Auditor Reputation and Capital Market Reaction: New Evidence from Emerging Market

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Abstract:

This paper attempts to investigate whether the news covering the role of Deloitte in the case of Mohammad Al-Mojil Group (MMG) fraud affecting the abnormal returns of the public companies listed in Saudi stock. Using event study methodology, the present study finds that negative but not Significant mean abnormal returns for Deloitte's clients and Big 4 clients during 2012 and 2014. The interesting results of the current study are there is a significant negative abnormal return for Deloitte's clients in the long event window (-1, +2) at the 2014 period. This means that the effect of the announcement is reflected in the stock price on the first day of the event and its effect extended to the second day. Such results support the hypotheses H1 that Deloitte's clients, other than MMG, experienced a significant negative market reaction to the news that reflects negatively on the quality of Deloitte's MMG audit.

Key words: Auditing, Auditors reputation, Audit quality, Audit fraud.

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الملخص:

تسعى هذه الورقة للبحث بشأن الأخبار التي غطت دور مكتب المراجعة **Deloitte** في قضية مجموعة محمد المعجل (**MMG**) وهل اثرت تلك الاخبار على العائدات غير الاعتيادية لأسهم الشركات المساهمة المدرجة في الأسهم السعودية. وقد استخدمت هذه الورقة منهجية دراسة الحدث، توصلت الدراسة إلى أن هناك عوائد سلبية ولكن لم تكن ذات دلالة إحصائية، وهذا يقدم بعض الدليل على وجود عوائد غير طبيعية لعملاء **Deloitte** وعملاء **Big 4** خلال عامي ٢٠١٢ و٢٠١٤. ومع ذلك فأن النتائج المثيرة للاهتمام في الدراسة الحالية هي وجود عائد سلبي غير طبيعي ذو دلاله إحصائية لعملاء **Deloitte** على المدى الطويل مع نافذة الحدث (-١، +٢) في فترة ٢٠١٤. وهذا يعني أن هناك تأثير للأخبار عن تورط مكتب **Deloitte** في قضية مجموعة المعجل وهو ما انعكس على سعر السهم في اليوم الأول من الحدث وأمتد تأثيره إلى اليوم الثاني. هذه النتائج تدعم الفرضية **H1** بأن عملاء **Deloitte**، بخلاف **MMG**، تعرضوا لردة فعل سلبية في السوق نتيجة الأخبار التي انعكست سلبًا على جودة مراجعة مكتب **Deloitte**.

الكلمات المفتاحية: المراجعة، سمعة المراجع ، جودة المراجعة، احتيال المراجعة.

Introduction

The market for audit services is characterized by the extent of supplier concentration i.e. a significantly large proportion of total audit work is carried out by a small number of audit firms (Moizer and Turley, 1989; Numan and Willekens, 2012; and Carrera, and Trombetta, 2018). The auditing literature analyzes this phenomenon of concentration in several ways. One approach is considering audit services as one audit supplied by one firm is a perfect substitute for an audit from another firm (Francis, 1984 and Carrera and Trombetta, 2018). According to this way of thinking, the high concentration could find its explanation from cost differentiation in the provision of audit services, otherwise, audit firms can engage in monopolistic or anti-competitive behavior.

A second approach is to consider the possibility of product differentiation in the provision of audit services (Bills, and Stephens, 2016). Accordingly, high levels of concentration would be explained by a higher quality audit provided by those dominating firms. Audit quality cannot be observed directly by investors whereas auditor reputation serves as an important proxy for such quality and accuracy of client financial statements (DeAngelo, 1981). The large market share might be a reflection of a greater commitment to quality procedures and greater costs associated with the loss of reputation (Alabbas 2004). According to this point of view, the reputable auditors perform higher-quality audits that are reflected in sort of reliable information presented in financial statements (Balvers, McDonald, and Miller 1988; Beatty 1989, McLennan and Park (2016)). Nagy (2014) developed a unique methodology to test the demand for reputable auditors. This study utilized The Public Company Accounting Oversight Board (PCAOB) start to disclose the findings of its inspections in reports that include a public portion (Part I) of identified audit deficiencies, and a portion (Part II) of identified quality control weaknesses. Nagy focuses on the informational of the quality control criticisms disclosed in Part II and examines the change in audit firms' market share following that disclosure. The results indicate that audit firms lose a significant share following the public disclosure of quality control criticisms which provide evidence for the auditor's reputation on the demand.

Another phenomenon is associated with audit quality differentiation as companies need to signal their good performance to the markets (Firth and Smith, 1992; Fleischer, et al., 2017)). The signaling hypothesis states that a firm's owners prefer high-quality auditors if take their firm public, to communicate about the quality of financial information. This suggests that the capital market reacts directly to reflect any change in the quality of financial information due to the change in the audit quality, as market efficiency hypothesis states (Fama, 1998). On the other hand, it is assumed that corporations are likely to switch their auditors when their audit quality is deteriorated to overcome the capital market consequences of potential signal of unreliable financial reporting (Hennes, Leone, & Miller, 2013) In addition, Fleischer, Goettsche, and Schauer (2017) argue that audit pricing is the driver for this direction.

Alabbas (2004), utilized concentration measures based on the number of clients to calculate the market share of audit firms in the Saudi stock market. The overall results indicate a moderate level of concentration compared to those reported in studies in other countries (CR4 = 61%). This concertation rate became larger when using clients' total assets as a proxy (CR4 = 88%). Table (1) below depicts the concentration ratio in the Saudi audit market in 2011, 2012, 2014, 2015 and 2016. The CR4 decreases as the number of listed firms increases.

Table (1): concentration ratio in Saudi audit market according to numbers of clients (%)

Auditor	2011	2012	2013	2014	2015	2016
Deloitte**	22 17.60%	22 17.60%	21 16.80%	21 16.80%	0(0%)	0(0%)
E&Y	30 24.00%	32 25.60%	30 24.00%	29 23.20%	32 25.60%	29 23.20%
PWC	15	19	22	21	13	9

	12.00%	15.20%	17.60%	16.80%	10.40%	7.20%
KPMG	13	15	17	17	26	21
	10.40%	12.00%	13.60%	13.60%	20.80%	16.80%
Total	80	88	88	88	71	59
	64.00%	70.40%	70.40%	70.40%	56.80%	47.20%

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

Around the world, there are numerous events surrounding fraud cases (e.g. Enron case in the USA, Olympus case in Japan) that provide unique opportunities to test whether such events affecting the auditors' reputation and provide evidence for signaling hypothesis or not. Alabbas (2008) investigates whether the Saudi stock market has been affected by news about the audit quality of Arthur Anderson. The result is dictated no such effects were recorded. However, on 16 June 2016, the Committee for the Resolution of Securities Disputes (CRSD) – part of Saudi Arabia's Capital Market Authority (CMA) – penalized Deloitte & Touche Bakr Abulkhair & Co (Deloitte) for its involvement in the case of Corporation of Mohammad Al-Mojil Group (MMG).

In 2008, MMG became a publicly-traded company by way of an initial public offering (IPO). Four years later, on 22 July 2012, the firm incurred significant losses, and the CMA suspended trading of MMG shares on the Saudi Stock Exchange (Tadawul). Accordingly, the CMA opened an investigation of MMG's operations and financial reporting for the period 2005 to 2012. Once the investigation was complete, the CMA announced, in November 2014, CRSD charged three MMG executives, Deloitte, and others with MMG's IPO. The CMA suspended Deloitte from doing auditing work for listed firms in the kingdom for two years while the case was pending, beginning on June 1, 2015.

This case of MMG provides an opportunity to test the stock market reaction against the audit quality breach. Therefore, the primary motivation for this research is to provide insights and to gain an understanding of the signaling hypothesis in one particular developing country, Saudi Arabia, and as to how the stock market is influenced by the auditor's reputation.

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

Deloitte Involvement in MMG Case

Table (2) below depicted Deloitte Involvement in MMG Case. In 2008, Mohammad Al-Mojil Group (MMG), a leading Saudi industrial construction and construction services company became a publicly-traded company by way of an initial public offering (IPO). The IPO attracted SR 6.591 billion ($1.75 billion) and covered by 314 percent. HSBC Saudi Arabia Limited was the financial advisor and lead manager for the IPO whereas Deloitte was the external auditor for IPO and three years later (TradeArabia 2018).

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

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

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

“Elqtsahiyah” newspaper (Elqtsahiyah, 2012) has discussed the reaction of the financial market to the collapse of MMG through a number of interviews with specialists in financial markets, financial analysts and economists, who unanimously agreed on the involvement of three parties in the MMG case: the Capital Market Authority, Saudi banks, and the company's administrative corruption that worked on manipulate financial statements of the company, stressing the need for each business entity to conduct a careful and ad hoc study of the company before offering and not to rely on the financial statements presented, and the role of transparency must be strengthened with more disclosure requirements. The experts also stressed the necessity of redeveloping the financial market regulations and offering systems, especially concerning issuance bonuses that are largely exaggerated. In the case of banks, some experts, according to the interviews conducted by the newspaper, demanded that the banks pledging to cover the shares be kept for a minimum of six months before the sale to ensure the reliability of the figures presented as a first step to regulate the offering of shares of companies listed on the market, and they asked to activate the role of risk management in banks. Banks in Saudi Arabia, according to the interviewees, depending on what is presented to them from the financial statements prepared by the financial accountant with the possibility of manipulating the financial statements and this also confirms the interaction that can occur between the lack of interest of the external auditor to his reputation, while there is a major administrative defect that leads to the losses of the companies offered in the stock market.

On November 18, 2013, the Capital Market Board has issued its resolution Number (4-48-2013), to adopt the Instructions and Procedures Related to Listed Companies with Accumulated Losses reaching %50 or more of its Capital. These Instructions should be effective and in full force as of July 7, 20141. According to the

[1] According to Article Five of the resolution Number (4-48-2013): When Accumulated Losses reach 50% or more of the Share Capital a) The company

article 6, a company's shares will be delisted where the company is dissolved by force of law according to paragraph (2) of Article (150) of the Companies' Law or when the extraordinary general assembly decides to dissolve the company before the prescribed date in its by-laws according to paragraph (1) of Article (150) of the Companies' Law.

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

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

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

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should, immediately and without delay, disclose to the public in a separate announcement when its Accumulated Losses reach 50% or more of its Share Capital. b) Following the public announcement referred to in paragraph (a) of this Article, the Exchange shall add a flag next to the company's name on the Exchange website indicating that the company's Accumulated Losses reached 50% or more of its Share Capital (CMA (2013). Procedures and Instructions Related to Listed Companies With Accumulated Losses Reaching 20% or More Of their Share Capital. C. M. Authority. KAS. **4-48-2013**

The literature

Fama et al., (1969) states that share prices reflect any new information. They found that, after a share split announcement, share prices quickly reflect this information. The phenomenon is known by literature as the efficiency of the stock market. Based on this philosophy, event methodology has been developed, which are widely used in the accounting research. An event study requires well determine of the related event, collect data pertaining to companies share affected by the event. Event methodology is a tole to measure any change in the stock prices that can be considered as a significant abnormal stock returns (AR), which means that the share prices reflect these event. Chaney and Philipich (2002) investigate the impact of the Enron case on auditor's reputation using event methodology by examining Arthur Andersen’s clients’ stock market reaction surrounding different dates following Andersen’s admission that a significant number of documents have been shredded. The results of this study indicate that Andersen’s other clients experienced a statistically negative market reaction. Chaney and Philipich (2002) suggest that investors downgraded the quality of the audits performed by Andersen.

Zhou (2006) also investigates whether the decline in Andersen’s reputation, due to its criminal indictment on March 14, 2002, using a broad sample of Arthur Andersen clients. The results suggest that the market reacted negatively to Andersen's clients. Zhou (2006) utilized event methodology to analyze the stock price reaction for 874 Andersen clients in the days surrounding the indictment and when firms announced the dismissal of Andersen as an auditor. Zhou used market-model-adjusted cumulative abnormal return (CAR) over the day before and each event.

Nelson, et al. (2008) using event methodology to test for the hypothesis that negative client stock returns are relative to a loss of Andersen's reputation as to the announcement of Enron documents have been shredded. They find that the industry composition of the Andersen produces significantly more negative returns for Andersen clients relative to Big 4 clients, and Andersen's Houston office clients relative to its clients in other locations. The study finds that oil prices decline also affects the market reaction in addition to two other Enron-related events.

Weber et al., (2008) use the case involving a public company (ComROAD AG) and the large audit firm (KPMG) in a Germany to test whether an auditor’s reputation ensures audit quality in a business environment with the absence of a strong insurance rationale for audit quality. They find that KPMG’s clients recorded negative abnormal returns of 3% at events and that these returns are more negative for companies that are likely to have higher demands for audit quality. They also find an increase in the number of clients that drop KPMG in the year of the Com-ROAD event. This study provides strong evidence for the companies with higher-quality auditors will gain rewards by the stock market whereas there is low-litigation in the country.

Skinner and Srinivasan (2012) provide evidence on the importance of auditors’ reputation for quality using the events of suspending ChuoAoyama. ChuoAoyama was PwC’s Japanese affiliate used to audit a large Japanese cosmetics company whose management engaged in a massive accounting fraud In May 2006. The Japanese Financial Services Agency (FSA) suspended ChuoAoyama for two months for its role in the Kanebo case. The result indicated that ChuoAoyama’s clients defected from the firm after its suspension, consistent with the importance of reputation. Larger firms and those with greater growth options were more likely to leave, also consistent with the reputation argument.

Frendy and Hu (2014) investigate whether the event of news announcements is affecting the reputation of Olympus' auditors. They used linear regression alongside with nonparametric generalized rank event study methodology on 918 sample firms from the First Section of the Tokyo Stock Exchange (TSE) to observe Japanese investors’ perceptions of auditor reputation as proxied by abnormal returns. They found that Japanese investors do not respond to negative or neutral reputational information arising from news announcements concerning Olympus’ auditors for firms affiliated and not affiliated with those auditors.

Irani, Tate, et al. (2015) examine the market's reaction when an auditor involves a financial statement restatement. They utilized non-restating clients' market-adjusted returns (MARs) around the restatement announcement date. They found that non-restating clients' MARs are significantly negative around the restatement announcement date and are more negative with more severe restatements.

Hypotheses development

The reputation hypothesis states that auditors' reputation is affected by audit quality (Frendy and Hu 2014). The exposure of Deloitte on MMG case during and the related decision of CRSD to suspend it from doing auditing work for listed firms in the Saudi stock market considered as a downgrade in its reputation, which negatively affects the quality of financial statements of all firms audited by Deloitte. This negative effect can be followed to negative stock price pressure for firms whose auditors were Deloitte. The purpose of this study is to identify the market reaction of clients of auditors whose reputation was affected by news coverage that implied responsibility in the MMG fraud case. This study examines whether investors in public companies listed in the Saudi stock market audited by firms associated with MMG exhibited abnormal market reactions during the news announcements that had a potential adverse reputational effect on the auditors. Also, the assessment of whether the extent of the market reactions was more severe for clients audited by firms associated with MMG compared with clients audited by auditors who were not affiliated with MMG.

H1. Deloitte's clients, other than MMG, experienced a significant negative market reaction to the news that reflects negatively on the quality of Deloitte's MMG audit

H2. Deloitte's clients, other than MMG, experienced significant differences from other Big4 clients in the market reaction to the news that reflects negatively on the quality of Deloitte's MMG audit.

Methodology
Determination of event days and samples

Table 2 depicts three events that might affect investors' perceptions in terms of Deloitte's reputation. Around the dates of these events, the abnormal reactions of investors would be observed for clients whose auditor was Deloitte. The first event (Event 1) covered the announcement of MMG to change Deloitte with another auditing firm due to the delay in issuing Q2 financial statements. The second event (Event 2) covered the announcement dates of CMA to suspend Deloitte from doing auditing in the stock market. Event 3 covered the date of the CRSD decision to penalize Deloitte and one partner by SR 300,000 fine and suspending them from any involvement in auditing in the stock market for two years.

Table (2) Event around MMG case that affects Deloitte reputation

22/7/2012	MMG has appointed a new external auditor due to the delay to announce the Q2 financial statement.
1/12/2014	CMA has suspended Deloitte from doing auditing
16/6/2016,	CRSD penalized Deloitte

The sample contains all of the listed firms in the main market of the Saudi Stock Exchange (TASE) during the observed events. Stock data are obtained from Saudi securities filings information (Tadadaul). The total number of firms differs based on the event window, as depicted in the table (2) above. Following Frendy and Hu (2014), firms with qualified or disclaimer audit opinions, and financial and insurance companies were excluded[1]. Table (3) below presents the sample by each event.

[1] from the Saudi Arabian Monetary Agency (SAMA) requires a joint audit for each financial and insurance institute.

Table (3) Sample of Each event affected Deloitte reputation					
Date	Event	Total sample	Deloitte's Clients	Clients of Other Big4	Client audited by Deloitte's partner involved in MMG case
22/7/2012	MMG has appointed a new external auditor due to the delay to announce the Q2 financial statement.	124	22	66	3
1/12/2014	CMA has suspended Deloitte from doing auditing	124	21**	67	3
16/6/2016,	CRSD penalized Deloitte	Deloitte had been suspended.			
* Baker Abu Alkher is the partner involved in the MMG case. ** One Company switched from Deloitte to PWC.					

Event study method

First of all, the accuracy of an event study is depending on the non-existing of confounding events that could concur simultaneously and affect the results accordingly (Chaney and Philipich 2002). To control such confounding events all news should be reviewed during the window event. Saudi Press Agency (SPA), Aleqtsadiah newspaper, Alriyadh newspaper and Financial

Times were reviewed and no national or global macroeconomic news during the event windows that could affect the result.
The event day is denoted as (t0), whereas the first day of the event window as (t1), and the final day of the event as (t2). Following Nelson, Price et al. (2008) and to investigate the market's reaction to the announcements on July 22, 2012, and 1 December 2014, the abnormal return (AR) on the day (t) is computed as follows:

$(AR_{it}) = R_{it} - (\alpha+\beta_i R_{mt})$……………………………………………………………………………………………(1)

Where:

Rit is the return for Deloitte's clients on day t,

Rmt is the return on the TASI index,

α and β are parameter estimates obtained from the estimation of the market model for the period from May 1, 2012, to August 31, 2012, for the first window, and October 1, 2014, to 31 December 2014 for the second window.

$R_{it} = \alpha + \beta_i R_{mt} + \mu_{it}$. ……………………………………………………………………………………………..(2)

Cumulative abnormal returns for various windows around the MMG announcement in 2012, is depicted in Table 4. Negative but not Significant mean abnormal returns for Deloitte's clients that range from -0.44% to -0.63% depending on the length of the event window. Furthermore, the mean of abnormal returns for Big 4 clients is also not significantly negative but less negative than for Deloitte clients in the 2012 events windows. The results indicate no significant differences between the mean of abnormal returns for Deloitte clients and other Big4 clients.

Table (4): MMG has appointed new external auditor due to the delay to announce Q2 financial statement, at 22/7/2012									
Windows	Deloitte (n = 22)			Big4 (n = 66)			Differences		
	CR	Pos/Neg	T-test	CR	Pos/Neg	T-test	Mean	T-test	F-test
(0, +1)	-0.630	5/11	0.494	-0.223	27/39	0.551	-0.123	-0.180	2.761
(0, +2)	-0.475	7/9	0.611	0.105	36/30	0.840	-0.563	-0.496	0.395
(1-, +2)	-0.440	8/8	0.722	-0.268	24/42	0.636	-0.062	-0.056	1.781

Table (5) presents cumulative abnormal returns for various windows around the MMG announcements in 2014. Again, Negative but not Significant mean abnormal returns for Deloitte's clients for the event windows (0,+1) and (0,+2), these results of abnormal returns for Big 4 clients are also not negative but not significant for the same widows. However, Table (5) depicts a significant negative abnormal return for Deloitte and other Big4 clients in the long event window (-1, +2). This means that the effect of the announcement is reflected in stock price on the first day of the event and its effect extended to the second day. Such results support the hypotheses H1 that Deloitte's clients, other than MMG, experienced a significant negative market reaction to the news that reflects negatively on the quality of Deloitte's MMG audit.

Table (5): CMA has suspended Deloitte from doing auditing at 1/12/2014									
Windows	Deloitte (n=21)			Big4 (n= 67)			Differences		
	CR	Pos/Ne	T-test	CR	Pos/Ne	T-test	Mean	T-test	F-test
(0, +1)	-1.44	9/13	-1.709	-0.816	30/36	-1.438	0.630	0.637	0.670
(0, +2)	-2.19	8/13	-1.583	-0.493	36/30	-0.626	1.682	1.109	1.507
(1-, +2)	-9.24	3/18	-5.35*	-6.044	12/54	-3.88*	3.200	1.375	0.001

- Significant at 0.01 %

Table (5) also indicates that other Big4 clients experience the same market reaction in the same window (-1, +2) which could discompose the result above. Such results could be explained in terms of confounding news (Nelson, et al., 2008). In such a case it is important to figure out media coverage during the CMA announcement window. Reuters (2014) focused on news about OPEC responding to the negative oil price. Oil prices witnessed a significant negative return which shades the Saudi stock market corresponding with the CMA announcement about Deloitte. Utilizing the portfolio approach and following Nelson, et al. (2008), a regression model is developed to control the effect of oil prices on the share prices during the event window as follows:

$Rp_t = a + b_1 DAp_t + b_2$ Ann $+ b_3$ DA X $Annp_t + b_4 Mk_{mt} + e_{it}$ ……………..(1)

Where:

Rp_t = the equal-weighted daily portfolio returns for each of the 165 trading days in the period May 1, 2014, through December 31, 2014.

DAp_t = a dummy variable equal to one (zero) if the portfolio return is for Deloitte (Otherwise) clients.

$Annp_t$ = a dummy variable equal to one (zero) announcement event windows.

Mk_{mt} = the return on the TASI index.

According to the portfolio approach, separate portfolio returns are created for the samples of Deloitte and other auditors' clients, and thus there are 328 observations in the regression model. The results are presented in Table (6). No significant relationship between return adjusted by oil prices and Deloitte auditing was found. This result is also reported for the CMA announcement dates, however, there is a negative but not significant coefficient estimate on the CMA announcement. More importantly, but not surprisingly, the coefficient of market return depicts a statistically significant relationship with oil prices. This result spots that there is no effect for the confounding event of oil prices decreasing on CMA announcement of Deloitte suspending from auditing of listed companies. Such a result supports the result in the table (5) and the market reacts in a deferent way to reflect the news about audit quality.

Table (6) A regression model for returns during the CAM announcement and changes in oil prices			
	Coefficients	T-test	Significant
A	2.2840	366.7213	[.000]
DA_{pt}	.0043883	.50148	[.616]
Ann_{pt}	-.037836	-1.3315	[.184]
Mk_{mt}	.11152	40.0987	[.000]
R2	.83354		
F-Stat	540.8140[.000]		

R_{pt} = the equal-weighted daily portfolio returns for each of the 165 trading days in the period May 1, 2014, through December 31, 2014.
DA_{pt} = a dummy variable equal to one (zero) if the portfolio return is for Deloitte (Otherwise) clients.
Ann_{pt} = a dummy variable equal to one (zero) announcement event windows.
Mk_{mt} = the return on the TASI index.

Conclusion

On 16 June 2016, the Committee for the Resolution of Securities Disputes (CRSD) penalized Deloitte & Touche Bakr Abulkhair & Co (Deloitte) for its involvement in the case of Corporation of Mohammad Al-Mojil Group (MMG). This case provides an opportunity to test the stock market reaction against the audit quality breach. Two of the three events in this case that can be used in window events methodology. On 22 July 2012, when the MMG firm incurred significant losses, and MMG has appointed a new external auditor due to the delay of announcing the Q2 financial statement. the CMA announced in November 2014 that CRSD charged three MMG executives, Deloitte, and others with MMG's IPO. The CMA suspended Deloitte from doing auditing work for listed firms in the kingdom for two years.

Cumulative abnormal returns for various windows around the MMG announcement in 2012, indicated to negative but not

Significant mean abnormal returns for Deloitte’s clients that range from -0.44% to -0.63% depending on the length of the event window. In contrast, the mean of abnormal returns for Big 4 clients are negative but also not significant, the results do not give support for the first hypothesis that Deloitte’s clients, other than MMG, experienced a significant negative market reaction to the news that reflects negatively on the quality of Deloitte’s MMG audit, and this hypothesis rejected.

Cumulative abnormal returns for various windows around the MMG announcements in 2014 are negative but not Significant for Deloitte's clients for the event windows (0,+1) and (0,+2), but show significant negative abnormal returns in the long event window (-1, +2). This means that the effect of the announcement is reflected in stock price on the first day of the event and its effect extended to the second day.

Oil prices as a confounding event are controlled using a regression model. It declared that no relationship between cumulative abnormal returns of Deloitte’s clients and Cumulative abnormal returns of oil prices, which mean that the negative returns for Deloitte's client in the event window (-1,+2) could be explained by the announcement of CMA to suspend Deloitte from auditing in the financial market for two years. The results support the hypotheses related to marker reaction to reflect the change in audit quality.

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Limitations and Future Studies

Like other studies utilizing event methodology, these results are limited to the effect of other confounding events, even though this research control for oil prices and investigates other such events. In addition, the number of listed companies and sectors in the Saudi market is limited, whereas such event studies could give the best result with more data. Nonetheless, there week evidence of the marker reaction, such a result can not be explained as in the light of the market efficiency hypothesis. Such evidence might need more data and events. This study opens avenues for future research by considering the limitations of the current study.

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