Audit Committee, Board Characteristics, and Forced Auditor Switch Decisions – a Case study about Deloitte's Clients in Saudi Listed Companies

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Abstract:

On December 1, 2014, Capital Market Authority (CMA) suspended the local unit of accountancy firm Deloitte & Touche (Deloitte) from doing auditing for Saudi corporations by June 1, 2015. This decision is based on the role of Deloitte in Mohammad Al Mojil Group (MMG) failure. This paper takes advantage of the unique setting created by this event to examine the effect of characteristics of both audit committees and the board of directors on auditor switching decisions. The sample consisted of 102 observations represent auditor change in the Saudi stock market by 2015. CMA decision is been effective from June 1, 2015. T-test of mean differences suggests that there are differences between the companies select one of Big 4 audit firms and others in terms of audit committee characteristics. In addition, the result indicates differences in terms of audit committee characteristics between companies that decided to switch either by forced or voluntary. None of the board characteristics found to be significant. Using logistic regression with which forced change is the dependent variable, add more evidence for the importance of audit committee activities, with week evidence for switching to one of Big 4 in case of forced change.

1. Introduction:

On December 1, 2014, Capital Market Authority (CMA) suspended the local unit of accountancy firm Deloitte & Touche (Deloitte) from doing auditing for Saudi corporations by June 1, 2015. The decision is based on the role of Deloitte in the MMG case and its IPO (www.reuters.com 2018). This paper takes advantage of the unique setting created by the suspending of Deloitte to examine the factors affect a company in selecting a new auditor and to shed light on the effects of characteristics both board of directors and audit committees on auditor switching decisions. Saudi company law (Ministry of Commerce and Industry, 2015), states that the audit committee has the "authority and responsibility to select, evaluate, the outside auditor" whereas the role of the board of directors is to approve audit committee decisions.

Auditor switching decision has two phases, change incumbent auditors and to select new auditor (Francis & Wilson, 1988). Usually, auditor-switching decision is motivated by the audit client itself and its characteristics (Abidin, Ishaya, & M-Nor, 2016; Beattie & Fearnley, 1995; Grothe & Weirich, 2007; Lee, Mande, & Ortman, 2004; Lin & Liu, 2009; Mudather, 2006), however, in some rear events, it motivates by regulation forces. The forced auditor change will happen after audit failure, and regulators decide to suspend auditors in case. Reed and Dhaliwal (2000) use Laventhol and Horwath (LH)[1] the case when LH declared bankruptcy in 1990, other studies use the Arthur Anderson case (Chen and Zhou, 2007). These studies investigate the parameters of the demand for audit quality, as the change in auditors was involuntary. However, there is little study, if any, to traces such cases in the rest of the world. This study finds its motivation with CMA's decision to suspend Deloitte in the Saudi business environment to find out the factors affecting the auditor selecting process as auditor switching is a forced decision.

[1] Once the world's seventh-largest accounting firm.

Previous research, as will be presented below, discuss corporate governance factors that affect the demand for audit quality (Hwang 2010; Tan et al 2016). Auditor choice is affected by corporate governance mechanisms (Lin and Liu 2010). Whereas companies with week corporate governance mechanisms are less likely to hire a high-quality auditor because corporate governance is associated with an effective board and audit committee (McMullen and Raghunandan, 1996). Independent directors on board enhance a board's ability to do his oversight function and more likely to select one of the Big4 auditors. However, studies that investigate forced auditors changing, e.g. the Arthur Anderson case or LH case, find increasing numbers of public companies that switched to smaller audit firms (Reed and Dhaliwal, 2000). Consequently, this study finds its motivation to study the corporate governance factors relating to the auditor selection process after the forced change of Deloitte.

Prior studies also suggest that clients dismissing Andersen choose another Big 5 auditor (Barton, 2005; Chen and Zahu, 2007). Audit committee is the most and critical governance mechanism in terms of audit firm selection because the audit committee is responsible for hiring the external auditor and overseeing audit quality (Lennox and Park, 2007), thus, audit committee characteristics affect company decision to change audit firms (Carcello and Neal, 2003; Chaney and Philipich 2002; Krishnamurthy et al. 2006). Audit committee characteristics will be tested in this study to find out the relationship with the auditor switching process.

Using the T-test methodology for all listed companies in the Saudi stock market, the result provides evidence for the differences between companies in terms of corporate governance mechanism between companies that face forced auditor change and others. This result might provide more insight for regulators in Saudi businesses such as CMA or the ministry of commerce for the need to increase the effectiveness of corporate governance in the market.

The remainder of the paper is organized as follows. Section 2 provides a brief description of the MMG case and Deloitte involvement. Section 3 discusses relevant prior literature and develops our hypotheses in Section 4. Section 5 describes the data and selected samples used in empirical tests. The results are reported in section 6 and the paper concludes within section 7.

2. Deloitte Involvement in MMG Case:

Table (1) depicted Deloitte Involvement in MMG Case. In 2008, Mohammad Al-Mojil Group (MMG), a leading Saudi industrial construction and construction services company, became a publicly traded company by way of an initial public offering (IPO). The IPO attracted SR 6.591 billion ($1.75 billion) and covered by 314 percent. HSBC Saudi Arabia Limited was the financial advisor and lead manager for the IPO, whereas Deloitte was the external auditor for IPO and three years later.

In 2010, MMG incurred losses of SR 179 million ($47milions), with an unqualified auditor's opinion. By the end of 2011 Deloitte issued an unqualified opinion with other matters paragraphs in spite of that MMG incurred very significant losses that exceeded SR 909 million ($ 242 million).

On July 22, 2012, CMA has suspended trading in shares of MMG after it failed to announce its second-quarter results on time, MMG excuse for that delay in announcing was "The company has appointed new external auditors who needed additional time to prepare the financial statement and the company will disclose its second-quarter results once the report is finalized by the new auditors" (www.reuters.com 2018). MMG switched its external auditors from Deloitte to KPMG. By the end of 2012, the firm again incurred significant losses, and KPMG issued a disclaimer opinion due to going concerns assumption[1] for MMG, which encourages the CMA to suspend trading of MMG shares on the Saudi Stock Exchange.

On November 18, 2013, the Capital Market Board has issued its resolution Number (4-48-2013), to adopt the Instructions and Procedures Related to Listed Companies with Accumulated Losses reaching %50 or more of its Capital. These Instructions became effective and in full force as of July 7, 2014[2]. According to the article Six of the resolution, a company’s shares will be delisted where the company is dissolved by force of law according to paragraph (2) of Article (150) of the Companies’ Law or when the extraordinary general assembly decides to dissolve the company before the prescribed date in its by-

[1] MMG losses exceed 75% of its capital and a negative working capital SAR 1.5 billion and made doubts that the company is going concern.

[2] ،According to Article Five of the resolution Number (4-48-2013): When Accumulated Losses reach 50% or more of the Share Capital a) The company should, immediately and without delay, disclose to the public in a separate announcement when its Accumulated Losses reach 50% or more of its Share Capital. b)

laws according to paragraph (1) of Article (150) of the Companies’ Law.

On December 1, 2014, and based on decision of the Committee for the Resolution of Securities Disputes (CRSD), CMA suspended the local unit of accountancy firm Deloitte & Touche from doing auditing work for listed firms in the kingdom from June 1, 2015, due to the role of Deloitte during the period in question, about the MMG and its IPO (www.reuters.com 2018). On June 16, 2016, CRSD penalized Deloitte & Touche Bakr Abulkhair & Co for its involvement in the case due to the misrepresenting in MMG’s value during the IPO process.

Table (1): The description of Deloitte involvement in MMG case

	Date	The description of involvement
1	2008	MMG appointed Deloitte for IPO process
2	31/12/2011	An unqualified opinion with other matters paragraphs
3	22/7/2012	MMG has appointed a new external auditor due to the delay to announce the Q2 financial statement.
4	1/12/2014	CMA has suspended Deloitte from doing auditing
5	16/6/2016	CRSD penalized Deloitte

3. The literature Review:

3-1 Auditor switching after audit failure:

Several studies have examined auditor switching decision after audit failure to study the marker behavior regarding the demand for audit quality. Reed and Dhaliwal (2000) use the LH case when LH declared bankruptcy in 1990. They investigate the parameters of the demand for audit quality, as the change in auditors was involuntary. The LH clients were divided equally between Big Six accounting firms and non-Big six firms. They find that Switches from one Big Six auditor to another Big Six auditor dominate most auditor switching in the sample, and clients with highly leveraged, had less management ownership, were more likely to switch to Big 6 auditors. However, the US market had witnessed an increase in the frequency of auditor switching after the demise of Arthur Andersen and the passage of the Sarbanes-Oxley Act of 2002 (SOX) (Brandon et al., (2012). One unique characteristic of this switching is that increasing numbers of public companies are switching to smaller audit firms.

Lee et al. (2004) find that effective independent directors as one important characteristic of corporate governance that affect to dismiss Andersen sooner after the Enron case and demand a higher auditor reputation. Barton (2005) finds that audit clients with larger institutional ownership and share turnover sooner and subsequently engaged with another Big 4 after Andersen and finds they select another Big 4 auditor. Cassell et al. (2012) document that corporate governance mechanisms have a significant effect on auditor choice and downward (Big N to non-Big N) auditor-client realignments in post-SOX periods.

Humayun, et al., (2016) utilize of failed finance companies in New Zealand. They find that nine individual auditors of eight audit firms that audited the financial statements of the failed finance companies were disciplined by the then New Zealand Institute of Chartered

Accountants (NZICA) Disciplinary Tribunal (DT), for breaching the Code during their audits. In addition, they find evidence that failed finance companies were characterized by weaker corporate governance.

Chio, et al., (2015), states that firms switch auditors exhibit lower stock liquidity than firms that do not switch auditors. Using Korean listed firms, they find that firms that switch auditors under the auditor designation system do not exhibit lower stock liquidity and that foreign ownership has a mitigating impact on the negative relation between auditor switches and stock liquidity, suggesting that investors are less concerned about auditor switches when an alternative monitoring mechanism exists.

3-2 Corporate Governance and auditor switch decisions:

Ahmed (2015) argue that previous research shows contradictory evidence concerning the forced change of external auditor. Whereas some studies find a positive impact on the auditing change process, others find negative effects. Corporate governance factors affect the demand for audit quality in accordance with the "substitution or complementary effect" (Williamson, 1983; Williams, 1988). The substitution effect viewpoint argues that a strong corporate governance structure might substitute higher quality audits and lead to choosing less audit quality, therefore. On the other hand, the complementary effect viewpoint argues that strong corporate governance might choose higher audit quality to assure the higher quality of financial reporting (Williamson, 1983; Williams, 1988). Yeoh and Jubb (2002) test for these hypotheses by examining the association between selecting big audit firms as a proxy for audit quality and corporate governance. They find that that good internal governance will never eliminate the demand for audit quality. This means that whatever corporate governance is good, the selection of audit firms with a higher quality audit is an important issue by itself as a separate control mechanism. Similarly, Abbot et al. (2007) and Mayoral and Segura (2008) states that auditor choice is determined by the corporate governance mechanisms to mitigate agency conflicts. The size, composition, and activity of the Board and the Audit Committee affect the decision to hire a qualified and highly reputed auditor. Lin and Liu (2010) discuss the impact of corporate governance on the auditor choice in the Chinese context and find companies with week corporate governance mechanisms are less likely to hire a high-quality auditor. Corporate governance is associated with an effective audit committee. McMullen and Raghunandan, (1996) suggest that the size of the audit committee is vital to effectively fulfill its roles. Abbott et al. (2004) suggest that audit committees are more likely to demand increased audit work. Lee et al. (2004) state that independent audit committees request for higher auditor quality. Owens-Jackson et al. (2009) test for the relationship between audit committee characteristics (independence, financial expertise, diligence, governance expertise, and firm-specific knowledge) and auditor changes, and found that auditor changes are less likely if audit committee members are more independent, have more financial expertise, and more firm-specific knowledge. Firms with effective audit committees demand higher audit quality.

Beasley (1996) and Dechow, et al. (1996) find independent directors on board of directors is an important factor to enhance a board's ability to do his oversight function, this function extends to external auditor selection. Anderson et al. (2004) suggest that large independent boards are associated with a lower cost of debt financing and are thereof an important element of the financial reporting process. Beasley and Petroni (2001) find that boards with a higher percentage of outside directors are more likely to select one of Big 6 auditors to add value for the financial reporting process. Adyemi and Fagbemi (2010) studied the demand for audit quality for firms with an independent board of directors and report that non-executive directors' ownership is significantly associated with high audit quality. Thomas and Pettersson (2013) find clear evidence that non-executive directors have an impact on auditor choice. Lei & Lam (2013) examine withier governed family firms are more likely to choose higher-quality auditors than nonfamily firms, and they find that strong board governance can effectively affect financial reporting process and transparency in family firms.

Literature in MENA aria shows a positive relationship between corporate governance and auditor change. In Egypt, Yaseen (2015) investigates the role of a forced change of external auditors in activating principles of corporate governance and finds that forced change of external auditors is positively helping the activation of corporate governance because it enhances disclosure and transparency. Khaledah and Cerdoc (2017) analyze the role of corporate governance mechanisms in the quality of external audit services in Algeria. They study the responsibilities of the Board of Directors and the audit committees in the role of supervising the external audit. Using a questionnaire to analyze the views of the financial community and they find that corporate governance mechanisms support in achieving the quality of external audit services in Algeria.

Al-Hajri (2018) utilizes a logistic regression model to test for the influence of the company's board size, board independence, directors' shareholdings, Audit Committee (AC) size, and/or AC independence. He uses both a survey and hand-collected 2012 fiscal year data pertinent to 53 Kuwaiti listed companies. The results provide evidence of a relationship between auditor choice and AC size, company’s leverage, and company’s belonging to the finance sector.

4. Hypotheses Development:

Good governance is an important factor affecting the decision-making process in terms of improving the monitoring and controlling activities over management and protects stakeholders and investors from opportunistic behavior (Gillan, 2006). Laura et al., (2015) presents the positive correlation between external audit and corporate governance of the entities. Previous studies (e.g., Lin and Liu, 2010; Cassell et al 2012) investigated the relationship between corporate governance factors and switching from Big 4 to non-Big 4 auditors, using measures of board and audit committee effectiveness, such as independence, size, frequency of meetings and financial expertise. Results indicate that companies with weaker corporate governance characteristics switched from the Big 4 to Non-Big 4.

Several studies (Klein 2002; Carcello and Neal 2003; Abbott et al. 2004)) suggest that audit committee independence mitigates potential opinion shopping, financial restatements, and earnings management. Cahan and Zhang (2006) suggest that the successor auditors viewed a former Andersen client as a unique source of litigation risk. On the other hand, independent directors, acting in shareholders' interests. Lee et al. (2004) find that more independent audit committees demand higher auditor reputation. Committee meetings found to be significantly positively related to the choice of a Big 4. In sum, firms with more independent audit committees and with audit committees with greater financial expertise demand better auditor reputation. Accordingly, the hypothesis H1 below test for the differences between audit committee characteristics and auditor selection after Deloitte dismissed.

Hypothesis 1. *To switch from Deloitte, there is no statistical difference in board characteristics between audit clients hire a Big 4 auditor and others.*
Hypothesis 2. *There is no statistical difference in board characteristics between audit clients who switched Deloitte and who switched others.*

The Literature has shown an association between CEO/chairman duality as one of the board characteristics and auditor section, Lin and Liu (2010) and Ianniello et al (2013), find that CEO/chairman duality has significant relationship with auditor switching and the audit client changed to a smaller auditor when the CEO holds the chairman’s position. Board size is another characteristic that found to be related to auditor switching. large company’s board size requires switching to a reputed and large auditor to perceive an improvement of financial statement’s quality Lin and Liu (2010). The effectiveness of the board affects the choice of an auditor; this effectiveness is measured by pervious research using the board size, the proportion of independent members and the number of board meetings (Solikhah et al., 2017). This paper follows this line of research to measure the effectiveness of the board of directors, and test for the *difference* between board characteristics and auditor selection after Deloitte dismissed.

Hypothesis 3. *To switch from Deloitte, there is no statistical difference in audit committee characteristics between audit clients hire a Big 4 auditor and others.*
Hypothesis 4. *There is no statistical difference in audit committee characteristics between audit clients who switched Deloitte and who switched others.*

5. Sample Selection and Research Design:

5-1 Sample selection:

For this study, the sample period covers the year before CMA suspended the local unit of accountancy firm Deloitte & Touche from doing auditing work for listed firms in Saadia Arabia. CMA decision is been effective from June 1, 2015. The sample is consisting of all observation of auditor change by 2015. Alabbas (2004), utilized concentration measures based on the number of clients to calculate the market share of audit firms in the Saudi stock market. The overall results indicate a moderate level of concentration compared to those reported in studies in other countries (CR4 = 61%). This concertation rate became larger when using clients' total assets as a proxy (CR4 = 88%). Table (2) below depicts the concentration ratio in the Saudi audit market in 2014, 2015 and. By 2014, the CR4 increases as number of listed firms increases (CR4 = 73.61%), but by 2015 and as a result of CMA decision to suspend Deloitte form auditing listed companies for two years, the concentration ration of Big 4 decreased significantly (CR4 = 53.36 %), and the market share of other auditing firms increased significantly at the same time to be equal (46.64%). This big change in the market share can be explained in terms of increases in the listed companies, and by the switching movements which take place by the end of 2014 to overcome the effect of Deloitte suspending. Worthy to mention that market share is not equal to the number of listed companies due to that number of companies are required by law to hair two auditors, such as banks and insurance companies. The sample of the purpose of this study consists of the all observed auditing switching cases in 2015, table (2) depicts the market share during the year of 2014 and 2015, whereas the table (3) present the switching cases which equals to 102.

Table (2): concentration ratio in Saudi audit market according to numbers of clients (%)

Auditor	2014	2015
Deloitte*	40	
	18.52%	
E&Y	43	45
	19.91%	20.18%
PWC	38	27
	17.59%	12.11%
KPMG	38	47
	17.59%	21.08%
Others	57	104
	26.39%	46.64%
Total Market Share	216	223

**By end of 2014 Saudi Capital Market Authority (CMA) suspended Deloitte form auditing listed companies for two years.

This study aims to investigate the switching decision by the Saudi listed companies, and figure out the differences between forced decision and voluntary one, whereas Deloitte switching decision in forced one and others are voluntary. the Table (3) trace the switching movement in the Saudi listed companies by 2014, the total number of switching case was 102 cases with which there were (40) cases reparent switching from Deloitte. As presented in table (1) above there were significant switching cases form Big 4 audit firms to the other 45 cases, whereas the cases from Big4 to Big4 were 38. The cases of switching from Deloitte to another Big4 were 23, however, they were 15 cases to others. This result gives indicates that Deloitte suspending affects the audit client portfolios of all audit firms in the Saudi market. In terms of market sectors, it obvious that the insurance sector faced a large number of switching cases 38 cases, the materials sector comes second with 23 cases. The number of cases of switching from Deloitte to another Big4 was 28 cases (70 %), and 12 cases to none-Big4 (30 %). If we excluded banks sectors due to SAMA regulations, there were 23 cases select another Big4.

Table (3): Number of switching cases after CMA decision to suspend Deloitte.

Switching	Form Big4 to Big4 (from DD)	Form Big4 to non Big4 (from DD)	Form non-Big4 to Big4	Form non-Big4 to non-Big4	Total of Switching cases	No Switching
Total	38 (28)	45 (12)	3	16	102	114
Bank sector	5 (5)	0	0	0	5	6
Energy	0	0	1	0	1	2
Materials	11 (6)	8 (5)	1	4	24	17
Capital Goods	3 (2)	2 (1)	0	0	5	6
Commercial & Professional Svc	1 (1)	0	0	0	1	2
Transportation	2 (1)	0	0	0	2	3
Consumer Durables & Apparel	4 (3)	3 (1)	0	0	7	10
Consumer Services	0	1	0	0	1	5
Media and Entertainment	1	1 (1)	0	0	2	0
Retailing	2	0	0	1	3	3
Food & Staples Retailing	1 (1)	0	0	1	2	2

Switching	Form Big4 to Big4 (from DD)	Form Big4 to non Big4 (from DD)	Form non-Big4 to Big4	Form non-Big4 to non-Big4	Total of Switching cases	No Switching
Food & Beverages	0	1	0	3	4	8
Health Care Equipment & Svc	2 (2)	0	0	0	2	4
Pharma, Biotech & Life Science	0	0	0	0	0	1
Diversified Financials	0	0	1		1	3
Insurance	9 (5)	23 (3)	0	6	38	29
Software & Services	0	0	0	0	0	1
Telecommunication Services	2 (2)	1	0	0	1	1
Utilities	0	0	0	1	1	1
REITs	0	0	0	0	0	1
Real Estate Mgmt & Dev't	0	2 (1)	0	0	2	7

6. Statistical Analysis:

6-1 Descriptive analysis:

Table (4) below presents the descriptive analysis of companies that change Deloitte 2015, the sample consists of all companies that were clients of Deloitte. The mean of board size is 8 members, independent members are 4 in the mean, the mean of the meeting is 5. The descriptive analysis of characteristics of the audit committee is modest, with a mean of 3 members in audit committee size, and 2 of them are independent, and the 0.46 of them are experts. The percentage of ownership is widely diffused with less than 1 percent as mean. This descriptive analysis depicts highly diversification in the sample, and there is no indication of bias.

Table (4):Descriptive Statistic, N = 201

	Minimum	Maximum	Mean	Std. Deviation
BSize	6.00	11.00	8.2174	1.41282
BINd	2.00	7.00	3.8696	1.45553
Bmeet	3.00	13.00	5.2609	2.09366
ACExpert	.25	.75	.4630	.18794
ACmeet	1.00	13.00	5.0870	2.23430
ACSize	3.00	4.00	3.3478	.48698
ACInd	1.00	4.00	2.6087	.78272
ACOwner	.00	7.43	.8273	1.91066
Tobin’s Q	.00	.01	.0016	.00182
LEV	.00	.64	.1569	.14804
EPS	.47	7.98	3.0233	2.11313
ROA	.02	.36	.1000	.08503

BSize = Board size, BINd = Board independence, Bmeet = board meetings, ACExpert = number of expertise in audit committee, ACmeet = meeting of audit committee (number), ACSize = audit committee size (number), Acind = Audit committee, ACOwner = Ratio of ownership of Audit committee members, Lev= Leverage ratio, EPS = Earnings Per Share, ROA = Return on assets.

Table (5) depicts the T-test of mean differences between companies switch form Deloitte to another Big 4, and that select non-Big 4. Only one variable is significantly different between the two groups, Audit committee independence. This result support H3, which suggests that there are differences between the companies select one of Big 4 audit firms and others in terms of audit committee characteristics. However, only one variable of these characteristics is significant. Audit committee independence is one important factor in corporate governance. In addition, the result in this regard is consistent with agency theory (Abbott et al. 2004, Lee et al. 2004, Owens-Jackson and Robinson, 2009; Karaibrahimoglu, 2013).

6-2 Hypotheses testing:

The main question of this study is there any effect of corporate governance on the auditor change process. The literature provides contradictory evidence (Yassen, 2015). Suspending Deloitte in the Saudi audit marker provides an opportunity to test such effects. This research assumes that there no differences in terms of corporate governance mechanisms between companies suffering from forced change and others, such differences might provide supportive evidence for the argument. To test the hypotheses, this study utilizes the T-test methodology. The T-test is useful to find out differences in the factors of corporate governance between the two groups of listed companies that departure from Deloitte. The group (1) represents the companies hair one of Big4, whereas group (2) represents those hair other external auditors. For more investigation, table (6) below depicts the differences between all companies that decided to switch either forced change form Deloitte or voluntary. The result also indicates that audit committee characteristics significantly differ between the two groups. However, the number of the audit committee meeting is shown as the most significant factor, the sing of these factors is minus that indicates that audit committee increase its activity with the voluntary change, but it needs less meeting whit forced one.

Table (5): T-Test of Independent Samples of Switching to Big 4 and others

	T	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
					Lower	Upper
BSize	.583	.566	.35714	.61289	-.91743-	1.63172
BINd	.237	.815	.15079	.63565	-1.17112-	1.47271
Bmeet	.883	.387	.79365	.89903	-1.07598-	2.66328
ACExpert	1.593	.126	.12365	.07763	-.03779-	.28509
ACmeet	-1.201-	.243	-1.13492-	.94515	-3.10047-	.83063
ACSize	-.755-	.458	-.15873-	.21012	-.59570-	.27824
ACInd	-2.059-	.052	-.64286-	.31222	-1.29215-	.00643
ACOwner	-.335-	.741	-.27904-	.83331	-2.01200-	1.45393
EPS	.724	.478	.72632	1.00330	-1.38153-	2.83416
ROA	.312	.759	.01275	.04085	-.07307-	.09856
ROE	.845	.409	.04667	.05526	-.06942-	.16276
LEV	-.783-	.442	-.04927-	.06295	-.17982-	.08128

BSize = Board size, BINd = Board independence, Bmeet = board meetings, ACExpert = number of expertise in audit committee, ACmeet = meeting of audit committee (number), ACSize = audit committee size (number), Acind = Audit committee, ACOwner = Ratio of ownership of Audit committee members, Lev= Leverage ratio, EPS = Earnings per Share, ROA = Return on assets.

Table (6): T-Test of Independent Samples of Switching from Deloitte and others

	T	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
					Lower	Upper
AC_Expert	-.049-	.961	-.01054-	.21462	-.44083-	.41975
Acmeet	-2.103-	.040	-1.45850-	.69351	-2.84890-	-.06810-
AC_Size	-.104-	.917	-.01581-	.15175	-.32005-	.28843
AC_Ind	1.929	0.059	0.09692	0.05026	-0.00388	0.19773
AC_Owner	-1.415-	.163	-1.24022-	.87649	-2.99749-	.51704
B_Size	.084	.933	.03557	.42278	-.81205-	.88320
B_Ind	-.573-	.569	-.22134-	.38651	-.99624-	.55356
B_Meet	-1.050-	.298	-.73913-	.70371	-2.14998-	.67171
	-1.111-	.271	-.73913-	.66519	-2.07282-	.59456
ROA	.927	.359	.02112	.02278	-.02482-	.06706
ROE	1.072	.290	.03685	.03437	-.03246-	.10616
LEV	-.053-	.958	-.00209-	.03928	-.08082-	.07663
Tobin’s Q	-.166-	.869	-.00008-	.00050	-.00109-	.00092

BSize = Board size, BINd = Board independence, Bmeet = board meetings, ACExpert = number of expertise in audit committee, ACmeet = meeting of audit committee (number), ACSize = audit committee size (number), Acind = Audit committee, ACOwner = Ratio of ownership of Audit committee members, Lev= Leverage ratio, EPS = Earnings per Share, ROA = Return on assets.

Logistic regression is developed for these data to give more evidence about the relationship between these CG factors and forced change. Table (7) depicts the correlation matrix, and there is no serious multiclonality in the model. Table (8) estimates the relationship between forced change from Deloitte and CG factors. The results also indicate the significant effect of audit committee activities in terms of the number of meetings. This result supports the findings of T-tests of the important role of the audit committee in the auditor change process. Switching to one of Big4 finds no correlation with any of CG factors, however this slightly significant relationship with forced change. This result indicates that when forced change happens, the change to Big4 is more probable.

Table (7) Correlation Matrix

	ACExpert	ACmeet	ACSize	Acind	ACOwner	B_Size	Noex	B_Meet	Big4
ACExpert	1.000	-.077-	-.338-	-.060-	.037	-.008-	-.066-	-.299-	.248
ACmeet	-.077-	1.000	.009	.114	-.025-	-.128-	.179	-.182-	-.094-
ACSize	-.338-	.009	1.000	-.026-	-.223-	.039	-.153-	-.208-	.048
Acind	-.060-	.114	-.026-	1.000	-.043-	-.775-	.793	.024	.006
ACOwner	.037	-.025-	-.223-	-.043-	1.000	-.125-	.007	.262	-.275-
BSize	-.008-	-.128-	.039	-.775-	-.125-	1.000	-.798-	.045	.189
BINd	-.066-	.179	-.153-	.793	.007	-.798-	1.000	.111	.007
Bmee	-.299-	-.182-	-.208-	.024	.262	.045	.111	1.000	-.225-
Big4	.248	-.094-	.048	.006	-.275-	.189	.007	-.225-	1.000

BSize = Board size, BINd = Board independence, Bmeet = board meetings, ACExpert = number of expertise in audit committee, ACmeet = meeting of audit committee (number), ACSize = audit committee size (number), Acind = Audit committee, ACOwner = Ratio of ownership of Audit committee members, Big4 = Switching to one of Big4 auditors.

Table (8); Logistic regression with Forced change as the dependent variable.			
	Score		Sig.
ACExpert	.018		.893
ACmeet	4.618		.032
ACSize	.001		.978
Acind	.124		.725
ACOwner	1.876		.171
BSize	.092		.762
BINd	.548		.459
Bmeet	1.183		.277
Big4	2.932		.087
	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
	64.636	.168	.226

BSize = Board size, BINd = Board independence, Bmeet = board meetings, ACExpert = number of expertise in audit committee, ACmeet = meeting of audit committee (number), ACSize = audit committee size (number), Acind = Audit committee, ACOwner = Ratio of ownership of Audit committee members, Big4 = Switching to one of Big4 auditors.

7. Conclusion:

This study aims to investigate the differences of corporate governance between Saudi listed companies that experience forced auditor change after the decision of CMA to suspend local unit of accountancy firm Deloitte & Touche (Deloitte) from doing auditing for Saudi listed firms from June 1, 2015, due to the role of Deloitte in the MMG case and its IPO. This study utilized the T-test method and finds that there is a difference between the group of Deloitte's clients who suffer from a forced change and other groups of clients of other audit firms who witness a voluntary change in the same period. Audit committee activity in terms of the number of meetings and audit committee independence are the two factors that present significant differences. This result gives evidence to reject H4, and accept the difference in audit committee characteristics between audit clients who switched Deloitte and who switched others. This result supports the importance of the audit committee's role in the auditor change process. The audit committee becomes more active when companies face changes in terms od external auditors.

None of the board factors present to be significant. This result leads to accepting the H1, H2, which state that there is no statistically difference in board characteristics between audit clients hire a Big 4 auditor and others or those audit clients who switched Deloitte and who switched others

In addition, this study analyzed the differences in the group of Deloitte's clients and found that there are significant differences in terms of audit committee independence between this who select one of Big4 and those who select non-Big 4. Logistic regression is developed to give more analysis, week evidence is this regard. However, the overall result of logistic regression results indicates to significance audit committee meeting as a proxy for its activity, and this again gives more evidence to reject the hypothesis 4 (H4). These results support the role of the audit committee in auditor change and indicate that the auditor selection process is affected by audit committee independence whereas the process of audit change is affected by audit committee activity.

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