**Studying and testing the relationship between activating the external audits approaches and quality of financial reports of companies listed in the stock exchange**

**Research objectives**

The research aimed to study external audit approaches (individual - joint - dual) and testing the relationship between these approaches and the quality of financial reports of companies listed in the stock exchange, theoretically on one hand and practically on the other hand.

**Research problem**

The research problem has been formulated in the form of the following questions

* What is the meaning of quality of financial reports and what are its most important measurements?
* What are the three approaches of the external audit and its relationship with quality of financial reports?
* Is the relationship between the external audit approaches and the quality of financial reports varying according to the approach of this audit?
* If the answer is yes, is this relationship actually existed in professional practice environment and Egyptian business environment for companies listed in the stock market?

**Research importance**

* The importance of research and its motives were derived from two aspects (the academic and practical). From the academic way: there is a scarcity in researches related to the subject of this research in Egypt especially experimental and field study.
* From the practical way: The quality of financial reports including the accounting information that stakeholders (especially investors in stocks) depend on it to make decisions. This quality is affected by the approach of the applied external audit; therefore, obtaining a practical guide on that relationship in the professional practice environment in Egypt is a research request. One of the most important motives for this research is to contribute to narrowing the academic gap, as well as finding a practical guide to the relationship of the study that contribute positively to guide the legislative associations, especially Financial Control Authority (FCA), the Central Bank, to commit with dual and joint audit, or at least be assured of the practical importance of these approaches in Egypt.

**Research hypotheses**

The research hypotheses were derived, in theory, pilot testing in the following:

* H1: the impact of external audit on the quality of financial reports varies depending on activating the approach of this audit
* H1/1: the individual external audit approach affect positively on the quality of financial reports
* H1/2: the joint external audit approach affect positively on the quality of financial reports
* H1/3: the dual external audit approach affect positively on the quality of financial reports
* H1/4: There are statistically significant differences between difference in activating external audit approaches and quality of financial reports

**Research plan**

To address the problem of the research in a logical manner and in accordance with its objectives, the research plan was as follows:

* The quality of financial reports and the most important measurements.
* Activating the approaches of the external audit and its relationship with quality of financial reports.
* Analyzing the relationship between the approach of the individual audit and quality of financial reports, derivation of sub-hypothesis (1/1)
* Analyzing the relationship between the approach of the dual audit and quality of financial reports, derivation of sub-hypothesis (1/2)
* Analyzing the relationship between the approach of the joint audit and quality of financial reports, derivation of sub-hypothesis (1/3)
* Summary of the relationship between the approaches of external audit and quality of financial reports, derivation of the main hypothesis 1 and the sub-hypothesis (1/4)

- Research Methodology

* The objective of the applied study.
* Population and sample of the study
* Description and measurement of variables
* The tools and procedures of the study.
* The statistical analysis and the findings of testing hypotheses.
* The findings of the research and answering its questions.
* Research recommendations.
* Fields of future research

**Research Methodology**

The researcher conducted a theoretical study to derive hypotheses, where the researcher do analysis of the relationship between the individual audit and quality of financial reports, it was found that there is a positive significant relationship between the individual audit and quality of financial reports and thus sub-hypothesis (1/1)was derived. As well as the analysis of the relationship between the approach of the dual audit and quality of financial reports, it was found that the approach of the bilateral audit affect positively on quality of financial reports and thus sub-hypothesis (1/2) was derived.

In addition to the analysis of the relationship between the approach of the joint audit and quality of financial reports, it was found that the approach of the joint audit whether mandatory or optional, provides a dual control means, and improve the independence of the auditor and therefore affect positively on quality of financial reports and thus sub-hypothesis (1/3) was derived. Finally the analysis of summary of the relationship between the approaches of external audit and quality of financial reports, derivation of the main hypothesis 1 and the sub-hypothesis (1/4)

The applied study aimed to test the research hypotheses. The population and sample of the study consists of commercial and industrial companies listed in the Egyptian Stock Exchange. The sample was withdrawn from these companies and divided into three sub-samples:

First Sample: it include 10 companies representing different sectors that apply the approach of the individual external audit, with access to the financial reports of these companies of the last three years from 2011 to 2013.

Second Sample: it include 10 companies representing different sectors that apply the approach of the dual external audit, with access to the financial reports of these companies of the last three years from 2011 to 2013.

Third Sample: it include 10 companies representing different sectors that apply the approach of the joint external audit, with access to the financial reports of these companies of the last three years from 2011 to 2013.

The tools and procedures for study include: the collection of financial reports of companies that apply individual, dual and joint external audit approach, during the period from 2011 to 2013, in order to carry out the necessary statistical analysis to measure and test the relationship between the three external audit approaches and the quality of financial reports.

Based on research hypotheses, the researcher identified research variables and how to measure it as follows:

A-The independent variables: these include the approaches of the external audit (individual – dual – joint) are measured by moving from individual to dual and then to joint.

B-the dependent variables: it is the quality of the financial reports, measured using **Modified**. **Jones Model** for measuring earnings management through calculating total Accruals and Non discretionary Accruals and discretionary Accruals, which is considered an indicator of earnings management and thus an indicator of the quality of financial reporting.

The researcher conducted the Statistical analysis to test hypothesis and concluded the following findings:

* The individual external audit has no impact on the quality of financial reports.
* The dual external audit has an effect on the quality of financial reports.
* The joint external audit has an effect on the quality of financial reports.
* There are significant differences between the individual external audit approach and the dual external audit approach in favor of the dual external audit approach, which shows a high quality of financial reports in the case of dual audit compared to the financial reports in the individual audit case.
* There are significant differences between the individual external audit approach and the joint external audit approach in favor of the join external audit approach, which shows a high quality of financial reports in the case of joint audit compared to the financial reports in the individual audit case.
* There are no significant differences between the dual external audit approach and the joint external audit approach, which shows the homogeneity of the quality of financial reports in the case of dual and joint audit

**Research Recommendations**

In light of the objectives, problem, methodology and the conclusions of the research, the researcher recommends the following:

(A) the Egyptian Financial Control Authority (FCA) (responsible for organizing control over markets and non-banking financial instruments) have to care with findings reached through this applied study, so that specialists in authority who meet the financial expertise can take the advantage of this study to measure the quality of financial reports of companies Listed in the stock exchange and knowing companies that practice earnings management and thus punish it whether to halt enrollment or cancellation.

(B) The need to expand the application of dual and joint audits approaches due to their positive impact on the quality of financial reports, and this expansion by requiring companies to adopt these two approaches.

(C) External auditors can take advantage of the applied study model to identify the extent to which the companies being audited intervene in earnings management or not and thus ensure the quality of financial reports. It is known as the Structured Audit.

(D) The accounting and auditing firms have to monitor the performance of auditors and the need for internal inspection about quality of audit and financial reports, through the establishment of a quality department, The inspection committees on the quality of professional performance of accounting firms have to focus on this, so any firm have no right to practice the profession, without the existence of this section within its organizational structure.

(E) The development of accounting and auditing curricula in Egyptian universities, to include the three external audit approaches, and their impact on the quality of financial reports. It should also include the study of the procedures and regulations of both the joint and dual audit approaches.