

THE IMPACT OF DEVELOPING THE EXTERNAL AUDITOR'S REPORT ON THE QUALITY OF FINANCIAL REPORTS IN LIGHT OF THE TRANSITIONING TO INTERNATIONAL AUDITING STANDARDS: EVIDENCE FROM THE SAUDI BUSINESS ENVIRONMENT

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Abstract

Purpose: The research aims to study the impact of developing the external auditor's report on the quality of financial reports in light of the shift to international standards of auditing through an applied study on non-financial companies listed in the Saudi stock market.

methodology: The research hypothesis was tested during the time period 2015-2018, that is, the period before and after the transition to international standards of auditing, by building regression models to clarify the relationships between variables and testing them statistically to provide evidence from the Saudi business environment about the positive or negative impact of the transition to international standards of auditing on the quality of financial reports

Findings: the relationship between development of the external auditor's report and the Timing of the issuance of the financial report variable (as a proxy for FRQ) positive and significant, which means that there is a negative significant impact of the development of the external auditor's report in light of the shift to the international on FRQ

Value: The importance of the research stems from the importance of financial reports and the extent of their contribution to providing information to investors and shareholders, which makes them more capable of making the right decision and investing their money in the correct way, which has a substantial impact on the economy of the Kingdom of Saudi Arabia in question. This research also helps meet the needs of professional and regulatory bodies such as The Saudi Organization for Chartered and Professional Accountants (SOCPA) and The Saudi Capital Market Authority of actual evidence on the implications of the transformation of international auditing standards, in particular the development of the form and content of the external auditor report.

Key words: External auditor report – Expanded Auditor Report - financial reporting quality-international standards for auditing-Timing of the financial report issuance - Saudi Stock Exchange

1. Introduction

Financial reports are the final product of the accounting systems, and they are the means of those systems in presenting the results and activities in the economic unit, as it measures the financial position of the institution, its financial performance, its cash

Flows, and the results of the activity. Thus, it is considered a quantitative summary of financial operations and events and their effects on the assets and liabilities of the institution and its ownership rights.

Financial reports are the primary means of communication for financial disclosure between the company and external users because it provides information about the company's financial position and contributes to evaluating the efficiency of the management's performance, and how that department uses the resources entrusted to it. and then support making investment, credit, and other decisions, especially investors' decisions the main category of users of financial reports. (Arkan, 2016 & Ciuhureanu, 2016)

It also contributes to improving investment efficiency by reducing the cost of wrong choices resulting from inconsistency and conflicting information between the company's management, shareholders, and stakeholders. It also reduces investment costs, enabling investors to rely on themselves to make investment decisions (Mabil 2019) .

The external auditor report attached to the financial statements represents the final product of the audit of those statements. This report includes the opinion of the professional auditor on the truthfulness and fairness of preparing and presenting the financial statements of the audited client company. Through this report, the auditor seeks to communicate the result of his work to stakeholders in the company, including internal users such as higher levels of management, investors, and other external users who use the accounting information published in this report. The financial statements certified by the external auditor help make many decisions that affect their financial position. Also, considered one of the most important sources of financial information about companies. (Saleem, 2018).

Despite the importance of the external auditor's report, it faced many criticisms, especially after the financial crisis that occurred in 2008 and the scandals that followed in many important companies, which led to investors losing some confidence in the global capital markets, and increasingly questioning the credibility of External reviewers. Among the most important criticisms of the auditor's report was its traditional form, which conveys its opinion through two paragraphs in addition to the introduction paragraph, as this is not sufficient to attract the reader's attention and his feeling that there is no important message in the report other than his emphasis on the truth of the fairness of the financial statements. External users also face an expectation gap between the information they expect and need and the information contained in the audit report, as well as difficulty in understanding it due to low levels of reading, which requires high levels of knowledge to fully understand the reports. (Pound, 1981&Miguel ,2021) .

In light of the many criticisms of the auditor report. and in response to the demands of investors and other users that the auditor's report - as a result of the review process - must contain more appropriate information, improve its news content, and include more information related to the audit mission, with the aim of enhancing the communication.

value of this report(Cordoş, & Fülöp ,2015). Therefore, the official authorities organizing and setting standards related to the audit report have noticed the growing need to reconsider the form and content of the report to make it more appropriate with regard to news content and information related to the audit mission and not just an opinion indicating whether the company's financial statements comply with accounting standards or not.

The International Auditing Standards Board (IAASB) and the Public Companies Accounts Oversight Board (PCAOB) put the necessary amendments to the auditor report, to improve the

auditing profession's position and strengthen its position without affecting the responsibilities of the actual auditor. (Prasad & Chand, 2017). Thus, the form of the brief audit report consisting of two paragraphs, which was the prevailing format during the centuries from the eighteenth century to 2015, was changed to the Expanded Auditor Report that was adopted by the International Standards Group (700), which will be implemented from December 15, 2015, on or after this date. The aim of this report is to increase the content of the information disclosed, and thus enhance the benefit of the users of financial reports from the opinion or report of the auditor. Indirect users in evaluating the company's financial reports as well as evaluating audit quality (Gutierrez et al. ,2018).

What are the differences between the traditional and the extend audit report?

First: (The traditional short form audit report)

This report is divided into two main paragraphs, in addition to the opening paragraph in which the auditor clarifies the company whose financial statements have been reviewed. It also mentions the titles of each element in the financial statements, explains a summary of the important accounting policies, specifies the date and period covered by the financial statements, and refers to the audited financial statements in addition to the notes that complement the financial statements. This paragraph ends by clarifying that management is responsible for the preparation and fair presentation of the financial statements in accordance with generally accepted accounting principles.

Then comes the scope Paragraph , where the auditor explains his adherence to generally accepted auditing standards and what those standards require, and presents an actual statement related to the planning, performance, and implementation of the audit process in addition to clarifying the adequacy and appropriateness of the audit evidence which he obtained and the extent of reliance on samples, and clarifying his responsibility for expressing Opinion on those lists that have been reviewed in light of the standards of ethical behavior that he adheres to and their requirements.

Then the opinion paragraph: in that paragraph the auditor expresses his opinion on the financial statements of the company, where he expresses an unqualified opinion if the financial statements reflect the true and fair position of the company at the end of the year, and include its financial performance and cash flows. The auditor may have a qualified opinion, an adverse opinion, or Disclaimer of Opinion if he concludes otherwise. The auditor is signing the report when he is sure that the financial statements are free from any significant errors and in conformity with generally accepted accounting principles.

Second - (Expanded Audit Report).

PCAOB and IAASB recently amended the criteria for the external auditor's report, which are Standards No. (700, 701, 705, 706,710,720). This amendment was a fundamental development in its form and content. These changes have led to significant impacts on the procedures of the audit process, especially in the field of fraud verification, communications, and transactions with related parties, continuity, and other issues. This is to meet the increasing demands of users to obtain more information about the important aspects of audit reports. These changes are summarized as follows (Li, et.al.;2019) :

- The report is divided into four main paragraphs.

- Move the opinion paragraph to the top of the report.
- Add a paragraph after that called the basis of opinion.
- Disclosure of management and auditor's responsibility for the company's ability to survive and continue.
- Added a special section about Key Audit Matters (KAM).
- Enhancing and expanding the scope of disclosure of the auditor's responsibilities.

2. Institutional background:

in order to achieve Vision 2030 and support the national economy in the Kingdom of Saudi Arabia, Saudi auditing standards were developed through the transition to international standards at the beginning of 2017 AD under the application of International Standard on Auditing No. 700 "Forming Opinion and Reporting on the Financial Statements", where the auditors were finally converted to relying on the International Standards on Auditing (ISA) which accredited by The Saudi Organization for Chartered and Professional Accountants.

Thus, the Saudi Standard for Auditing No. 700 approved the form of the Expanded Auditor Report, where the report was divided into four parts in compliance with the international standard as follows:

1-The first paragraph:

Two paragraphs was merged in the brief audit report together into one paragraph, which is the "introduction" paragraph with the "opinion" paragraph, where the new report form begins under the "opinion" title, and with the current introductory paragraph that identifies the financial statements under review and follows the opinion paragraph. This is because the opinion is the primary objective of the report, as it expresses the basic message that the auditor would like to deliver to the users of the financial information. With this development, the report became more capable of communicating the opinion to the beneficiary from the beginning of the report.

This paragraph includes two types of information:

A- Information that is not different from what was in the report in the old form in the first paragraph thereof, which is the name of the company whose financial statements were reviewed by the auditor, the identification of the audited financial statements, and the address of each financial statement separately, as well as with reference also to the clarifications that complement the financial statements, and A summary of the important accounting policies used in the preparation of the financial statements, as well as an explanation of the date and period covered by each of the financial statements.

B - New information that was not present in the first paragraph of the brief report, namely:

Consider "the qualitative aspect of the company's accounting practices, including indications of potential bias on the part of management when making accounting estimates in management's judgment." (Standard 700 Paragraph 12)

- Evaluation of "the important accounting policies of the company in terms of their suitability and whether they were presented in an understandable manner." (Standard 700 para 13(a))
- Evaluate whether "the information in the financial statements is appropriate, reliable, comparable, and understandable. In making this assessment, the auditor shall consider whether

all required information has been included and whether such information is appropriately classified, aggregated, detailed, and presented. (Standard 700 para 13(d)).

2-The second paragraph: the Basis for Opinion

That paragraph is a new paragraph in the developed report of the external auditor, as it was not present in the old brief report. Previously, it was only included in reports with modified opinions. (It is now included in all reports.) This section is designed to clarify the basis on which the auditor bases his opinion on the financial statements, and acknowledges the following:

- That the audit process that he carried out was in accordance with the international standards for auditing approved in the Kingdom of Saudi Arabia.
- Referring to a separate section - the fourth paragraph - and clarifying his responsibilities as an auditor

Provide a statement on the required independence, ethical responsibilities, and professional ethics related to the audit process adopted in the Kingdom of Saudi Arabia

A statement of whether the auditor believes that the audit evidence obtained is sufficient and appropriate for the opinion reached and provides an appropriate basis for expressing the opinion.

3-The third paragraph:

“Responsibilities of Management for the Financial Statements,”

This paragraph is devoted to describing management's responsibility for preparing the financial statements in accordance with the applicable financial reporting framework, and its responsibility for designing, implementing, and monitoring the internal control system that enables it to prepare financial statements that are free from material misstatement, whether due to fraud or error.

And it is worth noting that. "Management's responsibilities for the financial statements" has not changed much from the format of the previous report. But there is an important addition; It has been added to the developed report of the external auditor, where an additional paragraph must be added dealing with circumstances or events that raise questions about the company's ability to survive as a going concern., and this section must also include a reference to "those charged with governance". FASB and GASB require management to determine whether there is significant doubt about the entity's ability to continue as a going concern and, if so, to make appropriate disclosures in the financial statements.

Evaluate whether the financial statements provide sufficient disclosures to enable intended users to understand the effect of significant transactions and events on the information contained in the financial statements. (Standard 700 para 13(e))

Evaluate whether the financial statements express the transactions and events they represent in a way that achieves fair presentation. (Standard 700 para 14)

4-Fourth Paragraph:

Auditor's Responsibilities for the Audit of the Financial Statements

This paragraph is key to the task of providing users with more information about important aspects of the review process. The responsibilities described in the developed report of the external auditor are similar to those responsibilities described in the old report in terms of the auditor's clarification of the audit objectives, the level of assurance of the collected audit

evidence, and that this evidence does not guarantee the discovery of significant errors if they exist. The auditor also provides an explanation of his other responsibilities for performing the audit in accordance with the standards. international auditing, and that he has exercised professional appreciation and professional skepticism in all phases and steps of the auditing process, and that he has assessed all audit risks, as well as his assessment of the internal control systems applied in the company, for the purpose of expressing an opinion on the soundness of the financial statements and their absence from significant errors. These are all elements. existing in the traditional report form, but new elements have been added that must be mentioned, namely:

- Audits provide high-level, but not absolute, assurance of error detection.
- Detecting fraud is more difficult than detecting errors.
- Professional judgment and skepticism were exercised during the audit process.
- Clarifying the management's responsibility for the continuity of the company, and that the validity of the continuity assumption has been assessed, in light of the evidence collected.

The developed report also included a special section for what was called Key Audit Matters KAM, in which the auditor is responsible for reporting the main matters of the audit. And KAM are the matters that the auditor finds high risk and require great attention from him during the implementation of the process of reviewing the financial statements for the current period, and he must inform those responsible for governance(Hepp, Reinstein,2021). With an explanation of the nature of those important matters, the reason for choosing them, and how to address them, and documenting all the conclusions reached, taking into account the following:

- Laws or regulations prohibiting the disclosure of a matter
- The potential negative consequences versus the benefit of disclosing these issues

And in the absence of such issues, the auditor must indicate this in his report

According to a study conducted in New Zealand, the study indicated that the most common types of KAMs reported in the reviewers' reports relate to the following:

- Impairment of goodwill or other intangible assets
- Valuation of property, plant, and equipment
- Proof of revenue
- investment-related entities
- capitalization

And this new paragraph has gained general acceptance due to the additional important information it provides to the users of the financial statements to help them understand these matters and draw their attention to those issues and thus increase transparency about the audit work conducted.

3. Theory

The importance of the external auditor's report increased after the Second World War, as the development of companies and factories in the United States of America and Europe and the large number of joint shareholders in the capital led to the separation of ownership from management. According to the agency theory, a conflict may arise between the agents (managers) and the shareholders (owners) of the company. As agents (managers) may take advantage of their position to engage in activities that achieve their personal interests. This is thanks to their administrative position and their ability to manage, control and decision-making

process. and therefore, the importance of having a party independent of the internal parties in the facility that plays the supervisory role and financial audit of the data for the benefit of the owners has increased, which made the urgent need to appoint an independent and impartial auditor to monitors the management's actions The company and ensuring that the company's basic contract and the companies' law are not violated so that investors can be assured that their money will not be exposed to misappropriation and theft.

On the other hand, the company's management relies on the financial statements that are approved by the impartial and independent auditor as strong evidence that the management has played its role in efficiently managing the owners' funds. Thus, the auditor's report leads to reducing agency problems, information asymmetry, and enhancing the credibility of the financial statements (Healy & Palepu, 2001).

According to the sign theory, the auditor's report plays an important and influential role in the economy because of the confidence. It adds to the financial statements, which represents a message of reassurance to current and potential investors in the financial information provided by the management in a way that reduces information risks, which positively affects the efficiency of the stock market. (Tahinakis, & Samarinas, 2016). In addition to its role in protecting the rights of investors.) Habib, 2015).

4. Literature review and hypotheses development

4.1 Transitioning to international auditing standards:

Any significant change, such as the adoption of new standards, is usually followed by repercussions and the impact of this change on several aspects. A study (Habib, 2015) conducted an experimental study to examine the effect of adopting a new set of accounting standards on the delay in the audit report, as it was adopted in 2007. In China, those standards were based on the fair value accounting system, and it was concluded that the application of these standards led to a significant delay in audit report. In the same context,(Bonson et al., 2008& Amirul and Salleh,2014) studied the effect of applying international financial reporting standards on the delay in the audit report and the costs of the audit process. The results of the studies showed a positive correlation between the adoption of international financial reporting standards and the delay in the issuance of the audit report. The study stated that this transformation requires management to adapt. With the modification of traditional financial reporting forms used by companies. A study (Kawshalya and Srinath, 2019) also came to the same conclusion, which is the delay in the audit report of Sri Lankan companies. Listed on the Colombo Stock Exchange after the adoption of the new International Financial Reporting Standards (IFRS).

4.2 The quality of financial reports

One of the most important problems faced by users of financial reports while carrying out decision-making processes is obtaining information that is characterized by quality, which generally means that the information is free from errors, forgery, fraud, and distortion, and is objective. And the subjection of these reports to the audit process by the external auditor and issuance of a report on the outcome of the audit process is what

gives them credibility, reliability, and confidence in them, and that is what adds value to them (Tahinakis & Samarinas, 2016). And makes it useful and supportive of the decision-making processes of its users and stakeholders (Mbobbo & Ekpo, 2016)

The time of preparation of the audit report is seen as one of the main determinants of the quality of financial reports. Good timeliness enhances the usefulness and relevance of the accounting data and information contained in these reports (Hassan, 2016) and prevents its economic value from declining, as it represents the real catalyst that creates confidence among investors and decision-makers. (Dibia and Onwuchekwa, 2013; Apadore and Mohd Noor, 2013) Investors prefer to See the audit report within a short period after the end of the fiscal year. (Habib, 2015) The shorter that period, the greater the benefit that users can derive from this report (Kawshalya & Srinath 2019). Both professionals in the accounting profession, users of accounting information, and organizations regulating the accounting profession consider the accuracy of the information published in corporate financial reports and good its timing is one of the most important characteristics and features that maximize the desired benefit from these reports (Eghlaiow, et al. 2012) and reduce the problem of information asymmetry. (Afify, 2009)

4.3 The relationship between developing the external auditor's report on the quality of financial reports

Both of (Carver, & Trinkle, 2017) and (Gutierrez, et.al, 2018) studies agreed that the amendments to the review standards regarding the auditor's report did not achieve the desired benefit for investors, as the impact on the informational content was minimal. (Gutierrez et al., 2022)in their recent studies, results did not change and confirm once again that there was no change in the informational nature of the lengthy report, nor in the quality of the review with a significant increase in the audit fees. (Köhler, et.al, 2020) found that non-professional investors face difficulties in understanding the content of Expanded report , which makes it lose its communication feature, and that the lengthy audit report difficult to read.

Although (Miguel,2021) believes in the importance of expanded reports, his study showed that these reports have not yet fulfilled the promises made to them, and there are still many challenges facing these reports in achieving their desired goals. It is of the opinion that the Expanded reports, although applied, have not achieved the objectives for which they were created of enhancing the perceived value of audits of financial statements and providing users with more relevant information, He also believes that although this shift can improve the presentation of financial information, in some cases it leads to an increase in management delays in submitting financial statements to auditors. This, in turn, delays the issuance of the lengthy audit report. This procedure may also affect audit fees.

On the opposing, we find several studies that concluded that the application of the long review report led to many advantages and benefits. (Prasad, & Chand,2017)study analyzed 138 comment letters written in response to IAASB Expanded Reporting on audited financial statements by a group of investors, governance, regulators, audit oversight bodies, national standard-setters, accountancy firms, public sector auditors, And other professional organizations, academics, and a study concluded that the expanded report led to improving the content of the informational report, as the attention of the users of the report is directed to certain disclosures, and thus improving the decisions of non-professional investors. As shown by(Porumb et al. ,2019) that the developed external audit report had a positive impact on the credit and lending process, as it

helped increase the confidence of lenders and ease the terms of lending contracts. It also helped improve lenders' ability to assess borrowers' risks and avoid adverse selection problems. This has improved the prospects for lenders to view borrowers as more reliable and safer, which translates into more flexible loan contract terms. And by increasing confidence in borrowers, meaning that the developed report of the external auditor contributes to revitalizing the credit process and easing the terms of lending contracts.

(Le nnox et al. 2018; Reid et al. ,2019) also found that the modifications of auditing standards associated with the reviewer's report reduce information conflicts and asymmetries. In a study conducted in China (Goh & Wang, 2019) found that the development of external audit reports led to abnormal turnover and profit response coefficients. (Smith,2019) examined the data of audit reports for companies listed on the London and Irish Stock Exchange and concluded that the use of the developed audit report as a result of the application of ISA 700 led to an improvement in the degree of readability of those reports in the post-period in both the first and second years of implementation. , making information more accessible to users of financial statements.

(Seebeck and Kaya 2022) discovered that the format and format of the new audit reports increase readability and the ability to analyze and evaluate the content. The audit report became easier to read and more attractive, especially concerning the reviewer's opinion paragraph.

(Reid, et.al, 2019) believed that Expanded Auditor Report with more information and disclosures could have an impact on the management's disclosures of financial information, and he explains that the management's fear of the increased disclosures of the auditor and what he called the "threat of disclosure" could lead to an improvement in the quality of the numbers that were subjected for pre-audit management. It can also change the negotiation dynamics between management and the auditor, improving the quality of financial reporting.

By reviewing previous studies that dealt with the impact of developing the external auditor's report in light of the shift to international standards of auditing on the quality of financial reports, within the limits of the researchers knowledge, we note that there is a scarcity of studying this in the Arab world, and this may be due to the recent application of these amendments. There is also a conflict - in general - in the results of studies that dealt with this topic. This leads us to the main hypothesis of this research:

H1: he impact of the Developing the external auditor's report for companies registered in the Saudi Stock Exchange on quality of financial reports.

5. Research Methodology

5.1 Data collection and sample

To collect data related to the quality of the financial report as measured by the timing of its issuance, the current study relied on content analysis of the annual reports of nonfinancial firms listed on in the Saudi Stock Exchange during the period 2015-2018. Data were obtained from firms' websites and from Tadawul website. The statistical analysis was done through the statistical program SPSS – version 20. This study employs descriptive, correlation and regression analyses.

5.2. Sample Selection

The research population includes the non-financial companies listed on the Saudi Stock Exchange for a period of 2015 – 2018, a sample of 107 firms with a total number of 428 observations.

5.3 Measurement of variables

Dependent variable: The quality of the financial report

This variable was measured using the timing of the issuance of the financial report as one of the characteristics of the accounting information, which is the period between the end date of the fiscal year and the date of the auditor's report, according to (Kawshalya, & Srinath,2019).

Independent variable: Developing the external auditor's report

This variable was measured using a dummy value = 1 in the period after Developing the external auditor's report in light of the Transitioning to IAS (international auditing standards); Value = zero in the period before Developing the external auditor's report in light of the Transitioning to IAS, as measured by (Musah et al.,2018).

Control variables:

The empirical model of the study includes three control variables:

- 1- The type of opinion in the auditor's report on the audit of the historical annual financial statements: This variable was measured using a fictitious value = 1 in the case of the unmodified opinion that is contained in the auditor's report on the audit of the historical annual financial statements; Value = 0 otherwise, as measured by (Khoufi and Khoufi, 2018).
- 2- The audit client's realization of losses: This variable was measured using a fictitious value = 1 in the case of the company realized net loss; Value = zero otherwise (Musah et.al, 2018).
- 3- financial Leverage: This variable was measured by dividing total liabilities.

5.4 Model

To test the proposed hypothesis, the following multiple regression model was estimated:

$$FRQ_{it} = \beta_0 + \beta_1 DEAR_{it} + \beta_2 AOPIN_{it} + \beta_3 LOSS_{it} + \beta_3 LE_{it} + \varepsilon$$

Where:

)FRQ(Financial Reporting Quality

DEAR (Developing the external auditor report)

AOPIN

LOSS

LEV

β_1

ε

Table 1 below summarizes variables measurement employed in this study.

Table 1: Summary of variables measurement

Variable type	Variable	Measurement
Dependent variable	Financial Reporting Quality	Timing of the issuance of the financial report as one of the characteristics of the accounting information, which is the period between the end date of the fiscal year and the date of the auditor's report.
Independent Variable	Developing the external auditor's report	a dummy value = 1 in the period after Developing the external auditor's report; Value = zero in the period before Developing the external auditor's report in light of the Transitioning to IAS
Control variables	The type of opinion in the auditor's report	a dummy value = 1 in the case of the unmodified opinion that is contained in the auditor's report on the audit of the historical annual financial statements; Value = 0 otherwise
	The audit client's realization of losses	a dummy value = 1 in the case of the company realized net loss; Value = zero otherwise
	financial Leverage	measured by dividing total liabilities

1. Analysis and results

1.1 Descriptive Statistics

Before testing the hypothesis we made descriptive statistics, including frequency for the dummy variable, mean, standard deviation and variance of continuous variables as shown in Table 2.

Table 2: Descriptive statistics

Panel A: Descriptive statistics of continuous variables (full sample N = 150)				
Variable	Minimum	Maximum	Mean	Std. Deviation
FRQ (Timing)	150	9	60	20.869
LEV	0.87	0.02	0.381	0.202
Panel B: Descriptive Statistics – Dummy variables Variable				
	Frequency of 1	Frequency of 0	Percentage of 1	Percentage of 0
AOPIN	377	51	88%	12%
LOSS	90	338	21%	79%

Table 2 presents the descriptive statistics for the model variables of this study. It shows Timing of the issuance of the financial report of 60 and ranges from a minimum of 9 to a maximum value of 150 with a standard deviation of 20.869. As regarding control variables, Table 2 displays The number of observations for companies whose auditor's report on auditing their historical annual financial statements includes an unmodified opinion is (377) observations, with a rate of (88%), while the number of observations for companies whose auditor's report on auditing their historical annual financial statements includes a modified opinion is (51) observations, with a percentage (12%), and that the number of views for companies whose business resulted in a net loss is (90) views, at a rate of (21%), while the number of views otherwise is (338) views, at a rate of (79%).

6.2 Correlation matrix

Table 3: Pearson Correlation

		FRQ (Timing)	DEAR	AOPIN	LOSS	LEV
FRQ (Timing)	Pearson Correlation	1				
	Sig. (2-tailed)					
DEAR	Pearson Correlation	.448**	1			
	Sig. (2-tailed)	.000				
AOPIN	Pearson Correlation	-.145**	.058	1		
	Sig. (2-tailed)	.003	.230			
LOSS	Pearson Correlation	.127**	.000	-.071-	1	
	Sig. (2-tailed)	.009	.994	.142		
LEV	Pearson Correlation	.248**	.154**	-.238**	.179**	1
	Sig. (2-tailed)	.000	.001	.000	.000	

* Significant at the 0.05 level (2-tailed).

** Significant at the 0.01 level (2-tailed).

Table 3 presents the correlation results for the study variables. First, it is found that DEAR is significantly correlated with Timing of the issuance of the financial report at 0.01 significance level. Second, in terms of control variables, AOPIN is found to be negatively correlated with Timing of the issuance of the financial report at 0.01 significance level, while LOSS, LEV is positively correlated with Timing of the issuance of the financial report at 0.01 significance level.

6.3 Regression Results

Regression analysis (see Table 4) was performed on the dependent and independent variables to check the existence of multi-collinearity and serial or autocorrelation problems. The tolerance and variable inflation factor (VIF) tests revealed no harmful correlation. In the present work, the maximum VIF value (as shown in Table 4) is 1.125

. In addition, the tolerance is greater than 0.20 for the variables. Therefore, this study is not subject to high-collinearity problems. Overall, there are no linearity, multi-collinearity and autocorrelation problems.

Table 4: Multicollinearity Test

	Tolerance	VIF
DEAR	.966	1.035
OPIN	.934	1.071
LAV	.966	1.035
LOS	.889	1.125

Table 5: Regression results

Model Summary ^b				
Model	R Square	Adjusted R Square	F	Prob> F
1	.259	.252	36.917	.000
a. Predictors: Constant, AOPIN, LEV, LOSS			b. Dependent Variable: <i>FRQ</i>	
Coefficients ^a				
Model	Coef.	t	Sig.	
(Constant)	53.854	16.396	.000	
<i>FRQ</i>	18.131	10.212	.000	
AOPIN	-8.569-	-3.048-	.002	
LEV	9.651	2.189	.029	
LOSS	6.783	2.999	.003	
a. Dependent Variable: <i>FRQ</i>				

Table 5 shows the results of regression analysis to test the hypothesis. The value of F (36.917), at a significance level of 0.01 (p=0.000) from the regression model, shows that the multiple regression model is very statistically significant. So that the model is feasible for the analysis. The adjusted R2 value of 0.252 indicates that the independent variable has an effect on the dependent variable.

In addition, Table 5 reveals the findings related to the Timing of the issuance of the financial report variable (as a proxy for *FRQ*). The coefficient B is found to be positive and significant, which means that there is a negative significant impact of the development of the external auditor's report in light of the shift to the international standards of auditing on the quality of the financial report as measured by the timing of its issuance at a significant level less than 0.05, as the development of the external auditor's report resulted in an increase in the delay period in the issuance of the financial report, which indicates the issuance of The financial report at the wrong time, and accordingly proves the rejection of the null hypothesis and the acceptance of the alternative hypothesis, which states that “the development of the external auditor’s report in light of the shift to international standards of auditing affects the quality of the financial report, as measured by the timing of its issuance.”

As regards the control variables, the findings in Table 5 reveal that, the type of opinion has a negative moral effect, and this indicates that when the auditor's report is issued on the audit of the financial statements, including an unmodified opinion, the period for issuing the financial report is less, which indicates that it is issued in a timely manner, and this is an indicator of increasing the quality of the financial report, while in the case of the modified opinion it takes longer. The period for issuing the report is a longer period of time, which is reflected negatively on the appropriate timing for issuing the financial report, and hence the decrease in the quality of the financial report. With regard to the effect of financial advantage and the audit client's realization of losses, they have a positive, significant effect on the period of issuance of the financial report and then the decline in the quality of the financial report. This requires further audit procedures, which cause a lengthy audit process and thus delay the issuance of the financial report.

7. Conclusion

This study mainly investigated the impact of developing the external auditor's report on financial reports quality in the Saudi business environment from one side, It also examined the relationship between The type of opinion in the auditor's report, The audit client's realization of losses, financial Leverage and the quality of financial reports from the other side.

The study is motivated by the importance of Transitioning to international auditing standards in the Saudi business environment It is found to impact the development of the external auditor's report on the financial reports quality.

This is consistent with and that result is consistent with (Köhler, et.al, 2020; Miguel, 2021) that the development of the external auditor's report did not improve the quality of the financial report, and this result indicates that the development of the external auditor's report in light of the shift to international standards of auditing causes a delay in the issuance of the financial report resulting from a delay. The auditor's report on the audit of the financial statements; This result differs from the study of (Prasad, & Chand, ,2017) where he believes that the development of the external auditor's report increased the informational content of the report, and (Miguel,2021) also believes that it led to an increase in the quality of the financial report by improving Informational content and that it is an indicator of increased external control, See (Seebeck and Kaya , 2022) believes that it led to ease of reading the financial statements, as well as the study (Smith, 2019) that the audit report developed as a result of the application of ISA 700 led to an improvement in the degree of ease of reading those reports, and this indicates This indicates that the impact of developing the external auditor's report on the quality of the financial report varies according to the scale used. Thus, the finding supports our hypothesis.

This study extends and updates the limited empirical evidence on this issue in the Saudi business environment. Thus, this study adds to the continuing debate around the role of Transitioning to international auditing standards in enhancing the financial reports quality. Moreover, the reported finding in this study can provide useful information to regulators, auditing standards-setters, the Financial Market Authority, and companies.

One limitation of this study is using one variable to measure the quality of the financial report: The timing of the financial report issuance. Therefore, future research is more variable. This limitation does not undervalue the valuable insights drawn from this study but gives a motivation for further investigation. Thus, a potential opportunity for future research could be to use other proxies of financial report quality. Further, future research may also be measuring the development of the auditor's report by addressing some of its paragraphs separately as an independent variable, such as the key audit matters Also; the size of the audit office was used as a modified variable.

In addition, this study did not address the amendments issued in 2019 by the International Accounting Standards Board. Which became effective for auditing the financial statements for periods ending on or after December 15, 2020.

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