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Compliance with the Guide of Good Governance Practices and Quality of External Audit: Case of Listed Tunisian Companies in the Stock Exchange

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ABSTRACT

The main objective of this study is to analyze the influence of corporate governance on the quality of external auditing within Tunisian companies listed on the stock exchange. This meticulous analysis aims to elucidate how adherence to the principles outlined in the Good Governance Practices Guide can impact and enhance the quality of external auditing. The results obtained using the System GMM model highlight the Guide's ability to strengthen governance practices on a national scale, promote transparency, and ensure the proper functioning of businesses. Furthermore, they indicate a persistence of audit quality, suggesting that well-executed audit procedures, effective internal controls, and audit continuity can contribute to better audit quality. On the other hand, this research reveals a negative and significant relationship between indebtedness and the quality of external auditing, explained by financial pressures, transaction complexity, and risks to auditor independence in heavily indebted companies. Additionally, this research investigates the correlation between board composition and audit quality. Institutional and independent directors demonstrate a significant positive impact, attributed to their expertise, independence, and role in accountability and transparency. However, the nature of the activity, whether financial or non-financial, does not seem to influence the quality of external auditing, suggesting that auditors adhere to the same standards regardless of the sector.

Keywords: Corporate Governance, Guide of Good Governance Practices, External Audit, System Generalized Method of Moments Model, Tunisian Listed Companies
JEL Classifications: G34, M42, C12, N27

1. INTRODUCTION

Governance and audit are two key concepts in the world of business and administration. They play an essential role in the effective and transparent management of organizations, ensuring compliance with standards and regulations, protecting the interests of stakeholders, and achieving organizational objectives (Kalita and Tiwari, 2023). Governance refers to the set of processes, structures, and mechanisms by which companies are directed, controlled, and regulated (Janjarasjit et al., 2023). Audit, on the other hand, is an independent process of examining and evaluating the activities, systems, and practices of an organization. This study aims to examine the relationship between compliance with the guide of good governance practices and the quality of external audit within Tunisian listed companies.

Tunisia, as an emerging economy and active participant in the global financial market, has witnessed its listed companies navigating through a constantly changing economic, social, and political environment. Faced with these changes, the issue of corporate governance has become a focal point to ensure the sustainability and competitiveness of listed companies. In this regard, the good governance practices guide, developed in 2012 by the Financial Market Council (CMF), has emerged as a benchmark to guide the governance practices of Tunisian companies. Simultaneously, the quality of external audit is a crucial link to ensure the reliability of financial information disseminated by these listed companies. External audit plays a pivotal role in the verification, transparency, and quality of financial statements, providing stakeholders with assurance regarding the accuracy of the presented data. This study aims to highlight the connections between compliance with the Good Governance Practices Guide established by the CMF and the quality of external audits conducted within Tunisian listed companies. It relies on a thorough analysis of governance practices and external audits of these companies, examining the implications and tangible effects of compliance with these best practices on audit quality (AQ).

Almasria (2022) suggests that the quality of external audit is substantially influenced by governance mechanisms, particularly according to the perceptions of external auditors. The findings of this study indicate a significant correlation between the competence of internal audit and the quality of external audit. Similarly, in the same vein, Fakhfakh and Jarboui (2022) state that internal and external corporate governance mechanisms reduce audit risk in Tunisian companies. In their study, Gana and Krichen (2013) examined the impact of the board of directors (BoD) on the quality of external audit. Their focus was primarily on independence, duality, size, and diligence of the BoD. Gana and Krichen (2013) observed that a higher percentage of independent directors on boards is associated with better audit quality (AQ) in Belgian companies. Moreover, their findings point to a favorable correlation between the caliber of the audit and the BoD' vigilance. Thus, their study highlights that the quality of external audit and board characteristics, such as independence and diligence, are complementary mechanisms. Moreover, Husnin et al. (2016) examined the impact of the Malaysian Code of Corporate Governance (MCCG, 2007) on auditor selection in Malaysia, focusing on corporate governance mechanisms. The conclusions of this study suggest that restructuring corporate governance can promote the selection of higher-quality auditors and/or improve the functions of internal audit within companies, leading to an enhancement of audit quality. Similarly, Ho et al. (2017) explored the influence of corporate governance quality on audit quality in Malaysia. The results of this study revealed that the existing corporate governance framework (MCCG, 2007) has limitations in its role in governing the audit process.

Through this exploration, this research aims to contribute to a comprehensive understanding of the relationship between corporate governance and the quality of external audit in the specific context of listed companies in Tunisia. It aligns with a perspective of continuous improvement of governance and audit practices, aiming to enhance investor confidence, consolidate financial transparency, and stimulate economic growth. This study holds paramount importance for several reasons. Firstly, by assessing the compliance of Tunisian listed companies with governance and audit quality standards, this study can reveal the degree of transparency in business practices. This reinforces investor confidence, particularly concerning the post-revolution period, contributing to a more transparent and stable financial market. Secondly, strengthened governance standards and quality audits can increase the attractiveness of companies to potential investors, both domestically and internationally. This encourages an influx of capital into the Tunisian stock market. Thirdly, it provides valuable insights for potential reforms or strategic interventions in regulatory policies, especially during this transitional phase in the Tunisian economy. Fourthly, by highlighting effective practices and areas for improvement, this study can serve as a reference for the development of policies and regulations aimed at strengthening corporate governance and external audit in the stock market sector.

In summary, this study provides a detailed and thorough insight into the practices and mechanisms of governance and audit in Tunisian listed companies, emphasizing their significance for investor confidence, market transparency, and sustainable economic development.

This document is organized as follows. Section 2 critically examines prior literature and establishes the research hypotheses, while Section 3 delineates the methodology employed in this investigation. Subsequently, Section 4 elucidates and deliberates on the findings acquired. Finally, Section 5 concludes this article by summarizing the main findings and highlighting the implications of this research.

2. LITERATURE REVIEW

Governance and audit are two closely related concepts that play a crucial role in the management and control of organizations. Governance refers to the structures, processes, and mechanisms that enable decision-making and control of an organization's activities. It aims to ensure transparency, accountability, and informed decision-making. Audit, on the other hand, is a systematic process of evaluating and verifying an organization's activities and operations to ensure compliance with established standards, policies, and objectives.

Previous research, such as the works of Janjarasjit et al. (2023), Kalita and Tiwari (2023), Almasria (2022), Fakhfakh and Jarboui (2022), Al-Hamadeen et al. (2021), and Chouaibi and Boulhaga (2020), suggests that governance and audit play a complementary role in the governance process and contribute to achieving organizational objectives. Research has shown that the establishment of strong governance mechanisms, such as effective boards of directors and transparent internal policies, is essential for ensuring responsible and transparent management of organizations. Additionally, internal and external auditing provides independent assurance on compliance with standards and regulations, as well as the reliability of financial information.

In this literature review, we will discuss the different perspectives of governance and audit in different regions of the world. We will divide our analysis into four distinct parts: The Middle East, ASACR nations, East Asia, Africa, and Europe. Each part will examine regional specificities in terms of governance and audit practices, highlighting the challenges and opportunities unique to each region. This approach will allow us to better understand the nuances and differences in governance and audit practices across the world and identify best practices and lessons learned that could be applied in other contexts.

Almasria (2022), Al-Hamadeen et al. (2021), Alwaqleh et al. (2021), Awadallah (2020), Khudhair et al. (2019), and Alfraih (2017) have focused on Middle Eastern countries. Al-Hamadeen et al. (2021) studied the impact of board of directors (BoDs) characteristics on the quality of external audit in listed service companies on the Amman Stock Exchange (ASE) between 2014 and 2018. The study evaluated seven independent variables related to the BoD, including independence, size, CEO duality, meetings, ownership, experience, and gender diversity. Controlling for size, profitability, and leverage, it measured AQ based on four dimensions: association with major audit firms, fees, client-auditor retention, and firm size. The results of this study showed that BoD independence has a direct positive effect on AQ for fees and firm size, but a negative effect on association with major audit firms. Independent members appear to enhance internal monitoring practices, thereby reducing the need for higher-quality external audit. However, no link was found with client-auditor retention. Additionally, larger BoDs seem to choose higher-quality audit firms, but CEO duality has a negative effect on AQ, particularly with major firms. The study also reported that relevant expertise of BoD members has a negative impact on client-auditor retention but no influence on other aspects of AQ. Gender diversity was found to be associated with the selection of smaller audit firms. In a similar vein, Almasria (2022) focused on the interaction between internal corporate governance mechanisms and the quality of external audit, exploring how these mechanisms can influence AQ. Analysis of 13 conducted interviews revealed that internal governance mechanisms can influence AQ through effectively organized meetings, regular auditor oversight, and discussions on significant audit findings. Questionnaire results from 206 participants also indicated that communication between internal mechanisms and external auditors is crucial for improving various aspects of AQ, such as quality evidence collection and relevant advice. These results highlight the challenges of audit independence in Jordan, particularly for small local firms, and suggest formal supervision of governance mechanisms by a higher authority. In contrast, Alwaqleh et al. (2021) analyzed the links between various aspects of corporate governance, including CEO tenure, CEO duality, board independence, and board size, with AQ. They also attempted to control these relationships by considering key variables such as client size, debt, and firm complexity. The results of the logistic regression analysis indicated a negative, although not significant, correlation between CEO tenure and AQ, as well as a negative impact of CEO duality on AQ. Furthermore, the research demonstrated a significant link between board size and AQ. The coefficients from control variables overall suggest that client size and debt are positively associated with AQ, while firm complexity shows a positive, but not significant, relationship with AQ.

Awadallah (2020) investigated the influence of Qatari companies' governance practices on AQ and their efficacy. The study employed logistic regression to analyze data from non-financial companies listed on the stock exchange over a 4-year period, from 2013 to 2016. The findings of the study unveil a noteworthy correlation between board independence, CEO duality, audit committees, and AQ. However, they also indicate that institutional investors and managerial ownership do not have a significant impact on AQ. Additionally, company size, as well as its complexity and leverage, negatively affect AQ. Khudhair et al. (2019) investigated the impact of internal and external governance mechanisms, such as board size, audit committee independence and expertise, and the frequency of its meetings, on AQ in a sample of non-financial companies in Iraq. The study employed a logistic regression method to achieve its objectives. The findings indicate a positive correlation between AQ and the proportion of non-executive directors serving on the audit committee. On the other hand, Alfraih (2017) studied the correlation between board structure and the selection of external audit firms in companies listed on the Kuwait Stock Exchange (KSE) for the year 2013. The study used various indicators, such as independence, diversity, entrenchment, size, and CEO duality within the BoDs. Additionally, In order to evaluate AQ, a distinction was also drawn between Big 4 and Non-Big 4 audit firms. This analysis relied on a logistic regression model to test the presumed links between these different elements. The results of this study reveal that independence, diversity, and size have a significant positive impact on the likelihood that companies listed on the KSE choose high-quality audit firms (Big 4). In contrast, CEO duality has a negative effect, reducing the likelihood of choosing a Big 4 audit firm.

On the other hand, Kalita and Tiwari (2023), Janjarasjit et al. (2023), Ho W.K et al. (2017), and Husnin et al. (2016) have focused their research on South and East Asian countries. Kalita and Tiwari (2023) explored the links between corporate governance, external audit quality, board diversity and corporate performance within SAARC countries. In this study, Kalita and Tiwari (2023) applied the GMM model to 2000 annual observations covering the period 2012-2021 and a sample of 200 non-financial companies listed in SAARC countries. The results of this study highlight a significantly positive association between external audit quality and Tobin's Q. However, significant negative influences were observed for variables related to audit committee meetings and board independence. On the other hand, gender diversity, CEO duality, as well as audit committee independence, did not show a significant association with firm performance. Husnin et al. (2016) analyzed the impact of the Malaysian Code of Corporate Governance (MCCG, 2007) on auditor selection in Malaysia by examining corporate governance mechanisms. The results of this study indicate that restructuring corporate governance can enhance AQ by promoting the selection of higher-quality auditors and/or improving internal audit functions within the company. In a similar vein, Ho et al. (2017) explored the influence of corporate governance quality on AQ in the Malaysian context. The study sample consists of 457 non-financial companies listed on the Bursa Malaysia between 2003 and 2012. Pooled ordinary data and ordinary least squares (OLS) method were used. The results indicate that audit committee effectiveness has no significant influence on audit fees before and after the 2007 Code. Moreover, board effectiveness does not exert a significant impact on audit fees during the pre-2007 Code period; however, it exhibits a significant influence in the post-2007 Code period. These results suggest that the existing corporate governance framework regarding audit committees has limitations in governing the audit process. Furthermore, Janjarasjit et al. (2023) attempted to assess the impact of corporate governance on AQ in the emerging Thai capital market. This study employs multiple regression analysis and a sample of 479 non-financial Thai companies listed between 2018 and 2019. The results of this study state that a larger BoDs, combined with a higher percentage of expertise in the audit committee, can lead to an improvement in AQ.

The works presented in the above paragraph emphasize that in Asia, companies may face conflicts of interest between family interests and those of minority shareholders. Additionally, state-controlled enterprises may be subject to political pressures that can adversely affect the quality of governance and auditing. However, these studies suggest that the establishment of an independent audit committee is crucial to enhancing AQ. The audit committee should consist of independent members with the necessary skills and experience to oversee the auditors' work. Similarly, companies should implement robust corporate governance mechanisms to protect the interests of minority shareholders. These mechanisms may include strict information disclosure rules, enhanced voting rights for minority shareholders, and effective internal control mechanisms.

However, Chouaibi and Boulhaga (2020), Gana and Krichen (2013), and Gajevszky (2015) have focused their research on European countries. Gana and Krichen (2013) examined the impact of the BoDs on the quality of external audit for 96 Belgian companies listed on the Brussels Euronext Stock Exchange during the period 2003-2007. They mainly focused on independence, duality, size, and diligence of the BoDs. They noticed that in Belgian companies, improved AQ is correlated with a larger percentage of independent directors on the boards. Additionally, their results suggest a positive relationship between the diligence of the BoDs and AQ. Hence, their research underscores the complementary nature of external audit quality and characteristics of the BoD (independence and diligence). Further, Gajevszky (2015) investigated the association between AQ and corporate governance characteristics within the framework of listed companies in Romania from 2008 to 2012. The outcomes of this study underscore a negative correlation between AQ and CEO dual role, as well as institutional ownership. In contrast, a significant positive correlation is observed between AQ and the presence of an audit committee at the corporate level. Moreover, the findings suggest that management ownership and the independence of the BoDs are unrelated to the audit's quality. These findings underscore the impact of corporate governance attributes on the quality of the financial reporting process, particularly in the context of an emerging economy like Romania, characterized by less developed financial infrastructure and an increased need for transparency and robust governance mechanisms to achieve market economy status. Furthermore, Chouaibi and Boulhaga (2020) examined the impact of specific elements of corporate governance, such as the size of the BoDs, the independence of the BoDs, CEO duality, and AQ, on the disclosure of information on internal control. The study centers around a sample of 164 European companies that are listed on the STOXX Europe 600 index. Drawing on positive agency theory, the study hypothesizes that the composition of the BoDs and the quality of audit practices impact the information provided regarding a company's internal control. Using content analysis and an evaluation criterion, the study calculated the internal control disclosure index. The findings unveiled limited disclosure, signaling inadequate transparency in the majority of the sampled companies, hindering stakeholders' ability to assess future company performance. Multivariate analysis highlighted a significant and positive relationship between internal control disclosure and the independence of the BoDs, CEO duality, and AQ.

Furthermore, Fakhfakh and Jarboui (2022), Boulila and Mbarki (2014), Kolsi et al. (2012), Enofe et al. (2013), Soliman and Ragheb (2012), Adeyemi and Fagbemi (2010) have focused their research on African countries. Adeyemi and Fagbemi (2010) examined key elements of corporate governance within listed companies in Nigeria and their connection to AQ. The analyzed variables included complexity, size, leverage, ownership of non-executive directors, ownership of executive directors, ownership of institutional shareholders, ownership of non-institutional shareholders, and CEO duality. The results of this study indicate a significant correlation between AQ and ownership of non-executive directors, size, and leverage. Thus, the study recommends maintaining and improving the composition of non-executive directors on boards to enhance AQ. In a similar vein, Enofe et al. (2013) examined the factors that influence AQ in the Nigerian corporate setting. The research empirically examined the relationship between AQ, the audit firm's mission, and characteristics such as audit duration, audit firm size, board independence, and ownership structure. A regression model was used to analyze the existence of significant relationships between AQ and audit firm characteristics. The results showed that ownership structure, audit firm size and board independence are positively related to AQ. However, only the independence of the board demonstrated a significant association with AQ. Audit duration had a negative relationship with AQ, but it was not significant.

Soliman and Ragheb (2012) focused on the 50 most active Egyptian companies on the Egyptian Exchange between 2007 and 2009. The study's results underscore the close links between board independence, CEO duality, audit committees, and AQ. Size, complexity, and business influence were also identified as crucial factors influencing AQ for companies listed on the Egyptian Exchange. Additionally, the findings underscore the significance of governance mechanisms in enhancing the financial reporting process. In contrast, institutional investors and managerial ownership do not show significant correlations. In a similar vein, Kolsi et al. (2012) examined how corporate governance mechanisms, including ownership structure, board size, debt, and board composition, impact the external demand for auditors known for their high quality and reputation. The research used Principal Component Analysis (PCA) to assess external demand, considering factors such as audit firm size, reputation, audit experience, sector specialization, and the use of information and communication technologies (ICT). The study includes 137 observations over a

5-year period from 2005 to 2009. The findings indicate a positive association between board size, CEO duality, and the presence of majority shareholders with the demand for auditors of higher quality. Conversely, institutional investor participation and firm size negatively impact the demand for higher-quality auditors. The results also indicate that the presence of independent directors, CEO ownership, and the company's level of indebtedness do not affect the selection of a reputable auditor. Furthermore, Boulila and Mbarki (2014) conducted a study to analyze the influence of board composition and the quality of external audits on earnings management in Tunisian banks between 2003 and 2007. Using multivariate regressions, the study examines the impact of board structure and external audit quality on discretionary accruals, serving as an indicator of earnings management. The results highlight that CEO duality on the board is correlated with increased levels of discretionary accruals, while the presence of directors linked to the largest shareholder tends to restrain such earnings management practices. Moreover, the study reveals that co-auditing with the BIG 4 encourages earnings management, while an external auditor's ability to disclose reservations negatively affects managerial discretionary power. From a practical perspective, the study suggests avoiding BIG 4 co-auditing and emphasizes the positive impact of affiliated directors on reducing discretionary practices, especially when these directors are not linked to families. The results of this study thus underscore the importance of clearer delineation in Tunisian accounting standards to enhance financial transparency. Additionally, Fakhfakh and Jarboui (2022) focused on evaluating the impact of corporate governance mechanisms on audit risk within Tunisian companies. They examined non-financial companies listed on the Tunisian Stock Exchange (BVMT) between 2005 and 2017. The results of the Generalized Least Squares (GLS) method reveal a correlation consistent with agency theory, suggesting that effective corporate governance mechanisms have the ability to monitor and reduce agency problems within companies. The efficiency of the BoDs' structure, ownership, and AQ appear to exert a significant influence on audit risk, especially both pre- and post-2011 revolution.

The works presented above concur on the importance of corporate governance and AQ for firm performance. Effective corporate governance enhances auditor independence and improves the reliability of financial statements. Additionally, the importance of the audit committee in the audit process, overseeing the auditors' work, is emphasized. However, the results of these works vary depending on the variables studied. Some studies find positive relationships between the board size and AQ, as exemplified by Alwaqleh et al. (2021), Khudhair et al. (2019), and Kolsi et al. (2012), while others find negative or insignificant relationships, as shown in the works of Chouaibi and Boulhaga (2020). Moreover, results may vary based on the economic, legal, and cultural conditions specific to each country or region under study. Thus, there are nuances and differences in governance and audit practices among the examined countries. In Europe, companies are subject to stricter regulations regarding governance and audit. In Asia, companies may face conflicts of interest and political pressures. Middle Eastern countries have less developed audit systems than developed countries due to factors such as auditor training, regulation, and competition. In Africa, companies are often smaller and contend with less developed legal and accounting systems. Despite these differences, the studies identify some best practices and lessons learned that could be applied universally. Establishing an independent audit committee and reinforcing corporate governance mechanisms to protect minority shareholder interests are recommended. Additionally, compliance with existing regulations regarding governance and audit is essential. However, prior studies focusing on Tunisia have not explored the impact of the Good Governance Practices Guide on AQ. This gap in the existing literature opens the door to new research in this area. By specifically examining the contribution of such a guide to AQ, a better understanding of how governance standards can influence and enhance external audit practices can be gained. This study aims to fill this gap by providing a thorough analysis of the effect of applying a Good Governance Practices Guide on external audit quality. By highlighting the importance of this relationship, new perspectives and recommendations can be provided to strengthen corporate governance and ensure the reliability of external audits.

To address this question and present potential answers, we formulate the following hypotheses:

- Contrary to the conclusions of Ho et al. (2017), we posit that a guide of good governance practices can indeed improve external audit quality. Embracing the positions of Gajevszky (2015) and Gana and Krichen (2013), we state Hypothesis 1: There is a positive correlation between the quality of corporate governance and external audit quality.
- In line with the results of studies conducted by Almasria (2022), Alwaqleh et al. (2021), Al-Hamadeen et al. (2021), and Chouaibi and Boulhaga (2020), we suspect a positive relationship between the independence of the BoDs and external audit quality. In this regard, Hypothesis 2 will be: There is a positive relationship between the independence of the BoDs and external audit quality.
- In contrast to the works of Alwaqleh et al. (2021) and Kolsi et al. (2012), we suspect a negative relationship between the level of indebtedness of Tunisian companies and external audit quality. This hypothesis is based on the idea that a high level of indebtedness may exert financial pressure on the company, compromising its ability to allocate adequate resources to external audit. This situation can lead to limitations in audit procedures and a decrease in AQ. Additionally, a high level of indebtedness may be perceived as a financial risk signal for external auditors. They might fear that the company's financial difficulties will impact their remuneration or reputation. Therefore, they may be less inclined to allocate additional resources for a thorough and high-quality audit. In this perspective, Hypothesis 3 will be: There is a negative relationship between the level of indebtedness of Tunisian companies and external audit quality.
- In accordance with the results of the study by Awadallah (2020), we suspect a negative relationship between the size of the company and external audit quality. This hypothesis is based on the idea that large companies often have complex organizational structures and extensive operations, making the audit more difficult and complex. Auditors may encounter difficulties in obtaining all necessary information and in effectively assessing risks and internal controls in a large

company. Moreover, large companies may have slower decision-making processes and more complex hierarchies, leading to delays in decision-making and the implementation of audit recommendations. This can compromise the company's responsiveness to issues identified by external auditors and affect AQ. Consequently, Hypothesis 4 will be: There is a negative relationship between the size of Tunisian companies and external audit quality.

- Unlike Al-Hamadeen et al. (2021) and considering the economic and political situation in Tunisia, we suspect a negative relationship between company profitability and external audit quality. This relationship can be justified by the fact that a financially troubled company with low profitability may have fewer resources available to allocate to external audit. This can lead to limitations in audit procedures and a reduction in AQ. In this perspective, Hypothesis 5 will be: There is a negative relationship between company profitability and external audit quality.

3. DATA AND METHODOLOGY

3.1. Data

This study focuses on a comprehensive sample of 20 Tunisian companies listed on the Tunis Stock Exchange (BVMT) that have implemented the Good Governance Practices Guide, comprising 11 financial and 9 non-financial companies. Data was collected from the BVMT website (https://www.bvmt.com.tn) and the annual reports of the relevant companies over the period from 2013 to 2022. Analyzing compliance with the Good Governance Practices Guide and the quality of external audits within listed Tunisian companies for the period 2013-2022 is of fundamental importance in the Tunisian context for several key reasons.

Firstly, this period encompasses a critical phase in Tunisian history following the revolution, during which the country embarked on significant reforms aimed at modernizing its institutions and economy. Studying corporate governance during this period helps understand the impact of socio-political changes on governance. Secondly, Tunisia has experienced periods of economic instability, partly due to the post-revolution transition. Analyzing compliance with these governance and audit standards during this period will shed light on how companies navigated changing economic contexts. Thirdly, Tunisia sought to attract foreign investments during this period. A study on corporate governance and the quality of external audits can provide crucial insights into investor perception and the impact of governance on investment attractiveness. Fourthly, Tunisia has strengthened its regulations on governance and audit to align with international standards. Analyzing compliance by companies during this period can highlight challenges and successes related to the implementation of these regulations. Finally, the lessons learned from this study in Tunisia can serve as a reference for other emerging markets, especially in similar economic and political contexts, providing valuable insights for other economies in transition.

3.2. Empirical Model

This study aims to analyze the impact of the overall quality of governance on the quality of external audit. The model employed in this study links the variable (CCG), measuring external audit quality, with the variable (PICONF), measuring overall corporate governance quality, the variable (DEB) measuring the company's indebtedness, the variable (SIZE) measuring the firm's size, and the variable (ROE) measuring the company's return on equity.

Unlike the study by Stanley and Owota (2020), we have chosen four indicators to measure the quality of external audit, namely; Membership in the (Big Four) firms, Co-auditing (COC), membership in one of the Big 4 and Co-auditing networks (Big and COC), and auditor rotation (ROT). Membership in the (Big Four) is a dummy variable that takes 1 if the auditor belongs to a Big 4-type audit firm and 0 otherwise (Stanley and Owota, 2020; Abdullah et al., 2008). Co-auditing (COC) is a dummy variable that takes 1 if the company is audited by another auditor in addition and 0 otherwise. Membership in one of the Big 4 and Co-auditing (Big and COC) networks is a dummy variable that takes 1 if the company is audited by another auditor belonging to a Big 4-type audit firm and 0 otherwise. Auditor rotation (ROT) is a dummy variable that takes 1 if the number of consecutive audit years is at least 3 years, and 0 otherwise (Kouaib and Jarboui, 2014).

The overall quality of corporate governance is calculated in accordance with the 2012 guide of good governance practices for Tunisian companies and the OECD 2012 report. The score used in this study consists of a set of 38 items or major recommendations to assess the corporate governance structure of the companies. Table 1 provides a detailed overview of these items. We assign a value of 1 if the chosen item is verified by the firm and 0 otherwise. The items are distributed as follows:

The debt variable (DEB) is a ratio measured by the total long-term debts divided by the total assets. The firm's size (SIZE) is measured by the natural logarithm of total assets. The company's profitability variable (ROE) is represented by the return on equity ratio, which is equal to the net income divided by the total equity.

Additionally, we have included four variables describing the composition of the BoDs of the companies in question, namely; FOREIGN, INST, STATE, and INDEP, and a dummy variable (SP) describing the company's industry sector. The variable (SP) takes the value of 1 if the company is in the financial sector and 0 if not. The inclusion of this variable can be justified by the complexity of financial transactions in the banking sector which may necessitate specialized audit expertise. The proportion of foreign directors (FOREIGN) is calculated by dividing the number of foreign directors by the total number of directors. Similarly, the institutional director proportion (INST) is calculated by dividing the count of institutional directors by the total count of directors. The percentage of state directors (STATE) is calculated by dividing the number of state directors by the total number of directors. Finally, the proportion of independent directors (INDEP) is determined by dividing the number of independent directors by the total number of directors.

This relationship can be expressed as follows:

$$CCG_{it} = \alpha_0 + \alpha_1 PICONF_{it} + \alpha_2 DEB_{it} + \alpha_3 SIZE_{it} + \alpha_4 ROE_{it} + \alpha_5 FOREIGN_{it} + \alpha_6 INST_{it} + \alpha_7 STATE_{it} + \alpha_8 INDEP_{it} + \alpha_9 SP_{it} + \varepsilon_{it} \quad (1)$$

To follow up on this investigation, we employed the System GMM (system generalized method of moments) model. The System GMM model is an extension of the classical GMM (generalized method of moments) model, which enhances estimation efficiency by utilizing both current and lagged explanatory variables. It also employs additional instruments to correct potential biases arising from endogeneity and serial correlation. The equation for the System GMM model (developed by Arellano and Bond in 1991) is given by Equation (2) and is described as follows:

$$Y_{it} = X_{it} * \beta + \eta_{it} \quad (2)$$

Where:
Y_{it} is the observed dependent variable for individual i at time t.
X_{it} is a vector of observed explanatory variables for individual i at time t.
β is a vector of unknown parameters to be estimated.
η_{it} is the error term capturing unobservable or unaccounted factors in the model.

The specific equation of the System GMM model is obtained by adding an instrumentation condition based on instrumental variables Z_{it} to address the endogeneity issue. The instrumentation condition is given by:

$$Z_{it} * \eta_{it} = 0 \quad (3)$$

Where:
Z_{it} is a vector of instrumental variables observed for individual i at time t.

The main idea of the System GMM model is to instrument the explanatory variables X_{it} with the instrumental variables Z_{it} to address the issues of correlation between errors and explanatory variables.

Using the generalized method of moments, the parameters β are estimated by minimizing the objective function, which is a quadratic form of the moments of errors. This objective function is defined as follows:

$$Q(\beta) = (1/N) * (Y - X\beta)' * W * (Y - X\beta) \quad (4)$$

Where:
N is the sample size.
Y is a vector of the observed dependent variables for all individuals and time points.
X is a matrix of explanatory variables for all individuals and time points.
W is a weight matrix that takes into account the correlation structure of errors.

The optimal solution of the System GMM model is obtained by solving the first-order equations of $Q(\beta)$ with the instrumentation conditions and using numerical optimization techniques.

4. EMPIRICAL RESULTS AND DISCUSSION

The descriptive statistics presented in Table 2 show that the AQ has an average score of 2.01 with a maximum of 4. This score indicates

Table 1: Major recommendations from the Tunisian guide of good practices

A. Shareholders' rights	B. Board structure and responsibility
1. Adoption of the principle of one share - one voting right	13. Separation of the functions of Chairman of the Board and Chief Executive Officer
2. Existence of a "shareholder area" link	14. At least 1/3 of the Board members are independent directors (1/3)
3. Active existence of a shareholder area link	15. Maximum term of office is 3 years renewable only once
4. Regular updating of information published in the "shareholder area"	16. Board size is 7-9 directors
5. Publication in annual reports of the identity of major shareholders	17. 1/3 of the Board members are under 40 years old
6. Holding of the General Assembly after the end of the fiscal year and the publication of accounts without exceeding the deadline of 6 months from the close of the fiscal year	18. 1/3 of the Board members are over 60 years old
7. Publication of the notice of convocation	19. 25% of directors are women
8. Publication of the notice on the website	20. Existence of a specialized committee
9. Providing practical notes explaining the procedures for participating in the General Assembly	21. Publication of the mandate, composition, and operating procedures of all committees in the report or on the website
10. Publishing an abbreviated annual report for non-specialists containing a simplified presentation of the Financial Statements	22. The internal audit committee is composed of at least 3 members appointed by the Board from its members
11. Access to the General Assembly for analysts and media representatives	23. Publication of information about the BoDs (age, number of shares held, etc.)
12. Providing a summary report from the minutes of the General Assembly to shareholders and/or publishing it on the website	24. Meeting at least once per quarter
	25. Publication of managers' remuneration
	26. Publication of the BoDs' remuneration
C. Need for internal audit	D. Transparency and roles of auditors
27. Existence of an internal auditor	34. Obligation to appoint an Auditor
28. Independence of internal auditors	35. Independence of the Auditor
29. Establishment of an audit committee with at least one independent member	36. Publication of the Auditor's remuneration
30. Establishment of internal audit regulations for proper functioning	37. Publication of the part of remuneration related to auditing and certification of accounts separate from special missions
31. Existence of a dedicated internal audit structure	38. Expression of an opinion on the fairness and regularity of the financial statements
32. Preparation of an annual report on result management	
33. Attachment of the internal audit structure directly to the general management rather than other operational or functional directorates	

that AQ is considered satisfactory, but there are still opportunities for improvement to achieve higher levels. Specifically, a score of 2.01 suggests that to strengthen audit practices and elevate overall quality to a higher level, Tunisian companies such as ADWYA, CELLCOM, SOPAT, SOTETEL, and EURO-CYCLES, as well as BH bank, could benefit from engaging auditors from a globally renowned audit firm (Big 4) or implementing a co-audit system.

In addition, the results of the descriptive study indicate a low disparity in compliance with the good governance guide. This is evident through the compliance score, averaging 14.68 points or 38.62%. A compliance rate of 38.62% leaves significant room for improving governance and aligning with recommended standards. Thus, non-financial companies like SOPAT, MONOPRIX, and SOTETEL are encouraged to make efforts to further comply with best governance practices.

Furthermore, descriptive statistics suggest that the companies in the sample are relatively large in size and admit a high debt ratio. This level of indebtedness can be attributed to three causes. Firstly, challenging economic conditions; Tunisia has faced a series of economic shocks in recent years, including the 2008 financial crisis, the 2011 revolution, and the COVID-19 pandemic, making it difficult for Tunisian companies to generate revenue and repay their debt. Secondly, government economic policies in Tunisia may have contributed to the increase in corporate debt. Thirdly, corruption is an endemic issue in Tunisia, leading companies to borrow to finance unprofitable projects or acquisitions. This justifies the return on equity (ROE) of non-financial companies, which is 5.07% (compared to 14.5% for financial companies). However, the distribution of different types of directors indicates some openness to foreign skills and expertise in the governance of Tunisian companies.

Table 2: Descriptive statistics

Variable	Mean	SD	Min	Max
Cgg	2.01	1.0562	0	4
Piconf	0.3862	0.1236	0.1579	0.6316
Deb	0.7898	0.1938	0.0471	1.2131
Size	7.5125	0.7612	6.407	9.8464
Roe	0.0308	0.0749	−0.2382	0.29
Foreign	0.2553	0.2039	0	0.64
Inst	0.1948	0.1388	0	0.5
State	0.1446	0.1476	0	0.64
Indep	0.3099	0.231	0	0.76
Sp	0.55	0.4987	0	1

SD: Standard deviation

Table 3 presents the correlation matrix among the different variables of the model and indicates a lack of strong correlation between the variables. The results of the VIF test, presented in Table 4, provide additional evidence supporting the previous results. The values of 1/VIF are all >0, confirming a low correlation between the variables.

In addition, the VIF test results show that all variables have VIF values below 5, indicating a low presence of multicollinearity. This suggests that the model variables are relatively independent of each other. Furthermore, the Mean VIF value is 2.55, which is relatively low. This reinforces the idea that there is no strong multicollinearity in the model.

Furthermore, we used the Sargan test to check if the instruments used in the regression are all exogenous, meaning they are not correlated with the regression error. The results of this test indicate a probability (Prob > chi^2) equal to 0.0162, which is <0.05. Hence, we reject the null hypothesis and infer that there is statistical evidence of an endogeneity issue. Thus, the System GMM (generalized method of moments) model can be appropriate.

The results of the System GMM model estimation, presented in Table 5 panel A, indicate the persistence of AQ. This can be explained by the fact that if AQ is high in period t, it may indicate that audit procedures have been well executed, internal controls have been effective, and errors have been detected and corrected appropriately. Similarly, this result can be explained by the effect of audit continuity. This suggests that when a company retains the same external audit firm from one period to another, it can promote a better understanding of the company, its processes, and its risks by auditors. This continuity can lead to improved external audit quality due to increased familiarity of auditors with the company and their ability to identify and assess risks more accurately.

In addition, contrary to the conclusions of Ho et al. (2017), the results of this empirical investigation indicate a significant relationship between the compliance score with the good governance practices guide and the quality of external audit. This can be explained in several ways. Firstly, the impact of compliance on AQ. A high score of compliance with the good governance practices guide may indicate that the company has strong internal processes and controls. These enhanced governance practices can promote better external audit quality by ensuring increased transparency, more effective risk management, and enhanced reliability of financial information. Secondly, increased auditor

Table 3: Correlation matrix

Variable	Cgg	Piconf	Deb	Size	Roe	Foreign	Inst	State	Indep	Sp
Cgg	1									
Piconf	0.1942	1								
Deb	0.0562	0.2289	1							
Size	−0.128	−0.3587	−0.4246	1						
Roe	0.098	−0.0055	−0.6799	0.1332	1					
Foreign	−0.2293	−0.2945	−0.433	0.257	0.3225	1				
Inst	0.1399	0.1024	0.0778	−0.3493	0.0232	−0.4281	1			
State	0.0197	0.1606	0.1671	−0.2647	0.0004	0.2607	0.0446	1		
Indep	−0.1957	−0.4168	−0.4247	0.6403	0.1628	0.5884	−0.3207	−0.0697	1	
Sp	0.2852	0.5059	0.5855	−0.5775	−0.2412	−0.6038	0.2663	0.1372	−0.8058	1

Table 4: VIF test results

Variable	VIF	1/VIF
Sp	4.35	0.2299
Indep	3.77	0.2654
Deb	3.19	0.3137
Foreign	2.88	0.3471
Size	2.25	0.4447
Roe	2.14	0.4662
Inst	1.52	0.6591
Piconf	1.43	0.7004
State	1.41	0.7107
Mean VIF	2.55	

Table 5: Empirical results of the system GMM model

Variable	Statistics
L1.cgg	0.6542 (3.74***)
Piconf	1.3175 (2.37**)
Deb	−2.9157 (−4.44***)
Size	−0.4905 (−1.55)
Roe	−4.0584 (−1.43)
Foreign	−1.6689 (−1.68)
Inst	2.8545 (2.33**)
State	1.1662 (1.26)
Indepp	1.9096 (1.95*)
Sp	0.2087 (0.3)
Cons	5.3250 (2.27**)

***, ** and * denote significance at 1%, 5% and 10%, respectively. GMM: Generalized method of moments

Arellano-Bond test for AR (1) in first differences: z = −2.89 Pr>z = 0.004
Arellano-Bond test for AR (2) in first differences: z = −0.75 Pr>z = 0.453
Sargan test of overid, restrictions: Chi^2 (9) = 6.65 Prob>chi^2=0.673
Hansen test of overid, restrictions: Chi^2 (9) = 4.72 Prob>chi^2=0.858
R-squared=0.7742
Adj R-squared=0.7609
Prob>F = 0.0000

***, **, and * denote significance at 1%, 5%, and 10%, respectively.

confidence. When companies comply with good governance practices, it can enhance auditor confidence. Auditors may be more inclined to pay particular attention to auditing the company, conduct more thorough tests, and provide recommendations to improve internal processes. This can lead to better external audit quality. Thirdly, the effect of regulation. In some cases, the compliance score with the good governance practices guide may be linked to regulatory requirements. Regulations may impose stricter standards for corporate governance, which can prompt companies to enhance their external audit quality to comply with legal requirements. Thus, a significant relationship can be observed between the compliance score and the quality of external audit.

However, unlike the findings of Alwaqleh et al. (2021) and Kolsi et al. (2012), the results of this study indicate a negative and significant relationship between debt and the quality of external audit. This negative relationship may be attributed to financial risks, the complexity of financial transactions, and pressures on auditor independence. In fact, when a company is heavily indebted, it may face financial pressures and an increased risk of bankruptcy. These risks can impact the quality of external audit as the company may struggle to provide reliable and transparent financial information. Auditors may also exercise greater caution when auditing a heavily indebted company, leading to a more critical evaluation of AQ. Similarly, heavily indebted companies may be involved in complex financial transactions, such as debt restructuring or merger and acquisition operations. These transactions can make the audit more complex and challenging, affecting the quality of external audit. Additionally, when a company is heavily indebted, there may be pressures on auditor independence. For example, the company may seek to influence auditors to obtain favorable opinions or to minimize risks identified during the audit. These pressures can compromise the quality of external audit and result in a negative relationship between debt and AQ.

Furthermore, this study explores the link between board structure and the quality of external audit. Specifically, it examines how foreign, institutional, independent, and state representatives on the board may influence AQ. The results of this study did not reveal any significant link between foreign or state representatives on the board and the quality of external audit. However, they showed that institutional and independent directors have a significant and positive impact on the quality of external audit. This relationship can be explained in several ways, including expertise and skills, independence and objectivity, and responsibility and transparency. Indeed, independent and institutional directors are often chosen for their expertise and skills in finance and corporate governance. Their presence on the board can contribute to better oversight of external audit and a better understanding of issues related to AQ. Similarly, independent and institutional directors are generally considered to be independent and objective in their decisions. Their role is to represent the interests of shareholders and ensure that corporate governance practices are followed. Their presence can promote better oversight of external audit and ensure greater objectivity in audit processes. Additionally, independent and institutional directors are often perceived as being responsible for overseeing external audit and ensuring transparency in financial information. Their presence on the board can encourage a culture of accountability and transparency, leading to better AQ. These results are consistent with those of Almasria (2022), Alwaqleh et al. (2021), Al-Hamadeen et al. (2021), Chouaibi and Boulhaga (2020), who have supported the existence of a positive relationship between board independence and the quality of external audit.

However, the results of this study indicate that the nature of the activity, whether financial or non-financial, does not have an impact on the quality of external audit. This can be explained by the fact that external auditors follow the same audit standards and procedures, regardless of the nature of the company's activities. Nevertheless, even though the relationships posited in hypotheses 4 and 5 were tested, they did not reach statistical significance. These hypotheses highlight the idea of a negative correlation between company size and profitability, and the quality of external audit.

Additionally, Table 5 presents the results of the Arellano-Bond tests for the first and second orders of initial differences. The results of this test indicate different levels of autocorrelation. Autocorrelation of order 1 appears to be significant (z = −2.89, Pr > z = 0.004), suggesting temporal dependence between adjacent observations. However, autocorrelation of order 2 does not seem significant ($z = -0.75$, $Pr > z = 0.453$), indicating a decrease in this dependence over time. The overidentification tests, Sargan and Hansen, show that the additional restrictions imposed on the model are not rejected by the data ($Prob > chi2 = 0.673$ and 0.858, respectively). Furthermore, the regression model seems to be globally significant in explaining the data, with an R^2 of 0.7742 and a $Prob > F$ of 0.0000, emphasizing the model's good fit to the variance of the observed data. In summary, although autocorrelation of order 1 is present, the model appears well-fitted, robust, and relevant for analyzing relationships in the data.

5. CONCLUSION

This study focuses on the interaction between compliance with good governance practices and the performance of external audit in listed companies in Tunisia. Examining corporate governance during this period serves, firstly, to understand the impact of socio-political changes on corporate governance. Secondly, it provides insights into how companies navigated changing economic contexts. Thirdly, it can offer crucial indications of investor perception and the impact of governance on investment attractiveness. Fourthly, assessing compliance during this period can illustrate the challenges and successes in implementing these regulations. Fifthly, the insights gained from this study in Tunisia can serve as a reference for other emerging markets, especially in similar economic and political contexts, thereby providing valuable insights for other economies in transition.

This study employs the System GMM model to assess the persistence of AQ in a sample of 20 Tunisian companies, specifically those adhering to the good governance code. Among these 20 companies, 11 belong to the financial sector, and 9 belong to the non-financial sector. All of them are listed on the Tunis Stock Exchange, and the analysis covers the period from 2013 to 2022. The model results indicate a persistence in AQ, suggesting that well-executed audit procedures, effective internal controls, and audit continuity can contribute to improved quality. In contrast to some previous findings, such as those of Ho et al. (2017), this study observes a significant relationship between compliance scores with good corporate governance practices and the quality of external audit. This relationship can be explained by the positive impact of compliance on AQ, particularly through strong internal processes and controls, increased auditor confidence, and the effects of regulations. However, this research reveals a negative and significant relationship between debt and the quality of external audit. Financial pressures, transaction complexity, and risks to auditor independence in heavily indebted companies may explain this relationship.

The study also explores the link between board structure and AQ. Institutional and independent directors show a significant positive impact, attributed to their expertise, independence, and role in responsibility and transparency. However, the nature of the activity, whether financial or non-financial, does not seem to influence the quality of external audit, as auditors adhere to the same standards regardless of the sector.

Finally, the Arellano-Bond tests reveal a significant first-order autocorrelation but a decrease over time, and the overidentification tests confirm the relevance and robustness of the model to analyze relationships in the data.

Future research efforts could benefit from adopting qualitative methodologies to explore in detail the internal dynamics shaping the relationship between corporate governance and external audit. It would also be relevant to increase the sample size, especially if the number of companies adopting the good governance guide grows, to validate and enhance the reliability of the obtained results.

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