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The External Audit Effect, As A Governance Mechanism And The Financial Performance On The French Listed Companies

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Abstract: In this study we examine the impact of the combination of the reputation of the external audit and the various internal governance mechanisms on corporate performance. Tests conducted on a sample of 102 companies-years and globally includes firms which entered the SBF 120 index at least once during the 2014-2016 period, and do not have financial or similar activity. Our results show that a better reputation of the audit may not constitute a prerogative as well as for the shareholders but for the managers, explained by an effect of substitutability between the effectiveness of control exerted by certain internal mechanisms and the choice of a reputed external auditor. Thus, our results support the substitution hypothesis between the monitoring roles played even by blockholders and by institutionals and the demand for differentiate audit quality. On the other hand, a positive relationship is established between the predominance of external independent members in the board of directors and the audit quality demand. , the audit carried out by BIG auditors involves costs which adversely affect the audited company's performance. These costs are usually the result of a bad perception of the audit quality by investors.

Keywords: Audit Quality, Audit Fees, Board Of Directors, Interaction Of Corporate Governance Mechanisms, Performance.

«JEL» Classification: M42, G34.

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1. INTRODUCTION

Corporate governance has significantly developed after the financial scandals, which gave rise to a confidence crisis calling for the introduction of greater monitoring systems. The corporate governance concept is based on a commitment to transparency in order to improve management, in a first step, and then reconcile possibly diverging interests within the firm. A first result was the Sarbanes-Oxley Act stipulating good governance practices relating to the boards of directors or the audit committees. Another result was the increased emphasis on the external audit and its quality. The audit quality issue is at the heart of both the agency theory and governance. In fact, it has already been widely discussed in both Anglo-Saxon and European environments: it involves studying the impact of some factors related to the external audit quality. Due to the difficulties in observing the audit quality, some research studies used the firm's reputation, in other words, its possible belonging to BigN (Piot 2005, Beasley, Petroni, 2001 Craswell et al. 1995 DeFond, 1992) or its size, whereas others used the fees as a measure of the audit quality (D. Hay et al., 2008, Yatin et al. 2006, Salleh et al. 2006, Abbott et al. 2003 Bariotta 2000 O'sullivan 2000). Actually, the firm’s size and the audit fees become signals of its quality and possibly help sell a service with a similar content at a higher price. Starting from the idea that a highly reputed auditor will tend to limit the leaders’ opportunistic behavior, some studies examined the relationship between the auditor's reputation and the discretionary accruals (Becker et al., 1998). Furthermore, some analyzes emphasized the demand for external audit quality in terms of belonging to an international network. This is an issue which is at the heart of the agency relationship between the various individuals acting on the firm (Jensen & Meckling, 1976). The external audit is also one of the governance mechanisms that help control the managers and reduce the agency costs. In this current study, our objective is to study the impact of external audit, as a governance mechanism, on the financial performance of the audited firm. The idea the most often conveyed by research studies is that, at the heart of the mentioned dysfunctions, we find, particularly, the excessive risk concentration and dispersion, a failure and poor structure of the monitoring system within large companies, a lack of transparency in the information passed on to the shareholders (minority) and a poor "definition of the discretionary spaces" in the company. In this context, external audit, as a governance mechanism, helps improve the financial performance of the audited company while managing the conflicts of interest between the various stakeholders. By referring to the literature dealing with to corporate governance, several control mechanisms were put in place to discipline and control the leaders and also help produce reliable information. The purpose behind corporate governance is however to organize the powers within companies, control and prevent conflicts between the actors. The external audit is therefore at the core of governance mechanisms to the extent that it is expected to guarantee the truthfulness, the accuracy and the relevance of the company's financial statements, hence the idea of examining the contribution of external audit to the improvement of the audited company’s corporate governance and financial performance, which is the source of our research theme. (Piot, 2011). The studies that dealt with corporate governance are often limited to the proxy "belonging to a Big N and linked to the audit quality. Moreover, to enrich our study and differentiate ourselves from what has already been done in the past, we included other variables that may have an impact on the audit quality.

2. Quality of the external audit and financial performance

Previous research studies dealing with the audit quality have taken many different theoretical orientations and methodological visions. We retained the axes which are based on the analysis of the relationship between corporate governance components and the audit quality. At the theoretical level, the agency theory defines the firms' performance as the fruit of operational choices. In fact, the company's officials consider business performance as a part of their priorities. This performance is of great importance to the company's stakeholders, mainly the leaders, the investors or the employees. Actually, governance concepts have been the focal point of the current debates in management science. This interest is justified by the separation between the management and control functions and the need to engage, in a rational way, the leaders for the benefit of the shareholders. In fact, the relationship between performance and governance has been the subject of many theoretical and empirical studies that have tried to link this monitoring mechanism with business performance. Governance has been apprehended through several mechanisms that represent these various aspects. Regarding the ownership structure, Abdelwahed, (2003) found that the very active role of some shareholders and the concentration of family ownership affect the strategic choices and explain the same positive relationship between the capital rate held by the leader, the presence of a majority shareholder and the company's performance. This relationship between the rate of the executive's property and the majority or dominant shareholder, on the other hand, and performance, on the other hand, was dealt with by the studies of Paul and Schiehll (2004) who found a rather negative relationship in the case of Canada. To summarize this work, there has been research that found a positive relationship between the characteristics of the board of directors and performance, the ones that found a negative relationship and some studies that noticed no significant relationship. This result divergence may be caused by a variation of the measures, the used tools, and the samples and contexts. The study Haniffa and Hudaib (2006) was interested in the relationship between the structure of corporate governance and firm performance. The results lead to a positive and significant relationship between the concentration of capital and accounting and stock performance measures of the companies studied. Other authors studied the impact of leadership on performance. For instance, Walsh and Seward (1990), cited by Charreaux (1992), state that the leader's incompetence as well as the little effort he makes lead to poor performance. In the Tunisian context, Omri (2002), found that the directors' participation in the capital negatively affects business performance, which is in line with the rootedness theory. In this case, the manager can opt for a wide managerial discretion by favoring his own interests at the expense of performance. In the American context, Coughlan and Schmidt's studies (1995) and Warner, Watts and Wruck (1988), reported a significant relationship between the leadership rotation and the firm's poor performance. On the other hand, the study of Weisbach (1998) showed a very strong correlation between the executives' rotation and the performance indicators. Some other studies focused on the Board's impact on performance. Concerning this point, the most studied aspect of the board is its size. Indeed, the study of Pearce and Zahra (1992) showed that, the smaller the board size is, the lower past performance will be, whereas a good performance is accompanied by an increase of the board's size. Furthermore, the study of Godard (2002) discussed the importance of the board's size increase. This study examined in particular the existence of a performance difference between companies with small-sized boards and those with large ones. It should be noted that the results of Abdelwahab, (2003) in the Tunisian context led to similar results. Moreover, the board's structure could have an impact on the company's performance. In this regard, Byrd and Hickman (1992) found a positive relationship between the independent directors and the company's performance. They state that the latter, through their objectivity, are likely to minimize the expropriation of the company's resources and even improve its performance. In this way, Omri (2002) found that the presence of institutional investors in the board of directors improves the company's performance. However, Wang and Ong (2005), etc. found no significant relationship between Board's composition and the corporate value. The dual structure, the separation between the leader and the Board's functions, or even the existence, within the board, of an executive and a supervisory board or even a unitary board, with a dominant leader, about which much was written regarding their involvement in the firm's performance. Actually, Boyd (1995) found that companies with a dual structure are the most efficient. Other studies focused on the audit- performance relationship. In this regard, some authors, such as Charreaux (1997), believe that the control mechanisms, such as governance or audit, have some impact on performance. Underperformance can be induced by poor management, over-investment or under-investment. It can be either voluntary or not, but it is always due to inefficient behavior. According to Alvarez (1997, the audit can be considered as a solution since inefficient behavior should be monitored, obviously at some cost. However, to reduce the disadvantages of such behavior, we develop an enhanced monitoring via the audit. Moreover, Dembski et al. (2006) examined the relationship between the audit and performance measures used by the manager. They concluded that a very precise audit quality reduces the informational contribution of the performance measures. Therefore, an audit quality may be strict; hence it cannot bring the ideal for the firm and make it lose some freedom of choice that may improve its performance as well as the information content of its accounting figures.

3. Presentation of the research hypotheses and definitions of the used variables

Research on the application of the audit quality draws its foundation mainly from the contractual agency literature. Actually, the agency theory identifies the audit as one of the key mechanisms of conflict management and agency cost reduction. Consequently, a change in the intensity of such costs might affect, in the same way, the level of the required audit quality (Piot, 2000) and therefore the performance of the audited company. In fact, this is the object of our investigation in the context of this article. By referring to other studies, we measure financial performance using the Tobin's Q (Q = (market value + total liabilities) / total assets), which thus constitutes the dependent variable. At the level of the working hypotheses and their motivations, we will first deal with the audit-related variables. Then, we will focus mainly on the data characterizing the shareholders/creditors' agency costs. In a third step, we will analyze the data related to the board of directors and the control variables.

3.1 The International auditor belonging (RAUD)

The most commonly used criterion in the literature to understand the audit quality was the size of the audit network. Some studies evaluated this variable by referring to the auditor's quality whether he belongs or not to one of the international networks ("Big eight, in the eighties and the Big Four today "). As a matter of fact, financial markets react more positively when a company uses a large audit firm (Nichols and Smith, 1983; Eichenseher et al. 1989). It also seems that large audit networks often emit more reserves than smaller audit firms (Leenox 1999). Consequently, companies that suffer high agency costs have a greater tendency to engage in international audit networks (Francis and Wilson, 1988; Johnson)

- Hypothesis1: There is a significant relationship between the audit firm's belonging to an international network and the company's financial performance.

3.2 The audit fees (HONOR)

This is the amount of the audit fees corresponding to the statutory audit. These are the audit fees paid by the company and its fully consolidated subsidiaries to both of the statutory auditors. The amount of the audit fees is supposed to reflect the company's demand for an audit. Several authors state that, the higher the fees are, the fewer earnings the company will generate. Actually, according to Frankel et al. (2002), high audit fees contribute to the reduction of the earnings management. However, in their study, Antle et al. (2006), showed an inverse relationship stating that high amounts of fees raise the earnings management. In fact, if the auditors are highly remunerated, this excessive remuneration leads to the interest solution with the company's managers and therefore to the reduction of its independence, which affects the financial performance of the audited company. Hence, a significant relationship is thought to exist between the audit fees and the performance of the audited firm. Therefore, our hypothesis 2 will be as follows:

- Hypothesis 2: There is a significant relationship between the audit fees and the firm's financial performance

3.3 The existence of an audit committee (COM AUDIT)

This is a binary variable reflecting the existence of an audit committee. Actually, several empirical studies dealt with the efficacy of the audit committees in the context of the agency theory. For Abdolmohammadi and Levy, (1992); Wolnizer, (1995), to ensure the efficiency of the audit committee, the financial statements prepared by the managers should be complete and accurately reflect the company's earnings in the context of the agency theory. In fact, according to Defond and Jiambalvo, (1992), the assessment of the quality of the financial quality is made on the basis of the prior adjustment to correct the errors in the previous reports. However, according to Dechow, Sloan and Sweeney, (1996), this quality is assessed using the earnings management, whereas for McMullen, (1996), it is assessed through the reduction of the occurrences of the irregularities in the financial statements. On the basis of these, the following hypothesis is suggested.

- Hypothesis 3: There is a significant positive relationship between the presence of the audit committee ant the firm's financial performance.

3.4 The indebtedness level (TDTA)

This consists in studying the impact of the shareholder-creditor's relationship on the audit request quality; the debt agency costs are believed to be appreciated by the long term indebtedness ratio (Piot, 2005), with: TDTA: = total debts / total assets. Several studies, such as those of (Eichenseher and Shields (1985), Francis and Wilson (1988), Firth and Smith (1992), Copley and al. ()) 1995), Lee et al. (2003), Hay and Davis (2004), support the predictions of the agency theory such that a firm's high indebtedness level increases the likelihood of demand for a better audit quality to reduce the agency costs and therefore increase the performance of the audited company. Therefore, we expect that:

- Hypothesis 4: There is a significant positive relationship between indebtedness, which should encourage companies to have a highly repute auditor, and the firm's financial performance.

3.5 Investment opportunities (IO)

This is to adopt the profit growth rate as a measure of investment opportunities. In fact, due to their optional and unobservable characteristics, investment opportunities represent a quite important source of risk for the company's creditors. Lennox (2004) showed the existence of a negative relationship between the proportion of fixed assets (in relation to the total assets) in the company and the choice of a better audit quality. Therefore following hypothesis can be stated:

- Hypothesis 5: There is a significant relationship between the investment opportunities in the audited firms and the company's financial performance.

3.6 The board of directors' size (BD SIZE)

The total number of administrators on the Board of Directors.

In their empirical research, Jensen, (1993); Yermack, (1997) and Eisenberg, Sundgren and Wells, (1988) dealt with the impact of the board's size on its operating efficacy. According to Jensen (1993), boards having a large number of directors prefer the leaders' domination, which leads to the creation of coalitions and group conflicts. Against the grain, Pearce and Zahra (1992) showed that a board's large size strengthens its control capacity and improves its informational sources. In this context, Dalton et al (1999) showed that large-sized board companies achieve better performance, which represents the bzsis of our sixth hypothesis which states that:

- Hypothesis 6: There is a significant positive relationship between the board's size and the firm's financial performance.

3.7 The board of directors' duality (DUAL)

This is the separation between the management and monitoring functions. The board's duality is a dichotomous variable that takes value 1 if there is a combination of management and monitoring functions, and 0 otherwise. The examination of the board's duality from a theoretical point of view states that this can have a significant effect on the audit quality. O'Sullivan (2000), in the presence of a dominant CEO, the outside directors tend to use the firms' audit quality in order to reduce its influence on the firm's decisions. On the other hand, Daily and Dalton (1993) indicated that the combination of functions of board's chairman and the chief executive officer, CEO, calls into question the independence of the board insofar as it assigns an influential role to the leader. However, few studies showed that the function accumulation improves the firm's performance (Godard and Schatt, 2000). This brings us to predict that:

- Hypothesis 7: There is a significant relationship between the board's dual structure and the company's financial performance.

3.8 The proportion of outside directors (ADMID)

This is the proportion of independent external directors (within the context of Button's report (2002)) within the board of directors. This empirical examination of this variable states that the latter may have two alternatives, regarding the possible relationship between the balance of the external members within the board of directors and the requested audit quality, which should be raised. The first alternative emanates mainly from previous empirical studies which showed a positive association between the balance of the external members in the board and the efficiency of its functioning (Lee et al. (1992)). Such efficiency is synonymous with a strict control of the leaders and the alignment of their interests with the shareholders'. A better audit quality could no longer be a prerogative for both the shareholders and the directors due to a substitution effect between the effectiveness of the control exercised by the outsiders and the choice of a highly reputed auditor, which will have an impact on the audited company's performance. The second alternative (supported by Petroni and Beasley (2001) and Lennox (2004)), revealed that outside directors influence the board's decisions in choosing a better audit quality. An approved audit quality would provide these administrators with a high level of assurance that the financial statements do not contain material errors, which would reduce the information asymmetry between the insiders and the outsiders and therefore affect the audited company's performance. Due to these little homogeneous results, the following hypothesis will be stated:

- Hypothesis 8: There is a significant relationship between the independence of the directors within the board and the firm's financial performance.

3.9 The audited company's size (SIZE)

It is a variable measured by the natural logarithm of the company's total turnover. In fact, the size is an indirect substitute of the agency costs (Piot, 2005). According to Chow (1982), the firm's size increases the probability of voluntarily engaging an external auditor. Moreover, Ettredge et al. (1994) concluded that there is a positive relationship between the request for a periodic control of the accounts and the American firms' size.

On the other hand, Copley et al. (1995), Waleed (1999), Abbot and Parker (2000), Piot (2001a, b), Fan and Wong (2005), Niemi and Sundgrem (2003), Hay and specifications (2004) and Lennox (2004) could prove the existence of a positive relationship between the size of the customer and the choice of a highly reputed external auditor. The closure date of the accounts (Dec): This binary variable indicates whether the audit is conducted during the period of the auditors' peak activity. It is equal to 1 if the audited company closes its accounts in December and to zero if the company closes its accounts at another date. This seems to be normal since the great majority of the French companies close their accounting years on December 31 because the profits achieved at the end of an exercise practice may be included in the result of this exercise.

3.10 Age of the audited company (AGE)

It is the difference between the company's reference year and that of its creation (Age = «company's reference year –creation year + 1»). Empirically, the results of

Yeoh and Jubb (2001), showed that company's age is also a criterion determining the demand for the differentiated audit quality and therefore for better performance, in the sense that newly created or young firms attract highly reputed audit firms and therefore the best audited company's performance. For this reason, financial performance will be regressed depending on the audit characteristics of the board of directors and of the agency conflicts by supervising the company's size effect, its account closure date and its age. The regression formulation gives:

$$Qt_{it} = \alpha_1 + \alpha_1 raud_{it} + \alpha_2 honor_{it} + \alpha_3 committee\text{-}d\text{-}audit_{it} + \alpha_4 tdta_{it} + \alpha_5 oi_{it} + \alpha_6 size\text{-}ca_{it} + \alpha_7 dual_{it} + \alpha_8 admid_{it} + \alpha_9 size_{it} + \alpha_{10} dec_{it} + \alpha_{11} age_{it} + \varepsilon it$$

4. Sampling and methodology

Our study sample consists of 102 companies-years and globally includes firms which entered the SBF 120 index at least once during the 2014-2016 period, and do not have financial or similar activity. These companies are chosen from the site www.amf-france.org on 18-12-2015.

-The companies excluded from this sample are:

• Financial insurance and investment companies;

• Land and real estate companies;

• Companies eliminated because they are too recently created or listed or have an impossible access to at least one annual report during the 2015-2016; fiscal years

• Companies that are not connected to a well-defined activity sector.

-The off sector ones, those that joined the index between 2014 and 2016 and do not figure in the starting list. Therefore, the final sample was reduced to 67 French companies belonging to the 120 SBF index with the study period covering the 2014/2016 period. To answer our research objective, a linear regression is used so as to analyze the effect of the explanatory variables (governance and control) on the dependent variable (financial performance) and as a result, an assessment of the following regressions is suggested:

Model 1:

$$Qt_{it} = \alpha_0 + \alpha_1 raud_{it} + \alpha_2 committee\text{-}d\text{-}audit_{it} + \alpha_3 tdta_{it} + \alpha_4 oi_{it} + \alpha_5 size\text{-}ca_{it} + \alpha_6 dual_{it} + \alpha_7 admid_{it} + \alpha_8 size_{it} + \alpha_9 dec_{it} + \alpha_{10} age_{it} + \varepsilon_{it}$$

Model 2:

$$Qt_{it} = \alpha_0 + \alpha'_1 raud_{it} + \alpha'_2 honor_{it} + \alpha'_3 committee\text{-}d\text{-}audit_{it} + \alpha'_4 tdta_{it} + \alpha'_5 oi_{it} + \alpha'_6 taille\text{-}ca_{it} + \alpha'_7 dual_{it} + \alpha'_8 admid_{it} + \alpha'_9 dec_{it} + \alpha'_{10} age_{it} + \varepsilon_{it}$$

Methodological, our model is a fixed panel data model. Actually, we will regress the measurement of performance on a set of attributes of the audit quality, on some governance variables and on all the control variables. Spearman's test shows that there is a co-linearity problem between the two variables ("honor" and "tail"). Therefore, to solve this problem, both variables will not be included in the same model.

5. Empirical results

In what follows, we will present the results of the descriptive analysis of our sample variables. Then, to test the above hypotheses, we will show and interpret the results of our regression model.

5.1 Linear regression results of the study models.

Table 1 presents the results of the linear regression of the impact of the external audit quality on performance. This table gives us an initial idea about the relationship between our explanatory variables, one by one, and the explained variable.

Insofar as the chi (2) Wald test for the model adjustment shows a value of 3.03e+08 significant at 1% threshold for model 1 and 52062.87 significant at the threshold of 1% for model 2, we will present only the results of this last resolution which show a high value and a significance almost nil. This shows that the model is significant, which makes it possible to reject the null hypothesis stating the nullity of all α coefficients. Similarly, the value within, which gives an idea about the intra-individual variability of the performance variable explained by the explanatory variables is 88.07% for model 1 and 92.41% for model 2, which implies a good adjustment quality between the groups. It should be noted that some commonly identified in variables previous literature, such as the audit and some governance variables, are never significant in our multi-varied models (the presence of a BIG, of an audit committee and the board's size... for example) but these variables individually show significant correlations with the explained variable in the univariate analyses. On the other hand, we believe that these results are due to the fact that some variables intersect one another but are not truly independent because of the multicollinearity related to the interdependence of the agency cost reduction mechanisms (when diagnosing multicollinearity).

5.2 Multivariate tests

To check the absence of multicollinearity between the independent variables, we calculated Pearson's correlation coefficients between the independent variables and the "Variance Inflation Factor" (VIF) as shown in Table 2. In fact, Kervin (1992) provides an r=0.7 to comment on a serious collinearity problem between the independent variables included in the regression model. According to our correlation matrix, we find that the variable relate to the audit fees "honor" and the variable related to the size of the audited company "size" are somewhat closely correlated (a coefficient of 0.7965), which suggests that both of these variables should not be simultaneously included in our multivariate model. However, many of our variables are moderately correlated, which can leave a fear of an overlap problem of their significance in the multivariate model. Similarly, Figure 1 presents the VIFs (the variance proportion indicator of each independent VAR explained by all the other independent variables). The VIFs also check the multicollinearity problem since both of the variables "honor" and "size" are almost equal to 3, which are considered by Stolowy and Ding (2003) reasonably acceptable. Therefore, to solve this problem, both of the variables ("honor" and "size) will not be introduced in the same model.

-The board of directors' size:

It can be noted that the "Raud" variable is significant at 10% threshold for model 1 and 5% for model 2 but has a negative sign. The model results for all the companies of our sample show that the external auditor's reputation measured by belonging to the group of major international audit networks (Big 4) is negatively correlated with performance measured by the TQ (Tobin's Q). This result confirms our first hypothesis stating that there is a significant relationship between an audit firms's belonging to the international network and company's performance. The structure of the audit firms may explain our result that takes the negative sense. In fact, experienced auditors possess large audit firms where there are several hierarchical levels. These are, therefore, trainees and employees of the lowest levels that are actually doing the work. The mission heads simply sign the reports already prepared. These auditors lack experience, which is unfavorable to company's performance.Contrary to our results, Leenox, (1999), states that the fact of being audited by one Big improves the firm's performance. On the one hand, financial markets enjoy more this type of cabinet. On the other hand, to preserve their reputation, these firms possess enormous material and physical resources and are interested in the maximum to the mission they have, which improves their work of investigation and control and therefore promotes financial firm's performance.

-The honor variable:

The "audit fees" variable is significant at 5% threshold and shows a positive effect for model 2 on performance. Actually, an increase of the audit fees by 100% will lead to the increase of performance by 1.8%, which confirms our second hypothesis. In fact, according to Palmarose (1986a), external audit is a way of strengthening the mechanisms implemented by the shareholders to reduce the agency costs and control the management of the leaders. The demand for an audit increases depending on the intensity of the agency costs, which should result in an increase of the audit fees and an improvement of the audited company's performance. La variable d'un comité existence d'audit n'est pas significative et dénote un effet négatif sur la performance pour les 2 modèles. De ce fait, notre hypothèse H.3 stipulant qu'il existe une relation significative et positive entre la présence d'un comité d'audit et la performance de la firme, est infirmée.

-The audit committee variable:

The existence of an audit committee variable is not significant and indicates a negative effect on performance for both models. Therefore, our hypothesis H.3, which states that there is a significant and positive relationship between the presence of an audit committee and the firm's performance, is rejected.

-The indebtedness variable:

The "TDTA" debt ratio is significant at 1% level and shows a positive effect on performance for models 1 and 2. Unlike with our results, Weir et al. (2002) and Hannifa and Hudaib (2006), suggest that debt presence drives up the conflicts of interest between companies and creditors. The company opts for risky projects to increase its profitability at the expense of its ability to repay its debts. In this case, we are experiencing a malfunction of control carried out by banks. Actually, a very high indebtedness proves expensive for the company and destroys the value creation. According to Myers and Majluf (1984), there is a financing hierarchy (Pecking Order Theory) with which companies of all sizes will, at first, exhaust their internal financing sources (self-funding) before going into debt in a significant way.

-The investment opportunity Variable:

The investment opportunity variable is not significant and indicates a positive effect on performance for both models 1 and 2. This does not comply with the theoretical predictions. In fact, this can be explained by the leaders' opportunistic behavior within the company, who will favor their interests at the expense of the control and monitoring policy, particularly, in the choice of a well reputed audit firm. Similarly, the corporate governance structures, which apply to the company at a given time, force the possibilities especially as the leader has a degree of freedom. For this reason, the funding policy represents a potential shifting action for the implementation of a strategy to neutralize or bypass some control mechanisms. This makes us refute the relationship between the audit quality and of course the audited company's performance, on the one hand, and investment opportunities, on the other hand. This contradictory result may be due to the choice of the sample period.

-The board of directors' size variable:

The board's size turns out to be significant at 5% for model 2 but has a negative impact on performance. This result states that there is a significant and positive relationship between the board's size and the firm's performance.This result is consistent with the ones presented by Jensen (1993) and Lipton and Lorsh (1992 who argue that large-sized boards make the communication and decision-making process very weighty and difficult. Moreover, large sized-boards often find themselves in front of coordination problems and collision risk between the board's members.By contrast, other writers, such as Zahara and Pearce (1992) and Goodstein et al. (1991), denounced this negative relationship between the board's size and performance by suggesting that the board's size improves performance. On the other hand, some authors, like (Core et al 1999; Yermack, 1997; Eisenberg et al, 1998, Pearce and Zahra, 1992 and Dalton et al, 1999), argue that due to its large size and its diversified structure, the board will be more capable of monitoring and improving its information resources and therefore providing better environmental links. However, in a study carried out in 2002, Godard revealed that the board's size has no impact on performance.

-The duality variable:

According to our results, it is clear that duality has a positive impact on performance at 1% for both models, which seems consistent with our hypothesis 7 stating that there is a significant relationship between the board's dual structure and the firm's performance. However, studies focusing on the CEO and chairman's splitting functions are not unanimous about the impact of duality on performance. Some authors support duality while others denounce it. In this context, the proponents of duality believe it is important that the company is lead by one person. They argue that function combining helps have a clear leadership in terms of formulating and implementing a strategy, which, therefore, should lead to a better performance. (Godard, 1998). However, few studies support this theoretical literature and show that function combining improves the firm's performance (Boyd, 1995 and Godard and Schatt, 2000). However, most research studies stipulate that the duality appears to be an impediment to the separation of the decision and control functions. In this regard, Daily and Dalton (1994) state that combining the Chairman and CEO's functions calls into question the board's independence. Actually, several empirical studies found a negative impact of the function combination on the firm's performance (Hermalin and Weisbach, 2003) as well as on the risk of failing standards (Daily and Dalton, 1994).

-The Admid variable:

The results of our empirical model show that the impact of the board's independence is positive in model 1 and negative in model 2 but insignificant. This result seems surprising because a positive relationship was expected between the board's independence and performance (H8). In fact, the directors' independence is considered the most fundamental dimension of the board and the most studied in literature. Research studies and reports about corporate governance (reports of Viénot, 1999, Hampel Report, 1998; Dey, 1994 Cadbury Report, 1992) argue that independent directors are best placed to control the executive officer.

-The firm's size variable:

In fact, large-sized firms are characterized by complex and diversified operations as well as by an important marginal performance compared to efforts they make. This result is also supported by Klein, Shapiro and Young (2005) when they used the same indicator of performance, the (Qt) in their study about the impact of corporate governance mechanisms on performance in the Canadian context.

-The Dec variable:

Another control variable, which was developed in literature, was also tested. This is the Dec variable (0/1) which embodies a date in December since this period is traditionally the peak of business activity. Our results showed that the 'Dec' variable is not significant for model 1 but significant at 10% threshold for model 2, besides it denotes a negative impact on the audited company's performance for both models. This seems normal since the vast majority of French companies close their accounting years on December 31 because the profits made on the closing date of the fiscal year can be entered in the result of this exercise.

-The age variable:

The "age" variable is not significant and indicates a significant positive impact for model 1, while for model 2; it is significant at 5% threshold and shows a negative impact on performance. Therefore, according to the results of Yeoh and Jubb (2001), company's age also seems to be a determinant of demand for an audit quality and hence a better performance, whereby newly created or young companies attract more very well known audit firms thereby improving the audited company's performance.

6. CONCLUSION

An empirical analysis carried out in the French context enabled us to show that auditing improves performance and therefore contributes to a good corporate governance thanks to the reduction of the transaction and agency costs and to the coordination of the behavior of all the actors who cause them. In fact, it was found that external audit has a significant impact on performance, although the direction of this impact is undefined knowing that the external audit has been measured in our study by two attributes, namely the membership in an international BIG 4 firm and the audit fees. In this way, the audit carried out by BIG auditors involves costs which adversely affect the audited company's performance. These costs are usually the result of a bad perception of the audit quality by investors. This could mean for investors that the information produced by the company is not reliable. Therefore, the potential losses that the principals can bear are high. In this case, the principals will charge a premium that compensates for the cost they support at the level of their price range, which reduces the audited company's performance. In another perspective, the external audit measured by the audit charged fees can positively affect the audited company's performance. Actually, the amount of the audit fees is supposed to reflect the company's demand for an audit and therefore raise the audit fees.

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Table 1: The linear regression of the external audit quality impact on performance

		Model 1	Model 2
Variables	SP *with performance*	α_i	α'_i
Constant	+/-	.54*** (0.006)	.052** (0.026)
raud	+	- .034* (0.068)	- .090** (0.050)
honor	+/-	-	.018** (0.047)
Audit committee	+	- .0002 (0.753)	- .008 (0.291)
TDTA	+	.8873*** (0.000)	.813*** (0.000)
OI	+/-	.000 (0.183)	.000 (0.414)
Size CA	+	.000 (0.641)	- .004** (0.030)
dual	+/-	.018*** (0.000)	.022*** (0.000)
admid	+/-	.008 (0.501)	- .016 (0.177)
taill		- .000 (0.878)	-
dec		- .007 (0.479)	- .033* (0.073)
age		.000** (0.059)	- .000*** (0.008)
Number of observations = 201, Number of years = 3			
Wald chi (2) = 3.03e+08 *** ; R-squared = 0.8807			
Wald chi (2) = 52062.87 *** ; R-squared = 0.9241			
Model 1: A model which excludes the «honor» variable Model 2: A model which excludes the «size» variable			

Table 2: Spearman correlation matrix

	raud	Honor	comité- t	tdta	oi	taill- a	dual	admid_	taill	dec	age
Raud	1.000										
honor	0.2650 0.0001	1.000									
comité - t	0.5593 0.0000	0.2625 0.0002	1.000								
Tdta	-0.1753 0.0128	0.0665 0.3481	0.2625 0.0002	1.000							
Oi	0.0544 0.4429	0.0106 0.8813	0.0665 0.3481	0.1234 0.0809	1.000						
taill- ca	0.2196 0.0017	0.5243 0.0000	0.5243 0.0000	0.0394 0.5786	0.0379 0.5933	1.000					
Dual	-0.0149 0.8338	0.1432 0.0426	0.0783 0.2377	0.1150 0.1041	0.0256 0.7178	0.2479 0.0004	1.000				
admid _	-0.0378 0.5940	0.0839 0.2363	0.0478 0.5005	-0.0277 0.6964	0.0297 0.6759	-0.1997 0.0045	-0.0529 0.4559	1.000			
Taill	0.2413 0.0006	0.7965 0.0000	0.2009 0.0042	0.0235 0.7402	-0.0349 0.6233	0.5295 0.0000	0.1633 0.0205	-0.0388 0.5844	1.000		
dec	-0.0777 0.2726	0.2073 0.0032	-0.1390 0.0491	0.0810 0.2529	0.0477 0.5015	0.1994 0.0045	0.0837 0.2375	0.1155 0.1026	0.2280 0.0011	1.000	

age	0.1048 0.1386	0.2434 0.0005	0.0703 0.3215	-0.0072 0.9195	-0.0670 0.3443	0.2889 0.0000	0.0028 0.9681	-0.1420 0.0443	0.2318 0.0009		1.000

Figure 1: VIFs of the independent variables

Variable	VIF	1/VIF
honor	$\boxed{2.78}$	0.359048
taill	$\boxed{2.32}$	0.430787
taille_ca	1.70	0.589043
raud	1.62	0.618074
comitédaudit	1.62	0.618468
admid_	1.19	0.838557
dec	1.17	0.854878
age	1.15	0.869036
dual	1.08	0.928269
tdta	1.06	0.940400
oi	1.03	0.972764
Mean VIF	1.52	