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The Impact of Joint Reviews on Mitigating Negative Profit Management Practices in Joint-Stock Companies in Egypt

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Abstract

The auditing profession has been confronted with numerous challenges, particularly following the financial crises involving major corporations such as Enron. These events were further exacerbated by the downfall of Arthur Anderson, one of the top five audit firms, due to its alleged involvement in the manipulation of financial statements through negative profit management practices. This situation has led to heightened concerns about auditor independence, audit quality, and the effectiveness of audit teams. In light of these challenges, both academic and professional bodies have sought new strategies to address such issues. One of the proposed solutions, presented by the European Commission in its 2010 Green Paper Review Policy: Lessons from the Crises, is the concept of joint reviews. This approach involves multiple independent audit firms reviewing a client's financial statements, preparing a combined audit report, and jointly assuming responsibility for the accuracy of the report and any undetected material errors. The study aimed to assess the impact of joint reviews on profit management, specifically examining a sample of companies listed on the Egyptian Stock Exchange from 2016 to 2017, using discretionary accruals to indicate negative profit management practices in these companies.

Keywords: Joint review, Profit management, Joint stock companies, Shared review.

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Introduction

In recent years, the auditing profession has faced significant scrutiny following the occurrence of major financial scandals and the downfall of several large corporations, most notably Enron in 2001. This was further compounded by the collapse of Arthur Andersen, one of the world's largest audit firms, due to its involvement in the financial crises of these companies. As a result, public trust in the auditing profession, and particularly in accounting and auditing firms, was severely shaken. Scholars have largely agreed on the primary causes behind these financial failures, including inadequate accounting transparency, the absence of robust accounting standards for ensuring transparency, and companies' reliance on income manipulation and profit management practices. These practices involve accountants using their expertise to legally adjust financial figures in a way that benefits specific stakeholders, often at the cost of others [1-4]. Though profit management does not inherently violate accounting standards because of its flexibility, the issue arises not from the manipulation of data but from its impact on financial statement transparency and disclosure [3].

While the responsibility for ensuring accurate financial reporting lies with company management and governance, external auditors are tasked with limiting negative profit management practices through professional diligence and adherence to



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auditing standards, while maintaining a healthy level of professional skepticism [4]. Despite this, such practices continue to rise due to the inadequacy of standard auditing procedures, the poor quality of audits, and auditor independence challenges. These factors have underscored the need to enhance auditing methods to address negative profit management.

The joint review was proposed by the European Commission in its 2010 Green Paper, Review Policy: Lessons from crises, as a potential solution to these problems. The joint review aims to improve audit quality, restore confidence in financial reporting, and address market concentration within the audit sector. In this process, 2 or more independent audit firms, regardless of their size, work together to review a client's financial statements, jointly prepare a consolidated audit report, and share responsibility for the content of the report and any undetected material errors [1, 7-9]. The joint review model is utilized in several countries, including Egypt, where both mandatory and voluntary implementations exist.

Research on the impact of joint reviews on profit management, as a form of creative accounting, has yielded mixed results. Some studies [10-12] have suggested that joint reviews have a positive effect on reducing profit management through discretionary accruals, while other studies [13] have found no significant impact. Further research on this topic has also shown divergent results. For example, Nabila [14] found that discretionary accruals decreased in companies audited by 2 of the top four audit firms, while studies by Lobo *et al.* [15] and Holm and Thinggaard [16] revealed that joint audits conducted by a combination of a major audit firm and a smaller firm led to a reduction in discretionary accruals, thus limiting profit management practices. Conversely, Hussein [7] and Diana [17] found that the combination of audit firms in a joint audit had no significant effect on profit management or the reliability of the financial reports.

The research problem at hand stems from the uncertainty regarding the influence of joint review application on profit management practices and the unclear effects of differences in joint review structures on negative profit management practices.

From this, two research questions arise:

1. How does the implementation of joint review affect negative profit management practices?
2. How does the variation in joint review structures influence negative profit management practices?

To answer these questions, the study formulates the following hypotheses:

1. The joint review has no significant impact on negative profit management practices.
2. The difference in joint review structures does not significantly affect negative profit management practices.

Research Objective

The goal of this research is to evaluate the impact of joint review on profit management, with the following sub-objectives:

1. Identifying the types and methods of profit management practices.
2. Understanding the joint review mechanism, its application pathways, and the current status of its practice in Egypt.
3. Assessing the effect of voluntary joint review implementation on negative profit management practices.

Research Importance

The significance of this study arises from several factors:

1. It fills a gap in existing literature, particularly on the local level, by exploring a topic that aligns with the current focus of professional bodies. Given that profit management is a leading cause of several recent corporate scandals and failures, this topic is of significant relevance.
2. The research highlights the advantages of joint review and its application strategies, potentially encouraging companies to adopt joint review practices and thus boosting confidence in the accuracy of their profit reports and financial statements.

Materials and Methods

This study employs a combination of two research approaches:

1. Inductive approach: This method involves reviewing existing accounting literature related to joint reviews and profit management, analyzing and synthesizing this research to develop the theoretical framework for the study.
2. Deductive approach: This method aims to explore the relationship between joint reviews and profit management practices by testing the hypotheses formulated for the study.

Scope of the Research

This research does not examine the effects of mandatory joint external audits on negative profit management practices. Furthermore, the study does not include companies that are jointly audited and unrestricted within the Egyptian stock market.

Research Outline

The study will address the following focal areas:

The first axis: The characteristics of profit management.

The second axis: The concept of joint review and potential methods for its implementation.

The third axis: The investigation into how joint review influences profit management practices.

The fourth axis: The evaluation of how the application of joint reviews affects negative profit management practices.

First Axis: Understanding profit management.

Some companies adopt profit management strategies to achieve various goals, such as meeting targeted profit levels before disclosure, avoiding the reporting of losses, or securing benefits tied to high profits, like commissions and bonuses [18]. Profit management is described as intentional intervention by management in the financial reporting process to gain specific advantages [17, 19]. GAAP permits management to use their judgment during financial reporting, enabling them to convey the company's performance to external stakeholders. Consequently, profit management takes place when management leverages its discretion to influence reported profit figures [20, 21]. This manipulation of profit figures is referred to by various terms, including income smoothing, profit management, and profit manipulation.

The earlier definition of profit management reveals several key characteristics and components, including:

1. Profit management involves the intentional manipulation of accounting data.
2. It relies on the flexibility allowed by standard accounting practices and policies, which can be used to benefit certain stakeholders while disadvantaging others.
3. Profit management practices can be categorized into two types:
 - **Positive practices:** These practices involve leveraging accounting policies during crises to innovate, develop solutions, and aid in making sound economic decisions.
 - **Negative practices:** This involves the manipulation of financial statements to conceal the true financial state of the company, benefiting specific groups of users at the cost of others.

Management's motivations behind profit management practices generally rest on two primary objectives: the first is to inflate the current year's profits, often at the expense of previous or future periods; the second is to minimize current profits, impacting past and future financial periods as well [22]. Both strategies are designed to mislead stakeholders about the actual economic performance of the company or to manipulate contractual agreements that depend on reported figures, particularly the declared profit figures [7].

There are various ways in which profits can be managed, with some of the key methods being:

1. Manipulation of accounts receivable: This tactic involves creating accounts that reflect the company's obligations to third parties or vice versa, based on the timing of recognizing specific revenues and expenses, and their subsequent recording in the accounting books either at the point of receipt or cash payment [23, 24].
2. Methods for disclosing profit management: This includes techniques such as off-balance sheet financing, adjustments to accounting policies or estimates, or changes in the legal structure of the accounting entity [25].
3. Estimation-related profit management practices: These methods involve altering the capitalization of income and expenses, modifying depreciation methods for fixed assets, and intangible assets such as goodwill and trademarks, or adjusting inventory valuation techniques, all to manage profit volatility.

Based on the analysis above, the researcher concluded that negative profit management practices can be executed in various ways, with one of the most common being the manipulation of the timing of revenue and expense (benefit) recognition. Despite the existence of generally accepted accounting principles (GAAP) and standards that guide the recognition of such benefits, the flexibility allowed within these standards allows management to manipulate those benefits in ways that influence the reported profit. As a result, it can be said that negative profit management practices can distort the accounting figures presented in the financial statements of companies.

Although ensuring unbiased financial statement presentation is primarily the responsibility of company management (The General Authority for Financial Supervision, 2008, Egyptian Audit Standard No. (500)), auditors can play an active role in identifying and limiting profit management practices. They do so by acting as a deterrent to such practices and performing audits with a reasonable level of professional skepticism.

Consequently, academic and professional bodies within the auditing field have emphasized enhancing the role of auditors in identifying negative profit management practices. Professional auditing standards now require auditors to engage with the audit committee, discussing not only the reasonableness of accounting standards application but also the quality of their implementation. This ensures that financial statements are presented fairly and accurately reflect the operational outcomes and true economic condition of the company [14].

However, recent challenges facing the auditing profession—particularly following the financial collapses of major companies like Enron and the subsequent downfall of one of the “big five” audit firms, Arthur Andersen, due to its involvement in the company's financial manipulations—have raised concerns about auditor independence, the quality of audit performance, and poor auditing practices. These issues have led to diminished confidence in both the auditing profession and its resultant reports.

In light of this, the researcher concluded that despite auditors' efforts to exercise professional diligence to avoid legal risks and their focus on detecting and mitigating negative profit management practices, these practices are on the rise. This is primarily due to the auditors' lack of independence, especially in the absence of laws preventing auditors from offering non-audit services to the same client. Additionally, the inability of auditors to apply an adequate level of professional judgment when individual audits are conducted, alongside their reliance on personal assessments and sampling techniques, has contributed to the persistence of these negative practices.

The second axis: Joint review and its points of application:

The practice of joint review has been a part of external auditing since the 1920s, becoming mandatory in Canada in 1923 and optional in 1991, while in France, it has been compulsory for companies since 1966 [26]. In certain Arab nations, including Egypt, some sectors have voluntarily adopted this approach, whereas others have not [27]. The following section outlines the concept of joint review and its current optional application in Egypt.

Concept of Joint Review

Joint review is defined in various ways, but all emphasize its nature as involving 2 or more independent audit firms jointly reviewing a client's financial statements. These auditors apply a mutual control mechanism and issue a unified audit report that they sign collectively, taking joint responsibility for the report's contents and any potential undetected errors [1, 7, 28-34].

The joint review differs from individual audits in several significant ways, including:

1. The involvement of multiple independent auditors.
2. Shared accountability for the information in the audit report and any undetected errors.
3. The use of mutual oversight between auditors.
4. Regular brainstorming and collaborative discussions.
5. The generation of a single, consolidated audit report.

Joint audits are viewed as enhancing audit quality by reinforcing auditor independence [15, 35]. They help mitigate issues related to regulatory changes, allowing auditors to retain their expertise in the client's business area, and reduce the concentration of audit services within the Big Four firms, thus encouraging the growth of SMEs [36]. Joint audits can be implemented on either a mandatory or voluntary basis.

Mandatory joint review refers to a requirement established by law for certain companies or as a condition for their continued operation. This approach provides more authority, legitimacy, and independence to the auditors, which helps improve their effectiveness in conducting audits. However, in some cases, the mandatory application may merely be a formality without significant impact.

On the other hand, optional joint review is when companies are not required by law to adopt this method but can choose to implement it. The greater the company's ability to choose the joint review process, the more effectively auditors can perform their duties [7].

Optional Joint Review in Egypt

The joint review process in Egypt is applied voluntarily for both joint stock and specialized companies:

1. Joint stock companies: According to article 103 of the companies law no. 159 of 1981 [37], a joint stock company must have one or more auditors who meet the requirements outlined in the law on the practice of accounting and auditing. The auditors are appointed by the general assembly, which also determines their compensation. When there are multiple auditors, they share joint responsibility, though the company's founders are responsible for appointing the first auditor. Additionally, Article 265 of the executive regulations of the company law outlines that each auditor in a multi-auditor setup has the authority to independently access company records, request clarification, and examine assets and liabilities. However, they must submit a unified audit report, and any differences in their findings must be disclosed along with their respective viewpoints.
2. Specialized companies: Per article 18 of the General Authority for Financial Supervision's resolution no. 72 of 2013, specialized companies are required to have one or more auditors who conduct the audit according to Egyptian auditing standards. These auditors must be registered with the General Authority for Financial Supervision in the official registry designated for such purposes.

Third Axis: Investigating the link between joint review and profit management

Accounting research has examined the relationship between joint review and profit management from two distinct angles, as discussed below:

First Angle: The influence of joint review on profit management practices

One study identified that firms with considerable information asymmetry tend to appoint at least one of the major audit firms when applying the joint audit approach. It also observed a positive relationship between the quality of profits and the mix of one large audit firm and other smaller firms. However, Nabila [14] found no important relationship between extraordinary

profits and joint review across three countries with differing regulatory structures, suggesting that profit management practices in Denmark are similar to those in France and Germany, meaning that the joint review does not effectively curtail profit management.

Research by Lobo *et al.* [15], Bianchi [38], and Nourbakhsh [39] highlighted that using two auditors for an audit was positively linked with better profit quality, higher audit fees, reduced financial statement manipulations, lower expenses, and more timely recognition of economic losses.

In contrast, Al-Deisti [8] observed no significant difference in audit quality between companies using joint audits and those using individual audits in Egypt. Similarly, studies by Al-Jabr and Al-Saadoun [27], Alfraih [40], Bisogno and De Luca [9], Barghathi *et al.* [41], and Faris [42] found no notable impact on profit quality in companies listed in the stock exchanges of Saudi Arabia, UAE, and Iraq. Nonetheless, one study indicated a strong positive link between joint review and profit quality, suggesting that joint reviews lead to more reliable financial statements and help mitigate profit management.

Mandowr [12] showed a positive effect of joint review on profit management, particularly about discretionary benefits, compared to individual audits, indicating that optional joint reviews might facilitate more profit management through discretionary benefits.

On the contrary, Mahmoud [43] observed a negative relationship between joint review audits and profit management, suggesting that joint reviews reduce profit management practices and contribute to higher profit quality in companies.

Based on these mixed findings, the first hypothesis of this study can be formulated as:

“The joint review does not have a positive moral impact on negative profit management practices.”

Second Angle: The Role of Auditor Differences in Joint Review on Negative Profit Management Practices

The research by Ittonen and Trønnes [44] found that joint audits involving two auditors from major audit firms led to a reduction in extraordinary profits, signaling a limitation of profit management practices and an increase in the reliability of financial statements.

In contrast, Saleh [45] and Ibrahim [32] found that when the joint audit team involved both major audit firms and smaller audit firms, it helped restrict profit management practices, encouraged companies to adopt more conservative accounting practices, and led to higher-quality profits. However, studies by Ali [22] and Bisogno and De Luca [9] found no significant effect on profit management practices based on the differences in the auditor combination during joint audits.

Given these conflicting results, the second hypothesis of this research is formulated as:

“The difference in auditor combinations within the joint review does not have a moral effect on negative profit management practices.”

Thus, the researcher intends to analyze how the optional joint review impacts profit management practices in the Egyptian context. This analysis will examine whether optional joint review positively affects profit management practices or not and whether the combination of auditors in joint reviews has any effect on negative profit management practices. This will be addressed in the subsequent section of the study.

Fourth Section: Assessing the influence of optional joint review on profit management practices

Field Study Methodology

This section describes the approach taken in the field study, which involves defining the research variables, selecting the study sample, and using appropriate statistical techniques for data analysis. The methodology presented here outlines the following key components:

Research Variables

The study examines the relationship between joint review, the variation in auditor combinations, and their effect on profit management. The independent variables under consideration are joint review practices and differences in the auditors involved, while profit management serves as the dependent variable. Several control factors, such as company size, leverage, asset return ratio, and sales return ratio, are also considered. These variables are operationalized as follows:

Joint Review

A joint review is characterized by the involvement of two or more independent auditing firms conducting an audit of a company's financial statements. They issue a unified audit report, sharing responsibility for the contents of the report and any undiscovered mistakes.

This variable is measured using a binary indicator, where (1) represents companies that apply for optional joint reviews, and (0) signifies companies using audit methods other than joint review.

Auditor Combination Difference in Joint Review

This variable focuses on the mix of auditors involved in the joint review. It differentiates between combinations of large audit firms and smaller ones. A binary variable is used to represent this, where (1) indicates that the joint audit is conducted with a blend of auditors from the top four audit firms or a mix of large and smaller firms, while (0) is used when the auditors do not match this criterion.

Profit Management

The concept of profit management, as defined in this study, refers to the deliberate manipulation of financial statement figures by a company's management. This variable is assessed using the modified Jones model, which uses discretionary accruals as a proxy for negative profit management practices. The modified Jones model estimates discretionary accruals through a series of steps, as outlined below:

Step 1: Calculate the total accruals for each company in the research sample using the equation provided.

$$TA_{i,t} = N_{i,t} - OCF_{i,t} \quad (1)$$

Where:

$TA_{i,t}$ represents the total accruals of the company i in year t .

$N_{i,t}$ denotes the net income of company i for year t .

$OCF_{i,t}$ indicates the operating cash flow of company i for year t .

Step 2: Calculate the model parameters for each company in the sample using the following equation:

$$TA_{i,t} / A_{i,t-1} = \alpha_1 (1/A_{i,t}) + \alpha_2 (\Delta REV_{i,t} - \Delta REC_{i,t}) / A_{i,t-1} + \alpha_3 PPE_{i,t} / A_{i,t-1} + \epsilon_{i,t} \quad (2)$$

$TA_{i,t}$: Represents the total liabilities of company i in year t .

$REV_{i,t}$: Represents the change in net income for company i from year t compared to year $t-1$.

$REC_{i,t}$: Denotes the depreciation of fixed assets for company i in year t .

$A_{i,t-1}$: Represents the total assets of the company i in the prior year ($t-1$).

$\alpha_1, \alpha_2, \alpha_3$: Denote the model parameters specific to each company.

$O_{i,t}$: Refers to the discretionary accruals, representing unusual entitlements associated with profit management practices.

Step 3: Determining the extraordinary accruals (DA) for each year of the study using the following formula:

$$DA_{i,t} = TA_{i,t} / A_{i,t-1} - [\alpha_1 (1/A_{i,t}) + \alpha_2 (\Delta REV_{i,t} - \Delta REC_{i,t}) / A_{i,t-1} + \alpha_3 PPE_{i,t} / A_{i,t-1}] \quad (3)$$

Control Variables

Company size: This represents the total value of assets held by the company, calculated as the total assets for each firm over the study period.

Leverage ratio: Reflects a company's capacity to fulfill long-term obligations and its reliance on external financing. It is determined by the ratio of total liabilities to total assets.

Return on assets (RoA): Measures how effectively a company utilizes its assets to generate profits, computed by dividing the pre-tax net profit by the total assets throughout the study.

Return on sales (RoS): Indicates the proportion of net profit before tax relative to net sales, revealing how much profit is produced from sales.

Study Population and Sample

The sample consists of firms listed on the Egyptian stock exchange and included in the EGX index for the years 2016-2017. Out of 30 companies in the sample, 13 applied the optional joint review, and 17 used individual audits, leading to a total of 90 observations (30 companies x 3 years).

Statistical Analysis Methods

Descriptive Statistics: Measures such as the arithmetic mean and standard deviation are used.

Multiple Regression Analysis: Used to analyze the effects of the optional joint review on profit management and how differences in joint audits influence negative profit management practices.

Research Model:

$$DA_{i,t} = \beta_0 + \beta_1 \text{Joint A} + \beta_2 \text{Size} + \beta_3 \text{Leverage} + \beta_4 \text{ROA} + \beta_5 \text{ROS} + \epsilon_i \quad (4)$$

Where:

DA: Denotes extraordinary accruals.

Joint A: Represents the application of joint review audits.

Size: Reflects the company's asset size.

Leverage: Indicates the leverage ratio.

ROA: Shows return on assets.

ROS: Represents return on sales.

Second: Testing the Hypotheses of the Study

To test the impact of the joint review and the differences between the types of joint audits on profit management, a meta-statistical analysis of the research variables will be conducted, followed by the analysis of the results from the multi-variable regression model.

Results and Discussion

Meta-Statistical Results for the Research Variables

The average and standard deviation values for the study variables are summarized in **Table 1**.

Table 1. Results of descriptive statistical analysis of research variables

Total sample		Individual review sample		Shared review sample		Variables
Standard deviation	Average	Standard deviation	Average	Standard deviation	Average	
0.3	0.2	0.2	0.23	0.30	0.32	The government's ability to provide as much as a pension to the
0.8	8.9	0.96	8.8	0.7	9.03	The size of the company under review
0.17	0.4	0.2	0.41	0.13	0.36	Leverage ratio
0.06	0.05	0.07	0.05	0.051	0.06	Rate of return on assets
0.3	0.2	0.3	0.2	0.08	0.16	Rate of return on sales

Table 1 highlights the following observations:

1. Company size: On average, companies undergoing joint audits are larger than those subjected to individual audits, suggesting that bigger companies tend to prefer joint audit services.
2. Leverage ratio: Companies audited jointly have a lower leverage ratio compared to those with individual audits, indicating that firms with joint audits typically have lower credit ratings than those using individual audits.
3. Return on assets (ROA): Companies subject to joint audits show a higher return on assets when compared to those reviewed through individual audits.
4. Return on sales (ROS): The average return on sales for companies undergoing joint audits is lower than that of companies reviewed individually.
5. Standard deviation differences: There are notable differences in the standard deviation of key independent variables, such as company size, leverage ratio, return on assets, and return on sales, between the two groups—those subject to joint audits and those subject to individual audits. This suggests that the values of these independent variables do not exhibit uniformity across the two groups.

Findings of the Multi-Linear Slope Model for the First Hypothesis Test

The findings from the application of the multilinear regression model are presented in **Table 2**.

Table 2. Results of the multiple linear regression model for the first hypothesis test

Impact of joint audit implementation on negative profit management practices		Form
P. Value	Std. Coefficients	
.332		Constant
.528	.167	Joint A
.723	-.040-	Size
.163	-.310-	Leve
.472	.114	ROA
.126	.354	ROS
	.45	R ²
	.032	Adjusted R ²
	.321 ^a	P. Value For the model
	0.24	Std. Error

(Source: Prepared by the researcher based on the results of the statistical analysis, and research supplements)

The findings presented in the table highlight the following key points:

1. A standard error of 0.24, being close to zero, indicates that the model exhibits strong predictive reliability.
2. The P-value of 0.321a suggests that the model as a whole lacks statistical significance.
3. With an R^2 value of 0.45, the combined influence of joint review, company size, leverage ratio, return on assets, and return on sales accounts for 45% of the variations in profit management practices.
4. The P-values for joint review, company size, leverage ratio, return on assets, and return on sales (0.332, 0.528, 0.723, 0.163, 0.472, and 0.126, respectively) are all above 0.05, indicating no statistically significant impact of joint review on extraordinary entitlements. As a result, joint audits do not appear to impose restrictions on negative profit management practices when compared to individual audits, confirming the hypothesis that the optional joint audit has no meaningful effect on curbing negative profit management practices.

The Multi-Linear Regression Model Results for Testing the Second Hypothesis

The regression model parameters were analyzed to determine whether the binary difference in joint audits had an impact on negative profit management practices. The outcomes of this analysis are detailed in **Table 3**.

Table 3. Results of the second imposition test

Impact of the extent to which the joint review couple disagreed on negative profit management practices			Form
P-value	Std. coefficients	VIF	
0.000			Constant
0.553	-0.03	2.438	JA (BIG4-BIG4)
0.083	-0.335	1.05	JA (NonBIG4-NonBIG4)
0.962	0.033	2.520	JA (BIG4-NonBIG4)
	0.34		R^2
		0.025	Adjusted R^2
		0.187	P-value for model
		0.23	Std. error

(Source: Prepared by the researcher based on the results of the statistical analysis, and research supplements)

Examining the data presented in the previous table, the regression model's p-value (0.187) exceeds the 0.05 threshold, indicating that the model as a whole is not statistically significant at the 5% level. Additionally, the P-values for the different combinations of auditors—those from the big four firms, auditors from non-big four firms, and a mix of both—are 0.553, 0.083, and 0.962, respectively. These values suggest that the variation in joint audit composition does not have a statistically significant effect on profit management.

The model's standard error (0.23) is close to zero, which reflects a high overall predictive accuracy. However, the explanatory power of the model, represented by R^2 (0.34), implies that changes in the joint audit binary variable account for only 34% of the variations in discretionary accruals. Furthermore, the adjusted R^2 value (0.025) indicates no meaningful difference in discretionary accruals between audit pairings consisting of two Big Four firms (Big4Big4), two non-Big Four firms (NonBig4NonBig4), or a mixed pair where one auditor belongs to a Big Four firm and the other does not (Big4*NonBig4).

Discussion

A joint audit is a form of external auditing conducted through the collaboration of two or more auditors who work together to produce a single audit report. This auditing approach may be implemented on either a mandatory or voluntary basis and can involve various combinations of auditors, including partnerships between two or more major audit firms, auditors from non-Big Four firms, or a mix of one auditor from a Big Four firm and another from a non-Big Four firm.

The primary objective of a joint external audit is to enhance auditor independence, preserve professional expertise and knowledge, and strengthen confidence in financial statements while improving audit quality.

Researchers hold differing perspectives on the influence of both joint audit implementation and variations in joint audit composition on the mitigation of earnings management practices.

The statistical analysis of the first hypothesis indicated that the voluntary application of joint audits does not have a significant impact on earnings management practices. Consequently, the assumption of no effect was supported, suggesting that voluntary joint external audits do not effectively constrain earnings management.

The statistical analysis of the second hypothesis demonstrated that differences in the composition of joint audits do not significantly affect discretionary accruals. This finding suggests that variations in auditor pairings do not lead to the restriction

of earnings management practices, leading to the acceptance of the assumption that differences in joint audit pairings do not influence earnings management.

Based on the research objectives and findings, the study suggests exploring tools and strategies to enhance the effectiveness of joint audits in the Egyptian professional auditing environment.

Suggested Areas for Future Research

Considering the research outcomes, further studies are recommended on the following topics:

1. The role of mutual oversight in shaping joint audit frameworks within the Egyptian professional auditing environment.
2. The impact of varying levels of joint audit mandates on the quality of corporate disclosure among companies listed on the Egyptian stock exchange.

Conclusion

Joint audits contribute more significantly to strengthening trust in financial statements compared to individual audits. Their implementation enhances auditor independence and reduces the likelihood of undue influence from clients. Additionally, joint audits improve the overall quality of financial oversight and bolster confidence in reported corporate earnings, underscoring their role in ensuring the credibility of financial disclosures.

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