

The Impact of External Audit on the Quality of Financial Reports in Jordanian Insurance Companies

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Abstract: - This study aimed to the impact of an external audit on the quality of financial reports with its dimensions (relevance, credibility) in Jordanian insurance companies, The study population consisted of the auditors, whose number is (440), and distributed (209) questionnaires, returned of them (185) questionnaires, and the valid questionnaires for analysis were (169) questionnaires representing a responses rate of (71.9%) of the study sample. Some appropriate statistical methods were used and the statistical program ("SPSS") was used. The results showed that there is a high level of external audit, and the level of the quality of financial reports was medium. The statistical analysis indicated a statistically significant effect at the significance level ($0.05 \geq \alpha$) for external audit on the relevance of financial reports of Jordanian insurance companies. This result may be because the audit offices contracted by Jordanian insurance companies seek to examine and evaluate the data, reports, financial statements, administrative activities and processes in these companies objectively, and impartially, to obta. The study recommended that external auditors should continuously participate in training programs and workshops to inform them of all that is new in the audit profession, especially about the insurance sector.

Key-Words: - External Audit, Quality of Financial Reports, Relevance, Credibility, Jordanian Insurance Companies.

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1 Introduction

The accounting information made accessible by companies registered at the financial markets greatly affects the extent of trust, financial dealing, and trading in the financial markets, so accounting information quality, whether financial or non-financial, has a significant and effective role in assessing the investor's view to endeavor in future investment in the financial markets through listed companies. Thus, accounting information quality is very important to companies to perform their role effectively and efficiently, which leads to enhancing the confidence of the user of such information and accounting reports taken from the financial statements of those companies, giving such companies an additional advantage if compared to others, [1].

External audit plays a distinguishing role in identifying and detecting deviations, maintaining the assets of the enterprise, as well as the accuracy of

accounting information in financial statements, and guiding decisions in a way that significantly affects the business community in the country since it gains a prominent and important role as transparency standards for institutions become higher. External audit ensures an accurate, reliable, and trusted use of financial statements financial, [2].

Accordingly, this study was conducted to analyze the impact of external audit on the quality of financial reports in its dimensions (relevance, credibility) in Jordanian insurance companies."

2 Problem Formulation

"The quality of reports has a significant impact on the economy due to its importance in clarifying the status of Jordanian insurance companies and their financial performance in the Future ,t thus the problem statement lies in its attempt to answer the following main question:"

"Does external audit have an impact on the quality of financial reports in Jordanian insurance companies? Branching from the main question are the following sub-questions":

1. Does external audit have an impact on the relevance of financial reports"?
2. "Does external audit have an impact on the credibility of financial reports"?

2.1 The Importance of Studying

Giving a perception to relevant parties on the quality of external audit and the level of quality of financial reports.

2.2 Objectives of the Study

1. Identify an external audit in Jordanian Insurance Co.
2. Identify the quality of reports on relevance and credibility.

3 Theoretical Framework, Literature, and Developing Hypotheses

3.1 Theoretical Framework

Has defined an external audit as "An organized process carried out by an independent person to express a professional opinion on the set of financial statements belonging to a particular economic unit and communicating the results to interested users", [3]. External audit is a systematic process organized to objectively examine and evaluate the evidence of financial activities, [4]. Has defined it as "An organized process carried out by an independent person through his examination of financial statements, documents, and accounting books to give an impartial technical opinion on the correctness of the accounts of the enterprise, [5].

Factors affecting the quality of external, [6]:

- Size of the Audit Office.
- Audit fees.
- Specialization in industry.

3.2 Literature Review

[7], clarify the relationship between planning of audits and reducing tax. [8], show the impact of the Corona pandemic on external audits in accordance with the auditing standards in Jordanian banks. [9], aimed to analyze and test the relationship between the audit quality measured by the size of the Audit Office, measured by the characteristics of appropriateness and fair representation of accounting information. [10], Explained the

relationship between the ownership structure pattern and the characteristics of the board of directors on the one hand, and the quality of external audit on the other hand. [11], showed the impact of detecting fraud risks, as well as its role in improving the quality of auditing in Iraqi audit companies and offices. [12], tested the impact of the degree of disclosure of non-financial information in accordance with the instructions of the corporate governance of banks, and to achieve that goal, the study relied on the analysis of financial reports of Jordanian commercial banks. [13], the study also examined whether the quality of the external auditor modifies the correlation between financial reporting quality and investment efficiency. [14], the study focused on providing a new insight into the effects of fixed value that emphasizes the role of monitoring the ownership structure, in addition to the role of IFRS reporting in providing high-quality information and thus enhancing the value of stocks. [15], aimed to identify the main factors affecting the quality of financial statements disclosed by companies listed on the Istanbul Financial Market, where a group of factors were selected to study their impact on the quality of financial statements, including International Financial Reporting Standards in Turkey. [16], attempted to identify the relationship between the quality of financial reports and the investment efficiency of non-financial companies listed on the Palestinian Stock Exchange. [17], identified corporate governance, quality reporting, and its relationship to the quality of financial reports. [18], revealed the impact of audit risks on the fair value. [19], determine the impact of business reporting language on the quality of financial reports. [20], determine the impact of (COSO) on Internal Control in Public Shareholding Companies. [21], determine external audit in sudden financial collapse. [22], studies show to the effectiveness of implementing procedures in improving the quality of auditors' reports. [23], measure the impact of audit quality control on the quality of accounting disclosure under the motives of the management manipulating accounting policies.

3.3 Study Hypotheses

"H0: "There is no statistically significant impact of external audit on the quality of financial reports in its dimensions (relevance, credibility) in Jordanian insurance companies".

H01: "There is no statistically significant impact of external audit on the relevance of financial reports".

H02: "There is no statistically significant impact of external audit on the credibility of financial reports".

4 Methods and Procedures

The descriptive analytical approach has been adopted. It relies on the study of the phenomenon and provides an accurate description of it.

4.1 Study Population and Study Sample

The study population consisted of all external auditors affiliated with audit offices and companies who have worked on auditing data, reports, and financial statements in the insurance companies sector in Jordan. It numbered to (440) external auditors. As for the study sample, the size of the withdrawn sample was based on the total size of the study population, and the margin of error allowed in the current study is (0.05). Accordingly, (209) questionnaires were distributed, of which (185) were recovered, and the number of questionnaires valid for analysis was (169), making up 71.9%.

4.2 Sources of Data

- 1) Secondary sources: "These are represented by books, published and unpublished master's theses and university.
- 2) "Primary sources: "Was used the questionnaire.

4.3 Stability of the Study Tool

According to the coefficient of internal consistency (Cronbach Alpha) in Table 1.

Table 1. "Stability - coefficients"

Number	Dimension	"Cronbach Alpha" (coefficient)
17	External audit in total	0.970
12	Relevance	0.880
14	Credibility	0.926
26	The quality of financial reporting in total	0.929

4.4 Statistical Methods Used

The following statistical methods were used:

1. Cronbach - Alpha and Frequency tables and percentages.
2. Arithmetic means and standard deviations for the fields and variables` paragraphs responses.

3. Simple linear regression analysis.

4.5 Study Hypotheses Testing

The study variables follow the normal distribution in Table 2.

Table 2. The normal distribution (Shapiro-Wilk test)

"Dimension"	"Test value"	"Level of significance"
External audit in total	0.95	0.40
Relevance	0.98	0.45
Credibility	0.91	0.41

H0: "There is no statistically significant impact of external audit on the quality of financial reports in its dimensions (relevance, credibility)" in Jordanian insurance companies".

To test this hypothesis, a simple linear regression equation was calculated. This is shown in Table 3.

H0.1: "There is no statistically significant impact of external audit on the relevance of financial reports in Jordanian insurance companies".

Showing the impact of external audit on the relevance of financial reports in Jordanian insurance companies. This is shown in Table 4.

H0.2: "There is no Statistically significant impact of external audit on t he credibility of financial reports".

Showing the impact of external audit on the credibility of financial reports. This is shown in Table 5.

Table 3. Linear regression

Hypothesis	T	R	R ²	Adjusted R Square	F	Statistical
“There is no statistically significant impact of external audit on the quality of financial reports in its dimensions (relevance, credibility) in Jordanian insurance companies”	11.171	0.654	0.428	0.424	124.782	0.000

Table 4. Linear regression

Hypothesis	T	R	R ²	Adjusted R Square	F	Statistical significance
“There is no statistically significant impact of external audit on the relevance of financial reporting in Jordanian insurance companies”	18.879	0.825	0.681	0.679	356.401	0.000

Table 5. Linear regression

Hypothesis	T	R	R ²	Adjusted R Square	F	Statistical significance
“There is no statistically significant impact of external audit on the credibility of financial reports in Jordanian insurance companies”	5.165	0.371	0.138	0.133	26.682	0.000

5 Conclusions

Amount of the study variables to (0.970) for external audit, and (0.929) for financial reporting quality in total is given in Table 1.

Shows the presence of effect at the significance level ($0.05 \geq \alpha$) for external audit on the quality of financial reports in its dimensions (relevance, credibility) in the Jordanian insurance companies. The value of the correlation coefficient (R) amounted to (0.654). The value of (R-square) reached (0.428), as a whole, which indicates that external audit explains the value of (42.8%) of the change in the quality of financial reports. The value of the test (F) reached (124.782) with a statistical significance of (0.00), which is a statistically significant value indicating a discrepancy in the ability of the independent variable to influence the dependent variable in Table 3.

Shows the presence of effect at the significance level ($0.05 \geq \alpha$) for external audit. The value of the correlation coefficient (R) amounted to (0.825). The value of (R-square) reached (0.681), indicating that external audit explains the value of (68.1%) of the change in the relevance of financial reports. The value of the (F) test reached (356.401) with a

statistical significance of (0.00), which is a statistically significant value indicating a variation in the ability of the independent variable to influence the dependent variable in Table 4.

Shows the presence of effect at the significance level ($0.05 \geq \alpha$) for external audit on the credibility of financial reports in the Jordanian Insurance Companies. The value of the correlation coefficient (R) reached (0.371), which is a statistically significant value and indicates the degree of correlation of a statistically significant function between the independent variable and the dependent variable. The value of (R-square) amounted to (0.138), which is a statistically significant value that explains the ability of the application of external audit to enhance the credibility of financial reports, indicating that external audit explains the value of (13.8%) of the change in the credibility of financial reports in Table 5.

5.1 Discussion and Conclusion

The level of external audit in Jordanian insurance companies was high with an average of (3.91) from the point of view of the external auditors surveyed. This result is probably due to the

dependence of Jordanian insurance companies on reliable audit offices and companies, which ensures that this process complies with known accounting standards and works within the agreed terms and time, this result agreed with [18]. A moderate level regarding the quality of financial reports in Jordanian insurance companies with an arithmetic mean of (3.41) from the point of view of the external auditors surveyed, where it came in first place after (relevance) with an arithmetic mean of (3.68) and with a high evaluation score, and it came second after (credibility) with an average score of (3.19) and with an average evaluation score. This result may be attributed to the fact that the financial reports of Jordanian insurance companies have clear and understandable accounting and financial information reflecting the reality of the company's operations and its financial position this result agreed with [19]. The statistical analysis indicated a statistically significant impact at the significance level ($0.05 \geq \alpha$) for external audit on the quality of financial reports of Jordanian insurance companies. The researcher attributes this result to the fact that the external audit process carried out in Jordanian insurance companies seeks to examine, evaluate, and verify the correctness and accuracy of the data and accounts included in the financial records and statements of the companies under audit, which leads to detecting errors or financial deviations, if any, and informing those concerned, as well as ensuring that those financial reports do not contain significant distortions and provide a true and fair picture of the financial position of the company this result agreed with [8]. The statistical analysis indicated a statistically significant effect at the significance level ($0.05 \geq \alpha$) for external audit on the relevance of financial reports of Jordanian insurance companies. This result may be because the audit offices contracted by Jordanian insurance companies seek to examine and evaluate the data, reports, financial statements, administrative activities, and processes in these companies objectively, and impartially, to obtain evidence of financial activities, and detect errors and deviations in the financial statements of the company under audit, and to confirm that the accounting information contained therein is appropriate and has an impact on the decision of information users this result agreed with [1]. The statistical analysis showed a statistically significant effect at the significance level ($0.05 \geq \alpha$) for external audit on the credibility of financial reports in Jordanian insurance companies. The researcher attributes this result to the fact that Jordanian insurance companies

contract with reliable audits this result agreed with [13].

5.2 Recommendations

Jordanian insurance companies shall adopt International Financial Reporting Standards when preparing their lists and financial statements. External auditors shall participate continuously in training programs and workshops to keep abreast of everything new in the audit profession, especially about the insurance sector.

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Conflict of Interest

The authors declare no conflicts of interest.

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