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The Effect of Strength of Auditing and Accounting Standards and Corporate Governance on Economic Growth: A Case Study of the Islamic World

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Abstract:

The purpose of this paper is to determine the effect of corporate governance on the economic growth of Muslim countries and demonstrate that the Strength of Auditing and Accounting Standards is the most crucial component of corporate governance and thus has the most effect on economic growth. We will use the Strength of Auditing and Accounting Standards, Conflict of Interest Regulation, and Shareholders Governance to determine the level of corporate governance. The data was collected from the Global Competitiveness Index 4 for 2019 and the World Bank for the Muslim countries for the year 2019. The Least Squares Regression analysis is used to determine the effect of corporate governance on the GDP per Capita for a number of Muslim countries. Our analysis had indicated that one unit increase in corporate governance results in a 0.05 unit increase in the GDP per Capita. Our analysis had also indicated that a one unit increase in Strength of Auditing and Accounting Standards results in a 0.06 unit increase in the GDP per Capita. Thus both corporate governance and Strength of Auditing and Accounting Standards have a positive effect on economic growth for Islamic world.

Keywords: Corporate Governance, Economic Growth, Islamic World, VUCA Environment.

(JEL) Classification : G30, G34.

ملخص:

هدفت هذه الدراسة إلى التعرف على اثر حوكمة الشركات وقوة المعايير المحاسبية و التدقيق على النمو الاقتصادي في الدول الإسلامية، حيث أن الفقرات المكونة لحوكمة الشركات تكونت من الفقرات الآتية: قوة معايير المحاسبة والتدقيق ، تضارب المصالح وحوكمة المساهمين. ولتحقيق أهداف هذه الدراسة ، تم تجميع البيانات الخاصة بحوكمة الشركات للعام 2019 للدول الإسلامية من التقرير العالمي للتنافسية والبنك الدولي. ولتحليل هذه البيانات تم استخدام تحليل الانحدار المتعدد لمعرفة اثر كل فقرة من فقرات حوكمة الشركات وأثرها على النمو الاقتصادي

. وقد خلصت الدراسة إلى أن اثر حوكمة الشركات على النمو الاقتصادي يؤثر تأثيرا ايجابيا.و أظهرت النتائج أن اثر قوة المعايير المحاسبية والتدقيق على النمو الاقتصادي يؤثر تأثيرا جوهريا و ايجابيا اكبر على النمو الاقتصادي من حوكمة الشركات.

الكلمات الدالة: حوكمة الشركات، النمو الاقتصادي، الدول الإسلامية.

تصنيف (JEL). G30, G34.

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1.Introduction

1.1 Principle Agent Problem

The neoclassical theory of the firm discusses the principal/agent problem that faces a firm, were managers are assumed to be the sole owner of the firm and are constantly seeking to maximize profits or shareholders wealth. Nonetheless, it was demonstrated that even when a manager is the sole owner of the firm, he is still unlikely to maximize the value of the firm if he is maximizing his utility and he gets some utility from on-the-job-consumption. Thus a utility-maximizing owner-manager is constantly willing to sacrifice some of his wealth as an owner in return for some of the on-the-job-consumption as a manager (Jensen & Meckling, 1976). The incentive to give up the shareholders wealth increases as the manager sells some of the firm's shares. Thus when the owner-manager decides to sell shares to the public, the manager's on-the-job-consumption becomes cheaper. As a result the manager is more likely to engage in such consumption. This is the definition of the classical principal/agent problem.

In an efficient capital market, potential shareholders will recognize that a manger owning 10 percent of firm's shares is more likely to engage in greater volume of on-the-job-consumption compared to mangers who own 100 percent of a firm's shares. According to rational expectations, potential shareholders will recognize that at the time of the initial off4ering and thus will lead to discounting the potential value of the shares. The decrease in the value of the shares from the value that would have manifested –if the manger did not engage in additional on-the-job-consumption – measures the value of the costs of the agency due to the principal/agent problem at the time of the owner-manager issues shares to outsiders. This decrease in the value of shares occurs prior to the sale of the shares (Jensen & Meckling, 1976). The owner-manager will bear the entire cost of the principal/agent problem. This gives the owner-manager an incentive to minimize the agency costs and somehow ensuring no additional agency costs. Thus corporate governance institution can play a crucial role in ensuring the minimization of increase in the on-the-job-consumption.

1.2 The Importance of Corporate Governance

To solve the principal/agent problem corporate governance became a well-known terminology for both students and practitioners of business for the past 25 years (Mueller, 2006, p. 623). "In its broadest sense, corporate governance is concerned with holding the balance between economic and social goals and between individual and communal goals. The governance framework is there to encourage the efficient use of resources and equally to require accountability for the stewards of those resources. The aim is to align as nearly as possible the interest of individuals, of corporations, and of society. The incentive of corporations and to those who own and manage them to adapt internationally accepted governance standards is that these standards will assist them to achieve their aims to attract investment. The incentive for their adaption by states is that these standards will strengthen their economies and encourage business probity" (Claessens, 2006, p. 94).

"The objective of a good corporate governance framework would be to maximize the contribution of firms to the overall economy–that is including all stakeholders. Under this definition, corporate governance would include the relationship between shareholders, creditors, and corporations; between financial markets, institutions, and corporations; and between employers and corporations (Claessens, 2006, p. 94).

Mac Nillan and Downing (1999) defined corporate governance as the "system by which companies are directed and controlled to produce high financial performance" (Gunay, 2008, p. 1).Another definition b y Whilst Letza et al (2004) emphasized that "corporate governance is about institutional arrangements for relationship among various economic actors, who may have direct or indirect interests in corporation" (Gunay, 2008, p. 2).Although these two definitions differ however they are both correct. Each definition asserts corporate governance from a different point of view. The first definition is a shareholder oriented one, while the second is a stakeholder oriented one. These two definitions are among the vast literature on the corporate governance.

In addition, the collapse of several gigantic companies -such as Emron and WorldCom- during the first decade of the 21st century had caused numerous governments to prompt market regulators to implement legislative campaigns to improve corporate governance policies and procedures (Jones, 2011). Can this be the answer to a struggling Muslim World? A number of Arab countries are experiencing high levels of unemployment, inflation, and percentage of educated people. These three factors were identified by the World Bank as the common macroeconomic variables that were experienced by countries that hosted the Arab Spring(Samarah W. A., 2017).

Corporate governance plays a central role in stabilizing the economy, promoting suitable environment to boost economic growth, and provides leisure to a society. This way international organizations pay particular attention to this issue for both on the macro and micro level. Corporate governance provide the structure for companies in order to set their goals, and the ways in which the company can a achieve its goals that will benefit both company and shareholders. As a result, corporate governance aid firms in using their resources more efficiently (Al-Haddad & Al-Sufy, 2011).

The purpose of this paper is to measure the effect of corporate governance on the economic growth and demonstrate the importance of Strength of Auditing and Accounting Standards as the most crucial component of corporate governance and thus has the most effect on economic growth in Muslim countries. We will use the Strength of Auditing and Accounting Standards, Conflict of Interest Regulation, and Shareholders Governance to determine the level of corporate governance. We will use the GDP per capita to measure the economic growth. The importance of this paper stems from the fact that it will determine whether corporate governance will contribute positively to economic growth in Muslim countries, i.e. will corporate governance be one of the answers to prompt economic growth and moving away from the possibility of hosting the Arab Spring.

The table below shows the level of corporate governance and GDP per capita for the year 2019 in each of the selected countries of the Muslim world.

Table 1: Level of Corporate Governance and GDP per Capita for the Year 2019 for the Selected Muslim Countries

Country try	GDP	CG
Kuwait	30839.2	58.3
Jordan	4278.3	54.2
Iran, Islamic Rep	5491.4	37
Egypt	2573.3	61.5
Algeria	4237.5	39.1
Oman	19302.2	54.2
Lebanon	9257.3	46.2
Morocco	3359.1	64.5
United Arab Emirates	40711.4	73.9
Turkey	9346.2	66.7
Tunisia	3423.2	55.5
Saudi Arabia	23566.4	78.5
Qatar	70779.5	43.4
Bahrain	25850.5	71
Mauritania	1142.5	40
Pakistan	1555.4	64.3
Malaysia	10941	78.9
Nigeria	2049.1	64.2
Bangladesh	1744	51.2
Indonesia	3870	62.3
Mozambique	475.6	39

Source: The Global Competitiveness Index 4 for 2019 and the World Bank.

Islam is a religion that preaches honesty, loyalty, morality, truthfulness, and does not allow taking advantage of others for one's own materialistic gains. It fights materialism and human greed; and prompts being fair and giving each individual his or her fair share of the pie. In theory –if implemented correctly- Islam promotes and favors good governance. Nonetheless, looking at the table above we notice that this is not reflected in the corporate governance scores. Most Muslim countries do not score high and are not leaders in corporate governance. Malaysia had the highest score in corporate governance among Muslim countries with 78.9 percent followed by Saudi Arabia with a score of 78.5. Meanwhile, Mozambique had scored the lowest with 39 percent.

From the above table, we also notice that corporate governance had gained importance in the Muslim world.

Table 2: Level of Corporate Governance, Strength of Auditing and Accounting, Conflict of Interest Regulation and Shareholders Governance for the Year 2019 for the Selected Muslim Countries

country	C G	S A	CI	SH
	Score	Score	Score	Score
kuwait	58,3	57,8	60	57
yemen	38,1	28,3	43	43
jordan	54,2	68,7	37	57
Iran,Islamic Rep	37	43,9	40	27
Egyt	61,5	67,5	47	70
Algeria	39,1	47,4	33	37
Oman	54,2	69,5	53	40
Lebanon	46,2	55,6	50	33
Morocco	64,5	73,6	60	60
United Arab Emirates	73,9	71,7	77	73
Turkey	66,7	56,1	67	77
Tunisia	55,5	53,5	60	53
Saudi Arabia	78,5	75,5	73	87
Qatar	43,4	73,2	20	37
Bahrain	71	79	57	77
Mauritania	40	19,9	53	47
pakistan	64,3	49,8	63	80
malaysia	78,9	73,8	90	73
Nigeria	64,2	59,7	70	63
Bangladish	51,2	43,7	67	43
Indonisia	62,3	59,9	57	70
Mozambique	39	36	53	30

Source: The Global Competitiveness Index 4 for 2019.

Looking at table 2, we notice that Saudi Arabia scored 75.5 percent-the highest in Strength of Auditing and Accounting Standards. Meanwhile Mauritania scored the lowest with 19.9 percent.

we notice that the highest in Strength of Auditing and Accounting Standards is low compared to the Conflict of Interest Regulation and Shareholder Governance. Thus the Muslim countries did not abide by the international auditing and accounting, resulting in decreasing the scores for Corporate Governance as a hole.

The rest of the paper will proceed as follows; the next section reviews the relevant literature; an econometric model will be developed in the methodology; the result section will display the output from the econometric analysis; and finally the conclusion.

Literature Review

A considerable amount of literature was written to discuss the relationship between corporate governance and economic growth. Mueller (2006) tried to determine which is the best corporate system the Germanic, the Japanese, or the Anglo-Saxon? The paper reviews the principal/agent problem and its relevance to differ4nt stages of development for a particular country. Finally, it discusses the advantages and disadvantages' of each system and how it deals with the principal/agent problem. It reviews the relevant literature that includes the empirical evidence for each of these systems.

Skare and Hasic (2016) discussed the importance of corporate governance in economic growth theories. He offered a consistent literature review assessing the nexus between corporate performance and economic growth. In the majority of the reviewed literature indicate that corporate governance affects a firm's performance positively and thus is an important determinant to be viewed in the field of growth models.

Maune (2017) examined the effect of good corporate governance on economic growth for Zimbabwe –an emerging market. A multiple linear regression model was utilized to analyze the secondary data for the period 1968 to 2015. The data was taken from the World Bank's World Wide Governance and Development Indicators. The study had found that Control of Corruption is negatively related to economic growth. Meanwhile, Political Stability and Absence of Violence/Terrorism are positively significant to economic growth. Government Effectiveness, Regulatory Quality, Rule of Law, and Voice and Accountability are insignificant to economic growth in the case of Zimbabwe. Finally, it was found that sound corporate governance is significant to economic growth (Maune, 2017).

Samarah (2018) had proved mathematically –using real analysis- that economic growth is a function of governance. Empirical data taken from the World Bank's World Wide Governance and Development Indicators and the Palestinian Central Bureau of Statistics for the West Bank and Gaza. An econometric model was constructed to empirically prove the functional relationship between governance and economic growth. The time series analysis was performed to evaluate the effect of each of the six governance indicators on economic growth in Palestine. The econometric model indicated that governance is significant to economic growth for Palestine. Meanwhile, the time series analysis indicated that Voice and Account ability negative limpets the GDP. Nonetheless, Government Effectiveness and Control of Corruption positively impact the GDP(Samarah W. A., 2018).

El-Chaarani (2014) investigated the impact of corporate governance on performance of Lebanese banks financially. 182 observations were collected for the time period from 2006 to 2010.

A quantitative analysis was performed revealing that the independence of the board and inside ownership concentrations both have a positive impact on financial performance of Lebanese banks. Meanwhile, the CEO has a negative impact on the financial performance of Lebanese banks. The paper had concluded that the higher the shares held by insiders the better is the financial performance of Lebanese banks. The paper had concluded that the weaknesses of corporate governance in some Lebanese banks may be compensated by higher insider ownership (El-Chaarani, 2014).

Tiwari (2010) investigated the effect of corporate governance on economic growth in a cross – country framework in two specifications. The log linear model was used to analysis the data. The pap concluded that corporate governance affect negatively economic growth in both specification and all models. Hence it matters not only for the current year but it counties to persistent in the future.

The above literature demonstrates the interest in corporate governance in the Muslim world. Al-Hajri (2018) had studied the impact of corporate governance on external auditor's choice in Kuwait –a small emerging market. The data was taken from a survey and hand-collected 2012 fiscal year for 53 Kuwaiti listed companies. The study investigated whether the company's board size, board independence, director's shareholdings, audit committee size, and audit committee independence influence the auditor choice. A logistic Regression model was utilized to analyze the data. The results revealed that there is a meaningful relation between auditor choice and audit committee size, company's leverage, and company's belonging to the financial sector (Al-Hajri, 2018).

We will now consider the related literature that sheds light on the importance of auditing and accounting standards on both corporate governance and economic growth. Several studies had demonstrated how the implementation of International Financial Reporting Standards (IFRS) regulations leads to an improvement in confidence for enterprises, the properties of accounting information, and the transparency of capital market. As a result, this increase in transparency will lead to improvement in the level of corporate governance (Barth, Landsman, and Lang, 2008; Zhang, 2011). The IFRS is a set of accounting standards based on the Anglo –American reporting framework.

Flash and Souza (2014) studied the relationship between corporate governance practices and the adoption of IFRS. Panel date analysis was used on the sample of 347 Brazilian firms over the period extending from 2008 to 2014. All the selected companies were listed on the audit committee listed on the stock exchange of Sao Paulo. The study examined the quality of financial information around the IFRS according to the transparency of the IFRS following local GAAP and the announcement in conformity with the IFRS rules. The results of the paper had indicated that the Brazilian firms with the highest level of corporate governance do not necessarily disclose with the higher quality of adoption to international accounting standards.

Mohamed and Shankaraiah (2004) had studied the effect of proper implementation of standard accounting on disclosure and consequently good corporate governance. The paper looked at companies listed in the Malaysian stock market. The results had indicated as the company adhered more properly to the Malaysian accenting standards, the better it performed in the corporate governance.

This paper will add to the literature in that it will test whether corporate governance has a positive effect on economic growth for the Muslim countries. Thus do Muslim countries when improving corporate governance has the same effect on economic growth as other regions of the world? The paper will also investigate the effect of each of the three components of corporate governance -the Strength of Auditing and Accounting Standards, Conflict of Interest Regulation, and Shareholders Governance- on economic growth.

Methodology

In this section we will construct a model that measures the cause and effect relationship between corporate governance and economic growth for a number of Muslim countries. We start our analysis with the Cobb-Douglas production function given by the following equation:

$$Y = AK^{\alpha} L^{\beta}$$

Where Y is the output, A is a parameter that represents the effect of factors excluding capital and labor on output, K is capital stock, $0<\alpha<1$, $0< \beta<1$ and L is labor. In the case of the Cobb-Douglas, $\alpha + \beta = 1$ there is a constant return to scale (Quirk, 1987, p. 151).

A is known as Total Factor Productivity (TFP); it is through this parameter that corporate governance can influence output

Now, weadd the CG variable to represent corporate governance to our equation. We will use the GDP per capita represented by the Y variable to measure economic growth. We will transform the Cobb Douglas production function to a linear function by taking the log of both sides:

$$logY = \log A + \alpha logK + \beta logL$$

That is, log A is a function of CG:

$$\text{Log } A = f\,(CG)$$

Our econometric model is as follows:

$$\log Y = \beta_0 + \beta_1 \log k + \beta_2 logL + \beta_3\ CG + \varepsilon$$

Where βs are the parameters to be estimated and ε represents the random error term.

A second econometric model was developed to the effect of each of the components of corporate governance on the GDP per capita. The following equation is given

$$\log Y = \beta_0 + \beta_1 \log k + \beta_2 logL + \beta_3\ SA + \beta_4\ CI + \beta_5\ SH$$

The Least Square regression model will be used to estimate the above two econometric models. Hence we will use the Classical Regression Model represented by the equation below

$$Y = \alpha + \beta x + \varepsilon$$

Where, Y is the dependent variable, α is the y intercepts, β is the coefficient that represents the slope of the line or the rate of change, X is the independent variable, and ε is the error term (Samarah, 2016).

The Ordinary Least Square model is the best linear and unbiased estimator.

The regression model explains the variations of Y variable based on the variations in the X variable. The regression model explains the variations in Y based on the variations in X. One of the assumptions of the regression model is X being non-stochastic, i.e. the X variable is not randomly generated and does not follow a probability distribution. However, this does not imply that Y is non-stochastic. This is due to the simple fact that Y does not only depend on X, but also on the error term. The error term is a disturbance measure, i.e. the X variable acts as a signal while the error term acts as a noise(Samarah W. A., The Relationship Between Consumption and Gross Disposable Income and Estimating the Consumption Function for Palestine, 2016).

The simple linear regression model is expanded to include more explanatory variables. This will aid in explaining the variations in the Y variable. Thus the multiple linear regression model is as follows.

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \dots + \beta_n X_n + \varepsilon$$

Where Y is the dependent variable; α is the y intercept; X_1, X_2, …, X_n are the independent variables; $\beta_{1,}$ $\beta_{2,}$, and β_n are the coefficient of the X variables; and ε is the error term(Samarah W. A., 2016).

Results and Discussion

The Eviews 10 software was used to analyze the data. The data was collected from the Global Competitiveness Index 4 for 2019 and the World Bank for the Muslim countries. We will start our analysis by looking at some descriptive statistics. The table below shows the results of some descriptive statistics, which will help us in understanding the distribution of studied variables.

Table 3:

Descriptive Statistics for Corporate Governance, Strength of Auditing and Accounting, Conflict of Interest Regulation and Shareholders Governance in Percentages

	Conflict of Interest Regulations (CI)	Shareholder Governance (SH)	Strength of Auditing and Accounting Standards (SA)	Corporate Governance (GC)
MEAN	55.9	56.1	57.5	56.5
MEDAM	57	57	58.75	56.9
MAXIMAM	90	87	79	78.9
MINMUM	20	27	16.9	37
STANDARD DIVATION	15.7	18.1	16.1	13.4

We will first consider the components of the corporate governance. Looking at the table above, we notice that the mean of Strength of Auditing and Accounting Standards had the highest value of 57.5 percent. Meanwhile, Conflict of Interest Regulations had the lowest value with a mean of 55.9 percent. However, the situation was reversed for the maximum value, were the maximum value for the Conflict of Interest Regulations was 90 percent and the value for the Strength of Auditing and Accounting Standards was 79 percent. The lowest minimum value for the Strength of Auditing and Accounting Standards was 16.9 percent, and the highest value for the minimum value was for the Shareholder Governance with value of 27 percent. Finally, the Shareholder Governance had the highest standard deviation with 18.1 percent and the Conflict of Interest Regulations rank the lowest with 15.7 percent.

Now let us look at the distribution of each of the components of the corporate governance. The Strength of Auditing and Accounting Standards' median is greater than the mean -58.75 percent and 57.5 percent respectively- so the distribution is skewed to the left. The same applies to both Conflict of Interest Regulation –median is 57 percent and mean of 55.9percent- and Shareholders Governance –median of 57 percent and a mean of 56.1 percent**. Since the** distributions all three variables are skewed to the left we will look at the median for the center of the distribution and the minimum and maximum values for the spread of the distribution. The median for Strength of Auditing and Accounting Standards recorded the highest value, we can infer the importance of this component of corporate governance to the Islamic countries. This indicates the realization of Muslim governments to the vital role played by the auditing and accounting in creating the suitable environment that prompts economic growth and sustainable economic development. Nevertheless, the Strength of Auditing and Accounting Standards had the lowest minimum and maximum values this may be due to the fact that in spite of the government's commitment to abiding by the international standards of accounting and auditing yet companies may still not follow these standards in some of the Muslim countries.

Now let us consider the distribution of the corporate governance variable. Looking at table 3, we notice that the value of the mean and median -56.5 percent and 56.9 percent respectively- are approximately the same indicating that the distribution is closer to a bell shape. As a result, we will look at the mean to describe the center of the distribution and the standard deviation to describe the spread of the distribution. We also notice that all the values of our population –values of corporate governance for all the Muslim countries- fall within less than 2 standard deviations away from the mean, indicating that all of our values are close to the mean. In other words, the spread of the distribution is less than that of standard normal distribution**.**

The Least Squares regression model was used to estimate our econometric model. After running the regression analysis we will start our analysis with f-test. The p-value for the f-testis 0.003983-using $\alpha = 0.05$- $\alpha >$ p-value, we reject the null hypothesis and thus at least one beta does not equal to zero.

Now we carry out the t-test, using $\alpha = 0.05$ and the p-value of the t-test is 0.0005, 0.0406, 0.0013, and 0.0086 forβ_0 ,β_1 , β_2, and $\beta_3$respectively. So $\alpha >$ p-value for β_0 , β_1 , β_2 , and β_3 hence we reject the null hypothesis and thus the betas are significant. Hence we have the following model:

$$\log(GDPPC) = 7.77 + 0.39\log(K) + 0.71\log(L) \pm 0.05\text{CG}$$

This model has an R^2 of 0.58, thus 58 percent of the variations in the GDPPC are explained by the model. Our analysis had indicated that one unit increase in corporate governance results in a 0.05 unit increase in the Log of the GDP per Capita. Thus corporate governance has a positive effect on economic growth for Islamic world.

The p-value of the f-test for the second econometric model is 0.000875 -using $\alpha = 0.05$- $\alpha >$ p-value, we reject the null hypothesis and thus at least one beta does not equal to zero.

Now we carry out the t-test, using $\alpha = 0.05$ and the p-value of the t-test is 0.00012, 0.0403, 0.0059, 0.0010, 0.6644, and 0.6574 for β_0 , β_1 , β_2 , and β_3 respectively. So $\alpha >$ p-value for β_0 , β_1 , β_2 , and β_3 hence we reject the null hypothesis and thus the betas are significant. Hence we have the following model:

$$\log(GDPPC) = 6.33 + 0.33\log(K) + 0.53\log(L) \pm 0.06SA\text{G}$$

This model has an R^2 of 0.74, thus 74 percent of the variations in the GDPPC are explained by the model. Our analysis had indicated that one unit increase in SA results in a 0.06 unit increase in the Log of the GDP per Capita. We notice here that the R Squared had improved when compared to model 1.

The regression model was conducted for only one year 2019 due to the fact that the index changes every year. The date is not consistent this is way we took cross section data for only one year.

Conclusion

Our paper had attempted to examine the effects of both corporate governance and its components on economic growth. The above analysis had demonstrated that there is a positive cause and effect relationship between corporate governance and economic growth for the selected Muslim countries. Our findings back up the existing literature that corporate governance has a positive effect on economic growth. This result is logical, corporate governance solve the principal/agent problem and thus improves the performance of the firm. In turn, the improvement in the performance of the firm will make its operations more efficient and more productive. Firms will be more profitable and finally contribute more to a country's GDP per Capita.

Nonetheless, we expected the effect of corporate governance on economic growth to be higher. In order to investigate why corporate governance had an only 0.05 effect on economic growth, we regressed the three different components of corporate governance on economic growth. Our results had indicated that the Strength of Auditing and Accounting Standards was the only significant component of corporate governance to the GDP per capita. Meanwhile, both Conflict of Interest Regulation and Shareholders Governance were not significant. Interestingly, our results had also reveled that the effect of the Strength of Auditing and Accounting Standards on economic growth was higher than that of corporate governance on economic growth. This reflects the importance of the Strength of Auditing and Accounting Standards. One reason for that might be that the better is the Strength of Auditing and Accounting Standards, the better companies follow the Auditing and Accounting Standards, the better is the disclosure and transparency. As a result, the more confident investors and thus capital inflows will increase leading to an increase in the GDP per capita which will result in better economic growth. Therefore Muslim countries should have better implementation of Auditing and Accounting Standards, which will enhance their scores in corporate governance. This will contribute more positively to achieving a more competitive economy. This economy will be better suited to achieve a sustainable economic development. Thus making the Muslim countries more stable economically and drifting them away from both military conflicts and hosting the Arab Spring.

Our analysis had also manifested the importance of auditing and accounting. Forcing companies to comply with the international standards of auditing and accounting will reduce corruption inside the firm and forces companies to be more honest about their earnings. In other words, following the proper auditing and accounting standards will minimize the tampering in a firm's financial statements in order to generate illegal earnings. The auditing and accounting processes act as the check and balance system that protects the public against the dishonesty of companies.

We also need to remember that Muslim countries implemented rules and regulations enforcing corporate governance not so long ago –e.g. Jordan implemented corporate governance legislation in 2006. Thus they are new to the game when compared to countries like England, i.e. they did not fully develop the culture of corporate governance. An improvement in corporate governance will lead to better economic growth. Finally, our paper had also demonstrated the importance of auditing and accounting standards in the economic growth process.

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