

The Impact of Audit Committee Characteristics on Auditor's Opinion Shopping

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Abstract

The current study aims to examine the impact of the characteristics of the audit committee on auditor's opinion shopping in the Egyptian environment. The characteristics of the audit committee are represented in the independence of the audit committee, the experience of its members, and its size, in addition to the number of its meetings during the year. The researchers used a sample of 449 observations from non-financial companies listed on the Egyptian Stock Exchange during the period from 2017 to 2021. Using the logistic regression model, the results of hypothesis testing showed that there is a significant relationship between two characteristics of the audit committee and auditor's opinion shopping. Where it became evident that there is an inverse significant relationship between the independence of the audit committee and auditor's opinion shopping, as well as an inverse significant relationship between the experience of the members of the audit committee and auditor's opinion shopping. On the other hand, the results showed that there is no significant relationship between the number of audit committee members and auditor's opinion shopping, as well as between the number of its meetings and auditor's opinion shopping.

أثر خصائص لجنة المراجعة على تسوق رأي المراجع مستخلص

تستهدف الدراسة الحالية دراسة أثر خصائص لجنة المراجعة على تسوق رأي المراجع في البيئة المصرية. وقد تمثلت خصائص لجنة المراجعة في استقلال لجنة المراجعة، وخبرة أعضائها، وحجمها، بالإضافة إلى عدد اجتماعاتها خلال السنة. وقد قامت الباحثة باستخدام عينة مكونة من 449 مشاهدة من الشركات غير المالية المقيدة بالبورصة المصرية خلال الفترة من 2017 إلى 2021. وباستخدام نموذج الانحدار اللوجيستي، أظهرت نتائج اختبار الفروض وجود علاقة معنوية بين اثنين من خصائص لجنة المراجعة وتسوق رأي المراجع. حيث اتضح وجود علاقة معنوية عكسية بين استقلال لجنة المراجعة وتسوق رأي المراجع، وكذلك تبين وجود علاقة معنوية عكسية بين خبرة أعضاء لجنة المراجعة وتسوق رأي المراجع، ومن جهة أخرى أظهرت النتائج عدم وجود علاقة معنوية بين عدد أعضاء لجنة المراجعة وتسوق رأي المراجع وكذلك بين عدد مرات اجتماعاتها وتسوق رأي المراجع.

1- Introduction

The auditor's opinion shopping has gained the attention of researchers and legislators on markets and governments around the world, because of its negative impact on the independence of the auditor and thus the audit quality

(Yuejun, 2011, p. 257). Opinion shopping can be classified into internal shopping and external shopping of auditor's opinion. Internal opinion shopping may occur when a company is able to exert pressure on the incumbent auditor to issue a more favorable audit opinion. External opinion shopping may occur when a company that has actually changed the auditor is able to exert pressure on the new auditor to issue a more favorable audit reporting option than the company deserve (Stocken, 2000).

Opinion shopping is one of the threats to auditor's independence. The International Federation of Accountants' Code of Ethics for Professional Accountants indicated that among the threats to the auditor's independence are the pressures that the client may impose on the audit team. The code also explained that among the examples of this type is threatening to change the auditor when there is a dispute over the application of an accounting principle (IESBA, 2016), which is what researchers call internal opinion shopping. Opinion shopping itself is an indicator of lack of auditor independence, where the threat of dismissing the auditor and terminating the contract in the case of internal shopping for opinion can compromise the independence of the auditor and the audit quality (Lu, 2006, P. 562). While The change of auditors may be done for legal reasons such as the growth of the client, sometimes the change is due to external shopping for opinion, which includes searching for an auditor who is willing to support the accounting treatment made by the client to achieve the objectives of the report, even if the result is unreliable financial reports (Davidson III et al., 2006, P. 70; Hallnor, 2015, P. 16).

The violation of the auditor's independence led to many crises and collapses, the most famous of which was the fall of one of the largest audit firms in the world, Arthur Anderson's office, due to its proven involvement in the scandals of the collapse of companies such as Enron for energy (Bystrom and Torung, 2016, p. 6). This may be due to the lack of ethical behavior of the company's managers, the failure of the effectiveness of the supervision of the boards of directors, the lack of transparency of the financial reports, and the exposure of the external auditor to pressures by the management of the client company, which negatively affects the quality of the audit process. That is, Enron has done internal shopping for the auditor's opinion by pressuring Arthur Anderson's office to issue a clean report despite the invalidity of the financial statements. Where the ambiguous nature of the audit process can lead to collusion between the auditor and client management; In addition to the difficulty of obtaining direct evidence of the existence of negotiations between the auditor and management regarding the audit opinion (Ruiz-Barbadillo et al., 2006, p. 70).

The audit committee is one of the important control mechanisms affecting the occurrence of opinion shopping. The Treadway Commission has linked opinion shopping to the audit committee by recommending that management consult the audit committee when seeking a second opinion in relation to a particular accounting issue (Archambeault and Dezoort, 2001,

P36). The appointment and removal of the external auditor is the main responsibility of the audit committee. It is considered a committee emanating from the Board of Directors and an important governance mechanism to control management. It is expected to act on behalf of shareholders to maintain the integrity of the audit process (Lennox, 2002, p. 8).

Attention must be paid to the formation of the audit committee in order to be independent, the lack of independence negatively affects the ability of the audit committee to monitor management effectively. An audit committee member is not considered independent if he has relationships that would affect his independent judgment. Also, the greater the number of people involved in a particular activity, the lower the opportunity of wrongdoing, as collusion becomes difficult (Archambeault and Dezoort, 2001, P. 36). Regular meetings by members of the Audit Committee allow for reviewing and discussing the information on time. The members of the audit committee must also adhere to standards of care that excel the rest of the board members. Where they can access private accounting information. They are also implicitly responsible for the integrity of the audit process (Lennox, 2002, P. 9).

Based on the foregoing, it is clear that opinion shopping is regarded as a threat to auditor independence and the audit committee is an important governance mechanism that can maintain that independence. So, the problem of the study is summarized in the following question that the research seeks to answer, which is as follows:

“Do the characteristics of the audit committee affect auditor's opinion shopping?”

2- Study Objective:

The study mainly aims to study the impact of the characteristics of the audit committee on auditor's opinion shopping. This main objective is achieved through the following sub-objectives:

- 1) Studying the impact of audit committee's independence on auditor's opinion shopping.
- 2) Identifying the impact of audit committee's experience on auditor's opinion shopping.
- 3) Studying the impact of the size of the audit committee on auditor's opinion shopping.
- 4) Determining the impact of the number of audit committee meetings on auditor's opinion shopping.

3- Study plan:

In order to achieve the objective of the research, the researchers will present the rest of the research as follows: Literature Review, Theoretical framework, The study Methodology and Conclusion.

4- Literature Review

There are few studies that addressed the impact of audit committee on auditor's opinion shopping. The researchers will present the most important ones that study the relationship between corporate governance and opinion shopping.

The study of (Archambeault and Dezoort, 2001):

Titled Auditor Opinion Shopping and the Audit Committee: An Analysis of Suspicious Auditor Switches. This study examines whether audit committee effectiveness characteristics are related to suspicious auditor switching. Suspicious auditor switching is used to identify companies that engage in opinion shopping. The researchers operationalize suspicious auditor switching by evaluating companies that change auditors after disclosure of a reportable event, after receiving an unclean audit opinion, or after other recent auditor switches. A sample of 60 matched U.S. firms was evaluated along the hypothesized dimensions after controlling for company size, industry, stock exchange, financial health, and management stock ownership. The researchers reached the following results that: suspicious switchers are less likely to have an audit committee, have a smaller percentage of independent directors on the audit committee, have fewer members with experience in accounting, auditing, or finance, hold fewer audit committee meetings, and have smaller audit committees than nonsuspicious switching companies.

The study of (Lennox, 2002):

Titled Opinion Shopping and Audit Committees. The study examines the extent to which companies shop opinions and examines the role of audit committees in the case of auditors' dismissal. It conducted an applied study on American companies, and the study sample included 19,273 observations from 1996 to 1998. The researcher reached the following results: The companies dismiss the incumbent auditor in the event that he is expected to issue an unclean report, as opinion shopping represents 17% of the reasons for dismissing the auditor and increasing the possibility of the audit committee rejecting the decision to dismiss the auditor for the purpose opinion shopping.

The study of (Biedma-López et al., 2010):

Titled Do Independent Audit Committees Prevent Auditor Opinion Shopping? The aim of the study was to investigate the impact of the audit committee's independence on the auditor's dismissal decision and the selection of the successor auditor. The researchers conducted an applied study on Spanish companies; the sample included 110 Spanish companies registered in the period from 1998 to 2005. The researchers reached the following results: The independence of the audit committee reduces the possibility of changing the auditor after issuing an unclean audit report. For companies that change auditors after issuing an unclean report, the

independence of the audit committee prevents the appointment of a new non-independent auditor.

The study of (Budisantoso et al., 2017)

Objective of this research is to examine moderating effect of audit opinion accuracy on relationship between corporate governance and downward auditor switching in five countries of Association of Southeast Asian Nations region. One of factors that affect auditor switching, related to decreasing of audit quality, is opinion shopping. Auditor switching is driven by the opinion given by the auditor. Opinion shopping is more likely happens when there is decreasing of audit quality, such as downward auditor switching. The sample of this research is manufacture companies listed in stock exchange of Indonesia, Malaysia, Singapore, Thailand and Philippine. Based on country fixed effect logistic regression, results show that audit committee, independent and financial experts committee members have negative effect on downward auditor switching, if opinion accuracy is high. It indicates that monitoring role of audit committee, independent committee members increases audit quality by preventing high quality auditor switch, especially when opinion accuracy is high.

The study of (Mobasser et al., 2021)

The purpose of this study was to investigate the relationship between the elements of corporate governance includes institutional ownership, ownership concentration, board size, and board independence and the audit opinion shopping in companies accepted in Tehran Stock Exchange (TSE). To achieve this goal, 120 companies listed on the Tehran Stock Exchange were selected from 2001 to 2016 and were tested using logistics regression. The results showed that there is a positive and significant relationship between the ownership concentration and the audit opinion shopping and there was no significant relationship between the other independent variables and the audit opinion shopping.

In light of the foregoing, and despite the significant contribution made by previous studies regarding the auditor's opinion shopping; however, the research gap still exists. Since most of the previous research was applied on developed countries and focused on external opinion shopping. *So, the researchers will study the impact of audit committee characteristics on auditor's opinion shopping, both internal and external using Lennox (2000) Methodology in Egypt. Where this effect has not been studied before in the Egyptian environment.*

5- Study Hypotheses:

To achieve the objectives of the study, the researchers tested the validity of the following hypotheses:

H₁: There is a significant effect of the characteristics of the audit committee on auditor's opinion shopping. The following sub-hypotheses branch out from it:

H₁₋₁: There is a significant effect of the audit committee's independence on auditor's opinion shopping.

H₁₋₂: There is a significant effect of the audit committee's experience on auditor's opinion shopping.

H₁₋₃: There is a significant effect of the size of the audit committee on auditor's opinion shopping.

H₁₋₄: There is a significant effect of the number of audit committee meetings on auditor's opinion shopping.

6- Background

6-1 Opinion shopping

Opinion shopping is problematic, because opinion shopping in itself is an indication of the auditor's lack of independence, as the auditor becomes unable to resist client pressure and report honestly about the fairness of the financial statements. Opinion shopping has a long history, starting in the sixties and continuing into the seventies and eighties. The Securities Exchange Commission has warned of the dangers of opinion shopping, which companies exploit to achieve the objectives of the report at the expense of the credibility of those reports (Lee, 2016, P. 10). The Securities Exchange Commission defined opinion shopping as searching for an auditor willing to support some type of accounting treatment that would assist the company in achieving the report's informational objectives, even if it would reduce the reliability of the financial statements (Lennox, 2003, P. 7; Defond et al., 2018, P. 3). Whereas, the ambiguous nature of the audit process could lead to collusion between the auditor and the client management; In addition, it is difficult to obtain direct evidence of the existence of negotiations between the auditor and management regarding the audit opinion (Ruiz-Barbadillo et al., 2006, P. 70).

Chen et al. (2016) has indicated that opinion shopping indicates that the company searches for an auditor who can submit to the wishes of management when the incumbent auditor is more likely to issue a negative report. (Izzat, 2016) defined it as the client pressures the auditor to issue an unqualified report in support of the client's desired goals. Osma *et al.* (2022) explained that the auditor's opinion shopping occurs when the audit client replaces or retains the incumbent auditor with the intention of obtaining a better audit opinion. Opinion shopping may also be defined as a company changing the auditor in order not to obtain an opinion on its ability to continue as a going concern (Hardi et al., 2020, p. 172). The client may search for a new auditor willing to issue a clean report, when the incumbent auditor threatens to issue a going concern audit opinion. Opinion shopping can compromise audit quality, if either the incumbent or new auditor is pressured by the client to issue a clean opinion while the client deserves a going concern audit opinion, thus compromising the auditor's independence. In this case,

issuing a clean audit opinion is considered a lack of independence of the auditor (Defond and Zhang, 2014, p. 310).

6-2 The Role of Audit Committee in Opinion Shopping

On July 1, 2015, the Securities Exchange Commission (SEC) issued a conceptual statement proposing that the Audit Committee disclose its processes related to the appointment and retention of auditors. This proposal could dampen the ability of management - which is looking for positive audit results - to appoint the auditor (Singer and Zhang, 2022, P. 141). The board of directors forms committees from its non-executive and independent members. In accordance with international best practices of corporate governance, it is preferable not to be among the members of the committees an executive member of the company's board of directors. Each committee shall consist of no less than three members. The committees present their reports and recommendations to the board of directors to take the necessary decisions (Egyptian Directors Center, 2016).

SOX has introduced legislative reforms that improve audit quality and raise the level of auditor independence. For example, the audit committee became the only one responsible for appointing, rewarding, supervising and maintaining the external auditor. It became obligatory for the external auditor to present his report to the audit committee (SOX, 2002, SEC 301). The members of the audit committee should have independence (SEC 301) and include at least one financial expert (SOX, 2002, SEC 407). The results of the study of Singer and Zhang (2022) indicated that corporate governance mechanisms affect the client's ability to engage in opinion shopping. The audit committee's strong financial expertise also serves to limit the opinion shopping. The study of Lennox (2002) found that American companies dismiss the auditor when the probability of issuing a negative report on the company's financial statements increases compared to the new auditor. It found that about 17% of the auditor dismissal cases are motivated by the opinion shopping and that this dismissal takes place towards the end of the accounting period compared to other dismissals. Often, the audit committee disapproves the auditor dismissals resulting from the opinion shopping. This confirms that the audit committee helps maintain the integrity of the audit process.

The formation of the committees of the Board of Directors must be in accordance with a work regulation approved by the Board of Directors. The annual report and the company's website must also include a brief presentation of each committee's formation and the number of its meetings during the year, and the committees chairs must attend the company's general assembly meetings (Egyptian Directors Center, 2016).

The Audit Committee is considered one of the committees emanating from the Board of Directors. The board of directors shall form it so that it has independence in carrying out its work. The audit committee shall have a work regulation approved by the board defining the scope of its work, its

responsibilities and its functions in line with the laws and supervisory instructions. In order to achieve the independence of the audit committee, the committee selects its chairman, its formation, criteria for selecting its members, its work programs, compensation for its members and its head, and assigning it to perform its duties according to a decision issued by the Board of Directors. The audit committee is formed from non-executive and independent members of the board of directors or from outside the company, provided that at least one member is among them who have knowledge and familiarity with financial and accounting matters (Egyptian Directors Center, 2016).

Among the tasks undertaken by the Audit Committee are the following (SOX, 2002; Egyptian Directors Center, 2016; FRC, 2016, P. 18)):

- It should be directly responsible for appointing, remunerating and supervising the work of the external auditor. An audit report should also be submitted to it.
- Resolve disputes that may arise between the auditor and management regarding the financial report.
- Recommending to the Board of Directors to appoint one or more external auditors for the company, as well as their qualifications, competence and independence.
- Reviewing the audit plan of the external auditor and making their observations on it.
- Study the notes and recommendations of the external auditor on the financial statements.
- Recommending the approval of the external auditor to perform additional operations other than auditing the accounts, and recommending approval of what he receives for those operations in proportion to his annual fees.
- Inviting the company's external auditor to attend its meetings whenever needed.

Oversight of auditor change is an essential function of the audit committee to ensure the integrity of the audit process; Opinion shopping reduces the integrity of the audit process. Therefore, it is expected that the audit committee will not approve cases of dismissal of the auditor which are motivated by Opinion shopping (Lennox, 2002, p. 9).

Consequently, the audit committee represents one of the critical mechanisms for corporate governance because it plays an important role in relation to external audit, as it is responsible for approving decisions to select and retain the external auditor. The effective audit committee is expected to limit the change of the external auditor motivated by the opinion shopping, such as changing the auditor after issuing an unclear report or his disclosure of a reportable event or after the company makes a recent change to the auditor. The audit committee must carry out diligent oversight to ensure that management does not harm the interest of shareholders. An effective audit

committee should control the occurrence of opinion shopping by preventing management's attempts to change the auditor without reasonable justification. The audit committee monitors the appointment of the auditor, which reduces the opportunity to shop the opinion. The audit committee should recommend the appointment of the external auditor and ensure that there are no restrictions or managerial pressure on the auditor, and it must also be aware of any conflicts between management and the auditor (Archambeault and Dezoort, 2001, P33-34).

In light of the foregoing, the researchers see the importance of the audit committee in limiting opinion shopping. Overseeing the change of the auditor is a key function of the audit committee to ensure the integrity of the audit process. The opinion shopping reduces the integrity of the audit process. Therefore, the independent audit committee is expected not to approve dismissals due to opinion shopping. Even if the auditor is dismissed for any reason, it will seek to appoint an independent one.

When the audit committee includes a higher proportion of non-executive directors and financial experts, the probability of issuing a going concern audit report before it fails increases (Wu et al., 2016, P. 240). From an Agency Perspective, it is assumed that the presence of independent directors and financial experts in the audit committee improves the effectiveness of the audit committee in supervising and controlling the financial reporting and external audit (Wu et al., 2016, P. 241).

Corporate governance rules in various countries also highlight the importance of the audit committee in overseeing external audit (Wu et al., 2016, P. 243). According to agency theory a series of mechanisms are proposed to reduce agency problems that arise from the separation of ownership and management. Here, the role of the audit committee is to ensure that the interests of shareholders are protected in relation to the financial reporting. As one of the main tasks of the Audit Committee is to ensure the objectivity and independence of the external auditor, to reduce management pressure on the auditor and to improve the integrity of the financial statements (Wu et al., 2016, P. 243). The presence of an effective audit committee can also reduce the economic bond between the auditor and the client (Tepalagul and Lin, 2015, p. 104).

An audit committee becomes more effective when it includes a larger number of independent members and financial experts. The reason for the concern about the independence of audit committee members is that independent members are free from economic interest and personal bonds with company managers, so they can better exercise their supervisory task. In addition to having a strong motivation to maintain the value of their reputation; Thus, they will have the ability to play the supervisory role effectively, through which the auditor's independence and the quality of the audit report can be preserved from any pressures that the client may impose on the auditor.

Hence, the researchers believe that the presence of strong audit committee works to increase the quality of the audit process by helping the external auditor to maintain his independence and not to respond to any pressures that may be imposed by the management, and thus decrease the opportunity of success of auditor's opinion shopping.

7- Study Methodology

Through this part of the study, the researchers seek to review the kind of the data under study, how to measure variables, explain the study model, sources of data collection, in addition to the statistical methods used, through the following points:

7-1: The study population and sample.

7-2: Measuring tools and study model.

7-3: Results of the applied study.

The researchers can discuss these previous points through the following presentation:

7-1: The study population and sample:

The study population is represented by all non-financial Egyptian-listed companies during the period 2017–2021. So, the study population is represented by 179 companies, (i.e. 895 observations). The researchers also excluded the public sector companies that are audited by the accountability state authority only without the private auditing offices. In addition to that they excluded the companies that lacked the data necessary to measure the study variables and to test the hypotheses, as well as the companies that disclosed the financial statements in a currency other than the Egyptian pound. Following the previous procedures, the final sample of the current study consisted of 91 companies, (i.e. 455 observations), and 6 observations were deleted because they contained abnormal and extremist data that could affect the results' validity. Therefore, the final sample consists of 449 observations.

The research variables were hand-collected from the sampled companies' annual reports, their websites and capital markets' websites. Specifically, data were obtained from the companies' websites and a financial website (i.e. Mubasher). Only official pdf versions of financial statements were considered.

7-2: Measurement Tools and Study Model:

Based on the aforementioned statistical hypotheses presented in the theoretical study of this research, it becomes very important to define the study variables and formulate the study model, as follows:

7-2-1: The independent variables of the study:

The independent variables of interest in the current study are the characteristics of the audit committee.

• Characteristics of the Audit Committee:

The researchers can summarize the variables of the characteristics of the audit committee through the following table (1):

Table (1): Characteristics of the Audit Committee Variables

<u>Variable</u>	<u>symbol</u>	<u>explanation</u>
Audit Committee Independence	ACIND _{it}	equals the percentage of independent audit committee members of company i in period t;
Audit Committee Experience	ACEXP _{it}	equals the percentage of experienced audit committee members of company i in period t;
Audit Committee Size	ACSIZE _{it}	the number of members of the audit committee of company i in period t;
Number of Audit Committee Meetings	ACMEET _{it}	The number of audit committee meetings of company i in period t.

7-2-2: The dependent Variable of the Study:

Lennox (2000) argues that non-switching companies could be involved in opinion shopping, as well. That is, it is definitely possible that non-switching companies would rather choose to stay with incumbent auditors because new auditors are more likely to issue an unqualified opinion. So, the current study will depend on Lennox (2000) model to predict opinion shopping variable.

The dependent variable of the study is the external auditor's opinion shopping, and can be measured by running the Probit Regression model, which is a probabilistic model for the opinion of the audit report that tests whether there are differences in the report between the incumbent auditor and the successor auditor, and the model takes the following form:

$$M_{i,t} = \gamma_0 + \gamma_1 M_{i,t-1} + \gamma_2 X_{i,t} + \gamma_3 S_{i,t} + \gamma_4 S_{i,t} * M_{i,t-1} + \gamma_5 S_{i,t} * X_{i,t-1} + \varepsilon \quad (1)$$

Whereas:

$M_{i,t}$ = indicates the type of auditor's report, which is a dummy variable that takes the value of 1 if there is a modified report for company (i) in year (t), and the value of zero otherwise;

$M_{i,t-1}$ = indicates the previous year's report type, a dummy variable that takes the value 1 if there is a modified report for company (i) in the year (t-1), and the value 0 otherwise;

$S_{i,t}$ = represents the change decision, which is a dummy variable that takes the value 1 in the case of changing the auditor and appointing a new auditor to company (i) in year t; and zero if the auditor is retained;

$X_{i,t}$ = It includes control variables, which are related to the modified opinion of the external auditor, such as: profitability, liquidity, company leverage, company size, and growth, which are measured as follows:

Where:

- **Profitability (ROA_{it}):** net income divided by total assets.
- **Liquidity (CR_{it}):** equal to current assets divided by current liabilities.
- **Company leverage (LEV_{it}):** equal to total liabilities divided by total assets.

- **Company size (SIZE_{it}):** measured using the natural logarithm of the company's total assets *i*.
- **Growth of the company (GROWTH_{it}):** represents the annual change in total assets (the annual percentage change in total assets).

Running this model on the study sample leads to one of two probabilities:

- **The first probability:** is the probability that company (*i*) will obtain a modified report if the incumbent auditor is retained [$\Pr^{\wedge}(\mu_{i,t}^0 = 1)$]
- **The second possibility:** is the probability that company (*i*) obtain a modified report if a new auditor is appointed [$\Pr^{\wedge}(\mu_{i,t}^1 = 1)$]

Accordingly, Company (*i*) is in a state of auditor opinion shopping if:

$$[\Pr^{\wedge}(\mu_{i,t}^0 = 1) > \Pr^{\wedge}(\mu_{i,t}^1 = 1)]$$

This is done by putting pressure on the incumbent auditor to change his opinion, which is called internal opinion shopping for, or by dismissing incumbent auditor and appointing a new one, and here it is called external opinion shopping.

And the company (*i*) **is not** in a state of opinion shopping when:

$$[\Pr^{\wedge}(\mu_{i,t}^0 = 1) \leq \Pr^{\wedge}(\mu_{i,t}^1 = 1)]$$

Where, it is less likely that the incumbent auditor will issue a modified report so Company *i* will not have to pressure the incumbent auditor nor need to change him in order to obtain a clean report.

Thus, the operation of this model aims to predict the difference between the probabilities of opinion and to test whether companies depend in making the switch decision on a major question represented in: Does the incumbent auditor or the new auditor increase the likelihood of issuing a clean report?

7-2-3: Control Variables:

Within the scope of the current study, the researchers can clarify the variables controlling the relationship through the following table (2):

Table (2): control variables

Variable	Symbol	explanation
Audit firm size	AUDSIZE _{it}	A dummy variable that takes the value of 1 if the audit office belongs to one of the big 4 auditing firms, and 0 otherwise.
Profitability	ROA _{it}	equals net income of company <i>i</i> in year <i>t</i> divided by its total assets;
liquidity	CR _{it}	equals the current assets of company <i>i</i> in year <i>t</i> divided by the current liabilities;
Company leverage	LEV _{it}	equals the total liabilities of company <i>i</i> in year <i>t</i> divided by the total assets;
Firm size	SIZE _{it}	It is measured in natural logarithm of the total assets of company <i>i</i> in year <i>t</i>
loss	LOSS _{it}	A dummy variable that takes the value of 1 if company <i>i</i> had a loss in year <i>t</i> , and the value of zero otherwise

7-2-4: The study model:

In the context of analyzing the study variables and formulating statistical hypotheses, the researchers can formulate the main study model through the following:

The statistical hypothesis test model for the study:

The main hypothesis of the study predicts the impact of the audit committee characteristics on the auditor's opinion shopping. Then the researchers can formulate the statistical model to test the main hypothesis as follows:

$$OS_{i,t} = \beta_0 + \beta_1 ACIND_{it} + \beta_2 ACEXP_{it} + \beta_3 ACSIZE_{it} + \beta_4 ACMEET_{it} + \beta_5 AUDSIZE_{it} + \beta_6 ROA_{it} + \beta_7 LOSS_{it} + \beta_8 LEV_{it} + \beta_9 CR_{it} + \beta_{10} FSIZE_{it} + \epsilon_{i,t} \quad (2)$$

Whereas:

$OS_{i,t}$ = a dummy variable that takes the value of 1 in the case of auditor opinion shopping, and the value of 0 otherwise; The rest of the variables have been shown above.

Within the framework of the division of the first statistical hypothesis of the study, the researchers can re-divide the test model of the first statistical hypothesis of the study, in addition to that this division will allow avoiding the problem of double linearity (if any), as follows:

- **(H1-1) Model:**

$$OS_{i,t} = \beta_0 + \beta_1 ACIND_{it} + \beta_2 AUDSIZE_{it} + \beta_3 ROA_{it} + \beta_4 LOSS_{it} + \beta_5 LEV_{it} + \beta_6 CR_{it} + \beta_7 FSIZE_{it} + \epsilon_{i,t} \quad (2-1)$$

- **(H1-2) Model:**

$$OS_{i,t} = \beta_0 + \beta_1 ACEXP_{it} + \beta_2 AUDSIZE_{it} + \beta_3 ROA_{it} + \beta_4 LOSS_{it} + \beta_5 LEV_{it} + \beta_6 CR_{it} + \beta_7 FSIZE_{it} + \epsilon_{i,t} \quad (2-2)$$

- **(H1-3) Model:**

$$OS_{i,t} = \beta_0 + \beta_1 ACSIZE_{it} + \beta_2 AUDSIZE_{it} + \beta_3 ROA_{it} + \beta_4 LOSS_{it} + \beta_5 LEV_{it} + \beta_6 CR_{it} + \beta_7 FSIZE_{it} + \epsilon_{i,t} \quad (2-3)$$

- **(H1-4) Model:**

$$OS_{i,t} = \beta_0 + \beta_1 ACMEET_{it} + \beta_2 AUDSIZE_{it} + \beta_3 ROA_{it} + \beta_4 LOSS_{it} + \beta_5 LEV_{it} + \beta_6 CR_{it} + \beta_7 FSIZE_{it} + \epsilon_{i,t} \quad (2-4)$$

7-3 The Results of the Applied Study

The researchers can review this point through clarifying: Results of the descriptive analysis, Pearson correlation matrix, The results of the statistical hypothesis tests of the study, Discussion and interpretation of the results of the study.

7-3-1 Results of the Descriptive Analysis:

Table (3) shows the results of the descriptive analysis of the study variables as follows:

Table (3): Descriptive Statistics

	Minimum	Maximum	Mean	Std. Deviation	Skewness	Kurtosis
OS_{it}	0.000	1.000	0.236	0.425	1.247	-0.447
$ACIND_{it}$	0.000	1.000	0.378	0.327	0.258	-1.160

	Minimum	Maximum	Mean	Std. Deviation	Skewness	Kurtosis
ACEXP _{it}	0.000	1.000	0.375	0.323	0.313	-1.054
ACSIZE _{it}	0.000	8.000	3.483	1.126	1.389	4.140
ACMEET _{it}	0.000	16.000	4.927	2.770	1.877	3.858
AUDSIZE _{it}	0.000	1.000	0.272	0.445	1.030	-0.944
ROA _{it}	-1.679	0.694	0.044	0.142	-1.641	6.136
LOSS _{it}	0.000	1.000	0.223	0.417	1.337	-0.212
LEV _{it}	0.003	3.177	0.455	0.276	2.544	2.349
CR _{it}	0.109	678.363	4.853	32.504	1.983	4.068
FSIZE _{it}	7.205	10.831	8.929	0.748	0.086	-0.627
Valid N (listwise)						

Based on the previous presentation of the descriptive statistics table (3), the researchers can clarify some important notes as follows:

First, the arithmetic mean of the OS variable related to the auditor's opinion shopping is 23.6%, which indicates that 23.6% of the observations included in the sample shop the auditor's opinion, which is equivalent to 106 observations out of a total of 449, which indicates that there is a large percentage of companies does this practice in the Egyptian stock market.

Secondly, with regard to the variables related to the characteristics of the audit committee, the researchers find that the arithmetic mean of the audit committee's independence is 37.8%, and that the audit committee's financial experience is 37.5%, which indicates the reasonable availability of these two characteristics. As for the size of the audit committee and the number of meetings of the audit committee, it is noted in the middle of the minimum and maximum limits, as their arithmetic mean was 3.5 and 4.9, respectively. Thus, the researchers conclude that the audit committee characteristics are available in the study sample.

7-3-2: Pearson Correlation Matrix:

It is clear from the results shown in table (4) that there is an inverse relationship between the characteristics of the audit committees and the auditor's opinion shopping in general, with the exception of the number of meetings of the audit committee, which indicates that the high level of the characteristics of the audit committees leads to a low level of the auditor's opinion shopping.

Table (4): Pearson Correlation Matrix

	OS _{it}	ACIND _{it}	ACEXP _{it}	ACSIZE _{it}	ACMEET _{it}	AUDSIZE _{it}	ROA _{it}	LOSS _{it}	LEV _{it}	CR _{it}	FSIZE _{it}
OS _{it}	1										
ACIND _{it}	-.173**	1									
ACEXP _{it}	-.152**	.164**	1								
ACSIZE _{it}	-.010	-.075	-.099*	1							
ACMEET _{it}	.034	-.151**	-.163**	.324**	1						
AUDSIZE _{it}	-.163**	.265**	.232**	-.133**	-.043	1					
ROA _{it}	-.173**	-.093*	-.066	.122**	.233**	.031	1				
LOSS _{it}	.232**	-.019	-.047	-.078	-.197**	-.098*	-.473**	1			
LEV _{it}	.112*	-.029	-.029	-.107*	-.125**	.230**	-.471**	.077	1		
CR _{it}	.064	.025	.017	.030	-.005	.044	-.031	.121**	-.041	1	
FSIZE _{it}	.010	.086	.062	.148**	.113*	.348**	.183**	-.223**	.309*	-.027	1

7-3-3: The results of the statistical hypothesis tests of the study:

In this part of the study, the researchers will conduct a logistic regression analysis to test the main statistical hypothesis of the study by running the statistical hypothesis test model (2) for analyzing the relationship between the characteristics of the audit committee and auditor's opinion shopping extracted from operating model (1), in order to reach the nature of the relationship between the independent variables and the dependent variable in light of the level of significance of the variables. The results of the statistical analysis are shown in the following table (5):

Table (5): Results of logistic regression (testing the first statistical hypothesis of the study)

Parameter	Panel A: H1-1						Panel B: H1-2						Panel C: H1-3						
	B	Wald	Sig.	Exp(B)	Predicted sign	Actual Result	B	Wald	Sig.	Exp(B)	Predicted sign	Actual Result	B	Wald	Sig.	Exp(B)	Predicted sign	Actual Result	
ACINDit	-1.173	8.395	0.004	0.309	-	-	###	###	###	###	###	###	###	###	###	###	###	###	###
ACEXPit	###	###	###	###	###	###	-0.941	5.460	0.019	0.390	-	-	###	###	###	###	###	###	###
ACSIZEit	###	###	###	###	###	###	###	###	###	###	###	###	-0.066	0.386	0.534	0.936	-	NS	
ACMEETit	###	###	###	###	###	###	###	###	###	###	###	###	###	###	###	###	###	###	###
AUDSIZEit	-1.095	9.907	0.002	0.335	-	-	-1.168	11.352	0.001	0.311	-	-	-1.390	15.989	0.000	0.249	-	-	
ROAit	-1.610	1.383	0.240	0.200	-	NS	-1.332	1.004	0.316	0.264	-	NS	-0.776	0.401	0.527	0.460	-	NS	
LOSSit	1.029	10.436	0.001	2.799	+	+	1.027	10.603	0.001	2.794	+	+	1.080	12.311	0.000	2.946	+	+	
LEVit	0.397	0.451	0.502	1.488	+	NS	0.529	0.816	0.366	1.696	+	NS	0.755	1.713	0.191	2.127	+	NS	
CRit	0.004	0.970	0.325	1.004	-	NS	0.004	0.988	0.320	1.004	-	NS	0.004	1.030	0.310	1.004	-	NS	
FSIZEit	0.459	5.341	0.021	1.582	-	+	0.432	4.823	0.028	1.541	-	+	0.430	4.558	0.033	1.538	-	+	
Constant	-5.060	9.118	0.003	0.006		+	-4.958	8.846	0.003	0.007		-	-5.125	9.576	0.002	0.006		-	
<i>Nagelkerke R Square</i>	17.30%						16.40%						14.80%						
<i>N</i>	449						449						449						

Cont. Table No. (5): Results of logistic regression (testing the first statistical hypothesis of the study)

Parameter	Panel D: H1-4						Panel E: Pooled Model H1					
	B	Wald	Sig.	Exp(B)	Predicted sign	Actual Result	B	Wald	Sig.	Exp(B)	Predicted sign	Actual Result
ACINDit	###	###	###	###	###	###	-4.803	6.127	0.013	0.008	-	-
ACEXPit	###	###	###	###	###	###	3.773	3.970	0.046	43.506	-	+
ACSIZEit	###	###	###	###	###	###	-0.130	1.250	0.264	0.878	-	NS
ACMEETit	0.071	2.747	0.097	1.074	-	NS	0.077	2.861	0.091	1.080	-	NS
AUDSIZEit	-1.304	14.610	0.000	0.271	-	-	-1.081	9.193	0.002	0.339	-	-
ROAit	-1.021	0.629	0.428	0.360	-	NS	-2.209	2.328	0.127	0.110	-	NS
LOSSit	1.140	13.142	0.000	3.127	+	+	1.110	11.412	0.001	3.034	+	+
LEVit	0.858	2.205	0.138	2.358	+	NS	0.232	0.142	0.706	1.260	+	NS
CRit	0.004	0.916	0.338	1.004	-	NS	0.004	0.934	0.334	1.004	-	NS
FSIZEit	0.369	3.514	0.061	1.447	-	NS	0.523	6.129	0.013	1.687	-	+
Constant	-5.234	9.810	0.002	0.005	-	-	-5.554	10.455	0.001	0.004	-	-
<i>Nagelkerke R Square</i>	15.50%						19.30%					
<i>N</i>	449						449					

From the results of Table No. (5) in the first column (Panel A), the researchers find that the explanatory power of the model is 17.3%, meaning that the independent variable related to the independence of the audit committee and other control variables explain 17.3% of the change in the dependent variable of auditor's opinion shopping. The significance of the independent variable related to the independence of the audit committee is also shown, and it has a negative sign, which indicates an inverse relationship between the independence of the audit committee and the auditor's opinion shopping. That is, the existence of a strong independence of the audit committee leads to limiting the shopping of the opinion of the external auditor. It is also clear the significance of some of the control variables related to the size of the auditing firm, the presence of loss, and the size of the client's company, while the first has a negative sign indicating an inverse relationship between it and shopping for the auditor's opinion, meaning that the audit office's affiliation with one of the big 4 auditing firms lead to limiting shopping for the auditor's opinion, while the latter two carry a positive sign, that is, the presence of loss and the increase in the size of the client's company leads to an increase in the level of shopping for the opinion of the external auditor. Therefore, the researchers can accept the first sub-hypothesis in the following alternative form:

The first sub-hypothesis (H₁₋₁): There is a significant negative effect of the audit committee's independence on auditor's opinion shopping.

In the second column (Panel B) of the results of Table No. (5), the researchers find that the explanatory power of the model is 16.4%, meaning that the independent variable related to the experience of the audit committee and other control variables explain 16.4% of the change in the dependent variable of external auditor's opinion shopping. The significance of the independent variable of the audit committee's experience is also evident and has a negative sign, which indicates an inverse relationship between the audit committee's experience and the auditor's opinion shopping. In other words, the increase in the percentage of experts in the audit committee leads to limiting auditor's opinion shopping. Therefore, the researchers can accept the second sub-hypothesis in the following alternative form:

The second sub-hypothesis (H₁₋₂): There is a significant negative effect of the experience of the audit committee on auditor's opinion.

In the third column (Panel C) of the results of Table No. (5), the researchers find that the explanatory power of the model is 14.8%, meaning that the independent variable related to the size of the audit committee and other control variables explain 14.8% of the change in the dependent variable of auditor's opinion shopping. It also turns out that the independent variable of the audit committee size is not significant, which indicates that there is no significant relationship between the size of the audit committee and the auditor's opinion shopping. That is, the increase in the size of the audit committee will not affect the limitation of shopping for the opinion of the

external auditor. Therefore, the researchers can accept the third sub-hypothesis in the following null form:

The third sub-hypothesis (H_{1.3}): There is no significant effect of the size of the audit committee on auditor's opinion shopping.

In the fourth column (Panel D) of the results of Table No. (5), the researchers find that the explanatory power of the model is 15.5%, meaning that the independent variable related to the number of audit committee meetings and other control variables explain 15.5% of the change in the dependent variable of auditor's opinion shopping. It also appears that the independent variable of the number of audit committee meetings is not significant, which indicates that there is no significant relationship between the number of audit committee meetings and shopping for the auditor's opinion. That is, the increase in the number of audit committee meetings will not affect the limitation of the external auditor's opinion shopping. Therefore, the researchers can accept the fourth sub-hypothesis in the following null form:

The fourth sub-hypothesis (H₁₋₄): There is no significant effect of the number of audit committee meetings on shopping for the opinion of the external auditor.

With regard to the fifth column (Panel E) of the results of the combined model, the researchers find that the explanatory power of the model is 19.30%, meaning that the independent variables related to the characteristics of the audit committee (the independence of the audit committee, the experience of the audit committee, the size of the audit committee, and the number of meetings of the audit committee) and other control variables explain 19.30% of the change in shopping for the opinion of the external auditor. It is also found that independence and financial expertise are significant, and they have a negative sign, meaning that an increase in both leads to limiting auditor's opinion shopping, while it is found that the size of audit committee and the number of its meetings are not significant, meaning that they do not have any significant effect on the auditor's opinion shopping. It also shows the significance of the same control variables in the sub-hypotheses. As such, the results of the sub-hypothesis tests agree with the combined model. Then the researchers **can partially** accept the main statistical hypothesis in the following alternative form:

H₁: There is a significant negative effect of the characteristics of the audit committee on auditor's opinion shopping.

7-3-4 Discussion and interpretation of results:

In the light of the results of testing the hypotheses of the study, it is clear that there is a significant relationship between two of audit committee characteristics and auditor's opinion shopping, which are the independence and the experience of the audit committee. On the other hand, it was found that there is no significant relationship between both audit committee size and audit committee meetings and opinion shopping. Some of the control

variables related to the size of the audit firm, the presence of loss, and the size of the client's company were also found to be significant. Below is an interpretation of these variables.

Audit Committee Independence Variable: The results of this study demonstrated the existence of a significant inverse relationship between the independence of the audit committee and auditor's opinion shopping. This result agrees with the researchers' expectations. Where the Audit Committee works to recommend the appointment of the external auditor as well as his qualifications, competence and independence, therefore in the event of a high percentage of independent members, it will recommend the appointment of an independent and competent external auditor. Since the independent members are not linked to the company except by their membership in the audit committee or their membership in the board of directors, and therefore in order to preserve their reputation, their main interest will be directed to tighten control over the process of preparing the financial statements. Any opportunistic behavior by management aimed at putting pressure on the external auditor and affecting his independence will be prevented.

Audit Committee Experience Variable: The results of the current study proved that there is an inverse significant relationship between the experience of the Audit Committee and auditor's opinion shopping. In other words, the high level of experience of the audit committee leads to limiting auditor's opinion shopping. In addition, the presence of a high percentage of experienced members of the Audit Committee works to reduce cases of manipulation in the financial statements, as among the functions of the Audit Committee is to study the financial statements before presenting them to the Board of Directors, as well as studying accounting policies and expressing their opinion and recommendations regarding them. Thus, the availability of expertise among its members will help in fulfilling this responsibility effectively. Thus, the experience of the audit committee will help in achieving effective supervision of the financial reporting process, and thus prevent any opportunistic behavior by the management for the purpose of putting pressure on the external auditor, and among these opportunistic actions is the practice of auditor's opinion shopping.

The size of the audit committee variable: The results of the current study proved that there is no significant relationship between the size of the audit committee and shopping for the auditor's opinion. This can be explained by the fact that the number of members in itself will not be an influencing factor on opinion shopping, but what really has an impact is the educational qualification and practical experience that gives them the ability to make the right decisions that limit the opportunistic actions of the management and help maintain the level of independence of the external auditor and thus limit auditor's opinion shopping.

The variable of number of audit committee meetings: The results of the current study proved that there is no significant relationship between the

number of audit committee meetings and shopping for the auditor's opinion. The reason for this may be because the number of meetings in itself does not affect opinion shopping, but what really has an impact is the quality of those meetings and the results reached, which depend mainly on the independence and competence of the audit committee members.

As for the control variables, it is clear that some of the control variables related to the size of the audit firm, the presence of loss, and the size of the client's company are significant in influencing the shopping of the auditor's opinion. Where the first has a negative sign, which indicates the existence of an inverse relationship between it and shopping for the auditor's opinion, that is, the audit firm's affiliation with one of the big 4 audit firms leads to limiting the shopping for the auditor's opinion, and the reason for this is due to the keenness of big audit offices to maintain their reputation and adhere to the rules of the code of ethics, and at the same time they audit many clients, which raises its level of experience and reduces its economic dependence on one client, which leads to failure to respond to management pressures. The loss variable has a positive sign, meaning that the existence of a loss leads to an increase in auditor's opinion shopping, as the management tries to improve the company's image, which prompts it to search for a clean report, either by pressuring on the incumbent auditor or changing him and replacing with a new auditor in the hope of obtaining a clean report, which would raise the auditor's opinion shopping level. The variable of the size of the client's company has a positive sign, meaning that the large size of the client's company leads to an increase in the level of shopping for the opinion of the external auditor. By increasing the level of fees, and thus increasing the shopping for the auditor's opinion.

8- Conclusions, limitations, and opportunities for further research:

The audit process is the main support for investors' confidence in financial and non-financial information, and the auditor's independence is the most important characteristic of this process. Companies tend to shop opinion to obtain a clean report that enhances the company's value in the stock market. Because of the potential impact of the auditor's opinion shopping practice on the independence of the auditor and the crucial role played by the audit committee in maintaining this independence, it was necessary to study the impact of audit committee characteristics on this practice. Especially since there is a dearth of Arab, and especially Egyptian, research on this subject despite its importance, within the limits of the researcher's knowledge.

The descriptive results illustrate that 23.6% of the observations included in the sample shop the auditor's opinion, which is equivalent to 106 observations out of a total of 449, which indicates that there is a large percentage of companies does this practice in the Egyptian stock market. Using a probit regression model, the researchers predict the opinion shopping variable. Using logistic regression model, the researchers found the following

results. First, there is a significant inverse relationship between both of the independence of the audit committee and its experience and auditor's opinion shopping. Second, there is no significant relationship between both of the size of the audit committee and the number of its meetings and auditor's opinion shopping. Third, some of the control variables related to the size of the audit firm, the presence of loss, and the size of the client's company are significant in influencing the auditor's opinion shopping.

The current study suffers from some limitations. First, the research, in its applied aspect, is limited to the corporations listed on the Egyptian Stock Exchange without the rest of the companies. Second, the study is limited to the application of non-financial companies listed in the Egyptian stock market, and financial companies were excluded. Third, the study period is limited to the period from 2017 to 2021. Fourth, the current study concentrates mainly on one element of corporate governance which is audit committee. Future research can examine other elements of corporate governance like board of directors and ownership structure. Also, future research can enlarge the sample to include financial institutions.

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