

ENHANCING THE GOING CONCERN IN LIGHT OF THE MANAGERIAL ABILITY AND EARNINGS QUALITY: A THEORETICAL STUDY

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ABSTRACT

The article looks at enhancing the going concern in light of managerial ability by mediating the earnings quality. As it aims to show the importance of these ability, experiences and skills that managers possess in the Earnings Quality achieved by the company when practicing its activities and the extent of its effectiveness in going concern and the continuity of its business and its relations with internal and external parties. The study dealt with a methodological framework according to a theoretical analysis of the variables of the study and the relationship between them, as it clarified the concept of managerial ability, its objectives, and the areas that contribute to enhancing performance. Which showed how the managerial ability works as a mechanism for documenting the accuracy of the accounting number, leading to the earnings quality. As well as the contribution of those ability to consolidating the foundations of excellence and then enhancing the going concern in the contemporary business environment as a direct role for these ability. As well as the indirect role that can be generated through its strengthening of the earnings quality. And it was concluded that the majority of studies confirmed the positive relationship between the variables of to study, as the managerial ability supports the earnings quality through high and efficient c ability, which lead to achieving a real profit number that is characterized by quality and achieves the going concern.

Keywords: Managerial Ability, Earnings Quality, Going Concern

INTRODUCTION

The ability of managers to design effective business processes and the ability to make valuable decisions is the key to the success of the company, and the effectiveness of the company's business can be judged by the extent to which the inputs are used versus the outputs achieved by the company (SeTin & urwaningsari, 2018). Managers play an important major role in the corporate decisions and performance of the company, as experienced managers with strong technical and personal skills can help in achieving higher income and profit, value-creating investments, and institutional success. As management ability has serious impacts on companies performance and investment opportunities, and managers with ability are able to recognize the continuous trend of the industry, and accurately forecast the demand for the product (Nawaz et al., 2020: 319). Many users of financial reports are interested in the value of net profits only without looking at its quality, i.e. the quality of the accounting number for that profit, which makes it the decisions that depend on it are incorrect decisions in the event that it is not of quality (Munshid and Yaqoub, 2020: 108). As the concept of the earnings quality differs in the accounting literature, and this difference stems from different points of

view. The view and objectives of users of financial reports, where creditors are interested in cash flow from profits, given that the earnings quality reflects the basics of operation, and that it reflects the high earnings quality that is disclosed before the exceptional items in the income statement, meaning that this income is a good indicator of future profits. Therefore the earnings quality expresses the profits that honestly represent the economic situation of the company, and can be relied upon in evaluating performance, as it contains information that enables future forecasting, as well as being free from opportunistic earnings management so that it can be relied upon in decision-making (Ali, 2021: 7-8). So the scope of those earnings and their quality is one of the most important factors influencing the going concern and assessing whether there are fundamental doubts about the company's ability to continue. As a going concern for a future period of time, which is usually (12) months from the end of the year the financial statements are in accordance with accounting principles, and the judgment on continuity shall be made by the external auditor. Who is responsible for expressing a negative opinion in the event of substantial doubts about the company's ability to continue, and this opinion is within paragraph. As a result of the auditor's report, the auditor must inform external stakeholders (including investors) of any situation involving uncertainty about the continuity of the company (Sundgren & Svanströms, 2014).

After addressing the introduction, the remainder of the research will be divided into three axes.

1. The methodological framework of the research

The study aims to define each of the concept of Managerial Ability and methods of measuring them. And to identify the concept and standards of the Earnings Quality and their relationship to managerial ability, and the role of each of the Managerial Ability and the Earnings Quality and the relationship between them in promoting the going concern. Several studies (Demerjian et al., 2013), (Romadhon & Kusuma, 2020), (Eissa & Hashad, 2021) have confirmed that there is a discrepancy and disagreement about the relationship of Managerial Ability and going concern. As well as the relationship of managerial ability to the earnings quality. While stemming from the importance of the study is that it represents a framework in which a theoretical and analytical review of the importance of managerial ability in strengthening the earnings quality and its reflection in enhancing the continuity of the company. As the topic of managerial ability has received wide attention in accounting research during the last decade, as many companies in the global environment seek to own ability. The importance of the study comes from the importance of the issue of managerial ability as one of the determinants of the quality of accounting profit disclosed in the reports and financial statements. The extent to which it expresses the reality of the activity result of that company, and then the possibility of relying on it In making investment decisions. As well as the usefulness of the current research in showing the extent of the impact of these ability on enhancing or weakening the earnings quality and its reflection on the going concern. The research relied on two basic scientific research methodologies, namely the inductive method and the deductive method, in order to consolidate its concepts and topics. The literature and scientific publications related to it were extrapolated from books, scientific periodicals, university theses, articles and research from Arab and foreign websites, for the purpose of analyzing and building its theoretical side. End by deducing the relationship between the research variables.

2. The theoretical framework for research

2. 1. Managerial ability

Managerial ability is a key concept in many studies, such as those that look at managerial contributions to investment decisions or corporate performance to derive managerial ability, and assess the degree of that ability presented by (Demerjian et al., 2012) and this result derives from intrinsic efficiency in resource transfer. To revenues, the implicit hypothesis found in many studies that use the degree of managerial ability is that the degree reflects the level of knowledge and managerial skill, as the higher degree in managerial ability is obtained by managers who are more knowledgeable (Hesarzadeh, 2020: 1). That the manager presents high levels of managerial ability, as a result the manager is expected to gain better knowledge of the internal and external environment of the company in the direction of self-improvement to predict future business outcomes (Chronopoulos, 2017: 515 & Siougle).

The managerial ability is defined as the manager's experience in making and implementing decisions that can lead the company to a high level of efficiency, and this efficiency is achieved through the use of minimal resources to achieve the best results (Wiratam, 2021: 421).

2. 2. The earnings quality

The concept of profit quality represents a function of the difference between the announced accounting profit and the company's economic profit. This difference results from the recording and measurement of financial events based on accepted accounting principles (GAAP). Which may be affected by management estimates, in addition to the fact that the concept of profit quality can be achieved through the current earnings capacity on continuity in the future, the more the profits are characterized by continuity, the more this is a good indicator of the high level of the earnings quality (Hamid and Hassan, 2020:214). As many users of financial statements take many decisions and these decisions come by relying on accounting profits as the most important information to rationalize their decisions, and the concept of the earnings quality according to the users of the financial statements. The auditors see them as achieved by their commitment to the generally accepted accounting rules and principles, and the creditors see them as being achieved in the ease and flexibility of converting the announced profits into cash, and the shareholders see them as achieved when they reflect the real performance of the company (Fouad, 2015: 440). Accounting profits have a distinguished position in accounting thought as one of the most important criteria indicating the truthfulness and realism of true profits The truth and reality of the company, as many researchers resorted to it and paid attention to these criteria for several reasons, the most important of which are (Awad, 2011: 9-10), (Abbas, 2016: 22):

- a. The high growth in the practices of profit management and income smoothing methods.
- b. The advent of Jones's accrual model.
- c. The development and implementation of a set of internationally recognized accounting standards, which contributed greatly to the interest of researchers about the basic and important issues related to the earnings quality.
- d. The needs of the financial market are one of the most important reasons for measuring the earnings quality, because the presence of a small difference in expectations about profits will affect the stock prices in the financial market.
- e. The earnings quality is considered as an indirect influence on the quality of accounting standards issued by professional bodies, as the earnings quality is considered as a feedback and gives information to the standards-issuing body whether the standards issued are effective or ineffective.

Several studies have provided definitions that explain the concept of quality accounting profit, including as below:

The quality of accounting earnings is “an information that has an impact on stakeholders in making decisions about the company in question” (Pratiwi & Pralita, 2021).

As well as, "The high level of earnings quality provides more information about the features of the company's financial performance, which are appropriate to the decision that a particular decision is about to be taken" (Mahmoud, 2020).

The earnings quality was also defined as "it can express the high quality of the income that is disclosed before the exceptional items in the income statement, meaning that this income is a good indicator of future profits" (Ali, 2021).

2.3. Going Concern

The imposition of continuity is one of the basic assumptions related to the accounting unit (Hussein & Mahmood, 2021: 544). and according to this assumption, the company is a continuous unit, and it is one of the accounting assumptions that make up the accounting theoretical framework that governs the measurement and recording processes. Summarizing the results of economic events and the impact of these events on the company's economy. In the foreseeable future, as long as there is no evidence to the contrary, it is assumed that the company has a longer useful life than the assets it uses. This means that the assets and liabilities will appear in the statement of financial position on the basis that the company will be able to collect the value of its assets and perform its obligations during the current activity, i.e. Will it carries out its business for the purpose of achieving its goals and obligations. And since the goals and obligations are variable and renewable. The economic project continues to exist for an indefinite period. So the imposition of continuity was defined as “the assumption of the going concern in the foreseeable future and this means in particular that its budget and profit and loss account have been prepared on the assumption there is no need to liquidate the company's assets or not to interrupt its operations in the future Perspective” (Kamal and Yaqoub, 2013: 123-124).

And (Nisman, 2017: 86) defined the concept of going concern as “a company that is established to last from a period of time to another with the ability to meet its obligations. When the repayment period comes without the need for disposal substantially from its assets, changing the structure of its debts, or having to reduce the volume of its operations.

And it was defined (Abdulaziz, 2021: 213) that the going concern is found to continue its operations in the future for a period of time sufficient to achieve its objectives and fulfill its existing obligations. That liquidation is not on the table and is considered an exceptional case, and the distinction between fixed and current assets and short- and long-term liabilities is a result of the application of the principle continuity. The financial statements are usually prepared on the assumption that the company will continue to operate during the foreseeable future, and then it is assumed that the company has no intention, and does not have the need to liquidate or reduce the size of its operations in the near or future.

2.4. The relationship of managerial ability with the earnings quality

The managerial ability is the personal skills and experiences possessed by managers that enhance the company's resources and help in understanding accounting standards and have a significant impact on the earnings quality. So it will be addressed through studies such as (Demerjian et al., 2013), (Romadhon & Kusuma, 2020), (Eissa & Hashad, 2021), (Ibrahim,

2017), which discussed and tested the relationship between management ability and the earnings quality.

The study (Demerjian et al., 2013) examined the relationship between managerial ability and profit quality, and showed that managers can influence the quality of judgments and estimates used to generate profits, and they found a positive correlation between managerial ability and profit quality. Managers who are characterized by high administrative levels and quality usually they achieve high- earnings quality. Meaning that companies can improve the quality of their earnings by hiring managers with managerial ability. Data Envelope Analysis (DEA) has been used to estimate company efficiency within industries, and compare sales generated by each company, as a measure of managerial ability, while Earnings quality was measured through several measures, namely accrual estimation, return of income statement, profit continuity, errors in provision for bad debts, and benefit planning in cash flows. Re-preparation of the income statement, which increases the continuity of profits, and reduces the possibility of errors in accruals. Because it is expected that better managers will be able to report for the benefits that closely correspond to the underlying economic activity, then measures of the quality of earnings that are affected by the judgments and the assessment of the accrual will differ with different management ability.

The study (Ibrahim, 2017) tested the effect of managerial ability on the Earnings Quality in the Egyptian business environment for executives. The study included a sample of 129 non-financial companies registered in the Egyptian stock market during the period from (2012-2013), and the study concluded that There is a positive effect of the managerial ability on the absolute value of voluntary accruals and accounting profit smoothing activities, which is reflected in the low earnings quality. An insignificant inverse correlation relationship between the measure of the degree of managerial ability and the measure of the rate of return on assets, which indicates that each measure can express the ability. But using different entrances, in addition, there is a positive impact of the managerial ability of executives expressed in the measure of the degree of managerial ability and the rate of return on assets (ROA) on the absolute value of the discretionary accruals and the level of accounting profit smoothing activities that would lead to a reduction the earnings quality. This refers to the executives taking advantage of their knowledge of the operational environment and the weak legal and legislative environment necessary to restrict their freedom of action within the companies they manage to carry out opportunistic practices through earning management to obtain special benefits. According to the determinants of the agency problem that arises between the principal (shareholders) and the agent (managerial).

The study (Kusuma & Romadhon, 2020) tested the effect of managerial ability on the earnings quality by including the quality of corporate governance and concentration of ownership as factors that are expected to be able to explain the discrepancies. The study used the data of manufacturing companies listed on the Indonesia Stock Exchange for the period (2010-2016) as a study sample. The total of observations were (253), and the study concluded to prove the mediating role of the quality of governance in strengthening the relationship between managerial ability and the earnings quality. It is the reason for the negative impact of the management ability on the earnings quality, and the possible explanation for this result is the lack of incentives for shareholders to effectively supervise managers, and this study can encourage shareholders to evaluate the effectiveness of the implementation and formulation of

corporate governance policies. And among the limitations of this study is to be limited to the data envelope analysis scale (DEA) for the managerial ability of industrial companies only, and the reliance in measuring governance on specific and relatively few mechanisms. It was suggested in this study that it is necessary to take into account the Consider ethical factors for managers and use several measures of earnings quality, such as earnings continuity, earnings management, and samples from industries other than manufacturing.

The study (Eissa & Hashad, 2021: 89-99) also measured the impact of managerial ability on the earnings quality through the timing of financial reporting in the Egyptian environment, and a sample of (62) Egyptian companies was used during the period (2014-2018). That under the resource-based theory that managers with high ability possess the maximum intellectual capital, and they are more able to maintain internal control systems and provide higher earnings quality. In addition to that, managers with high ability provide financial statements in a timely manner, and the study confirms there is a negative relationship between managerial ability and the delay in preparing financial reports. As managers with high ability will submit financial reports in a timely manner, and the study found a negative relationship between managerial ability and the earnings quality by examining the impact of managerial ability on the timing of financial reports.

2. 5. The relationship of management ability to going concern

Managerial ability are the competencies and skills that managers have to lead the company and that contribute to its continuity if it is distinguished and leads to effective decisions in the interest of the company. 2021), (Abdel-Aal, 2021), (Sabihi, 1998), the relationship between the managerial ability and the continuity of the company in different environments.

The study (Febriana & Mardijuwono, 2020) examined the relationship of managerial ability with the auditor's opinion of going concern. Within a sample of (372) views of manufacturing companies listed on the Indonesia Stock Exchange for the period (2014-2016). The study indicates that the managerial ability has a negative relationship with giving the auditor an opinion on continuity, as the greater the managerial ability of the company, the more likely the company's auditor will not pay attention to auditing continuity. This indicates that the managerial ability affects the auditor's judgment in expressing an opinion on the continuity of the company's business, and becomes the auditor is less sensitive to significant financial distress when the management ability of the company are classified as appropriate. This study reflects the idea of the importance of the management ability and the need to coordinate it so that the company can maintain its survival from the auditor's point of view, moreover. This study can enrich the studies on management ability that relates to the auditor's opinion on the going concern.

The study (Berglund, 2015) tested the impact of managerial ability on the going concern, and the auditor's opinion in light of the presence of great doubt about the company's ability to continue. The company's performance, and a contemporary measure of management ability has been used, which is the data envelope analysis, which expresses the company's ability to generate revenue from operational inputs, as the management ability improves the accuracy of the auditor's opinion through its positive impact on the accuracy of potential financial statements and the information used by the auditor. In addition, high managerial ability is linked to a clean opinion regardless of the subsequent feasibility of the company, and at the same time reduces the occurrence of false positives and increases the incidence of false

negatives. As the managerial ability affects the reporting decision of the auditor by changing the way in which the auditor uses financial status information. The study found that the auditor's opinion is less sensitive to the prominent signs of financial distress when the managerial ability is high than when it is the managerial ability is low. That the auditor's independence may act as an interactive variable that works to modify and limit the negative relationship between the managerial ability and the judgment on the going concern. As mentioned (Ibrahim, 2021: 24) that the responsibility of the auditors in this regard is governed by local or international auditing standards, except many countries have accused the auditors of negligence in performing their work, holding them responsible and not warning stakeholders of doubts about the company's ability to continue long enough before bankruptcy, and more than that. Some argue that there are shortcomings in auditing standards. As a result of the fact that many American business companies that it was bankrupt during the period (2007-2008) and it was preparing its financial statements on the basis of going concern. Which indicates the inability of auditing standards to provide the necessary guidance for auditors to deal with cases of doubt or fundamental uncertainty related to the company's ability to continue as a going concern.

The study (Abdel-Aal, 2021) also addressed the relationship between Managerial Ability and adjusting the auditor's opinion due to continuity. The additional analysis of this study showed an important result that there is a positive relationship between managerial ability and adjusting the auditor's opinion due to continuity, and this relationship was tested by mediating real earnings management as a mediating variable. In the study (Sabihi, 1998: 306) stated that determining the viability of going concerns is a difficult process and has a high degree of risk, and there is practically nothing that the auditor can use to determine the type of report to be issued in this case, so this depends to a large extent on personal judgment and appreciation. For the auditor, who also depends to a large extent on the information obtained by the auditor and on the level of professional experience he has.

2. 6. The relationship of the Earnings Quality with Going Concern

Several studies (Chen et al., 2018), (Ali et al., 2019), (Abu Arqoub, 2016), (Hamed et al., 2021) have examined the relationship between the earnings quality and the going concern.

The study included reports the financial statements of all hotels listed in the Iraq Stock Exchange for the period (2008-2017), The study found a significant correlation between the earnings quality and the principle of continuity for hotels, which includes (9) hotels for a period of ten years, the study highlighted one element that is supposed to have an important impact on improving continuity, which is the earnings quality, the results also showed that the independent variable (earnings quality) has a positive and statistically significant effect in enhancing the company's continuity. Meaning that the higher the earnings quality, The more it enhances the company's continuity.

The study (Abu Arqoub, 2016) sought to identify and test the Earnings Quality and its impact on the continuity of Jordanian public shareholding industrial companies in the presence of the controlling variables (company size, company profitability, company indebtedness). (64) Jordanian public shareholding industrial companies, for the period (2009-2013), and the discriminatory analysis method was used. The most prominent findings of the study are that there is a discriminatory function of the profit quality variable for the Going Concern, meaning that failed companies have better profit quality than companies with ability on continuity, it

also showed that indebtedness in the case of failed companies has a positive impact and in successful companies negative.

As explained by (Hamed and others, 2021: 582), accounting profits are one of the most important items of financial statements for users of financial reports when making decisions, as they are an indicator for measuring the company's performance, and profit information is the most tracked by financial analysts and various other parties, and reflects accounting profits. The economic reality of the company's activity during the reporting period, and it is called the degree to which the profits are reflected in the company, and the interest in the earnings quality avoids stakeholders relying on misleading information. As it indicates the continuity of profits in the future and therefore it is an indicator of the sustainability of future profits and the continuity of the company.

The study (Chen et al., 2018) tested the relationship between the earnings quality and going concern through the auditor's fees during the global financial crisis (GFC). The study concluded that there is no significant difference in the earnings quality between companies that received a reduction in fees during the financial crisis international and regulatory companies consisting of companies that did not receive a reduction in fees and companies that received a reduction in fees before the crisis. That there is no indication that there is a possibility of a continuity opinion between the companies that received a reduction in fees during the crisis and the regulatory companies, as well as that the auditors their role was clear in understanding this global financial crisis. During the crisis, auditors were subjected to pressure from clients and audit committees to reduce audit fees, considering that audit fees are a proxy for their efforts, and regulators were concerned that lower audit fees during the crisis would lead to fewer audit efforts. Affects expressing an opinion on the continuity of the company.

2. 7. The contribution of Managerial Ability and Earnings Quality in the Going Concern

Companies, in general, seek to maintain the continuity of achieving profits, improving their performance and staying in the market, by employing managers with high Managerial Ability in managing the company, making the right decisions, assuming responsibility and risks, confronting them, and communication skill that contributes to enhancing the company's interest. managerial ability is an important factor in The company's success is through the economic role that managers play towards their companies, their continuity and their ability to apply accounting standards. These ability include all the talents, experiences, skills, competencies and personal reputation of managers, which are employed to make appropriate strategic investment decisions to manage the resources owned by the company and turn them into profits. revenue and achieving value for the company and a competitive advantage for it, in addition to their important role in reducing the negative impact of real profit management practices on the company's future performance and achieving high- earnings quality, which is an important indicator of the company's performance. High profits with stability, continuity, and predictive performance in the future, and the earnings quality is of great importance in the field of accounting. As its importance emerges as an indicator of dividend distributions and the reduction of tax evasion and is affected by various factors such as governance, profit management and accounting conservatism, and high- earnings quality are one of the indicators of the going concern. This indicates that the company is strong, which encourages continuity in the future and the strength of its position in the work environment, and the responsibility of the management with the internal and external auditor is an integrated responsibility in the

disclosure and reporting of the company's continuity in the future. The high ability possessed by managers contribute to achieving high earnings quality for the company and this is reflected positive in the going concern, and Figure (6) shows the positive relationship between the earnings quality, the managerial ability and the continuity of the company.

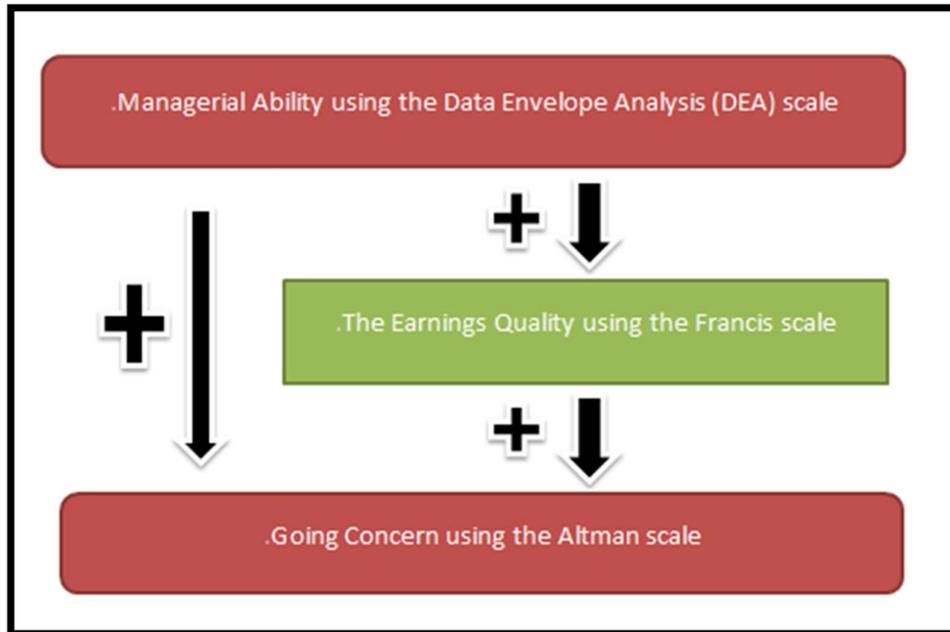


Figure (6): The contribution of Managerial Ability and the Earnings Quality to the Going Concern

Source: Figure prepared by the researcher.

As the managerial ability positively affects the earnings quality, as high and efficient ability lead to achieving a real profit figure characterized by quality, continuity and stability. Achieving high- earnings quality leads to the Going Concern in the future as a result of ensuring the fulfillment of its obligations and strengthening its ability to survive in the business environment. From these relations, the researcher concludes that the managerial ability will contribute to achieving the earnings quality, which is positively reflected in the going concern.

3. Conclusions

The opinions of the studies differed about the contribution of managerial ability to both the going concern and the earnings quality. The current research has drawn a set of conclusions built according to an analysis of those studies, as it was noted that Managerial Ability are a basic and important factor for the company. Accounting profit is one of the influential information that the external and internal parties are interested in. As it reflects the reality of what the accounting number represents for profit, which reflects the real performance of the company away from the opportunistic behavior of managers, as it can express the quality of the items of financial reports that are disclosed by the company's management. The going concern represents one of the important accounting assumptions, and the cornerstone on which the accounting measurement depends, and that the company it is continuous. That it will remain in existence until the resources and assets that it owned are exhausted, and it has been noted that the high and efficient managerial ability enhances the levels of earnings quality.

Companies can improve the quality of their profits by employing managers with high managerial ability. The managerial ability also contributes to shaping the reality of companies' continuity. Managers who have high ability and competencies make an effective contribution to strengthening the financial, strategic and operational position of the company and then reflect the impact of their decisions on the Going Concern. Those whose accounting profits are characterized by quality are usually more sustainable, as whenever the company achieves profits that are distinguished by its high quality. It is a good indicator of the Going Concern in the future and the continuity of its business in the work environment due to the fact that it possesses the appropriate resources to fulfill its obligations and expand its future activity.

In addition, there are influencing factors that may interfere in the relations between managerial ability, the earnings quality and the going concern, and may change the course of the relations negatively (or positively) among them. Control and control of these factors can serve the company and stakeholders, for example, these relationships are affected by market fluctuations. And according to the economic conditions of the country and the circumstances beyond the company's control, such as the Corona pandemic in the recent times, which affected the companies.

The current research emphasizes the need for the board of directors to pay attention to developing the skills and ability of executive departments by encouraging them to receive local and international training courses related to strengthening practices and ability, and paying attention to the issue of Managerial Ability and expanding its study with other accounting variables. As well as the importance of expanding studies related to intangible assets in general and trying to include managerial ability to be one of its components because of their impact on the efficiency, effectiveness and performance of the company.

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