

Research Article

# Effect of International Financial Reporting Standards Adoption on Audit Quality: A Perception of Auditors in Yemen

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## Abstract

**Objective:** This study aims at studying the impact of the adoption of the international financial reporting standards IFRS on the audit quality from the perspective of Yemeni auditors. Before conducting the study, the research proposed a positive and significant causal of the adoption of the international financial reporting standards IFRS on the audit quality from the perspective of Yemeni auditors.

**Materials and Methods:** The study applied the quantitative methods of correlation and regression analysis. A total of 100 auditors were targeted. Questionnaires were sent manually and electronically to the auditors. Eighty-four questionnaires were retained and analyzed.

**Results:** The study found that the positive and significant effect of the adoption of the international financial reporting standards IFRS on the audit quality from the perspective of Yemeni auditors.

**Conclusions:** Based findings of this study, that the companies should increase their adoption rate of the IFRS standards.

## Introduction

In Yemen, there are poor applications of the accounting principles, such as the general accounting accepted principles or the international financial reporting standards [1]. To mitigate this problem, the international financial reporting standards was declared as a mandate processors and principles for the businesses in Yemen. The Council of Ministers issued the Resolution No. (51) of 2019 regarding the adoption and application of international accounting standards, international standards for financial reporting, and international standards for auditing in the Republic of Yemen, as well as international rules and ethics of professional conduct, starting from January 1, 2020 [1]. Audit quality is an essential part of the accounting and auditing processes. This issue is important, especially in Yemen. As only from 2020, the international standards reporting started to be a compulsory practice in the Yemeni businesses. This would raise the problem of how to apply these principles and how the auditing process would be changed accordingly [2]. This raises the importance of maintaining a decent level of audit quality in the Yemeni companies. The audit quality is a critical issue, especially for newly applied principles such as international standards.

The effect of the newly adoption of the international standards can affect the quality of the audit in the Yemeni companies [3]. The application of the international standards in the Yemeni companies will encourage these companies to adopt a right and effective auditing processes. Such a step can improve the quality of the audit in these companies. This relationship is not direct and clear. It could be affected by the cost of the auditing process. The cost can affect severely the quality of the audit in the Yemeni companies. This would suggest measuring the correlation between the quality of the audit and the cost of it [3]. The cost of the audit could be treated as a relative problem. It depends on the size of the company. The size of the company can affect the adoption of financial standards and the cost of auditing [3]. The second factor is the characteristics of the industry. For example, banks need the accounting and auditing process are totally different from the retailing industries. Banks are more restricted and required to adopt high quality auditing and accounting processors regardless of the cost of these procedures.

## Problem Statement

Audit quality is an essential part of the accounting and auditing processes. This issue is important, especially in Yemen. As only from 2020, the international standards reporting started to be a compulsory practice in the Yemeni businesses. This would raise the problem of how to apply these principles and how the auditing process would be changed accordingly. This raises the importance of maintaining a decent level of audit quality in the Yemeni companies. The audit quality is a critical issue, especially for newly applied principles such as international standards.

The relationship between the adoption of the international financial standards and the audit quality needs further investigation. Thus, this thesis investigates the impact of IFRS adoption on the audit quality from the perspective of the auditors in Yemen.

## Research Objectives

According to the research questions and the problem statement, this study followed the following objective to tackle the problem statement and to answer the research questions. The main objective of this study is to measure the effect of international financial reporting standards adoption on the audit quality.

## Methodology

The current study followed the quantitative approach, using the cross-sectional data collected from the self-administered questionnaire. The self-administered questionnaire used in this study was developed, depending on the previous published works. The population of the study is the set of all auditors in the auditing companies and offices in Yemen.

## Results

The regression analysis showed a positive impact of the adoption of the international financial reporting standards on auditing quality for the auditors' perspective in Yemen. The main purpose of this study was to study the effect of the adoption of the international financial reporting standards has significant influence on auditing quality from the auditors' perspective in Yemen.

## Discussion

The finding of the current study is consistent with previous literature. With respect to the adoption of international financial reporting standards, different countries, especially the emerging markets showed a strong effect on reporting environment [4,5]. These companies showed a very promising and effective reporting environment that helped the financial analysis activities to improve [5]. The results of the adoption showed the importance of the international financial standards as a main factor that can improve the audit quality [5]. Audit quality is related to the improvement of the financial reporting environment. Auditing quality needs unified financial reporting standards that can be treated as a solid foundation of the audit quality [6]. Adopting international financial reporting can improve the relevance of the financial reports [6]. The relationship between the IFRS adoption and the audit quality can take a different status. Instead of thinking of this relationship as a direct influence, previous literature reports a moderating effect on the audit quality [7]. Instead of modeling a direct relationship, audit quality can play a moderating influence on the impact of IFRS adoption on the quality of earnings management practices

[7,8]. This can be an important role of audit quality, yet it does not have the same effect that this study wants to determine. Audit quality and IFRS adoption can be shaped in different types of impacts and models.

## Conclusion

This study aimed at studying the impact of the adoption of the international financial reporting standards IFRS on the audit quality from the perspective of Yemeni auditors. Before conducting the study, the research proposed a positive and significant causal of the adoption of the international financial reporting standards IFRS on the audit quality from the perspective of Yemeni auditors. A total of (100) auditors were targeted. Questionnaires were sent manually and electronically to the auditors. (84) questionnaires were retained and analyzed. Thus, the response rate was (84%). The reliability test's scores of the variables of this study were very satisfactory, as it was (89%) for the audit quality variable. The study applied the quantitative methods of the correlation and regression analysis. The findings supported the initially proposed hypotheses and confirmed the positive and significant effect of the adoption of the international financial reporting standards IFRS on the audit quality from the perspective of Yemeni auditors. The study recommended the companies to increase their adoption rate of the IFRS standards.

## Recommendations

According to the findings of this study, the research recommends the following:

1. Companies and organizations in Yemen should adopt the international financial reporting standards as soon as possible.
2. Policy makers should make and accelerate the adoption of the international financial reporting standards compulsory.
3. Auditing companies should charge higher fees for the companies that do not follow the international financial reporting standards.
4. The international financial reporting standards should be taught in the higher education institutions, instead of the other standards such as GAAP.
5. Shareholders of the companies should not accept any accounting information that is not prepared according to the IFRS standards.
6. Non-governmental Organizations (NGOs) should shift their financial reporting from the cash basis to the IFRS standards.
7. Accounting information systems in Yemen should be programmed according to the IFRS standards.
8. Policy makers should launch a more customized version of the IFRS standards that suits the needs of the Yemeni reporting environment, which will encourage the economic entities to adopt IFRS standards.
9. All of the financial reporting parties in Yemen, such as the regularities, tax authorities, and companies should unify their accounting standards and follow the IFRS standards.
10. Auditors should make the IFRS adoption a compulsory practice when dealing with their customers.

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