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Attitudes of Kuwaiti companies towards using services of foreign auditors

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**ATTITUDES OF KUWAITI COMPANIES TOWARDS USING
SERVICES OF FOREIGN AUDITORS**

A thesis submitted in fulfilment of the
requirement for the award of the degree

DOCTOR OF PHILOSOPHY

From

UNIVERSITY OF WOLLONGONG

By

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**BS in Accounting and auditing (Kuwait)
MA In Accountancy (USA)**

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2008**

DECLARATION

This thesis is submitted to the University of Wollongong in fulfillment of the requirement for the Degree of Doctor of Philosophy

This thesis represents my own work and contains no material, which has been previously submitted, for a degree or diploma at this university or any other institution, except where acknowledgement is made.

Nabi Alduwaila

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PREFACE

Usefulness of financial statements is related to the extent to which users can believe the accounting numbers. This usefulness is enhanced if the statements are prepared in accordance with known rules which cannot be altered. Auditing can provide this assurance. This research aims at analyzing the attitudes of Kuwaiti companies towards using services of foreign auditors and tries to find out the impact of these services on the companies' performance, growth and profitability. This research also aims at finding out measures that Kuwaiti companies may need to take to enhance the quality of service acquired from foreign auditors. It is suggested that organizations will request the assurance provided by auditors in order to demonstrate financial accountability. This accountability is essentially an obligation to present an account of and answer for the execution of responsibilities to those who entrusted those responsibilities.

This study collects data, through a survey, and uses a random sample of adequate size. To achieve its aims, the study applies sophisticated statistical techniques (Factor analysis, discriminant analysis, probit-logit regression analysis and multiple regression analysis) to the recent collected data.

A Review of literature indicated that the decision of companies to use services of foreign auditors is affected by types of auditing, auditing philosophy, process and strategy. It is also claimed that the decision to select a particular foreign auditor depends on the audit objectives, audit competence, independence and audit method. The cost of auditing services is also claimed to be an important factor in using services of foreign auditors.

Despite the growing literature on various aspects of auditing, it appears that many gaps still exist in the current literature. In particular, no attempt has been made to examine the reason for using services of a particular auditor by particular companies; no previous attempt was made to find out if it is possible to separate different organizations in their selection of particular auditors on the basis of some measurements (e.g. demographic variables); no empirical evidence exists on the effectiveness of the auditors' characteristics on the use of their services by particular companies; no attempt has been made to determine reasons for using foreign auditors by organizations in small developing economies or to determine the factors underlying foreign auditors' image in a small oil-producing economy also no research was done to determine the probability of using services of foreign auditors by organizations in a small developing country that lacks experienced local auditors. Most importantly, no attempt was made to assess the attitudes of companies operating in the State of Kuwait towards using services of auditors who operate outside their country.

Chapter Three examines the structure of the Kuwaiti economy and its changes over the last three decades. It also examines the structure of the Kuwaiti companies and the possibility of their adoption of international accounting standards. This structure covers the composition of the Kuwaiti population, labor force, basic social indicators, aggregate supply by economic sector and aggregate demand by type of expenditure, the public finance of the Kuwaiti economy the composition of Kuwaiti foreign trade and its balance of payments. It also analyzes the forms of Kuwaiti companies in general and Kuwaiti companies that are listed in the stock exchange and gives some ideas about the possibility of adoption of international accounting standards by Kuwaiti companies.

The determination of sample size and collection of sample data needed to achieve the objectives of the thesis were assessed. The demographic variables of sample companies were examined and the companies' reasons for appointing a particular accounting auditor were analyzed. Moreover, the demands of sample companies for services of foreign auditors have been assessed and Kuwaiti companies' evaluation of the services offered by foreign auditors have been investigated.

A two-group discriminant analysis has been applied to test for differences in the demographic profile of Kuwaiti companies and the characteristics of auditors that differentiate between Kuwaiti companies that use services of foreign auditors and Kuwaiti companies that do not. The results of the two-group discriminant analysis related to the impact of demographic variables suggest that firms with relatively greater assets , liabilities, smaller equity ratio, larger number of branches (local and overseas), greater connections with foreign sources, are eager to employ external auditors .The results of the two-group discriminant analysis related to the impact of the characteristics of accounting auditors indicate that companies which use services of foreign auditors attach great importance to reputation, performance, experience and qualifications of the auditors, while companies that do not use services of foreign auditors attach great importance to cost of auditing, past experience with non-foreign auditors, holistic advice and personal attention offered by auditors.

Factor analysis is applied to determine Kuwaiti companies' attitudes towards services of foreign auditors. Sample respondents were asked to indicate their degree of agreement about 20 statements regarding the importance of services offered by foreign auditors. Results of factor analysis suggest that there are four factors that motivate Kuwaiti companies for using services of foreign auditors. These factors are: company's performance, achievement of operating facilities, growth and reputation.

A multiple discriminant analysis has been applied to determine which of the factors predict Kuwaiti companies to use services of external auditors and to test if there are differences in the attitudes of Kuwaiti companies of various activities towards using these services. The statistical results are important in suggesting that there is a significant discrimination between the attitudes of Kuwaiti companies operating in the

fields of agriculture, mining and quarrying; industrial production; banking, finance and insurance and various services, towards the importance of services of foreign auditors in the areas of reputation, performance, operation facilities and growth.

The logit and probit regression analyses were used to model the decision as to whether Kuwaiti companies that do not currently use services of foreign auditors would use this service in the future. The analysis is based on the data collected through the survey that is based on the random sample of 385 Kuwaiti companies. It indicates that 260 companies do not use services of foreign auditors. The results suggest that age of company, value of liabilities, value of assets and number of branches is important factors in deciding whether to use services of foreign auditors in the future. There seems to be a negative relationship between the age of the company and the probability of using services of a foreign auditor. Recently established companies have a higher probability of accepting to deal with a foreign auditor. The value of liabilities has a strong positive effect on this probability. Also, the increase in the number of branches increases the probability of dealing with foreign auditors. The value of gross revenue seems to exert a slight positive influence on the decision to use services of foreign auditors, while the number of employees does not seem to exert a significant influence.

**Papers of this Ph.D. Degree Published and accepted for Publication
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2. "Impact of Fluctuations in Oil Prices on the Structure of Kuwaiti Economy and Kuwaiti Companies" *Indian Development Review*, Vol. 5 , No.1 ; December 2007, pp. 355-373
3. "Attitudes of Kuwaiti Companies towards Future Use of Services of Foreign Auditors" accepted and scheduled for publication in the *International Journal of Applied Business and Economic Research*, Vol.6, No. 1, June 2008
4. "Impact of Differences in Activities of Kuwaiti Companies on their Attitudes towards the Use of Services of Foreign Auditors", accepted and scheduled for publication in the *Journal of Accounting , Business and Management*, October Issue 2008.
5. " Impact of Characteristics of Foreign Auditors on Use of their Services by Middle Eastern Companies: A Case Study" accepted and scheduled for publication in the *Journal of Economics and Business Studies*, June Issue 2008.

Papers of this Ph.D. Degree Presented in International Conferences in Two Countries

- 1: “Reasons for Appointing a Particular Accounting Auditor by Kuwaiti Companies has been presented at the conference entitled:“ International Colloquium on Business & Management (ICBM) held at Bangkok, Thailand, November 19-22nd., 2007
- 2: “Kuwaiti companies’ evaluation of the services offered by foreign auditors” has been presented at the conference entitled: Business, Environment, International Competitiveness and Sustainable Development of the Asia Pacific Economies, held at Monash University in Malaysia, Petaling Jaya, in 3-4 December 2007)

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