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Al- Abbady, Mustafa Rashed, El-Esawy, Amal Kamal Mohammed(Co-Author)	مؤلفين آخرين:
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The Impact of Strategic Alliances of Accounting Firms on the Audit Quality and Audit Risk Reduction in Egypt (An Applied Study)

**Prof. Dr.
Tarek Abd El-Azeem
Ahmed**

Prof. of Auditing, Former
Dean of the Faculty of
Commerce
Benha University

**Prof. Dr.
Mustafa Rashed Al-
Abbady**

Prof. of Auditing,
Preceding Dean of the
Faculty of Commerce
Benha University

**Amal Kamal
Mohammed El-Esawy**

Assistant Lecturer in the
Accounting Department

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Commerce
Benha University

**Amal Kamal Mohammed
El-Esawy**

Assistant Lecturer in the
Accounting Department

Abstract

Purpose: The research purpose is to "Investigate the impact of the participation of Egyptian accounting firms in strategic alliances on the audit quality and audit risk reduction in Egypt.

Design/Methodology: The research depends on a sample of listed joint stock companies in the Egyptian Stock Exchange during the years 2018, 2019 and 2020 using content analysis method of the annual financial reports, company's website and/or information available with the Egyptian Stock Exchange website. The research measured the impact of accounting firms strategic alliances on improving the audit quality for a sample of listed joint stock companies in the Egyptian Stock Exchange (EGX100) during the years 2018, 2019 and 2020, and measured the impact of accounting firms strategic alliances on the audit risk reduction of some of listed joint stock companies in the Egyptian Stock Exchange (EGX100) during the years 2018, 2019 and 2020.

Value: This research contributes to the existing research in several ways, first it contributes to filling the gap in the existing literature on the topic of accounting firms strategic alliances by providing a comprehensive and longitudinal study on actual cases in Egypt; such as KPMG Hazem Hassan and EY Ernst & Young in Egypt. Second this research enhances the understanding of many factors regarding the advantages of the accounting firms strategic alliances which are proved to be determinants to the professional performance quality in Egypt by highlighting their effect on the overall audit quality. Finally, the examination of one of the consequence of the accounting firms strategic alliances on the audit risk reduction

Keywords: Strategic Alliances- Audit Quality- Audit Risk

Introduction:

The expansion of globalization and development of international trade and finance have imposed new challenges for organizations to compete and survive. Rapid changes in technology have placed organizations in closer contact with one another and have also forced them to compete on an international level. And as the International Accounting and Assurance Standards Board (IAASB) suggests that to provide high quality audits, the auditors should be "sufficiently knowledgeable, skilled, and experienced".⁽¹⁾ Accordingly, prior research in international audit markets concludes that Big-4 firms provide higher audit quality than smaller non-Big 4 accounting firms, due to greater access to resources, greater technical skills, and enhanced reputation risk.⁽²⁾

Also, the increase in the use of strategic alliances has enabled public accounting (CPA) firms to address some of the major challenges and issues that direct their efforts to provide the product or service to clients that gives them a competitive advantage in the marketplace. Strategic alliances are part of the total quality management (TQM) strategy which focuses on the long-term success of the organization. Specifically, they are formal arrangements between two or more entities to gain access to much needed resources that each party may not possess, to provide the product or service to clients that gives them a competitive advantage, and to gain access to new distribution channels and sources of supply, financing, expertise and intellectual property that exist in today's changing deal environment. This is especially relevant with the rapid expansion of international competition and globalization.⁽³⁾

Based on the principle of strategic utilization and support, companies realized their need to have appropriate business strategies to expand their business, increase profitability and support their competitiveness. Some of these strategies include strengthening the company's position, acquiring other companies, associating with other companies, strategic alliances and other strategies.

Strategic alliances, as a part of the overall quality management strategy, focus on the long-term success of the organization, as they are formal agreements between two or more organizations to provide the necessary resources that are difficult for any single organization to provide individually, to provide a product or a service to customers for achieving a competitive advantage. The idea of

(1) Basioudis, I. G., and J. R. Francis, "Big 4 audit fee premiums for national and office-level industry leadership in the United Kingdom", **Auditing: A Journal of Practice and Theory**, Vol.26, Iss.2, 2007, PP:143-166.

(2) Fang, J., J. Pittman, Y. Zhang, and Y. Zhao, "Auditor choice and its implications for group affiliated firms", **Contemporary Accounting Research**, Vol. 34, Iss. 1, 2017, PP: 39-82.

(3) Huldah A. Ryan, Charles J. Cante, Robert G. Strittmatter, Vincent J. Calluzzo, and Caitlin R. Maxwell, "Strategic Alliances in Public Accounting Firms", **The Journal of Applied Business Research**, Vol.25, No.4, 2009, P.1..

strategic alliances formation emerged from the scarcity of resources, the desire to enter international markets, coping with GATT, the umbrella of the World Trade Organization, exceeding the geographical and political boundaries between the countries of the world, and the need to access and develop the technology as the strategic alliances can overcome the obstacle of the high cost of technology transfer and development through technology transfer at lower costs, which help to achieve a competitive advantage for companies.⁽⁴⁾

So, the accounting firms' strategic alliances can be formed as⁽⁵⁾:

1- International Accounting Networks:

It is the short-term relationship between two legally and economically-independent firms to attain a competitive advantages over the other un-related firms.

2- Strategic Alliances:

It represents the relationship between two or more than two firms with accurately defining the alliances' goals and best usage of the comparative advantages of each firm to improve their effectiveness.

So, participating in the accounting firms' strategic alliances ensures applying the international standards, providing such firms with the latest technology programs to attain the required professional performance quality, and enhances the external auditor independence to improve the audit quality provided by such related-firms.

The Research Problem:

After the various financial crises that occurred in the world and the financial collapses in many countries; the Enron crisis, the WorldCom crisis, and finally the global financial crisis, which resulted in the bankruptcy of many companies and global banks, and the steady increase in the bankruptcy of many companies in all countries of the world, the world began to claim the auditors and put a large part of the responsibility by accusing them of not being able to perform their professional duties in a manner consistent with the principles and standards of auditing and adhering to the ethics and conduct of the profession, which led to destroying of the auditing profession image and reputation in the world.

Therefore, attention must be paid to the required level of audit quality to overcome these pressures, which is a necessary requirement for all parties of the audit process (financial reports' users, accounting firms, professional organizations, government agencies, and the audit clients). As the audit quality importance stems from confirming the adherence to the auditing standards, confirming compliance with the requirements of the profession, contributing to

(٤) د/ أحمد سيد مصطفى، "التخطيط الاستراتيجي والإدارة الاستراتيجية"، ماس للطباعة، ٢٠١٢، ص: ٤١٤-٤١٥.

(٥) خالد مصباح الصابر، "دور التحالفات الاستراتيجية لمؤسسات المراجعة في زيادة قدرتها التنافسية في سوق الخدمات

الليبية"، رسالة دكتوراه، كلية التجارة، جامعة قناة السويس، ٢٠١٦، ص ٢٨.

narrowing the expectations gap in auditing, enhancing the possibility of detecting errors in the financial statements, a good competitive tool, reducing the business risks of the audited company, and being one of the corporate governance mechanisms. So, if the audit quality is sustained, the audit risk can be reduced as there is a negative relationship between audit risk and the audit quality.

So, it was necessary to pay attention to the nature of the audit market and its related dimensions. One of the most important of these dimensions is the strategic alliances between accounting firms, through which a "voluntary contract is made between a group of accounting firms, where each firm maintains its independent personality, whether those working in the same field or in different fields seek to achieve common strategic goals through the exchange of strengths to support their competitive capabilities."⁽⁶⁾

It is possible that there will be a positive impact on the audit quality due to the advantages of these strategic alliances; that related to the available training programs and conferences offered by the international accounting firms, and using the international alliance name as the benefits of the accounting firms strategic alliances can be summarized as follow:

- 1- Adherence to the auditing standards application and the rules of professional conduct, which reduces the failure possibility to complete the audit process.
- 2- The technology and expertise provided by the international accounting firms, beside using the quality control procedures to improve the auditors professional performance.
- 3- Increasing the competition in the international audit market, where the international accounting firms have reputation that attracts the most important clients, and affects positively on the position of those clients in the stock market.

Therefore, the most important dimensions of the research problem can be summarized in the following questions:

- 1- What are the forms and problems of the accounting firms strategic alliances?
- 2- What is the impact of the accounting firms strategic alliances on the audit quality?
- 3- What is the impact of the accounting firms strategic alliances on the audit risk reduction?

(٦) خالد مصباح الصابر، مرجع سبق ذكره، ص ٢٥.

Preliminary Related Studies:

Some preliminary related studies with the research topic will be discussed in the following table:

Study	Study Objectives	Study Results
1- Knapp, 1991 ⁽⁷⁾	The study aimed at specifying the impact of auditor characteristics on the audit quality.	The study confirmed the positive relationship between the audit quality and the period of dealing with the same client.
2- Huldah A. Ryan, et. Al, 2009 ⁽⁸⁾	The study aimed at ensuring the importance of accounting firms' strategic alliances, especially after SOX.	The study confirmed that participation in strategic alliances enables accounting firms to pool their resources, increase revenues, build a larger knowledge support system, and compete with larger firms both nationally and on a global basis. That is in turn will improve the audit quality.
3- Kenneth L. Bills, Lauren M. Dreher and Linda A. Myers, 2014 ⁽⁹⁾	The study clarified the benefits of participating in accounting networks or strategic alliances, where the related firms can improve their experience through the provided conferences.	The study confirmed that participation in strategic alliances enables member firms to conduct higher quality audits than non-member firms. Clients are willing to pay a higher audit fee premium to engage association member audit firms. Finally, member firm audits are of similar quality to Big 4 audits.
4- Yoshie Saito et. al, 2014 ⁽¹⁰⁾	The study clarified the failure case of the ChuoAoyama's and compared the failure in this case with the Andersen's failure.	The study assured the negative market reactions is larger for Andersen's failure than for ChuoAoyama's. Also, it provides a rational explanation for PwC's aggressive efforts to temper the negative impact of ChuoAoyama's failure on their reputation.

(7) Knapp, C. Michael, "Factors That Audit Committee Members Use as Surrogates for Audit Quality", *A Journal of Practice and Theory*, Vol.10, No.1, Spring, 1991, pp .35-52.

(8) Huldah A. Ryan, Charles J. Cante, Robert G. Strittmatter, Vincent J. Calluzzo, and Caitlin R. Maxwell, "Strategic Alliances in Public Accounting Firms", *The Journal of Applied Business Research*, Vol.25, No.4, 2009, PP.1-8.

(9) Kenneth L. Bills, Laurant M. Dreher, and Linda A. Myers, "Associations, Networks, and Alliances: Equipping Small Audit Firms with Big Resources", *Working Paper*, January 2014, PP.1-56. Available at: <http://papers.ssrn.com-abstract-id=2379678>. Retrived at: 22 September 2017.

(10) Yoshie Saito and Fumiko Takeda, " Global Audit Firm Networks and Their Reputation Risk", *Journal of Accounting, Auditing & Finance*, Vol.(29), Iss.(3), 2014, PP:203-237.

Study	Study Objectives	Study Results
5- Kenneth L. Bills and Lauren M. Cunningham, 2015 ⁽¹¹⁾	The study clarified the relationship between participating in accounting firms' strategic alliances and the audit fees.	The study confirmed that small accounting firm association members provide higher-quality audits and charge higher fees than small accounting firms that are not members of an association.
6- Ashna Lata Prasad, 2016 ⁽¹²⁾	The study discussed how to raise the audit quality through participating in accounting networks.	The results confirmed that multi-firm group audits conducted by auditors from the same global accounting firm network were of higher quality.
7- Yiheng Guo, 2016 ⁽¹³⁾	The study discussed the audit quality in many different countries, advantages and disadvantages of the Big-4, and how they respond to the cultural effects in improving the audit quality.	The results confirmed that the association with the Big-4 achieve the following: Cost savings, the ability to hire local talent that provides high-quality services, and Expanding international influence on developing auditing standards to more developing countries.
8- Kenneth L. Bills et.al. 2017 ⁽¹⁴⁾	The study clarifies the impact of the accounting firms' strategic alliances on the audit quality and on the audit fees.	The study found that the associated small accounting firms were able to obtain the required resources, support their market share, achieve higher audit quality, which reflect their competitive position, and require higher fees than the non-associated small accounting firms.
9- Jalil Ibrahim Salih and Hakeem Flayyih, 2020 ⁽¹⁵⁾	The study measured the impact of the audit quality on the audit risk reduction in Iraq.	The study concluded that the quality of the audit has had an impact on reducing the risk of the external audit profession.

- (11) Kenneth L. Bills and Lauren M. Cunningham, "How Small Audit Firm Membership in Associations, Networks, and Alliances can Impact Audit Quality and Audit Fees", **American Accounting Association**, Vol.9, Iss.2, 2015, PP.29-35.
- (12) Ashna Lata Prasad, "International Audit Quality and Global Audit Firm Networks", **Doctor of Philosophy Thesis**, School of Accounting, The University of New South Wales, January 2016.
- (13) Yiheng Guo, "Audit Quality Control: Big Four Global Member Firms and Audit Services ", **Honors Theses**, Department of Accounting, University of Wyoming, 2016.
Available at: https://repository.uwyo.edu/honors_theses_15-16/33/.
- (14) Kenneth L. Bills, Christie Hayne, and Sarah E. Stein, "A Field Study on Small Accounting Firm Membership in Associations and Networks: Implications for Audit Quality", **Working Paper**, July 2017, PP. 1-74.
Available at: <http://ssrn.com/abstract=2884301>. Retrived at: 22 September 2017.
- (15) Jalil Ibrahim Salih and Hakeem Hammood Flayyih, "Impact of Audit Quality in Reducing External Audit Profession Risks", **International Journal of Innovation, Creativity and Change**, Volume 13, Issue 7, 2020, PP: 176:199.

The Research Gap:

Thus, the research gap can be clarified in the following way:

Previous Studies

- Participating in accounting firms strategic alliances improve the adherence to the international standards.
- Big-4 and Non-Big4 accounting firms provide many advantages such as the modern and sophisticated programs and technology.
- There is a positive impact of participation in the accounting firms strategic alliances on the professional performance quality.
- The accounting firm size and reputation have a positive relationship with the audit quality.

Research Gap

- There is a scarcity in the Egyptian studies that dealt with the accounting firms strategic alliances.
- The previous studies did not address the impact of strategic alliances on improving the audit quality.
- The previous studies did not address the impact of alliances on the audit risk reduction

The Current Study

- The study shall examine the accounting firms strategic alliances in the Egyptian business environment.
- The study shall examine the impact of participation in strategic on improving the audit quality alliances in the Egyptian business environment.
- The study shall examine the impact of participation in strategic on the audit risk reduction alliances in the Egyptian business environment.

Research Objective:

The main objective of the research is to "Investigate the impact of the participation of Egyptian accounting firms in strategic alliances on the audit quality and audit risk reduction in Egypt", which can be sub-divided into two sub-objectives as follow:

- 1- Identifying and clarifying the forms of the accounting firms strategic alliances.
- 2- Identifying the impact of the accounting firms strategic alliances on the audit quality.
- 3- Identifying the impact of the accounting firms strategic alliances on the audit risk reduction.

Research Hypotheses:

Based on the research objectives, the research hypotheses can be formulated as follow:

- 1- **The first main hypothesis is:** There is a significant relationship between the accounting firms strategic alliances and the audit quality.

- 2- **The second main hypothesis is:** There is a significant relationship between the accounting firms strategic alliances and the audit risk reduction.

Research Limits:

- 1- The research will not involve the internal audit.

Research Structure

Introduction

Chapter 1: Nature, Forms, and Problems of the Strategic Alliances and their Impact on the Audit Profession in Egypt

Chapter 2: The Impact of Accounting Firms Strategic Alliances on the Audit Quality

Chapter3: The Impact of Accounting Firms Strategic Alliances on the Audit Risk

Chapter4: The Applied Study

Section One

With the continuous technology development, and the increment of the technical consultations services required by companies, it was necessary to expand the range of professional services provided by the accounting firms to their clients.⁽¹⁶⁾

The idea of accounting firms association and cooperation with international organizations has become one of the most important features and facts of the audit profession in Egypt because of its positive impact on the accounting and auditing profession in Egypt. As it helps to create opportunities, to benefit from expertise and technology, to create a strong competition that leads to improve the performance of the profession and develop it in the future, and contribute to develop the auditors skills in the Egyptian accounting firms.

One of the most important forms of accounting firms associations is the strategic alliances, which have increased during the past few periods, so that the strategic alliances have been formed between entities in general, as they gather ideas between these entities in a way that serves the information exchange in an important framework that avoids hostile competition between organizations.

Also, the strategic alliances is a part of the comprehensive quality management strategy that focuses on the long-term success of the organization as it prepares formal agreements between two or more institutions to provide the necessary resources that it is difficult for any organization to get individually in order to provide the product or service to customers to achieve a competitive advantage.⁽¹⁷⁾

(١٦) عبدالرازق جبريل محمد ضيف الله، "معوقات نمو وتطور مكاتب المراجعة المصرية في تنظيم سوق المراجعة الدولي - بحث ميداني"، المجلة العلمية للدراسات التجارية والبحوث البيئية، كلية التجارة بالاسماعيلية، جامعة قناة السويس المجلد السادس (ملحق العدد الأول)، ٢٠١٥، ص ١٨٣.

(١٧) د/ أحمد سيد مصطفى، "التخطيط الاستراتيجي والإدارة الاستراتيجية"، ماس للطباعة، ٢٠١٢، ص ص: ٤١٤-٤١٥.

Strategies of International Audit Market Regulations

Regulating the international audit market is one of the most intellectual, philosophical and scientific concepts that is important for researchers and auditors interested in developing the audit profession and improving its quality. The Commission has taken several steps, the most important of which was the issuance of legislative directives for auditing in 2006, that was characterized by its wide scope because it contained five strategic directions for regulating the international audit market, and these strategic directions can be considered dimensions for regulating the international auditing market because they are closely related to the defects that the auditing market suffers from. Therefore, the issue of regulating the international audit market can be clarified through the following five strategic directions:⁽¹⁸⁾

- 1- Commitment and adherence to the legislative directives for the audit of the auditors independence and accounting firms.
- 2- Commitment and adherence to the legislative directives related to the systems of the auditors responsibility.
- 3- Commitment and adherence to legislative directives related to public oversight systems for auditors.
- 4- Adopting the application of international auditing standards.
- 5- Cooperation and dealing with the third-world auditors in organizing the international audit market.

The Accounting Networks, Associations, and Strategic Alliances Concept:

The global network firms use common accounting technologies and strategies to increase visibility and expand their oversea business. The expression of accounting firms networks depends on having more than one accounting firm in the same network and with the same international name.

International Accounting Networks is a group of affiliated accounting firms located in different countries where they share knowledge, resources and sometimes employees but remain legally and financially independent. As for the accounting entities that did not meet the network definition, they became known as associations.⁽¹⁹⁾

And, Accounting firm associations are organizations in which all accounting firm members are independent in legal name and legal structure.

(١٨) عبد الرزاق جبريل محمد ضيف الله، "معوقات نمو وتطور مكاتب المراجعة المصرية في تنظيم سوق المراجعة الدولي (بحث ميداني)"، المجلة العلمية للدراسات التجارية والبيئية، كلية التجارة بالاسماعيلية، جامعة قناة السويس، المجلد (٦)، ٢٠١٥، ص: ٢٢١: ٢٢٦.

(19) Matthew Ege, Young Hoon Kim, and Dechun Wang, "Do Global Audit Firm Networks Apply Consistent Audit Methodologies Across Jurisdictions? Evidence from Financial Reporting Comparability", *The Accounting Review*, Vol.95, Iss.6, 2020, P.157.

Thus, their audit opinions carry their individual accounting firm names (rather than the association name) and their legal liability cannot be passed to other members of the association.⁽²⁰⁾

As the accounting firms benefit from membership in a network, association or alliance, there are several obligations on the firms towards these networks. Some of those obligations are the network's approval to join, the payment of initial and annual fees, participation in audit methodologies and technical programs among members to provide high-quality service to all customers, the adherence to common policies, and applying the global network quality standards.

The alliances membership fees vary and base on revenue and on firm size. Members may pay annual fees of hundreds thousands of dollars, these fees are usually set as a fixed amount, a percentage of audit revenue, or both.⁽²¹⁾

The Basic Features of the Accounting Firms Networks

Accounting firm networks have some special features that must be respected while forming strategic alliances. These features can be illustrated by clarifying the networks of strategic accounting firms, leadership of the strategic network, specialization, pressure from competition, a mechanism for managing coordination and cooperation problems in the networks of accounting firms, network investments, brand name and reputation as follows:⁽²²⁾

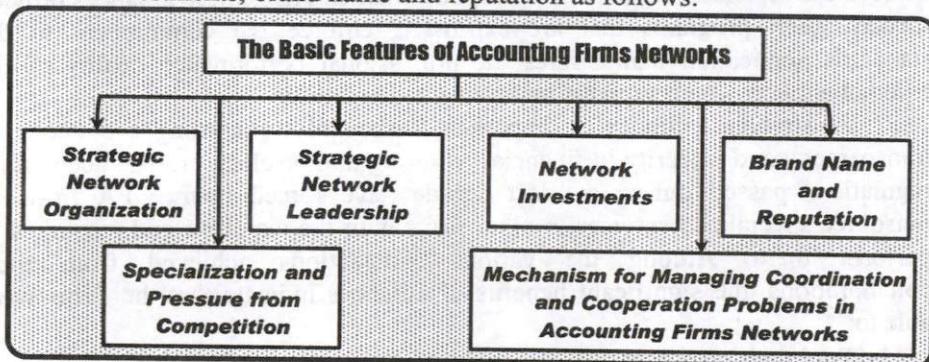


Fig. (1)

The Basic Features of Audit Firms' Networks

(٢٠) أشرف محمد إبراهيم منصور، "عضوية الشبكات والجمعيات المحاسبية ودورها في تحسين جودة الخدمات التي تقدمها مكاتب المراجعة الصغيرة بالتطبيق على البيئة المصرية"، مجلة الفكر المحاسبى، كلية التجارة وإدارة الأعمال، جامعة حلوان، مجلد رقم ٢٢، العدد رقم ٦، ٢٠١٨، ص ٩.

(21) Ibid, PP:17-18.

(22) Hansrudi Lenz and Marianne James, "International Audit Firms as Strategic Networks – The Evolution of Global Professional Service Firms", *Economics and Management of Networks*, Physica-Verlag, Heidelberg, New York 2007, 2016, PP: 5-22.

Available at: https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2719585.

Retrieved at: 17 July, 2018.

But in strategic alliances, firms combine their assets and capabilities in a cooperative policy to achieve competitive advantages. Strategic alliance is considered as an essential source of resource-sharing, learning, and thereby competitive advantage in the competitive business world.⁽²³⁾

Strategic alliances also contribute to successfully implement the strategic plan; therefore, the alliances must be strategic in nature. They can also be defined as a relationship between organizations for the purposes of achieving successful implementation of a strategic plan.⁽²⁴⁾

The strategic alliances involve combining knowledge and resources, which enable organizations to penetrate markets within and beyond national borders. These strategic alliances are vital sources of necessary information and other types of resources to maintain a competitive advantage. They form the backbone of the modern competitive arena. The alliances are considered strategic when they represent the means by which a firm seeks to implement, in part or totally, elements of management's strategic intent.⁽²⁵⁾

So, the accounting firms strategic alliances can refer to professional entities between more than one accounting entity to achieve the integration in expertise and knowledge within the framework of maintaining the financial, organizational and intellectual independence of these entities within the alliance in order to achieve the alliances' objectives in the audit market. Also, these alliances provide modern audit programs that are expensive, enforce the commitment to the standards application that ensures the professional performance quality of the external auditor, which supports improving audit quality.

A strategic alliance is important –especially- regarding the need for transparency and integrity in financial reporting and disclosures. The accounting regulations passed during the last decade have forced many CPA firms to outsource specialized services to other firms with the expertise and resources to perform them. Among the various satisfactions achieved from their collaborations, the significant benefits of alliances indicate that the firms were able to:⁽²⁶⁾

- 1- Pool their resources,
- 2- Increase their revenues,
- 3- Build a larger knowledge support system to serve a wider clientele, and
- 4- Compete with larger firms, both nationally and on a global basis.

(23) Mohammed Belal Uddin and Bilkis Akhter, "Strategic Alliance and Competitiveness: Theoretical Framework", *Journal of Arts Science & Commerce*, Vol. II, Issue 1, January 2011, P. 44.

(24) *Ibid*, P.40.

(25) Mário Franco, "Determining factors in the success of strategic alliances: an empirical study performed in Portuguese firms", *European Journal of International Management*, Vol. 5, No. 6, 2011, P.609.

(26) *Ibid*, P.6.

Motivations of Forming the Strategic Alliances

Accounting firms may have different motivations to form the strategic alliances with the international accounting firms (Big-4) or (Non-Big4). These reasons and motivations can help the Egyptian accounting firms to have a competitive advantage over the non-related accounting firms, which may be of the following:⁽²⁷⁾

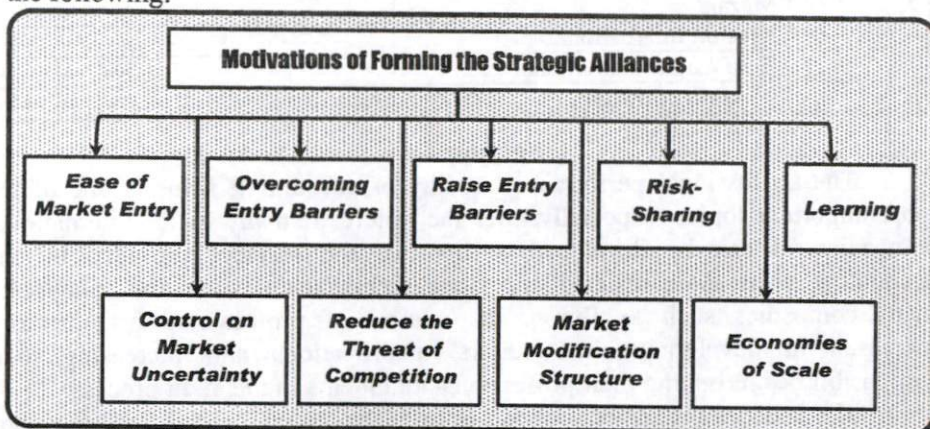


Fig. (2)

Motivations of Forming the Strategic Alliances

So and according to these motivations, some Egyptian accounting firms have entered into strategic alliances with international accounting firms (Big-4), such as:⁽²⁸⁾

No.	International Accounting Firm	Egyptian Accounting Firm
1	KPMG Peat Marwick	مكتب حازم حسن
2	Ernst & Young	مكتب المتضامنون للمحاسبة والمراجعة
3	Deloitte Touche Tohmatsu	مكتب صالح ورسوم
4	Price Waterhouse cooper	مكتب طارق منصور

And some other Egyptian accounting firms have resorted to strategic alliances with international accounting firms ,other than the Big-4, that are called Non-Big 4 accounting firms, such as:⁽²⁹⁾

(27) Margherita Russo, "Strategic Alliances in Global Markets", **PHD Thesis**, Department of Economics, Management and Statistics, Universita DeGli Studidi Milano-Bicocca, 2017, PP: 23-25.

Available at: https://boa.unimib.it/retrieve/handle/10281/153661/218692/phd_unimib_759771.pdf, Retrieved at: 27 July, 2018.

(²⁸) عبدالرازق جبريل محمد، "معوقات نمو وتطور مكاتب المراجعة المصرية في تنظيم سوق المراجعة الدولي - بحث ميداني"، *المجلة العلمية للدراسات التجارية والبينية - مصر*، مجلد رقم ٦، ٢٠١٥، ص ١٩٨.

(29) Ibid, P.198.

No.	International Accounting Firm	Egyptian Accounting Firm
1	Barker Tilly	مكتب وحيد عبدالغفار
2	Geneva Group International	مكتب أشرف عبدالغني
3	Grant Thornton	مكتب محمد هلال
4	RSM Thornton	مكتب مجدي حشيش
5	Mazars	مكتب مصطفى شوقي
6	Kreston International	مكتب صفوت نور الدين
7	Eura Audit International	مكتب أحمد سلطان
8	IGAF Worldwide	مكتب خالد الغنام

Section Two

The professional performance quality of accounting firms is one of the most important topics, especially after the failure of many major international companies. It can be developed to improve the services provided by the accounting firms. As a result of the global financial crisis and the collapse of many companies such as Enron, the interest of professional organizations increased in developing the auditors' qualifications and increasing their responsibilities in issuing their professional judgments in the audit process. ⁽³⁰⁾

The auditor's professional performance quality can also be defined regarding the audit process as "an objective assessment by the external auditor who has sufficient skills, abilities and knowledge that enable him to take the appropriate decision respecting the audit standards and rules of ethics and professional conduct". ⁽³¹⁾

The professional performance quality importance can be clarified as follows: ⁽³²⁾

- 1- **Confirmation of the Professional Standards Commitment:** auditing standards represent guidelines that define audit procedures and contain quality control standards, that aim to improve the auditor's performance. So, there is a positive relationship between the auditor's professional performance quality and commitment to professional standards, where the commitment to apply professional standards leads to achieving the high possible level of the audit quality.
- 2- **Good Competitive Tool:** Providing audit services at a high quality level is the main reason for the local accounting firms to expand their audit

(٣٠) حسام السعيد الوكيل، "مدخل مقترح للرقابة علي جودة الأداء المهني لمكاتب المراجعة بالملكة العربية السعودية: دراسة ميدانية"، مجلة الإسكندرية للبحوث المحاسبية، قسم المحاسبة والمراجعة، كلية التجارة، جامعة الإسكندرية، ٢٠١٩، ص: ٢٨٠-٢٨١.

(٣١) نهى محمد زكي محمد علي، "أثر درجة التخصص الصناعي لمراقب الحسابات وطول فترة إرتباطه بعمله علي جودة حكمه المهني بشأن الإستمرارية- دراسة تطبيقية علي الشركات المقيدة بالبورصة المصرية"، مجلة الإسكندرية للبحوث المحاسبية، قسم المحاسبة، كلية التجارة، جامعة الإسكندرية، العدد ٢، المجلد ٤، ٢٠٢٠، ص: ٧.

(٣٢) علاء أحمد إبراهيم رزق، مرجع سبق ذكره، ص ١٧.

market share and penetrate the international audit markets through improving their abilities.

- 3- **Narrowing the Expectations Gap in the Audit Process:** The expectations gap in the audit indicates the customers' dissatisfaction with the auditors' performance, which lead them to litigate the auditors because of their weak performance, so enhancing the external auditors' performance quality can reduce the audit expectations gap existence.
- 4- **Corporate Governance Enhancement:** The various guidelines on governance include the importance of reports, financial information and transparency. So, the audit quality achieves the financial information credibility that reflects the financial markets effectiveness, which supports the corporate governance.

Therefore, professional performance care is necessary at every stage in the audit process, starting from the audit program design to preparing the audit report and expressing the audit opinion.⁽³³⁾ So, the professional performance quality indicators can be affected by the auditing standards, the rules of professional conduct and the standards of quality control regarding to the professional performance of external auditors as follows⁽³⁴⁾:

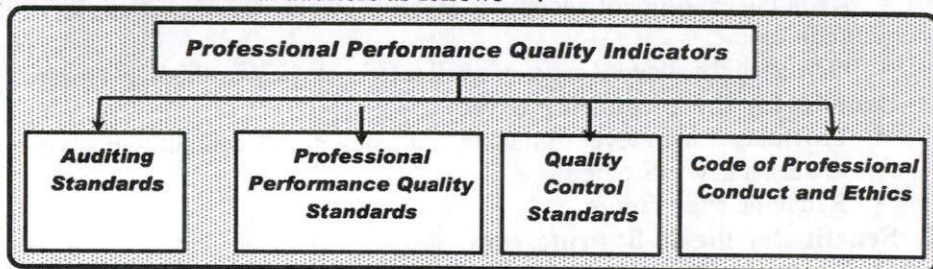


Fig. (3)

Figure prepared by the researcher.

Audit Quality Control

KPMG AUDIT (1988) defined audit quality control factors as encompassing all policies and procedures adopted by KPMG to provide reasonable assurance that audit conducted by KPMG firms are aimed out in accordance with international auditing guidelines. Also, CPA definition of audit quality control elements comprise methods to carry out responsibilities to its client. The method here comprises the organizational structure of the accounting firm and the procedures of the firm.

The quality control factors help firms to meet standards consistently on every audit and also extend to cover the generally accepted accounting standards.

(33) Ibid, P.448.

(34) Figure prepared by the researcher.

Audit quality control factors are simply the procedures, policies and activities adopted by an accounting firm to ensure that the auditing standards and guidelines as well as the generally accepted accounting standards and guidelines are religiously compiled with to ensure a high standard of audit practice and high quality audit report.⁽³⁵⁾

The Impact of the Professional Organizations' Efforts -Regarding the Quality Control- on the Auditors' Performance

All standards and publications issued by professional organizations regarding quality control, oblige all accounting firms to implement an appropriate system for quality control in accordance with the procedures and policies of quality control, which in turn can sustain many benefits to many parts related to the audit process as follow:⁽³⁶⁾

1- Benefits for auditors

- Improving the practical qualification of the accounting firm staff.
- Providing the policies and procedures that auditors must abide by to achieve a high level of quality.
- Avoiding exposure of auditors to lawsuits by clients or beneficiaries of the audit report.
- Enhancing the auditors' usage of modern technological methods and means.

2- Benefits for the accounting firms

- Providing a high level of quality and using it as a competitive advantage to attract new customers.
- Reducing audit failure.

3- Benefits for the audit profession

- Ensuring adherence to standards and rules of professional conduct and quality improvement.
- Improving the confidence of the financial community in the accounting and auditing profession.
- Helping to narrow the expectations gap in the audit environment.
- Helping to eliminate unstructured audit.

Audit Quality Measurement

Audit quality can be measured directly through the accounting firm size, the auditor's reputation, the period of contract with the customer, providing services other than the audit process, the proportion of litigation cases related to the auditor's work, and industrial experience. Direct method may also depend on

(35) Arzizeh T. Tapang, Alphonsus K. Kankpang, Egu U. Inah, Peter K. Bessong, and Ashishie P. Uklala, "Audit Quality Control and its Influence on Audit Report in Nigeria", *European Journal of Economics, Finance and Administrative Sciences*, Issue 104, 2020, P.47.

(36) *Ibid*, P.19.

some direct factors such as factors that are related to the audited company like financial reporting adopted with IAS, audit quality control, company performance, and earning quality.⁽³⁷⁾ So, the researcher selected the following audit quality measures:

- 1- Accounting Firm Size
- 2- The Auditor's Industry Specialization
- 3- Audit Tenure

Importance of the Accounting Firms' Strategic Alliances for improving the Audit Quality in Egypt

The accounting firms' strategic alliances importance -that can improve the audit quality- stems from the following three potential sources⁽³⁸⁾:

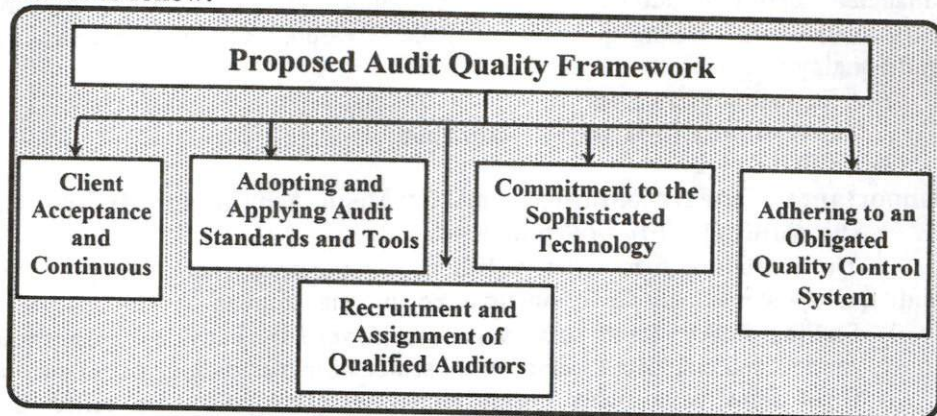
- 1- **Staffing Policy:** Since audit work is performed by individual engagement partners and employees, one potential source of higher audit quality is that the Big-4 firms have higher quality employees. This policy can reflect that auditors with high quality training and experience are available through the four major accounting firms, and it can also reflect that the four major accounting firms are better able to identify and hire people who are more motivated. It can therefore be assumed that one of the sources of high audit quality for the Big Four firms, is their ability to hire high quality staff. The four major accounting firms may incentivize or provide better learning opportunities and are better at motivating both auditors and partners to provide a higher audit quality through increased monitoring or better compensation.
- 2- **Learning:** Compared to accounting firms other than the Big-4, the Big-4 accounting firms have more resources and incoming partners are exposed to a wider range of resources. HR quality is important for delivering high quality audits because of more group experience, more members to consult, and more internal expertise in spotting material errors. Since the four major accounting firms have more resources than the others, they may be able to increase the capacity and efficiency of upcoming partners by providing facilities that may contribute to increased learning.
- 3- **Monitoring/Incentives:** The third factor that may contribute to raising audit quality is the stronger monitoring/incentives. Rules and regulations are established to ensure adequate audit quality, and the law in many countries requires that all accounting firms have internal control systems and be subject to periodic reviews. A periodic review includes an assessment of the accounting firm's internal control system.

The researcher provided a proposed audit quality framework –concluded from the last two Egyptian cases- to help the un-related accounting firms with

(37) Noor Adwa Sulaiman, Op.Cit, P.24.

(38) Limei Che, Ole-Kristian Hope, and John Christian Langli, "How Big-4 Firms Improve Audit Quality", Management Science, Vol. 66, No. 10, 2020, PP: 9-12. Available at: https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2828224

strategic alliances sustain and achieve a high audit quality level in the audit market as follow:



These five proposed components can help the un-related accounting firms in strategic alliances to:

- Acquire the best qualified auditors with the required skills and qualifications.
- Choose and select the audit clients and engagements depending on the evaluation of their risk profile.
- Have and apply an obligated quality control system.
- Adhere to the audit standards, policies, procedures, ethical standards, relevant laws and regulations.
- Apply a digital audit programs to improve audit capabilities and innovative new technologies.

which are collectively improve the auditor professional performance quality and hence, improve the provided audit quality level in the accounting firms.

Section Three

Audit risk cannot be ignored as a main aspect of the professional performance of the external auditor in accordance with the auditing standards, as the external auditor's determination of the risk in the audit process is one of the basic requirements for determining the scope of his tests for operations and accounts. Audit risk is a realistic matter that threatens the external auditor, as the external auditor must avoid the possibilities of those risks or reduce them by doing the maximum possible professional care through adhering to the effective application of the auditing standards.

So, the auditor plans the audit procedures well, which leads to a decrease in the audit risk and an increase in the ability to detect errors and manipulations. There is no doubt that audit risk is one of the important factors that the auditor must take into consideration, whether in planning the audit process, in

determining audit procedures, or in evaluating the audit evidence.⁽³⁹⁾ The American Institute of Certified Public Accountants (AICPA) assured the need to assess the risk in planning the audit in its Standard No. (47) that the auditor must plan for the audit process so that, the audit risk is as low as possible and appropriate to express a suitable opinion on the financial statements.⁽⁴⁰⁾

Audit Risk Definition

The International Federation of Accountants (IFAC) defined in International Standard on Auditing (200) audit risk as "the risk of the auditor expressing an inappropriate opinion, when the financial statements are materially misstated. Audit risk is a function of the risk of material misstatement and the detection risk."⁽⁴¹⁾

The list of terms issued by the British Financial Reporting Council (FRC) defined audit risk as "the risk that the auditor expresses an inappropriate audit opinion when the financial statements contain material misstatements, and audit risks, according to the Council, consist of material misstatement and discovery risks."⁽⁴²⁾

Also, the Egyptian Auditing Standard No. (200), the Egyptian Accounting and Auditors Association indicated that "the risk of the auditor expressing an inappropriate audit opinion when the financial statements misrepresent a significant and influential distortion known as audit risk."⁽⁴³⁾

Thus, the researcher can deduct the concept of audit risk in expressing an incorrect -unintentional- opinion of the auditor on the financial statements, which leads to the issuance of unfair financial reports that may harm the interests of all external parties using those reports.

Audit Risk Components

The audit risk is considered as a process of these two components: risk assessment - risk during collecting and evaluating audit evidence; and business risk - economic impact of the audit assessment. The auditor always plans sufficient procedures that will minimize the audit risk and maximizes the detection of errors, fraud and other irregularities in the financial statements. It is especially important for the auditor to identify the areas of high risk in which mistakes are repeated.

(٣٩) صافيئاز نجاتي إبراهيم، "أثر مدخل المراجعة الثانية والمراجعة المشتركة علي مخاطر المراجعة"، مجلة الدراسات المالية والتجارية، كلية التجارة، جامعة بني سويف، العدد الثاني، ٢٠٢٠، ص ٥٢.

(2) "Accountants. Statement on Auditing Standards No.47.", **Audit Risk and Institute of Certified Public Materiality in Conducting an Audit**, New York. AICP.1983, P.110.

(41) International Auditing and Assurance Standards Board (IAASB), **Handbook of Interantional Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements**, Vol.01, New York, 2017, P.83.

(42) Financial Reporting Council, **Glossary of Terms (auditing and etitics)**, UK, 2016, P.8.

(٤٣) جمعية المحاسبين والمراجعين المصرية، معيار المراجعة المصري رقم ٢٠٠، مصر، ٢٠٠٨، ص ٧.

If errors occur randomly, it is difficult for the auditor to predict the probability of their occurrence. These errors occur in sectors with frequent changes of staff members or in positions where there are employees with inadequate qualifications. The external auditor always plans audit procedures so that, they are sufficient to reduce the audit risk and increase the chance of detecting errors while identifying areas in which errors are repeated.⁽⁴⁴⁾

It is essential for auditors to gain a broader understanding of an organizational environment if they are to assess audit risk (ISA 315). Current auditing standards emphasize the assessment of the risk of material misstatement (RMM). Audit Risk Model (ARM) stating that the audit risk (AR) is equal to the (RMM) times the risk of detection (DR).

The Committee of Sponsoring Organizations (COSO) of the Treadway Commission provides standard guidelines for risk management that can be also used for audit risk assessment by external auditors. Risk assessment is one of the five components of the COSO framework. External auditors should be aware of risk-based auditing, which focuses on the treatment of risks in the COSO framework.

The Sarbanes-Oxley (SOX) Act of 2002 has also increased auditors' responsibilities to detect different audit-related risk components. The SOX Act was passed to prevent significant corporate collapses such as those of Enron, WorldCom, etc. It brought in major reforms in relation to disclosure control [Section 302], the regulation of the accounting profession [Section 303], and the assessment of internal controls [Section 404], and it also introduced corporate governance reforms and other requirements.⁽⁴⁵⁾

Since it is difficult to consider the overall risk of the audit of financial statements, it is necessary to clarify that the risk of incorrect statements that may affect the financial statements can be grouped into the following three types⁽⁴⁶⁾:

- 1- **Inherent risk** (the risk of significant errors appearance in the reports);
- 2- **Control risk** (the risk that internal control will not detect or prevent such errors); and
- 3- **The detection risk** (risk that the auditor will not detect any significant error reports).

(44) Pece Nikolovskia, Igor Zdravkoski, Goce Menkinoski, Snežana Dičevska, and Vera Karadjova, "The Concept of Audit Risk", *International Journal of Sciences: Basic and Applied Research (IJSBAR)*, Volume 27, No 1, 2016, P.22.

(45) Saeed Askary and Jean-Paul Arnaout, "Audit Evidence and Modelling Audit Risk Using Goal Programming", *International Journal of Applied Decision Sciences*, Volume 11, No 1, 2018, PP:20-21.

(46) Pece Nikolovski, Igor Zdravkoski, Goce Menkinoski, Snežana Dičevska, and Vera Karadjova, "The Concept of Audit Risk", *International Journal of Sciences: Basic and Applied Research*, Vol. (27), No.(1), 2016, PP:23-24.

The Audit Risk Model (ARM)

The audit risk model is basically a planning model and therefore, has limited use in evaluating the results. Also, the audit risk models reflect the level of internal and external risks surrounding the audit clients, where the auditor plans to collect audit evidence in proportion to the level of risks that have been assessed in light of those models.

The auditor can deal with risks in planning evidence in order to reduce audit risk through the application of the audit risk model, through which the acceptable level of audit risk for each account depends on the nature of the account (inherent risk), internal control measures and procedures of the account (control risk), and the effectiveness of tests and audit procedures to discover errors and material misstatements (detection risk). So, the audit model consists of the following.⁽⁴⁷⁾

$$\text{Audit Risk} = \text{Risk of Material Misstatement (Inherent Risk} \\ \times \text{Control Risk)} \times \text{Detection Risk} \\ \text{i.e; AR= IR CR DR}$$

The Role of the External Auditor towards the Audit Risks

The impact of the accounting firms strategic alliances on the audit risk reduction appears in the means through which the local accounting firms-associated in strategic alliance - are committed to applying auditing standards, quality control standards, and rules and ethics of the profession. The accounting firms strategic alliances also support the use of modern techniques in auditing through the use of the latest programs and the latest technology methods in audit planning, which is difficult for local accounting firms to obtain due to its high cost.

Through the commitment to apply auditing standards, the external auditor must exercise professional skepticism, pay attention to obtaining sufficient and appropriate evidence, and the need to exercise due professional care, which reduces the inherent risk that requires sufficient knowledge of the entity's activity and the auditor's professional experience, which was a reason to improve the professional performance quality of the external auditor and hence improve the audit quality. So, there is an inverse relationship between the level of professional performance quality of the external auditor and the inherent risk.

Also, improving the professional performance quality of the external auditor also included an in-depth understanding of the internal control system with a continuous understanding of professional developments and commitment to professional requirements, which reduces the risk of control and confirms the evidence of the inverse relationship between the professional performance quality of the external auditor and the control risk.

(47) Wenmin Luo, "Proposed Analytical Framework to Assess Audit Risks", *Open Journal of Accounting*, Vol.10, 2021, P.42.

If the audit process is planned taking into consideration the elements of risk when performing each of the procedures involved, and trying to use the procedure that affect the nature of the element or task in question, and the level of risk to which it is exposed, it supports the auditor's opinion on the financial statements and leads to achieving the audit efficiency and effectiveness, and consequently the reduction the risks to the minimum acceptable level.

As for the detection risk, being the only type of risk that the external auditor can control, it depends mainly on learning, professional training and professional experience of the external auditor, and therefore requires the adherence to standards regulating the audit process and other professional guidelines, and professional care by the external auditor to ensure the highest possible level of professional performance quality to ensure and sustain the audit quality, and then the detection risk will be reduced to the lowest possible level.

All the advantages sustained by the accounting firms strategic alliances to local accounting firms are the basis for achieving and improving the professional performance quality of the external auditor, and thus improving the audit quality, and these advantages are also the ways of audit risk reduction. Therefore, the role of accounting firms strategic alliances appears at all stages of the audit process in order to minimize audit risk as follows:

The Impact of Accounting Firms Strategic Alliances in the Audit Planning Process on the Audit Risk Reduction

The auditor is required to carry out the audit process and verification of the operations and balances, and an increase in the tests of operations in order to reduce the risk of detection associated with the financial statements.

Standard No. 330 requires the auditor to obtain additional audit evidence in the event that he is not able to obtain sufficient and appropriate evidence that gives him important and influential confirmation in the financial statements, otherwise he must express a qualified opinion or refrain from expressing an opinion. ⁽⁴⁸⁾ **Standard No. 500** also clarified that the auditor should obtain sufficient and appropriate evidence in order to reach reasonable conclusions that enable him to express his technical opinion. ⁽⁴⁹⁾ In addition to **Standard No. 530**, which allows that if the sampling method is used, the auditor must determine the appropriate methods for selecting items for testing to collect sufficient and appropriate evidence to achieve the objectives of the audit procedures. ⁽⁵⁰⁾

This is to obtain sufficient and appropriate audit evidence through which the external auditor can express an appropriate opinion on the financial statements, which reflects the professional performance quality of the external

(٤٨) المرجع السابق، "معييار رقم (٣٣٠) - إستجابات المراجع للمخاطر المقيمة"، ص ٢٦٧.

(٤٩) المرجع السابق، "معييار رقم (٥٠٠) - أدلة المراجعة"، ص ٣١٣.

(٥٠) المرجع السابق، "معييار رقم (٥٣٠) - العينات في المراجعة"، ص ٣٦٩.

auditor, which in turn leads to achieving audit quality and satisfying the desires of audit clients.

Thus, the researcher can conclude that the judgment on audit risks can be supported through the accounting firms strategic alliances as follows:

- 1- The accounting firms strategic alliances, especially with depending on one of the four major accounting firms (Big-4), helps in increasing compliance with standards and requirements, which supports confidence in the validity and integrity of financial reports, and thus supports some advantages such as facilitating access to financing advantages.
- 2- The accounting firms strategic alliances support companies' compliance with the requirements of financial reporting standards, which provides the auditor with the opportunity to assess the degree of uncertainty associated with the estimates.
- 3- Accounting firms strategic alliances help to reduce the client pressure, which enhance the auditor independence, which helps the auditor to maintain his professional reputation in order to continue in the audit market, which helps in improving his professional judgment to raise the audit quality and minimize the audit risk.
- 4- The accounting firms strategic alliances work to achieve the financial reports quality while increasing the confidence of the audit report and the speed of response to the modified opinions in the report. It helps in limiting the reformulation of the financial statements, which raises the level of audit quality and reduces the audit risk level.
- 5- The accounting firms strategic alliances support the examination of internal control systems to facilitate the discovery of material errors, and to achieve an adequate understanding of the material issues associated with audit risk, which reduces the possibility of errors in the financial statements that may cause inherent risks.

Section Four

The main objective of this applied study is to study and analyze the impact of the accounting firms strategic alliances on the audit quality and on the audit risk reduction of a sample of listed joint stock companies in the Egyptian Stock Exchange during the years 2018, 2019 and 2020 using content analysis method of the annual financial reports, company's website and/or information available with the Egyptian Stock Exchange website.

Based on the literature review, research aim and objectives, the research hypotheses wereformulated as follows:

- **The First Hypothesis:** There is a statistically significant relationship between the accounting firms strategic alliances in Egypt and the audit quality.
- **The Second Hypothesis:** There is a statistically significant relationship between the accounting firms strategic alliances in Egypt and the audit risk reduction.

Study Models and Variables:

The empirical study depends on the following main model, which consists of two sub- models^(*):

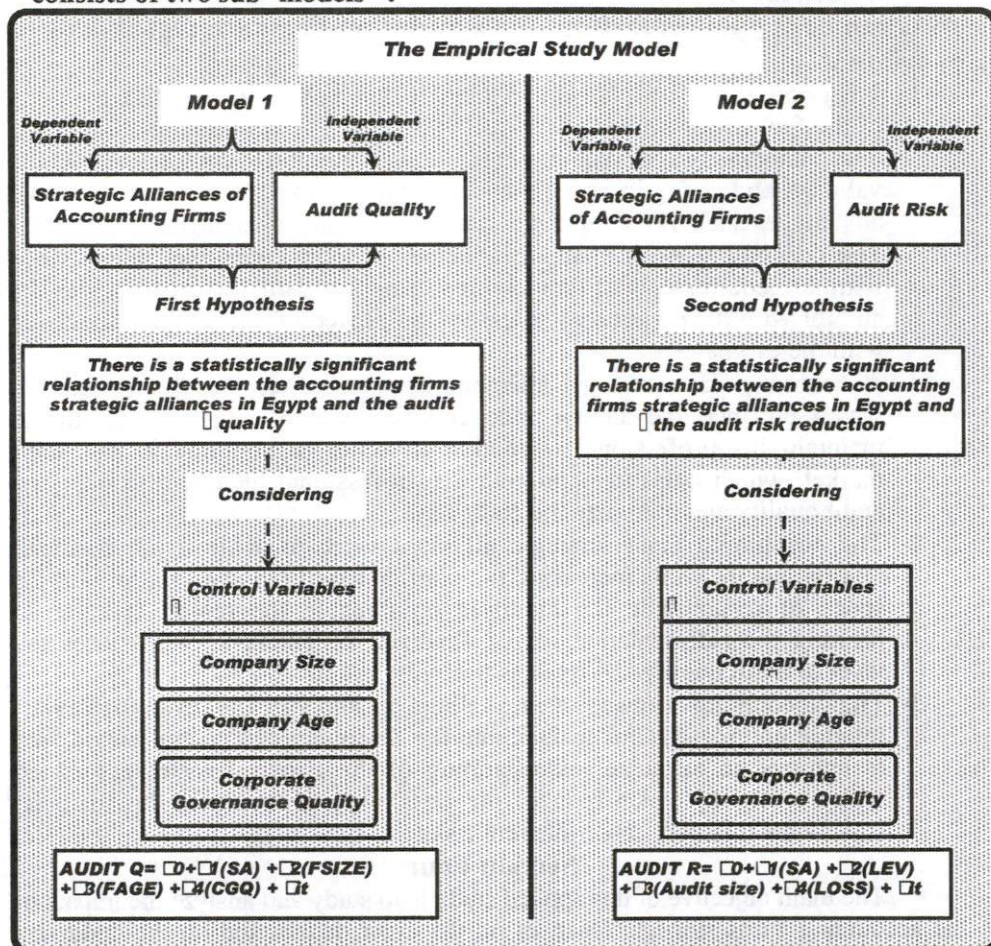


Figure (5.3)
Study Model

The first model can be summarized in the following equation:

$$AUDIT\ Q = \beta_0 + \beta_1(SA) + \beta_2(FSIZE) + \beta_3(FAGE) + \beta_4(CGQ) + \epsilon_t$$

Where,

- $AUDITQ$: is the dependent variable (Audit Quality).
- β_0 : The constant value and represents the level of audit quality that is not affected by the independent variables.

(*) Offered by the researcher

- (SA): the independent variable (Strategic Alliances)
- ($\beta_1 - \beta_4$): the regression coefficients for the independent variables.
- (ϵ): the amount of random error.

The second model can be summarized in the following equation:

$$\text{AUDIT R} = \beta_0 - \beta_1(\text{SA}) + \beta_2(\text{FSIZE}) - \beta_3(\text{FAGE}) + \beta_4(\text{CGQ}) + \epsilon$$

Where,

- (AUDIT R): is the dependent variable (Audit Risk).
- (β_0): The constant value and represents the level of audit quality that is not affected by the independent variables.
- (SA): the independent variable (Strategic Alliances)
- ($\beta_1 - \beta_4$): the regression coefficients for the independent variables.
- (ϵ): the amount of random error.

The study sample can be outlined as follow:

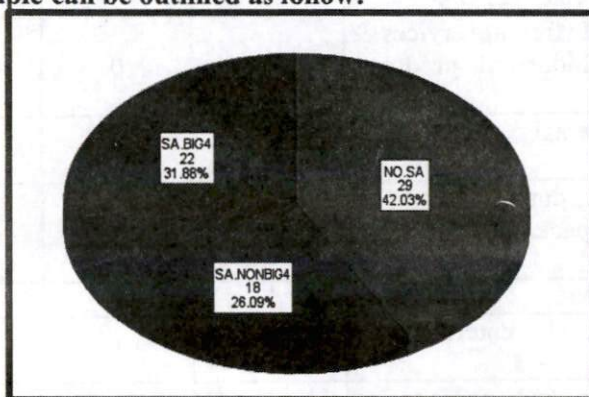


Figure (5-2): Study sample according to the accounting firms' strategic alliances type

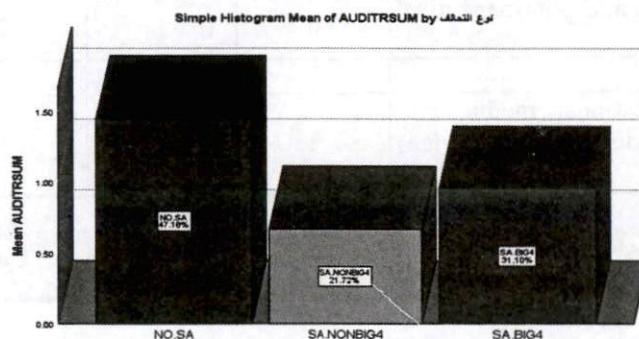


Figure No.(5-7):

The Audit Risk Level in the different Accounting Firms Strategic Alliances Types

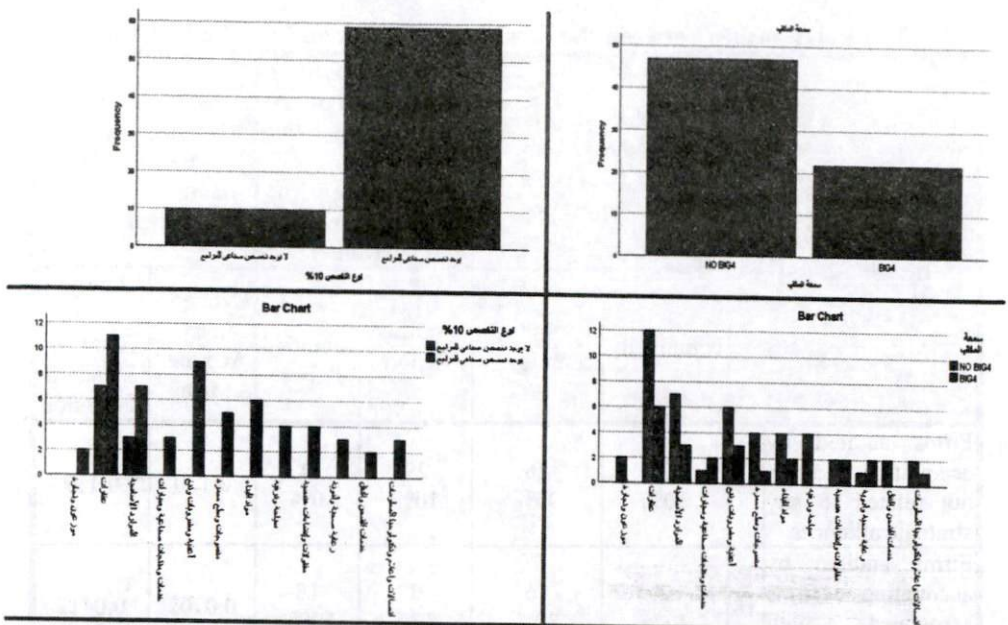
The descriptive analysis of the accounting firms' strategic alliances:

Table (5.6)

Descriptive Statistics of the Continuous Study Variables

#	Industrial Sector	Companies audited by accounting firms not related to strategic alliances	Companies audited by accounting firms associated with Non-Big4	Companies audited by accounting firms associated with Big-4	Total
1	Trade and distributors sector	1	1	0	2
2	Real estate sector	6	6	6	18
3	Raw materials & Energy and support services sectors	4	3	3	10
4	Transport & freight services & Services, Industrial products, & cars	1	0	2	3
5	Food, beverage, and tobacco sector	3	3	3	9
6	Textiles & durable goods & Paper and packaging materials sectors	2	2	1	5
7	Constructions	3	1	2	6
8	Tourism and entertainment sector	3	1	0	4
9	Contracting and engineering construction & Construction materials	2	0	2	4
10	Healthcare and pharmaceutical sector	0	1	2	3
11	Freight-in	2	0	0	2
12	Communications, media, and IT & Educational services sectors	2	0	1	3
Totals		29 42%	18 26%	22 32%	69 100%

The researcher can outline the used measures of the audit quality (accounting firm's reputation- accounting firm's industrial specialization) in the following figure:



Accounting Firm Industrial Specialization

Accounting Firm Reputation (Size)

Figure No.(5-5)
the Audit Quality Measures (Accounting Firm's Reputation-Accounting Firm's Industrial Specialization)

The relationship between the type of the accounting firms' strategic alliances of the sample firms and (the accounting firms' industrial specialization and the accounting firms reputation)

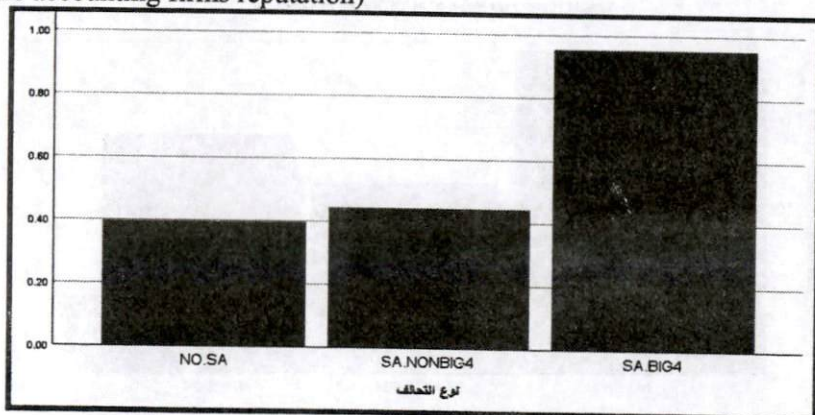


Figure No.(5-6)
The audit quality increases in the accounting firms' strategic alliances
Table (5-10)

The Relationship between the Strategic Alliances and the Audit Risk

Type of the Accounting Firms' Strategic Alliances		Inherent risk (that is measured by the complexity of the audit clients' operations)		Control risk (that is measured by the audit opinion in the report of the compliance with corporate governance)		Detection risk (that is measured by Jones modified model of earning management)	
		complexity	Non-complexity	Modified Report	Un-Modified Report	Discretionary Accruals Mean	Discretionary Accruals Standard Deviation
Firms audited by accounting firms not related to any strategic alliances	29	3 10%	26 90%	29 10%	0 0%	0.120	0.119
Firms audited by accounting firms associated with Non-Big4	18	2 11%	16 89%	0 0%	18 100%	0.0702	0.0412
Firms audited by accounting firms associated with Big-4	22	13 59%	9 41%	0 0%	22 100%	0.0662	0.0367
Total	69	18 26%	51 74%	19 42%	40 58%	0.0901	0.0863

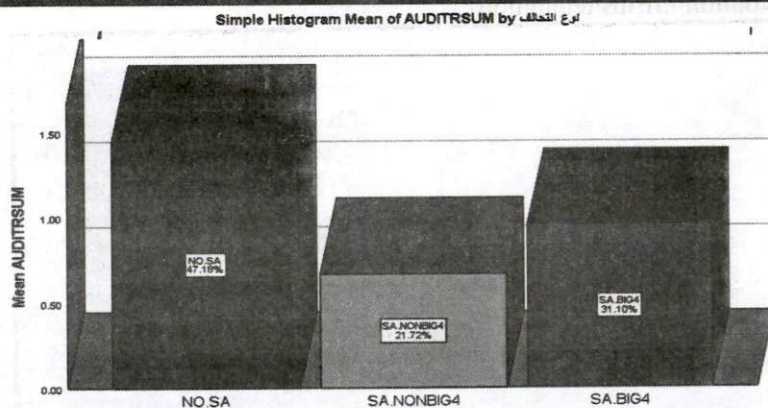


Figure No.(5-7)

The Audit Risk Level in the different Accounting Firms Strategic Alliances Types

This practical part of the research and the steps and procedures followed during the applied study to achieve the research main objective, investigating whether the accounting firms strategic alliances in Egypt impact on the audit quality and the audit risk reduction, and approved the validity of the research two hypotheses.

Recommendations

Based on the findings of this research through the theoretical and practical parts, some recommendations can be suggested as follow:

- 1- Calling for promoting and monitoring the application of the proposed audit quality framework in the Egyptian accounting firms.
- 2- Mandating the Egyptian accounting firms to associate in strategic alliances with Big-4 or Non-Big-4 to get and benefit from their advantages.
- 3- Promoting the accounting firms strategic alliances benefits and encouraging Egyptian accounting firms to adopt the audit quality control program to increase the Egyptian accounting firms' performance and quality, which in turn facilitates the achievement of high audit quality levels.

Suggestions for Future Research

The current research has investigated the impact of accounting firms strategic alliances on the audit quality and the audit risk reduction, thus further research is needed to enrich the knowledge in some related topics, some areas which are recommended for future research include:

- 1- Examining the impact of the accounting firms strategic alliances on the digital audit.
- 2- Examining the impact of the accounting firms strategic alliances on the audit fees.

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