THE IMPACT OF AUDIT QUALITY ON NARRATIVE DISCLOSURE: EVIDENCE FROM EGYPT

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ABSTRACT

This study examines the impact of audit quality on narrative disclosure through bringing evidence from an emerging African market, whose cultural, economic and institutional context is very different from most of the previously analyzed countries' contexts. The current study relied on content analysis of the annual reports of nonfinancial firms listed on the Egyptian stock exchange during the period 2012-2016 to measure narrative disclosure. Regression results show that in emerging developing countries, audit quality can function differently from the case in developed and stabilized countries with regard to its role in enhancing corporate narrative disclosure. The results indicated that, given the unique institutional environment in Egypt, audit quality has no significant effect on narrative disclosure. In addition, in contrast to the literature, we found that company's size has a negative relationship with level of narrative disclosure of that company. We also found that companies with high financial performance increase the level of narrative disclosure. This study provides readers with information about if and how the institutional setting can influence the relationship between audit quality and corporate non-financial disclosures. This study's findings could provide valuable information to regulators and standards setters, both in Egypt and other emerging markets with a similar institutional environment, which can ultimately help in enhancing the quality of corporate reporting.

Keywords: Narrative Disclosure, Audit Quality, Nonfinancial Information, Emerging Markets, Egypt.

JEL Classification: M00, M40, M41, M42

INTRODUCTION

This study focuses on the relationship between audit quality and narrative disclosure. Narrative information is one of the main channels of disclosure that meets the stakeholders' needs of information, such as the interpretation of financial information, management discussions, awareness of current and future risks surrounding the company, strategy, governance, and social responsibility (Agyei-Mensah, 2017; Rutherford, 2018). Thus, narrative disclosure can be described as complementary to the financial information contained in the financial statements (Binh, 2012).

Audit quality, as DeAngelo (1981a) defines it, is the probability that an auditor will both discover and report a breach in the client's accounting system. This, in turn, can't be attained without disclosing enough information about the company's performance. In this sense, audit quality can be related to the concept of narrative disclosure. This is because of the benefits of the assurance expected to be presented by a high quality audit on the reported information by the company. This assurance is mostly reported to have a positive impact on corporate reporting

(Gul et al., 2013). That's why some studies have investigated the impact of audit quality on reducing the earnings management (e.g., Peasnell et al., 2003; Cohen et al., 2008; Krishnan and Visvanathan, 2008; Almarayeh et al., 2020).

However, we observed that the majority of previous related studies have been conducted in countries with developed and stabilized capital markets (Yeoh, 2010; Beattie et al., 2013; Al-Najjar & Abed, 2014; De Klerk et al., 2015). On the other hand, only few studies have investigated the relationship between audit quality and narrative disclosure in emerging or developing African markets (Barako et al., 2006; Kolsi, 2012; Agyei-Mensah, 2019). In particular, Barako et al. (2006) examined factors that may explain voluntary disclosure in a developing country, namely Kenya. Kolsi (2012) examined the determinants of voluntary disclosure policy adopted by Tunisian listed firms. Agyei-Mensah (2019) examined the linkages between audit committees' effectiveness, audit quality and corporate voluntary disclosure quality in Ghanaian listed companies.

The present inattention in the literature given to emerging markets in general, and to African markets in particular, risks the possibility of capturing of the impact of emerging markets' social-political contexts on the relationship between audit quality and corporate disclosures. Emerging markets have their own specialties which worth special attention. In this kind of context, for instance, there is: high centrality of cultural values; intense political events; less-developed governance systems; less active capital market; and a lower level of investors' protection, as compared to firms operating in developed and stabilized markets (Bao & Lewellyn, 2017). These factors are reported to undermine the quality of corporate reporting, including narrative disclosures

(Uddin & Hopper, 2003). Hence they are expected to play a significant part in the investigated relationship in this study (i.e. in the relationship between audit quality and narrative disclosure).

Further, the effectiveness of audit quality in improving the value of corporate reporting is reported to be pronounced in certain contexts more than in others (Francis & Wang, 2008). This motivates us to investigate this relationship in a new and different context Egypt. The Egyptian business environment is generally characterized by a weak level of investor protection and a small proportion of registered firms. Moreover, similar to other emerging markets, corporate ownership structure in Egypt is highly concentrated and usually related to members of the same family. Thus, it is worthy investigate the relationship between audit quality and narrative disclosure in this kind of peculiar context. This motivates us to examine the extent to which audit quality in an emerging African market whose cultural, economic and institutional environment is very different from most previously analyzed developed countries' contexts is capable of enhancing narrative disclosure.

In order to investigate the impact of external auditing on corporate disclosure practices, one proxy for audit quality is used: audit firm size (Big Four vs non-Big Four). Data were gathered from the annual reports of a sample of Egyptian nonfinancial firms listed on the Egyptian Stock Exchange during the period 2012–2016. The regression results show that, in contrast to the case in most other contexts, there is no significant impact of the audit firm's size on narrative disclosure in Egypt. This also suggests that in the Egyptian context there is no big difference in terms of audit quality between big four and non-big four audit firms.

Hence, this work contributes to the literature through providing evidence from a less-developed context with different cultural, economic and social characteristics from those of most analyzed developed countries' contexts. This study's findings could enrich our understanding concerning the link between audit quality and corporate disclosure across different institutional contexts. Then, the empirical evidence from this study can offer some insights to the current debate regarding the effectiveness of external auditing in emerging markets (Almarayeh et al., 2020). This, in turn, could provide valuable insights to regulators and standards setters, both in Egypt and other developing countries with a similar institutional environment, that help them better understand the dynamics influencing corporate disclosures in this type of context. For example, this could help regulators assess the impact of the planned economic reforms and develop more effective legislation that would ultimately enhance the quality of corporate reporting in emerging markets.

The paper is structured as follows. Section two presents the institutional background of the context being investigated. Section three outlines the theory employed in explaining this study’s objective and findings. Section four reviews the literature and formulates the research hypothesis. Section five presents the research methods and builds the model used in this work. Section six presents the analysis and findings of the study. Finally, section seven discusses the concluding remarks of the study.

INSTITUTIONAL BACKGROUND

By the end of the last century, the Egyptian government has taken some steps to improve the national economy through following a privatization program which was applied starting 1991. The aim of this economic reform program was to enhance the role played by the private sector, rather than the public sector, in the process of economic development in the country. The Egyptian government was aware that sustaining such a reform program relies on: the existence of a strong financial regulatory framework; the availability of credible corporate information; and the adoption of internationally accepted accounting and auditing standards. Consequently, the Egyptian government has launched several plans to improve corporate reporting and disclosure requirements, as well as accounting and auditing standards and practices in the country (see Elbayoumi et al., 2019).

Egyptian companies applied the Egyptian Accounting Standards (EAS) in preparing their financial statements, which were issued by the Ministerial Decree number 503 in 1997. In 2006, EASs have been replaced by a new version that was issued by the Ministerial Decree number 243 that contained 35 EASs. The new EASs are compatible with International Accounting Standards (IAS).

Egypt has published its first corporate governance code for state-owned enterprises and private sector organizations in 2006, where regulatory requirements for narrative disclosure were issued, including: the rules of governance; a guidance to disclosure of corporate social responsibility; and other disclosure requirements for listed companies on the Egyptian Stock Exchange. In addition, the Egyptian Guide to Corporate Governance principles has called for the disclosure of non-financial information such as: the objectives of the company; the nature of its activity; future plans and strategy, the company's administrative competencies; training, reward and sponsorship systems for its employees; ownership structure; formation of the board and its committees; and a determination of the extent of commitment to governance and risk management. Finally, more recently, the rules for listing on the Egyptian Stock Exchange were issued in article number 30 requiring companies to disclose the structure of shareholders and the members of the board of directors. Then, article number 40 required, as part of governance disclosure requirements: the inclusion of the report of the board of directors and the number of its meetings; disclosures related to the audit committee and the number its meetings; and disclosures related to human resources (Eldomiaty et al., 2016).

As regarding the audit profession in Egypt, it is noted that governmental-owned companies as well as companies in which the government owns 25% or more of its shares are audited by the Egyptian Central Auditing Organization (CAO) (Khlif and Samaha, 2014). In particular, CAO is auditing around 22% of listed companies in the Egyptian Stock Exchange. The rest of the listed companies in addition to other private companies are audited by private audit firms in Egypt (El-Dyasty, 2017).

Contrary to the situation in most countries in the world, local audit firms in Egypt are reported to have a strong position compared to large audit firms (i.e., big four audit firms). Private local audit firms are occupying around 31% of the Egyptian market. In addition, it is observed that the Egyptian companies' law permits local companies to engage more than one audit firm, making Egypt among the few countries that permit both single audit, joint audit and dual audit (El-Dyasty, 2017). This unique context invites us to investigate the impact of audit quality on company’s narrative disclosures.

THEORY

Agency theory is concerned with the conflict between the owners and the managers. This conflict can be reduced through a higher quality financial reporting. In other words, reliable financial reporting is an effective tool through which the owners can monitor management tasks. It can enhance the stewardship or accountability of management to the company’s owners (Salehi et al., 2017).

The agency problems related to the ownership and control segregation may be resolved through external audit (Agyei-Mensah, 2019). That is, independent audit is one of the most important and effective ways to align the interests of managers and shareholders. Hence, agency theory stresses the need for a high quality external audit. This is consistent with Fan and Wong’s (2005) argument that auditors play a governance role which can mitigate agency problems. Hence, a high quality audit can have positive effects on the validity, reliability and value of accounting data and information.

To summarize, the audit function can assist in decreasing information asymmetry as well as the conflict of interest that occurs between managers and shareholders (Arens et al., 2010). This can be attained through working as a monitoring mechanism that can help improve the quality of non-financial information disclosures. However, this study argues, this issue should be interpreted in relationship to the institutional context in which the audit process is practiced: the context can play a significant part in supporting or diminishing the impact of audit quality.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Audit Quality

Audit quality is a dynamic concept whose indicators may change from time to time and from place to another (Omar and Frederick, 2019). Thus, it is difficult to find a uniform agreement on what it represents (DeFond and Zhang, 2014; Christensen et al. 2016). There are multiple measures of audit quality. However, audit firm size is commonly used as a good indication of audit quality (Lennox, 1999; Francis, 2011). This may be because of the ability of larger audit firms to: retain the most component auditors, attract skilled specialists; and employ many college graduates and provide them with the necessary training. Hence, this kind of audit firms is expected to face less litigation in the future, compared to smaller firms. This is also noted to enhance their publicity (Okolie and Izedonmi, 2014).

The auditing process can reduce the problem of information asymmetry and ultimately promote confidence in the capital market (Okolie and Izedonmi, 2014). Larger audit firms, in particular, are reported to have a greater ability to limit doubtful accounting accruals (DeAngelo, 1981b; Francis et al., 1999). Thus, this kind of audit firms can have positive impacts on corporate reporting (Francis et al., 2003; Gul et al., 2013). Some scholars went further arguing that audit quality can enhance corporate share price due to the anticipated resultant increased creditability in corporate disclosures (e.g., Gul et al., 2013; Okolie and Izedonmi, 2014).

Narrative Disclosure

As indicated in the introductory section, narrative disclosure is a set of qualitative disclosures within annual reports (Yekini et al., 2016). There are multiple reasons for adopting narrative disclosures by companies (Leung et al., 2015). For example, they may be used by some companies as: a means to cover profit management (Yeoh, 2010); a channel for the dissemination of information (Yekini et al., 2016); and a tool to reduce information asymmetry (Klerk et al., 2015; Yekini et al., 2016).

We need to distinguish between two types of narrative disclosures: mandatory narrative disclosures; and optional narrative disclosures. The first type is used to fulfill legal or regulatory requirements. The other type is mostly adopted for reasons related to publicity, legitimacy and improving the company's image in the market. There are several elements of optional narrative disclosures, such as: the disclosure of strategic information that contributes to an understanding of the opportunities and risks facing the investment (Ho & Taylor, 2013); the disclosure of future information that help predict the company's future performance and reduce uncertainty (Alkhatib, 2014; Bravo, 2016); and disclosure of environmental and social responsibility (Al-Najjar & Abed, 2014; De Klerk et al., 2015).

The Relationship between Audit Quality and narrative Disclosure

Several studies reported a positive impact of audit quality on corporate performance. In this regard, Hussainey (2009), for example, examined the impact of audit quality on UK's investors' ability to predict future earnings. He found that investors are able to better anticipate future earnings when financial statements are audited by the big four accounting firms. Other studies investigated the impact of audit quality on corporate disclosure (Christensen et al., 2016). A recent study in this regard is Legoria et al. (2017) who investigated whether a firm's auditor plays a role in the disclosure about major its customers. They found that the quality of a firm's auditor explains the client firm's choice to mandatorily disclose their major customers' identity.

However, as noted in the introductory section, the majority of the literature focuses on developed contexts (Yeoh, 2010; Beattie et al., 2013; Al-Najjar and Abed, 2014; De Klerk et al., 2015). Less-developed or emerging markets, with their own specificities are expected to have a considerable impact on the relationship between audit quality and narrative disclosures. For example, professional accounting and audit institutions in these contexts are still in its infancy. In addition, stock market regulations are not well-applied in these markets (Bao & Lewellyn, 2017). The irregularities of these contexts put some doubts on the reported positive impacts of audit quality when we come to this kind of contexts.

This is consistent with the reported different results in emerging markets regarding the relationship between external audit and corporate disclosures. In this regard, Salehi et al., (2017) found no significant positive relationship between independent audit quality and the quality of disclosure of financial statements information. Further, Grediani (2019) found that audit quality has a negative effect on compliance with sharia information disclosure in sharia financial institutions in Indonesia. In a related context, Almarayeh et al. (2020) found that audit quality has no significant effect on earnings management.

Considering this limitation of research conducted in emerging contexts as well as the reported mixing findings in the literature, the present work seeks to contribute to this debate through bringing evidence from a new emerging African context the Egyptian market (see section 2). We formulate our hypothesis as follows:

H1: Audit quality is significantly positively associated with narrative disclosures in the Egyptian context.

RESEARCH METHODOLOGY

Data Collection and Sample

To collect data related to narrative disclosures, the current study relied on content analysis of the annual reports of nonfinancial firms listed on the Egyptian Stock Exchange during the period 2012-2016. Data were obtained from firms' websites and from Mubasher Info Egypt website[1]. The statistical analysis was done through the statistical program SPSS-version 20. This study employs descriptive, correlation and regression analyses.

Sample Selection

The research population includes the non-financial companies listed on the Egyptian Stock Exchange in Cairo for a period of five years starting 2012 till 2016. The following criteria were considered for selecting the companies:

1. The company is a non-financial one as financial companies are subject to various regulatory and professional requirements.
2. The company did not face material events during that period such as mergers or acquisitions.
3. Companies with unavailable data were excluded.
4. Companies that prepare financial statements in the Egyptian local currency (i.e., the Egyptian Pound).

The application of these criteria resulted in a sample of 30 firms with a total number of 150 observations. Thus, in total, 150 company reports were used during the period 2012 –2016.

Measurement of Variables

Dependent variable: narrative disclosure

DISN (disclosure narrative) is the dependent variable in this study. There are different approaches in the literature to measure narrative disclosure (Jones & Smith, 2014; Abed et al., 2016; Rutherford, 2018). The current study relies on an inclusive approach which builds an un-weighted index with relative weights, including four dimensions corporate governance, sustainability, forward-looking information, and strategy with a total of 50 items (Appendix 1). This index was built in the light of: Agyei-Mensah (2017); Trang & Phuong (2015); the Egyptian Guide to Corporate Governance (2016); and the registration rules in the Egyptian Stock

Exchange (2014). A dummy variable is used which assumes the value of 1 if the item is disclosed and 0 otherwise (i.e., if the item is not disclosed). Then, narrative disclosure is measured through the following formula:

Narrative Disclosure Index = Actual disclosure / Total possible disclosure

(i.e., the 50 items noted in the appendix).

Independent Variable

AQ (Audit Quality) is the independent variable in the current study. The majority of prior studies linked the quality of the audit to the size of the audit office. This is based on the argument that larger offices have the capacity to own the necessary technologies that enable them to perform higher quality audits. In this regard, Francis and Yu (2009) emphasized that audit quality is higher in big four offices, but they did not emphasize that it is unacceptably lower in smaller offices. Recently, Wachid & Yunita (2019) reported that shareholders favor big four firms in order to receive high audit quality (Mauritz et al., 2019).

Thus, this study uses audit firm size proxy as a measurement of audit quality. A dummy variable is used which assumes the value of 1 if the audit firm is one of the big four and 0 otherwise (Okolie & Izedonmi, 2014).

Control variables

The empirical model of the study includes two control variables related to firm-specific characteristics - company size and profitability. Company size is measured by the natural logarithm of its total assets. Profitability is measured by the ratio of return on assets (ROA) through dividing the net profit after taxes over total assets (Jizi & Nehme, 2016).

Model

To test the proposed hypothesis, the following multiple regression model was estimated:

$$DISN\ it = \alpha + \beta 1\ AQ\ it + \beta 2\ Size\ it + \beta 3\ ROA + \varepsilon \ \dots\dots\dots\ (1)$$

Where: *DISN i,t* is narrative disclosures for firm i in time period t.
AQ i,t is the audit quality for company i in time period t.
SIZE i,t is the total assets for company i in time period t.
ROA i,t is the return on asset for company i in time period t.
Bi is the coefficients of the model variables and *εi* is the model error.

Table 1
SUMMARY OF VARIABLES MEASUREMENT

Variable type	Variable	Measurement
Independent Variable	AUDIT QUALITY	Dummy variable which assumes the value of 1 if the audit firm is one of the big four and 0 otherwise.
Dependent variable	DISCLOSURE NARRATIVE	Actual disclosures divided by total possible disclosures.
Control variables	SIZE	The logarithm of total assets.
	ROA	The net income divided by the total assets.

Table 1 summarizes the variables measurement employed in this study.

ANALYSIS AND RESULTS

Descriptive Statistics

Before testing the hypothesis we made descriptive statistics, including frequency for the dummy variable, mean, standard deviation and variance of continuous variables as shown in Table 2.

Table 2
DESCRIPTIVE STATISTICS

Panel A: Descriptive statistics of continuous variables (full sample N = 150)				
Variable	Minimum	Maximum	Mean	Std. Deviation
DISN	0.10	0.88	0.560	0.186
SIZE	7.783	10.665	9.25	0.605
ROA	-0.076	0.482	0.087	0.106
Panel B: Descriptive Statistics – Dichotomous Variable				
	Frequency of 1	Frequency of 0	Percentage of 1	Percentage of 0
AQ	52	98	34.7%	65.3%

Table 2 presents the descriptive statistics for the model variables of this study. It shows a narrative disclosure level of 0.56 ranging from a minimum value of 0.10 to a maximum value of 0.88 with a standard deviation of 0.18. As regarding the independent variables, it is found that big four auditors perform the audit process for 34.7% of the sample companies, while the companies audited by non-big four firms represent about 65.3% of the sample. As regarding control variables, Table 2 displays companies' size with a mean of 9.25 and ROA with a mean of 0.087.

Correlation Matrix

Table 3
PEARSON CORRELATION

	DISN	***AQ***	***SIZE***	***ROA***
DISN	1			
AQ	0.099	1		
SIZE	-0.180*	0.183*	1	
ROA	0.255**	0.031	-0.077	1

* Significant at the 0.05 level (2-tailed).
** Significant at the 0.01 level (2-tailed).

Table 3 presents the correlation results for the study variables. It is found that DISN is not significantly correlated with AQ at 0.05 significance level. In terms of control variables, firm size is found to be negatively correlated with DISN at 0.05 significance level, while ROA is found to be positively correlated with DISN at 0.01 significance level.

Regression Results

Regression analysis (Table 4) was performed to check for the existence of multi-colinearity and serial or autocorrelation problems. The tolerance and variable inflation factor

(VIF) tests revealed no harmful correlation. According to Field (2013), a cause for concern exists if the largest VIF is greater than 10. In the present work, the maximum VIF value (as shown in Table 4) is 1.042 and Durbin Watson value is 0.848. In addition, the tolerance is found to be greater than 0.20. Therefore, this study is not subject to high-collinearity problems. Overall, there are no linearity, multi-collinearity and autocorrelation problems.

Table 4
REGRESSION RESULTS

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	0.326[a]	0.106	0.088	0.17788	0.848

a. Predictors: Constant, ROA, AQ, SIZE
b. Dependent Variable: DISN

ANOVA[a]

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	0.549	3	0.183	5.786	0.001[b]
Residual	4.620	146	0.032		
Total	5.169	149			

a. Dependent Variable: DISN
b. Predictors: (Constant), ROA, AQ, SIZE

Coefficients[a]

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
(Constant)	1.020	0.227		4.498	0.000		
AQ	0.049	0.031	0.125	1.571	0.118	0.965	1.037
SIZE	-0.057	0.025	-0.185	-2.316	0.022	0.960	1.042
ROA	0.416	0.138	0.237	3.019	0.003	0.992	1.008

a. Dependent Variable: DISN

Table 4 shows the results of regression analysis. The value of F (5.786), at a significance level of 0.01 (p=0.001), indicates that the multiple regression model is statistically significant. Hence, the model is feasible for the analysis. The adjusted R2 value of 0.08 indicates that the independent variable explains 8% of the dependent variable.

In addition, Table 4 reveals the findings related to the audit firm size variable (as a proxy for audit quality). The coefficient B is found to be positive and insignificant, which means that audit firms (big four and non-big four) have no effect on narrative disclosure in the Egyptian setting. This result is inconsistent with Legoria et al. (2018) who found that firms are more likely to voluntarily disclose information when they engage a higher-quality auditor. Further, the result is inconsistent with Grediani (2019) who found that large public accounting firms induce their clients to make disclosures.

As regards the control variables, the findings in Table 4 reveal that, the coefficient of company size (SIZE) has a significant but negative relationship with narrative disclosure, suggesting that smaller firms in Egypt have a higher level of narrative disclosure (see Salehi et al., 2017). This finding is inconsistent with some studies such as Legoria et al. (2018) and Grediani (2019) who found a significant positive relationship between frim size and the level of narrative disclosures by the firm. This was because, they reported, in larger companies, costs of disclosure and reporting are fixed costs; so these costs will decrease as the units of activity undertaken increase (Legoria et al., 2018; Grediani, 2019). The coefficient of company performance (ROA) shows a significant positive relationship, indicating that companies with high financial performance have a higher level of narrative disclosure (see Legoria et al., 2018).

CONCLUSION

This study mainly investigated the impact of audit quality on corporate narrative disclosures in Egypt. It also examined the relationship between company size and financial performance from one side and the level of narrative disclosures from the other side. The study is motivated by the importance of studying emerging African markets whose institutional factors are expected to significantly influence corporate reporting in these contexts; rather than focusing mainly on developed stabilized markets. It is found that audit firm quality in Egypt has no significant impact on the companies' narrative disclosures. This is different from Legoria et al. (2018) who found an association between voluntary disclosure quality (the likelihood of a firm to fully disclose the identity of their major customers) and a higher-quality auditor. It is also different from Grediani (2019) who found that external auditor quality in sharia financial institutions in Indonesia has a negative effect on compliance with sharia information disclosure. On the other hand, our finding supports Ahmed and Courtis's (1999) study that reported no association between audit firm size and aggregate disclosure levels. It also supports Barako et al.'s (2006) observation that the type of the external audit firm has no a significant impact on the level of voluntary disclosure by Kenyan companies. In addition, our finding is consistent with Salehi et al. (2017) who found no significant positive relationship between independent audit quality and the quality of disclosure of financial statements information in Iran. Finally, the present work supports Almarayeh et al.'s (2020) study that found no association between audit quality and earnings management practices in Jordon.

The present finding indicates that external auditing in Egypt can function differently from the Western developed countries. This may be due to the influence of some institutional factors that Egypt shares with other emerging markets, such as concentrated ownership structure, lower investor protection, inefficient stock market, and strong personal relations between auditors and their clients. This indicates to the importance of considering the impact of cultural and political factors which are highly central and influential in emerging African markets, and hence they are likely to affect the perception of auditor independence and quality and the way in which auditors understand their work (Almarayeh et al., 2020). Hence these factors can configure the relationship between audit quality and corporate disclosures in emerging markets.

Therefore, the present work contributes to the literature through bringing evidence from an emerging market regarding the impact of audit quality. It supports the view that in emerging markets, like Egypt, auditing may not be an efficient internal monitoring mechanism. This finding contradicts with the prediction made by the agency theory literature that external auditing would have a positive role regarding corporate reporting in emerging less-developed contexts (Fan and Wong, 2005).

Moreover, the reported finding in this study can provide useful information to regulators and auditing standards-setters, both in Egypt and other countries with a similar institutional setting, as it implies that the recent regulatory and economic reforms in Egypt have not been effective enough in improving audit quality and strengthening auditor's independence in a way that enhances disclosure practices. Thus, the audit profession in Egypt still suffers severe problems. Hence, international auditing standards when introduced in emerging markets should consider the peculiarity of their institutional context, otherwise they would be ineffective in enhancing corporate reporting.

One limitation of this study is the problem of data availability, which is a common problem in developing countries. The paucity of information about Egyptian firms blocks some proxies for audit quality, such as industry specialist auditors or tenure. As a result, this study has used one variable – audit firm size –as a proxy for audit quality. Therefore, the association between audit quality and narrative disclosures in Egypt could be further addressed in future research if more data become available. This limitation does not undervalue the valuable insights drawn from this study, but gives a motivation for further investigation. Thus, a potential opportunity for future research could be the use other proxies of audit firms' quality. Further, future research may also use other approaches to investigate the relationship between external audit and nonfinancial disclosures. For instance, we believe that the use of qualitative research methods is more suitable to capture the impact of the socio-political context of developing countries on the relationship between audit quality and corporate disclosures.

Appendix 1 **NARRATIVE DISCLOSURE INDEX**[2]	
1.	**Governance**
1.1	Ownership structure and shareholders' rights
1.2	The level of managerial ownership
1.3	Board of directors structure
1.4	Board meetings
1.5	Audit committee tasks
1.6	Audit committee number of meetings
1.7	Other board committees
1.8	Control environmental (including governance management and risk management)
1.9	Internal control and audit
1.10	Conflict of interest policy
1.11	Shareholders' relations
1.12	Dealing with related parties
1.13	Board performance evaluation
2.	**Environmental and social responsibility**
2.1	Implementing social programs
2.2	Implementing environmental protection programs
2.3	Maintaining natural resources
2.4	Employees number during the last two years
2.5	Worker's average income during the year
2.6	Reward and incentive system for the company employees and managers
2.7	Employees training
2.8	Offering employment opportunities
2.9	Occupational Safety and Health Standards
2.10	Charitable contributions and donations
2.11	Social responsibility report
2.12	Environmental responsibility report
2.13	Products safety
2.14	Handling customers complaints
3.	**Strategy**
3.1	Challenges faced by the company
3.2	Vision and mission
3.3	Goals
3.4	Company strategy
3.5	Plans and policies
3.6	Investment in research, development, natural resources and other intangible assets
3.7	Analysis of the company market and its market share
3.8	The main types of the company products and the services it provides

	3.9	Ways to improve services and new products
	3.10	Competitive environment
	3.11	Production capacity, sales and sales analysis by sector
4.	**Looking forward information**	
	4.1	Factors affecting future performance
	4.2	Future growth opportunities and its impacts
	4.3	Management comments on the last year's performance compared to previous forecasts
	4.4	Operational plans for the next year
	4.5	Contracts and future agreements
	4.6	Risks that the company faces, its future impacts and how it is being managed
	4.7	Targeted sales for the next year
	4.8	Targeted profits for the next year
	4.9	Targeted cash flows for the next year
	4.10	Planned capital expenditures
	4.11	Planned research and development expenses
	4.12	Financial and nonfinancial forecasting indicators

ENDNOTE

1. Mubasher Info is a website that provides information related to financial and stock markets. It provides the latest prices and values for local and global exchanges in addition to Company IPO. See the following link: https://english.mubasher.info/countries/eg
2. This index is adapted from Mensah's (2017), Trang and Phuong (2015), the Egyptian Guide to Corporate Governance (2016), and the registration rules in the Egyptian Stock Exchange (2014).

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