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The Relationship between CEO Characteristics & External Auditing Quality: A Longitudinal Assessment

Abstract *All publicly-traded companies are required by law to disclose their accurate financial information in order to reduce information asymmetries. This study focuses quantitatively on the impact of top management on the quality of corporate audits. Using company financial data, this study found that there is a positive correlation between high-quality audits and company performance, as a higher quality audit can ensure rigorous follow-up to financial reports. This study also broadens the understanding of a higher-level manager in the presence of a quality audit.*

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Introduction

The economic and corporate settings faced by modern corporations are a set of economic and corporate governance (CG) rules which are used to regulate the production, exchange, and growth of products, raw materials, technology and capital resources. Both formal and informal systems stimulate and restrict the transaction and operation behavior of enterprises because different institutional conditions will significantly affect the earning practices, which has the potential to influence the performance of firms (Jackson, 2018). Moreover, a large number of prior literature (Ciftci, Tatoglu, Wood, Demirbag, & Zaim, 2019; Godos-Díez, Cabeza-García, Alonso-Martínez, & Fernández-Gago, 2018; Masli, Sherwood, & Srivastava, 2018) proves that the change of institutional conditions faced by enterprises directly impacts the internal working environment, and further complicates its overall CG structure because when firms confront new CG legislations, issued by financial regulatory bodies, firms have to change their internal control systems to fulfil their legal obligations. The impact of the change of institutional and cultural conditions on the economy due to the change of legislation and global CG practices is sudden rather than gradual change.

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This study assumes that there are certain internal control systems that need a close examination due to their direct relationship with the performance of the firm, because firms are under the direct influence of conditions and requirements of economy and CG legislations, and all of them have a certain impact on the performance of the firm. This study matches the data of non-financial listed companies of Pakistan Stock Exchange (PSX) by using publically published financial reports of firms to gather personal information of top-level management of firms to formulate panel data for a regression model to empirically analyze the impact of external quality audit on the performance of the firm. Additionally, this study also empirically examines the relationship between the presence of a powerful Chief Executive Officer (CEO) and the external audit quality of the firm. The external quality audit is one of the most hotly argued concepts in CG literature because numerous prior researchers (Brown et al., 2011; Kowaleski et al., 2018; Lisowsky, Minnis, & Sutherland, 2017; Ronen & Yaari, 2008; Vosoughi et al., 2016), have argued that the external quality audit solves many prominent issues in firm setting; for example, mitigating the agency cost, reducing the chances of information asymmetry between the agent and principal, authenticate the numbers in financial reports, clear any clerical errors or omissions from financial books, discouraging the corporate management from any opportunistic behavior etc.

The primary research objective of this study is to empirically analyze various factors which are involved in enhancing and maintaining the external audit quality of the firm. This study also empirically analyzes the involvement of CEO power in the quality of external audit by explaining how various power dynamics of CEO alter the behavior of auditors. Furthermore, the study also constructs empirical models to assess the statistical relationship between the factors of quality external audit and CG characteristics. Additionally, the study also increases the understanding of the concept of external audit quality for various parties which are involved in deliverance of good CG practices; for example, audit committees (ACs), external auditors, corporate boards, and top-management team. The study also explores the influencing factors, internal as well as external, in the audit process by constructing its meaning and explaining its practical importance. This detailed exploration and investigation into the procedures of external audit quality are vital because auditing is the process through which numbers in financial reports are checked and re-evaluated for any potential clerical errors and omissions. The process of external quality audit also keeps minimize or curtail the chances of intentional earnings management by the top-management of the firm. It is a widely accepted view that firms' which are involved in strict audit procedures have a better performance than those firms with minimum efforts towards external audit quality.

This study examines the quality of the external audit by individually focusing on the dynamics of external quality audit and constructing an index for an external quality audit. This study is important because its findings have relevant usage for involved parties. The outcomes of this study also guide financial regulatory bodies to further strengthen their codes of CG to strengthen the audit process of their listed companies.

Literature Review & Hypothesis Development

Implications of Audit Quality

In defining the audit quality of firms, scholars have different interpretations of its

meaning due to different perspectives. For different stakeholders' audit quality has different definitions; for example, the empirical study of DeAngelo (1981b) considers audit quality as a tool that is used by the stakeholders of the company to enhance the specific attributes of their Certified public Accountants (CPAs). The audit quality mainly depends on CPAs' because they are able to discover any breach of contract in the accounting figures or accounting figures. Additionally, audit quality is a comprehensive product of CPAs professional competence and audit independence. Audit quality is a kind of behavior activity of supervision, inspection and evaluation to the management department within the company. This internal supervision system of corporations not only checks and verifies financial information but also supervises the internal control system to ensure the safe operation of the company together with internal control. Audit quality refers to whether auditors can check out accounting information errors, find out the company's financial problems, and report clear risks (Jenkins, Negangard, & Oler, 2018). The ability to detect problems reflects the competence of staff, the subordinates, and the independence of internal auditors. Audit quality is not only the internal audit quality of a specific project but also the effect of the whole internal audit workflow of an internal audit project. It also depends on the implementation of the work process of the internal audit department, that is, whether the system is standardized or not and whether the scope of internal audit work is comprehensive. The majority of researchers (Carcello et al., 2002; Ewert & Wagenhofer, 2019; Lai et al., 2017; Vosoughi et al., 2016) also elaborate that audit quality is the quality of the work results of internal audit department under the standard and reasonable procedures, using appropriate methods to ensure that the internal audit work is carried out independently and legally, without losing justice.

In prior empirical research (Bajra & Cadez, 2018; Ghafran & O'Sullivan, 2017; Lin et al., 2006; Robin, Wu, & Zhang, 2017), the impact of audit quality on firm performance in the presence of powerful CEO is not directly observed through audit quality index. This study constructs the audit quality index to observe its impact and relationship. This study used the Return on Assets (ROA) as the proxy for firm performance for this study because the annual reports issued by the management of listed companies are audited and signed by the auditors. Although the financial statements are provided by the management to stakeholders, and they are ultimately published to the attention and influence of auditors. Audit quality also enhances the credibility of accounting information in the annual reports and also increase the controllability of accounting information. Therefore, this study believes that firms' ROA reflect audit quality to a great extent.

Relationship between CEO Power on External Audit Quality

In the listed companies with separation of ownership and control rights, the external audit of financial reports acts as an important form of external supervision of listed companies and an important measure to promote the effective improvement of the internal governance mechanism of listed companies. It has been the focus of attention of academia, besides attracting the attention of stakeholders, and also the supervision and governance measures of company executives. External audit quality is directly linked with the CG practices of the company because the CG structure provides the operating environment for efficient audit activities and also restrict the scope of audit activities. The impact of CG structure on the quality of external audit can be divided

into three aspects; Firstly, CG structure will change the direction on audit objectives. The purpose of setting up a special audit is to meet the needs of enterprise management and operation. It is necessary to produce audit objectives to match the overall objectives of the firm and pursue the maximization of companys' rights and interest for the realization of the overall CG objectives; Secondly, the CG structure of firm promotes the transformation of the external audit function and due to that the external audit function will be enriched and expanded with the continuous improvement of CG structure if the CG structure gives audit enough independence and objectivity, then the function of internal audit will not only play an evaluation role but also be able to truly supervise and manage corporate risks; Thirdly, CG structure also promotes the change of audit modes. In order to restrict the quality of audit work on the basis of setting up an independent audit mode under the environment of CG, it is necessary to set up an audit mode with high independence.

In the listed companies, the top-level management or CEOs are entrusted by the stakeholders to a certain extent that they will operate the company in a smooth and efficient manner. Because CEOs or top-level management make necessary decisions on all major events, financial decisions and personal appointments and removal inside and outside the company. Listed companies transmit the companys' operating conditions to investors through annual financial reports in order to enhance their confidence and attract more potential investors. All the stakeholders understand the actual financial position of listed companies through annual financial reports, and they also act as an important basis for investors decision-making. This shows that there is an important link between the decision-making of CEO or top-level management and firm performance, and accounting firms act as "public watchdog" to ensure the smooth link. Additionally, as discussed earlier, any information forwarded by CEOs through annual financial reports will be audited and supervised by accounting firms. If the accounting firm does not support certain information, and if the maximum negotiation between the executives and the accounting firm is not smooth, then the executives of the company will have the motivation to change the accounting firm, thus affecting the quality of audit. When studying the influence of executives or CEOs on external audit quality, it was noted that the power of the CEO has a special connection because senior managers in a company are classified according to the characteristics of audit background, and they are divided into executive backgrounds with and without firm affiliation. On the basis of the above discussion and review of prior literature, this study posits its hypothesis as;

Hypothesis 1: *Quality external audit is positively related to the performance of the firm.*

Hypothesis 2: *The presence of external quality audit is able to mitigate CEO power, hence increasing the performance of the firm.*

Research & Design

Data Collection

Firstly, the data of this study is collected from the annual financial reports of listed firms that are published by non-financial companies according to relevant law. This study chooses the annual report data of 312 non-financial companies listed on PSX from 2016 to 2020. These financial statements of listed companies show the sources of their main income, personal resume of firm managers, major contracts and cooperation of

enterprises, and related financial data of an enterprise. Additionally, data mining is carried out on the search results of listed companies to eliminate false information and hearsay information to obtain authentic and reliable information. The study searched the relevant information from the official websites of non-financial companies. The collected panel data contains a variety of information relating to corporate-related variables and manager related variables. Sample represents numerous manufacturing units; which includes, 8 from Automobile Parts & Accessories sector (80%), 10 from Automobile Assemblers sector (83%), 7 from Cable & Electrical Goods sector (77%), 21 from Cement sector (91%), 24 from Chemical sector (82%), 16 from Engineering sector (80%), 6 from Fertilizer sector (85%), 18 from Food & Personal Care Products sector (85%), 7 from Glass & Ceramics sector (77%), 1 from Jute sector (50%), 3 from Leather & Tanneries sector (60%), 4 from Oil & Gas Exploration sector (100%), 7 from Oil & Gas Marketing sector (87%), 9 from Paper & Board sector (81%), 10 from Pharmaceuticals sector (90%), 3 from Refinery sector (75%), 31 from sugar & Allied Industries sector (91%), 10 from Synthetics & Rayon sector (83%), 38 from Textile Composite sector (67%), 65 from Textile Spinning sector (78%), 11 from Textile Weaving sector (78%), 2 from Tobacco sector (66%), and 1 from Woolen sector (50%). The sample of this study covers 70% of non-financial companies listed on PSX. Figure 1 contains the details for the selected sample. The final panel database includes the information of 1,560 firm-year observations, which covers 23 industrial sectors of PSX.

To further verify the authenticity of data, all the financial and personal data collected from the annual financial reports of listed firms have been cross-checked with the report of the State Bank of Pakistan (SBP). Financial reports of SBP is used as a benchmark for data validation because SBP works as an agent of the Federal Government to maintain and stabilize the corporate and financial environment of Pakistan.

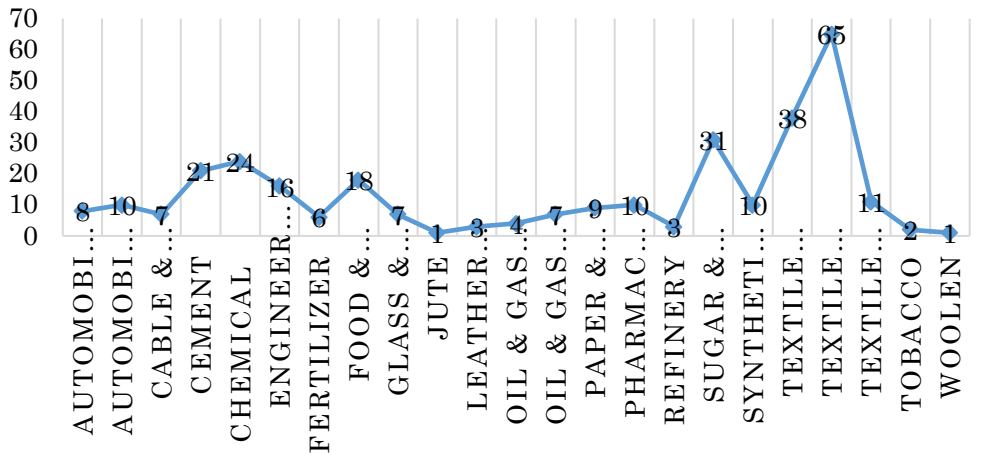

Figure 1: Sample Selection

Study Variables

Tables 1 presents a description of dependent, independent and control variables which are used in this study.

Dependent Variable

The ROA ratio is considered to a ratio of profitability which estimates firms' net-income from its average total assets. This ratio depicts the efficiency level of the firm and shows its ability to effectively manage its value creation practices. ROA is used as it is used to measure accounting performance (Cheng, 2008). Following the study of Ehikioya (2009), this study estimate firms' ROA as;

$$\text{Return on Assets} = \frac{\text{Net Income}}{\text{Total Assets}}$$

Independent Variables

This study uses the power index of CEO (CEOP), with an intent to measure the impact of Powerful CEO on firm performance in the presence of quality audit. This study formulated the power index for CEO with the help of Principal Component Analysis (PCA) by combining 11 power dynamics of the CEO; i-e, CEO duality (CEODual), share ownership of CEO (CEOOwn), accounting expertise of CEO (CEOACCExp), management expertise of CEO (CEOManExp), finance expertise of CEO (CEOFinExp), gender of CEO (WCEO), AC membership of CEO (CEOACMem), AC chairmanship of CEO (CEOACChair), when a family member of CEO is the chairman of the business group (CEOFoe1) when the son of CEO is chairman of the corporate board (CEOFoe2), and when the father of CEO is chairman of the corporate board (CEOFoe3). CEODual is coded as 1 when the CEO also holds the position of corporate board chairman, and 0 otherwise. CEOOwn is the share ownership of the CEO, which is coded as 1 when the CEO holds 10% or more percent of shares in an organizational setting and 0 otherwise. CEOACCExp represents the accounting expertise of the CEO, which is coded as 1 when the CEO is a qualified Chartered Accountant (CA), and 0 otherwise. CEOManExp represents the management expertise of the CEO, which is coded as 1 when the CEO is qualified as Master of Business Administration (MBA), with specialization in management, and 0 otherwise. CEOFinExp represents the finance expertise of the CEO, which is coded as 1 when the CEO is qualified as an MBA with specialization in finance, and 0 otherwise. WCEO represents the gender of the CEO, which is coded as 1 when the CEO is female, and 0 otherwise. CEOACMem represents that the CEO is the member of AC which is coded as 1 when the CEO is the member, and 0 otherwise. CEOACChair represents the chairmanship of AC which is coded as 1 if the CEO is also the chairman of AC, and 0 otherwise. CEOFoe1 represents the family connections of the CEO, which is coded as 1 when a family member of the CEO is chairman of the business group, and 0 otherwise. CEOFoe2 represents the family connections of the CEO, which is coded as 1 when the son of the CEO is chairman of the corporate board and 0 otherwise. CEOFoe3 represents the family connections of the CEO, which is coded as 1 when the father of the CEO is chairman of a corporate board and 0 otherwise.

The study uses a quality index for audit (AudQua) to examine the ability of auditing procedures in enhancing the performance of the firm in the presence of a powerful CEO. This study constructs a quality index for audit by performing PCA by combining 3 quality variables of the audit. To test hypothesis 1 and 2, this study made two assumptions; Firstly, what is the role of quality audit in enhancing the performance of the firm (hypothesis 1); Secondly, what is the role of quality audit in controlling the power of CEO (hypothesis 2).

The study used 3 determinates of audit to construct an index for the quality audit, which are a selection of top-tier external auditing companies (Big4), yearly audit fee (AudFee), and tax services (TaxSer). Big4 is the selection of a top external company for auditing services which is coded as 1 when the firm selects external auditing company is from top 4, and 0 otherwise. AudFee is the yearly auditing fee paid by the firm to an external auditing firm at the end of the fiscal year. TaxSer is the number of tax services paid by the firm in a fiscal year.

Control Variables

Company Size (Size)

Many prior studies (Collier & Gregory, 1999; Judge, Gaur, & Muller-Kahle, 2010; Mensah, Song, & Ho, 2004) controlled the influence of this factor in their empirical studies. By following the empirical study of Carter et al. (2003), in this study, the natural logarithm of total assets at the end of the year was chosen to measure firm size.

Firm Financial Leverage (Lev)

Prior researcher (Chidambaran, Krishnakumar, & Sethi, 2018; Chow, 1982; Collier & Gregory, 1999; Lin, Chen, Wang, & Tian, 2017) have examined the effect of fixed leverage in their empirical studies. According to the empirical study of Ehikioya (2009), this study measures the effect of corporate financial leverage as the ratio of total assets.

Market-to-Book Ratio (MB)

Following the study by Xu, Zeng, & Zhang (2011), this study measures corporate MB as a ratio between the company's total market value and the company's book value.

Total Accruals (TAcc)

This study used the total accruals of the firm to determine the level of intentional earnings management in the firm. Following the empirical study of Dechow et al. (1995), this study determines the total accruals by using the Jones (1991) model to calculate firms' total accruals.

$$\text{Total Accruals}_{it} = a_{1i} + b_{1i}\Delta\text{Sales}_{it} + c_{2i}\text{PPE}_{it} + \in_{1it}$$

Capital Expenditures (CapExp)

Following the empirical study of Denis & Denis (1993), this study examines the CapExp of the firm by the following formula;

$$\text{Capital Expenditure} = \Delta\text{PP\&E} + \text{Current Depreciation}$$

Specific explanation and definitions of related variables, which are used in this empirical study, are shown in Table 1.

Table 1. Variable Definition & Measurement

Variable	Definition & Measurement
Dependent Variable	
ROA	Return on assets, measured as a percentage of net income over total assets.
Explanatory Variables	

CEOP	Power index of CEO, measured by PCA using 11 power dynamics of CEO power.
AuditQua	Quality index for an external audit, measured by PCA using 3 individual quality characteristics of audit (Big4 is the selection of a top external company for auditing services which is coded as 1 when firm selects external auditing company is from top 4, and 0 otherwise. AudFee is the yearly auditing fee paid by the firm to an external auditing firm at the end of the fiscal year. TaxSer is the number of tax services paid by the firm in a fiscal year).
Control Variables	
Size	Firm size, measured as the natural logarithm of total assets of the firm.
Lev	Firms' leverage, measured as the ratio of short-term debt and long-term debt divided by total assets of the firm.
MB	Market-To-Book Ratio of the firm, measured as the ratio of the total market value of the firm to book value of firm
TAcc	Total accruals, which is measured by using Jones Model (1991).
CApExp	Capital expenditure incurred by firm, measured by the ration of property plant & equipment (PP&E) to current depreciation of firm.

Empirical Models

For hypothesis 1, which posit that the presence of quality external audit is positively related to the performance of a firm. The study formulates the following regression model;

$$ROA = \propto_0 + \propto_1 AuditQua + \propto_2 Lev + \propto_3 MB + \propto_4 TAcc + \propto_5 Size + \propto_6 CapExp + \in_{ij} \dots\dots\dots\dots (1)$$

Where ROA is proxy for the performance of the firm. α_1, α_2,……α_6 are the coefficients. ε_{ij} is an error of i^{th} year and j^{th} cross-section. By following the prior studies (Carcello et al., 2002; Kim et al., 2015), study also includes some control variables which are related with firm; such as, Lev, MB, TAcc, Size, and CapExp.

For hypothesis 2, which posits that quality external audit marginalizes the CEO power, hence diminishing firm performance. The study formulates the following regression model;

$$ROA = \propto_0 + \propto_1 AuditQua * CEOP + \propto_2 CEOP + \propto_3 Lev + \propto_4 MB + \propto_5 TAcc + \propto_6 Size + \propto_7 CapExp + \in_{ij} \dots\dots\dots\dots (2)$$

Where, α_1, α_2, $\alpha 7$ are coefficients, ε_{ij} is an error of i^{th} year and j^{th} cross section. This study takes the motivation to define the power of CEO from the empirical studies of Chahine & Tohmé, (2009), and Kim et al., (2015), that powerful CEOs can hinder the effectiveness of corporate boards, even in recent strictly controlled and regulated corporate environment.

Results

Descriptive Statistics & Correlation Matrix

Using the STATA 14 statistical analysis software, this study first describes the statistical properties of the study variables before the regression. The results of descriptive statistics for 1,560 annual observations of the company, including the mean and standard deviation, are shown in Table 2. As the results showed, the ROA of the companies was 6.42969, indicating the general level of performance of the company. The

results also show that the mean value higher quality audit is 3.13, indicating that the performance of the company is positively related to obtaining a higher quality external audit.

As far as the control variables are concerned, the minimum value of company size is 10.79323, the maximum value is 20.02256, and its standard deviation is 1.566719. These results show that the size of different companies in the study sample is different, and their average mean value is 15.32147, which is the indication that the sample company size is generally large. The average value of financial leverage of firms in a sample is .6295158, the minimum value is .0168333, and the maximum value is 12.16312, which show that the debt level of most companies in a sample is reasonable, but the difference is higher.

Table 2. Descriptive Statistics of Relationship Between CEO Power & Firm Performance, In the Presence of Quality External Audit.

Variable	Mean	Std. Dev	Min	Max
ROA	6.42969	9.546665	-8	23
AudQua	3.13	1.000004	-.9900817	9.670032
CEOP	-4.31	1	-.2062879	4.843641
Lev	.6295158	.552365	.0168333	12.16312
MB	1.408882	8.165955	-155.5555	164.25
TAcc	-.0334704	.1796437	-3.763299	.9070287
Size	15.32147	1.566719	10.79323	20.02256
CapExp	-43.18184	54.22854	-440.8065	8.740213

NOTE: *This table shows the descriptive statistics of our sample of 312 companies. ROA represents firm performance., which is measured by dividing a firm's net income by the average of its total assets.*

The table reports the results of the Pearson Test for each variable. The correlation coefficient between ROA and Big4 is 0.3173* and between Big4 and the size of the firm is also 0.3173*, which is the maximum of all the correlation coefficients. The correlation coefficient between AudQua and ROA is 0.0923*, a significant level 1%, which indicates that there is a significant relationship between the two. Furthermore, the correlation coefficients between the ROA and the CEO power is negative. However, the correlation analysis does not control the influence of other related variables, and their relationship between variables needs to be further verified by regression analysis. Table 3 Correlation Matrix of Relationship Between CEO Power & Firm Performance, In the Presence of Quality External Audit

Table 3.

	Variable	1	2	3	4	5	6	7	8
1	**ROA**	1.000							
2	**AudQua**	0.0923*	1.000						
3	**CEOP**	-0.0323	-0.0335	1.000					
4	**LEV**	-0.3033*	-0.0220	-0.0061	1.000				
5	**MB**	0.1234*	0.0321	-0.0129	-0.0217	1.000			
6	**TAcc**	0.2625*	0.0111	0.0042	-0.2627*	-0.0325	1.000		
7	**Size**	0.1159*	0.5665*	-0.0023	-0.1850*	0.0468	0.0872*	1.000	
8	**CapExp**	-0.2595*	-0.0562	0.0208	0.1047*	-0.1278*	-0.0540	-0.1200*	1.000

NOTE: *Significance level is represented as; *, **, ***. Which represents significant at 1%, 5% and 10% levels, respectively.*

Regression Results

Table 4 shows the results of regression 1 with firms' ROA as the dependent variable and test quality of audit as the independent variable. It focuses on the relationship between the quality of external audits and company performance. The results indicate that the quality coefficients of the external audit (AudQua) are 1.093* (column 1), which indicates that the quality of the audit of companies is higher and positively correlated with the performance of the company and is significant at 10%. These results support the first hypothesis that the higher the quality of the audit, the better the performance of the company. These results are consistent with the previous literature (Brown et al., 2011; Lisowsky et al., 2017; Vosoughi et al., 2016) because it is a common belief among the researchers that the high audit quality keeps the decision-making practices, by firms' executives, under control and under a routine check. In the presence of higher quality audit, the CEOs of the firm are not able to take any decision, which increases their personal wealth. Higher audit quality is also able to mitigate the agency cost and is able to solve the problems between the agents and principals by eliminating the chances of information asymmetry. Additionally, the results indicate that the coefficient of AudQua*CEOP is 0.279**, which is significant at the level of 5%, is positively related to firm performance. This result shows that firms, which are routinely being audited by high-quality external audit companies or firms which invest in a higher degree of amount of quality audit, are able to control the negative influence of powerful CEOs and are able to mitigate the problem of information asymmetry. These results support hypothesis 2, which posit that the presence of higher quality external audit is able to mitigate CEO power, hence increasing the performance of the firm.

The accounting figures are the main source through which the stakeholders make their final decision on future investments. In terms of control variables, they are consistent with expectations and have passed the verification of significant level. The regression coefficients of Lev and ROA are -3.800*** (column 1), which is significant at 1% level, indicating that the higher the debt level, the lower will be the performance of the firm. The higher the debt level, the greater the debt-risk and this intern also result in direct pressure from firms' creditors.

Table 4. CEO Power & Firm Performance, In Presence of Quality External Audit

Variables	**(1)** **ROA**	**(2)** **ROA**
AudQua	1.093* (0.576)	0.751** (0.360)
CEOP		-0.208 (0.1890
AudQua*CEOP		0.279** (0.119)
Lev	-3.800*** (0.621)	-3.960*** (0.859)
MB	0.0251 (0.0250)	0.112** (0.0484)

TAcc	8.973***	10.33***
	(1.070)	(2.133)
Size	-1.108	-0.0995
	(0.734)	(0.260)
CapExp	-0.00369	-0.0369***
	(0.00403)	(0.0108)
Constant	25.90**	9.051**
	(11.33)	(4.259)
R-Squared	0.122	0.194

NOTE: This table show the results of regression model 5.1 & 5.2. The significance levels as *p<0.05; **p<0.01; ***p<0.001.

Additional Tests & Robustness Test

Finally, to further authenticate the results, this study performs the robustness test because this study used the panel data, which can be potentially affected by the characteristics and endogenous nature of corporate-related data. To execute the robustness test, this study uses the sample data and perform a test by ROA of the firm to test the relationship between the individual CEO power dynamics on firm performance in the presence of external quality audit. The results in table 5 show the impact of individual characteristics of power dynamics of CEO, and their individual relationship or influence on the firms' ROA, in the presence of external quality audit. Results indicate that duality of CEO (CEODual), accounting expertise of CEO (CEOAccExp), and management expertise of CEO (CEOManExp) are positively related with firms' ROA with coefficients of 1.013 (column 1), 1.531 (column 2), and 0.0413 (column 4), respectively. Whereas other power characteristics show their negative effect on the performance of the firm.

Additionally, the results indicate that external audit quality (AudQua) and ROA of the firm are positive with all the dynamics of CEO power. This result shows that the presence of high external audit quality in the firm setting is able to significantly mitigate the opportunistic behavior of management by keeping strict surveillance over the routine value creation practices of the firm and by creating an environment of accountability. A high-quality external audit is also able to streamline the power dynamics of the CEO by rigorously inspecting, monitoring and supervising his/her job responsibilities. A quality audit also makes sure that only authentic, practical and productive decisions are taken, which are beneficial for all the stakeholders of the firm. Through the high-quality external audit, it is also possible to furnish error-free accounting numbers which are able to reflect the true financial position of the firm, and by using those accounting numbers, principals of the company are able to finalize their future investment decisions. An external quality audit also clearly defines the role and responsibilities of each and every management team member and delegate them with proper authorities and goals.

Additionally, table 5 also indicate the relationship between the individual power dynamics of CEO power and firm performance in the presence of external audit quality. Results further indicate that due to the presence of external audit quality, the individual power dynamics of CEO are significantly improved; such as, the coefficient of relationship between external audit quality and accounting qualification of CEO (CEOAccExp*AudQua) is 7.480***, which is significant at level 1%, the coefficient of

relationship between external audit quality and CEOs inclusion in AC (CEOACMem*AudQua) is 1.409**, which is significant at level 5%, and the coefficient of relationship between external audit quality and higher share ownership of CEO (CEOShare*AudQua) is 5.774*, which is significant at level 10%. These results further authenticate the results of this study which stressed the need for the presence of higher external audit quality in firm settings. On the basis of regression and robustness results, this study argues that firms' internal working system can be strengthened with the help of regular audit processes of financial books of a firm. After the financial crisis, there is an increased demand for the auditing process by the management and stakeholders due to its significant part in mitigating the agency cost of the firm through enhancing the quality of corporate disclosures. The financial theory also emphasizes the need for a more credible and reliable financial reporting process that reduces information asymmetries and provide the company with low-cost equity. Through a closer examination of the research results, two main objectives of the study of quality audit can be identified. First, a fair presentation of the accounts of the company and their organization according to the rules of Generally Accepted Accounting Principles (GAAP), since GAAP rules are widely accepted around the world. The main purpose of these GAAP recommendations is to create a clear line of accountability capable of meeting the needs and wants of agents and clients. Second, having a high-quality external audit in the business is able to mitigate the opportunistic behavior of management teams by closely examining their financial practices and decision making.

Table 5. Effect of Individual Power Dynamics of CEO & External Audit Quality On Firm Performance

Variable	**(1)** **ROA**	**(2)** **ROA**	**(3)** **ROA**	**(4)** **ROA**	**(5)** **ROA**
CEODual	1.013 (0.802)				
CEODual*AudQua	-1.033* (0.60)				
CEOAccExp		1.531 (1.120)			
CEOAccExp*AudQua		7.480*** (2.219)			
CEOACMem			-1.048 (0.953)		
CEOACMem*AudQua			1.409** (0.599)		
CEOManExp				0.0413 (0.449)	
CEOManExp*AudQua				-1.450** (0.678)	
CEOShare					-5.882*** (1.445)
CEOShare*AudQua					5.774** (2.243)
AudQua	1.243** (0.526)	0.811** (0.348)	0.693* (0.373)	0.999*** (0.387)	0.678* (0.369)
Lev	-3.797* (2.233)	-3978*** (0.863)	-3.960*** (0.859)	-3.942*** (0.856)	-3.980*** (0.841)

MB	0.0264*	0.111**	0.112**	0.112**	0.102**
	(0.0144)	(0.0477)	(0.0484)	(0.0481)	(0.0441)
TAcc	8.963***	10.36***	10.33***	10.40***	9.955***
	(2.850)	(2.117)	(2.133)	(2.140)	(2.174)
Size	-0.987	-0.289	-0.0995	-0.100	-0.297
	(0.933)	(0.259)	(0.260)	(0.265)	(0.257)
CapExp	-0.00388	-0.0365***	-0.0369***	-0.0371***	-0.0369***
	(0.00480)	(0.0107)	(0.0108)	(0.0109)	(0.0108)
Constant	23.15	11.96***	9.094**	9.049**	12.65***
	(14.50)	(4.188)	(4.246)	(4.359)	(4.165)
R-Squared	0.125	0.202	0.194	0.196	0.203

NOTE: *The significance levels as *p<0.05; **p<0.01; ***p<0.001.*

Conclusion

The results suggest that when a CEO has higher power, then it reacts positively with the performance of the firm. Results empirically showed that when CEOs acquire a higher degree of authority and power in the firm by holding multiple key positions; for example, CEO and chairperson of the corporate board; acquiring higher equity share of the firm; being a part of many sub-committees in firm settings; then CEO is in a strong position significantly influence the profit-making practices of the firm by solely make decisions on the strategies and investments of firm. Results also show that when the CEO has a higher power in the firm, then it results in CEO entrenchment, which has the potential to align the financial interest of the CEO with principals. Consequently, this encourages CEOs to take appropriate corporate decisions which fulfil the interest of both parties. Due to the alignment of interest, CEOs are also more risk-averse are take every decision very cautiously to protect their own gains. This extra carefulness in decision-making ultimately helps to stabilize and enhance the performance of the firm. As discussed earlier, due to the higher power of the CEO, CEOs are able to take corporate decisions very quickly and promptly. Holding sole power over the decision-making enable CEOs to take necessary corporate decisions without consulting with other corporate sub-committees. Higher CEO power also results in the accumulation of all corporate resources in one place and under a single individual. This control over all corporate resources enables powerful CEOs to assign minimum resources at the proper place.

Results showed that in the presence of external quality audit in an organizational setting is able to effectively control all the management affairs through strict surveillance over financial matters. Due to the presence of external quality audit, the authenticity of financial reports is significantly enhanced because quality audit mitigates the chances of any financial or clerical errors in corporate financial reports. By examining the external audit quality of sample data, the study is unable to find any evidence that external audit quality is positively related to all type of organizations.

These empirical findings contribute to the understanding of how the quality of the external audit can be enhanced in a firm setting and how its implementation is able to regulate the higher power of the CEO. This study has implications for the financial regulatory bodies by recommending which type of characteristics of an external quality audit is able to effectively monitor firm performance.

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