The Impact of External Audit Quality on the Unsystematic Risks at Commercial Banks in the State of Kuwait

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Abstract

This study aimed to identify the effect of external audit quality in terms of its dimensions (size of the audit office, customer retention period, audit fees, non-audit services) in reduction of unsystematic risks (liquidity risk, operational risk, and credit risk) in the commercial banks in the State of Kuwait. The study population consisted of all 5 commercial banks in the State of Kuwait, which are listed on the Kuwait Stock Exchange. Multiple linear regression analysis was used to test the extent of the impact of independent variables on the dependent variable by using E-View's software to process the study data.

The study found that there is a difference between the Kuwaiti commercial banks in the liquidity risk, and the existence of convergence between the Kuwaiti commercial banks in operating and credit risks during the study period. The results of the study hypotheses test showed that there is a statistically significant effect of the quality of the external audit in terms of its dimensions (size of the audit office, customer retention period, audit fees, and non-audit services) in reduction of unsystematic risks represented by (liquidity risk, operational risk, and credit risk) In commercial banks in the State of Kuwait. The study recommended a set of recommendations, the most prominent of which was to increase the level of interest in achieving quality in the audit process and advance the level of the profession by improving the level of auditors performance and keeping pace with the progress and development in the audit profession and maintaining the independence and support of auditors, proper planning and proper implementation of the audit process, and the need to follow the management of commercial banks Kuwaiti strategy for a comprehensive and effective management of unsystematic risks in all its forms.

Key Words: External Audit Quality, Unsystematic Risks, Kuwaiti Commercial Banks.

Introduction

The prosperity of the modern business environment coincided with the rapid economic development in the era of globalization and international banking services, which showed its reflection in particular on the banking sector by increasing the banking risks that financial institutions may be exposed to, and the intense competition between banks and banking financial institutions has led to high risks Unregulated, for example, the high intensity of competition in the banking business and the tendency to provide distinguished services contributed to adopting the risk-taking method to maximize the return on invested capital and increase its value in the market. Such methods may hinder the institutions' achievement of their objectives and their continuity due to the diversity of their multiple and different banking services in terms of the controls set for them on the other hand, so it was necessary for the institutions to contain the potential and unbearable risks that banks may be exposed to and to know their nature and size, as the possibility of these Risks may expose this institution to financial hardship. The more banks are aware of the importance of limiting the risks that they may be exposed to, the more successful and prosperous these banks will be, and the banks will achieve their strategic goals.

In order to enhance the stakeholders' confidence in the credibility of the accounting information contained in the financial reports that the managements of financial institutions conclude, as the agency theory casts a shadow due to the conflict of interests between the owners of wealth and the board of directors, which usually seeks to achieve its objectives in a manner that may increase the degree of risks, the role of the audit profession has grown and the importance of Exerting sufficient professional care and providing audit and non-audit services from practitioners of the audit profession through the specific principles, foundations and standards in order to provide confirming and non-assurance services for the data, procedures and decisions taken by the management of institutions and which are envisaged in the annual financial reports. Audit offices also seek to narrow the expectations gap, as they represent expectations gap the feeling that the performance of the auditors contrasts with the beliefs and desires of the beneficiaries of the audit process who are the users of this data.

Accordingly, the current study seeks to identify the impact of external audit quality in reducing unsystematic risks in Kuwaiti commercial banks.

Study Problem

The regulations, instructions and extensive supervisory framework in the banking sector aim to protect public confidence in the banking sector, and achieve sustainable performance capable of enhancing the value of owners and other stakeholders. Recently, in turn, it has led to an increase in the management's motives to take risks in order to reach the desired growth rates and meet the expectations of investors, which leads to an increase in banks' exposure to unsystematic risks represented in liquidity risks, operational risks and credit risks, which highlights the role of the auditor. External as one of the ways to control the management's behavior through what it does to provide guarantees to the various stakeholders.

Hence, the problem of the study becomes clear by identifying the impact of audit quality in reducing unsystematic risks in Kuwaiti commercial banks, and this problem can be expressed through the following main question:

Is there an impact of external audit quality in terms of its dimensions (audit office size, customer retention period, audit fees, non-audit services) on the unsystematic risks (liquidity risk, operational risk, credit risk) of commercial banks in the State of Kuwait?

From this main question, the following sub-questions are derived:

1. Is there an impact of external audit quality on the liquidity risks of commercial banks in the State of Kuwait?

2. Is there an impact of external audit quality on the operational risks of commercial banks in the State of Kuwait?

3. Is there an impact of external audit quality on the credit risks of commercial banks in the State of Kuwait?

Study Importance

The importance of the study is characterized by the results that you will reach in examining the impact of the quality of the external audit provided to Kuwaiti commercial banks on reducing the unsystematic risks that banks may face, and thus reflected on the ability of these banks in continuity and the conduct of their business, which adds depending on the studies and research in the areas that will It is addressed in this study. It also derives new researchers from the additions

of this study to complete their research. This study also confirms the importance of the practitioners of auditing offices for the tasks assigned to them and measures whether there is an impact of these practices on limiting or hedging exposure to unsystematic risks, which raises the level of credibility and quality of the audit and its assurances on the financial statements of commercial banks and this effect extends to all beneficiaries of the annual lists and reports Even the Central Bank verifies the effectiveness of the circulars, laws, procedures, and established corporate governance.

Study Objectives

The main objective of this study is to highlight the critical importance of the relationship between external audit quality in terms of its dimensions (audit office size, customer retention period, audit fees, non-audit services) in the unsystematic risks (liquidity risk, operational risk, credit risk) at commercial banks in The State of Kuwait, and more specifically, this study seeks to achieve the following objectives:

1. Identifying the impact of external audit quality on the liquidity risks of commercial banks in the State of Kuwait.

2. Identifying the impact of external audit quality on the operational risks of the commercial banks in the State of Kuwait.

3. Identifying the impact of external audit quality on the credit risks of commercial banks in the State of Kuwait.

Study Hypotheses

Ho: There is no statistically significant effect at a significant level ($\alpha \leq 0.05$) for external audit quality in terms of its dimensions (audit office size, customer retention period, audit fees, non-audit services) on unsystematic risks in commercial banks in the State of Kuwait.

The following sub-hypotheses are derived from the main hypothesis:

Ho1: There is no statistically significant effect at a significant level ($\alpha \leq 0.05$) for external audit quality in terms of its dimensions (audit office size, customer retention period, audit fees, non-audit services) on liquidity risk in commercial banks in the State of Kuwait.

Ho2: There is no statistically significant effect at a significant level (α ≤ 0.05) for external audit quality in terms of its dimensions (audit office size, customer retention period, audit fees, non-audit services) on operational risks in commercial banks in the State of Kuwait.

Ho3: There is no statistically significant effect at a significant level (α ≤ 0.05) for t external audit quality in terms of its dimensions (audit office size, customer retention period, audit fees, non-audit services) on the credit risks of commercial banks in the State of Kuwait.

literature Review

Many researchers addressed the concept of audit quality through the quality of audit services and the factors affecting them. The quality of an audit is represented in the audit achieving its specific objectives, in terms of ensuring that the financial accounting operations have been recorded in accordance with the accounting rules and principles contained in the financial reporting standards, and that the financial statements of companies conformity with the data contained in the accounting records and books, through the auditor's report, which represents a reasonable assurance that the financial statements are free from errors and material misstatements, based on international auditing standards, rules of professional conduct and sufficient and appropriate audit evidence (Payne & Williamson, 2021).

Despite the critical importance of the concept of audit quality, there is no clear, comprehensive and agreed upon concept and definition by all researchers and scholars of audit quality, due to the presence of multiple and different points of view among researchers, and one of the most important definitions that meets wide acceptance of audit quality is the definition that was received In the study (DeAngelo, 1981), audit quality was defined as the possibility of the auditor discovering errors and material misrepresentations in the audit client's accounting system, and then reporting them. According to this definition, audit quality refers to the auditor's ability to discover accounting errors and increase the degree of his independence.

Wallace (1980) defined audit quality as "a measure of the auditor's ability to reduce the noise and bias of accounting data and improve the level of accuracy. Watkins et al. (2004) sees that audit quality is achieved by measuring the auditor's ability to reduce bias in financial statements to improve the quality of accounting information, meaning that the quality of the audit is achieved when the financial statements fairly reflect the real economic conditions of the client, and then the

quality of the information increases, and the quality of the audit is affected by the extent of the auditor's objectivity.

Titman and Truman (1986) defined audit quality as: "the accuracy of the information that the auditor provides to investors." This definition is consistent with the definition of Palmrose (1988), which defined audit quality as: "the degree of confidence that the auditor gives to users of the financial statements." Based on this definition, the audit quality is related to the possibility that the financial statements are free from material errors, and therefore the judgment on the quality of the audit It is after the completion of the audit process, in order to determine the level of confidence and reliability of the financial statements by the different users of the financial statements, as Krinsky and Rotenberg (1989) defined it as a term corresponding to the accuracy of the information of the external auditor's report.

Davidson and Neu (1993) defined it as the extent to which the external auditor can detect and exclude material errors and unsystematic in the income reported by companies in the financial statements." Hassanein and Qutb (2003) indicated that the quality of audit refers to the extent to which the external auditors adhere to professional standards issued by these companies.

Unsystematic Risk

The risks that result from factors related to a particular company or a specific sector are considered unsystematic risks, and these risks are not related to the environmental conditions in which the company operates. Usually, companies protect themselves from these risks through management procedures and diversify their investments so that these investments are not affected by sporadic risks. At the same time, which is known as diversification of investments, and there are many factors that produce these risks, as they may include (Waemustafa & Sukri, 2016):

1) Labor strikes, whether in a specific company or a specific sector.

2) Administrative errors in the company.

3) The emergence of new products or new competitors.

4) Advertising campaigns of competitors.

5) Changing consumer tastes regarding the services provided by the company.

6) Issuance of new laws and regulations that affect the company's ability to achieve its objectives.

Fredrick et al. (2014) unsystematic risks are cases of uncertainty that arise as a result of special circumstances related to a specific company or sector, and these factors are independent of the risks associated with economic activity, and they can be called exceptional risks, non-market risks, or risks that the company can avoid it by diversifying.

Gabriel (2016) also defined it as the residual risks that pertain to a particular banking institution or a particular industry, or that it is the part of the total risks that are unique to a specific security and no other securities, changes such as labor strikes, errors committed by management, marketing campaigns for competitors and changes in consumer tastes and lawsuits cause a discrepancy in the returns of the banking institution, and this discrepancy is not related to regular factors, markets and other financial instruments.

Gupta (2011) also defined it as the internal risks related to the bank or the company itself that can be avoided and addressed, and include poor management procedures and bad investment policies, which the bank can avoid through controls, procedures and administrative policies that regulate the work, as well as the selection of managers with scientific and practical qualifications increasing the quality of internal control systems and adherence to the principles of corporate governance.

Based on the previous definitions, the researcher believes that unsystematic risks are part of the total risks that arise due to special circumstances or specific factors related to a specific company or sector, and are independent and not linked to the risks of the economy at the state level, and the company management can identify, estimate and work to avoid them.

Types of Unsystematic Risk

Banks face many unsystematic risks, and as a result of the diversity of unsystematic risks, it has become the manager's duty to understand the nature of each of these risks and their causes in order to be able to confront them, and there are many points of view on the types of unsystematic risks, as Dalbor et al. (2014) classified unsystematic risks It is divided into three groups: the first group represents credit risks, the second group represents market risks, which include interest rate risks and exchange rate risks, while the third group includes operational risks, which include liquidity risks, legal risks and strategic risks.

Waemustafa and Sukri (2016) also classified the unsystematic risks faced by banks into credit risks, liquidity risks, interest rates risks, market risks, operational risks, technological risks, foreign exchange rate risks and bankruptcy risks.

Chen and Wei (2010) also pointed out that the unsystematic risks facing banks include credit risks, operational risks and market risks that commercial banks may be exposed to.

In this study, the researcher will rely on the classification developed by Chen and Wei (2010), which divided the unsystematic risks into credit risks, operational risks and market risks. Therefore, the unsystematic risks that banks are exposed to are:

Credit Risk

Le and Diep (2020) pointed out that credit risk is the risk related to the other party to the contract, ie, its inability to fulfill its obligations as stipulated in the contract. Rao et al. (2020) also defined it as the risks that arise from the possibility of the borrowers or the bank's customers not paying their obligations, whether the debtor pays the full amount later than the specified time or does not pay the full amount or does not pay at all, as indicated International Financial Reporting Standard No. (7) refers to credit risk as being the risk that a specific party to a financial instrument causes a financial loss that can be estimated to the counterparty by not fulfilling its obligation according to the terms of the instrument stipulated in the contract.

Operational Risk

The developments in the banking business and the services they provide and their use of advanced technologies have led to an increase in the complexities in their operations and their business and services overlap, which may lead to some employees not being aware of all the ongoing developments and challenges facing the bank, which contributed to the emergence of operational risks, which have become time-consuming a great deal and a lot of effort from the operational departments in banks (Araz et al., 2020).

The Basel Committee referred to the concept of operational risk, defining it as the risk of loss that may result from internal events (such as failure of operations, failure of systems and other failures that banks may encounter) or risks resulting from external events, which may include legal risks, reputational risks, and risks Strategy (BCBS, 2005, 140).

Market Risk

Market risks are classified as the most annoying and confusing risks for bank management, because they result from changes that occur in the market in which the bank operates as a result of different circumstances (Holod et al., 2020).

IFRS 7 defines market risk as the risks that arise from fluctuations in the fair value or from the cash flows of a financial instrument as a result of the various changes and fluctuations that occur in the market. Pflueger et al. (2020) defined market risks as financial risks that banks are exposed to as a result of supply and demand forces and market fluctuations, and all banks are affected by these risks. As for Junttila et al. (2018), he defined market risks as losses arising from market conditions, and financial instruments and assets that are traded in the market are among the most important sources of this type of risk.

Tsai (2017) consider that market risks are a systemic risk, and they cannot be reduced or eliminated by diversifying the bank in its investments, because it is related to the market as a whole and not to a specific company or sector, as these risks affect everyone at the same time.

Liquidity Risk

Liquidity risk arises from the bank's inability to meet its obligations before third parties or finance the increase in assets, which leads to a negative impact on the bank's profitability, especially when the inability to immediately liquidate assets at an acceptable cost. Several reasons may lie behind exposure to liquidity risks, including (Ghenimi et al., 2017):

1. Poor liquidity planning in the bank, which leads to inconsistency between assets and liabilities in terms of maturities.
2. Misallocation of assets to uses that are difficult to convert to liquid balances.
3. Sudden transformation of some incidental commitments into actual commitments.

Some external factors such as economic stagnation and severe crises in the financial markets also contribute to exposure to liquidity risks (Cai & Zhang, 2017).

Study Methodology

This study adopts the analytical descriptive approach, which is one of the methods of analysis that depends on the presence of sufficient data or information about a specific phenomenon during a

specific and limited period of time, with the aim of reaching practical results, to be interpreted in an unbiased manner, in line with the actual data of the phenomenon, as well as reaching to logical results that support the hypotheses contained in the study, the quantitative and qualitative approach was used to study and analyze the data in order to answer the questions of the study problem.

Study Population and Sample

The study population consists of all (5) Kuwaiti commercial banks, and the five banks were included in the study sample.

Data Sources

Information sources are represented by secondary sources, which are represented by all available Arab and foreign sources that can be benefited from, such as previous studies, research, publications and books obtained from libraries and the Internet, in addition to financial data extracted from financial statements, annual reports and information about commercial banks in the State of Kuwait and for the period (2008-2018) and published on the website of the financial market and the websites of banks.

Results

This part of the study presents the tests of relevance of the linear model to the data of the variables of the study model, by calculating the correlation coefficients between the independent study variables to test the existence of the phenomenon of linear extension (MULTICOLLINEARITY), as well as the test of autocorrelation, as it was presented as follows:

Multicollinearity Test

The General Linear Model (GLM) assumes the independence of the independent variables, which is the basis for the validity of the model's application, and the model is considered appropriate to carry out the process of estimating the parameters after this hypothesis is achieved (Guajarati, 2004, 355), where the phenomenon indicates an almost complete linear correlation between two variables or more, and this leads to inflating the value of the coefficient of determination R^2 and making its calculated value greater than the actual value. The values of the correlation coefficients were calculated between the independent study variables, and the results were as follows:

Table (1) Correlation matrix between independent variables

Variable	Audit Size	Retention	Audit Fee	Non-audit services	bank size
Audit Size	1.000				
Retention	0.201	1.000			
Audit Fee	0.402*	0.385*	1.000		
Non-audit services	0.449*	0.295*	0.374*	1.000	
bank size	0.194	0.463*	0.383*	0.296*	1.000

(*) at 0.05 significance level

Table (1) shows that the largest value of the correlation coefficients between the variables appeared between (the size of the audit office) and (the non-audit services), which amounted to (0.449), and this value indicates that the data is free from the phenomenon of the multi-linear correlation between the variables, because it was less than (0.80), and therefore it can be said that the sample is devoid of the multiple high linear correlation problem (Guajarati, 2004, 359).

To confirm this result, the values of the Variance Inflation Factor (VIF) were calculated, and the results were as follows:

Table (2) values of Variance Inflation Factor (VIF) for the independent study variables

Variable	Variance Inflation Factor (VIF)
Audit Size	1.361
Retention	1.385
Audit Fee	1.380
Non-audit services	1.450
bank size	1.379

Table (2) above shows that the values of the variance inflation coefficients were all confined between number (1) and number (10), which is an indication that the data is free from the phenomenon of multiple linear correlation.

Estimating Study Models

To achieve the desired goals of the study, the panel data approach was relied on, where the data included time series of variable values within each model and at each bank (cross section) during the study period. The tabular data (panel data) is characterized by taking into account the presence of individual differences, and gives the data more usefulness and diversity, and reduces the correlation between variables, in addition to the presence of a large number of degrees of freedom, and it is more efficient than time series that often suffer from a problem Autocorrelation. It also has the ability to show and measure unobserved effects through descriptive analysis and time series analysis. Therefore, the estimation methods of longitudinal time models (Panel data) were used, which are:

1- Combined Regression Model (PRM)

2- Fixed Effect Model (FEM)

3- The Random Effect Model (REM).

To determine which of the above-mentioned models is preferred to be selected, and used in the analysis, the Lagrange Multiplier test was conducted, which is used to choose between (REM) and (PRM). The (Hausman) test was also used to choose between (FEM) and (REM), and the results were as follows:

Table (3) Hausman test and Lagrange Multiplier test

The most accurate and consistent model	(Hausman)		Lagrange Multiplier		Hypotheses
	Sig	Ch^2	Sig	Ch^2	
Random Effect Model	0.976	0.821	0.000	246.981	H01
Random Effect Model	0.984	0.683	0.000	244.466	H02
Random Effect Model	0.999	0.115	0.000	194.983	H03
-Lagrange Multiplier test: to compare between the common regression model and the random effects model, and the null hypothesis is as follows: H0: The performance of the common regression model is more consistent than the random effects model. -Hausman's test: To compare between the fixed effects model and the random effects model, and the null hypothesis is as follows: H0: The performance of the random effects model is more consistent than the fixed effects model.					

The results of Table (3) indicate that the random effects model was the most accurate in estimating the model for the three hypotheses of the study, where the Lagrange Multiplier test showed that

the significance level was less than 0.05, and the values of the Hausman test were statistically significant more than 0.05. Therefore, the random effects model is the most accurate in estimating the study models.

Hypothesis Testing

The study sample consists of Kuwaiti commercial banks during the period (2008-2018), and for this reason, the study data is considered a tabular data (Panel Data), and the data for the banks was extracted from the financial statements included in the annual reports of each bank, and the following is a presentation of the results of testing the hypotheses of the study three, as follows:

Ho1: There is no statistically significant effect at a significant level ($\alpha \leq 0.05$) for external audit quality in terms of its dimensions (audit office size, customer retention period, audit fees, non-audit services) on liquidity risk in commercial banks in the State of Kuwait.

Table (4): Summary of the model and analysis of variance

Dependent Variable	Model Summary			ANOVA	
	R^2	Adjusted R^2	Standard error of the model	Calculated F value	Sig.
Liquidity Risk	0.499	0.478	0.103	38.857	0.000

Table (15) shows the significance of the model, where the value of (F = 38.857) and the level of significance (Sig. = 0.000) which is less than 0.05, and this confirms the significance of the model, and the value of the coefficient of determination (R^2 = 0.479) indicated that its percentage is (49.9%). of the variance in (liquidity risk) can be explained by the variance in the independent variables, with any other factors remaining constant.

Accordingly, we reject the first null hypothesis and accept the alternative, which states:

There is a statistically significant effect at a significant level ($\alpha \leq 0.05$) for external audit quality in terms of its dimensions (audit office size, customer retention period, audit fees, non-audit services) on liquidity risk in commercial banks in the State of Kuwait.

This result can be explained that liquidity risk arises from the bank's inability to meet its obligations towards others or finance the increase in assets, and here the role of the auditor emerges in providing an opinion on the bank's ability to meet the obligations, and accordingly the management of companies manages the liquidity risk in a way that works to avoid expressing any comments that may affect the reputation of the bank.

Ho2: There is no statistically significant effect at a significant level ($\alpha \leq 0.05$) for external audit quality in terms of its dimensions (audit office size, customer retention period, audit fees, non-audit services) on operational risks in commercial banks in the State of Kuwait.

Table (5): Summary of the model and analysis of variance

Dependent Variable	Model Summary			ANOVA	
	R^2	Adjusted R^2	Standard error of the model	Calculated F value	Sig.
Operational Risk	0.416	0.387	0.436	24.726	0.000

Table (5) shows the significance of the model, where the value of (F = 24,726) and the level of significance (Sig = 0.000) which is less than 0.05, and this confirms the significance of the model, and the value of the coefficient of determination (R^2 = 0.416) indicated that its percentage is (41.6%). of the variance in (operational risk) can be explained by the variance in the independent variables, with any other factors remaining constant.

Accordingly, we reject the second null hypothesis, and accept the alternative, which states:

There is a statistically significant effect at a significant level ($\alpha \leq 0.05$) for external audit quality in terms of its dimensions (audit office size, customer retention period, audit fees, non-audit services) on operational risks in commercial banks in the State of Kuwait.

This result is consistent with the accounting literature that highlights the role of audit in the control of internal processes, such as failures of operations, failures of systems and other failures that banks may be exposed to, or risks that result from human errors in the bank or from accidents

related to management, or risks resulting from weak internal systems in the bank or that results from the inefficiency of the bank's employees and administrators, as the process of evaluating the internal control systems is one of the most important tasks of the auditor, and therefore the quality of the audit works to reduce operational risks.

Ho3: There is no statistically significant effect at a significant level ($\alpha \leq 0.05$) for t external audit quality in terms of its dimensions (audit office size, customer retention period, audit fees, non-audit services) on the credit risks of commercial banks in the State of Kuwait.

Table (6): Summary of the model and analysis of variance

Dependent Variable	Model Summary			ANOVA	
	R^2	Adjusted R^2	Standard error of the model	Calculated F value	Sig.
Credit Risk	0.500	0.479	0.078	38.480	0.000

Table (19) shows the significance of the model, where the value of (F = 38.480) and the level of significance (Sig = 0.000) which is less than 0.05, and this confirms the significance of the model, and the value of the coefficient of determination ($R^2 = 0.500$) indicated that the percentage of (50.0%) of the variance in (credit risk) can be explained by the variance in the independent variables, with any other factors remaining constant.

Accordingly, we reject the third null hypothesis, and accept the alternative, which states:

There is a statistically significant effect at a significant level ($\alpha \leq 0.05$) for t external audit quality in terms of its dimensions (audit office size, customer retention period, audit fees, non-audit services) on the credit risks of commercial banks in the State of Kuwait.

This result is consistent with what was stated in the financial and accounting literature, which indicates that credit risks are the risks related to the other party to the contract, that is, its inability to fulfill its obligations as stipulated in the contract. Here, the quality of the audit has a prominent role through the role played by the auditor in protecting the company's assets with regard to monitoring and controlling risks and ensuring the internal control system in the bank.

Conclusion

The results of data analysis and hypothesis testing showed the following:

1. The results of testing the hypothesis of the first study showed a statistically significant effect of the quality of the external audit in terms of its dimensions (the size of the audit office, customer retention period, audit fees, and non-audit services) in reducing liquidity risks in commercial banks in the State of Kuwait, where the moral effect appeared when All dimensions of external audit quality, except for (non-audit services).

2. The results of the second study hypothesis test showed that there is a statistically significant effect of the quality of the external audit in terms of its dimensions (the size of the audit office, customer retention period, audit fees, and non-audit services) in reducing operational risks in commercial banks in the State of Kuwait, where the moral effect appeared when All dimensions of external audit quality, except for (the size of the audit office, and non-audit services).

3. The results of the third study hypothesis test showed that there is a statistically significant effect of the quality of the external audit in terms of its dimensions (the size of the audit office, customer retention period, audit fees, and non-audit services) in reducing credit risks in the commercial banks in the State of Kuwait, where the moral effect appeared when All dimensions of external audit quality, except for (the size of the audit office, and non-audit services).

Recommendations

In light of the findings of the study, it recommends the following:

1. Increasing the level of interest in achieving quality in the audit process and advancing the level of the profession by upgrading the performance of auditors, keeping pace with the progress and development taking place in the audit profession, maintaining and supporting the independence of auditors, and proper planning and implementation of the audit process.

2. Work to increase the auditors' awareness of the importance of achieving quality in the audit process, and urge them to abide by the rules and standards and implement procedures that contribute to achieving and enhancing quality in the audit process.

3. The Kuwaiti commercial banks' management should follow a comprehensive and effective liquidity management strategy, and increase the level of management's efficiency in planning and investing liquidity.

4. Motivating Kuwaiti commercial banks to abide by the local and international laws and decisions related to liquidity and its risks represented by the Basel Committee.

5. Working on preparing a general framework for managing liquidity risks, which would maintain sufficient liquidity for the performance of banking work in order to ensure the continuity of Kuwaiti commercial banks in the banking market.

6. The management of Kuwaiti commercial banks follows an effective strategy for managing operational risks in line with the volume of their activities and operations and the level of risks they are exposed to.

7. Kuwaiti commercial banks follow appropriate and effective mechanisms and procedures to reduce the volume of operational risks they are exposed to, and assess the adequacy of capital to face them.

8. The adoption of Kuwaiti commercial banks on clear and specific criteria for granting facilities to ensure the integrity of the process of providing and granting credits.

9. Working to improve the performance of the credit management in Kuwaiti commercial banks, and to achieve efficiency and effectiveness in their reports in order to take appropriate decisions to grant credit and thus reduce the risks arising from it.

10. Diversity in the products, activities, operational and investment banking operations of Kuwaiti commercial banks that generate profits.

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