Corporate Governance and Audit Qualifications: Empirical study

from Saudi Arabia and Oman

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from Saudi Arabia and Oman

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Abstract

Since last decade corporate governance has been the focus of many studies worldwide. This stems from the belief that the better governance of the firms lead to more healthy corporations. Prior studies investigated many issues that could be affected by corporate governance of the firms such as performance, earnings management, transparency and disclosure. The current study will contribute to the growing literature in this field of study and mainly focusing on the impact of corporate governance on audit qualifications in Gulf countries, specifically, Oman and Saudi Arabia. The notion behind corporate governance could be extended also to study its impact on the role of auditor. The audit report is considered as a signal to the users of financial information disseminated in that report. Therefore, some argue that occurrence of audit qualifications is directly related to audit quality. In such a way the incentives that may motivate the auditor to express his opinion in a qualified manner could vary. However, it is contended that good corporate governance would lead to enhance the auditor role and mitigate the pressure on him by management and thus he will be more likely to issue a qualified opinion whenever certain circumstances exist. As many studies investigated the issue in different counties, this study will examine the impact of corporate governance mechanisms namely, independence, CEO duality, Board size, board meeting, audit committee independence and meeting on audit qualifications following the enactment the code of corporate governance in 2003 in Oman and in 2006 for Saudi listed firms. This result of study shows that corporate governance mechanisms have no impact on audit qualifications accept for the board size which shows that audit qualifications and board size are associated negatively. The results of study revealed that corporate governance in Gulf countries is a matter of illusion and the efforts should be directed towards enhancing the corporate governance in order to grasp the benefits behind the enactment of corporate governance worldwide.
I wish to dedicate this project to my beloved parents who taught me never to give up and whose influence has been lifelong and has shaped my aspirations and goals. I also dedicate this project to my beloved wife, my children, my family and the Muslim Ummah.
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Alfahad Mohammed Nasser

April 2010
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CHAPTER ONE

INTRODUCTION

1.0 BACKGROUND OF THE STUDY

The debacle of audit quality in auditing is not a new issue among the auditing and accounting profession as well as the users of financial statements. The issue has been debated since the 1970s until today and is considered among the unresolved issue in the profession. The debate stem from the notion that the usefulness and reliability of the audited financial statements depend on the quality of audit and the integrity of the auditor. One of the measures of audit quality is the auditor’s report which contains important information for stakeholders about the quality of the financial statements as well as some indications towards the company’s performance (Sucher, 1998). While audit quality is difficult to measure, the extent of auditor willingness to issue qualified opinion often provides some indication of audit quality (Chen et. al., 2005).

Qualified audit opinion is one type of auditor report that conveys some bad news related to the company. This type of report is considered a warning to users and may affect the company's reputation because it is the only decision made by auditor that is objectively observable by the public. Usually, when the independent auditor issues this type of report to shareholders and other users, it indicates that the managers' accounts may be, in some respect, not true and fair view which in turn may reflect that some aspects of stewardship is being brought into question.
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BIBLIOGRAPHY


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