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Ownership Concentration and Audit Actions

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Abstract: This study presents current evidence on the impact of different corporate ownership types on audit quality in Oman and potentially in other developing countries with similar institutional environments, such as GCC countries. While previous research has primarily focused on overall ownership concentration, this study aims to examine the role of specific shareholder identities and their influence on the demand for audit quality. This research sheds light on the relationship between ownership identities and audit quality of Omani financial companies listed on the Muscat Stock Exchange from 2014 to 2020. This study employs additional analysis to mitigate potential confounding factors and ensure robust results. Additionally, a GMM test establishes the robustness of our findings, alleviating potential endogeneity concerns. The findings highlight the positive impact and significance of bank, government, and foreign ownership in promoting high audit quality. In contrast, ownership by financial institutions (non-banks) and block holder concentrations negatively and significantly impact audit quality. In addition, this study found that family members on boards play positive moderating roles in the relationship between ownership concentration and audit quality. In addition to contributing to the existing literature, this study provides valuable insights for regulatory bodies to consider the role of ownership types in their decision-making processes. Our findings also assist investors in making informed choices and offer a better understanding of how ownership structures influence audit quality for other stakeholders. The implications of this research extend beyond Oman and can be relevant to countries with similar ownership structures and regulatory frameworks.

Keywords: audit quality; ownership structure; family membership; royal membership; foreign ownership; government ownership; institution ownership; bank ownership; Oman

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1. Introduction

External audit plays a significant role in enhancing the corporate governance system because it helps cover the gap between managers who report and prepare financial statements and stakeholders who use them to make decisions (AlQadasi and Abidin 2018). Hence, an external audit is considered a key monitoring method to enhance the quality of financial statements and assist investors in making their corporate decisions as it provides them with confidential information. Oman is working towards a 2040 strategy and becoming a competitive market by encouraging foreign investors into the country and enhancing their confidence. Therefore, establishing strong and rigorous corporate governance is essential for financial firms to achieve this requirement.

Prior literature stated that developing countries are characterized by weak corporate governance compared to developed countries. Therefore, adding a layer of block holders' ownership will enhance the strength of corporate governance and increase the protection of investors and shareholders' wealth (Alhababsah 2019). The Middle East and North Africa have received minimal consideration regarding ownership concentration. Although many studies have been conducted on developed countries, such as the USA and European

countries, generalizing the findings to developing countries will mislead the interpretation of the results due to the institutional differences between developed markets and undeveloped ones, such as Oman with less restrictive auditor's liability, lower government enforcement, and lower disclosure requirements. Hence, this study aims to investigate the impact of ownership concentration on audit quality in Oman.

The ownership structure of a company is important for governance, especially when there is a weak legal environment (Alhababsah 2019). For example, in Oman, where legal protection for investors is inadequate, it is common for companies to be controlled by large shareholders such as government bodies. However, different types of controlling shareholders have different investment policies and motivations that affect how they use their control rights over a company. Therefore, it is important to consider each type of owner separately to avoid making incorrect assumptions about their role in a company.

This study uses a sample of 33 listed Omani financial firms over 7 years from 2014 to 2020 and utilizes different regression analyses. This paper explores the impact of different ownership structure identities on audit quality in Omani financial firms, such as block holders' concentration and bank, governmental, institutional, and foreign ownership. This study also examines the role played by family and royal members on boards as moderating variables in the relationship between ownership concentration and audit quality. The results revealed that bank, governmental, and foreign ownerships positively and significantly affect audit quality, and institutional ownership negatively affects audit quality. We also found that family members on boards have a significant moderating impact on the association between block holder ownership and auditor quality in Omani financial firms.

In our research, we explore three key channels through which ownership concentration affects the quality of auditing within firms following the strategy of Li et al. (2021b). These channels provide valuable insights into how ownership dynamics can influence auditing practices and standards. Firstly, one of the primary channels through which ownership concentration can affect auditing quality is board independence. We hypothesize that firms with concentrated ownership structures may exhibit variations in the independence of their boards. In cases where ownership is highly concentrated, there may be a greater likelihood of owners or their representatives occupying board positions. Such a scenario can potentially influence the board's ability to provide objective oversight of the auditing process. Therefore, we examine whether ownership concentration is associated with a decreased level of board independence, which, in turn, may have implications for the quality of auditing within these firms. Secondly, the composition of the audit committee within a firm is another channel through which ownership concentration can impact auditing quality. We investigate whether firms with concentrated ownership structures tend to have audit committees that include a higher proportion of individuals closely aligned with the owners, such as family members or individuals with affiliations to royal families. This composition may raise questions about the committee's independence and its ability to objectively assess auditing practices. Our research aims to shed light on whether ownership concentration is associated with variations in the independence of audit committees and the subsequent impact on auditing quality. Finally, we examine the direct presence of family members or individuals with affiliations to royal families on the board as an independent channel of influence on auditing quality. Firms with concentrated ownership structures often have a higher likelihood of having family members or individuals with strong ownership ties serving on the board. This presence can potentially influence decision-making related to auditing standards and practices. We investigate whether the presence of these individuals on the board correlates with variations in auditing quality within these firms. By analyzing these channels, we aim to provide a nuanced understanding of the complex dynamics that influence auditing practices within organizations.

We contribute to the literature by being the first study (to the best of our knowledge) to examine such a relationship in Oman. In addition, this study goes beyond the general norm of ownership concentration and examines the specific ownership identities of governmental

and institutional ownerships. We are filling the gap in the literature on this topic for developing countries as there are very few studies in the region. Furthermore, we provide practical implications to regulators and policymakers regarding setting some provisions on ownership concentration to help the board of directors and firms' managers make appropriate decisions. This study will also help investors and market participants make better-informed investment decisions and help the market understand the role of ownership concentration on audit quality. Moreover, we have elaborated on the relationship and investigated in depth the role of ownership concentration on audit quality in politically connected and family firms.

This paper is structured as follows: Section 2 illustrates the theoretical and conceptual framework, and Section 3 discusses the literature review and develops the hypotheses. Section 4 describes the research methods, and Section 5 deliberates the findings' discussion. Section 6 highlights some additional analyses, and Section 7 concludes this study with some practical implications and avenues for future research.

2. Theoretical and Conceptual Framework

Ownership concentration, as defined by the proportion of shares held by a single individual or entity, can reflectively impact corporate governance structures and decision-making processes (Alhababsah 2019). Within the agency theory framework, ownership concentration creates a unique dynamic of principal–agent relationships (Barroso et al. 2018). The presence of controlling shareholders introduces potential conflicts of interest and agency costs, as the interests of the majority shareholders might not align with those of minority shareholders (Fama and Jensen 1983). Thus, studying how ownership concentration affects audit fees is crucial for understanding the mechanisms that mitigate these agency conflicts.

In developing countries such as Oman, where corporate governance practices might be evolving and market inefficiencies can exist, examining the relationship between ownership concentration and audit fees gains significance and importance. High ownership concentration may lead to information asymmetry, where minority shareholders might have limited access to reliable financial information. This creates a need for robust external audits to ensure that financial statements are free from material misstatements and provide a fair representation of the company's financial position. This additional effort may translate to higher audit fees. From an agency theory perspective, understanding the impact of ownership concentration on audit fees contributes to assessing how ownership structure influences the monitoring and controlling mechanisms within firms (Barroso et al. 2018).

Ownership concentration can impact audit quality via various mechanisms, such as selecting external auditors as they will opt for reputable audit firms, Big Four firms, to enhance the credibility of financial statements, potentially resulting in higher audit fees. Furthermore, high ownership concentration might compromise auditor independence, particularly if there is a close relationship between the owner and the auditing firm. The power of monitoring the audit process could weaken, affecting audit quality. This aligns with agency theory, where controlling shareholders might exert excessive influence on the audit process, leading to potential biases.

Additionally, the level of ownership concentration might influence perceived financial risks. High ownership concentration can amplify risks of opportunistic behaviors, leading auditors to allocate more resources to assess materiality and potential misstatements. Based on the agency theory perspective, concentrated ownership could influence management's risk-taking behavior and the need for more vigilant auditing.

To substantiate these theoretical underpinnings and proposed mechanisms, rigorous empirical analysis has been conducted in this paper. By employing advanced statistical techniques, we intend to investigate the relationship between ownership concentration and audit fees while controlling for other relevant control factors. The research aims to contribute empirical evidence that supports or counters the hypothesized relationships and provides empirical insights into the agency theory implications.

3. Literature Review and Hypotheses Development

Audit quality is a critical aspect of the financial reporting framework, as it helps to ensure the accuracy and reliability of financial statements and how they faithfully reflect a firm's underlying economics (DeFond and Zhang 2014). Moreover, it assures that the financial statements are free from material misstatements (Xiao et al. 2020). In Oman, as in many other countries, audit quality is measured using various indicators that assess the performance of auditing firms. Assessing audit quality is challenging because the assurance provided by auditors is not observable. The only observable outcome of the audit is the common form of audit reports, and most of these reports are standard clean opinions (Chen et al. 2016).

The background of audit quality in Oman can be traced back to the introduction of the Commercial Companies Law in 1974, which mandated that all companies in Oman must be audited by licensed auditors. The Capital Market Authority (CMA) in Oman is the primary regulatory body responsible for overseeing the quality of audit services in Oman. The regulations enacted in Oman after issuing the first corporate governance code in 2002 required all listed companies to have their financial statements audited by an independent auditor and to increase transparency by disclosing the audit fees charged and ownership identities in their annual reports. Strong corporate governance mechanisms are needed to perform high-quality audit services such as ownership concentration and effective audit committees.

In Oman, the CMA conducts periodic inspections of auditing firms to evaluate their compliance with auditing standards and regulations. The inspection reports are used to assess the quality of audit services provided by the firms and identify areas for improvement. A register of licensed auditors is also maintained by the CMA to ensure the technical competence of auditors.

The measurement of audit quality in Oman includes several factors, such as the independence and objectivity of auditors, their technical competence, the quality of audit processes, and the level of compliance with auditing standards and regulations. These factors are measured with various indicators, such as the number of audit deficiencies identified by regulators, the frequency of audit inspections, and the level of enforcement of audit regulations.

Following prior studies in the field (e.g., Kalia et al. 2023; Alhababsah 2019), we use the audit fees paid to external auditors as an indicator of audit quality from the demand perspective. The higher the fees are considered, the higher the audit quality, as it requires more effort and hours to audit the firm's accounts and a greater expertise from the auditors.

Ownership concentration is often discussed in the literature as a corporate governance mechanism (Barroso et al. 2018; Tee et al. 2017), but research results have been mixed regarding the monitoring effect of block holders and whether their existence leads to higher audit quality. The literature also tends to focus on the overall ownership concentration rather than the identities of individual shareholders. Therefore, it is recommended to consider different types of owners when studying ownership structures (Lim et al. 2014), as they have different investment strategies, incentives, and monitoring abilities. This study examines different ownership types separately in the Omani market, including government and financial institution ownership, and investigates the relationship separately in politically connected and family firms.

According to the agency theory, firms can reduce the information asymmetry raised between managers and shareholders with rigorous corporate governance mechanisms. As managers work toward satisfying their needs at the expense of the owner's interests, independent auditors, therefore, will mitigate such conflict by putting extra effort into auditing activities to reduce information asymmetry. Additionally, ownership concentration will serve as a corporate governance mechanism to reduce conflicts between different owners (i.e., majority and minority shareholders). Usually, firms face an abuse of power by majority shareholders, which reduces the level of monitoring activities; thus, minority

shareholders ask for additional efforts from external auditors to perform high quality audits to mitigate such risks (Habib and Jiang 2015).

3.1. Block Holders' Ownership

Block holder ownership refers to stockholders who own 5% or more of firms' outstanding shares (Dou et al. 2013; Abu et al. 2018). Previous literature classified block holders' ownership into different categories, including individual investors and institutional investors (Edmans and Holderness 2017). This means that people or organizations are considered block holder owners if they acquire 5% or more of a company's equity. By facilitating access to inside information, block holder ownership increases control and decreases information asymmetry (Barroso et al. 2018), hence playing a significant role in firms' decision-making processes (AlQadasi and Abidin 2018) and leading to a lowering of agent–principal conflicts. Previous studies argued that ownership concentration is thought to be a crucial component of the ownership structure. As stressed by Alhababsah (2019), when the majority of stockholders own a certain percentage of a company's stock, this is referred to as ownership concentration. Furthermore, Al Lawati et al. (2023) found a positive correlation between overlapped audit committee directors who own 5% of the corporation's shares and financial reporting quality.

However, block holder ownership could lead to negative consequences. As highlighted by Barroso et al. (2018), "the principal–principal or Agency Problem II" may occur when block holders have too much ownership, giving them more power than the minority shareholders. Moreover, block holders may take advantage of gaining more value from the company for their personal benefits and ignore the minority shareholders' interests, enjoying the benefits of control (Shleifer and Vishny 1997). Additionally, Olowokure et al. (2016) argued that block holders would prefer low audit quality to conceal firms' resources.

Numerous calls for research have focused on the need to understand how blockholder ownership can influence firms' audit quality. The previous research findings have been mixed. For example, Jusoh et al.'s (2013) study revealed that there is a significant relationship between Malaysian firms' audit quality and block holder ownership. Other studies documented that block holders are less encouraged to hire high-quality audit firms (Abu et al. 2018; AlQadasi and Abidin 2018). Furthermore, Mgbame et al. (2012) found a negative association between firms' ownership structure and audit quality, suggesting that block holders could negatively influence the audit accuracy of firms. Barroso et al. (2018) found a nonlinear relationship between controlling shareholding and audit fees. The findings of Abu et al. (2018) revealed that block holder ownership positively impacts firms' audit qualities. As shown earlier, the previous studies' results on the influence of block holder ownership on audit quality are inconclusive. Therefore, there is a need to further investigate this relationship. Hence, we hypothesize the following:

Hypothesis 1 (H1). *There is a significant impact of block holder ownership on audit quality.*

3.2. Bank Ownership

According to Shleifer and Vishny (1997) and Alhababsah (2019), institutional investors have a critical role in strengthening corporate governance systems. They possess significant incentives and the ability to monitor and encourage managers to work towards maximizing shareholders' wealth and satisfying their needs. These incentives and power stem from their fiduciary duties, substantial voting blocs, and superior business experience, as stated by Pound (1988) and Schmidt and Fahlenbrach (2017). Consequently, institutional investors are more likely to push for high-quality audits as a reliable monitoring mechanism, either with their own demands or by encouraging management to do so.

One of the biggest institutional investors are commercial banks (Maqbool et al. 2021). Banks play a crucial role in monitoring managers in several ways. As they are an owner and lender at the same time in some financial companies, they thus require regular financial reports from the companies they lend to. These reports include information about a

company's financial performance, cash flows, and debt levels. Banks, with their specialized business analytics expertise, use this information to monitor the financial health of a company and assess the competence of its management team. Since external auditors audit those financial reports, banks have a strong monitoring role on the audit quality of such reports.

In addition, banks typically impose loan covenants on the companies they lend to. These covenants require the company to meet certain financial targets or to take certain actions, such as maintaining a certain level of liquidity or limiting capital expenditure. Banks monitor compliance with these covenants and may take action if the company fails to meet them. In such a situation of failure in compliance, the banks will be less likely to provide the loan again to their investee. This is the case for Omani companies, as banks are their main funding sources.

Banks often have representatives on the boards of the companies they lend to. These representatives are responsible for monitoring the performance of the management team and ensuring that the company is running in the best interests of the shareholders (Wang et al. 2020). Therefore, managers will ask for a higher audit quality service to ensure that the management team is free from agency conflicts and to increase the chance of renewing the loan from banks.

On the other hand, having banks as owners in some companies could adversely affect the companies' performance by choosing unfavorable investment decisions (Wang et al. 2020). Additionally, there could be some conflicts of interest in the case where the banks act as owners and lenders at the same time, which could give priority to satisfying their own benefits. In such a case, the monitoring ability of the banks will decrease, and they will ask for lower audit quality.

Based on the above discussion, there is no clear impact of banks on audit quality in Oman. The banking industry in Oman is highly advanced and efficiently structured, with a stronger dedication to following corporate governance codes and regulations compared to other sectors, as banks are monitored by the CBO and CMA. Therefore, it can be inferred that these banks prioritize high-quality audits since they possess the authority and motivation to scrutinize financial reporting and hold managers accountable for any inadequate earnings quality. Hence, we hypothesize the following:

Hypothesis 2 (H2). *There is a significant impact of bank ownership on audit quality.*

3.3. Governmental Ownership

According to Gitundu et al. (2016), governmental ownership is calculated as a percentage of shares in government-owned businesses. Based on the agency theory, the information asymmetry problem that results from investors receiving false information about the firm's value is resolved with government ownership. State-owned stocks could help in making sure that the interests of managers and owners are met (Jensen and Meckling 1976). Compared to private businesses, government-controlled companies are typically better able to access information from other sources, funding, and other channels (Juhmani 2013). Ben-Nasr et al. (2015) highlighted that governmental owners are keen to boost the financial reports' transparency to increase firms' capital and demonstrate their commitment to market-oriented regulations. Therefore, it is anticipated that government shareholders are more eager to demand thorough audits to safeguard company assets, uphold their image, and raise funds.

On the other hand, governmental shareholders may lack the motivation for thorough oversight because their actions may be influenced by political factors (Habib et al. 2018). Several studies were motivated to test the governmental ownership influence on firms' audit quality. A recent study by Guizani and Abdalkrim (2021) did not find an association between governmental ownership on audit fees. Additionally, Ben-Nasr et al.'s (2015) study showed that there is a significant adverse correlation between earning quality and governmental ownership. According to Tran (2020), governmental ownership is strongly

associated with weak governance attributes, such as fewer independent directors on boards. According to Nguyen et al. (2017), if managers or directors are appointed by the government, they are more likely to have more control in firms' decision-making and a low level of sufficient supervision. As a result, managers will not favor the appointment of independent directors, thereby reducing board independence.

The low quality of firms' audits may reflect the government representatives' entrenchment behavior in these companies. In addition, Haider et al. (2018) argued that government shareholders may obfuscate their incompetence and corruption by purposefully creating an ambiguous information environment. Hence, it is more likely that these shareholders will resist selecting high-quality firms. According to Alshammari (2014), companies with higher levels of government ownership are associated with low-quality audits and less accurate financial reports because they have an incentive to safeguard their political interests. Consequently, it can be concluded that government ownership of firms may impact the accuracy of audits. Consequently, we hypothesize the following:

Hypothesis 3 (H3). *There is a significant impact of governmental ownership on audit quality.*

3.4. Institutional (Non-Bank) Ownership

Institutional shareholders have always played a debatable role in the firm's governance; however, many previous studies suggested that they could positively influence the firm's corporate governance system (Shleifer and Vishny 1997; Guizani and Abdalkrim 2021). Institutional investors have a substantial motivation and authority to efficiently oversee and compel managers to maximize the wealth of shareholders because of their responsibilities as trustees (Lin and Fu 2017), broad groups of voters (Shleifer and Vishny 1997), and superior business expertise (Pound 1988). Consequently, because institutional investors have more knowledge and experience, they are thought to oversee the management more professionally than individual investors and are more likely to require high-quality audits to better monitor firms. There are two types of institutional ownership: banks and other financial institutions. Banks are governed by distinct laws from other financial businesses.

There are many incentives for financial institutions to hold block stocks in other companies, such as to integrate businesses or a diversification strategy to lower risks (Alhababsah 2019). Lee and Shin (2018) suggested that financial corporations make investments in other businesses to expand their business, maximize their earnings, and exert power over suppliers. On the other hand, Lin and Fu (2017) highlighted that the capacity of financial organizations to exercise adequate oversight could be questionable. For example, a personal connection could be the reason for appointing institutional investor delegates rather than their ability and achievement. Due to inexperience in a scenario such as this, the representative's monitoring role could be weakened. A Jordanian study by Alhababsah (2019) found that institutional (non-financial) ownership does not influence the audit quality of firms. Nevertheless, this study suggests that institutional (non-financial) ownership of firms may impact the audit quality. Consequently, we hypothesize the following:

Hypothesis 4 (H4). *There is a significant impact of institutional (non-bank) ownership on audit quality.*

3.5. Foreign Ownership

According to Pfeffer and Salancik (1978), overseas investors are the main sources of a firm's capital. When foreign investors hold a significant portion of a firm's stock, other foreign investors may become more interested in purchasing additional shares in the firm (Alabdullah 2021). These investors could help by providing an in-depth understanding of overseas investments and boosting the company's profitability (Al-Matari et al. 2019). According to earlier research, international shareholders need more trustworthy and open information to prevent insider trading expropriation (Ben-Nasr et al. 2015). To reduce

disparities in information and obtain precise financial information, overseas shareholders with significant ownership put more pressure on managers by demanding higher audit quality (Lee et al. 2018). To project a positive image of their credibility, managers may be keen on asking for high audit quality to draw in additional investment from abroad. Alzeaideen and Al (2018) discovered that audit quality is higher within foreign than in local subsidiaries, indicating that the higher quality of audits has been linked to overseas shareholders.

Foreign investors from countries with solid investor rights are more likely to support sound corporate governance (Li et al. 2021a). Some studies revealed that the quality of audits is unaffected by foreign ownership (Alhababsah 2019), while Lee et al.'s (2018) study findings showed that having foreign ownership improves the audit quality. According to Phung and Mishra (2016), the rising proportion of foreign ownership may provide shareholders with a powerful position for overseeing the company, enhancing the corporate governance systems of firms, and providing better audit quality. Despite the increase in foreign ownership of firms in Oman (Mohamed 2015), little attention has been paid to determining how this affects the audit quality of those firms in Oman. Consequently, we hypothesize the following:

Hypothesis 5 (H5). *There is a significant impact of foreign ownership on audit quality.*

3.6. The Moderating Effect of Family Membership on the Relationship between Block Holder Ownership and Audit Quality

There is conflicting research on the effects that family members as board members have on agency costs. Some studies claimed family members on the boards reduce agency conflict (Homayoon and Hakimzadeh 2017). Family businesses represent an important corporate governance element that reduces the potential issue of managerial opportunism due to their concentrated ownership and long-term investment (Fama and Jensen 1983). Thus, the family members' interests are likely to be aligned with the minority shareholders (Sikalidis et al. 2022).

On the other hand, high family ownership raises the possibility of using their power to achieve their own interests over minority non-family shareholders (Azoury and Bouri 2015). Executive and corporate board positions are commonly held by family members in family owned businesses, which increases the possibility of obtaining personal gain and expropriating the interests of other stockholders (Alhababsah 2019). Furthermore, family ownership may heighten worries that managers would focus on achieving family owners' interests and ignore the other owners. Hence, high-quality audits are needed to minimize agency issues and safeguard the interests of other shareholders. As highlighted by previous studies, due to the ineffectiveness of their oversight, companies with family board members may have weaker corporate governance (Khan and Subramaniam 2012).

In the context of family membership, family reputation is an important aspect that should be taken into consideration. The prior literature highlighted that family members on the board are driven to uphold firm values out of concern for their reputation (Homayoon and Hakimzadeh 2017). In particular, family members are implicitly obligated to uphold the family name and refrain from using their position of authority to further their own benefit while ignoring the shareholders' interests because of this reputational concern (Alhababsah 2016). Consequently, this may motivate family members on boards to spend more on audit costs to protect their financial reporting reliability reputation. On the other hand, as claimed by Khan and Subramaniam (2012), a family member serving on the board could enhance the institution's reputation by believing that the risk level is low compared to other firms. This would lead auditors to exert less effort to lower audit risks and charge lower audit fees.

Several researchers were motivated to investigate the association between family-owned companies and audit quality. For instance, Ho and Kang (2013) did not find a significant association between family ownership and audit quality. Moreover, Khan and Subramaniam (2012) and Alhababsah (2016) found a positive correlation between

family ownership and audit quality. On the contrary, some studies revealed that family ownership had a detrimental effect on audit quality (Odudu et al. 2019; Alshammari 2014). Nevertheless, in this study, it is expected that family members on corporate boards could influence the relationship between block holder ownership and audit quality. Therefore, the following hypothesis is proposed:

Hypothesis 6 (H6). *Family membership moderates the impact of block holder ownership on audit quality.*

3.7. The Moderating Effect of Politically Connected Firms on the Relationship between Block-Holders' Ownership and Audit Quality

Al Lawati (2022) mentioned that political connections within a company can affect performance via leniency regulations and government project ease. According to Liu et al. (2014), compared to non-politically connected directors, politically connected directors may be significantly pressured to minimize severe agency conflicts resulting from political connections. This may favor high-quality auditors and great financial reporting accountability and transparency (Al Lawati et al. 2021).

However, politically connected directors must engage in rent-seeking activity, which requires company funds or resources to lobby the government for favorable policies (Hassan et al. 2019). For instance, donating to governmental bodies to make favorable policies for their companies poses a risk of companies' fund manipulation, as they do not always require approval from investors, including minority shareholders (Lu et al. 2016). Thus, companies that are politically connected are more likely to expropriate minority shareholders and manipulate earnings (Kim and Zhang 2016).

This discourages politically connected firms from being transparent. According to Kim and Zhang (2016), a company with political connections tends to engage in more tax avoidance practices for a variety of reasons, including a lower likelihood of being discovered, increased exposure to potential regulatory changes, and freedom from legal constraints. Hence, compared to firms without political ties, they will face less transparency pressure, incur fewer political costs, and take more risks.

Similarly, Kim and Zhang (2016) found that political connections lead to a lack of financial reporting transparency, resulting in a lower financial reporting quality. Therefore, audit effort increases as auditors assess high company risk, hence charging the company more for auditing fees (Salehi 2020). Based on the aforementioned discussion, it is expected that the impact of block holders on audit quality would be different if firm directors had political connections. Thus, the hypothesis is as follows:

Hypothesis 7 (H7). *Firms' political connections moderate the impact of block holder ownership on audit quality.*

4. Research Methodology

4.1. Sample Selection

The study sample was 33 financial listed firms on the Muscat Stock Exchange from 2014 to 2020, comprising 231 firm-year observations. Non-financial firms were excluded from this study due to the difference in their regulations and provisions compared to financial ones. The data have been collected manually from companies' annual reports and the Bloomberg database.

4.2. Study Variables

Audit quality was our dependent variable, which was measured using audit fees following Al Lawati and Hussainey's (2022) study. Our ownership identities were considered the independent variables, which included the following: block holder concentration, institutional ownership, governmental ownership, bank ownership, and foreign ownership. We have used several control variables to avoid model misspecification, following prior

research, which is as follows: company size, company leverage, company profitability, and the Big4. Refer to Table 1 for variables definitions and measurements.

Table 1. Variable definitions and measurements.

Variables	Abbreviation	Measurement
Audit Fees	AUDITFEES	Total amount of fees paid to external auditors
Block holder ownership	BLOCK_OWN	Number of owners who possess 5% ownership concentration threshold
Institutional ownership	INST_OWN	Percentage of financial institution (bank) ownership in the firm
Governmental ownership	GOV	Percentage of governmental ownership in the firm
Bank's ownership	BANK	Percentage of bank ownership in the firm
Foreign ownership	FOREIGN	Percentage of foreign ownership in the firm
Firm's size	FIRMSIZE	Natural logarithm of Total Asset
Firm's leverage	LEV	Total Debt divided by Total Assets
Firm's profitability	ROE	Return on Equity
Big 4	Big4	Dummy variable equals 1 if a company has been audited by one of the Big 4 audit firms, 0 otherwise
Family firms	FAMILYFIRMS	Dummy variable takes the value of 1 if a firm has directors from the same family on the board and 0 otherwise
Politically connected firms	POLITICALLYCONNECTED	Dummy variable equals 1 if a firm has at least one ruling family director on the board and 0 otherwise

In corporate governance and finance research, firm size is a crucial factor often associated with significant empirical outcomes, known as the "size effect" (Dang et al. 2018). Every firm size measure exhibits advantages and disadvantages, and no measure can capture all characteristics of "firm size" and the selection of the measure depends on the specific field of the study (Dang et al. 2018). We have used "Total Assets" as a proxy for firm size in our research as it is well-founded and widely accepted practice for several compelling reasons. Firstly, it represents a fundamental financial metric that captures the size and scale of a firm's operations. It reflects the cumulative value of a company's resources, investments, and assets, making it a logical choice to proxy for firm size (Dang et al. 2018). As such, it aligns with the economic intuition that larger firms tend to have larger total asset values. Secondly, total assets are readily available for a vast number of publicly traded firms, making them highly practical for large-scale empirical studies. This accessibility allows researchers to analyze a wide range of firms and industries, contributing to the generalizability of findings. Thirdly, total assets have been widely used as a measure of firm size in the accounting and finance literature, creating a common framework for comparison and building on prior research. This consistency ensures that research findings can be placed in the context of existing knowledge and contributes to cumulative knowledge in the field. Finally, the concept of total assets is intuitively understandable, and the measurement is interpretable in economic terms. When using total assets as a proxy for firm size, the results can be easily explained and communicated to both academic and non-academic audiences. In addition, total assets are relatively stable over time for established firms,

providing a reliable measure of size that is less susceptible to short-term fluctuations than other metrics.

4.3. Regression Model

$$\text{AUDITFEESit} = \beta 0 + \beta 1 \text{ BLOCK_OWNit} + \beta 2 \text{ INST_OWN it} + \beta 3 \text{ GOVit} + \beta 4 \text{ BANKit} + \beta 5 \text{ FOREIGNit} + \beta 6 \text{ FIRMSIZEit} + \beta 7 \text{ LEVit} + \beta 8 \text{ ROEit} + \beta 9 \text{ Big4} + \text{INDUSTRY and YEAR FIXED EFFECT} + \text{eit} \quad (1)$$

$$\text{AUDITFEESit} = \beta 0 + \beta 1 \text{ BLOCK_OWNit} + \beta 2 \text{ FAMILYFIRMSit} + \beta 3 \text{ BLOCK_OWN*FAMILYFIRMit} + \beta 4 \text{ FIRMSIZEit} + \beta 5 \text{ LEVit} + \beta 6 \text{ ROEit} + \beta 7 \text{ Big4} + \text{INDUSTRY and YEAR FIXED EFFECT} + \text{eit} \quad (2)$$

$$\text{AUDITFEESit} = \beta 0 + \beta 1 \text{ BLOCK_OWNit} + \beta 2 \text{ POLITICALLYCONNECTEDit} + \beta 3 \text{ BLOCK_OWN*POLITICALLYCONNECTEDit} + \beta 4 \text{ FIRMSIZEit} + \beta 5 \text{ LEVit} + \beta 6 \text{ ROEit} + \beta 7 \text{ Big4} + \text{INDUSTRY and YEAR FIXED EFFECT} + \text{eit} \quad (3)$$

5. Data Analysis and Findings Discussion

5.1. Descriptive Statistics

Table 2 describes this study's dependent, independent, and control variables. The mean values of block holder concentration, government ownership, bank ownership, institutional ownership, and foreign ownership are 4.13, 0.87, 0.14, 3.13, and 0.31, respectively. Foreign investments are all from Arab countries, specifically from the GCC. The audit fees of the Omani financial firms range from OMR 2700 to OMR 302,715, with a mean of OMR 38,462. Around 43% of financial firms have family members on the board, and 16% of the royal members sit on the board of directors of these firms. The majority (90%) of Omani financial firms are audited by one of the Big 4 auditors: KPMG, E&Y, Deloitte, or PwC.

Table 2. Descriptive statistics.

Variable	Obs	Mean	Std. Dev.	Min	Max
BH	231	4.13	1.67	1.00	8.00
GovBH	231	0.87	1.11	0.00	4.00
BankBH	231	0.14	0.35	0.00	1.00
InstitBH	231	3.13	1.46	0.00	7.00
Foreign	231	0.31	0.51	0.00	2.00
LogAsset	231	1.93	0.97	0.42	4.10
AudFee	231	38,462	53,180	2700	302,715
Relatives	231	0.43	0.50	0.00	1.00
Ruling	231	0.16	0.37	0.00	1.00
Big4	231	0.91	0.28	0.00	1.00
ROE	231	4.71	9.84	−41.58	30.43
LEVTDTA	231	15.16	21.74	0.00	69.42

5.2. Correlation Analysis

Table 3 presents the correlation matrix for all study variables to test for any multi-collinearity issues that may occur. The table shows that the variables are free from multi-collinearity issues, as all coefficients are less than 0.7. We have also computed the variance inflation factors (VIFs), and the results are all below the critical value of ten, which indicates that there is no issue regarding multi-collinearity. As we have hypothesized, there is a statistically significant correlation between audit quality and our explanatory variables, government, banks, institutional, and foreign ownership identities. The results confirm the prior literature, which supports our findings.

Table 3. Correlation matrix.

	1	2	3	4	5	6	7	8	9	10	11	12
LNFee	1											
BH	0.0365	1										
GovBH	0.5932 *	0.5567 *	1									
BankBH	0.2041 *	0.034	0.1282	1								
InstitBH	−0.4558 *	0.7130 *	−0.1510 *	−0.2981 *	1							
foreign	0.1831 *	−0.1054	0.0041	0.2409 *	−0.1813 *	1						
Big4	0.3855 *	−0.0122	0.2418 *	−0.1822 *	−0.1529 *	−0.2084 *	1					
LogAsset	0.6913 *	0.1446 *	0.5126 *	0.1775 *	−0.2650 *	0.1650 *	0.2650 *	1				
ROE	0.1691 *	−0.0881	0.1075	0.0412	−0.1917 *	0.0277	0.0692	0.2610 *	1			
LEVTDTA	−0.0305	0.1439 *	0.0787	−0.1690 *	0.1454 *	0.1035	0.1860 *	0.2396 *	−0.0189	1		
Relatives	−0.2061 *	0.1289	0.0113	−0.1070	0.1644 *	−0.2371 *	0.0515	−0.0876	−0.0867	0.0402	1	
Ruling	0.2439 *	−0.0358	0.1811 *	0.0858	−0.1983 *	−0.1310 *	0.1366 *	0.1356 *	0.0143	−0.1786 *	−0.2227 *	1

* Correlation is significant at the 0.10 level (2-tailed).

5.3. Multivariate Regression Analyses

Table 4 shows the regression results for our models, where we examined the relationship between audit quality, which is measured using a natural log of audit fees and ownership structure identities. We have conducted OLS regressions following prior studies in the field. We have assured the suitability of these regressions after examining the OLS assumptions, and the results confirm their appropriateness.

The table shows that there is a significant but negative relationship between block holder ownership and audit quality at the 0.01 level, which confirms H1. This could be because all Omani listed companies are mandated to disclose about the 5% ownership and above, which could create some pressure on the companies. Additionally, the result amplifies the idea that corporations with high levels of block holder ownership will be less likely to seek or request extensive audit services, which ultimately will pay lower audit fees. The results align with prior studies (Khan et al. 2011; AlQadasi and Abidin 2018) that suggested that the conflict between managers and owners will reach an extensive level in the case of corporations with high levels of concentrated ownership. This will lead them to reduce the demand for extensive audit services. The results confirm that with effective corporate governance mechanisms, corporations will request high-quality audit services, which consequently increases audit fees.

There is a positive and significant impact of bank ownership on audit quality at the significance level of 0.05; hence, H2 is accepted. The results confirm the important role played by bank ownership in reducing agency problems and providing effective monitoring of the audit quality level. The findings are in line with the prior literature in the field (e.g., Guizani and Abdalkrim 2021; Alhababsah 2019). The banks in Oman are very well known for their excellent and strong corporate governance systems, as they have been monitored by two governmental bodies: the Capital Market Authority and the Central Bank of Oman. This has led them to execute effective monitoring systems.

In addition, governmental ownership is significantly and positively associated with audit quality at the significance level of 0.01, which supports H3. Since government representatives maintain financial market reputation by ensuring high audit quality, this result is expected, and it confirms the prior studies that have been conducted in the Arab countries, such as in Jordan by Alhababsah (2019). The findings presumed that governmental ownership behaviors are consistent and aligned with the overall country's vision, i.e., Oman Vision 2040, which aims to attract foreign investment to enhance the economic diversity of the country.

This study shows that ownership by financial institutions other than banks negatively affects the audit quality level in Omani financial institutions; hence, H4 is accepted. This could be justified by the idea that monitoring the strength of financial firms (excluding banks) could be diminished due to their strong relationships with investee firms (Lin and Fu 2017). These institutional owners exert their power to maximize their own private benefits at the expense of other shareholders, especially if they are acting as lenders and owners at the same time. Their fiduciary power entitles them to large voting blocs, which might

induce companies to choose unfavorable investment decisions that ultimately negatively affect the firm's value. Hence, this will lead them to demand less audit quality.

We have also found a positive and significant relationship between foreign ownership and audit quality at the 0.01 level, which supports H5. The results confirm the requirement of foreign ownership to obtain more trustworthy and transparent knowledge about the companies' status to avoid any expropriation by insiders (Ben-Nasr et al. 2015). These owners play a significant role in their management teams to provide them with high audit quality to decrease information asymmetry, obtain valid financial reports, and send positive signals to the foreign markets about the integrity and validity of the operated companies. The results are in line with prior studies (e.g., Alzeaideen and Al 2018; Alhababsah 2019) that found that audit quality is considered higher in foreign-owned companies than in ones owned locally, and by having foreign ownership, they can increase firm value faster, enhance their competitiveness, and obtain easy access to the international markets.

Table 4. Regression analysis.

Model 1										
	Block Holder		**Bank Ownership**		**Governmental Ownership**		**Institutional Ownership**		**Foreign Ownership**	
Variables	**Coefficient**	**$p > t$**	**Coefficient**	**$p > t$**	**Coefficient**	**$p > t$**	**Coefficient**	**$p > t$**	**Coefficient**	**$p > t$**
BH	−0.070 ***	0.000								
BankBH			0.298 **	0.031						
GovBH					0.265 ***	0.000				
InstitBH							−0.172 ***	0.000		
Foreign									0.341 ***	0.000
Big4	0.539 ***	0.000	1.013 ***	0.000	0.804 ***	0.000	0.825 ***	0.000	1.106 ***	0.000
LogAsset	0.419 ***	0.000	0.722 ***	0.000	0.600 ***	0.000	0.686 ***	0.000	0.714 ***	0.000
ROE	−0.000	0.931	−0.003	0.486	−0.003	0.570	−0.006	0.161	−0.003	0.463
LEVTDTA	0.007 ***	0.006	−0.011 ***	0.000	−0.011 ***	0.000	−0.009 ***	0.000	−0.013 ***	0.000
_cons	8.214	0.000	7.773	0.000	8.009	0.000	8.583	0.000	7.668	0.000
R-squared	0.823		0.585		0.633		0.626		0.601	
Years Effect	Yes									
No. of Obs	231									
Prob>F	0									

Model 2					
	Relatives			**Ruling**	
Variables	**Coefficient**	**P > t**	**Variables**	**Coefficient**	**P > t**
BH	−0.113 ***	0.000	BH	−0.066 ***	0.002
Relatives	−0.555 ***	0.003	Ruling	0.014	0.946
RelativesxBH	0.119 ***	0.005	RulingxBH	−0.037	0.457
Big4	0.602 ***	0.000	Big4	0.558 ***	0.000
LogAsset	0.381 ***	0.000	LogAsset	0.403 ***	0.000
ROE	0.001	0.810	ROE	−0.001	0.870
LEVTDTA	0.006 **	0.027	LEVTDTA	0.007 ***	0.008
_cons	8.463	0.000	_cons	8.223	0.000
Industry Effect	Yes		Industry Effect	Yes	
Years Effect	Yes		Years Effect	Yes	
No. of Obs	231		No. of Obs	231	
Prob>F	0.000		Prob>F	0.000	
R-squared	0.829		R-squared	0.825	

** Correlation is significant at the 0.05 level (2-tailed). *** Correlation is significant at the 0.01 level (2-tailed).

Additionally, our findings show that family members on boards play a significant moderating impact in the association between block holder ownership and auditor quality in Omani financial firms at a significant level of 0.01. The results confirm H6, and are in

line with the prior literature (e.g., Calabrò et al. 2019; Alhababsah 2019), which implies that family members are very concerned about the reputation of the firms they are serving and trying their best to not publish or release any misstated financial statements. These members avoid using their power to obtain self-private benefits at the expense of other stakeholders to protect their self-reputation, as they are well known in society, especially in Oman and other GCC countries.

However, no significant association has been found between the role of royal members as a moderating role between block holder ownership and audit quality. Therefore, H7 is rejected. The findings are consistent with Tessema (2020), who found that politically connected firms have no impact on audit quality. Additionally, the results align with Al-Hadi et al. (2016), who acknowledged that politically connected firms do not experience greater beneficial effects of audit quality compared to similar firms that are not politically connected. This could be because royal members might not have direct involvement or expertise in the day-to-day operations and financial management of the companies in which they hold ownership stakes. As a result, their influence on audit quality may be limited. Audit quality is often influenced by the independence and expertise of auditors responsible for examining and assessing a company's financial statements. Moreover, other factors could play a major role in determining audit quality, such as the structure of corporate governance, the presence of other significant shareholders or institutional investors, and legal frameworks. In addition, the priorities and interests of royal members might differ from those of block holders or other stakeholders. Their focus might be more on maintaining their status or reputation rather than actively influencing the audit process (Tessema 2020). This misalignment of interests may result in a limited impact on audit quality.

6. Additional Analyses

6.1. Panel Data Regression

We have conducted a panel data examination as an additional analysis to deal with the different types of variables that could change among corporations but remain constant over years, and variables that could change over corporations and years at the same time (Alhababsah 2019). We ran the Hausman test to check the appropriateness between random and fixed effect methods; the results reveal that the random effect estimation method is more appropriate. Table 5 provides the results, and it shows the effect of ownership identities and control variables on the dependent variable.

Table 5. Random effect regression analysis.

	Block Holder		Bank Ownership		Governmental Ownership		Institutional Ownership		Foreign Ownership	
Variables	**Coefficient**	**p > t**	**Coefficient**	**p > t**	**Coefficient**	**p > t**	**Coefficient**	**p > t**	**Coefficient**	**p > t**
BH	0.025	0.429								
BankBH			0.334 **	0.038						
GovBH					0.352 ***	0.000				
InstitBH							−0.102 ***	0.003		
Foreign									0.189 *	0.100
Big4	0.813 ***	0.001	0.833 ***	0.001	0.549 **	0.020	0.757 ***	0.002	0.842 ***	0.001
LogAsset	0.239 ***	0.000	0.231 ***	0.000	0.179 ***	0.000	0.237 ***	0.000	0.226 ***	0.000
ROE	−0.007 *	0.062	−0.007 **	0.039	−0.007 **	0.046	−0.008 **	0.029	−0.007 *	0.056
LEVTDTA	−0.003	0.169	−0.003	0.244	−0.002	0.482	−0.003	0.217	−0.003	0.164
_cons	8.730	0.000	8.777	0.000	8.859	0.000	9.208	0.000	8.775	0.000
R-squared	0.47		0.4994		0.5277		0.5578		0.5158	
Years Effect	Yes									
No. of Obs	231									
Prob>F	0									

* Correlation is significant at the 0.10 level (2-tailed), ** Correlation is significant at the 0.05 level (2-tailed), *** Correlation is significant at the 0.01 level (2-tailed).

The results confirm the earlier main findings of this study. The variables, such as bank, governmental, and foreign ownership, positively and significantly affect the audit quality, and institutional ownership negatively affects the audit quality.

6.2. Two-Step Generalized Method of Moment (GMM) Analysis

We employed the Generalized Method of Moment (GMM) approach to validate our primary findings and address potential endogeneity concerns. To examine the dynamic relationship between ownership characteristics and audit quality, we utilized a two-step system GMM estimation approach. This method was chosen because it delivers consistent outcomes by accounting for simultaneity and the bias introduced via omitted variables.

In line with our primary findings, the outcomes of the system GMM estimation (presented in Table 6) affirm that the impact of bank, governmental, and foreign ownership on audit quality is positive and statistically significant. Conversely, institutional ownership exerts a negative influence on audit quality. Additionally, we conducted the Arellano–Bond test for AR(1) auto-correlation and the Sargan test for overidentification restrictions in relation to the system GMM approach. The results, as indicated in Table 6, reject the null hypothesis of the no first-order (AR(1)) auto-correlation and over-identification in the model. This validation highlights the suitability of utilizing the system GMM approach, reinforcing the robustness of our findings.

Table 6. Two-step GMM analysis.

	Block Holder		Bank Ownership		Governmental Ownership		Institutional Ownership		Foreign Ownership	
Variables	**Coefficient**	***p* > z**	**Coefficient**	***p* > z**	**Coefficient**	***p* > z**	**Coefficient**	***p* > z**	**Coefficient**	***p* > z**
BH	0.044	0.410								
BankBH			0.691 *	0.076						
GovBH					0.557 ***	0.000				
InstitBH							−0.195 ***	0.003		
Foreign									0.419 **	0.026
Big4	1.195 ***	0.018	1.026 **	0.038	0.308	0.392	0.817 **	0.021	1.414 ***	0.003
LogAsset	0.722 ***	0.000	0.692 ***	0.000	0.449 ***	0.000	0.674 ***	0.000	0.687 ***	0.000
ROE	−0.003	0.624	−0.003	0.545	−0.001	0.851	−0.007	0.197	−0.003	0.537
LEVTDTA	−0.013 ***	0.000	−0.009 ***	0.001	−0.009 *	0.085	−0.009 ***	0.001	−0.013 ***	0.000
_cons	7.493 ***	0.000	7.741 ***	0.000	8.471 ***	0.000	8.680 ***	0.000	7.425 ***	0.000
Arellano-Bond test AR(1) (*p*-value)		0.000		0.000		0.002		0.000		0.000
Arellano-Bond test AR(2) (*p*-value)		0.129		0.173		0.098		0.209		0.130
Sargan test		0.000		0.000		0.000		0.000		0.000
Hansen test		1.000		0.589		1.000		1.000		0.679
Years Effect	Yes									
No. of Obs	231									
Prob>F	0									

* Correlation is significant at the 0.10 level (2-tailed), ** Correlation is significant at the 0.05 level (2-tailed), *** Correlation is significant at the 0.01 level (2-tailed).

6.3. Empirical Analysis of Owner Control over Audit Actions

Our research recognizes the significance of understanding the mechanisms through which ownership concentration influences audit actions and, subsequently, audit quality. Owners can wield influence over the audit processes via various means, such as voting, informal contact, and other channels. We have conducted additional empirical analyses to shed light on these control mechanisms by considering a couple of different indicators. Firstly, we examined the relationship between ownership concentration and audit fees by moderating the board composition dynamics. The independent directors enhance the monitoring process by hiring strong external auditors to require a high level of audit quality (Nehme et al. 2020). The controlling shareholders can often nominate independent board members and influence key decision-making processes. This will enhance the

financial reporting and protect shareholders' wealth and reputations (Nehme et al. 2020). By analyzing the correlation between ownership concentration, board independence, and audit actions, we can assess how ownership concentration translates into control over audit-related decisions. The results are presented in Table 7. As shown in the table, the interaction term between ownership concentration and board independent directors is significant and positive, suggesting that independent directors have a strong role to play in moderating the impact of ownership concentration on audit quality. By actively engaging in the selection of higher auditors, these independent directors demonstrate their commitment to ensuring rigorous financial oversight, which, in turn, contributes to promoting audit quality. Consequently, this enhanced audit quality is accompanied by higher fees, reflecting the dedication to robust financial reporting practices.

Table 7. Moderating effect of board independence.

Variables	Coefficient	Std. Err.	t	$p > t$	(95% Conf. Interval)	
BH	−0.136 ***	0.058	−2.350	0.019	−0.249	−0.022
BrdIND	−0.623 *	0.359	−1.740	0.084	−1.330	0.084
BHxBrdInd	0.088 *	0.083	1.050	0.093	−0.076	0.251
Big4	0.530 ***	0.116	4.560	0.000	0.301	0.759
LogAsset	0.414 ***	0.061	6.760	0.000	0.293	0.535
ROE	−0.001	0.004	−0.340	0.735	−0.008	0.006
LEVTDTA	0.007 ***	0.003	2.830	0.005	0.002	0.012
_cons	8.685 ***	0.324	26.780	0.000	8.046	9.325
R-squared	0.827					
Years Effect	Yes					
No. of Obs	231					
Prob > F	0					

* Correlation is significant at the 0.10 level (2-tailed), *** Correlation is significant at the 0.01 level (2-tailed).

Secondly, audit committee (AC) is a key component of corporate governance responsible for overseeing the financial reporting process and ensuring the quality of financial statements and external audits (Ghafran and O'Sullivan 2017). AC independence is characterized by the extent to which members of the committee are free from any undue influence or conflicts of interest. Independent audit committees are better positioned to provide objective oversight of the auditing process. Therefore, we examine the moderating role of AC independence on the impact of ownership concentration on audit quality. In firms where ownership is highly concentrated, the presence of an independent audit committee can bolster confidence in the integrity of the auditing process. In firms with highly concentrated ownership, there may be a greater potential for owners or their representatives to exert influence over various aspects of the firm, including auditing practices. However, an independent audit committee acts as a counterbalance to this influence. It can scrutinize auditing decisions, ensure auditor independence, and demand a higher level of rigor in the auditing process. As a result, in firms with both high ownership concentration and a highly independent audit committee, the negative influence of ownership concentration on audit quality may be mitigated.

To test the hypothesis, we use AC independence, which is the percentage of independent directors on the AC of the firm, as a moderating variable in the relationship between ownership concentration and auditor quality. We obtain the data manually from the annual reports, and the results are presented in Table 8. The results show that AC independent directors positively affect the relationship between ownership concentration and audit quality. This could be due to their ability to enhance oversight and accountability, mitigate conflicts of interest, foster auditor independence, align with regulatory standards, and build stakeholder confidence. Independent directors act as a safeguard against unjustified influence by dominant owners in firms with high ownership concentration. They ensure that auditing decisions are made objectively, in the best interests of all shareholders, and

in accordance with governance regulations. Their presence strengthens transparency and credibility in financial reporting, promoting trust among stakeholders and reinforcing a commitment to rigorous audit quality standards.

Table 8. Moderating effect of AC independence.

Variables	Coefficient	Std. Err.	t	$p > t$	(95% Conf. Interval)	
BH	−0.113 *	0.074	−1.530	0.102	−0.258	0.032
ACInd	−0.473	0.436	−1.090	0.279	−1.333	0.386
BHxACInd	0.042 *	0.096	0.440	0.063	−0.147	0.230
Big4	0.515 ***	0.117	4.380	0.000	0.283	0.746
LogAsset	0.412 ***	0.062	6.660	0.000	0.290	0.534
ROE	−0.001	0.004	−0.230	0.815	−0.008	0.006
LEVTDTA	0.007 ***	0.003	2.750	0.007	0.002	0.013
_cons	8.535 ***	0.390	21.870	0.000	7.766	9.304
R-squared	0.827					
Years Effect	Yes					
No. of Obs	231					
Prob>F	0					

* Correlation is significant at the 0.10 level (2-tailed), *** Correlation is significant at the 0.01 level (2-tailed).

Thirdly, we have examined how ownership concentration influences the selection of audit firms, particularly the Big4 audit firms known for their expertise and reputation. The previous literature found mixed results (Darmadi 2016). By studying historical data on auditor changes and appointments, we aim to determine whether ownership concentration identities affect the choice of auditors and whether owners' preferences influence audit outcomes. Table 9 shows that bank and foreign ownership were found to be positive and significant in influencing the selection of the Big4 auditor firms. This could be because banks, as critical financial stakeholders, are motivated to ensure accurate financial reporting to safeguard their interests and minimize lending risks. Their preference for the Big4 auditors reflects the reputation and expertise of these firms in providing rigorous and reliable audits, enhancing the credibility of financial statements. Similarly, foreign ownership, often driven by a lack of familiarity with the local business environment, seeks reputable auditors for robust assurance of financial information. The results are in line with prior studies (Ghosh 2011; Darmadi 2016). The Big4 firms' global recognition and adherence to rigorous auditing standards make them an attractive choice for foreign investors seeking credible financial reporting. Therefore, the positive association between banks, foreign ownership, and the selection of the Big4 auditor firms underline the pivotal role of these ownership types in promoting transparency, accountability, and international credibility in financial reporting practices.

Lastly, we have investigated the impact of the level of ownership concentration on the decision to disclose key audit matters (KAMs) in the annual reports. We have investigated whether concentrated ownership influences the transparency of financial reporting by analyzing the disclosure patterns of KAMs and their correlation with ownership concentration. Table 10 shows a negative relationship between block holder, bank, and governmental ownership on disclosing KAM in the annual reports. However, a positive relationship has been found between foreign ownership and KAM disclosure. Block holders, such as institutional investors, might prioritize confidentiality to protect strategic information, which could lead to a reluctance to disclose intricate audit-related matters. Banks and government entities, on the other hand, might be subject to stringent regulatory requirements or confidentiality concerns that limit the extent of KAM disclosure due to sensitive financial matters. In contrast, the positive relationship between foreign ownership and KAM disclosure stems from the desire for transparency and accountability from stakeholders operating in unfamiliar environments. Foreign investors seek robust information to assess risks and make

informed decisions, prompting firms with foreign ownership to enhance KAM disclosure to address potential information asymmetry.

Table 9. Impact of ownership concentration on the selection of Big4.

	Block Holder		Bank Ownership		Governmental Ownership		Institutional Ownership		Foreign Ownership	
Variables	**Coefficient**	***p* > t**	**Coefficient**	***p* > t**	**Coefficient**	***p* > t**	**Coefficient**	***p* > t**	**Coefficient**	***p* > t**
BH	−0.008	0.468								
BankBH			0.192 ***	0.000						
GovBH					0.001	0.944				
InstitBH							0.000	0.974		
Foreign									0.174 ***	0.000
LogAsset	−0.034	0.211	−0.024	0.356	−0.037	0.171	−0.037	0.170	−0.034	0.170
ROE	0.001	0.747	0.001	0.734	0.001	0.676	0.001	0.677	0.001	0.679
LEVTDTA	0.003 ***	0.000	0.002 ***	0.005	0.003 ***	0.000	0.003 ***	0.000	0.003 ***	0.000
LNFee	0.126 ***	0.000	0.132 ***	0.000	0.127 ***	0.000	0.128 ***	0.000	0.142 ***	0.000
_cons	−0.295	0.156	−0.367 *	0.061	−0.326	0.139	−0.336	0.159	-0.432 **	0.024
R-squared	0.197		0.247		0.195		0.195		0.288	
Years Effect		Yes								
No. of Obs		231								
Prob > F		0								

* Correlation is significant at the 0.10 level (2-tailed), ** Correlation is significant at the 0.05 level (2-tailed), *** Correlation is significant at the 0.01 level (2-tailed).

Table 10. Impact of ownership concentration on key audit matter disclosure.

	Block Holder		Bank Ownership		Governmental Ownership		Institutional Ownership		Foreign Ownership	
Variables	**Coefficient**	***p* > t**	**Coefficient**	***p* > t**	**Coefficient**	***p* > t**	**Coefficient**	***p* > t**	**Coefficient**	***p* > t**
BH	−0.096 **	0.034								
BankBH			−0.545 ***	0.016						
GovBH					−0.144 *	0.087				
InstitBH							−0.052	0.366		
Foreign									0.286 **	0.025
Big4	−1.210 ***	0.000	−1.365 ***	0.000	−1.178 ***	0.000	−1.180 ***	0.000	−1.005 ***	0.000
LogAsset	−0.307 ***	0.009	−0.314 ***	0.007	−0.314 ***	0.008	−0.337 ***	0.004	0.117	0.374
ROE	−0.004	0.584	−0.003	0.745	−0.002	0.748	−0.003	0.685	0.009	0.188
LEVTDTA	0.005	0.185	0.003	0.431	0.005	0.219	0.005	0.221	0.003	0.511
LNFee	0.450 ***	0.000	0.498 ***	0.000	0.533 ***	0.000	0.425 ***	0.000	0.502 ***	0.000
_cons	−1.401	0.123	−2.018 **	0.023	−2.511 ***	0.010	−1.355	0.196	−4.650 ***	0.000
R-squared	0.126		0.131		0.120		0.112		0.462	
Years Effect		Yes								
No. of Obs		231								
Prob > F		0								

* Correlation is significant at the 0.10 level (2-tailed), ** Correlation is significant at the 0.05 level (2-tailed), *** Correlation is significant at the 0.01 level (2-tailed).

6.4. Impact of Ownership Concentration on Audit Fees Based on Firm Size

Firm size is a pivotal variable in our research field, and its interactions with both independent and dependent variables require further investigation. The size of a firm can affect various aspects, including its ownership structure, audit requirements, and financial reporting complexity. As such, it is essential to use a well-justified measure of firm size to accurately capture its influence. We have conducted a robustness analysis to assess whether the firm size matters in the relationship between ownership concentration and audit fees in the context of Oman. We measured the firm size using the natural logarithm of total assets following the accounting literature in the field, such as (Nashier and Gupta 2023). As highlighted by Dang et al. (2018), the natural logarithm of total assets is more relevant to capital structure and one of most popular proxies of firm size in the corporate finance literature. Thus, we divided our sample into sub-samples based on the mean of firm size. Our results in Table 11 show that when the firm size is larger than the mean (Model 1), block holder and institutional ownerships have a negative relationship with audit fees. The

results are well supported via a combination of theoretical and practical considerations. In large firms with high ownership concentration, monitoring mechanisms may become less effective. Controlling shareholders might enjoy more direct control over managerial decisions, reducing the perceived need for rigorous financial oversight. This can result in fewer resources being allocated to the audit process, leading to suboptimal audit quality. They can also contribute to information asymmetry between majority and minority shareholders. In such cases, controlling shareholders might have access to non-public information that they choose not to disclose. Auditors relying on limited information may conduct fewer comprehensive audits, resulting in suboptimal audit quality. Additionally, Table 11 shows that when the firm size is lower than the mean (Model 2), bank, governmental, and foreign ownerships have a positive association with audit fees. Smaller firms often lack the economies of scale that larger firms possess, leading to increased audit complexity and resource demands relative to their size. In this context, banks, government entities, and foreign investors may seek more thorough and reliable financial reporting to mitigate risks associated with smaller and potentially less well-known firms. The presence of these influential stakeholders introduces additional monitoring and accountability pressures, prompting auditors to allocate greater effort and resources to ensure accurate financial disclosure. Consequently, bank, government, and foreign ownerships can be perceived as signals of heightened scrutiny and oversight, leading to higher audit fees as auditors address the demands for increased transparency and accountability.

Table 11. Impact of ownership characteristics on audit fees based on firm size.

Model 1 (Firm Size ≥ Mean)										
	Block Holder		**Bank Ownership**		**Governmental Ownership**		**Institutional Ownership**		**Foreign Ownership**	
Variables	**Coefficient**	***p* > t**	**Coefficient**	***p* > t**	**Coefficient**	***p* > t**	**Coefficient**	***p* > t**	**Coefficient**	***p* > t**
BH	−0.055 *	0.054								
BankBH			0.085	0.507						
GovBH					−0.040	0.423				
InstitBH							−0.064 *	0.058		
Foreign									0.076	0.422
Big4	0.606 ***	0.012	0.659 ***	0.007	0.672 ***	0.006	0.573 ***	0.018	0.541 **	0.049
LogAsset	0.958 ***	0.000	0.974 ***	0.000	1.008 ***	0.000	0.901 ***	0.000	1.064 ***	0.000
ROE	−0.013 **	0.028	−0.012 **	0.044	−0.011 **	0.049	-0.013 **	0.023	−0.007	0.164
LEVTDTA	0.004	0.352	0.001	0.741	0.003	0.566	0.003	0.551	−0.008 ***	0.001
_cons	6.951 ***	0.000	6.777 ***	0.000	6.634 ***	0.000	7.216 ***	0.000	7.291 ***	0.000
R-squared	0.829		0.823		0.823		0.829		0.714	
Years Effect		Yes								
No. of Obs		109								
Prob > F		0								
Model 2 (Firm size < mean)										
	Block Holder		**Bank Ownership**		**Governmental Ownership**		**Institutional Ownership**		**Foreign Ownership**	
Variables	**Coefficient**	***p* > t**	**Coefficient**	***p* > t**	**Coefficient**	***p* > t**	**Coefficient**	***p* > t**	**Coefficient**	***p* > t**
BH	−0.108 ***	0.001								
BankBH			0.037	0.082*						
GovBH					0.164 **	0.032				
InstitBH							−0.157 ***	0.000		
Foreign									0.225 **	0.049
Big4	0.672 ***	0.000	0.648 ***	0.000	0.539 ***	0.001	0.660 ***	0.000	0.766 ***	0.000
LogAsset	0.179	0.202	0.239	0.106	0.299 **	0.041	0.188	0.158	0.239 *	0.098
ROE	0.006	0.316	0.004	0.534	0.002	0.792	0.005	0.331	0.004	0.512
_cons	9.153 ***	0.000	8.638 ***	0.000	10.104 ***	0.000	9.260 ***	0.000	8.478 ***	0.000
R-squared	0.748		0.720		0.732		0.772		0.730	
Years Effect		Yes								
No. of Obs		122								
Prob > F		0								

* Correlation is significant at the 0.10 level (2-tailed), ** Correlation is significant at the 0.05 level (2-tailed), *** Correlation is significant at the 0.01 level (2-tailed).

6.5. Impact of Ownership Concentration on Sub-Optimal Audit Quality

We have conducted additional analyses to study the cost–benefit consideration of having high or low audit quality. We have created an optimal audit quality by subtracting the audit fees of each company from the median of the sample. Then, we examined the effect of ownership concentration on the optimal value of audit fees by taking a sample that is below the average of the audit quality. We have studied the cost and benefit analysis under family control and royal member control. Table 12 shows the results. It shows that the interaction between ownership concentration and family control has a positive and significant relationship with optimal audit quality. However, the interaction between ownership and royal control has a negative and significant relation.

The decision to pursue either higher or lower audit quality involves intricate cost–benefit considerations that have significant implications for firms, investors, and the broader financial ecosystem. Opting for high audit quality, such as the case with family members, entails substantial upfront costs due to the engagement of reputable audit firms, comprehensive procedures, and the extensive scrutiny of financial statements. However, these costs are often outweighed by the benefits of accurate financial reporting, enhanced investor confidence, and reduced information asymmetry. High audit quality serves as a safeguard against misstatements and fraud, promoting transparent financial disclosures that facilitate informed decision-making by stakeholders.

However, owners might prefer low audit quality for several reasons, often driven by short-term financial goals or strategic considerations, such as the case with royal members. One key factor is cost reduction. Low-quality audits tend to come with lower fees, aligning with owners' objectives to minimize immediate expenses. This short-term cost reduction can be appealing, especially for owners focused on maximizing profitability in the short run. Additionally, owners who prioritize secrecy might also lean toward low-quality audits. Such owners may have sensitive information they wish to keep hidden from the public eye, and a less thorough audit could help maintain confidentiality. However, this secrecy can raise concerns about transparency and lead to decreased investor trust.

Table 12. Impact of ownership concentration on suboptimal audit quality.

Model 1 (Optimal Value of Audit Fees)					
	Relatives				**Ruling**
Variables	**Coefficient**	***p* > t**	**Variables**	**Coefficient**	***p* > t**
BH	−0.099 ***	0.002	BH	−0.006	0.776
Relatives	−0.648 ***	0.003	Ruling	0.506 ***	0.011
RelativesxBH	0.133 ***	0.012	RulingxBH	−0.195 ***	0.000
Big4	0.718 ***	0.000	Big4	0.651 ***	0.000
LogAsset	0.100	0.134	LogAsset	0.102 *	0.088
ROE	0.005	0.137	ROE	0.003	0.354
LEVTDTA	0.006 ***	0.007	LEVTDTA	0.007 ***	0.000
_cons	−0.568 ***	0.005	_cons	−1.365 ***	0.000
R-squared	0.740		R−squared	0.760	
Years & Industry Effect			Yes		
No. of Obs			116		
Prob > F			0		

* Correlation is significant at the 0.10 level (2-tailed), *** Correlation is significant at the 0.01 level (2-tailed).

7. Conclusions

Oman is striving to be a competitive market by encouraging the entry of investors from abroad and boosting their confidence as part of the country's 2040 strategy. To achieve this strategy, firms in Oman must establish a solid corporate governance system and create a transparent financial reporting environment. However, the legal protection

for investors in Oman is insufficient, and firms' ownership is predominantly concentrated (Al Ani and Al Kathiri 2019). Hence, it is expected to see large shareholders such as government agencies controlling firms. Lim et al. (2014) and Al-Sartawi and Sanad (2019) emphasized the importance of considering a variety of owners because they each have unique strategies for investing, motivations, and monitoring capacities when assessing firms' ownership structure.

Therefore, it is essential to evaluate each type of ownership separately to better understand and avoid reaching incorrect conclusions about their influence on firms' corporate governance mechanisms and shareholders' wealth protection. This study investigates different ownership types in Oman, namely block holders' concentration, bank ownership, governmental ownership, institutional ownership, and foreign ownership, and their impact on audit quality. The role of family and royal members on boards as moderating variables on the association between ownership concentration and audit quality is investigated in this study.

Using a sample of 33 Omani financial listed firms over 7 years from 2014 to 2020 and utilizing different regression analyses, the findings showed that institutional ownership negatively impacts audit quality while banks, governmental ownership, and foreign ownership have positive and significant impacts. Furthermore, this current study's findings revealed that having family members on boards has a significant moderating effect on the relationship between block holder ownership and auditor quality. On the other hand, the moderating role of royal members on the relationship block holder's ownership and audit quality was found to be insignificant, confirming that politically connected firms have no impact on audit quality (Tessema 2020). The results remained robust after using additional tests to control the endogeneity issue.

This study fills the gap in the literature by being the first to look at this relationship in Oman by testing the impact of multiple unique ownership identities on audit quality, as there is a dearth of this research topic in the developing region. In addition, this study offers practical implications for regulators and policymakers regarding the setting of ownership concentration provisions, which could help the board of directors and the managers of the firms in making the right decisions in Oman. Additionally, the implications of this study go beyond Oman and could apply to other countries with comparable ownership and regulatory structures. Moreover, the study findings would assist investors and other stakeholders in making sound investment choices and offer a better understanding of how ownership structure influences audit quality for other stakeholders.

Even though this current study generated robust results and tested different ownership types that could possibly affect audit quality, this study has its limitations. For example, this study used audit fees for an audit quality metric. However, other proxies could be used to measure audit quality, such as audit firm size and auditor tenure. Therefore, this study recommends conducting future studies that consider these alternative proxies. Additionally, as previously stated, this study examined the relationship between ownership identities and audit quality; however, future researchers may examine other aspects of corporate governance, such as the board of directors. Moreover, it would be interesting to link the audit committee characteristics with firms' ownership, such as the committee size and meeting frequency, including other ownership types such as managerial or foreign ownership. Future research can also investigate the association between the ownership structure and other factors such as earnings' quality and corporate social responsibility disclosure. Further, future research may employ different econometric techniques to solve data problems such as endogeneity as well as heterogeneity. Finally, because Omani financial companies listed on the Muscat Stock Exchange were included in this study, it is advised that future studies broaden the research sample to include additional countries in the GCC. Hence, this current study serves as the foundation for future research that aims to gain a comprehensive understanding of firms' ownership and audit actions within the GCC market.

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