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THE EFFECT OF AUDIT QUALITY AND OWNERSHIP CONCENTRATION ON AUDIT OPINION: EMPIRICAL EVIDENCE FROM EGYPT

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Abstract: Audit opinion plays a crucial role in influencing the decisions of various stakeholders. Previous studies have explored the factors impacting an auditor's opinion regarding the financial statement presentation. This study aims to investigate the influence of audit quality and ownership concentration on audit opinion in Egypt. Utilizing data from 438 firm-year observations from the Egyptian Stock Exchange (EGX) between 2015 and 2019, the regression outcomes indicate that both audit quality and ownership concentration significantly contribute to the issuance of clean audit opinions. These findings are particularly valuable to investors, creditors, company executives, auditors, and researchers engaged in corporate governance and auditing studies.

Keywords: Audit Opinion, Ownership Concentration, Audit Quality, Egyp

1. INTRODUCTION

The relationship between audit quality and audit opinion is a subject of considerable importance in auditing studies. Audit quality encompasses the general efficiency and trustworthiness of an audit, whereas audit opinion signifies the auditors' assessment or verdict on the accuracy of financial statements. The caliber of an audit can directly shape the auditor's view on the

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financial statements, subsequently affecting stakeholders' trust in the presented information's dependability.

On the other hand, ownership concentration refers to the degree of control held by a small number of shareholders or entities over a company's shares, while audit opinion represents the judgment or conclusion expressed by auditors regarding the fairness of financial statements. The concentration of ownership can potentially influence the audit process and the opinions expressed by auditors. Also, the relationship between ownership concentration and audit opinion requires more investigation, especially in the developing markets, where investors rely to a great extent on the auditors' reports to take their decisions, and where ownership concentration is common.

Understanding the relationship between audit quality and ownership concentration on one side and audit opinion on the other side contributes to enhancing the effectiveness and reliability of audits, which in turn reinforces stakeholders' confidence in financial reporting. This research suggests that ownership concentration can influence auditor behavior and the issuance of clean audit opinions. Furthermore, ownership concentration has been linked to the concentration of corporate power and its potential impact on the global economy (Muhammad and Yang, 2022). The rise of multinational corporations and the dominance of large corporations in specific sectors have solidified ownership concentration. This concentration of ownership can have implications for the governance and accountability of companies. In the context of audit opinions, concentrated ownership may influence the decision-making process and the expectations placed on auditors.

The aim of this study is to investigate the impact of audit quality and ownership concentration on audit opinion within an emerging market, specifically Egypt. This research holds significant value as it focuses on two critical factors influencing the auditor opinion. Moreover, the study is conducted in Egypt, a developing nation and emerging market, offering promising investment prospects for numerous investors who heavily rely on audited financial statements to make informed decisions.

This study captures the attention of academics, company executives, investors, stakeholders, and auditors. To fulfil the research objective, the rest of the paper will be organized follows: Section 2 offers a comprehensive review of the literature, covering topics such as audit quality, audit opinion, and ownership concentration. In Section 3, the methodology and results are presented in detail. Lastly, Section 4 addresses the conclusions and implications for future research.

2. LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

2.1. Audit Quality

Audit quality has been described differently by academics and professional bodies. It is often characterized as the probability that an auditor will detect and report significant errors or misstatements in financial statements (DeAngelo, 1981). This definition underscores the critical role of the auditor's expertise and judgment during the audit. The goal of ensuring audit quality is to boost the trustworthiness of financial statements, reducing the risk of providing misleading information to financial statement users, especially investors (Mgbame *et al.*, 2012).

Several factors determine audit quality, including auditor independence, expertise, experience, professional skepticism, audit firm size, and audit fee (Beasley et al, 2009; Francis & Yu, 2009; Simunic, 1984). Auditor independence is a critical factor in ensuring audit quality. Independence ensures that auditors can exercise professional judgment and remain impartial in their assessments of financial statements (AICPA, 2019). The Sarbanes-Oxley Act of 2002 (SOX) introduced several measures to improve auditor independence, including the prohibition of certain non-audit services and the establishing of the Public Company Accounting Oversight Board (PCAOB) to oversee audit firms (Brazel *et al.*, 2009). Auditor expertise and experience also play a vital role in audit quality. Experienced auditors are more likely to identify potential misstatements and assess the risk of material misstatement accurately (Francis & Yu, 2009).

Furthermore, auditors with specialized industry knowledge are better equipped to understand the complexities of a client's business and identify potential fraud risks. Professional skepticism is an essential attribute of auditors that ensures they approach an audit with a questioning mind and are alert to potential misstatements (AICPA, 2018). Skeptical auditors are more likely to challenge management's assertions and identify potential fraud risks (Loebbecke *et al.*, 1989). Audit firm size is also a factor in audit quality. Large audit firms have more extensive resources, including specialized staff, technology, and quality control systems, which allow them to conduct audits more efficiently and effectively (Francis & Yu, 2009). Finally, audit fee is a factor in audit quality. Higher audit fees are generally associated with higher audit quality, as they provide auditors with the resources necessary to conduct a thorough and comprehensive audit (Francis & Yu, 2009)

DeAngelo (1981) states that evaluating audit quality is a multifaceted and intricate task. Several metrics have been suggested to assess audit quality. One

such metric is the reputation of the audit firm: A reputable audit firm is more likely to deliver high-quality audits, bolstering public trust in financial reporting. Additionally, audit fees can serve as an indicator of audit quality. Elevated audit fees might signify a superior audit, given the extra resources and effort required for a thorough audit (Francis & Yu, 2009). Another measure is the audit report lag, which is the duration between a client's fiscal year-end and the audit report issuance, can reflect audit quality. A shorter lag could suggest a higher quality audit due to the prompt completion of the audit by the auditor. Lastly, audit inspection outcomes: These results offer insights into audit quality. Regulatory bodies like the Public Company Accounting Oversight Board (PCAOB) in the US, along with counterparts in other countries, periodically inspect audit firms to assess their adherence to professional standards and pinpoint shortcomings in audit quality.

2.2. Ownership Concentration

Corporate governance places an emphasis on the principles and concepts of accountability, transparency, and independence as well as supporting information disclosure for all parties, which helps to reduce the number of opportunities that a company's management has to conduct fraud in order to grow their own wealth and prosperity (Widani & Bernawati, 2020). Omura (2020, p. 4) defined corporate governance as "a structure for transparent, fair, timely and decisive decision-making by companies, with due attention to the needs and perspectives of shareholders and also customers, employees, and local communities".

According to Doig (1995), the goal of good corporate governance is to prevent the misuse of company resources for the benefit of personal or group interests, it can provide appropriate incentives for management and shareholders to achieve goals that are in the interests of the company as well as the shareholders and it can enable effective monitoring, which encourages companies to efficiently use their resources.

It is worth noting that one of the most significant mechanisms of corporate governance that has an impact on a company's performance is its ownership structure. A company's ownership structure describes how its shares are distributed among its shareholders, and it includes the different types of shareholders and the concentration of ownership (Nashier & Gupta, 2023). It was mentioned by Widani and Bernawati (2020) that the equally dispersed concentration of ownership has the potential to strengthen the company's corporate governance, which will in turn drive businesses to raise the quality

and caliber of their financial statements.

Moreover, a substantial internal governance mechanism that allows owners to limitation and impact the management of the company in order to safeguard their concerns is ownership concentration (Madhani, 2016). It can be explained as the cumulative percentage of a company's remaining common shares that are held by blockholders who collectively own a lowest amount of 5% of the company's total shares (Badawy, 2020). Due to the fact that concentrated ownership provides an effective monitoring mechanism on its own, therefore, the demand for transparency in the form of high-quality audit and assurance engagements is less of a concern in businesses with this type of ownership structure (Buertey, 2021).

The degree of concentration of ownership in any company is the factor that defines the power distribution among the company's shareholders and its management, thus it is a measurement of the power and authority that shareholders, also known as principals, have over the management, known as agents (Su *et al.*, 2008). Additionally, when there is a concentration of ownership, there is also a concentration of power in the hands of a dominating shareholder and this results in greater monitoring, however it also reduces the value that other controls provide, such as the board of directors (Bozec & Bozec, 2007; Bozec & Dia, 2015). According to Heryana and Lathif (2019) the ownership of a company's shares is considered to be concentrated when the majority of those shares are held by a minor number of shareholders, giving those groups a relatively large number of shares in comparison to those held by other shareholders.

It is worth mentioning that ownership concentration acts as a replacement for the inadequate legal protection afforded to shareholders (Burkart & Panunzi, 2006). It is possible that the monitoring role of boards in companies with high levels of ownership concentration would become less essential over time, the reason behind this is that ownership concentration reduces the likelihood of firms experiencing agency difficulties, and as a result, corporate governance practices are not heavily relied upon by those companies (Gaur *et al.*, 2015).

When there is a high level of concentration of ownership, there is more possibility that there would be less voluntarily disclosed information because shareholders may prioritize internal communication channels as a way of receiving information (Nekhili *et al.*, 2012). Furthermore, Nekhili *et al.* (2012) stated that when a company has a high level of ownership concentration, the managers would have less incentives to make voluntary disclosures.

It is argued that the existence of major shareholders who have a strong motivation to monitor and discipline the management of the business can assist in preventing the conventional free-rider problem that is related to the dispersion of ownership, which in turn can improve the performance of the organization (Iwasaki & Mizobata, 2020).

There are different forms of ownership. For instance, family ownership, institutional ownership, government ownership, and foreign ownership. To begin with family ownership, according to Alhababsah (2019), in businesses that are owned by a family, executive roles are frequently taken by members of the family, which increases the likelihood of obtaining personal gains and reducing the interests of other shareholders. This kind of ownership, according to Minichilli *et al.* (2016), would contribute to the overall expertise of the ownership coalition, which results in increasing the monitoring capability and a reduction in the agency costs. Also, it was mentioned by Minichilli *et al.* (2016) that the effect of the blockholder on the most significant strategic decisions would diminish the contribution of minority owners, which may lower the likelihood of owner-manager conflicts in businesses with high levels of family concentration.

Secondly, institutional ownership. The phrase "institutional ownership" refers to the ownership of a company's shares by institutions such as financial institutions, securities firms, non-financial institutions, investment trusts, special interests, and pension funds (Chowdhury & Michael Geringer, 2001; Sulimany, 2024). Institutional investors are vital to the process of improving corporate governance systems and they have powerful incentives and the ability to do effective monitoring, which allows them to compel managers to strive toward enhancing the wealth of shareholders (Alhababsah, 2019). According to Aksoy *et al.* (2021), institutional investors have more resources, more experience, and more sophisticated instruments at their disposal than individual investors have. As a result of their responsibility to other investors, institutional investors are required to adhere to stringent rules, also they have the potential to compel management to act in a manner that is beneficial to shareholders. Adding to this, institutional investors have the option of directly monitoring the firms in which they invest or of engaging in active trading.

Thirdly, government ownership. It is a distinct form of ownership due to the fact that representatives of the government are not the actual owners of the property and do not have cash flow rights for themselves (Niemi, 2005). Yet, the government officials have an interest in either boosting the credibility of financial statements or access foreign markets to raise money as well as offering

good indicators of their responsibilities to the market-oriented policies and these goals can be accomplished by increasing the transparency and credibility of the reporting process (Ben-Nasr *et al.*, 2015). Therefore, failing to effectively monitor management might damage their reputation, they have an incentive to do so (Niemi, 2005; Alhababsah, 2019).

Finally, foreign ownership. Due to the fact that the foreign investors are located in a variety of locations, they have a higher demand for the level of information provided to them on the management of their investments. They have a long-term perspective on investing, and as a result, they do not make significant adjustments to their portfolios very frequently (Aksoy *et al.*, 2021). According to Ben-Nasr *et al.* (2015) prior research shows that in order for foreign investors to avoid having their investments inappropriately appropriated by insiders, they want information that is both more credible and more transparent. Moreover, international investors from foreign countries with robust shareholder rights are more likely to show interest in excellent corporate governance than shareholders from republics with poor shareholder rights and this is because of the strong shareholder rights are associated with effective corporate governance (Kang and Kim, 2010).

2.3. The Effect of Audit Quality on Audit Opinion

One area of interest in the literature is how the focus on audit quality may impact the type of audit opinion issued by auditors. An unqualified opinion is issued when auditors believe that financial statements are free from material misstatements, while a qualified opinion is issued when auditors identify a material misstatement that is not pervasive (i.e., it does not affect the overall fairness of financial statements). An adverse opinion is issued when auditors identify a material misstatement that is pervasive (i.e., it affects the overall fairness of financial statements) (AICPA, 2019)

Numerous studies have explored the connection between audit quality and audit opinion. One comprehensive literature review focused on audit quality and auditor independence (Tepalagul & Lin, 2015). The review examined research published between 1976 and 2013 and identified the primary challenges to maintaining auditor independence include the significance of the client, offering non-audit services, the duration of the auditor-client relationship, and the association between the client and the audit firm. The findings revealed that compromised independence could lead to a decline in audit quality, as auditors may be less likely to report irregularities. The review highlighted the importance of independence as a critical factor in ensuring

high-quality audits. Another analysis examined different perspectives on audit quality, including academic research, professional practitioners, and regulatory aspects (Sulaiman *et al.*, 2018). This study reviewed 84 empirical studies and publications from 1980 to 2016. The findings emphasized the multifaceted nature of audit quality and the influence of both internal and contextual factors on audit quality in practice. The review also noted that most research relied on archival approaches, which may have limitations in capturing the impact of the contextual setting on actual audit practices.

Some studies have explored the relationship between audit quality and the type of audit opinion. For example, (Krishnan, 1996) found that auditor industry specialization and audit firm size were completely associated with the likelihood of issuing a qualified opinion. In contrast, auditor tenure was in the negative associated with the likelihood of issuing a qualified opinion. Additionally, the study observed that audit quality, as measured by the frequency of restatements, was negatively associated with the likelihood of issue a qualified opinion.

According to Mutchler (1985), smaller firms are more vulnerable to receiving a going concern audit opinion compared to larger firms. This is due to the auditors' belief that larger companies have better prospects of resolving their financial difficulties compared to smaller entities. Francis and Yu (2009) posit that KAP Big 4 firms deliver higher-quality audits, which is reflected in their ability to provide accurate going concern opinions.

A study by DeFond *et al.* (2014) investigated the correlation between auditor tenure and the probability of giving a qualified audit opinion. The research indicated that increased auditor tenure reduced the chances of issuing a qualified opinion. However, the study also found that longer auditor tenure was connected with a lower likelihood of issuing an adverse opinion, suggesting that auditors may be reluctant to issue adverse opinions due to concerns about the potential impact on client relationships. Similarly, a study by Gopalakrishnan and Jacob (2014) examined the influence of audit quality on the type of audit opinion delivered by auditors in India. The study found that higher audit quality, as measured by auditor industry specialization and the use of industry-specific benchmarks, was associated with a lower likelihood of issue a qualified opinion.

Ruiz-Barbadillo *et al.* (2004) found that the likelihood of firms receiving a going concern opinion, indicating their financial difficulties, is influenced by the quality of the audit they undergo. However, Vanstraelen's (2002) research conducted in Belgium suggests that auditors are less inclined to provide a

going concern opinion for clients that offer higher audit fees, regardless of the audit quality. This disparity in findings could be attributed to the utilization of different measures to assess audit quality.

Based on the above discussion, the first research hypothesis (*H1*) will be developed as follows:

H1: Audit quality has a significant positive effect on audit opinion issued for the Egyptian listed firms.

2.4. The Effect of Ownership Concentration on Audit Opinion

According to prior literature, ownership concentration might have a substitution or an expropriation effect. The substitution effect is positive, where dominant shareholders substitute the boards in their monitoring role. This will result in better monitoring and lower agency problems. the concentration of ownership provides the controlling shareholders greater power and influence, which in turn leads to improved monitoring, more disciplined management, and lower agency costs that result in less audit fees (Nehme *et al.*, 2020). Madhani (2016) mentioned that the ability of the owner to monitor management, together with the potential for less conflicts and savings on agency fees, are considered the primary benefit that arises from a high concentration of ownership. According to Madhani (2016), the ability of the owner to supervise management, which may result in a reduction in agency costs and conflicts, is the main benefit associated with the concentration of ownership, hence the dominant shareholders play an important part in monitoring and managing the managers. In other words, concentrated ownership places a dominating shareholder in possession of a greater amount of authority, which results in improved monitoring at the expense of the benefits provided by more controls, such as the board of directors. Therefore, the equity ownership can serve as a substitute in situations where other control mechanisms are not available (Bozec & Bozec, 2007). However, the substitution hypothesis could be easily disputed by claiming that a dominant shareholder may have extra authority and power, and a stronger motive to build good corporate controls in order to improve their wealth, also, as a matter of fact the dominant shareholder with a higher share may exert more pressure on the company to implement good governance practices to protect their own interests (Bozec & Bozec, 2007; Madhani, 2016).

On the other hand, ownership concentration might have a negative expropriation effect, where majority shareholders are having an incentive to expropriate the assets and resources of the firm at the expense of the minority

shareholders. Darmadi (2016) explained that agency conflicts can occur between the controlling shareholders of a company, which has a concentrated ownership, and the minority ones because the controlling shareholders may pursue their interests at the expense of the smaller shareholders. In order to prevent the controlling owners from abusing their position of power, there are sometimes insufficient levels of separation of duties and ineffective monitoring practices (Alhababsah, 2019). The concentration of ownership might also bring other reverse consequences for example, the majority shareholders have the ability to frequently enforce their own individual preferences, even if those interests are in direct opposition to those of the minority ones (Bozec & Bozec, 2007). According to Konak and Kendirli (2016), there is a negative relationship between the firm performance and ownership concentration which shows that the performance of a company could be harmed from high ownership concentration. This could be reflected on the audit opinion as there could be disputes between the audit committee and the dominant shareholders resulting in the issuance of unqualified or modified audit opinion.

Nashier and Gupta (2023) stated that according to the literature, concentrated ownership has an effect on a firm's performance, making the concentration of ownership a crucial corporate governance technique. Moreover, it has been suggested that a company's performance can benefit from increased concentration of ownership since this type of ownership structure lowers the agency costs that result from the separation of the company's ownership and control. In addition, the effect of ownership concentration on audit opinion may be justified through its positive effect on the financial reporting quality (Abdelmoneim, 2024). Alkilani *et al.* (2019) and Golmohammadi Shuraki *et al.* (2021) found evidence that there is a negative connection between the financial reporting quality of a company and the issuance of a modified audit opinion. This could result in the issuance of a clean audit report because there could be less disputes happening between the audit committee and the dominant shareholders.

However, there has not been a lot of research conducted that focuses on updated audit opinions to determine the quality of financial statements. The audit opinion has only been used as a proxy for the quality of financial reporting by a few academics (Hu *et al.*, 2022).

Therefore, based on the above discussion, the second research hypothesis (*H2*) will be developed as follows:

H2: Ownership concentration has a significant effect on audit opinion issued for the Egyptian listed firms.

3. RESEARCH METHODOLOGY

The sample of the study, the research variables, and measurements, as well as the research model that was designed to examine the connection between audit quality and audit opinion as well as that between ownership concentration and audit opinion are presented in this section.

3.1. Population and Sample Selection

The population of this study is comprised of companies that are publicly listed on the Egyptian Stock Exchange (EGX) between the years 2015 and 2019. The sample size of this research after removing the observations related to financial companies and those of the companies that had missing data was 438 firm-year observations.

3.2. Research Variables and Measurement

This research has two independent variables, one dependent variable and five control variables. Table (1) shows the research variables and Figure (1) presents the research model.

The first **independent variable** is the **audit quality** (*AQ*), which refers to the combined likelihood that an auditor will identify and disclose significant errors or misstatements in financial statements, and It's represented by a dummy variable that is assigned a value of 1 when the company's auditor is from one of the Big 4 audit firms or the Accountability State Authority (ASA), and (0) otherwise.

The second **independent variable** is the **ownership concentration (***OC*), which refers to blockholders who collectively own a minimum amount of 5% of the company's total shares and is measured by the natural logarithm of the number of blockholders. The number of blockholders and the natural logarithm of the number of shares owned by those blockholders will be used to measure ownership concentration in the sensitivity analyses section.

The **dependent variable** is the **audit opinion** (*AO*), which refers to the opinion issued by the auditor in the audit report. This variable is measured as a dummy variable that takes the value (1) in case the audit opinion is clean, and (0) otherwise.

The five control variables are as follows: Firm age (*AGE*), calculated using the natural logarithm of the years since the firm's establishment. Firm leverage (*LEVERAGE*), assessed by the ratio of total liabilities to total assets. Readability (*READ*), gauged by the natural logarithm of the number of pages in the financial statements. Firm profit (*PROFIT*), characterized by a dummy variable that registers a value of 1 when the firm is profitable and 0 otherwise.

Table 1: Research Variables and Measurement

Variable	*Type*	*Acronym*	*Measurement*
Audit Opinion	Dependent	AO	A dummy variable assigned a value of (1) when the audit opinion is unqualified, and (0) otherwise. (Krishnan and Krishnan, 1996; Moalla, 2017)
Audit Quality	Independent	AQ	A dummy variable assigned a value of (1) when the company's auditor is from either a Big 4 audit firm or the ASA, and (0) otherwise. (Moalla, 2017)
Ownership Concentration	Independent	OC	The natural logarithm of the number of blockholders. (Rossetto *et al.*, 2019)
Firm Size	Control	Size	The natural logarithm of the firm's total assets. (Sunarto *et al.*, 2021; Badawy and Zaki, 2023)
Firm Age	Control	Age	The natural logarithm of the number of years since the company was founded. (Holderness, 2016)
Firm Leverage	Control	Leverage	The ratio of total liabilities to total assets. (Bei and Wijewardana, 2012)
Readability	Control	Read	The natural logarithm of the number of financial statements pages. (Dalwai *et al.*, 2021)
Firm Profitability	Control	Profit	A dummy variable assigned a value of (1) when the company is profitable, and (0) otherwise. (Badawy and Zaki, 2023)

3.3. Research Model

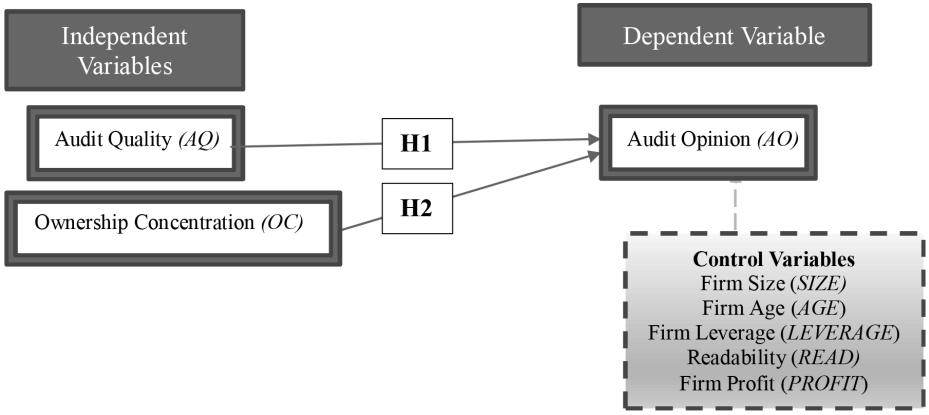

Figure 1: Research Model

Source: Authors

Hence, the regression model of this study is:

$$AO_{ti} = \beta_0 + \beta_1 AQ_{ti} + \beta_2 OC_{ti} + \beta_3 SIZE_{ti} + \beta_4 AGE_{ti} + \beta_5 LEVERAGE_{ti} + \beta_6 READ_{ti} + \beta_7 PROFIT_{ti} + \varepsilon_{ti}$$

4. EMPIRICAL FINDINGS

4.1. Descriptive Statistics

This section details the descriptive statistics for the independent, dependent, and control variables employed in the study. The statistics presented encompass the mean, median, standard deviation, and quartiles. Table (2) displays the descriptive statistics for the research variables.

The results of the descriptive statistics show that *AQ* ranges from 0 to 1, with an average of 0.3858. Additionally, *OC* ranges from 0 to 2.2, with an average of 0.9848. Moreover, *AO* ranges from 0 to 1, where the average is 0.8037.

Table 2: Descriptive Statistics

		AQ	*OC*	*AO*	*SIZE*	*AGE*	*LEVE-RAGE*	*READ*	*PROFIT*
N		438	438	438	438	438	438	438	438
Mean		0.3858	0.9848	0.8037	20.4929	3.3249	0.6938	3.3178	0.8014
Median		0.0000	1.0986	1.0000	20.4997	3.4012	0.5324	3.3322	1.0000
Std. Deviation		0.48735	0.61215	0.39769	1.88978	0.58347	2.10186	0.36088	0.39943
Minimum		.00	.00	.00	14.22	.00	-21.96	2.40	.00
Maximum		1.00	2.20	1.00	25.29	4.73	14.95	4.36	1.00
Percentiles	25	0.0000	0.6931	1.0000	19.0978	2.9957	0.2905	3.0910	1.0000
	50	0.0000	1.0986	1.0000	20.4997	3.4012	0.5324	3.3322	1.0000
	75	1.0000	1.3863	1.0000	21.6648	3.6376	0.7701	3.5553	1.0000

As for the control variables, it is shown in Table (2) that *SIZE* ranges from 14.22 to 25.29 with an average 20.4929 and standard deviation 1.88978. Furthermore, *AGE* ranges from 0 to 4.73, with an average 3.3249 and standard deviation 0.58347, and *LEVERAGE* ranges from -21.96 to 14.95, with a mean of 0.6938 and standard deviation 2.10186. As for *READ,* it ranges from 2.40 to 4.36, and with a mean of 3.3178 and standard deviation of 0.36088. Finally, *PROFIT* ranges between 0 and 1 with an average of 0.8014 and standard deviation of 0.39943.

4.2. Bivariate Correlations

A Pearson Correlation test is conducted as a means of performing an initial analysis into the connection between the audit opinion and the research variables (independent and control variables). Table (3) explains the outcome of Pearson Correlation test.

As illustrated in Table (3), the audit quality (*AQ*) is completely and significantly associated with audit opinion (*AO*). This indicates that the audit opinion is more likely to be clean if the audit work is performed by auditors affiliated to Big4 auditing firms or the ASA. In addition, ownership concentration *(OC)* is positively and significantly associated with audit opinion (*AO*) as well, which shows that the audit opinion is more likely to be clean if the number of blockholders increases.

Regarding the control variables, Table (3) shows that firm size (*SIZE*) has a positive correlation with audit opinion. Conversely, firm age (*AGE*) shows a negative and significant correlation with audit opinion. Both firm leverage (*LEVERAGE*) and readability (*READ*) are negatively correlated with audit opinion. In contrast, firm profit (*PROFIT*) exhibits a positive and significant correlation with audit opinion.

The highest correlation between the research variables was found to be between company size (*SIZE*) and readability (*READ*), and it was found to be 61.4%. Hence, this is a preliminary indication that the multicollinearity problem is not a severe problem.

4.3. Hypotheses Testing

To evaluate the first research hypothesis (*H1*), which posits that audit quality positively impacts audit opinion, and the second research hypothesis (*H2*) proposing that ownership concentration affects audit opinion significantly, the researchers ran the regression model and regressed audit quality and ownership concentration against audit opinion.

In the regression test result presented in Table (4), F-test model is significant (F= 8.420, Sig.=0.000), showing that the results of the model can be relied on to analyze the effect of audit quality *(AQ)* and ownership concentration *(OC)* on audit opinion *(AO)*. Also, Table (4) presents the regression outcomes. The R-squared value is 0.121, meaning that 12.1% of the variations in the dependent variable are accounted for by the independent variables. Consistent with prior literature (Nikozaad &Naslmosavi, 2016, Alkilani *et al.*, 2019), the adjusted R-squared value was low. It stands at 0.106, indicating that 10.6% of the variations in the dependent variable are explained by the independent

Table 3: Pearson Correlations

		AQ	*OC*	*AO*	*SIZE*	*AGE*	*LEVERAGE*	*READ*	*PROFIT*
AQ	Pearson Correlation	1							
	Sig. (2-tailed)								
OC	Pearson Correlation	-0.056	1						
	Sig. (2-tailed)	0.243							
AO	Pearson Correlation	0.191**	0.182**	1					
	Sig. (2-tailed)	.000	.000						
SIZE	Pearson Correlation	0.412**	-0.010	0.067	1				
	Sig. (2-tailed)	.000	0.828	0.165					
AGE	Pearson Correlation	0.092	-0.034	-0.105*	0.001	1			
	Sig. (2-tailed)	0.054	0.476	0.027	0.984				
LEVERAGE	Pearson Correlation	0.033	-0.016	-0.015	0.047	-0.017	1		
	Sig. (2-tailed)	0.496	0.738	0.749	0.329	0.725			
READ	Pearson Correlation	0.401**	0.040	-0.033	0.614**	0.164**	0.070	1	
	Sig. (2-tailed)	.000	0.409	0.492	.000	0.001	0.142		
PROFIT	Pearson Correlation	0.018	0.085	0.128**	0.124**	-0.023	0.080	0.159**	1
	Sig. (2-tailed)	0.700	0.077	0.007	0.009	0.629	0.094	0.001	

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

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

variables, offering a more cautious measure of the model's explanatory capability, with a value of 0.37597, represents the average deviation of the observed values from the predicted values. The Durbin-Watson statistic of 1.527 is used to test for autocorrelation in the residuals suggesting that there is no significant autocorrelation as the accepted threshold is 2 (Nerlove and Wallis, 1966).

As for the t-statistics of *AQ* (t = 5.049, Sig. = 0.000) showing that audit quality is positively and significantly associated with audit opinion, and that of *OC* (t = 4.177, Sig. = 0.000) which also shows that ownership concentration is positively and significantly associated with audit opinion.

Based on the obtained results, the first research hypothesis (*H1*) is supported (β = 0.257, p-value < 0.05), showing that there is a significant positive relationship between audit quality (*AQ*) and audit opinion (*AO*). This result indicates that audit firms affiliated to one of the Big4 audit firms and the ASA are more likely to issue clean audit opinion to their clients. This finding confirms prior studies results (Gopalakrishnan and Jacob, 2014) that shows that Big4 audit firms are less likely to issue qualified audit opinion. Big4 audit firms in Egypt are known for their high-quality audit services. They are known for their experienced staff and team members. Accordingly, it is expected that they will have an effect on firm managers, and in case there are qualifications presented by those auditors, managers will be more likely to respond positively to these qualifications and as a result, a clean audit opinion is more likely to be issued. Also, Big4 audit firms are known for their higher independence level, as their revenues are not dependent on their clients to a great extent. This independence will give them more power to issue qualified audit opinion in the cases when there is a departure from the accounting framework being applied. In addition, issuing qualified audit opinion by one of the Big4 audit firms will be a negative signal to the market and as a result, managers will be more likely to respond to Big4 auditors' comments, so as to reduce the likelihood of issuing non-clean audit opinions.

As for the second research hypothesis (*H2*), it was supported as well (p-value < 0.05). However, considering the outcomes obtained there is a positive relationship between ownership concentration (*OC*) and audit opinion (*AO*) (β = 0.190), providing evidence of the substitution effect of ownership concentration, where the dominant shareholders substitute the board in its monitoring role leading to lower agency problems and more disciplined management. This positive substitution effect will more likely result in lower disputes between the company management and auditors and as a result, higher financial reporting quality will result (Abdelmoneim, 2024) and a clean

audit opinion is more likely to be issued. This obtained result is considered a contribution to the existing literature.

Table 4: Regression Results

	β	t	Sig.	VIF
(Constant)		4.585	0.000***	
AQ	0.257	5.049	0.000***	1.272
OC	0.190	4.177	0.000***	1.017
SIZE	0.062	1.034	0.302	1.731
AGE	-0.090	-1.930	0.054*	1.053
LEVERAGE	-0.022	-0.492	0.623	1.011
READ	-0.186	-3.081	0.002***	1.778
PROFIT	0.129	2.798	0.005***	1.044
R2	0.121			
Adj. R2	0.106			
Std. Error of the Estimate	0.37597			
Durbin-Watson	1.527			
F	8.420			
Sig.	0.000**			
N	438			

***= significant at 0.01 level, **= significant at 0.05 level, *= significant at 0.1 level

The control variables in the model include *SIZE, AGE, LEVERAGE, READ,* and *PROFIT.* Multicollinearity was tested first for all constructs because it represents a threat to the design of the model (Farrar & Glauber, 1967). The Variance Inflation Factor (VIF) values are provided to assess the presence of multicollinearity, with a VIF of 1.272 and 1.017 were found to have values less than 10, which is the accepted threshold (Alin, 2010). Table (4) shows that *AGE* is having a negative significant effect on *AO* (t = -1.930, Sig. = 0.054), implying that older firms are less likely to receive clean audit opinion. The justification behind this result might be that older firms are involved in more complicated transactions, and accordingly, they are more likely to receive qualifications from their auditors. As for the readability of financial statements, Table (4) shows that *READ* is having a negative significant effect on *AO* (t = -3.081, Sig. = 0.002), implying that firms issuing unreadable financial statements are more likely to receive non-clean audit opinion. This might be a result of having more details and more complicated transactions that result in disagreement or disputes between the company managers and auditors. As for the firm profitability, Table (4) provides evidence that profitable firms are more

likely to receive clean audit opinion (t = 2.798, Sig. = 0.005), and this might be justified that firms making profits are experiencing more agreement between the company managers and auditors. Finally, company *SIZE* and *LEVERAGE* didn't prove to be significantly associated with the company *AO*.

4.4. Sensitivity Analyses

To check the strength of our results, three sensitivity tests were conducted. The first two sensitivity analyses will be using alternative measures of ownership concentration; the natural logarithm of the number of shares owned by blockholders and the number of blockholders. In addition, an alternative measure of firm profitability will be used in order to assess the validity of the research findings.

Using Alternative Measures of Ownership Concentration

In the first sensitivity analysis, the natural logarithm of the total number of shares owned by blockholders is used to measure ownership concentration. In the main analysis the *OC* variable was positively and significantly associated with *AO* when the natural logarithm of the number of blockholders is used to measure *OC* variable. Table (5) shows that *AQ* is having a positive and significant effect on *AO*, confirming our results in the main analysis. However, *OC*, measured by the natural logarithm of the number of blockholders shares,

Table 5: Sensitivity Analysis using LN Number of Shares for Ownership Concentration

	β	*t*	*Sig.*	*VIF*
(Constant)		4.536	0.000***	
AQ	0.236	4.540	0.000***	1.279
OC	0.104	1.509	0.132	2.256
SIZE	-0.024	-0.303	0.762	2.943
AGE	-0.091	-1.927	0.055*	1.059
LEVERAGE	-0.028	-0.605	0.546	1.011
READ	-0.164	-2.682	0.008***	1.772
PROFIT	0.145	3.103	0.002***	1.038
R2	0.090			
Adj. R2	0.075			
Std. Error of the Estimate	0.38251			
Durbin-Watson	1.614			
F	6.052			
Sig.	0.000***			
N	438			

***= significant at 0.01 level, **= significant at 0.05 level, *= significant at 0.1 level

has a positive but insignificant effect on *AO*. This result indicates that our main finding related to the positive and significant effect of *OC* on *AO* is depending on its measurement by the natural logarithm of number of blockholders.

In the second sensitivity analysis, the number of blockholders is used to measure ownership concentration. In the main analysis the *OC* variable was positively and significantly associated with audit opinion using the natural logarithm of the number of blockholders as a measurement of this variable. In this analysis, the *OC* variable is positively and significantly associated with *AO* as well. The sensitivity analysis results shown in Table (6) confirmed our main results, where *AQ* and *OC* have a significant and positive effect on *AO* issued for Egyptian listed firms.

Table 6: Sensitivity Analysis using Number of Blockholders for Ownership Concentration

	β	*t*	*Sig.*	*VIF*
(Constant)		4.543	0.000***	
AQ	0.259	5.060	0.000***	1.274
OC	0.177	3.868	0.000***	1.015
SIZE	0.052	0.872	0.384	1.729
AGE	-0.087	-1.874	0.062	1.055
LEVERAGE	-0.021	-0.467	0.641	1.012
READ	-0.177	-2.933	0.004	1.772
PROFIT	0.259	4.543	0.000***	1.274
R2	0.116			
Adj. R2	0.101			
Std. Error of the Estimate	0.37702			
Durbin-Watson	1.576			
F	8.032			
Sig.	0.000***			
N	438			

***= significant at 0.01 level, **= significant at 0.05 level, *= significant at 0.1 level

Using an Alternative Measure of Firm Profitability

In the last sensitivity analysis, the return of assets (*ROA*) is used to measure the profitability of a firm. In the main analysis the *PROFIT* variable was positive, and the variable is measured as significant using a dummy variable, which is assigned a value of (1) if the firm makes profits and (0) otherwise. In this analysis the profitability variable is positive and significant as well. As shown in Table (7), *AQ* and *OC* are still having a positive and significant effect on *AO*.

Table 7: Sensitivity Analysis using Return on Assets (ROA) for Profitability

	β	*t*	*Sig.*	*VIF*
(Constant)		4.681	0.000***	
AQ	0.253	4.939	0.000***	1.269
OC	0.188	4.096	0.000***	1.026
SIZE	0.063	1.063	0.288	1.731
AGE	-0.095	-2.035	0.042**	1.052
LEVERAGE	-0.016	-0.340	0.734	1.007
READ	-0.168	-2.801	0.005***	1.756
PROFIT	0.098	2.128	0.034**	1.020
R2	0.114			
Adj. R2	0.099			
Std. Error of the Estimate	0.37740			
Durbin-Watson	1.566			
F	7.893			
Sig.	0.000**			
N	438			

***= significant at 0.01 level, **= significant at 0.05 level, *= significant at 0.1 level

3.5. Additional Analysis

In this part, a stepwise analysis is conducted to identify the main variables that affect the audit opinion issued for Egyptian listed firms significantly and a test for the moderating effect of ownership concentration on the relationship between audit quality and audit opinion is conducted.

Table (8) shows the results of the stepwise regression and provides evidence that our two main variables, *AQ* and *OC*, are having positive and significant effect on *AO* issued for firms listed on the EGX.

Consistent with our results shown in the main analysis, *PROFIT* is having a positive and significant effect on *AO* and *READ* and *AGE* are having a negative effect on *AO*, implying that profitable firms are more likely to receive clean audit opinion and old firms and those issuing less readable financial statements are less likely to receive clean audit opinion.

Table (9) shows the results of testing the moderating effect of ownership concentration on the relationship between audit quality and audit opinion. It is clear that the main research variables, which are *AQ* and *OC* are still having positive and significant effect on the dependent variable, *AO*. However, the interaction variable *AQ*OC* doesn't show to significantly affect the type of audit opinion issued for firms listed on the EGX.

Table 8: Stepwise Regression Results

	β	*t*	*Sig.*	*VIF*
(Constant)		6.572	0.000**	
AQ	0.270	5.442	0.000**	1.202
OC	0.189	4.160	0.000**	1.015
READ	-0.154	-3.031	0.003**	1.256
PROFIT	0.130	2.820	0.005**	1.037
AGE	-0.096	-2.081	0.038*	1.032
R2	0.118			
Adj. R2	0.108			
Std. Error of the Estimate	0.37567			
Durbin-Watson	1.531			
F	11.544			
Sig.	0.000**			
N	438			

**= significant at 0.01 level, *= significant at 0.05 level

Table 9: Moderating effect of Ownership Concentration on the relationship between Audit Quality and Audit Opinion

	β	*t*	*Sig.*	*VIF*
(Constant)		4.507	0.000	
AQ	0.373	4.155	0.000***	3.954
OC	0.247	4.245	0.000***	1.663
AQ*OC	-0.143	-1.562	0.119	4.088
SIZE	0.063	1.065	0.288	1.732
AGE	-0.087	-1.881	0.061*	1.054
LEVERAGE	-0.017	-.383	0.702	1.016
READ	-0.193	-3.199	0.001***	1.789
PROFIT	0.123	2.660	0.008***	1.052
R2	0.126			
Adj. R2	0.109			
Std. Error of the Estimate	0.37534			
Durbin-Watson	1.538			
F	7.698			
Sig.	0.000**			
N	438			

***= significant at 0.01 level, **= significant at 0.05 level, *= significant at 0.1 level

5. CONCLUSIONS AND IMPLICATIONS FOR FUTURE RESEARCH

The study investigated the correlation between audit quality and audit opinion, and between ownership concentration and audit opinion in companies listed on

the EGX from 2015 to 2019. Observations related to years after 2019 have been excluded from the study due to the impact of COVID-19 on the companies' performance. The study analyzed data from 438 firm-year observations. A regression analysis was employed with audit opinion as the dependent variable and audit quality and ownership concentration as independent variables. The study also included five control variables: firm size, firm age, firm leverage, readability, and firm profitability.

The regression analysis revealed a significant positive relationship between audit quality and audit opinion, suggesting that companies audited by Big 4 firms, or the ASA are more likely to receive a clean audit opinion. This finding underscores the impact of high audit quality, as indicated by the size of the audit firm, on company performance and subsequent audit opinions. Additionally, the analysis demonstrated a positive and significant association between ownership concentration and audit opinion among Egyptian listed companies. This supports the positive substitutive effect of ownership concentration on firm performance. Blockholders appear to play a beneficial monitoring role in the performance of Egyptian listed companies, leading to reduced agency costs and issues. This is reflected in fewer disputes and cleaner audit opinions.

In summary, the study's results suggest that audit quality, as determined by the association of auditors with Big 4 firms or the ASA, positively affects audit opinions, increasing the probability of receiving a clean audit opinion. Additionally, ownership concentration, gauged by the quantity of blockholders, also positively influences audit opinions. Our results are robust to an alternative measure of ownership concentration.

The control variables, including firm size, firm age, firm leverage, readability, and firm profitability, were also found to be linked with audit opinion. These findings shed light on the determinants affecting audit opinions in publicly traded companies on the EGX. Nonetheless, it's crucial to acknowledge that additional research and analysis might be required to grasp the intricate relationships among these variables and their consequences. Subsequent studies could expand the sample size by incorporating more years of data.

Future research could include the audit report lag as a measurement of audit quality. Moreover, future studies could investigate the relationship between ownership concentration and audit quality with audit opinion in other countries as the findings of this research cannot be generalized to such countries. Furthermore, it could be conducted within specific industries or in emerging markets and industries, particularly which are vulnerable to fraud. Finally, there are some recommendations by the researchers for the investors to

take a company's ownership structure into account when making choices about their investments so that investors should be aware about companies with a high concentration of ownership as it may affect their decision.

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