

**Reflection of Financial and Non- Financial Variables on
Auditor's Assurance**

“An Empirical Study on Egyptian Listed Company”

بحث مستخرج من رساله دكتوراه بعنوان "انعكاس المتغيرات المالية والغير مالية
على تأكيدات مراقب الحسابات "

دراسة تطبيقي m على الشركات المدرجة فى البورصة المصرية

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مجلة المحاسبة والمراجعة لاتحاد الجامعات العربية

▪ Abstract

The search aim to explain the impact of financial and non- financial variables on auditor's report quality by explain the financial and non-financial factors affecting on disclosure quality, declared the constraints faces the non-financial report, and finally identified the challenges in the assurance on non-financial information.

The main problem of the research lies in examining whether financial and non-financial factors have refraction on the auditor's assurance and the opinion issued by auditors in their reports.

This search empirically examined the financial and non-financial factors that affect the auditor's assurance and the issuance of opinion. Empirical research should also answer the question, of what is the quality of reported information "auditor's report quality".

The researcher conclude that financial statements are the core of financial reports, and they are indicators of the company's economic position in the current period, and to have high-quality financial reports, financial statements need to be as accurate as possible and free from material error. Also conclude that in traditional accounting, financial statement information is considered sufficient for the evaluation of companies. However, accounting is moving away from traditional procedures and is increasingly encompassing non-financial information. In recent decades, professionals and academics have emphasized the importance of non-financial Information in decision-making.

Also there are many factors affecting in the audit quality that is related to the audit client including (audit client size, audit task complicity, and corporate governance).

Keywords:- (Non-Financial Reporting, Financial Reporting Quality, Disclosure Quality, Financial Variables, Non-Financial Disclosure Quality, Assurance Services', Non-Financial Reporting Assurance, Non-Financial Information (NFI), Financial Reporting (FR), reporting entity (RE), reporting boundary (RB).

ملخص البحث :-

يهدف البحث إلى توضيح أثر المتغيرات المالية وغير المالية على جودة تقرير مراقب الحسابات من خلال توضيح العوامل المالية وغير المالية المؤثرة على جودة الإفصاح، وبيان

المعوقات التي تواجه التقرير غير المالي، وأخيراً تحديد التحديات في التأكيد على المعلومات غير المالية.

تكمن المشكلة الرئيسية للبحث في دراسة ما إذا كانت العوامل المالية وغير المالية لها تأثير على تأكيدات المراجع والرأي الذي يصدره المراجعون في تقاريرهم

تناول هذا البحث تجريبياً العوامل المالية وغير المالية التي تؤثر على تأكيدات المدقق وإصدار رأيه. كما يُفترض أن يُجيب البحث التجريبي على سؤال: ما هي جودة المعلومات المُبلغ عنها؟ "جودة تقرير المدقق".

وخلص الباحث إلى أن البيانات المالية هي جوهر التقارير المالية، وهي مؤشرات على الوضع الاقتصادي للشركة في الفترة الحالية، وللحصول على تقارير مالية عالية الجودة، يجب أن تكون البيانات المالية دقيقة قدر الإمكان وخالية من الأخطاء الجوهرية. كما استنتج إلى أنه في المحاسبة التقليدية، تعتبر معلومات البيانات المالية كافية لتقييم الشركات. ومع ذلك، فإن المحاسبة تبتعد عن الإجراءات التقليدية وتشتمل بشكل متزايد على المعلومات غير المالية. في العقود الأخيرة، أكد المهنيون والأكاديميون على أهمية المعلومات غير المالية في صنع القرار.

كما أن هناك العديد من العوامل المؤثرة في جودة التدقيق والتي تتعلق بعمل التدقيق بما في ذلك (حجم عميل التدقيق، وتواطؤ مهمة التدقيق، وحوكمة الشركات).

الكلمات المفتاحية: (التقارير غير المالية، جودة التقارير المالية، جودة الإفصاح، المتغيرات المالية، جودة الإفصاح غير المالي، خدمات التأكيد، ضمان التقارير غير المالية، المعلومات غير المالية، التقارير الغير ماليه ، حدود التقارير).

1. Introduction

The traditional services provided by accounting and legal auditing offices are considered less suitable for decision users. Especially in the era of information technology, the audit has developed in terms of concept and scope in a fundamental way in response to the increasing demand from the users, so that the provision of these services has expanded and developed from audits to Attestation services to Assurance Services, where the scope of audit services has extended to confirming the credibility of information in light of information technology, reviewing Derivative Instruments , and evaluating the assets of business establishments in light of a changing global environment, in addition to reviewing Nonfinancial Controls systems, in addition to reviewing Electronic Commerce transactions by performing Trust Systems services, and confirmation services by adding web trust (د/ لطفى ، (٢٠٠٤/٢٠٠٣، امين)

Shedding light on financial reporting has increased in the early 21st century, due to the increasing accounting scandals, therefore there are rising demands for disclosure and accounting standards formulation and coordination, which uncovered the low quality of financial reporting. The value of accounting reporting is the mirror of financial reporting quality. These days, the importance of having a clear and complete definition of financial reporting quality has increased.

Also in the study of (Tariverdi et.al.2012) believed that one of the reasons beyond decreasing financial reporting quality is earnings management, whereby managers make judgments in financial reporting compatible with their gains and interests and are misleading to other stakeholders and it gives false information about the true economic performance of the company. Earnings management may negatively affect the quality of financial reporting, because the managers may misreport and twist the true financial performance of the company, to take the opportunity to serve themselves and thus, make inaccurate future operating cash flow expectations.

In traditional accounting, financial statement information is considered sufficient for the evaluation of companies. However, accounting is moving away from traditional procedures and is increasingly encompassing non-financial information. In recent decades, professionals and academics have emphasized the importance of non-financial information in decision-making (Orens and Lybaert, 2010).

Financial information (also referred to as FI) and non-financial information (also referred to as NFI) are the information themselves, or data points as defined in the progress report: a NFI data point is an elementary item of non-financial information which is providing, on a stand-alone basis, single decision-useful information.

Environment Social Governance (ESG) information is a subset of non-financial information (NFI) since important aspects of NFI such as intangible resources not recognized in the Financial Statements are typically not included ESG information.

Financial Reporting (FR), either derived from IFRS Standards or from the Accounting Directive (AD), is characterized by rules about recognition and measurement that guide the elements (assets, liabilities,

income and expenses) to be included in the primary financial statements or reported in the notes.

Non-Financial Reporting (NFR) tries to cover the limitations of financial report (FR), by disclosing information on intangibles that drive wealth creation in the modern economy, as well giving more information about environmental and social risks that affect the entity. The ESG information often tends to be forward-looking with a longer time horizon, especially around risk disclosures and targets.

Non-Financial Reporting (NFR) as established in the NFRD (later included in the AD) is not only trying to cover the needs of stakeholders (investors and others) but to drive changes in behavior of entities and stakeholders which results in an important difference with Financial Reporting (FR).

Consequently, higher audit quality can be easier achieved by the larger audit firm, because of their ability to discover and detect the misstatements (Francis, 2004).

On the other side, both audit fee and non-audit services may affect the quality of audit, since higher audit quality requires additional procedures resulting in higher audit fees. It must be declared that audit quality is becoming more attractive among other related auditing subjects, due to its considerable impacts on the reliability of the financial statements. Furthermore, enhancing the confidence of the financial statement users can be considered as the result of higher audit quality (DeFond, Raghunandan & Subramanyam, 2002).

2.The Research Problem:-

The main problem of the research lies in examining whether financial and non-financial factors have refraction on the auditor's assurance and the opinion issued by auditors in their reports.

3 The Research Objective:-

This research aims to study the link between the auditor's assurance that results in the type of opinion issued in the audit report and the financial and non-financial variables the research focuses on the variables that may explain or affect the auditor's assurance. The research methodology is based on the

analysis and synthesis of information on the challenges of assurance on “non-financial information” reporting. This search empirically examined the financial and non-financial factors that affect the auditor's assurance and the issuance of opinion. Empirical research should also answer the question, of what is the quality of reported information “auditor's report quality”.

4 The Research hypothesis

Ho (1): The financial variables of the audit client significantly affect the auditor's assurances and opinion across the Egyptian stock exchange market.
Ho (2): The non- financial variables of the audit client “ESG” significantly affect the auditor's assurances and opinion across the Egyptian stock exchange market.

5 Literature Review :-

- **Albawwat & AlhajaiaL, et al. (2021):-**

Examine the relationship between internal auditors' personality traits, internal audit effectiveness, and financial reporting quality: empirical evidence from Jordan. The results also show that personality traits have an indirect impact on the quality of financial reporting through the effectiveness of the internal audit function. The study found that internal auditors with high ratings for openness to experience, emotional stability, and conscientiousness traits may be among the most important factors in the effectiveness of the internal audit function. The study recommended that internal auditors' personality traits can be viewed as an intangible resource that increases effectiveness

- **Tarquinio and Posadas (2020) :-**

Investigate how the expression ‘non-financial information’ is defined in the literature and conclude that the meaning of non-financial information is still ambiguous and multifaceted, with no common understanding, no single definition and no generally accepted term.

Initially, non-financial information was defined as additional information not disclosed in financial statements of a company

- **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 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).

- **DeFond and Zhang (2014):-**

The study focused on publishing from 1996 to mid-of 2013. The researchers found that various proxies are used for audit quality and only a few could act as a guide. The authors emphasized that audit quality is at the same time connected to the firm's intrinsic properties and financial reporting systems. The authors furthermore recommend that the effect of auditor competence and occupational skepticism on audit quality should be closely investigated by using larger audit firms, auditor offices and individual auditor characteristics. Finally, the authors recommended using the new regulatory environment and intervention to measure audit quality.

Influences on Financial Reporting Quality

Audit quality is a component of financial reporting quality, because high audit quality increases the credibility of the financial reports. This increased credibility arises through greater assurance that the financial statements faithfully reflect the firm's underlying economics. So, financial reporting quality (FRQ) is a function of audit quality (AQ), the quality of the firm's financial reporting system (R) and its innate characteristics (DeFond, Mark & Zhang, Jieying., 2014).

Studies show that the quality of financial reporting is associated with many different influences. These influences such as:- Earnings Management, Corporate Governance Practices, Capital Markets, Internal Control, Internal Reporting Systems, Accounting Standards, Information Technologies and Accounting Information Systems, Auditing, Accounting Conservatism, Company Reputation, Culture, Business Ethics, Chief Executive Officers (CEO) Age and CEO inside debt holdings (Lotfi, Soroush., 2014).

Non-Financial Reporting

Traditional financial business measures of performance were no longer enough to give full picture about company competitive position in competing markets. This implies that financial measures that emphasize short-term indicators such as profit, turnover, and cash flow are not suitable anymore for measuring business performance and as a result, non-financial measures have increased in importance. In addition, there is a growing literature on the use of non-financial measures (Dmour, Ahmad & Abbod, Maysam & Dmour, Hani., 2017)

Non-financial reporting is becoming an increasingly important component of corporate reporting. The obligation to declare and publish non-financial information, which primarily contain information about the company's impact on the environment and society, i.e. information about corporate social responsibility. In recent years, the awareness of stakeholders (investors, regulators, employees, customers, suppliers) has increased and the information provided in the financial statements is not enough and sufficient to understand and present the complete business of a particular company (Martincevic, Ivana; Marijan, Ivana ; Sesar, Vesn, 2022)

Non-financial reports are comprehensive documents that are meant to provide information about a company's performance and practices in relation to sustainability factors. With these reports, firms aim to provide stakeholders with a holistic view of their sustainability practices. Therefore, such reports become an important signaling tool for firms to gain legitimacy and mitigate information asymmetry among their stakeholders. Despite their perceived value, non-financial reports have various designations (e.g., corporate social responsibility report, citizenship report, sustainability report, environmental, social and governance reports, and environmental impact report (Di Chiacchio, Laura & Vivian, Ben & Cegarra., 2024).

Financial Variables Affecting on Disclosure Quality

The basic requirement for a business when operating in the stock market is to disclose information. Information disclosure demonstrates the transparency of the business to ensure that shareholders and investors are able to access information in a fair and concurrent manner. There are six "6"

factors affecting and having a positive relation with the level of information disclosure. These include: the scale of business, Duration of operation, Audit firm reputation, Solvency, Financial leverage and Return on Equity. In the prior study stated timely and reliable disclosures allow users to assess accurately situation and efficiency of company, operations and risks. Information disclosure includes: voluntary disclosures and mandatory disclosures. Mandatory information is the accounting disclosure that is required by laws and regulations of a country or a territory. In addition, to satisfy the requirement of users, business will have consciousness and motivation to disclose more voluntary information. Many voluntary disclosures will help enterprise to enhance its reputation, gain more benefits and attract investors' attention (Roeha, Phan & Huy, Nguyen & Thoa, Hoang., 2019).

According to (Melville, 2011), the conceptual framework of ISAB identifies six qualitative characteristics of useful financial information that are: Relevance, Faithful representation, Comparability, Verifiability, and Understandability.

Low quality of information disclosure and thus informational asymmetry can be different due to opportunities of growth of business units and strategies of investment. Higher informational asymmetry and so more inconsistency in future cash flow can lead to acceptance of projects that shouldn't be accepted or rejecting projects that their acceptance led to the profit of business units. Similar deductions can be identified about growth opportunities of business units and information asymmetry. It is found that units having growth opportunities tend to present information with quality. Business units that experience high growth may be for this reason that want to put unfavorable management performance or unfavorable investment projects far from investors and strengthen their future growth or sometimes for decreasing attention and political expenses, disclose information with lower quality (Lotfi, Soroush.,2014).

Non-Financial Disclosure Quality

The performed literature review allowed us to conclude that there are not many studies which focus specifically on the factors influencing the disclosure of non-financial KPIs and its quality. Non-financial KPIs" key performance indicator" were found to be used in corporate reporting

(Arvidsson, 2011), and what is more, to directly affect the company's social performance and indirectly its bottom line (Lisi, 2018). Similarly, in the previous study of (Loprevite et al., 2020) identified a positive association between the level of disclosure on KPIs and financial performance. Corporate characteristics that influence non-financial reporting decisions include factors such as industry group, size, financial/economic performance, trade sharing volume, price and risk (Adams, 2002). There is a general agreement in the non-financial accounting literature that sustainability disclosure is related to the industry in which the reporting company operates. Sector-level differences are even considered as the primary internal determinant of non-financial reporting (Fifka, 2013).

In the prior study of (Albertini, 2013) research results show that non-financial disclosure becomes increasingly technical and precise with time. The challenges posed by the new reporting requirements are not so difficult for the companies which have been practicing sustainability reporting before as they already have appropriate working policies in place.

Non-financial reporting have been categorised under different names, for instance "governance reporting", "CSR reporting", the "triple bottom line" (financial, social and environmental) reporting, and ESG reporting, among others (Plessis, Jean., 2016).

Non-financial disclosure enhances firm accountability about targets, achievements and internal processes, increasing the level of transparency to external audiences (Hamrouni, Amal & Uyar, Ali & Boussaada, Rim, 2019).

Assurance Services' provision

The importance of assurance service comes from the rapid development of information technology (IT), changes in the business environment, the increased level of voluntary disclosure, the necessity of retaining current client and attracting future clients, meeting the increased demand on assurance services for financial reporting users, considering companies management as extension of the traditional audit, and facing the decrease of audit firms revenues.

There are two types of assurance levels: limited or reasonable, in a reasonable assurance engagement, the assurance service provider obtains sufficient appropriate evidence to reduce the risk of a material misstatement

of the subject matter information to an acceptably low level. The work effort in this type of engagement entails extensive procedures that include consideration of the reporting entity's controls, and substantive testing. Reasonable assurance is the same type of assurance as the one required in an audit of financial statements where the auditor expresses a positive opinion on whether the financial statements give a true and fair view in accordance with the applicable reporting framework. In a limited assurance engagement, the work effort is not equivalent: the assurance service provider performs different and fewer tests than those required in a reasonable assurance engagement. A limited assurance engagement primarily focuses on inquiry, observation and analytical procedures, although it also involves a level of substantive testing over metrics. Limited assurance is the type of engagement where the practitioner expresses a negative opinion on the fact that, based on the procedures performed and evidence obtained, nothing has come to their attention that the subject matter information is materially misstated (Accountancy-Europe, June 2020).

The assurance provided by the auditors reduces the risk of misstatements and ultimately the cost of failure to be suffered by the firm's stakeholders' also reduces. The increase of providing assurance services helps obtaining market permission from potential clients, maintaining auditor's independence, improving auditor's skills, and compliance with professional standards. There is more than one definition for the assurance services; the American Institute of Certified Public Accountants (AICPA) defines the assurance service as "an independent professional service aims to improve the quality of the information displayed and presented to the investors for making decisions". Based on this definition, Sarbanes-Oxley act (SOX) defines assurance services as "professional services that improve the quality of information for decision makers. Assurance services can be performed by auditors" (SEC, 2002). The Canadian institute of Chartered accountants (CICA) has issued Auditing and assurance standards in Canada of auditing and assurance standards board (AASB) which defines assurance engagement as "engagement between two parties or more through which auditor provides written report about the level of assurance for subject of review" (IAASB, 2018).

The Ministry of Investment of Egypt along with accountability state authority, the Egyptian accountants and auditors association, and the Egyptian Financial Supervisory Authority have issued the Egyptian standards for

auditing, limited review, other assurance services which define assurance engagement as “the engagement through which auditor aims to increase the credibility for financial reporting users” (Ministry of Investment, 2008).

First Financial Reporting Assurance

The development of assurance services provision represents challenge facing audit firms and it is seen by some members of the accounting profession as a remedy for the declining growth in traditional audit services. The profession's reputation as the provider of high quality financial audit services has not readily extended to other assurance services. The profession has been losing market share in these services to groups outside the profession. The profession must be actively involved in the development of these services and standards to preserve and enhance its reputation and relevance. The assurance service provision is constrained by the demand and supply sides. The investors are considered the demand side of assurance services who demand the types and level of assurance services to gain their confidence in the financial reporting to make their investment decisions. The audit firms and the auditors are considered the supply side responsible for providing the different types of assurance services for their clients. Both of the two sides are constrained by some determinants. The provision of assurance services can be examined through audit firm characteristics and auditors' characteristics (Qawqzeh, Hamza & Endut, Wan Anisah & Rashid, Norfadzilah & Johari, Razana & Hamid, Nadiah & Rasit, Zarinah., 2018).

In Egypt, in prior studies used the analytical approach to analyze the assurance services and their types from the external auditor' point of view in the Egyptian business environment by determining the importance of some assurance services which are assessment of internal control structure, systtrust and webtrust services, and the internal audit effectiveness for retaining investors' confidence. Abd-almolla (2007) discussed the auditor responsibility of assurance services according to the international auditing standards. Furthermore, the ministry of investment issued “the Egyptian framework for assurance services”, which would highlight the types of assurance services and their determinants in the Egyptian business environment and the required characteristics of the auditors to provide it. In

light of the financial reporting that have become today, it is necessary that stakeholders not only depend on financial reporting information but also must consider the non-financial reporting of companies if stakeholders decided to make any risky decision.

Second Non-Financial Reporting Assurance

In prior study classified the various Forms of assurance practice into: Formative, Compliance, Social and Integrated based on the different conceptions of sustainability (social and environmental versus organizational sustainability) and the nature and scope of engagements (procedural compliance versus holistic approach). Reporting organizations exercise discretion on the forms of assurance services and choice of assurance providers based on their corporate reporting strategies, maturity of information systems and management values (Sonnerfeldt, Amanda & Aggestam, Caroline., 2020).

Non-financial reporting assurance is not usually legally required in most countries. The high costs of assurance and lack of evidence on whether assurance is effective in enhancing credibility were presented as the main reason not to adhere to assurance. The prior research found that: first, the respondents considered the enhancement of the credibility of information and the improvement of the non-financial reporting process as two important drivers of non-financial reporting assurance; second, the main reasons halting the widespread adoption of assurance are the increased costs, the insufficient development of non-financial reporting, and the complexity of non-financial reporting assurance; third, respondents tended to consider that non-financial reporting assurance is a logical development of financial auditing, despite the majority of the firms employing environmental consultants; fourth, the independence of the consultants appeared as one of the major concerns of the interviewees (Hategan, Camelia., 2022).

Qualitative Characteristics, Financial Reporting Quality and Audit Opinion

The qualitative characteristics of financial reporting are very much important to the external users in making their economic decisions. The wave

of accounting scandals happened in recent times in the international financial community has raised many criticisms about the financial reporting quality (Hasan, Md & Abdullah, Shamsul & Hossain, Syed., 2014)

Auditing provides additional information source that facilitates investor decision-making through enhancing the credibility and reliability of financial information and reducing information risk in financial statements. It is expected that this high-quality financial information will lead to better financing decisions (Zagoto, Akwilan & Widiyati, Dian & Priyanto, Panji., 2024).

Contrary to other qualitative characteristics (relevance and reliability), according to the Financial Accounting Standards Board (1980), comparability enables users to better identify similarities and differences related to the financial performance of firms and economic events. This suggests that users' ability to compare financial information is vital for their optimal investment decision-making.

The Securities and Exchange Commission (SEC) (2000), states that the comparability facilitates efficient capital allocation and improves investor confidence. Investors, regulators, academics and researchers have emphasized on the importance of financial statement comparability (De Franco et al., 2011).

Prior research shows that earnings management distorts the association between economic events and earnings reported financial reports, resulting in reduced comparability between different firms (Ross et al., 2019).

The researcher agrees with previous studies which declared that there is a negative association between accounting comparability, and the proxies for audit opinion, which means that there is a negative association between financial reporting quality and audit opinions. Therefore the higher accounting comparability, and higher financial reporting quality (proxied by earnings quality) increases auditor tendency to issue unmodified audit opinion.

The Applied Study

Hypothesis 1: The Association between financial variables and EM (Model 1):

To testing the validity of the first research hypothesis (H1) concerning the association between financial variables (ROA and LEV) and EM, which states That “*The financial variables of the audit client significantly affect the auditor's assurances across the Egyptian stock exchange market.*” begins by conducting a Multivariate OLS regression model as shown in table (1).

Table 1: The relationship between financial variables and EM

Dependent variable: EM (Model 3)				
Predictor	Coefficient	t-value	P-value	VIF
ROA	<u>-.127^{**}</u>	-2.473	<u>.014</u>	1.255
LEV	<u>-.166^{***}</u>	-3.535	<u>.000</u>	1.046
Big4	-.113 ^{**}	-2.443	.015	1.020
L	.207 ^{***}	4.069	.000	1.223
YE	-.094 ^{**}	-1.994	.047	1.042
S	-.049	-1.029	.304	1.057
Constant	.164	9.296	.000	-----
R ²	0.117			
Adjusted R ²	0.104			
F-value	9.196 <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 **negative and statistically significant** relationship between **return on assets (ROA)** and earnings management (EM) as an inverse measure of auditor assurance. Specifically, the regression coefficient (β) of ROA is negative, with a value of -0.127, the value of (t) = -2.473 at a significance level (**Sig**) = 0.014 less than the approved level of significance 5%. This outcome implies that firms with higher profitability, as measured by ROA, are less likely to engage in earnings management practices. In other words, greater profitability enhances the credibility of financial reporting and reduces the need for opportunistic manipulation of accounting figures. This finding supports the argument that profitable firms provide more reliable financial information, thereby strengthening auditor assurance and increasing users' confidence in the reported results.

Furthermore, the results indicate a **negative and statistically significant** relationship between **leverage (LEV)** and earnings management (EM) as an inverse measure of auditor assurance. The regression coefficient (β) of LEV is -0.166, the value of (t) = -3.535 at a significance level (**Sig**) = 0.000 less than the approved level of significance 5%. This finding suggests

that firms with higher leverage tend to engage less in earnings management practices. One possible explanation is that highly leveraged firms are subject to closer monitoring by creditors and external stakeholders, which restricts managerial discretion in manipulating earnings. Consequently, leverage appears to act as an external disciplining mechanism, reducing opportunistic behaviour and enhancing the reliability of financial reports, thereby reinforcing auditor assurance.

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

For the control variables, the results reveal that EM is significantly and negatively associated with year-end (YE) and audit quality (Big4) at the 5% level. On the other hand, EM is significantly and positively associated with firm loss at the 5% level. This finding implies that companies audited by Big4 firms or with specific fiscal year-end characteristics are less likely to engage in earnings management, reflecting stricter monitoring and higher assurance quality. Conversely, firms reporting losses tend to practice more earnings management, possibly to mask poor performance, mitigate the negative perceptions of stakeholders, or smooth income volatility.

Hypothesis 2: The Association between non-financial variables and EM (Model 2):

To testing the validity of the second research hypothesis (H2) concerning the association between non-financial variables (Size, BS and Bind) and EM, which states That "*The non-financial variables of the audit client significantly affect the auditor's assurances across the Egyptian stock exchange market.*" begins by conducting a Multivariate OLS regression model as shown in table (2).

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

Dependent variable: EM (Model 4)				
Predictor	Coefficient	t-value	P-value	VIF
Size	-.155***	-3.312	.001	1.051
BS	-.123**	-2.495	.013	1.170
Bind	-.077*	-1.885	.064	1.124
Big4	-.090*	-1.944	.053	1.026
L	.208***	4.505	.000	1.026

YE	-.095**	-1.985	.048	1.087
S	-.061	-1.283	.200	1.084
Constant	.444	6.161	.000	-----
R²	0.130			
Adjusted R²	0.115			
F-value	8.866	<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 **negative and statistically significant** relationship between **firm size** and earnings management (EM) as an inverse measure of auditor assurance. Specifically, the regression coefficient (β) of Size is negative, with a value of -0.155, the value of (**t**) = -3.312 at a significance level (**Sig**) = 0.001 less than the approved level of significance 5%. This outcome implies that larger firms are less likely to engage in earnings management practices. One possible explanation is that large firms are subject to higher levels of public scrutiny, regulatory oversight, and analyst following, which increases transparency and reduces managerial discretion. Moreover, larger firms often have more established governance structures and stronger internal controls, which limit opportunities for opportunistic financial reporting. Therefore, firm size serves as a mitigating factor against earnings manipulation, thereby enhancing the credibility of financial information and supporting auditor assurance.

Furthermore, the results indicate a **negative and statistically significant** relationship between **board size** and earnings management (EM) as an inverse measure of auditor assurance. The regression coefficient (β) of BS is -0.123, the value of (**t**) = -2.495 at a significance level (**Sig**) = 0.013 less than the approved level of significance 5%. This finding suggests that firms with larger boards tend to engage less in earnings management. A larger board can provide greater diversity of expertise, more effective monitoring, and stronger oversight of management activities, which reduces the opportunities for manipulating earnings. Consequently, board size plays a vital role in strengthening corporate governance mechanisms, thereby improving financial reporting quality and supporting auditor assurance.

Additionally, the results indicate a **negative and statistically significant** relationship between **board independence** and earnings management (EM) as an inverse measure of auditor assurance. The regression coefficient (β) of Bind is -0.077, the value of (**t**) = -1.885 at a significance level (**Sig**) = 0.064 less than the approved level of significance 10%. This

result implies that firms with a higher proportion of independent directors are less likely to engage in earnings management. Independent directors enhance the objectivity of board decisions and provide stronger monitoring of managerial actions, thereby constraining opportunistic behaviour in financial reporting. Although the relationship is significant only at the 10% level, it still provides evidence that board independence contributes to improving financial reporting quality and reinforcing the credibility of auditor assurance.

Conclusions:-

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. Non-financial reports are comprehensive documents that are meant to provide information about a company's performance and practices in relation to sustainability factors.
3. A negative and statistically significant relationship between board independence and earnings management (EM) as an inverse measure of auditor assurance.
4. A negative and statistically significant relationship between leverage (LEV) and earnings management (EM) as an inverse measure of auditor assurance.

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