first group of studies (Colbert and Murray, 1998; Sori et al., 2006; Sawan and Alsaqqa, 2012; Jafari, 2015; Alareeni, 2017) provided results showing a positive relationship between audit firm size and financial reporting quality. These results were supported by Sori et al., (2006) who investigated the effect of auditor reputation in terms of the size of the audit firm on the independence of the auditors and their quality of audit. They supported their research by using primary sources of information, like the questionnaires and interview surveys that were distributed and discussed with senior managers of Malaysian audit firms, banks, and public listed companies. Findings indicated that the larger the audit firm size, the more independent the auditors will be, and the more likely they are to detect and report misstatements in the financial statements of the clients, causing high financial reporting quality. Large audit firms have a reputation that they want to preserve, and they are more risk-averse to any suit coming from misstatement irregularities or fraud and are more risk-averse to any public scandals or audit failures. They found that the cause of the positive relationship between the audit firm size and auditor independence and audit quality and financial reporting quality is that large audit firms like the Big4, have better financial resources, higher technology, more competent auditors, and a reputation they want to preserve, which will assist the auditors to be independent of their clients and to work with transparency with them.

On the other hand, (Salehi and Mansoury, 2009; Khanh and Nguyen, 2018; Krismiaji, 2021) provided evidence that there is no significant relationship between the audit firm size and financial reporting quality. Salehi, et.al.(2009) investigated the effect of audit firm size and audit regulations on audit quality and the detection of fraud. They support their research by using questionnaires, passed out to 240 persons and completed by 180 persons, all of them either working as independent auditors, experts in accounting and auditors working as

internal auditors, or working in financial and banking management. Thus, all the participants have a strong background in auditing. Results from the questionnaire found that 70% of participants disagree that audit firm size will affect the audit quality or the detection of fraud and the other 30% agree that the firm size will affect the quality and detection of fraud. In addition, the results from the questionnaire found that 60% agree that overseeing the audit regulations and rules will affect the willingness to detect fraud in financial, and the other 40% disagree with this.

Based on discussion of prior literature, the researcher will support the first group of studies which states that there is a positive relationship between audit firm size and financial reporting quality, by providing evidence that big 4 audit firms may be more independent and may provide higher quality of audit than the non-big 4 audit firms, as they have better technologies, financial resources ,more competent auditors and a reputation they want to preserve, and thus they are more likely to detect and report misstatements in the financial statements of the clients, causing high financial reporting quality, thus, the second research hypothesis can be formulated as follows:

H₂: There is a significant positive relationship between audit firms' size and financial reporting quality.

3-2-3 Audit firm tenure and Financial Reporting Quality

Studies showed mixed evidence for the effect of audit firm tenure on financial reporting quality using different proxies for financial reporting quality. The first group of studies (Soliman, 2014; Ndubuisi and Ezechukwu, 2017; El Guindy and Basuony, 2018) provided evidence that there is a positive relationship between audit firm tenure and financial reporting quality. Soliman (2014) investigated the effect of audit quality characteristics on accounting conservatism in Egypt. He used 50 active non-financial companies in the Egyptian stock market for four years starting from 2007 to 2010. He used audit firm size, auditor specialization, and auditor tenure as proxies of audit quality and measured accounting conservatism in the financial reports using the accruals method. He found that when the auditor tenure increases, the level of

accounting conservatism increases. This could be justified that the longer the duration between the auditing firm and the client, the better the auditor competency which will make the auditor more informative about their clients' environment in business, thus better audit quality will be performed and better financial reporting quality by being more conservative. In addition, the study supports that when the audit firm is from the Big 4 (KPMG, Deloitte, Ernst & Yung, PWC), they will be able to provide higher audit quality and higher accounting conservatism through the high technologies used in these companies and better experienced and knowledgeable auditors. The study results showed a positive relationship between audit firm size, auditor tenure and auditor specialization, and accounting conservatism.

On the other hand, studies such as (Chen et al., 2008; Lim and Tan, 2009; Siregar et al., 2012; Mgbame et al., 2012; Adeniyi and Mieseigha, 2013; Corbella et al., 2015; Rickett, Maggina and Alam, 2016; Arabloo, 2017; Yasser and Soliman, 2018; Inayah and Prasetyo, 2021) provided evidence of a negative relationship between audit firm tenure and financial reporting quality. Arabloo (2017) investigated the effect of audit tenure on accounting conservatism. He suggested that when the audit tenure increases, the audit firm will be more familiar between the audit firm and the client, which might ruin the auditing program and will lower the assumption of making decisions different from past years, thus will present lower efficiency and lower audit quality. Accordingly, as the audit tenure increases, the accounting conservatism will decrease and hence, lowering the degree of financial reporting quality. Rahmina and Agoes (2014) did not show a significant effect of audit tenure on audit quality and thus on financial reporting quality. They investigated the effect of auditor independence, audit tenure, and audit fee on audit quality. They supported their research using primary sources of information, through the distribution of 150 questionnaires to senior auditors, supervisors, managers, and partners working in the audit firms listed in the capital market accountant forum in Indonesia. The results found a positive relationship between auditor independence, audit fees, and audit quality. Stating that, high auditor independence will enhance the quality of the auditors' work in programming or producing audit reports. Moreover, the audit fees have

a positive effect on the audit quality, as it will increase their incentives to improve their work. However, their research did not show a significant effect of audit tenure on audit quality.

Based on discussion of prior literature, the researcher will support the second group of studies which states that there is a negative relationship between audit firm tenure and financial reporting quality, by providing evidence that long audit firm tenure may result in a client–firm relationship that may deteriorate the independence of the auditors and thus reduce the audit quality provided and auditors may not declare earnings management practiced by their clients' managers fairly , and may reduce the accounting conservatism , thus reducing financial reporting quality , therefore, the third research hypothesis can be formulated as follows:

H₃: There is a negative significant relationship between audit firms' tenure and financial reporting quality.

4- Research methodology

the empirical study aims to test the effect of audit characteristics in terms of audit firm fees, audit firm size, and audit firm tenure on the financial reporting quality of the companies listed on the Egyptian Stock Exchange Market.

4.1 Population and sample of the study

The study population consisted of 152 firms in the Egyptian stock market in the period from 2018 to 2020, representing 459 firm–year observations, excluding firms in the financial sector (banks and financial services) due to their special nature (Bryan and Reynolds 2016). Data were obtained from the financial statements of these firms, which were taken from websites: www.investing.com. and www.egx.com.eg.

4-2 Definition and Measurement of Variables

4-2-1 Independent Variables

The independent variable used in this study is audit quality measured by audit firm tenure, audit firm size, and audit firm fees.

Audit firm size is measured by whether the auditing firm is from the Big4 (Ernst and Yong, Deloitte, PWC, KPMG) or non-Big4. Big4 audit firms usually have more to lose such as reputation, in addition, they have higher technologies and better financial and human resources, which can be the reasons behind the high audit quality and high financial reporting quality they offer compared to non-Big4 audit firms (DeAngelo 1981; Gul et al. 2003; Chen et al. 2013). Previous studies used the audit firm size as a measure of the audit quality (Chowdhury, et al. 2018; Clinch et al. 2012; Dang and fang 2011). Thus, this proxy will be measured in this research as a binary variable, taking the value of "1" in the case of Big4 and "0" in the case of Non-Big4 (Fernando et al. 2010).

Audit firm tenure could be defined as the length of time that the audit firm keeps auditing the same company and issuing audit reports to it. There are two types of tenure, long term, and short term, the short audit tenure is when the audit firm stays with the same client for 3 years or less and long audit tenure is when the audit firm stays with the same client for more than 3 years (Hussein and Mohd Hanefah 2013). Prior research found a positive relationship between the long audit firm tenure and the audit quality, through justifying their finding that the longer the duration between the auditing firm and the client, the better the auditor competency which will make the auditor more informative about their clients' environment in business, thus providing better audit quality and better financial reporting quality (George, 2004; Ghosh & Moon's, 2005; Arel et al., 2005; Knechel & Vanstraelen, 2007; Jackson et al., 2008). On the other hand, prior research stated that a long audit- client relationship will cause the close identification of the auditing firm with the incentives and interests of the client's management, causing the independence to collapse, leading to low audit quality and financial reporting quality (Geiger & Raghunandan, 2002; Arel et al., 2005). According to previous empirical studies, this variable will be measured in this study as a binary variable, taking the value of "1" in case the audit firm tenure is more than 3 years and "0" in case the audit tenure is equal to 3 years or less (Charles, 2017).

Audit fees are the economic reward for auditors when they provide audit services, it is referred to as agency fee according to certain standards. The audit fee is the total cost of the audit through the period of audit work, so it includes the risk compensation and the profit demand. Not only does the audit fee affect the audit quality, but also the establishment of the audit industry and accounting firms, as a result of these influences, audit fees are remaining as a critical research focus worldwide (Liu, 2017). As the audit fees increases, the audit quality may increase, the restatements and accruals may decrease and auditors may be better at detecting earnings management as they may have incentives to work with better performance, thus, causing higher financial reporting quality (Alves 2021). On the other hand, (Choi et al., 2010) provided evidence that auditors who take abnormal fees are more likely to comply with the clients' interests and can allow the clients to be part of opportunistic earnings management, therefore the researcher assumes that abnormal audit fees are related negatively to the audit quality. This variable will be measured in this study by observing the audit fees taken by auditors from their clients, and it was taken from the annual general assembly meeting reports.

4-2-2 Dependent variables

The dependent variable used in this study is the financial reporting quality. Financial reporting quality is concerned with how financial statements issue exact, accurate, and fair information about the economic performance and financial position of an entity (Herath and Albarqi, 2017). In this research paper, the financial reporting quality will be proxied by earnings management measured using the (Modified Jones model) because it is more powerful in revealing the discretionary accruals than the original Jones model (Dechow et al. 1995), and accounting conservatism measured by Market to Book Ratio (Beaver and Ryan,2000) which is the widely used measure for accounting conservatism.

Choosing earnings management as one of the measures for financial reporting quality stems from the different pros of using this proxy; first, it is one of the vital dimensions of determining the accounting quality, second, it will

make our tests strong because its proxies are reacting specifically to the use of the firm's reporting incentives and discretion (Burgstahler, Hail and Leuz, 2006)

Earnings management happens when the managers manipulate the financial statements for their interests, and it is one of the main concerns in examining the financial health of companies to indicate the level of reliability of reported earnings (Usman, 2013). Healy and Wahlen (1999) and; El Diri, (2018) believed that earnings management may negatively affect the financial reporting quality , as it is the act of overcasting financial reports made for external stakeholders and it is used by the management to tamper the firm's income to go in parallel with the firm's goals and this manipulation can hurt the quality of information given to investors and as the entity engages more in earnings management, the financial reporting quality of these entities will be adversely affected. Earnings management will be measured using the modified Jones model (Dechow, Sloan, and Sweeney,1995) which is a three steps calculation procedure as illustrated below;

Note: Total Accruals (TA)= Discretionary accruals (DA) + Non-discretionary accruals (NDA). For the modified Jones model we need to estimate discretionary accruals by subtracting NDA from TA.

Step 1 ;

$TA_t = \text{Net income} - \text{Net operating cash flow}$

Step 2 ;

$NDA_t = \alpha_1(1/A_{t-1}) + \alpha_2[(\Delta REV_t - \Delta REC_t) / A_{t-1}] + \alpha_3(PPE_t / A_{t-1})$

Step 3 ;

$DA_t = (TA_t/A_{t-1}) - [\alpha_1(1/A_{t-1}) + \alpha_2[(\Delta REV_t - \Delta REC_t) / A_{t-1}] + \alpha_3(PPE_t / A_{t-1})]$

Table 1: Clarification of abbreviations in the modified Jones model equations

TA_t	Total Accruals in year t
DA_t	Discretionary accruals in year t
A_{t-1}	Total assets in year t- 1
ΔREC_t	Receivables in year t minus receivables in year t – 1,
PPE_t	Gross property plant and equipment in year t
α₁,α₂,α₃	Parameters to be estimated, namely alphas

Accounting conservatism can be known as the accounting policies that cause downward alignment of accounting net asset value comparative to economic net asset value, in other words, accounting conservatism makes the company demand to prepare their financial statements with a very high level of verification and accuracy, and it requests the company to record all the possible debts and losses, but only record gains or profits when they are completely recognized (Ruch and Taylor 2015).

Choosing accounting conservatism as one of the primary measures of financial reporting quality stem from several previous studies, for example, (Basu,1997) that provided evidence that accounting conservatism has had a long-lasting effect on accounting practice for at least 500 years. In addition, (Sterling,1967) found that accounting conservatism is one of the most effective principles of evaluation in accounting. Not only does (Ball, 2001) believe that accounting conservatism is one of the important essential characteristics of financial reporting, but also (Watts, 2003a, b) found that accounting conservatism eases active observation of managers and contracts through tightening over payments to managers and other stakeholders in the company.

(Ruch and Taylor 2015;Ahmed and Duellman, 2007) believed that conservatism may negatively affect the financial reporting quality and they supported their studies by providing evidence that over conservatism may result

in misleading financial reporting figures for investors and other stakeholders; as the values estimated in the financial reports may not always be accurate, because by using conservatism the value of assets must be recorded immediately after purchasing and if the amount of those assets increase, it will not be increased in the financial statements while being conservative, in addition , they found that conservatism may underestimate the future value of the firms in the financial reports , which occurs because auditors who use conservatism will not record any potential for profits until they are in their hands , but will record any possible losses, and because debts happen quicker than profits in major companies, the future value of the companies will always be less than the reality, and this means that figures in conservative financial statements are not accurate and are not reflecting the actual present state of the company and thus managers can easily manipulate figures in conservative financial statements, this manipulation can hurt the quality of information given to investors and other stakeholders ,and as the entity increases its conservatism while preparing the financial statements , the financial reporting quality of these entities will be adversely affected, therefore, independent auditors are needed to cage managers from manipulating financial statements, to provide high financial reporting quality. Accounting conservatism will be measured using the market to book ratio.

Equation (1) : $ACCT = \text{Market price per share} / \text{Book value per share}$

The following table will illustrate the study variables and their measurements;

Table 2: Measurements of the study variables

Variable	Notation	Measurement of variable
Dependent variable: Financial reporting quality FRQ		
Earnings management	DA	Measured by the modified Jones model. (Dechow, Sloan and Sweeney,1995)
Accounting conservatism	ACCT	Measured using the Market to Book Ratio. (Lara, Osma and Penalva, 2009)

Independent variable: Audit Quality		
Audit Firm tenure	AFT	The length of time that the audit firm keeps auditing the same company and issuing audit reports to it. Measured as a binary variable , taking “1” in case the auditor is working for the company for more than 3 years and “0” otherwise (Hussein and Mohd Hanefah 2013).
Audit Firm Size	AFS	Measured by whether the auditing firm is from the Big4 (Ernst and Yong, Deloit, PWC, KPMG) or non-Big4 . Measured by a binary variable, taking a value of “1” in case of Big4 and “0” in case of Non-Big4 (Fernando et al. 2010).
Audit Firm Fees	AFF	Measured as the natural logarithm of audit fees received by auditors and it is found in the reports of general meetings. (Cahan and Sun, 2015).

4–3 Research models

To test the hypothesis related to the effect of audit quality in terms of; audit firm fees, audit firm tenure, and audit firm size (which reflect the audit quality) on the financial reporting quality measured by the Earnings management, the researcher will use the following model (1) ;

$$DA_t = \beta_0 + \beta_1 (AFT) + \beta_2 (AFS) + \beta_3 (AFF) + \varepsilon \quad (1)$$

DA_t is the discretionary accruals in year t , it is measured by 3 equations:

Step 1;

$$TA_t = \text{Net income} - \text{Net operating cash flow}$$

Step 2;

$$NDA_t = \alpha_1(1/A_{t-1}) + \alpha_2[(\Delta REV_t - \Delta REC_t) / A_{t-1}] + \alpha_3(PPE_t / A_{t-1})$$

Step 3;

$$DA_t = (\Delta TA_t / A_{t-1}) - [\alpha_1 (\Delta TA_t / A_{t-1}) + \alpha_2 (\Delta REV_t - \Delta REC_t) / A_{t-1}] + \alpha_3 (PPE_t / A_{t-1})$$

$\beta_0, \beta_1, \beta_2, \dots, \beta_i$ are coefficients,

ϵ is error term,

To test the hypothesis related to the effect of audit quality in terms of; audit firm fees, audit firm tenure, and audit firm size (which reflect the audit quality) on the financial reporting quality measured by the accounting conservatism, the researcher will use the following model (2) ;

$$MTB_t = \beta_0 + \beta_1 (AFT) + \beta_2 (AFS) + \beta_3 (AFF) + \epsilon \quad (2)$$

MTB is the market to book ratio which is used to measure accounting conservatism.

$\beta_0, \beta_1, \beta_2, \dots, \beta_i$ are coefficients,

ϵ is the error term,

5– Empirical Results and Hypotheses Discussions

5–1 Descriptive statistics

The following table presents a descriptive analysis of study variables

Table 3: Descriptive statistics for dependent and independent variables

	MTB	DA	AF
Mean	0.002331	0.080203	106855.2
Median	0.001148	0.081444	100000.0
Maximum	0.009213	0.359162	275000.0
Minimum	-0.003832	-0.198013	20000.00
Std. Dev.	0.002755	0.110292	57579.71
Skewness	0.912476	-0.066712	0.536540
Kurtosis	2.828756	2.819281	2.452763
Jarque-Bera	64.25569	0.965067	27.74975
Probability	0.001***	0.617218	0.001***
Observations	459	459	459

AFS (Audit firm size)

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid 0	344	74.9	74.9	74.9
1	115	25.1	25.1	100.0
Total	459	100.0	100.0	

AFT (Audit firm tenure)

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid 0	112	24.4	24.4	24.4
1	347	75.6	75.6	100.0
Total	459	100.0	100.0	

*** Significant at a level less than (0.001).

The above table (3) shows the descriptive statistics of the research variables. It shows that both dependent and independent variables have considerable dispersion, shown by the mean, median, maximum, minimum, standard deviation, skewness, kurtosis, Jarque-Bera, and probability, which indicate the extent to which the model variables are normally distributed.

5-2 Empirical results of model (1)

Table 4: Pearson correlation matrix is used to measure the significance of a linear relationship between the variables of the fixed panel data model

Correlation Probability	DA	AFT	AFS	AF
DA	1.000000			

AFT	0.334571	1.000000		
	0.001***	-----		
AFS	-0.247083	0.094363	1.000000	
	0.001***	0.0433	-----	
AF	-0.224358	0.162405	0.344044	1.000000
	0.001***	0.0005	0.001***	-----

*** Significant at a level less than (0.001).

* Significant at a level less than (0.05).

From table (4), there are significant negative linear relationships between the independent variable in terms of AFS and AF and the dependent variable in terms of DA at a level of significant level less than (0.001), however, there is a significant negative relationship between AFT and the dependent variable in terms of DA at a significant level less than (0.001).

The above statistical analysis reflected a significant negative relationship between audit fees and the level of discretionary accruals (p-value of 0.0264, with a significance less than 0.05). This result came in line with researchers' expectations (Dao et. al., (2012); Muzatko and Teclezion(2016); Nkemjika, Sunday and Nwamaka (2017); Martinez and Moraes (2017); Ganesan, haron and Pitchay (2019); Alves (2021) Jia (2018)) who found that audit fee has a positive relationship with the financial reporting quality, by providing evidence that when the audit fees increases, auditors' incentives to work more precisely will increase and they can cage the managers from manipulating the earnings, thus providing higher audit quality and higher quality of financial reporting. However, this result contradicted (Krauss et al., 2014) who didn't find a significant relationship between audit fees and financial reporting quality and to (Choi et al., (2010); Markelevich and Rosner (2013); Pham et al., (2017)) who found a negative relationship between audit fees and financial reporting quality.

The above statistical analysis reflected that there is a significant negative linear relationship between the independent variable in terms of audit firm size and the level of discretionary accruals (p-value at 0.0032 with a significance level less 0.01) . The results states that Big 4 audit firms causes lower Discretionary accruals and thus higher financial reporting quality. This came in line with the researchers' expectations (Colbert and Murray (1998); Sori et al., (2006); Sawan and Alsaqqa (2012); Jafari (2015); Alareeni (2017)) who found that Big 4 audit firms (KPMG, Deloitte, Ernst & Young, PWC) will be able to provide high audit quality, and will work more precisely to detect and declare any earnings management, through the high technologies used in these companies ,better experienced and knowledgeable auditors, better financial resources, and that have a reputation that they want to preserve. However, this result came in

contradictory to (Salehi and Mansoury (2009); Khanh and Nguyen (2018); Krismiaji (2021)) who believed that there is no significant relationship between audit firm size and financial reporting quality, in addition, contradictory to Ghosh and Siriviriyakul (2018); (El-Dyasty 2017) who provided evidence that there is a negative relationship between audit firm size and financial reporting quality.

Analysis also revealed a significant positive linear relationship between audit firm tenure and discretionary accruals (p-value of 0.0431, with a level of significance less than 0.05) . This result provides evidence for accepting the research Hypothesis H3, which indicates that there is a significant negative relationship between audit firm fees and financial reporting quality, as the results show that as audit tenure increases, the Discretionary accruals will increase, thus providing low financial reporting quality. This result came in line with researchers' expectations (Chen et al., (2008); Lim and Tan (2009); Siregar et al., (2012); Mgbame et al., (2012); Aeniya and Mieseigha (2013); Crobella et al., (2015); Rickett, Maggina and Alam (2016); Arabloo (2017); Abdul Nasser et al., (2017); Yasser and Soliman (2018); Inayah and Prasetyo (2021)) who believed that when the audit tenure increases, the auditors' independence will decrease as a result of the client- auditor relationship, thus the auditor will comply with the managers' interests and will not detect and declare all earnings management made by managers. This result came in contradiction to ((Soliman (2014); Ndubuisi and Ezechukwu (2017); Guindy and Basuony (2018))who believed that there is a positive relationship between audit firm tenure and financial reporting quality.

5-3 Empirical results of model (2)

Table 5: Pearson correlation matrix to measure a significant linear relationship between the variables of the fixed panel data model

Correlation Probability	MTB	AFT	AFS	AF
MTB	1.000000			

AFT	0.322490	1.000000		
	0.001***	-----		
AFS	-0.220540	0.094363	1.000000	
	0.001***	0.0433	-----	
AF	-0.294804	0.162405	0.344044	1.000000
	0.001***	0.0005	0.001***	-----

*** Significant at a level less than (0.001).

** Significant at a level less than (0.01).

From table (5), there are significant negative linear relationships between the independent variable in terms of AFS and AF and the dependent variable in terms of MTB at a level of significant level less than (0.001), however, there is a significant positive relationship between AFT and the dependent variable in terms of MTB at a significant level less than (0.001).

The above statistical analysis reflected a significant negative relationship between the audit fees and accounting conservatism “MTB” (p-value of 0.0004, with level of significance less than 0.001). This result came in line with researchers' expectations (Dao et.al., (2012); Muzatko and Teclezion(2016); Nkemjika, Sunday and Nwamaka (2017); Martinez and Moraes (2017); Ganesan,haron and Pitchay (2019); Alves (2021) Jia (2018)) who found that audit fees have a positive relationship with the financial reporting quality, by providing evidence that when the audit fees increases, auditors' incentives to work more precisely will increase and they can cage the managers from manipulating the financial statements from using accounting conservatism manipulating methods, thus providing higher audit quality and higher quality of financial reporting. However, this result contradicted (Krauss et al., 2014) who didn't find a significant relationship between audit fees and financial reporting quality and to (Choi et al., (2010); Markelevich and Rosner (2013); Pham et al., (2017)) who found a negative relationship between audit fees and financial reporting quality.

The above statistical analysis reflected a significant positive relationship between the audit firm size and accounting conservatism “MTB” (p-value of 0.0006 with level of significance less than 0.001). This result came in line with the researchers' expectations (Colbert and Murray (1998); Sori et al., (2006); Sawan and Alsaqqa (2012); Jafari (2015); Alareeni (2017)) who found that Big 4 audit firms (KPMG, Deloitte, Ernst & Young, PWC) will be able to provide high audit quality, and will monitor and declare any manipulations could be made in financial statements from using accounting conservatism, thus the Big 4 audit firms will be able to provide high financial reporting quality, through the high technologies used in these companies and better experienced and knowledgeable auditors. In addition to the better financial resources, Big 4 audit firms have a reputation that they want to preserve. However, this result came in contradictory to (Salehi and Mansoury (2009); Khanh and Nguyen (2018); Krismiaji (2021)) who believed that there is no significant relationship between audit firm size and financial reporting quality, in addition, contradictory to Ghosh and Siriviriyakul (2018); (El-Dyasty 2017) who provided evidence that there is a negative relationship between audit firm size and financial reporting quality.

The above statistical analysis reflected a significant positive relationship between the audit firm tenure and accounting conservatism “MTB”(p-value of 0.0008 with level of significance less than 0.001). This result came in line with researchers' expectations (Chen et al., (2008); Lim and Tan (2009); Siregar et al., (2012); Mgbame et al., (2012); Aeniya and Mieseigha (2013); Crobella et al., (2015); Rickett, Maggina and Alam (2016); Arabloo (2017); Abdul Nasser et al., (2017); Yasser and Soliman (2018); Inayah and Prasetyo (2021)) who believed that when the audit tenure increases, the auditors' independence will decrease as a result of the client- auditor relationship, thus the auditor will comply with the managers' interests and may not declare the manipulations made by the managers while they use the accounting conservatism, which means lower audit quality and lower financial reporting quality. This result came in contradiction to ((Soliman (2014); Ndubuisi and Ezechukwu (2017); Guindy and Basuony (

2018))who believed that there is a positive relationship between audit firm tenure and financial reporting quality.

5–4 Hypotheses discussion

According to the above results of statistics, by using earnings management and accounting conservatism as measures for the financial reporting quality, there is a positive relationship between discretionary accruals and audit firm tenure , in addition, there is a positive relationship between accounting conservatism “MTB” and audit firm tenure, and these results show that there is a negative relationship between audit firm tenure and financial reporting quality which causes accepting the research hypothesis. These results show that as audit tenure increases the financial reporting quality will decrease, as a result of decreasing the auditors’ independence and forming a client–auditor relationship which will deprive the auditors to detect and declare all discretionary accruals or manipulations that could be made in the financial statements when managers use accounting conservatism, because by using conservatism there is always a room for managers to manipulate, since the value of assets while using conservatism must be recorded immediately after purchasing and if the amount of those assets increase, it will not be increased in the financial statements , in addition, conservatism underestimate the future value of the firms in the financial reports , which occurs because accountants who use conservatism will not record any potential for profits until they are in their hands , but will record any possible losses, and because debts happen quicker than profits in major companies, the future value of the companies will always be less than the reality , and this may significantly affect the investors and stakeholders decisions (Ruch and Taylor, 2015). Thus, auditors must always be dependent to detect any manipulations that could be made while using conservatism, or any manipulations that could be made by managers to address their interests, in order to preserve the financial reporting quality.

According to the above results of statistics, by using earnings management and accounting conservatism as measures for the financial reporting quality, there is a negative relationship between discretionary accruals and audit firm size , in

addition, there is a negative relationship between accounting conservatism “MTB” and audit firm size, and these results show that there is a positive relationship between audit firm size and financial reporting quality, which causes accepting the research hypothesis. These results show that Big 4 audit firms will positively affect the financial reporting quality, and this could happen because Big 4 audit firms (KPMG, Deloitte, Ernst & Young, PWC) have high technologies, highly experienced and competent auditors, a reputation that they want to preserve, and better financial resources than the non-big 4 audit firms. These facilities will enable the Big 4 audit firms to provide high audit quality and thus high financial reporting quality through monitoring and declaring any manipulations could be made in financial statements from using accounting conservatism or any manipulations made for the managers’ interests.

According to the above results of statistics, by using earnings management and accounting conservatism as measures for the financial reporting quality, there is a negative relationship between discretionary accruals and audit firm fees, in addition, there is a negative relationship between accounting conservatism “MTB” and audit firm fees, and these results show that there is a positive relationship between audit firm fees and financial reporting quality, which causes accepting the research hypothesis. The results provided evidence that when the audit fees increases, auditors' incentives to work more precisely will increase, thus they will dependently monitor and declare any manipulations could be made in financial statements from using accounting conservatism or any manipulations made for the managers’ interests, causing high financial reporting quality.

6. Conclusion and recommendation

This study contributes to current accounting and auditing literature by providing empirical evidence for the effect of audit quality on the financial reporting quality for 152 firms in the Egyptian stock market in the period from 2016 to 2020, representing 608 firm-year observations, excluding firms in the financial sector (banks and financial services) due to their special nature (Bryan and Reynolds 2016). Data were obtained from the financial statements of these

firms, which were taken from websites: www.egx.com.eg, and www.investing.com. This study used audit firm size, audit firm fees, and audit firm tenure as proxies of audit quality, and it measured the financial reporting quality which is the dependent variable using the earnings management and accounting conservatism.

Research provided contradicting results regarding the effect of audit firm fees on financial reporting quality, as some researchers (Ganesan, haron and Pitchay (2019); Alves (2021)) believed that audit firm fees have a positive effect on financial reporting quality, by providing evidence that auditors who are paid high audit fees, will have the incentive to work diligently and will cage managers from practicing any manipulations in the financial statements and if any fraud or manipulation is practiced, the auditor will report everything the financial reports with transparency, and this evidence came in contrast to the evidence provided by the other group of researches (Pham et al., (2017); Jia (2018)) that found that there is a negative relationship between audit firm fees and financial reporting quality, by providing evidence that high audit fees will reduce the independence of auditors and auditors will comply with the clients' interests, thus providing low financial reporting quality to the stakeholders. The empirical results of this study support the researches that believed that there is a positive relationship between audit firm fees and financial reporting quality using earnings management and accounting conservatism as measures for the financial reporting quality, by providing evidence from previous studies evidence that when the audit fees increases, auditors' incentives to work more precisely will increase, thus they will dependently monitor and declare any manipulations could be made in financial statements from using accounting conservatism or any manipulations made for the managers' interests, causing high financial reporting quality.

In addition, there are mixing evidence for the effect of audit firm size on the financial reporting quality, as some studies (Jafari (2015); Alareeni (2017)) believed that there is a positive relationship between audit firm size and financial reporting quality, by providing evidence that when firms are audited by Big 4 audit firms ,

the financial reporting quality will increase, as a result of the high technologies they used. Additionally, they have better financial and human resources as they always employ high skilled and experienced auditor. However, these studies contradicted to the studies (Ghosh and Siriviriyakul (2018);El-Dyasty 2017) that found that a negative relationship between audit firm size and financial reporting quality. They found that auditors' independence is lower in Big 4 audit firms as a result of the high fees they are taking from their clients. On the other hand, they believed that there is no significant relationship between audit firm size and financial reporting quality as the use of Big 4 audit firms did not improve the audit quality or financial reporting quality. The empirical results of this study support the researches that believed that there is a positive relationship between audit firm size and financial reporting quality using earnings management and accounting conservatism as measures for the financial reporting quality, by providing evidence from previous studies that Big 4 audit firms (KPMG, Deloitte, Ernst & Young, PWC) have high technologies, highly experienced and competent auditors, a reputation that they want to preserve, and better financial resources than the non-big 4 audit firms. These facilities will enable the Big 4 audit firms to provide high audit quality and thus high financial reporting quality through monitoring and declaring any manipulations could be made in financial statements from using accounting conservatism or any manipulations made for the managers' interests.

Moreover, there are mixed evidence for the effect of audit firm tenure on the financial reporting quality, as some researchers (Ndubuisi and Ezechukwu (2017); Guindy and Basuony (2018)) believed that there is a positive relationship between audit firm tenure and financial reporting quality, by providing evidence that long audit tenures will allow the auditors to be more experienced in the field of business of the firm and will help the auditors in detecting any manipulations done by the business easily thus, provide higher financial reporting quality and they also believed that audit errors are usually done in the first years of an audit. These studies are in contrast to the studies (Yasser and Soliman (2018);Inayah and Prasetyo (2021)) that believed that there is a negative relationship between audit firm tenure and financial reporting quality, by providing evidence that as the

audit tenure increases— especially more than 3 years— the auditors' independence will decrease as a result of the client–audit relationship that arises, and this will reduce the auditors' transparency in detecting and reporting any manipulations in the financial statements, causing the financial reporting to be low. The empirical results of this study support the researches that believed that there is a negative relationship between audit firm tenure and financial reporting quality using earnings management and accounting conservatism as measures for the financial reporting quality, by providing evidence from previous studies that as audit tenure increases the financial reporting quality will decrease, as a result of decreasing the auditors' independence and forming a client–auditor relationship which will deprive the auditors to detect and declare all discretionary accruals or manipulations that could be made in the financial statements when managers use accounting conservatism,

The results of this study sheds light on only one country, Egypt, which may limit our ability to generalize the results. On the other hand, this limitation can be lessened because of Egypt's size in Africa and the MENA region and its long-time history, which can make the findings of this study viable in other comparable countries. Therefore, it can be recommended for future researchers to clone our study in other countries in Africa and the Arab world comparable with Egypt. Despite the fact that the study used three variables in the regression models, there will always be a venture of writing off vital variables. Subsequently, it can be recommended for future researchers to use other variables that can affect audit quality, such as Industry specialization in addition to other factors that affect financial reporting quality such as Corporate Governance Practices, Capital Markets, Internal control, Internal Reporting Systems, Accounting Standards, Information Technologies, and Accounting Information Systems. Finally, guided by previous studies, the study used the absolute value of audit fees as proxy for audit quality, however, the researchers recommend to replicate the model using audit fees as a percentage of firm's sales or assets to relate the variable to the size of the firm hiring the auditor.

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