

The Relationship between external auditing and the quality of financial reporting to client: A field study on audit firms in western Algeria.

Moussouni Norelhoude

Laboratory for Development Strategies in the Tourism and Agriculture Sectors, University of Ain Temouchent (Algeria), houda.moussouni@univtemouchent.edu.dz

 ORCID: <https://orcid.org/0009-0002-6183-3906>

Nait Ibrahim Boussad

Laboratory for Development Strategies in the Tourism and Agriculture Sectors, University of Ain Temouchent (Algeria), boussad.naitibrahim@univtemouchent.edu.dz

 ORCID: <https://orcid.org/0009-0000-5285-0371>

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Abstract: The objective of the current study is to explore the relationship between external auditing and the quality of the client's financial reporting. To achieve this, a descriptive approach was adopted to describe the study variables, along with an analytical method to analyze the data collected through a questionnaire. It was administered to a sample of external auditors working in audit firms located in western Algeria. Several statistical tests were conducted to examine the hypotheses. The study ultimately yielded a set of findings, the most important of which are: a statistically significant relationship exists between external audit firm characteristics (firm size, industry specialization, audit tenure, and audit fees) and the quality of financial reporting, a significant relationship was also found between external auditing and the quality of financial reporting through the reduction of earnings management, and finally, the implementation of financial reporting quality requirements was confirmed.

Keywords: Auditing, Audit Firm Characteristics, Financial reporting Quality, Earnings Management.

JEL Classification Codes : M41, M42, D82.

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Corresponding author: Moussouni Norelhoude, houda.moussouni@univtemouchent.edu.dz

1. Introduction

The quality of financial reporting is considered a fundamental issue for companies and has become a key requirement for stakeholders in order to make informed decisions. Companies that demonstrate a high level of transparency tend to attract greater interest from investors, as they provide a reasonable degree of confidence for committing financial resources.

In this context, external auditing plays a vital role as an effective oversight tool to reduce the information gap between the company and its various stakeholders. However, the quality of audit services may vary from one audit firm to another depending on the firm's financial resources, human competencies, and its ability to detect material misstatements.

Accordingly, the present study seeks to examine the relationship between external auditing and the quality of financial reporting, based on the foregoing, we propose the following research problem: **Does a statistically significant relationship exist between external auditing and financial reporting quality?**

To address this central question, we formulated the following sub-questions:

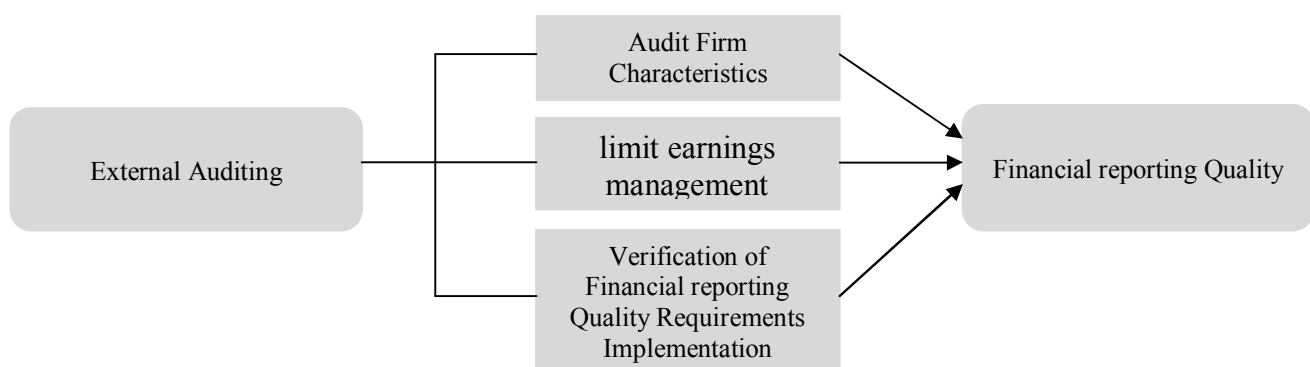
- Is there a statistically significant relationship between audit firm characteristics (firm size, industry specialization, audit tenure, and audit fees) and financial reporting quality?
- Is there a statistically significant relationship between the external auditor's ability to constrain earnings management practices and financial reporting quality?
- Is there a statistically significant relationship between the external auditor's verification of financial reporting quality requirements (adequacy, comprehensiveness, and compliance with IAS/IFRS) and financial reporting quality?

Based on these inquiries, we propose the following hypotheses:

- **H1:** There is a statistically significant relationship between external audit firm characteristics and financial reporting quality, as perceived by the study's sample respondents.
- **H2:** There is a statistically significant relationship between the external auditor's ability to limit earnings management practices and financial reporting quality, as perceived by the study's sample respondents.
- **H3:** There is a statistically significant relationship between the external auditor's verification of financial reporting quality requirements and the actual quality of reporting, as perceived by the study's sample respondents.

we designed the study's conceptual model as follows:

Figure 01. study model



Source: Authors based on hypotheses.

The main objectives of this study lie in highlighting the relationship between external auditing and the quality of financial reporting from the client's perspective. Specifically, the study aims to examine this relationship through the characteristics of the audit firm, the role of external auditing in limiting earnings management, and verifying the extent to which adequacy, comprehensiveness, and compliance with International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) are achieved in financial reporting.

This study derives its significance from addressing one of the most critical issues in the financial and accounting field. Financial reporting quality is considered a key driver of corporate growth and prosperity in financial markets. The study explores the role of external auditing in enhancing the quality, transparency, and credibility of financial reports. Additionally, it provides empirical evidence from the Algerian environment, thus contributing to filling a gap in the literature related to emerging economies

In addition, to answer the research problem, this study adopted a descriptive approach to describe the research variables, while relying on an analytical method to analyze the collected data. The data were gathered through a structured questionnaire distributed to a sample of external auditors operating in western Algeria (specifically in Tlemcen, Oran, Aïn Témouchent, and Sidi Bel Abbès). After sorting the valid questionnaires, the data were statistically analyzed using the SPSS software

The current study is based on the following previous studies:

Study of (Bougaba , 2022): Aimed to assess the effect of external audit quality on earnings management. The researcher reached the following conclusions:

- Audit quality is influenced by several factors, including educational and professional qualifications, auditor independence, industry specialization, compliance with auditing standards, and the size and reputation of the audit firm. This was based on a survey conducted among external auditors in Algeria.
- There is a statistically significant impact of firm size and reputation, as well as industry specialization, on real earnings management. However, the study found no statistical impact of qualifications, compliance with auditing standards, or independence on real earnings management.
- Auditor independence was found to have a statistically significant impact on accrual-based earnings management. In contrast, firm size and reputation, auditor qualifications, and industry specialization showed no statistical impact on accrual-based earnings management.

Study of (Usman & Ugoh, 2023): The aim of this study was to examine the relationship between the characteristics of external auditors and the financial reporting quality (FRQ) of listed manufacturing companies in Nigeria. The study concluded the following:

- Audit fees have a significant positive relationship with the financial reporting quality of listed manufacturing firms in Nigeria.
- Auditor industry specialization has a strong positive impact on the financial reporting quality of manufacturing companies in Nigeria.
- Audit tenure has a slight positive effect on the financial reporting quality of listed manufacturing firms in Nigeria.
- The size of the audit firm has a minor effect on the financial reporting quality (FRQ) of listed manufacturing companies in Nigeria

2. Theoretical Framework of External Auditing

2.1. It's concept

The European Union of Economic and Accounting Experts stated that: "the objective of auditing, from a financial perspective, is to express an opinion on whether the financial statements at the end of the year provide a true and fair view of the company's operations, while ensuring compliance with the established procedures and regulations within the institution." (Qaid, 2016, p. 12)

2.2. Characteristics Related to External Audit Firms

These characteristics play a significant role in enhancing the effectiveness of auditing and improving audit quality. Among the most prominent elements discussed in accounting literature are: audit firm size, industry specialization, firm reputation, audit fees, and audit tenure.

▪ **Audit Firm Size:** Audit firm size has been a fundamental topic of interest for researchers, who have conducted numerous studies on the subject. Several criteria have been identified to classify audit firm size, the most notable being: The number of employees within the firm, the number of clients served by the firm, the reputation of the audit firm, Affiliation with one of the Big Four international audit firms (Aabi, 2011) (Chalmers & Godfrey, 2004) Found that affiliation with international audit firms significantly contributes to improving financial reporting quality and reducing the degree of information asymmetry between management and other stakeholders.

▪ **Industry Specialization:** Industry specialization of an auditor is defined as: "the auditor's provision of audit services to clients within a specific industry, leveraging their specialized knowledge and expertise in that sector." (Abdelhadi, 2007, p. 290) Accounting and finance research has established industry specialization as a key indicator of an audit firm's service quality. Specialized audit firms are considered higher in quality due to their technical qualifications and field experience, enabling them to identify and resolve material sector-specific issues. Additionally, their distinctive audit methodologies enhance audit quality. (Al-Jabr, 2000)

▪ **Audit Fees:** Audit fees refer to "the remuneration received by an external auditor in exchange for conducting an audit of a company's financial statements. These fees represent the financial compensation for audit services and are typically determined through contractual agreements between the auditor and the audited entity" (Edosa & Chinwuba, 2015, p. 71) According to (Salma & Maha, 2022) there is a positive relationship between audit fees and financial reporting quality. Empirical evidence suggests that higher audit fees lead to improved audit quality, reduced accounting manipulations, and fewer financial restatements. Additionally, performance incentives linked to higher fees enhance auditors' ability to detect earnings management practices, thereby improving the overall quality of financial disclosures.

▪ **Audit Tenure:** "Tenure audit is the length of the auditor's relationship with the client" (Ho-Young, Vivek, & Myungsoo, 2009, p. 93). There are divergent perspectives regarding the optimal duration of the auditor-client relationship. According to Meyer, the association between audit tenure and earnings quality permits multiple interpretations. A short tenure may result in (Ferdinand, Simon, & Bikki, 2009):

- ✓ Insufficient auditor familiarity with the client's operations
- ✓ Lower earnings quality
- ✓ Elevated audit risk due to limited client-specific knowledge
- ✓ Excessive reliance on management representations and subjective judgments

Conversely, other researchers argue that prolonged audit tenure may adversely affect financial reporting quality due to: (Barbara, Richard, & Kurt, 2006)

- **Erosion of Professional Skepticism:** Extended relationships may foster excessive familiarity with management, compromising auditor independence.
- **Performance Complacency:** Routine audit procedures may lead to reduced professional vigilance over time.
- **Client Retention Bias:** Long-term engagements may create incentives to accommodate client preferences to maintain the business relationship.

3. Theoretical Framework of Financial Reporting Quality

3.1. It's Concept

Financial reporting quality has been defined as: "The level of quantitative and qualitative information disclosed in financial reports through notes and footnotes, along with explanatory information regarding financial solvency in the audit report, which helps provide a more accurate and complete description of the company's financial position and operational results." (Titin, 2011, p. 570) In another definition: "it is the entity's ability to provide information with characteristics that enable financial analysts to draw better conclusions, thereby supporting more accurate estimates of future returns." (Beretta & Bozzolan, 2008, p. 07)

3.2. Measures of Financial reporting Quality

According to previous accounting literature, several measures are used to determine the quality of financial disclosure, aiming to accurately assess the validity and reliability of financial statements. The most important measures include:

Qualitative Characteristics of Financial Information: Per the International Accounting Standards Board (IASB), the primary standard for evaluating financial disclosure quality is linked to the quality of information contained in corporate financial reports and the extent to which it meets set objectives. Qualitative characteristics such as Faithful representation, Comparability, Verifiability, Timeliness, Understandability are among the most important indicators that enhance the effectiveness of financial reports. Based on this, the principle of transparency and avoiding user misguidance is emphasized, in addition to financial disclosure being distinguished by accuracy and predictability (Gajevszky, 2015)

According to this perspective, the qualitative characteristics of financial information are an important measure of financial disclosure quality, as financial statements represent a set of information with specific features that make them capable of reflecting the company's true financial position.

▪ **Earnings Management:** Earnings management is defined as "Management's manipulation of accounting methods to influence reported earnings for specific purposes." (Michael, Don, & Jodi, 2007, p. 65), moreover (Healy & Wahlen, 1999) and (El Dir, 2018) earnings management can negatively affect financial disclosure quality, as it serves as a means to manipulate financial reports directed at various users. Managers engage in this behavior to influence company earnings in ways that serve their interests, reducing the quality of information disclosed.

From the above, we conclude that earnings management is an important indicator of financial disclosure quality. Companies with fewer fraudulent practices reflect higher quality in their financial statements, and vice versa.

4. Methods

4.1. Sample and data collection

The study targeted external auditors working in audit firms located in Western Algeria, including statutory auditors registered with the National Chamber of Auditors. These professionals were selected for their academic qualifications, practical training, and field experience, which ensured reliable and objective responses to the questionnaire. Using a random sampling method, 120 questionnaires were distributed, of which 108 valid responses were collected and analyzed. Table (01) presents the distribution results.

Table 01. Results of the Questionnaire Distribution

Item	Frequency	Percentage (%)
Distributed questionnaires	120	100.0%
Retrieved questionnaires	110	91.7%
Unreturned questionnaires	10	8.3%
Invalid questionnaires	02	1.7%
Valid questionnaires for analysis	108	90.0%

Source: Authors

In this study, we applied a five-point Likert scale to determine the direction of the sample members' responses. The following table shows the applied scale, its response options, and their weights:

Table 02. Range of Respondents' Opinions

Scale	Weight	Mean Range
Strongly Disagree	01	[1.0 – 1.8]
Disagree	02	[1.8 – 2.6]
Neutral	03	[2.6 – 3.4]
Agree	04	[3.4 – 4.2]
Strongly Agree	05	[4.2 – 5.0]

Source: Authors

4.2. Statistical Analysis Methods

To analyze the collected data, several statistical techniques were applied after examining and coding the retrieved questionnaires for computer processing. The analysis was conducted using the Statistical Package for the Social Sciences (SPSS), which includes both descriptive and inferential statistical tools. The main methods employed were range, frequencies, percentages, Pearson correlation coefficient, Cronbach's Alpha, arithmetic mean, standard deviation, and the one-sample Student's t-test.

Regarding the validity of the study instrument, two types of validity were assessed:

- **Face validity**, verified by four experts in accounting and auditing who reviewed the questionnaire for clarity and content relevance. Their feedback was incorporated through revisions, additions, and deletions.
- **Construct validity**, tested using **Pearson's correlation coefficients** between each item and its corresponding dimension, as presented in Table (04).

Table 03. Internal Consistency Validity of Questionnaire

No.	Axis	Correlation Coefficient	Significance Level
01	First Axis	0.820**	0.000
02	Second Axis	0.793**	0.000
03	Third Axis	0.793**	0.000

Correlation is significant at the 0.01 level

Source: Authors based on SPSS V.25 out-puts

The table 04, which presents the internal consistency validity of the questionnaire dimensions, reveals that:

- The highest Pearson correlation coefficient (0.820) was observed for axis 01: “the external audit firm characteristics and financial reporting quality.”
- The lowest coefficient (0.793) was recorded for axis02 “the external auditor's ability to limit earnings management practices” and axis03 “the external auditor's verification of financial reporting quality requirements and the actual quality of reporting”.

These results indicate strong statistically significant correlations among all questionnaire axis.

▪ **Reliability Analysis (Cronbach's Alpha):** To verify the reliability of our research instrument, we conducted reliability testing using Cronbach's alpha coefficient. The reliability levels are interpreted as follows:

- $\alpha \geq 0.9$: High reliability
- $0.8 \leq \alpha < 0.89$: Very good reliability
- $0.7 \leq \alpha < 0.79$: Acceptable reliability
- $\alpha < 0.7$: Low reliability (indicating need for scale improvement)

Table 04. Cronbach's Alpha Coefficient for Questionnaire Reliability

No	Axis	Cronbach's Alpha	Number of Items
01	First Axis	0.774	22
02	Second Axis	0.873	11
03	Third Axis	0.910	11
	Total	0.897	44

Source: Authors based on SPSS V.25 out-puts

Table 05 concerning the reliability of the research instrument reveals the following findings:

- Cronbach's alpha coefficients ranged between:
 - Minimum value: 0.774 (77%)
 - Maximum value: 0.910 (91%)
- The overall reliability coefficient for all dimensions reached 0.8970 (89%)

These results demonstrate high reliability levels, with the aggregate score of 89% indicating excellent instrument consistency. This high reliability coefficient confirms the questionnaire's acceptability for administration to all study sample members.

5. Result and discussion

In this section, we will present and analyze the obtained results using the statistical tools and software employed for data processing. Finally, we will test the three hypotheses

5.1. Presentation and Analysis of Questionnaire Results

The responses of the sample members regarding the study dimensions are presented and analyzed through the arithmetic mean for each statement and its corresponding dimension.

Table 05. external audit firm characteristics and financial reporting quality

Statements	Mean	Std. Devi	Rank
First Dimension: Audit Firm Size			
01. Affiliation with an international audit firm contributes to improving the client's financial reporting quality.	3.27	0.973	04
02. Large audit firms have a better understanding of the legal system of the financial accounting system and the international accounting standards (IAS/IFRS).	3.50	1.000	03
03. Large firms have good supervision and monitoring of audit assistants, which affects the quality of clients' financial reporting.	3.67	0.809	02
04. Large firms possess greater independence than small firms, which contributes to improving the quality of clients' financial reporting.	3.02	1.076	06
05. Possessing highly competent and experienced staff, due to strict hiring standards in large firms, contributes to improving financial reporting quality.	3.79	0.907	01
06. Large audit firms encourage clients to disclose more information.	3.13	0.928	05
Second Dimension: Industry Specialization			
01. Industry specialization improves the ability to accurately assess audit risks, which reflects on the quality of financial reporting.	3.91	0.589	05
02. Industry specialization reduce the time taken by the external auditor to issue their report, enabling the firm to publish its financial reports within regular deadlines.	3.41	0.957	06
03. Industry specialization contributes to proper audit planning by preparing an appropriate audit program that covers many processes.	4.19	0.483	01
04. Industry specialization enhances the ability to exercise professional judgment and better evaluate internal control systems, reflecting on the quality of financial statements and reports.	4.08	0.582	02
05. Industry specialization contributes to forming more accurate samples, increasing the likelihood of detecting material misstatements.	3.98	0.626	04
06. Industry specialization improves the ability to verify the accuracy of financial information in terms of transparency and compliance with disclosure requirements.	4.00	0.641	03
Third Dimension: Audit Tenure			
01. Longer audit tenure makes the auditor more in control of the company's activities, accounting systems, and policies.	4.02	0.710	02
02. Longer audit tenure enhances the auditor's professional judgment, which affects the quality of financial reporting.	3.83	0.649	04
03. Longer audit tenure leads to better time management and control over the timing of the audit report issuance.	3.91	0.649	03
04. Longer audit tenure leads to a better understanding of the entity and the development of an effective audit planning and supervision program.	4.08	0.582	01
05. Longer audit tenure results in frequent and effective communication between the auditor and internal stakeholders, reflecting on the quality of financial reporting.	3.83	0.767	05
06. Auditing the same client for multiple terms threatens the auditor's independence.	3.17	1.156	06

Fourth Dimension: Audit Fees

01. Audit fees influence the auditor's psychological motivation, encouraging them to exert professional care and allocate sufficient time and resources, which reflects on financial reporting quality.	4.03	0.803	01
02. Financial reporting quality is linked to the auditor's legal responsibility regardless of the audit fee size.	3.97	0.791	02
03. Equitable audit fees in proportion to the complexity of operations and the firm's size influence financial reporting quality.	3.79	0.967	03
04. Unjustifiably high audit fees affect the auditor's independence in expressing an opinion on the financial statements and reports.	3.47	1.000	04

Source: Authors based on SPSS V.25 out-puts and Excel.

Analysis of the First Dimension: Audit Firm Size

According to the obtained responses, statement No. 05 ranked first: "Possessing highly competent and experienced staff, due to strict hiring standards in large firms, contributes to improving financial reporting quality" with an arithmetic mean of 3.79 and a standard deviation of 0.9070, this indicates that the size of the audit firm is important, as large firms have efficient human resources and capabilities due to their adoption of a set of standards for selecting assistants, which leads to providing high-quality audit services and reflects on the quality of the client's financial disclosure. The statement No. 04 came in sixth and last place in the first dimension: "Large firms possess greater independence than small firms, which contributes to improving the quality of clients' financial reporting", with an arithmetic mean of 3.02 and a standard deviation of 1.076.

Analysis of the Second Dimension: Industry Specialization

According to respondents' answers regarding the second dimension "Audit firm's industry specialization," Statement No. 03 ranked first: "Industry specialization contributes to proper audit planning by preparing an appropriate audit program that covers many processes", with an arithmetic mean of 4.19 and a standard deviation of 0.4830. And in sixth and last place came Statement No. 02: "Industry specialization reduce the time taken by the external auditor to issue their report, enabling the firm to publish its financial reports within regular deadlines", with an arithmetic mean of 3.41 and a standard deviation of 0.9570.

Analysis of the Third Dimension: Audit Tenure

In first place was Statement No. 04: "Longer audit tenure leads to a better understanding of the entity and the development of an effective audit planning and supervision program", with a mean of 4.08 and standard deviation of 0.5820. In sixth and last place was Statement No. 06: "Auditing the same client for multiple terms threatens the auditor's independence", with a mean of 3.17 and standard deviation of 1.156.

Analysis of the Fourth Dimension: Audit Fees

In first place was Statement No. 01: "Audit fees influence the auditor's psychological motivation, encouraging them to exert professional care and allocate sufficient time and resources, which reflects on financial reporting quality", with a mean of 4.03 and standard deviation of 0.8030. In fourth and last place was Statement No. 04: "Unjustifiably high audit fees affect the auditor's independence in expressing an opinion on the financial statements and reports", with a mean of 3.47 and standard deviation of 1.000.

Table 06. The external audit's ability to limit earnings management practices

Statements	Mean	Std. Deviation	Rank
01. Monitoring the selection of alternative methods and techniques for inventory valuation.	3.81	0.633	08
02. Monitoring discretionary expense reductions, such as research & development, repairs, and maintenance.	3.59	0.684	11
03. Verifying the timing of revenue and expense recognition.	3.93	0.542	04
04. Reviewing abnormal increases in sales before the period-end, such as offering price discounts or lenient credit terms to inflate earnings.	3.83	0.767	06
05. Verifying that revenues and expenses belong to the recorded financial cycle and not to previous or future periods.	4.11	0.616	01
06. Detecting methods of increasing production beyond expected demand to reduce unit costs (i.e., fixed cost per unit), thereby reducing cost of sales.	3.70	0.752	10
07. Verifying the estimated useful life and salvage value of long-term assets.	3.82	0.695	07
08. Detecting manipulation in accounting estimates related to provisions.	4.01	0.588	02
09. Verifying the timing of selling and holding non-current assets and recognizing gains on their sale to serve managerial objectives.	3.89	0.660	05
10. Verifying the provisions for doubtful debts and potential manipulation to inflate earnings.	3.99	0.604	03
11. Verifying share repurchase operations and earnings per share manipulation by reducing the number of common shares through treasury stock purchases within a specific period.	3.71	0.684	09

Source: Authors based on SPSS V.25 out-puts

In first place was Statement No. 05: “Verifying that revenues and expenses belong to the recorded financial cycle and not to previous or future periods”, with a mean of 4.11 and standard deviation of 0.6160. In eleventh and last place was statement No.02:”monitoring discretionary expense reductions, such as research & development, repairs, and maintenance”, with a mean of 3.59 and standard deviation of 0.684.

Presentation and Analysis of the third axis

Table 07. The external auditor's verification of financial reporting quality requirements and the actual quality of reporting.

Statement	Mean	Std. Deviation	Rank
First Dimension: In Terms of Sufficiency and Comprehensiveness of Disclosure			
01. Ensuring disclosure of the company's financial and operational results for the current and previous years.	3.94	0.552	03
02. Ensuring that the financial statements are accompanied by the supplementary notes in the appendices.	4.02	0.596	02
03. Monitoring the extent to which stakeholders can access all the reports and financial statements issued by the company.	3.92	0.657	04

04. Monitoring the publication of information related to the application of corporate governance principles within the company.	3.71	0.698	05
05. Monitoring the publication of information on dividends, achieved results, and sales figures of the company.	4.09	0.663	01
Second Dimension: In Terms of Compliance with International Accounting Standards and IFRS (IAS/IFRS)			
01. Monitoring disclosure of accounting valuation processes, such as the method for translating foreign currency balances.	3.90	0.579	03
02. Monitoring disclosure of significant accounting policies, such as revenue and expense recognition policies, and provisioning policies.	3.83	0.572	05
03. Monitoring disclosure of significant events in the balance sheet, such as events that lead to changes in the size and nature of the company's activities.	3.94	0.609	01
04. Monitoring disclosure of contingent liabilities that the company may incur.	3.86	0.571	04
05. Monitoring disclosure of transactions with related parties such as members of the board of directors and their relatives.	3.94	0.701	02
06. Monitoring disclosure of risks the company is exposed to, such as the effects of changes in foreign exchange rates (IAS 21).	3.94	0.609	01

Source: Authors based on SPSS V.25 out-puts

Analysis of the First Dimension

In first place was Statement No. 05: "Monitoring the publication of information on dividends, achieved results, and sales figures of the company", with a mean of 4.09 and standard deviation of 0.663. In fifth and last place was Statement No. 04: "Monitoring the publication of information related to the application of corporate governance principles within the company", with a mean of 3.71 and standard deviation of 0.698.

Analysis of the Second Dimension

In first place was Statement No. 03: "Monitoring disclosure of significant events in the balance sheet, such as events that lead to changes in the size and nature of the company's activities", with a mean of 3.94 and standard deviation of 0.609. In fifth and last place was Statement No. 02: "Monitoring disclosure of significant accounting policies, such as revenue and expense recognition policies, and provisioning policies", with a mean of 3.83 and standard deviation of 0.572.

5.2. Testing the Study Hypotheses

The study hypotheses were tested using the one-sample Student's t-test to examine the role of external auditing in improving the quality of financial disclosure within financial statements - a field study in Algeria. The results are presented in Table No. (11).

Table 08. Testing the Study Hypotheses

Hypothesis No.	Hypothesis	Mean	Std. Deviation	Calculate d T-Value	Significance Level (Sig.)
Main Hypothesis 1	H1: There is a statistically significant relationship between external audit firm characteristics and financial reporting quality, as perceived by the study's sample respondents.	3.73	0.343	22.074	0.000
Main Hypothesis 2	H2: There is a statistically significant relationship between the external auditor's ability to limit earnings management practices, as perceived by the study's sample respondents.	3.85	0.438	20.271	0.000
Main Hypothesis 3	H3: There is a statistically significant relationship between the external auditor's verification of financial reporting quality requirements and the actual quality of reporting, as perceived by the study's sample respondents.	3.92	0.450	21.176	0.000

Source: Authors based on SPSS V.25 out-puts

Hypothesis Testing Results

First main hypothesis: There is a statistically significant relationship between external audit firm characteristics and financial reporting quality, as perceived by the study's sample respondents." The calculated $T=22.074$ exceeds the critical $T=2.01$, with statistical significance $\text{sig}=0.000<0.05$. The mean= 3.73 exceeds the scale midpoint= 3 , confirming the hypothesis

Second main hypothesis: There is a statistically significant relationship between the external auditor's ability to limit earnings management practices and financial reporting quality, as perceived by the study's sample respondents." The calculated $T=20.271$ exceeds $T=2.01$, with $\text{sig}=0.000<0.05$. The mean= $3.85>3$ confirms the hypothesis.

Third main hypothesis: There is a statistically significant relationship between the external auditor's verification of financial reporting quality requirements and the actual quality of reporting, as perceived by the study's sample respondents." The calculated $T=21.176$ exceeds $T=2.01$, with $\text{sig}=0.000<0.05$. The mean= $3.92>3$ confirms the hypothesis.

6. Conclusion

Through the field study conducted at the level of external audit offices, which aimed to examine the relationship between external auditing and the quality of financial disclosure, this research presented the conceptual framework of external auditing and the characteristics of audit firms, in addition to the conceptual framework of financial disclosure quality and its measurement criteria, and based on the field study conducted across audit firms operating in Western Algeria, the following results were obtained:

- Audit firm size positively impacts reporting quality ($p<0.05$) through: qualified staff, IFRS knowledge, effective supervision, and fraud detection capabilities.
- Industry specialization enhances reporting quality ($p<0.05$) through: sector expertise, accurate judgment, and better internal control evaluation.

- Longer audit tenure improves reporting quality ($p < 0.05$) by enabling deeper client understanding and risk identification.
- Appropriate audit fees positively correlate with reporting quality ($p < 0.05$) by ensuring adequate motivation and resources.
- External auditing improves reporting quality by controlling earnings management through proper revenue/expense timing verification.
- External auditing enhances reporting quality by verifying completeness of financial statements and supplementary notes.

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