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Financial and Non-Financial Variables of Audit Client

**Financial and Non-Financial Variables of Audit Client and Its
Impact on Qualitative Characteristics**

“An Empirical Study on Egyptian Listed Company”

بحث مستخرج من رساله دكتوراه بعنوان "اثر المتغيرات المالية والغير مالية لعميل
المراجعة على الخصائص النوعية للمعلومات المحاسبية"
" دراسة تطبيقية على الشركات المقيدة بالبورصة المصريه "

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2025

١٣٤

مجلد (١٤) عدد (٣) ديسمبر ٢٠٢٥

مجلة المحاسبة والمراجعة لاتحاد الجامعات العربية

Abstract:-

The research explained the Theoretical Framework of Financial and Non-Financial Variables of Audit Client, as it declared that Financial data and information are usually obtained directly from the financial statements of an audit client, such as net income and financial ratios but the Non-financial data and information are not usually contained on the face of the financial statements of an audit client, but may be disclosed elsewhere in the annual report, or produced and reported by independent sources.

The research declared that the qualitative characteristics of financial reporting quality are divided into fundamental qualitative characteristics (relevance, reliability, and faithful representation) and enhancing qualitative characteristics (understandability, comparability, and timeliness); and declared that the quality of financial reporting is measured by contain both the scores on the fundamental and enhancing qualitative characteristics.

Purpose of the research is to declared that Financial factors are not the only factors indicating problems in the company operation, also the non-financial factors may effect on the assurance of the auditor and on the quality of the audit process which finally effect on the report of the auditor, also the researcher think that the combination of financial and nonfinancial factors provides for more accurate predictions and recently the stakeholders are demanding additional assurance indicators (non-financial) against misappropriation Of management and this search empirically examined that

Finally the research is sure that financial variables are not the only variables indicating problems in the company operation, also there might be non-financial variables that may affect the auditor's assurance and on the quality of the audit process which lastly effect on the auditor's report

Keywords: - "Financial Variables, Non-Financial variables, Auditor-Client Relationship, Audit Quality, Qualitative Characteristics"

ملخص البحث:-

البحث يوضح الإطار النظري للمتغيرات المالية وغير المالية لعمل المراجع، حيث أوضح أن البيانات والمعلومات المالية عادةً ما يتم الحصول عليها مباشرةً من البيانات المالية لعمل المراجع، مثل صافي الدخل والنسب المالية، ولكن البيانات والمعلومات غير المالية لا تظهر عادةً في مقدمة البيانات المالية لعمل المراجع، ولكن قد يتم الإفصاح عنها في مكان آخر من التقرير السنوي، أو يتم إنتاجها والإبلاغ عنها من قبل مصادر مستقلة. كما أوضح أيضاً الخصائص النوعية

الأساسية وانعكاسها على جودة المراجعة. وأوضح أن الخصائص النوعية لجودة التقارير المالية تنقسم إلى خصائص نوعية أساسية (الصلة والموثوقية والتمثيل الصادق) وخصائص نوعية مُحسَّنة (قابلية الفهم والمقارنة والتوقيت)؛ واستنتج أن جودة التقارير المالية تُقاس من خلال احتوائها على كل من الدرجات على الخصائص النوعية الأساسية والمُحسَّنة. والبحث يهدف إلى إيضاح أن العوامل المالية ليست العوامل الوحيدة التي تشير إلى وجود مشاكل في عمليات الشركة، بل قد تؤثر العوامل غير المالية أيضًا على ضمانات المراجع وجودة عملية المراجعة، مما يؤثر في النهاية على تقرير المراجع. كما يعتقد الباحث أن الجمع بين العوامل المالية وغير المالية يوفر تنبؤات أكثر دقة، ومؤخرًا يطالب أصحاب المصلحة بمؤشرات ضمان إضافية (غير مالية) ضد اختلاس الإدارة وهذا البحث يتناول فحص ذلك تجريبيًا.

وفي الختام، يؤكد البحث أن العوامل المالية ليست وحدها مؤثرًا على وجود مشاكل في عمليات الشركة، بل قد توجد عوامل أخرى غير مالية تؤثر على رأي المراجع وعلى جودة عملية التدقيق، وبالتالي على مضمون تقرير المراجعة.

الكلمات المفتاحية: "المتغيرات المالية، المتغيرات غير المالية، علاقة المدقق بالعميل، جودة التدقيق، الخصائص النوعية."

1 Introduction:-

Prior studies conducted in Egypt showed that auditors appear not to make extensive use of non-financial data and information during an audit engagement due to lack of experience and training to use non-financial information, limited disclosures of non-financial information by Egyptian firms, and pressures to reduce audit costs and fees as a result of competition (Awadallah , Abdelmoneim A. & Mohamed El-Said ., Haitham, 2018).

In the prior study of (Hassan & Power, 2009) examined whether financial analysts in Egypt view accounting information (whether disclosed or not) in corporate annual reports as valuable for investment decision making. The findings indicated that financial analysts value quantitative information more than non-quantitative information when developing forecasts for stock prices in the Egyptian capital market. Hassan & Power (2009) pointed out that non-quantitative items of information are usually voluntarily disclosed by Egyptian firms and some of this information has never been actually disclosed in Egyptian financial statements. Also in the study of (Marzouk, 2016) examined corporate risk disclosure practices and determinants in the annual reports of Egyptian companies during the 2011 political crisis in Egypt. The results showed that companies disclosed more quantitative than qualitative risk information in their annual financial reports during the 2011 political crises in Egypt.

Financial data and information are commonly obtained directly from the financial statements of an audit client, such as net income and financial ratios. Non-financial data and information are not usually contained on the face of the financial statements of an audit client, but may be disclosed elsewhere in the annual report, or produced and reported by independent sources, such as industry trade groups (Brazel, Jones, & Prawitt, 2014).

Auditors usually develop expectations about the financial position of an audit client by understanding how the economic environment affects the financial statements of this audit client (Brewster, 2011).

It is supposed in the literature that non-financial data and information could be used to help auditors understand a client's business by pointing them to the drivers of economic performance of an audit client.

Similarly, if non-financial data and information exist that are easily verified and are not being manipulated by management, then using non-financial data would provide a way for auditors to both generate reliable expectations for analytical procedures and test the validity of management's explanations for their inquiries. Therefore, identifying inconsistencies between financial data and related non-financial data would serve as a red flag for auditors, leading them to ask pointed questions to the management of the audit client, test management's responses with reliable evidence, increase auditors' professional suspicion "skepticism", and assign required specialists to the audit engagement.

However, previous research emphasized that auditors tend to rely heavily on financial data and information when assessing the risk of material misstatement during an audit (د/مجاهد، محمد عبد الله، ٢٠٠١).

In recent years the problems of enhancing the quality of auditor's reports by changing the structure of information and its contents had been widely considered and were reflected in the revised standard regulating the issues of the formation of the auditor's report (International Standard on Auditing 700 (revised) "Forming an Opinion and Reporting on Financial Statements", 2015).

The accountability state authority in Egypt plays a supervisory role over financial and non-financial elements, exercising financial oversight over entities subject to its oversight, whether they are government agencies, the public sector, or companies in which the state has a stake. It also oversees

performance, monitors the implementation of plans, and exercises legal oversight over decisions issued regarding financial violations (عبد الله، ٢٠٠١). د/مجاهد، محمد

2 The Research Problem:-

The main problem of the research lies in examining whether financial and non-financial factors are affected by certain audit qualifications characteristics.

3 The Research Objective:-

The main objective of this research is to indicate and analyze the impact of the financial and non-financial variables of the audit client on the qualification characteristics of the accounting information.

4 The Research hypothesis :-

Ho (1): The financial variables of the audit client significantly affect the qualitative characteristics of accounting information.

Ho (2): The non - financial variables of the audit client significantly affect the qualitative characteristics of accounting information.

5 Literature Review :

• Toncheva, Rossitsa. (2025) :-

This study declared that financial statement analysis is an element of financial planning. Its objective is professional decision-making of investors and managers. For a proper financial statement analyses very important are: the sources of information, the type of financial indicators, ratios construction, and assessment and interpretation of final results. Also this study indicates that Sources of information can be internal and external.

Finally, since the face value does not carry enough information, they use relative indicators called “financial ratios”. A certain inconvenience appears when using relative indicators. Due to the big number of financial elements, it is practically possible to construct unlimited number of ratios. The problem is to limit these to a reasonable number by considering their

economic significance and the information needed. Coefficients are ratio values in numbers.

● **Ganesan, Yuvaraj & Shaharudin, Muhammad & Sadaa, Abdullah. (2024):-**

This paper examines the effect of audit characteristics on financial reporting quality (FRQ) and the role of audit quality (AQ) as a mediator.

Findings show that only audit fees affected FRQ positively. At the same time, audit fees and company size have positively influenced AQ.

On the other hand, AQ has improved the link between audit characteristics and FRQ since the results show a positive effect of audit tenure, audit fees, and audit company size on FRQ through the mediator.

● **Ngoc, Hung et al., (2023):-**

This study examines the influence and importance of firm characteristics on the quality of financial statements of listed companies in Vietnam's stock market from the audit point of view. We find that business profitability, business size, and the size of the Board of Directors positively correlate with the quality of financial statements. Results show that the most critical factors affecting financial statement quality include profitability, profit after tax on total assets, state ownership, and enterprise size.

● **Herath and Albarqi (2017):-**

Believed that financial reporting quality represents the financial statements that issue exact, accurate, and fair information about the economic performance and financial position of an entity, the definition is according to Financial Accounting Standard Board (FASB), in addition, they believed that the worldwide accounting scandals that happened in the early 21st century have shed the light on the weaknesses in financial reporting, thus, it is critical to provide a high quality of financial reporting, because it will help the users of the financial reports to make better investment decisions; in addition, it will enhance the market efficiency.

Additionally, Herath and Albarqi found that there are qualitative and quantitative elements for high-quality financial reporting agreed upon in the Conceptual Framework for Financial Reporting of the FASB and the IASB (2008).

On the other hand, the International Accounting Standard Board (IASB) states that the qualitative characteristics of financial reporting cannot

determine the financial reporting quality alone, thus many experts in this field start to make studies to determine the quantitative elements or the influences on the financial reporting quality and then use these influences as measures to the financial reporting quality.

Financial Variables

Beaver W. is to be mentioned as the second among the scholars laying foundations to the analysis of financial ratios by testing 30 ratios in his research “Financial Ratios As Predictors of Failure” where the ratios were split into 6 groups. A ratio was chosen from each of the groups the changes of which indicate the possible presence of solvency problems: cash flow/total debt, net income/total assets, total debt/total assets, working capital/total assets, current ratio, and no credit interval (Rozenbah et al., 2017).

Mironiuc, M., Taran, A.,(2015), in studying “The significance of financial and non-financial information in insolvency risk detection” has selected 9 financial ratios, i.e. current assets ratio, financial leverage, quick liquidity ratio, financial expenses ratio, operating profit margin, average collection period, average payment period, employees expenses ratio, return on assets, of which the return on assets, operating profit margin, financial expenses ratio and average payment period are highlighted as statistically significant in predicting solvency.

With respect to the financial indicators (debt to equity ratio, cumulative retained earnings, cumulative OCF AID, and ROCE), there are two available techniques for measurement: using the information contained in the financial statements, or to use that information plus the information disclosed in the notes of the accounts. This thesis advocates using both techniques. Firstly, calculate the indicators using only the financial statements. Secondly, calculate the indicators using the financial statements after adjusting for information contained in the notes to the accounts (Jory, Hugh Warrick., 2002)

Another research also, show that the increase of expenses at a constant turnover may serve as an indicator of financial problems and lack of professional competence in adopting decisions arising from non-financial factors (management competence) (Ooghe H,2008).

From the above, The researcher concluded that Financial variables are not the only variables indicating problems in the company operation, also there might be non-financial variables that may affect the auditor's assurance and on the quality of the audit process which lastly effect on the auditor's report, which will be discussed later.

Non-Financial variables

The Financial scandals of the last decade have had a negative effect upon the trust and perception of investors regarding auditor responsibility and their part in fraud and error detection. As a result of legal conditions and regulations, audit firms in some jurisdictions have recently started to compile transparency reports, which contain information regarding the non-financial indicators. There may be factors affecting business that do not depend on the company itself, such as –legislation, national tax policy, inflation, lending rates and national foreign policy. A company is not able to influence these factors, but can try to adapt to them or diversify its business to prevent the risk of insolvency. However, there are also relevant non-financial factors determined, which can be changed, influenced, controlled as they depend on the decisions of the company's management (Rozenbah et al., 2017).

Although non-financial information is definitely useful and essential in reporting, its reliability can be questioned, and the audit community plays a great role in addressing this risk (Tarasova et al., 2018).

Non-financial ratios have been little exploited in predicting solvency, but, according to research, the combination of financial and nonfinancial factors provides for more accurate predictions (Altman E.I, 2015).

Although there is no generally accepted listing of non-financial variables that can be used in forecasting company distress, a limited number of studies have identified a unique set of nonfinancial variables. Therefore the prior researches of have identified a number of non-financial variables, for example, financial control, industry experience, management experience, staffing, product/service timing, economic timing and marketing skills, age of the company, and any changes over the past three years in the number of directors, non-executive directors, shareholders and auditors. Furthermore, the non-financial variables to be applied in the study of (Colff, Francois & Vermaak, Frans., 2015) is to examine a company's strategic capability,

which refers to a company's ability and means to be pro-active and to take action. The premise that underpins using non-financial variables to determine a company's strategic capability is that an effective strategy formulation and execution is interdependent with the company achieving its financial objectives.

Moreover, ESG audits emerged in the mid-2000s, when it became clear that corporate social responsibility and environmental, social, and governance (ESG) factors were equally essential to investors and consumers, leading to a more sustainable global financial system. ESG auditing is now widely adopted in countries around the globe. ESG audits are required in the United States, Canada, the United Kingdom, France, Germany, Japan, and Australia for firms that wish to be included in sustainability indexes like "the Dow Jones Sustainability Index or the FTSE4Good" (Prodanova, Natalia., 2023).

In current years, the information needs of firms' stakeholders have expanded beyond financial information. In this sequence, non-financial information about the firms' operations is of vital importance for stakeholders. In line with these developments, firms' ESG performance has become prominent and has heightened the interest of market participants. Publicly traded companies have become more sensitive to the disclosure of ESG performance in order to protect their ethical values and reputation and influence the behavior of stakeholders (Rezaee., 2016).

ESG provides a new measure of accountability that reflects voluntary commitment to non-financial goals and ensures the allocation of social trust. Firms adopt ESG in order to capitalize on their strategic and financial advantages (Arayssi et al., 2020: 138).

An ESG audit is a critical component of a company's governance framework for assessing its social responsibility and sustainability. The audit facilitates in identifying the organization's strengths and weaknesses in these areas, as well as in developing strategies and action plans for enhancing its market position and satisfy the expectations of its stakeholders. Ultimately, Firms now publish both financial and non-financial (ESG) information in order to meet the information needs of their stakeholders. In addition to financial scandals, some questions have arisen as to how issues like increased pollution due to emissions, use of natural resources, child labor, product

liability, equal treatment of shareholders and corporate governance are managed (Prodanova, Natalia., 2023).

Auditor-Client Relationship

The nature of the auditor-client relationship presents a natural threat to auditor independence because auditors have incentives to retain fee-paying clients. The financial dependence on “important clients” prompted the Cohen Commission to conclude that complete auditor independence is a practical impossibility (DeFond, Mark & Zhang, Jieying., 2014).

The long-term relationship between auditors and auditors can make the company of client importance because it is considered a source of income for auditors, thereby affecting the declining level of objectivity and independence. Based on the accounting theory, the firm's immense size is more likely to compromise their independence because clients are considered essential (Fadilah, Resmi & Fitriany, Fitriany., 2021).

In the study of (Kerler and Brandon, 2010) define client importance as the client's relative financial importance for auditors or KAP.

The main client is a client who has a large number of assets from an audit office, so auditors often spend a longer time with the client. Clients who receive a going concern opinion may change their auditors, hoping that the auditors will be flexible, resulting in more favorable financial reports. The impact of losing significant clients significantly reduces the company's revenue. However, the level of audit quality is well maintained, and the opportunities to get new clients are increasing. There are two arguments regarding client importance for audit quality (Fadilah, Resmi & Fitriany, Fitriany., 2021)..

The first argument states that the more influential the client is to KAP (Public Accounting Firm), the lower the quality of the audit produced, because of economic dependency factors (Chi et al, 2012).

The second argument states that the more influential the client is to the (Public Accounting Firm) KAP, the higher the resulting audit quality is due to the reputation protection factor. The auditor will work with the client for a very long period on an annual basis. The auditor will view his client as a company with great potential in the future that will continue to employ

them. Therefore, the auditor will tend to identify the client (Fadilah, Resmi & Fitriany, Fitriany., 2021).

The emergence of client identification should be avoided because it is based on the results of research (Bamber and Iyer, 2005), that this client identification can damage the objectivity of the auditor. Based on the above, it is concluded that long-lasting audit firm tenure brings about a better knowledge sharing between audit firm and client, as well as decreased costs comparatively to engaging a new supplier.

Thus, clients based on the abovementioned factors have incentives to purchase the NAS from their current auditors rather than opting for the unknown suppliers of NAS, therefore enhancing the positive relationship between the auditor and the client in terms of audit-tenure and the levels of NAS (Ye et al., 2006).

But on the other hand the economic bond between auditor and client has increased due to the provision of more non-audit services, which impairs an auditor's independence. A large portion of non-audit fees received from clients could be a reason for auditor to compromise his independence (Rusmin et al., 2006).

The study of (Lee et al., 2009) summarizes a negative association between non-audit fees and audit delays by suggesting that when an auditor offers non-audit services to its clients then the auditor is in much stronger position to conduct the audit in a much quicker way due to the increase in the auditor learning about the client firm.

Measurement Of The Quality Of Financial Reporting In Terms Of The Qualitative Characteristics:-

Operationalization Of The Qualitative Characteristics

The prior study of (Herath and Albarqi, 2017) found that there are qualitative and quantitative elements for high-quality financial reporting agreed upon in the Conceptual Framework for Financial Reporting of the FASB and the IASB (2008). The qualitative characteristics of financial reporting quality is divided into fundamental qualitative characteristics and enhancing qualitative characteristics. On the other hand, the International Accounting Standard Board (IASB) states that the qualitative characteristics of financial reporting cannot determine the financial reporting quality alone,

thus many experts in this field start to make studies to determine the quantitative elements or the influences on the financial reporting quality and then use these influences as measures to the financial reporting quality.

The Quality characteristics are the attributes that make the information provided in financial statements useful to others. In its statement of principles for financial reporting, the Accounting Standards Board (ASB) in the United Kingdom outlines reliability, relevance, materiality, comparability, understandability and timeliness as the qualitative characteristics of accounting information useful to information users. For financial information to serve its intended objective, it should be of good quality to enhance good decision making (IASB ,2008).

Enhancing qualitative characteristics (i.e. understandability, comparability, verifiability and timeliness) can improve decision usefulness when the fundamental qualitative characteristics are established. However, they cannot determine financial reporting quality on their own (IASB ,2008)

First:- Fundamental Qualitative Characteristics “The Fundamental Qualitative Characteristics Are Relevance And Faithful Representation”.

❖ Relevance:-

To be relevant to investors, creditors, and others for investment, credit, and similar decisions, accounting information must be capable of making a difference in a decision. Relevant information should have predictive value, feedback value, and timeliness. Relevant information helps decision makers make predictions about future; it has “Predictive Value”. Relevant information also helps decision makers confirm or correct prior expectations; it has “Feedback Value”. Usually, information does both at once, because knowledge about the outcome of actions already taken will generally improve decision makers’ abilities to predict the results of similar future actions. Without knowledge of the past, the basis for a prediction will usually be lacking. And without an interest in the future, knowledge of the past is useless. To be relevant, information also must be timely “Timeliness”. This means the information must be available to a decision maker before it loses its capacity to influence decisions (Obaidat, A. N.,2007).

❖ Faithful representation:-

Faithful representation is the second fundamental qualitative characteristic as shown in the ED (Exposure Draft). To faithfully represent economic phenomena that information purports to represent, annual reports must be complete, neutral, and free from material error (IASB, 2008 p36).

Applying The Fundamental Qualitative Characteristics:-

- Information must both be relevant and provide a faithful representation of what it purports to represent if it is to be useful. Neither a faithful representation of an irrelevant phenomenon nor an unfaithful representation of a relevant phenomenon helps users make good decisions.
- The most efficient and effective process for applying the fundamental qualitative characteristics would usually be as follows (subject to the effects of enhancing characteristics and the cost constraint, which are not considered in this example). First, identify an economic phenomenon, information about which is capable of being useful to users of the reporting entity's financial information. Second, identify the type of information about that phenomenon that would be most relevant. Third, determine whether that information is available and whether it can provide a faithful representation of the economic phenomenon.
- In some cases, a trade-off between the fundamental qualitative characteristics may need to be made in order to meet the objective of financial reporting, which is to provide profitable and useful information about economic phenomena.

Second:- Enhancing Qualitative Characteristics

Comparability, verifiability, timeliness and understandability are qualitative characteristics that enhance the usefulness of information that both is relevant and provides a faithful representation of what it purports to represent (IFRS, 2018).

❖ Understandability:-

The first enhancing qualitative characteristic, understandability, will increase when information is classified, characterized, and presented clearly and concisely. Understandability is referred to, when the quality of information enables users to comprehend their meaning (IASB, 2008).

❖ Comparability:-

A second enhancing qualitative characteristic is comparability, which “is the quality of information that enables users to identify similarities in and differences between two sets of economic phenomena”. In other words, similar situations should be presented the same, while different situations should be presented differently (IASB, 2008).

❖ **Verifiability :-**

Verifiability means that different knowledgeable and independent observers could reach consensus, although not necessarily complete agreement, that a particular depiction is a faithful representation. Quantified information need not be a single point estimate to be verified (IFRS, 2018).

❖ **Timeliness:-**

When examining the quality of information in annual reports, timeliness is measured using the natural logarithm of the amount of days between year-end and the signature on the auditors’ report after year end is calculated. Based on the natural logarithm of this amount of days, each company received a score between 1 and 5 (IASB, 2008).

❖ **Applying The Enhancing Qualitative Characteristics:-**

- Enhancing qualitative characteristics should be maximized to the extent possible. However, enhancing qualitative characteristics, either individually or as a group, cannot make information useful if that information is irrelevant or does not provide a faithful representation of what it purports to represent.
- Applying the enhancing qualitative characteristics is an iterative process that does not follow a prescribed order. Occasionally, one enhancing qualitative characteristic may have to be diminished to maximize another qualitative characteristic.

For instance, a temporary reduction in comparability as a result of prospectively applying a new Standard may be worthwhile to improve relevance or faithful representation in the longer term (IFRS, 2018).

The researcher concludes that quality reporting is a critical part of the performance management effort also It improves communication with internal and external stakeholders which leads to better decision-making and ultimately improves performance.

The Applied Study

In order to achieve the first objective, the researcher investigates the influence of financial and non-financial variables of the audit client on the qualitative characteristics of accounting information.

First hypothesis: The Association between financial variables and AIQ (Model 1):

To testing the validity of the first research hypothesis (H1) concerning the association between financial variables (ROA and LEV) and AIQ, which states That “*The financial variables of the audit client significantly affect the qualitative characteristics of accounting information.*” begins by conducting a Multivariate OLS regression model as shown in table (1).

Table 1: The relationship between financial variables and AIQ

Dependent variable: AIQ (Model 1)				
Predictor	Coefficient	t-value	P-value	VIF
ROA	.229***	4.624	.000	1.255
LEV	-.123***	-2.711	.007	1.046
Big4	.121***	2.718	.007	1.020
L	-.074	-1.518	.130	1.223
YE	.264***	5.845	.000	1.042
S	.002	.037	.971	1.057
Constant	.630	22.579	.000	-----
R ²	0.183			
Adjusted R ²	0.172			
F-value	15.633 <i>p=0.000</i>			

Notes: ***, **, and *denote statistical significance at the 1, 5, and 10 percent levels.

The results in Table (1) indicate a **positive and statistically significant** relationship between **return on assets (ROA)** and the qualitative characteristics of accounting information (AIQ). Specifically, the regression coefficient (β) of ROA is positive, with a value of 0.229, the value of (t) = 4.624 at a significance level (**Sig**) = 0.000 less than the approved level of significance 5%. This outcome implies that firms with higher profitability are more likely to provide accounting information that is relevant and faithfully represented, in line with the expectations of stakeholders. Profitability enhances the incentives for transparent disclosure, as financially successful firms are less pressured to manipulate earnings and more motivated to maintain credibility with investors, creditors, and regulators.

Furthermore, the results indicate a **negative and statistically significant** relationship between **leverage (LEV)** and the qualitative

characteristics of accounting information (AIQ). The regression coefficient (β) of LEV is -0.123, the value of (t) = -2.711 at a significance level (**Sig**) = 0.007 less than the approved level of significance 5%. One possible explanation is that highly leveraged firms face stronger incentives to engage in earnings management in order to avoid debt covenant violations or to present a more favorable financial position to creditors. Such practices may undermine the relevance and faithful representation of financial reports, thereby reducing the overall quality of accounting information

Consequently, these results support the study's first research hypothesis (H1), we can accept the first hypothesis (H1) suggesting a significant association between financial variables of the audit client and qualitative characteristics of accounting information.

For the control variables, the results reveal that AIQ is significantly and positively associated with year-end (YE) and audit quality (Big4) at the 5% level. This finding implies that firms with a fiscal year end aligned with regulatory or market reporting cycles tend to provide higher-quality accounting information, likely due to enhanced comparability and greater scrutiny from stakeholders during these reporting periods. Similarly, the positive association with audit quality indicates that companies audited by Big4 audit firms are more likely to issue financial reports that satisfy the qualitative characteristics of relevance and faithful representation.

4/6/2 Second hypothesis: The Association between non-financial variables and AIQ (Model 2):

To testing the validity of the second research hypothesis (H2) concerning the association between non-financial variables (Size, BS and Bind) and AIQ, which states That "*The non-financial variables of the audit client significantly affect the qualitative characteristics of accounting information.*" begins by conducting a Multivariate OLS regression model as shown in table (2).

Table 2: The relationship between non-financial variables and AIQ

Dependent variable: AIQ (Model 2)				
Predictor	Coefficient	t-value	P-value	VIF
Size	.103**	2.281	.023	1.051
BS	.179***	3.780	.000	1.170
Bind	.248***	5.337	.000	1.124
Big4	.118***	2.646	.008	1.026

L	-.174***	-3.916	.000	1.026
YE	.210***	4.600	.000	1.087
S	-.002	-.054	.957	1.081
Constant	.474	4.175	.000	-----
R ²	0.197			
Adjusted R ²	0.184			
F-value	14.655 <i>p=0.000</i>			
Notes: ***, **, and *denote statistical significance at the 1, 5, and 10 percent levels.				

The results in Table (2) indicate a **positive and statistically significant** relationship between **firm size** and the qualitative characteristics of accounting information (AIQ). Specifically, the regression coefficient (β) of Size is positive, with a value of 0.103, the value of (t) = 2.281 at a significance level (**Sig**) = 0.023 less than the approved level of significance 5%. One possible explanation is that larger firms are subject to greater regulatory scrutiny, wider stakeholder attention, and stronger market pressures, all of which incentivize them to enhance the relevance and faithful representation of their financial disclosures.

Furthermore, the results indicate a **positive and statistically significant** relationship between **board size** and the qualitative characteristics of accounting information (AIQ). The regression coefficient (β) of BS is 0.179, the value of (t) = 3.780 at a significance level (**Sig**) = 0.000 less than the approved level of significance 5%. This finding suggests that larger boards are more effective in enhancing the quality of accounting information. A possible explanation is that a greater number of board members increase the diversity of expertise, experience, and perspectives, which strengthens oversight and monitoring of management practices. This, in turn, reduces the likelihood of opportunistic behavior such as earnings management and encourages compliance with accounting standards, thereby improving the relevance and faithful representation of financial reporting. The result is consistent with the arguments of agency theory, which emphasize the role of the board of directors in mitigating information asymmetry between managers and stakeholders

Additionally, the results indicate a **positive and statistically significant** relationship between **board independence** and the qualitative characteristics of accounting information (AIQ). The regression coefficient (β) of BS is 0.248, the value of (t) = 5.337 at a significance level (**Sig**) = 0.000 less than the approved level of significance 5%. This supports the agency theory perspective, which emphasizes the role of independent

directors in reducing information asymmetry and safeguarding the integrity of financial disclosures.

Consequently, these results support the study's second research hypothesis (H2).

Conclusion:-

1- Financial variables are not the only variables indicating problems in the company operation, also there might be non-financial variables that may affect the auditor's assurance and on the quality of the audit process which lastly effect on the auditor's report

2- there are qualitative and quantitative elements for high-quality financial reporting agreed upon in the Conceptual Framework for Financial Reporting of the FASB and the IASB

3- **A negative and statistically significant** relationship between **leverage (LEV)** and the qualitative characteristics of accounting information (AIQ).

4- **A positive and statistically significant** relationship between **board independence** and the qualitative characteristics of accounting information (AIQ).

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