

The Impact of Corporate Governance and Audit Quality on the Investment Decision

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Abstract: *The main purpose of this research is to study the impact of corporate governance and audit quality on the investment decision. In order to achieve this objective, the research collected literature review about previous variables. This research used survey method on the construction sector in Egypt. They are 97 completed questionnaires. Data was analyzed and hypotheses tested by using Statistical Package for the Social Sciences (SPSS). The research found that there's significant positive impact of corporate governance on the audit quality and investment decision which means investors will depend on the corporate governance when they make their investment decision. In addition, investors will depend on the audit quality (the ability of an auditor to detect a breach (auditor competence) and the willingness to report such a breach (auditor independence) when they make their investment decision.*

Keywords: Corporate governance, audit quality, investment decision and construction sector in Egypt.

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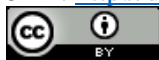
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Introduction. Recent financial international scandals around the world have led to a number of investigations into the effectiveness of corporate governance practices and audit quality. Although evidence of corporate governance practices and audit quality exists from developed economies, very scanty studies have been conducted in Egypt where corporate governance is just evolving. Therefore, this study provides evidence on the effectiveness of corporate governance practices and audit quality from a developing country. The investor makes the investment decision on the basis of the financial statements published by the companies. The higher the confidence in the financial statements, the investor relies on them to make the investment decision. The problem of the study is represented in the lack of confidence of investors and the flight of money from the stock exchanges of developing countries as a result of the lack of confidence of investors in the published financial statements and their lack of confidence in the corporate governance system and the quality of auditing in them (Dashtbayaz & Mohammadi, 2016). Governance is a set of

procedures and rules necessary to ensure that managers in the company seek to achieve the goals of the company's owners and maximize the wealth of shareholders. Governance consists of a set of tools including the audit committee, the external auditor, the characteristics of the board of directors, and internal control (Francis, 2021).

Increasing oversight through appointing an audit committee that possesses financial and accounting expertise, as well as the independence, experience and efficiency of the external auditor help improve the quality of the audit and thus provide sound and complete financial statements that reflect the reality of the company's economic operations, which helps the investor in making the right decision as a result of the investor's confidence in the published financial statements(Widani & Bernawati, 2020).

One of the investment efficiency determinants is having good Corporate Governance mechanisms which confirm firm management's credibility. Good CG mechanisms may enhance financial statements' transparency, accuracy, and trust, facilitating the auditors' role to do their jobs reflected on Audit Quality. In contrast, poor corporate governance mechanisms risk the firm being mismanaged, impair firm reputation, and encourage fraud and unethical practices. These mechanisms are followed by practices of firm scandals due to fraud in inaccurate financial statements, causing loss of trust in financial statements (Bistrova, 2015).

1. Literature review and hypotheses development. The literature review (articles) of the research collected about the following variables of the study.

1.1. Corporate governance. Corporate Governance defined as the set of practices that aim to optimize the performance of a company by protecting all stakeholders, such as investors, employees and creditors, facilitating access to capital. The analysis of Corporate Governance practices applied to the capital market mainly involves transparency, equity in the treatment of shareholders and accountability.

The researchers found the following articles about the impact of corporate governance on the audit quality.

(Ogbeifun & Adeniran, 2020) assesses the impact of audit quality attributes on financial reporting quality in Nigeria. using a sample of 10 banks and 4-year observations from the period of 2015-2018. The study is descriptive in nature and the correlational and ex-post facto designs. The research found positive significant impact of corporate governance on the audit quality.

(Ogoun & Perelayefa, 2020) The paper examines specifically the role of corporate governance in determining the audit quality of firms. The study utilized 71 non-financial firms for the periods 2008 to 2015. The findings reveal that board independence is negatively related to audit quality.

(Widani & Bernawati, 2020) This study aims to determine the effect of corporate governance and audit quality and find out the ownership concentration moderating corporate governance and audit quality. This study uses moderated regression analysis and research samples on manufacturing companies listed on the Indonesia Stock Exchange in 2017-2018 for sample from 129 Indonesian manufacturing companies on the Indonesia Stock Exchange. The results of the study stated that corporate governance did not affect audit quality, and the presence of ownership concentration strengthened the effect of the effectiveness of corporate governance on audit quality.

(Soyemi, et al., 2021) examined the influence of an entity's corporate governance practices on independent external auditor quality, proxied with auditor industry specialization, in Nigeria. The explanatory research design was adopted. Data were sourced from annual reports and accounts of thirty-five (35) quoted non-financial firms for 11 years from 2008 to 2018. Panel regression analyses were employed as the estimating technique for the model specified.

The empirical results revealed that independent external audit quality is positively influenced by the firm's size but negatively influenced by board Independence and the proportion of female directors on board. Overall, aggregate explanatory variables adopted in this study accounted for 50% changes in external audit quality.

(Owolabi & Babarinde, 2020) examined the effect of corporate governance on audit quality in deposit money banks (DMBs) in Nigeria. This research also examined and determined the impact that the gender diversity, size of the board, Non-Executive in the Board, foreign directorship and board composition have on the audit quality in Nigeria IDMBs. Secondary data were gathered from fifteen (15) listed banks covered the duration of twelve years (2007 - 2018). The data were processed using panel data estimator which was based on pooled regression model, fixed effect model and random effect model while the hausman test were

used to choose the better model. The result showed that gender diversity ethnic diversity, board composition and board size are significant variables that can explicate on audit quality of the deposit money banks in Nigeria, but foreign diversity cannot significantly explicate on audit quality.

1.1.1. Audit quality. Audit quality is a function of the auditor's ability which is distinguished into two dimensional functions: technical capability and auditor independence. Technical capability dimension is concerned with its capability to detect material misstatements and errors in financial statements. Auditor independence dimension is concerned with the report of these materials misstatements and errors.

The researchers found the following articles about the impact of Audit quality on the investment decision.

(Soliman, 2020) The main objective of the article is to investigate the effect of corporate governance and audit quality on investment efficiency. This paper focuses on non-financial listed firms in the Egyptian Stock Exchange (EGX), especially firms recorded in EGX 100 for four years' period (2013–2018), for 103 firms and 412 completed observations. The researcher uses Structural Equation Modeling (SEM) through SmartPLS software. The paper shows evidence that management that has good Corporate Governance mechanisms obtains a suitable atmosphere to prepare transparent financial statements, which helps enhance the auditor's role and improve Audit Quality. The study found that there is a significant and positive effect of integration between Corporate Governance and Audit quality on investment efficiency.

(Dashtbayaz & Mohammadi, 2016) investigated the audit quality and Investment efficiency of the listed companies on the Tehran Stock Exchange (TSE). The population includes 94 firms selected through systematic sampling.

The data is collected from the audited financial statements of the firms provided by TSE's website from 2008 to 2015. In this study the variables, auditor industry specialization, auditor reputation, auditor tenure and auditor independence has been used to investigate audit quality. The results of multiple linear regression analysis. The study found a significant relationship audit quality and Investment efficiency.

(Siregar & Nuryanah, 2019) The aim of our study is to examine the effect of financial reporting quality and audit quality on investment efficiency. We also examine whether auditor quality moderates the association between financial reporting quality and investment efficiency. Study covers the period of 2012-2015 668 firm-years. Using a regression model, the results of our study show that financial reporting quality has a significant and positive association with investment efficiency.

(Mahmoud & Kani, 2014) the study aims to carry out a comprehensive review and comparative summarizing the results of the published works on the effectiveness of corporate governance mechanisms, as well as audit committee's influencing factors, in order to investigate their probable effects on audit quality.

(Ravishankar & Sathishkumar, 2018) examined the effect if impact of corporate governance and audit quality on the investor psychology. Extensive article review used. Investment decision of investors is beyond the scope of company transparency due to investor psychology.

1.1.2. Investment decision. The investment decision by the investor depends on the characteristics of the investor in terms of the type of risk he accepts and the degree of his confidence in the information he obtains to analyze the various investments.

The researchers found the following articles about the impact of corporate governance on the investment decision.

(Nazar, 2021) This research examines the influence of corporate governance on investment decision. 198 non-financial companies listed on the Colombo Stock Exchange of Sri Lanka, over the period from 2009 to 2016. This study employed the Generalized Method of Moments (GMM) model to estimate the regression models on panel data study. Findings reveal that managerial ownership is positively significantly influence on investment decision. Board size is insignificantly positive on investment decision.

(Bistrova, et al., 2015) tested the stock performance leaders and laggards, analyzes whether the corporate governance system matters to achieve long-term shareholder value within the Central and Eastern European stock markets universe. The research sample is limited by the quoted CEE companies 2010 The sample list includes 117 companies, results provide the proof that the corporate governance does matter as the market outperformers have above average corporate governance quality and provide trustworthy financial results more often than the underperforming companies.

(Gill & Sharma, 2012) examine the relationships between corporate governance and the investment decision of small business firms in India. Results show that the CEO tenure, the CEO duality, board size total assets of the firm, and small business performance positively impact on the investment decision of the small business firms in India. The CEO duality, total assets, and firm performance positively impact on the investment decision of small business firms in the Indian service industry. The board size and the firm performance positively impact on the investment decision of small business firms in the Indian manufacturing industry the board size and the firm performance positively impact on the investment decision of small business firms in the Indian manufacturing industry.

(Koji, et al., 2020) explore the relationship between corporate governance and financial performance of publicly listed family and non-family firms in the Japanese manufacturing industry. The study obtains data from Bloomberg over the period 2014–2018 and covers 1412 firms comprising of 861 non-family and 551 family firms. Results show that family firms outperform non-family counterparts in terms of return on assets (ROA).

(Dzingai & Fakoya, 2017) examines the effect of corporate governance structures on firm financial performance. The secondary data of selected Johannesburg Stock Exchange (JSE), Using panel data analysis of the random effects model, we determined the relationship between board independence and board size and the return on equity (ROE) for the period 2010–2015 The panel data captured data for ten firms The scope of the research is made up of the companies listed on the ISE National 100 index between July 1, 2008 and September 30, 2008. Sample size 44 firms. Results indicate a weak negative correlation between ROE and board size.

(Thanh & Ngo, 2020) investigated the impact of corporate governance and earnings management on firm performance. Panel data of 60 companies for a period of three years, from 2014 to 2016. Corporate governance determinant factors such as board size, executive size, supervisory size, auditor, and executive in board have insignificant relationships with earnings management.

1.1. Hypotheses development

From the above literature review, the following hypotheses are generated

H1: There is no significant impact of corporate governance on the investment decision.

H2: There is no significant impact of audit quality on the investment decision.

2. Research Methodology. Data collected through structured questionnaire distributed on the accountants and auditors of construction sector in Egypt. The questionnaire distributed through Google forms. The completed respondents are 97 from 99 respondents which mean there are 2 incompletes.

The data collected were synthesized and analyzed to give meaning to the specific objective of the study. The data were tabulated and presented using such statistical tools like percentages, tables correlation coefficient and regression analysis by using SPSS program. Likert Scale used to fill in questionnaire which includes four sections. First section includes sample characteristics (job, education, and experience). Second section includes questions about the corporate governance includes eight questions. Third section includes questions about audit quality includes nine questions. The fourth section includes questions about the dependent variable which is investment decision includes eight questions.

2.1. Regression analysis

H1: There is no significant impact of corporate governance on the investment decision.

Table 1. Model summary first Hypothesis

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.764 ^a	.584	.580	.68166

a. Predictors: (Constant), Corporate governance.

Source: SPSS Results based up on Field, A. (2009). Discovering Statistics using SPSS, SAGE Publication Ltd., p. 207.

From Table 1 Correlation coefficient 0.764 which means there is a positive moderate correlation between corporate governance and investment decision.

Table 2. Anova Table for first Hypothesis

Model	Sum of Squares	df	Mean Square	F	Sig.
1					
Regression	62.084	1	62.084	133.610	.000 ^b
Residual	44.143	95	.465		
Total	106.227	96			

- a. Dependent Variable: investment decision.
b. Predictors: (Constant), Corporate governance.

Source: SPSS Results based up on Field, A. (2009). Discovering Statistics using SPSS, SAGE Publication Ltd., p. 207.
From table (2) The Significant was 0.000 is the less than 0.05. thus, there was a significant relationship between corporate governance and investment decision.

H2: There is no significant impact of audit quality on the investment decision.

Table 3. Model summary second Hypothesis

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.832 ^a	.693	.689	.58629

- a. Predictors: (Constant), Audit quality.

Source: SPSS Results based up on Field, A., (2009), Discovering Statistics using SPSS, SAGE Publication Ltd., p. 207.
From Table 3 Correlation coefficient 0.832 which means there is a positive strong correlation between corporate governance and investment decision.

Table 4. Anova. Table for first Hypothesis

Model	Sum of Squares	df	Mean Square	F	Sig.
1					
Regression	73.572	1	73.572	214.039	.000 ^b
Residual	32.654	95	.344		
Total	106.227	96			

- a. Dependent Variable: investment decision.
b. Predictors: (Constant), Audit quality.

Source: SPSS Results based up on Field, A., (2009), Discovering Statistics using SPSS, SAGE Publication Ltd., p. 207.
From Table 4 The Significant was 0.000 is the less than 0.05. Thus, there was a significant relationship between audit quality and investment decision.

3. Research result. According to testing hypotheses there's positive correlation significant between corporate governance and investment decision. So, reject first hypothesis. Also, there's positive significant relationship between audit quality and corporate governance. Thus, reject second hypothesis.

4. Research conclusion. The research aimed to investigate the impact of corporate governance and audit quality on the investment decision. The result of testing hypotheses showed there was a positive significant relationship between corporate governance and investment decision which means investors will depend on the corporate governance when they make their investment decision.

In addition, the result showed that there is a positive significant relationship between audit quality and investment decision which means investors will depend on the audit quality (the ability of an auditor to detect a breach (auditor competence) and the willingness to report such a breach (auditor independence) when they make their investment decision.

Authors contributions

Conceptualization: Moamen A. Shazly; **methodology:** Khaled AbdElAlim; **resources:** Abanob Nashat and Mohamed Nasser; **data curation:** Moamen A. Shazly; **writing - original draft preparation:** Khaled AbdElAlim; **writing - review and editing:** Moamen A. Shazly; **supervision:** Khaled AbdElAlim; **project administration:** Moamen A. Shazly and Khaled AbdElAlim.

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Appendix

Questionnaire

Dear Mr/s:

Researchers are preparing a research titled “The **Impact of Corporate Governance and Audit Quality on the Investment Decision** “

The main objective of the research is to investigate the impact Corporate Governance and Audit Quality on the Investment Decision. And the researchers hope you fill in the next questioner to help them achieve the research objective.

We are thankful for your time and corporation.

Personal Information

Name:

Phone: (Optional)

Entity Name: (Optional)

Job:

Accountant

Manager

Auditor

Experience :

Less Than 5 years

From 5 to 10 years

More Than 10 years

Education:

Bachelor of Commerce

Diploma

Master/PHD

Professional Certificate (Name)

Part 1. Corporate Governance

Statement	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
1- Corporate governance is applied in Egyptian companies.	1	2	3	4	5
2- The most applicable part of corporate governance is audit committee.					
3.The most applicable part of corporate governance is board of director independent					
4. The most applicable part of corporate governance is internal control					
5.The presence of independent, non-executive members of the board of directors improves the corporate governance					
6. Board adequately monitor financial indicators throughout the years.					
7.The presence of an independent audit committee of experts and technicians to improve corporate governance.					
8. The existence of an internal control system in which the responsibilities of each employee are determined, which helps to strengthen governance.					

Part 2. Audit quality

Statement	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
1. The external auditor of a company is one of the big four companies					
2. Audit committee approves the terms of engagement and the remuneration of the external auditor					
3. The external auditor has experience auditing companies in the same field as your company.					
4. Audit engagement partner or independent review partner not to act for more than five continuous years					
5. Audit firm to establish policies and procedures to ensure that partner and staff are not rewarded/promoted for selling non-audit services to their audit clients					
6. Audit committee has procedures to ensure auditors' independence and objectivity and their compliance with Auditing Practices Board ethical standards					
7. External auditor communicate identified or potential issues in a timely manner to allow you to resolve them appropriately					
8.External auditor should assure the quality of his/her audit.					
9. The presence of an external auditor from the big 4 improves corporate governance.					

Part 3. Investment decision

Statement	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
1- Independent audit reports are considered when making investment decisions					
2- Independent audit reports are useful for estimating company performance					
3- An independent audit report may contain important information about a firm's ability to sustain its existence					
4-The audit report is sufficiently useful and understandable to make informed decisions.					
5- I only invest in companies audited by the first 4 major audit firms.					
6- The presence of board of director independence in the company that increases the investor's confidence in the company's governance procedures.					
7- Pay attention to the characteristics of the board of directors (number of meetings, experience of board members) when making an investment decision.					
8.The presence of strong internal control increases the investor's confidence in the company's governance procedures.					