# Chapter 1: Introduction.

* 1. **Background of the study:**

As each idea has some foundation behind it in the same way Auditing has its history to an enormous degree controlled by the historical backdrop of bookkeeping, as the last transformed and finished with the advancement of the world economy.

"Audit" originates from the Latin word audire, signifying "to hear" "to tune in". (Ajao, Olamide and Temitope, 2016). audit is a social phenomenon which serves no purpose or value except of its practical usefulness and its existence is wholly utilitarian. (Ajao, Olamide and Temitope, 2016). Auditing refers to a systematic and independent examination of books, accounts, documents and vouchers of an organization to ascertain how far the financial statements present a true and fair view of the concern. (Ajao, Olamide and Temitope, 2016). Auditing is a systematic process of objectively obtaining and evaluating evidence regarding assertions about economic actions and events to ascertain the degree of correspondence between those assertions and established criteria and communicating the results to interested users (Ajao, Olamide and Temitope, 2016).

External auditing, as external monitoring mechanism, has become a fundamental requirement in the business environment and has been established as a regulated activity in most industrialized countries due to its important role in offering more confidence and transparency in financial reporting. (SALIM ALI ALGHAMDI, 2012). Recent financial scandals have increased the question of whether an external audit is effective in constraining earnings management and the wave of audit failure in the capital market has also increased concerns about audit quality. (SALIM ALI ALGHAMDI, 2012).

Corporate governance became a pressing issue following the serious corporate scandals that occurred in different countries all over the world. (Leventis, Dimitropoulos, 2018). Boards of directors are responsible for the governance of their companies. (Leventis, Dimitropoulos, 2018). The investors' job in administration is to name the executives and the auditors and to fulfill themselves that a proper administration structure is set up. (Leventis, Dimitropoulos, 2018).

Corporate administration turned into a problem that needs to be addressed after corporate outrages happened in various nations everywhere throughout the world. (Hassan, Hijazi and Naser, 2017).

To react to such scandals, sets of corporate governance regulations and codes have been established in different developed and emerging countries to improve corporate governance practices. (Hassan, Hijazi and Naser, 2017).

Series of corporate scandals around the world far and wide dissolved the trust in the fiscal report and set an uncertainty in the psyche of financial specialists, which came about to the loss of certainty by speculators around the world. (Miko and Kamardin 2016) For example, Enron, WorldCom, and Xeronx in developed nations (Fodio, Ibikunle and Oba, 2013), in Nigeria, Cadbury Nigerian plc, Lever Brothers plc (Ajibolade, 2008), called attentions for the investors, because, they suffered loss of their investments. (Miko and Kamardin 2016)

Corporate Governance pulled in the impressive consideration after a portion of the conspicuous and well known embarrassments or the breakdown of the enormous associations like Enron, WorldCom, Arthur Andersen and so on. (Leventis, Dimitropoulos, 2018). Which raised worries about the unwavering quality of monetary revealing and the proficiency of the observing systems. (Leventis, Dimitropoulos, 2018). What's more, in view of this financial specialist lost the trust in the corporate divulgences of and the proficiency of capital markets crumbled. (Leventis, Dimitropoulos, 2018).

Better administration should prompt better corporate execution by averting the Expropriation of controlling investors and guaranteeing better basic leadership. (Ali Shah, Ali Butt, Hasan, 2006) This seizure might be because of the aftereffect of smoothening of acquiring aim which is known as profit the board. (Ali Shah, Ali Butt, Hasan, 2006) This examination endeavors to survey that whether corporate administration makes any effect on income the executives or not. (Ali Shah, Ali Butt, Hasan, 2006)

Great administration implies little seizure of corporate assets by administrators or controlling Shareholders, which adds to better allotment of assets and better execution. (Ali Shah, Ali Butt, Hasan, 2006) As financial specialists and moneylenders will be additionally eager to put their cash in firms with great administration, they will face lower expenses of capital, another wellspring of better firm execution. (Ali Shah, Ali Butt, Hasan, 2006) Different partners, including workers and providers, will likewise be related with and go into business associations with so much firms, as the connections are probably going to be progressively prosperous, more pleasant, and longer enduring than those with firms with less successful administration. (Ali Shah, Ali Butt, Hasan, 2006)

Legitimate corporate administration instrument, the governing body may most likely screen the firm and keep the administration from participating in income the executives. We find that when the board size is huge, the higher the degree of income the board (Kao & Chen, 2004)

Board administration can legitimately influence supervisors' choices and exercises, and can impact picking, employing, and controlling outside reviewers and interior control instruments through the review panel. Albeit, better board administration can utilize the interior control framework to observing deft profit the executives (Brickley et al., 1994; Klein, 2002; Carcelloet al., 2006). Earlier writing has archived how board freedom can compel income the board (Dechow&Dichev, 2002) because of free chiefs don't look for personal matters, for example, official remuneration, the deceitful of benefits and betray financial specialists to meet individual targets.

Williamson (1981) discussed that the freedom of the board is important to oversight administrative exercises to keep up the enthusiasm of financial specialists. Roe (1991) points out that Board freedom can forbid chiefs' maltreatment of intensity.

Similarly, Beasley (1996) observed that the incorporation of countless outside executives on the board could diminish the likelihood of chief's deft conduct. Peasnell et al., (2005) bolsters this view by contending that a higher level of outside executives in the UK can more readily avoid pay expanding optional gatherings to deflect income the executives. Likewise, Klein (2002) underpins this view by contending that a negative connection between board freedom and income the executives exists in the US. Correspondingly, Xie et al. (2003) find a negative relationship between board independence and the extent of earnings management.

Bedard et al (2004) also observed that review boards with money related mastery in the US can forbid profit the executives. Further, Agrawal and Chadha (2005) call attention to that review skill can avoid misrepresentation and controlling profit, which are measures that influence income the executives. Gaver and Gaver (1998) discovered a noteworthy and positive relationship between money pay and income just if those profit are sure.

Baber et al. (1998) bolsters this view by contending that organizations with higher remuneration capacity have progressively tireless parts of profit. Cheng (2004) delineated a huge positive connection between changes in alternative remuneration and changes in R&D consumptions as the official's terminal year draws near.

Moreover, Huson et al (2012) and Man and Wong (2013) watched proof that the remuneration board of trustees settles on choices identified with optional use in the official's terminal year when setting money pay for administrators, and mediates to limit installments when supervisors make up collections.

All the business concerns are established to earn profits. The foremost duty of an enterprise is economic performance, which means the preservation and increase in the value of economic resources entrusted to it. To achieve this object, the enterprise must earn profits at a certain minimum rate.

Acquiring Management happens when directors use judgment in monetary detailing and in organizing exchanges to adjust budgetary reports to either deceive a few partners about the hidden financial exhibition of the organization, or to impact authoritative results that rely upon announced bookkeeping numbers (Healy, Wahlen, 1998). (S. Abbadi, F. Hijazi, and S. Al-Rahahleh, 2016)

Income the board (EM), as a marvel of past outrages (Goncharov, 2005) which has gotten impressive consideration, is one of the most significant difficulties standing up to corporate administration (CG) components which try to determine the negative effect of income the executives on money related detailing. (SALIM ALI AL GHAMDI, 2012) (Jaggi and Tsui, 2007).

Whatever the inspiration, it is reported that income the board hurts profit quality (SALIM ALI AL GHAMDI, 2012) (Jaggi and Tsui, 2007). What's more, deceives money related announcing clients. (SALIM ALI AL GHAMDI, 2012) (Jaggi and Tsui, 2007). Indeed, even in created nations the act of receiving universal bookkeeping and reviewing models has neglected to give adequate affirmations that money related reports are free from profit the executives. (Pornupatham, 2006). (SALIM ALI AL GHAMDI, 2012) EM has numerous unfortunate casualties, for example, value financial specialists, leasers, providers, controllers and clients. (SALIM ALI AL GHAMDI, 2012)

Financial specialists' certainty depends principally on the quality of the capital market related with various checking instruments, for example, inner corporate administration (CG) which has as of late gotten huge consideration in various creating nations. (SALIM ALI AL GHAMDI, 2012) The essentialness of interior CG follows from the fundamental job it can play in helping firms and economies to pull in venture and give sensible believability in budgetary detailing. (SALIM ALI AL GHAMDI, 2012)

As needs be, earlier investigations have reasoned that inner CG components substantially affect profit the executives rehearse. (SALIM ALI ALGHAMDI, 2012. The effect of inside CG changes from nation to nation as per the idea of the possession structure and different variables. . . (SALIM ALI ALGHAMDI, 2012. At the end of the day, concentrated proprietorship may offer additional observing instruments by influencing the development of the top managerial staff and its councils. (SALIM ALI ALGHAMDI, 2012).

The pace of benefit is viewed as a pointer of the advancement of the endeavor and of the heading where the organization's assets are used. Benefit should likewise give monetary development and advancement.

According to Peter Drucker', the benefits of a worry ought to be adequate to cover. (I) Current expenses of business, (ii) the future expenses of remaining in the business because of specific dangers, that is, the danger of substitution, out of date quality, and vulnerability; (iii) to fill dry openings, as the beneficial well should remunerate the loss of the pipe and work squandered in a dry gap.

**1.2 Problem Statement:**

**What?**

In base paper article research was done on Corporate Governance mechanism i.e. (Internal Audit function quality and BOD quality) on Earning Management of European companies listed in USA whereas, this research focus is on external audit impact on Earning Management and Corporate governance on listed companies of Pakistan.

Also its necessary to established that most of the study carried out on the said topic has been done on financial sectors organizations i.e. (Banks and Insurance companies are mostly targeted), and it’s done in Jordan, Nigeria, USA and other African and Mediterranean companies while taking audit committee, internal audit as the independent variable (in most cases) and Earning management as dependent variables.

Also noted that there is less research has been done in Pakistan with respect to the variables mentioned above by taking all the BOD quality together and corporate crimes and money laundering practices in Pakistan are very common unfortunately and since decades and there is no such research has been made public by any of the government institutions regarding the same though news’s were coming regarding the same.

**Why?**

The reason why I am carrying this topic is, I have experience in the field of accounting and auditing and therefore it’s a better way to utilize my knowledge and skills regarding the same in a practical manner and also to check the impact of External Audit on Corporate governance and on earning management as there are many corporate scandals has already happened in the history and In order to avoid such scandals and corporate disasters in future and why it’s necessary to have a separate Corporate Governance report. The research has mostly done on banking and financial sectors of the economy in many countries like (Jordan, Nigeria, USA, Indonesia, China etc.) and other sectors have just a touch of it rather than a complete research on all the sectors of the economy together and therefore I am doing my research on the said topic.

**How?**

This study will fulfill the gap as it’s on external audit impact on corporate governance and earning management and previous articles are been on internal audit impact on corporate governance (Internal Audit Function and BOD Quality) and on earning management whereas in my research I will be targeting the external audit’s impact on the same with some modifications in different sectors of the industry.

**1.3 Research Objective:**

The objective of this research/study is to find out the role, impact / effect of external audit on corporate governance and earning management in Pakistan.

**1.4 Research Question:**

Why it’s necessary for every public listed company to have their annual audit done by external auditors?

What is earning management? And why it’s important and what relation or role does it play with regards to internal and external auditing and corporate governance?

What were the factors behind incorporating corporate governance for every company?

What were the reason corporate governance comes into existence?

Who will be benefitted by this and how?

How it (corporate governance) can be improved

**1.5 Significance of the study:**

**Who will be benefitted by this study?**

Accounting and Finance professionals, audit professionals such as CA’s, ACCA’s, ICAEW’S, CIA’S, Finance Managers, Accountants, Compliance Officers / Executives, Audit Managers, Audit Partners, Director Finance, Director Compliance and corporate affairs etc. in their respective field with respect to the market / industry practices in the field of Finance and Accounts, taxation, Compliance etc. Will be benefitted by this study.

**Which area or domain will be most benefitted by this study?**

People who are working in the Accounts, Finance, Funds Management, Audit, Taxation, Compliance, Legal and Corporate Affairs departments in any of the industrial sectors of the economy will be benefitted by the study.

**Contribution to the study?**

My contribution to the study is that I am utilizing my skills, knowledge and experience which I have gained in the field of external audit. This research will help to those who have no experience of auditing or audit related work.

**1.6 Limitations and Delimitations:**

Improvement on a regular basis and strict laws, rules and regulations has been made and implemented time to time and therefore it’s not in the control to monitor each and every improvement which has been made either in general or with regards to any industrial sector nor they are publicly available for general use and if its publicly available then the time when it was needed or required is lapsed and it’s of no use in particular.

Technical language has been used in the laws which is not easy for a layman to understand and it’s not in control to teach every single word or sentence written in the law and there is no such guarantee that every single person who is prone to this will easily understand this.

Financial and non-financial both the sectors of the economy have been targeted and impact has been checked but all the KSE-100 index organization has not been checked and if they checked then there are possibilities that the result mentioned in this research will be changed.

Literature related to Future contracts and organizations which are in this business or the nature of work involves around future contracts and its related study are not part of the research nor they have been studied, because they operate in a different working environment, different capital structure, different nature of business and most importantly different rules have been followed and its commonly in financial and banking sector where it has been widely used as compared to non-financial sector and other companies.

The banking sectors, foreign exchange teller and people who are trading in forex are not part of the study being a small part of the sample and thus they are not being incorporated in this study.

**Future Recommendations:**

**1.7 Organizations of the study:**

The rest of the paper is as follows.

Literature review is reported in chapter 2.

Chapter 3 discusses the methodology used in the research

Chapter 4 consists of results of the tests applied in the research, there discussions and conclusion.

Limitations of the study are described in chapter 5 of the paper.

**Chapter 2: Literature Review:**

**2.1. Theoretical Background:**

Auditing has its history to a large extent determined by the history of accounting, as the latter metamorphosed and culminated with the development of the world economy.

“Corporate governance” first came into vogue in the 1970s in the United States. Within 25 years corporate governance had become the subject of debate worldwide by academics, regulators, executives and investors. (Brian R Cheffins, 2012)

Earnings management directly affects the overall integrity of financial reporting and significantly influences resource allocation in an economy. (Subhrendu Rath and Lan Sun)

The practice of earnings management (hereafter EM) has attracted academic research attention since at least the 1960s. Early literature focus in this area was primarily on the impact of accounting choices on the capital markets. Both the Mechanistic Hypothesis and the dominant paradigm for financial accounting research in the 1970s, the Efficient Market Hypothesis were used to test the impact of accounting choices on the capital markets. However, the implications were contradictory. (Subhrendu Rath and Lan Sun)

**2.2. Empirical Studies**

**1.** Akhtar Uddin, Haron (2010) Board ownership, audit committee’s effectiveness and corporate voluntary disclosures.

Board Ownership, Audit committee effectiveness, …. has been used as the dependent variables and ,…………………………………………………………….. are used as the independent variables. The data was collected from 124 Malaysian firms listed on the main board of Bursa Malaysia. (it excludes Banks, Financial Institutions and Insurance companies). Descriptive Statistics and Univariate Analysis, Multi variate tests, Sensitivity Analysis, Variance inflation factors, Regression analysis etc. techniques have been used to analyze this relationship. Result shows consistent relation of independent variable with dependent variable. It has been suggested that if the sample drawn have included the financial firms along with the non-financial firms and have data / information for more than one year, the results would be different and better.

**2.** Siagian, V. Siregar, Rahadian (2013) Corporate Governance, reporting Quality and firm value: evidence from Indonesia.

Are used as dependent variable

Reporting Quality Index (RQI) and Corporate Governance Index (CGI) are used as the independent variables.

The data was collected from 125 firms that were traded on JSX in 2003-2004 (Total firms or Observations with RQI data 411, Firms or Observations with CGI data 267, firms or observations with both data 248, observations with incomplete financial data (20), observations with negative book value (25), observations that are considered as outliers (15) Final 188 firms)

Pearson’s Correlation test was used and it shows the positive co relation in their model. Descriptive Statistics, Regression, Sensitivity Analysis, Multivariate Regression Analysis tests have also been performed during the research of the study.

It has been suggested that firms having higher value seems to incorporate low or less information as compared to those organizations who have low value and they consider it as an opportunity to have a good market image and value which in turn can have a positive impact in the market regarding compliance with all the relevant laws prevailing in the country.

**3.** W.lin, F.li and S. Yang (2014), the effect of audit committee performance on earnings quality

Characteristics of audit committees (size, independence, financial expertise, activity and stock ownership) has been used as the dependent variables and, earning restatement (a direct measure of earnings management) is used as the independent variables.

The initial sample was collected from 267 publicly held corporations in USA for the fiscal year 2000. (Restatement sample includes106 firms after, 106 companies were deleted due to incomplete financial data,44 due to missing auditor fee data and 11 dues to missing of audit committees). Each restatement sample firm was matched with non-restatement firm which was based on a four (4) digit SIC code and firm size. All the control sample firms were screened for earning restatement (or lack of) this results in a final sample of 212 firms.

Firms restating earnings for the fiscal year 2000 identified from

Lexis-Nexis 267

Less: financial data not available from research insight (106)

Less: auditor fee data not available from the proxy statements (44)

Less: audit committee data not available from the proxy statements (11)

Final sample

Restatement firms: 106

Control firms: 106

Total firms: 212

Univariate correlations and multivariate statistical analyses and multivariate logistic regression model were used in the research.

Result shows negative relationship for size of audit committees and the occurrence of earning restatement. The remaining characteristics have not found to have any significant impact on the quality of reported earnings.

Former US Securities and Exchange Commission (SEC) Chairman Levitt in his famous speech “the Numbers Game” calls for a change in corporate culture management and strengthening corporate governance, improving the effectiveness of audit committee. He also expresses his serious concerns over earning management.

It has been suggested that the data used in this research paper was only of year 2000, if more years’ data would be used then the results would have been different.

Also noted that in this research study the result shown informs that the larger audit committee provide more oversight on financial statements as compared to low or few audit committee members therefore as the number of persons increases in the audit committee the more are the chances of oversighting on the financial statements and there will be low chance that the financials are needed to be restated.

It is recommended that annual external audit and voluntary disclosure of relevant information in the financials must be made public and corporate governance report must be separately issued and published and not with the annual report.

**4.** Hassan, Hijazi and Naser (2017). Does audit committee substitute or complement other corporate governance mechanisms Evidence from an emerging economy

Audit committee effectiveness is used as a dependent variable while Audit committee size, independence, financial expertise and diligence, board characteristics, CEO duality and board size, ownership concentration, government ownership, major shareholders, institutional ownership are taken as independent variable. Along with dependent and independent variables, the researcher also used control variables which are: Firm size, Auditor type, Industry Type and Firms Profitability.

The data was collected from a panel data of 48 non-financial companies. Listed on the UAE stock exchanges (Abu Dhabi Stock Exchange and Dubai Financial Market) from 2011 to 2013 has been used in the article.

Financial companies (Insurance and banking) were excluded as the nature of these companies, capital structure, and regulatory environment is different as compared to non-financial companies. And seven (7) non-financial companies were excluded because of missing data related to variables in the study.

Result shows the positive relation between dependent, independent and control variable. Negative relationship between CEO duality and AC (Audit Committee) effectiveness. Institutional ownership is negatively and significantly correlated with AC effectiveness.

AC effectiveness is positively related with control variable Firm size, Auditor type and profitability, however firm size is statistically significant.

Multiple logistic regression model and ACE model was used in the study.

It has been suggested that this study contains certain set of corporate governance mechanisms on the effectiveness of Audit Committees whereas Corporate governance is not limited or confined to AC only and other factors or variable can be considered and then the results will be different.

Sample size is relatively small and therefore UAE government should make some flexible rules and regulations regarding corporate governance and registration of companies in stock exchanges and should gave some subsidy wherever possible for them to do so which will boost not only their economy but will create employment opportunities in the region.

**5.** Y. Nugroho, and Umanto Eko (2011) Board Characteristics and Earning Management.

Earning Management has been used as the dependent variables and board characteristics (independent board of directors, dual leadership/CEO duality, board size, managerial ownership, and board composition /multiple directorships, board tenure, audit committee, and board interlock) are used as the independent variables.

The data was collected from 212 companies listed on Indonesian Stock Exchange from 2004-2008 period.

Non-probability sampling technique and purposive sampling method were used in this research.

Results between dependent variable (Earning Management) with Board Characteristics (independent board of directors, dual leadership/CEO duality, board size, managerial ownership, board composition /multiple directorships, board tenure, audit committee, and board interlock) Independent Variable is as follows:

Independent board of directors is negatively linked with earning management, Dual leadership/CEO duality is positively linked with earning management, Board Size is negatively associated with earning management, Managerial ownership is negatively associated with earning management., Board Composition/multiple directorships is negatively linked with earning management, Board Tenure is negatively linked with earning management, Audit Committee is negatively linked to earning management, Board interlock is positively linked with earning management.

Multivariate Testing, Discretionary Accrual Values, NOVA tests has been performed on Microsoft Excel and on e-views software.

It has been suggested that Audit Committees needs to be added as a classification criterion for those companies which are taking services of big 4 Auditors and non-big 4 auditors.

The data available for this research was from 2004-2008 if more year’s data would be available along with other independent variables, then the results would have been different. Also noted that in this research the companies selected were manufacturers, non-manufacturers, companies that use audit committee services or the companies in general. If financial sector companies (example. Banks, Insurance companies) data was used then the results would be different.

**6.** Ali Shah, Ali Butt, Hassan (2009), Corporate Governance and Earning Management an Empirical Evidence from Pakistani Listed Companies.

Board Structure, Ownership Structure, Modified Cross Sectional Jones Model, audit committee independence has been used as the dependent variables and Financial Reporting Process and Quality of Corporate Governance are used as the independent variables.

The data was collected from KSE 100 index companies comprising of 53 listed companies.

Regression model / method, Correlation are used in the research study.

Correlation techniques shows the positive relationship between discretionary accruals and quality of corporate governance have been used to analyze this relationship.

According to the Ordinary Least Square method (OLS) shows significantly positive relationship between discretionary accruals and corporate governance.

Result shows un conventional relation of Quality of Corporate Governance and Earning Management in Pakistani culture and it may because at that time Pakistani companies were passing through a transition period after Securities and Exchange Commission of Pakistan (SECP) implemented code of corporate governance in 2002 for all the companies to comply with its rules, regulations mentioned in the code according to the nature of their business and business model.

It has been suggested that only 2 years’ data has been compared in the study if more years’ data would have been taken along with more companies as only 53 listed companies data was used in the said research and therefore more years and companies if taken then there might be a chance of better results.

Mandatory Voluntary Disclosure of corporate governance practices by the companies has made it easy for investors, stakeholders, to rely on them but some companies don’t fully comply with this or give incomplete or old information and shareholders, stakeholders, employees etc. have rely on the reports and them this can be distorted because of this fact.

Discretionary accruals have been calculated by taking the difference of Non-discretionary accruals from the total accruals. And these NDA are based upon the two years’ difference of relevant variables. So, if in the last year the company was not performing or performing earnings management that may distort the current year’s earnings management results.

**7.** Jui –Chin Chang and Huey-Lian Sun (2010) Does the disclosure of corporate governance structures affect firms’ earnings quality.

Earnings Informativeness, Discretionary accruals, Auditor independence, Financial Expertise of independent auditors, Financial experts with accounting background and experience, Duality of CEO, Big four audit firms have been used as the dependent variables and Independent audit committees, are used as the independent variables.

The data was collected for 2002-2003 period after the incorporation of Sarbanes Oxley Act (SOX).

The original sample size was 16,970 firms. Excluded firms which had revenue less than $25 million [20] and the sample size was reduced to 5,221 firms. We further eliminated 764 foreign firms and also eliminated 1,220 utility and structures financial firms with the two-digit SIC codes of 49 and 60. After deleting the firms with missing financial data on Compustat, the sample size was reduced to 2,977.and later on firms were also deleted due to various other reasons and final sample size on which the study is based is 1098firms which were used to examine the post SOX relation between earning informativeness and corporate governance functions.

Regression model / method, Correlation has been used in the study.

The result shows the significantly positive relationship between earnings informativeness and fully independent audit committees. Significant relation between earnings informativeness and financial experts on audit committees. Disclosure of financial experts and fully independent audit committee both are significantly positively related with earning informativeness. Significantly Negative relationship has been shown between earnings informativeness and dual role CEO’s after SOX though Positive relationship has been observed between dual role of CEO’s and discretionary accruals, positive relationship shown between big 4 auditors and earning informativeness, negative relation between big 4 auditors and discretionary accruals, positive relation between earnings informativeness and the aggregated corporate governance score after SOX, negative relation between discretionary accruals and the aggregated corporate governance score after SOX.

It has been suggested that

**Chapter 3: Methodology:**

**3.1 Research Purpose**

The research approach that has been used in this study is explanatory research

**3.2 Research Approach**

In this study Pragmatic research approach has been used as it contains both quantitative and qualitative study.

**3.3 Research Design**

Design of this research is…………. and the strategy that is use in the research is actually by data collection from the annual reports of the companies, interviews. Then analyze it from the software like E views, SPSS, Smart PLS and find out the statistical relationship between the variables.

In this study we find the impact of independent variables (external audit or auditing on BOD Quality (BOD Size, Financial Expertise, BOD independence, Frequency of meetings held and Board Rotation,) on dependent variables (External Audit, Audit from Big 4 Audit firms, Corporate Governance and Earning Management).

After that we will interpret the findings and results to conclude it.

**3.4 Data Source**

The data used in this research has been obtained from KSE-100 index companies, the websites of the relevant companies, there annual reports, and direct contacts as well.

**3.5 Sample Size and Period**

The sample has been selected from KSE-100 index listed companies, it excludes the following:

1. Financial Sector of the economy (Banks (both conventional and Islamic), Insurance Companies. (Modaraba and Musharka Companies or companies who offers their services in the same)
2. Companies for whom the relevant data was not available or not found.

The time period used in this study is of last 5 years

**3.6 Research Model**

**3.7 Model Hypothesis**

**3.8 Statistical Technique**

**3.9 Variable Descriptions**