Accounting Conservatism and Auditing Quality: an Applied Study On Egyptian Corporations

Sameh M. Reda Reyad

College of Business and Finance, Ahlia University, PO box 10878, Manama, Bahrain.

E-mail: samirad41@hotmail.com.

Abstract

This study explores the relationship between Accounting Conservatism and Auditing quality at industrial corporations listed in Egyptian stock exchange. The study model examined the relationship between the independent variables of auditing quality characteristics and the dependent variable of accounting conservatism, by applying the multiple regression analysis of data (Ordinary Least Squares OLS) which represents (54) corporations belong to the industrial sector covering the period 2006-2010. The study concluded that there was an acceptable level of accounting conservatism in the industrial corporations listed in Egyptian stock exchange, and also an acceptable level of the Auditing quality in Egyptian auditing firms. It was deducted an existence of a positive impact of accounting conservatism in the industrial corporations listed in Egyptian stock exchange on each of ; international audit firms, the specialty in client's industry, auditors qualification , and the client retention period .

Keywords: Accounting Conservatism, Auditing Quality, Egyptian Industrial corporations.

1. Introduction

Accounting conservatism is still considered by accountants as one of the most important principles. Accounting conservatism concept was controversial at the turn of last century up till now. Despite of the criticism against this principle, it still plays an important role in accounting practices (Watts, 2003).

In general, the concept of accounting conservatism means that the company should report on the minimum values of assets and revenues ,and on the other hand to maximize values of liabilities and expenses (you have to put the reference of this definition here). In other words the company should escalates the recognition of expenses and deprecates recognition of revenues.

Accounting conservatism, one of the bedrock precepts of financial reporting, as it reflects firm's tendency to recognize 'bad news' more promptly than 'good news'. Actually, conservatism requires a greater level of verifiability for recognizing good news than bad news in earnings (Basu, 1997).

There are many benefits from applying accounting conservatism such as; reducing opportunist motives for managers when disclosing optimistic results, increasing contracts control, and reducing court costs (Ball & Shivakumar, 2005).

Audit quality is a prerequisite for many parties; where management of companies need to give confidence to their financial statements, by professional organizations to achieve quality in the implementation of audit processes and to ensure the fulfillment of the audit profession of their responsibility towards all the parties concerned. Finally, audit quality becomes the weighted factor to distinguish between audit firms due to competition between them (Scott & Pitman, 2005).

The main objective of this study is to determine the relationship between Accounting Conservatism and Auditing quality in the industrial corporations listed in Egyptian stock exchange, which differentiates it from other studies conducted in other countries.

2. Literature Review

The traditional meaning of conservatism in financial reporting is "Anticipate no profits but anticipate all losses", changes in compensation patterns, litigation risk, and accounting standards could increase the level of conservatism by delaying the recognition of gains (Srivastava & Tse, 2009).

The Financial Accounting Standards Board (FASB) has described conservatism in Statement of Financial Accounting Concepts No. 2 as "possible errors in measurement be in the direction of understatement rather than overstatement of net income and net assets".

There are two types of Accounting conservatism; conditional accounting conservatism which rapidly acknowledges economic losses, and unconditional accounting conservatism which reduces the values of net assets or discloses the least book values of owners equity (Ball et al., 2005).

The significance of the conservatism principle was re-emphasized through issuing a group of standards which contains conservatism among which are the following: Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard No.5 (SFAS No. 5) "Accounting for Contingencies" in 1975, Statement of Financial Accounting Standard No. 87 (SFAS No. 87) " Employer's Accounting For Pensions" in 1985, Statement of Financial Accounting Standard No. 121 (SFAS No. 121) " Accounting for the Impairment of Long-Lived Assets" in 1995, and the two International Accounting Standards (IAS No.36) "Impairment of Assets", and (IAS No.37) "Contingent Liabilities and Contingent Assets" (Al-Sahli 2009).

The need for accounting conservatism is related to the increase of credibility in accounting information, as conservatism of declaring good results of the company increases accounting credibility and the ability to predict the future (Hellman, 2008).

In his study to the Jordanian Industrial Corporate, Hamdan (2010) got similar conclusion that accounting conservatism contributes to the improvement of quality of financial reporting. He also recognized a relationship between the high level of accounting conservatism in Jordanian industrial companies and the improvement of the opinion of external auditor.

The need for conservatism also appeared together with the agency theory to solve the problem that might emerge between managers and stockholders on the separation between management and ownership. This was discussed by (Watts, 2003) by assuming that the financial reports issued by the management were conservative, stockholders might resort to reduce management salaries to compensate for the difference attributed to the manager's care for their personal interests, to avoid such a situation, managers might resort to present more conservative numbers as an indication of not caring for their personal interests.

Conservatism reduces information asymmetries and agency costs by reducing the manager's ability and incentive to use information asymmetries associated with growth options to manipulate the financial statements to create more information Asymmetry (La Fond and Watts, 2007).

The relation between accounting conservatism and board of director characteristics that proxy for board independence and the strength of outside directors' monitoring incentives was investigated by Ahmed and Duellman (2007). They also found a negative relation between the percentage of inside directors on the board and conservatism, and a positive relation between the percentage of a firm's shares owned by outside directors and conservatism. These findings were consistent with accounting conservatism assisting directors in reducing agency costs of firms.

Accounting conservatism proofed to be one of the active tools of the corporate governance which managers can use to improve the level of corporate governance in the company. This was mentioned by Lara et al., (2009) who found that the Sarbanes-Oxley act is considered the most important legislation in reinforcing corporate governance which helped in increasing accounting conservatism.

Reyad (2011) investigated the relationship between the degree of accounting conservatism and the level of earnings quality at the corporations listed at Bahrain stock Exchange. The study found that the Bahraini corporations had an acceptable level of accounting conservatism and high quality of earnings in, the existence of a direct relation between the degree of accounting conservatism and the level of earnings quality; thus, if the degree of accounting conservatism increases, it will reduce the total accruals and thus improving the quality of earning. Finally, the study concluded that the high level of accounting conservatism contributes to enhance the credibility of financial statements, thus contributing to the rationalization of investment decisions.

Recent years have seen many cases of collapse of many of the major companies in various countries around the world, this lead to loss of confidence in the information contained in the financial statements, accompanied by many of the cases against audit firms which were involved in auditing the financial statements of these companies and there was no indication about lack of continuity in their reports.

The quality of audit depends on auditor independence which is the extent an auditor prefers to report errors and irregularities and is willing to disclose questionable accounting practices (Bartov *et al.,* 2000).

In his attempt to coin a definition to the term audit quality, Issa (2008) mentioned that Audit quality means the ability of audit process to detect and report on the material misstatement of the financial statements, and the reduction of information asymmetry between management and shareholders. The level of audit quality is linked to quality level of the information contained in financial statements, the reason for this is that the financial statement that have been audited by high quality auditors rarely contained substantial misstatements, which is reflected in minimization agency costs between shareholders and management.

Many of studies examined the auditing quality, and its ability to detect fraud in the financial statements to assist the auditor in reaching the appropriate opinion about the fairness of the financial statements, Chen *et al.* (2005) found that big CPA firms are related to less earnings management, higher quality auditors (proxy by the big four audit firms) could constrain earnings management for Taiwan firms. Vander Bauwhede et al. (2003) used Belgian companies (both private and public) as a sample to examine the relations of audit firm size, public ownership, and firms' accruals management, they found that Big 6 auditors can only constrain income-decreasing earnings management more than non-Big 6 auditors in private client sector of the audit market, but they make no difference in public sector.

The majority of previous studies identified the following auditing quality characteristics   (Piot & Janin, 2005):
-    Size of the auditing firm.
-    The relationship with international audit firms.
-    The client retention period.
-    The auditing fees.
-    Specialization in client's industry.
-    Auditors' qualifications.

   The problem discussed in this study is exemplified through answering the following questions: Is there an accepted level of accounting conservatism in the industrial corporations listed at Egyptian exchange? Is there an accepted level of quality in Egyptian auditing firms? Is there an impact of the auditing quality on the level of accounting conservatism in the industrial corporations listed at Egyptian exchange?

   The significance of this study stems from being an extension of the accounting studies in the field of accounting conservatism and auditing quality by clarifying the concept of accounting conservatism, concept and characteristics of quality audit. This study provides new insights and integrated analysis of the relationship between the quality of external audit and accounting conservatism in the industrial corporations listed at Egyptian exchange and thus achieve the quality of accounting information which will be reflected on the decisions of investors and the movement of the stock market in Egypt.

3. Methodology
3.1 Sample and Data

   The population of this study consists of all industrial corporations listed at Egyptian exchange, which published their financial reports from 2006 to 2010. The study sample included (54) industrial corporations listed in Egyptian exchange and the related audit firms ، which meet the following conditions; never been merged or delisted through the period of the study; availability of all necessary data.

   Sources of data collection are annual reports, web sites and direct contacts as well, The sample-selection procedure is summarized in table (1).

<Insect Table 1 here>

3.2 Research Model

   The objective of the study is to determine the relationship between accounting conservatism and auditing quality in the industrial corporations listed at Egyptian exchange.The study uses book value-market value of the net assets for measuring accounting conservatism However, for the auditing quality the study uses 4 characteristics to measure it as follows: the relationship with international audit firms, specialty in client's industry, auditors' qualifications, and client retention period.

$$AC = \alpha + \beta_1 IR + \beta_2 SP + \beta_3 AQ + \beta_4 AR + \ell$$

Where:
AC: Accounting conservatism expressed by book value-market value of the net assets, the dependent variable.
α: Constant value.
β_{1-5}: Slope value of independent variable.
IR: the relationship with international audit firms, the first independent variable which is dummy variable.
SP: specialty in client's industry, the second independent variable which is dummy variable.
AQ: auditors' qualifications, the third independent variable which is dummy variable.

AR: client retention period, the fourth independent variable which is dummy variable.

e: random error.

3.3 Technique of Measuring Variables

3.3.1 Measuring of Dependent Variable: Accounting Conservatism

There are four methods to measure accounting conservatism, which all rely on the impact of asymmetric recognition of gains and losses on the financial reports, specifically net assets, profits and accruals These methods are (Givoly & Hayn, 2000):

- Earnings\Stock Returns Relation Measures .
- Net Assets Measures.
- Earnings\Accruals Measures.
- Conservatism Index.

This study adopted Book value to market value of the net assets approach as one of the net assets measures for measuring accounting conservatism which used the decline in the percentage of book value/market value to less than one over a period of time as an indicator of accounting conservatism. This can be explained that the company used conservative accounting policies towards recognition of profits and assets.

3.3.2 Measuring of Independent Variables: Characteristics of Audit quality

The study depends on many previous studies in measuring the characteristics of the Audit quality. Table 2 shows the measuring of independent variables.

<Insect Table 2 here>

4. Data Analysis and Testing of Hypotheses

This study depends on model for measuring the relationship between the independent variables of auditing quality characteristics and the dependent variable of accounting conservatism, by using the multiple regression of (Ordinary Least Squares OLS) Data of (54) corporations of the industrial sector for the period 2006-2010 and were arranged in a way that makes it possible to apply the (Pooled Data Regression).

4.1 First hypothesis

H_1: *There is an accepted level of accounting conservatism in the industrial corporations listed at Egyptian exchange.*

This study used One-Sample T-Test to measure the level of accounting conservatism in the industrial corporations listed at Egyptian exchange through the period 2006-2010 by using the Book-to-Market ratio.

Table (3) shows the results of testing the first hypothesis**,** From this table, we noted that in year 2006 the value of calculated T- Statistic was 1.1, which is less than value of T scheduled at confidence level 95% which was 1.67, as well as the p-value was 0.12, which is more than 5%, which indicate that there is no accepted level of Conservatism in accounting policies in the Egyptian industrial corporations this year.

The years 2007,2008,2009,2010 the value of calculated T- Statistic was 1.86, 1.92, 1.78, 1.88 respectively, which is more than value of T scheduled at confidence level 95% which was 1.67, as well as the p-value was 0.027, 0.021, 0.037, 0.024 respectively, which is less than 5%, which indicate that there is an accepted level of Conservatism in accounting policies in the Egyptian industrial corporations in these years.

Based on these results we accepted the hypothesis, and we can say that there is an accepted level of accounting conservatism in the industrial corporations listed at Egyptian exchange.

<Insect Table 3 here>

4.2 Second hypothesis

H_2: *There is an accepted level of the Auditing quality in Egyptian auditing firms.*

The Second hypothesis aims at measuring the auditing quality in Egyptian auditing firms, In order to test the auditing quality we will test four auditing quality characteristics: Relationship with international audit firms, Specialty in client's industry, Auditors qualifications, and Client retention period, we used the Binomial test because the distribution of these variables are binomial distribution.

<Insect Table 4 here>

Table (4) shows the results of the Binomial test for testing the second hypothesis. From this table, we noted that the high proportion of the following auditing quality characteristics: Specialty in client's industry, Auditors qualifications, and Client retention period, and *p*-values are less than 0.05; based on these results we accepted the hypothesis, and we can say that there is an accepted level of the Auditing quality in Egyptian auditing firms.

4.3 Third hypothesis

H_3: *There is an impact with statistical significant of the audit quality characteristics on accounting conservatism of*

the industrial corporations listed at Egyptian exchange.

In our study on the relation between accounting conservatism and audit quality, we measured accounting conservatism using book value to market value of the net assets approach at the first stage after that we measured the auditing quality . While examining the relation between accounting conservatism and audit quality characteristics through one major model to measure this relation in which the dependent variable was the accounting conservatism. The sample of the study consists of a group of companies (Cross Section Data) during the period of time (Time Series Data); the best regression model to these data is (Pooled Data Regression), the statistical program (E-Views) was used to test the model.

The third hypothesis generates Sub-hypotheses which tackle the impact of every characteristic of the audit quality on accounting conservatism. The following are tests of study sub-hypotheses. Table (5) shows the results of multiple regressions for the study model.

$$AC = \alpha + \beta_1 IR + \beta_2 SP + \beta_3 AQ + \beta_4 AR + \ell$$

<Insect Table 5 here>

H_{31}: *There is an impact with statistical significant of the Relationship with international audit firms on accounting conservatism of the industrial corporations listed at Egyptian exchange.*

The previous studies indicated that "relationship with international audit firms" helps on enhancing the quality of financial statements, because it confirmed that international audit firms were more able to provide high quality of audit services, which lead to increase the quality of financial reports, thus improving the level of accounting conservatism in the related companies (Ebrahim, 2001). On the other hand La Fond and Watts, (2007) found that conservatism reduces information asymmetries and agency costs by reducing the manager's incentive to use information asymmetries associated with growth options to manipulate the financial statements to create more information Asymmetry. Gul et al. (2002) found that higher quality of the Big5 auditors are associated with higher earnings that may be used as an agency reducing device for firms with low management share ownership or higher agency costs.

Table (5) shows that the relationship between the "relationship with international audit firms" and accounting conservatism is positive because the coefficient was 0.52, in addition   the value of calculated T- statistic was 1.77 which is more than value of T-scheduled at confidence level 95% which was 1.67, as well as the p-value was   0.041, which is less than 5%.

This means that we can accept the hypothesis that there is an impact with statistical significant of the relationship with international audit firms on accounting conservatism of the industrial corporations listed at Egyptian exchange
H_{32}: *There is an impact with statistical significant of the Specialty in client's industry on accounting conservatism of the industrial corporations listed at Egyptian exchange.*

The previous studies indicated that "auditors' specialization in the industry of the client" helps on enhancing the quality of financial statements, because it confirmed that the auditor's specialization in the client's industry will lead to a better auditing quality which consequently, leads to increase the quality of financial reports, thus improving the level of accounting conservatism in the related companies (Albring *et al.,* 2007). Al-Sahli (2009) found that the banking sector in Saudi Arabia was the least conservative in its accounting policies. Hamdan, (2010) found that big companies adopt conservative accounting policies to avoid political costs, but Al-Sahli (2009) did not find any relation between the size of the company and the degree of accounting conservatism.

Table (5) shows that the relationship between the "Specialty in client's industry" and accounting conservatism is positive because the coefficient was 0.48, in addition the value of calculated T- statistic was 1.85 which is more than value of T- scheduled at confidence level 95% which was 1.67, as well as the p-value was 0.038, which is less than 5%.

This means that we can accept the hypothesis that There is an impact with statistical significant of the Specialty in client's industry on accounting conservatism of the industrial corporations listed at Egyptian exchange.
H_{33}: *There is an impact with statistical significant of the Auditors' qualifications on accounting conservatism of the industrial corporations listed at Egyptian exchange.*

The previous studies indicated that "auditors' qualifications" helps on enhancing the quality of financial statements, because it confirmed that qualified auditors who held professional certificate were more able to provide high quality of audit services, which lead to increase the quality of financial reports, thus improving the level of

accounting conservatism in the related companies (Scott & Pitman, 2005).

Table (5) shows that the relationship between the "auditors qualifications" and accounting conservatism is positive because the coefficient was 0.44, in addition the value of calculated T- statistic was 1.70 which is more than value of T-scheduled at confidence level 95% which was 1.67, as well as the p-value was 0.047, which is less than 5%.

This means that we can accept the hypothesis that there is an impact with statistical significant of the Auditors qualifications on accounting conservatism of the industrial corporations listed at Egyptian exchange.

H_{34}*: There is an impact with statistical significant of the Client retention period on accounting conservatism of the industrial corporations listed at Egyptian exchange.*

The previous studies indicated that "client retention period" not helps on enhancing the quality of financial statements, because it confirmed that the auditing firms which maintain customers for a substantial period may make the auditor non-creative and depend on procedures and justification of the company without verification, thus not improving the level of accounting conservatism in the related companies (Issa, 2008, Labo & Zhou, 2006).

Contrary to what expected, Table (5) shows that the relationship between the "client retention period" and accounting conservatism is positive but with low statistical significant because the coefficient was 0.04, in addition the value of calculated T- statistic was 1.72which is more than value of T- scheduled at confidence level 95% which was 1.67, as well as the p-value was 0.040, which is less than 5%.

This could be justified that the more the audit firm retained the client the higher the audit quality, as a result of better knowing the nature of the client's activities and operations which leads to increase the quality of financial reports, thus improving the level of accounting conservatism.

This means that we can accept the hypothesis that there is an impact with low statistical significant of the client retention period on accounting conservatism of the industrial corporations listed at Egyptian exchange.

5. Conclusion

The need for conservatism appeared together with the agency theory to solve the problem that might emerge between managers and stockholders on the separation between management and ownership. High level of accounting conservatism contributes to enhance the credibility of financial statements, thus contributing to the rationalization of investment decisions.

According to agency theory, the demand for auditing arises from the auditor's monitoring role in the principal-agent relationship. The financial statement audit is a monitoring mechanism that helps reducing information asymmetry and protect the interests of the principals.

Audit quality is defined as the ability of the auditor to discover and report material misstatement in the client's financial statements. Accordingly, it helps on enhancing the quality of financial statements, because audit quality confirmed that high quality of audit services, will lead to an increase in quality of financial reports, eventually improving the level of accounting conservatism in the related companies.

The study concluded that there is an acceptable level of accounting conservatism in the industrial corporations listed in Egyptian stock exchange by using the Book-to-Market ratio. There is also an acceptable level of the Auditing quality in Egyptian auditing firms. The study recognized also a statistically significant impact of the Relationship with international audit firms on accounting conservatism of the industrial corporations listed in Egyptian stock exchange. This fact confirmed that international audit firms were more able to provide high quality of audit services, which lead to an increase in the quality of financial reports, resulting in an improvement of the level of accounting conservatism in the related companies.

This study also found that there is a statistically significant   impact, of the Specialty in client's industry on accounting conservatism of the industrial corporations listed in Egyptian stock exchange, because it confirmed that the auditor's specialization in the client's industry will lead to a better auditing quality which consequently, leads to an increase in the quality of financial reports, which ultimately improves the level of accounting conservatism in the related companies.

This study concludes that an impact   statistically significant, of the Auditors' qualifications on accounting conservatism of the industrial corporations listed in Egyptian stock exchange, because it confirmed that qualified auditors who held professional certificate were more able to provide high quality of audit services, which lead to an increase in quality of financial reports, thus improving the level of accounting conservatism in the related companies.

On the other hand, contrary to the previous studies, this study concluded that there was an impact with low statistical significant of the client retention period on accounting conservatism of the industrial corporations listed at

Egyptian exchange, this could be justified that the more the audit firm retained the client, the higher the audit quality, as a result of better knowing the nature of the client's activities and operations which leads to an increase in quality of financial reports, thus improving the level of accounting conservatism.

Finally, this study recommends that more Egyptian audit firms have to establish cooperation with international audit firms. It must encourage the auditors to gain professional certificates which help in providing high quality of audit services that leads to an improvement in the level of accounting conservatism in the related companies.

References

Ahmed, A., & Duellman, S. (2007). Accounting Conservatism and Board of Directors Characteristics: An Empirical Analysis, *Journal of Accounting and Economics*, 43(1): 411-437.

Albring, S., Elder, R. and Zhou, J. (2007). IPO Under pricing and Audit Quality differentiation within Non-Big 5 Firms. *International Journal of Auditing*,11(2):115-131.

Al-Sehli, M. (2009). Accounting Conservation in Corporate Financial Reporting in Saudi Arabia: An Empirical Study. *Arab Journal of Administrative Sciences*, 16(1): 1-22.

Ball, R., & Shivakumar, L. (2005). Earnings quality in UK private firms: Comparative loss recognition timeliness. *Journal of Accounting and Economics*, 39(1): 83-128.

Ball, R., Robin, A., & Sadka G. (2005). Is Accounting Conservatism Due to Debt or Equity Markets? Theories of Accounting, retrieved December 2011, www.ssrn.com.

Bartov, E., Gul, F. A., and Tsui, J. S. L. (2000). Discretionary-accruals models and audit qualifications. *Journal of Accounting and Economics*, 30(3): 421-452.

Basu, S. (1997). The conservatism principle and the asymmetric timeliness of earnings. *Journal of Accounting and Economics*, 24(1): 3-37.

Chen, K.Y., Lin, K.L. and Zhou, J. (2005). Audit quality and earnings management for Taiwan IPO firms. *Managerial Auditing Journal.* 20 (1): 86-104.

Ebrahim, A. (2001). Auditing Quality, Auditor Tenure, Client Importance, and Earnings Management: Additional Evidence. Rutgers University, retrieved december 2011, www.aaahq.org/audit/midyear.

Givoly, D., & Hayn, C. (2000).The Changing Time-Series Properties of Earning, Cash Flows and Accruals: Has Financial Reporting Become More Conservative?. Journal of Accounting & Economics, 29 (3) : 287-320.

Gul, F., Srinidhi, B., & Shieh, T. (2002). The Asian Financial Crisis Accounting conservatism and audit fees: Evidence from Hong Kong. retrieved December 2011, www.ssrn.com

Hamdan, A. (2010). The Impact of Accounting Conservatism on the Enhancement of the Quality of Financial Reporting: an empirical study from the Jordanian industrial corporations. *Dirasat of Administrative sciences* (Accepted Paper).

Hellman, N. (2008). Accounting Conservatism under IFRS. *Accounting in Europe*, 5 (2): 71-100.

Hoitash, R., Markelevich, A., & Barragato, C. (2007). Auditor fees and audit quality. *Managerial Auditing Journal*, 22 (8): 761-786.

Issa, Samir M. (2008).The Impact of external audit on the operation of earnings management- Applied study. *Journal of commerce college for Scientific research*, Faculty of Commerce, University of Alexandria, 45 (2): 1- 47.

LaFond, R., & Watts, R. (2007). The Information Role of Conservatism. The Accounting Review,Vol.83,No.2: 447-479.

Lara, J., Osma, B., & Penalva, F. (2009). Accounting conservatism and corporate governance. *Review of Accounting Studies*, 14(1): 161-201.

Lobo, G., & Zhou, J. (2006). Did conservatism in financial reporting increase after the Sarbanes-Oxley Act? Initial evidence. *Accounting Horizons*, 20 (1): 57–74.

Piot C., & Janin, R. (2005). Audit Quality and Earnings Management in France. Social Sciences and Humanities Research Council of Canada, retrieved May 2011, www.ssrn.com.

Reyad, S.(2011). Accounting Conservatism and Quality of measuring Earnings : An Applied study on Bahraini Corporations. *Arab Journal of Administration*, Arab Administrative Development Organization (ARADO), The League of Arab States, 31(2) : *121-145* .

Scott, B., Pitman, M.(2005). Auditors and Earnings Management . retrieved June 2011, www.nysscpa.org

Srivastava, A., & Tse, S. (2009). A New Approach to Measuring Accounting Conservatism and the Contribution of Accelerated Loss Recognition vs. Delayed Gain Recognition to Trends in Conservatism, retrieved november

2011, www.ssrn.com
Vander Bauwhede, H., M. Willekens, and A. Gaeremynck. (2003). Audit firm size, public ownership, and firms' discretionary accruals management. *The International Journal of Accounting* , 38 (1): 1-22.
Watts, R.(2003). Conservatism in Accounting Part I: Explanations and Implications. *Accounting Horizons*, 17(1): 207-221.

Dr.Sameh M. Reda Reyad was born in 1973. He received his Ph.D. in Accounting from Helwan University, Cairo, Egypt in 2008. He worked as Accounting Lecturer in Higher Technological Institute, 10th of Ramadan City-Egypt. Dr. Sameh joined Ahlia University in February, 2009 as Assistant Professor, he had over 18 years experience in research, training and teaching. He published many papers in regional and international journals. Dr. Sameh became Certified Management Accountant (CMA) & Member in the Institute of Certified Management (USA) in March 2009. He worked as Reviewer in several regional and international journals.

Table 1: Sample selection

Sector	Listed companies	Excluded companies	Study sample
Food and Beverages	26	13	13
Basic resources	9	4	5
Chemical Industries	7	3	4
health care and Pharmaceutical	14	4	10
Construction and materials	27	16	11
Oil and gas	3	1	2
Industrial goods and services and automobiles	17	8	9
Total	**103**	**49**	**54**

Table 2: Measuring of audit Quality characteristics

Variable	Label	Measurement
Relationship with international audit firms	IR	Dummy value : This was measured by scale (1,0) ,1 = If the audit firm has relationship with international audit firms; 0 = otherwise
Specialty in client's industry	SP	Dummy value : This was measured by scale (1,0) ,1 = If the audit firm specialization in the client's industry; 0 = otherwise
Auditors qualifications	AQ	Dummy value : This was measured by scale (1,0) ,1 = If the audit firm has more than 50% of employees have professional certificates; 0 = otherwise
Client retention period	AR	Dummy value : This was measured by scale (1,0) ,1 = If the audit firm retained the client more than 2 years; 0 = otherwise

Table 3: Testing the First Hypothesis

Accounting Conservatism	One Sample T-Test			
	Test of Hypothesis: Mean = 1			
Year	Mean	Std. Dev.	T-Statistic	p-value
2006	1.3	6.75	1.1	0.12
2007	0.077	5.32	1.86	0.027
2008	0.068	4.89	1.92	0.021
2009	0.084	5.12	1.78	0.037
2010	0.072	4.62	1.88	0.024

*The Value of T scheduled at 5% level of significance and freedom degree 95% =*1.67

Table 4: Results of Binomial test for testing the Second hypothesis

Variables	Category	Frequencies	Observed Prop.	*p*-value (2-tailed)
IR	1	65	24%	0.000
	0	205	76%	
SP	1	184	68%	0.000
	0	86	32%	
AQ	1	175	65%	0.000
	0	95	35%	
AR	1	178	66%	0.000
	0	92	34%	

Table 5:   Results of multiple regressions for the study model

Variables	Coefficient(β)	T-Statistic	*P*-value (Prob.)
Relationship with international audit firms	0.52	1.77	0.041
Specialty in client's industry	0.48	1.85	0.038
Auditors' qualifications	0.44	1.70	0.047
Client retention period	0.04	1.72	0.040

The Value of   T scheduled at 5% level of   significance and freedom degree 1.67 (n-p-1 ,where n is the number   of sample and p the number of β in the model , 54-4-1=49)

CALL FOR PAPERS

The IISTE is currently hosting more than 30 peer-reviewed academic journals and collaborating with academic institutions around the world. There's no deadline for submission. **Prospective authors of IISTE journals can find the submission instruction on the following page:** http://www.iiste.org/Journals/

The IISTE editorial team promises to the review and publish all the qualified submissions in a **fast** manner. All the journals articles are available online to the readers all over the world without financial, legal, or technical barriers other than those inseparable from gaining access to the internet itself. Printed version of the journals is also available upon request from readers and authors.

IISTE Knowledge Sharing Partners

EBSCO, Index Copernicus, Ulrich's Periodicals Directory, JournalTOCS, PKP Open Archives Harvester, Bielefeld Academic Search Engine, Elektronische Zeitschriftenbibliothek EZB, Open J-Gate, OCLC WorldCat, Universe Digtial Library , NewJour, Google Scholar