

Social Trust and Financial Reporting Quality: The Differing Roles of Internal and External Capabilities of Audit Firms

Seyedeh Narges Mirsadeghi Darabi¹, Seyed Rasoul Masoumi^{2,*} and Sadegh Rahimi³



¹ Department of Accounting, Sar.C., Islamic Azad University, Sari, Iran; 

² Department of Accounting, Sar.C., Islamic Azad University, Sari, Iran; 

³ Department of Economics and Accounting, Imam Khomeini Marine Sciences University, Noshahr, Iran; 

* Correspondence: Masoumi.rasool@iau.ac.ir

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Abstract: The present study aimed to examine the effect of social trust on financial reporting quality and to explain the differing roles of audit firms' internal and external capabilities in this relationship. In terms of purpose, the study was applied, and in terms of methodology, it employed a descriptive-survey design. The statistical population comprised partners of audit firms accredited by the Securities and Exchange Organization (SEO). Based on the predetermined sample size, 159 valid questionnaires were collected through purposive sampling and used in the analyses. Financial reporting quality was measured using the questionnaire developed by Aldemore et al., while social trust was assessed using the questionnaire developed by Saffari Gerayli and Valian. In addition, audit firm capabilities were examined in two dimensions: internal capabilities and external capabilities. Data were analyzed using structural equation modeling (SEM) and SmartPLS software. The findings indicated that social trust has a positive and significant effect on financial reporting quality; therefore, higher levels of social trust in the professional environment can contribute to improvements in financial reporting quality. The results also demonstrated that audit firms' internal capabilities have a positive and significant moderating role in the relationship between social trust and financial reporting quality, meaning that stronger internal capabilities enhance the positive effect of social trust on financial reporting quality. In contrast, audit firms' external capabilities have a negative and significant moderating role in this relationship, such that an increase in these capabilities within the research model reduces the magnitude of the positive effect of social trust on financial reporting quality. Overall, the findings indicate that social trust alone is insufficient to enhance financial reporting quality and that the type of capabilities possessed by audit firms can play a decisive role in determining how this effect materializes. Whereas internal capabilities strengthen the relationship between social trust and financial reporting quality, external capabilities do not perform such a role, and their moderating effect operates in the direction of weakening this relationship. Accordingly, strengthening audit firms' internal capabilities, alongside establishing and maintaining social trust, can provide a more favorable basis for improving financial reporting quality.

Keywords: social trust, financial reporting quality, internal capabilities of audit firms, external capabilities of audit firms, structural equation modeling.

1. Introduction

Financial reporting quality is a central concern in accounting, auditing, corporate governance, and capital-market research because the usefulness of financial statements depends not only on the technical accuracy of reported figures but also on the extent to which financial information is understandable, relevant, comparable, timely, and faithfully represented. High-quality financial reporting reduces information asymmetry between

organizations and stakeholders, facilitates more efficient allocation of resources, strengthens accountability, and supports informed economic decision-making. Conversely, weaknesses in reporting quality can increase uncertainty, impair investor confidence, and diminish the effectiveness of corporate monitoring mechanisms. Accordingly, a broad body of research has sought to identify the organizational, professional, technological, and institutional determinants of financial reporting quality. Recent studies increasingly suggest that purely technical explanations are insufficient and that social and relational factors, including social capital, social responsibility, professional norms, trust, and organizational culture, can materially affect the production, verification, and communication of accounting information [1-3]. This development has shifted attention toward the wider institutional environment in which financial reporting and auditing take place and has highlighted social trust as a potentially important mechanism through which professional judgment, monitoring, cooperation, and information credibility may be strengthened.

Social trust generally reflects expectations regarding the reliability, honesty, predictability, and cooperative behavior of individuals and institutions within a social or professional system. In organizational and interorganizational settings, trust can reduce the perceived need for excessive monitoring, facilitate information exchange, lower coordination costs, and improve the quality of relationships among actors whose decisions depend on one another. Trust-based management mechanisms are particularly relevant where formal contracts, standards, and controls cannot fully anticipate all contingencies or eliminate behavioral uncertainty [4]. Within business environments, social capital and trust may shape how managers use organizational resources and how professional actors interpret their responsibilities toward other stakeholders [5]. In the auditing profession, which is fundamentally based on credibility, professional skepticism, ethical judgment, independence, and public confidence, social trust may be especially consequential. Auditors operate in a setting where their assessments depend on access to reliable information, interactions with clients, professional networks, organizational support, and institutional expectations. Consequently, the trust embedded in these relationships may influence not only audit processes but also the quality of the financial information ultimately communicated to users.

The growing literature on social trust in accounting and auditing supports the view that trust can affect both the demand for assurance and the behavior of auditors and reporting entities. Evidence indicates that social trust is associated with greater demand for audit quality, suggesting that trust does not necessarily substitute for formal assurance mechanisms but may operate alongside them by increasing stakeholders' sensitivity to reporting credibility and professional accountability [6]. Research on private firms in emerging markets similarly suggests that social trust can influence decisions concerning whether audited financial statements are provided, linking broader societal trust to organizational disclosure and assurance choices [7]. International evidence also connects societal trust with the timeliness of information, indicating that trust-related institutional conditions may affect the speed and efficiency with which financial information reaches stakeholders [8]. At the auditor level, there is evidence that auditors themselves attach economic and professional value to social trust, reinforcing the proposition that trust affects judgment, client relations, and assurance-related decisions [9]. Together, these findings imply that social trust should be considered an institutional and professional resource capable of influencing the information environment surrounding financial reporting.

The relevance of social trust is also evident in studies emphasizing ethical responsibility, individual values, professional identity, and commercialization in auditing. Social trust structures have been linked to auditors' ethical responsibility, suggesting that trust may reinforce behavioral expectations regarding accountability and professional conduct [10]. Related research has examined relationships among social trust, individual values, and

market orientation in the auditing profession, indicating that trust is embedded within a broader set of personal and organizational orientations that influence professional behavior [11]. Social trust has also been studied alongside moral identity and the commercialization of the audit profession, reflecting concern that professional values may be affected when commercial pressures interact with auditors' social and ethical environments [12]. In a closely related stream, social capital has been associated with auditor performance and independence, two characteristics that directly affect the credibility and quality of assurance services [13, 14]. These studies collectively suggest that the effects of social trust are unlikely to be confined to general social attitudes; rather, trust may operate through specific professional mechanisms that shape accountability, independence, ethical conduct, and performance.

From a financial reporting perspective, the potential effect of trust is especially important because reporting quality depends on multiple layers of judgment and oversight. Managers prepare financial information, internal control systems organize and verify data, and external auditors provide assurance regarding the reliability of the resulting statements. Social trust may improve these processes by facilitating more open communication, reducing opportunistic behavior, and encouraging compliance with professional and reporting norms. Empirical research has directly investigated the effect of social trust on financial reporting quality and suggests that higher trust may be associated with better-quality reporting outcomes [15]. Social trust has also been examined together with corporate social responsibility, reinforcing the idea that trust operates within a wider framework of stakeholder accountability and socially responsible organizational conduct [16]. Moreover, the relationship between social capital measurement and the quality of accounting information indicates that socially embedded resources can contribute to the usefulness and credibility of financial information [1]. These findings provide an important foundation for expecting social trust to positively affect financial reporting quality, but they do not fully explain the organizational conditions under which this effect becomes stronger or weaker.

One such condition concerns the capabilities of audit firms. Audit quality and the contribution of auditing to financial reporting quality depend not only on regulatory standards and auditor independence but also on the resources, knowledge, technologies, routines, culture, networks, and organizational arrangements available to audit firms. Audit firm culture, for example, has emerged as a major research area because internal organizational norms can influence professional judgment, quality-control practices, employee behavior, and responses to commercial pressures [17]. Team structure and working arrangements are similarly relevant: geographic or relational distance among audit team members can create conditions that threaten audit quality-related behavior, illustrating how internal coordination capability affects professional performance [18]. At the same time, secrecy-oriented cultural environments and client importance may influence auditor reporting behavior, showing that the organizational and external relational context of the audit engagement may affect the willingness and ability of auditors to communicate concerns objectively [19]. Therefore, audit firms should not be treated as homogeneous professional intermediaries; they possess different capabilities that may alter how social trust translates into reporting outcomes.

The distinction between internal and external capabilities is particularly useful in this regard. Internal capabilities may include professional expertise, human capital, technological competence, internal coordination, organizational culture, knowledge-sharing mechanisms, quality-control systems, and experience. These resources can enable audit firms to process information more effectively, identify anomalies, exercise appropriate professional judgment, and convert favorable relational conditions into higher-quality assurance. Technological capability has become increasingly important as auditing incorporates artificial intelligence, blockchain, advanced

analytics, and automated tools [20]. Research on auditors' attitudes toward artificial intelligence indicates that the effective use of such technologies depends not merely on technical availability but also on professional acceptance and organizational readiness [21]. Artificial intelligence has also been described as capable of improving accuracy and transparency in assurance services, thereby reshaping the technical foundations of audit quality [22]. In internal auditing, deep-learning applications can support anomaly detection in financial accounting data and thereby expand auditors' ability to identify irregularities that traditional procedures may overlook [23]. These developments indicate that stronger internal capabilities may reinforce the positive consequences of social trust by providing the professional and technological infrastructure necessary to translate cooperative relationships into more reliable financial reporting.

The effects of technological and professional capability on financial reporting quality also appear to depend on human expertise and users' confidence in accounting systems. The adoption of artificial intelligence has been linked to financial reporting quality, with trust in accounting systems identified as an important mechanism through which technological adoption may influence reporting outcomes [24]. Similarly, the use of artificial intelligence in auditing has been examined in relation to financial reporting quality, with auditor experience acting as a conditioning factor in the effectiveness of technological applications [25]. These studies are relevant because they demonstrate that capabilities do not function independently of trust. Technological resources can improve information processing, but their contribution depends on whether professionals understand, trust, and appropriately integrate them into audit procedures. Accordingly, when audit firms possess strong internal capabilities, social trust may have a more powerful effect because trusted professional relationships are supported by sufficient expertise, systems, and internal resources to generate high-quality assurance and reporting outcomes.

External capabilities, however, may operate differently. Audit firms are embedded in professional, commercial, and social networks that provide access to clients, knowledge, business communities, and external resources. Such connections may generate informational benefits, but they may also create dependence, familiarity, conflicts of interest, or pressures that weaken professional independence. Research examining auditors' connections with members of clients' business communities highlights a fundamental trade-off between competence and independence: external connections can improve access to information and contextual understanding while simultaneously creating threats to objective judgment [26]. Linguistic or social connectedness between corporate executives and auditors has likewise been associated with audit-related strategic behavior, demonstrating that social proximity may influence auditor-client interactions in complex ways [27]. Spatial and social proximity can also affect audit quality and auditor independence, especially in smaller firms where relational ties may be particularly salient [28]. These findings suggest that external capabilities may not necessarily strengthen the beneficial effects of social trust. Under some conditions, stronger external ties may transform trust into excessive familiarity or relational dependence, thereby reducing the disciplinary role that auditing is expected to perform.

This possibility becomes even more important when the broader consequences of audit firm capabilities are considered. Recent evidence indicates that enhancements in audit firm capabilities can produce unintended spillover effects, implying that capability development does not always yield uniformly positive outcomes across all dimensions of audit practice [29]. This observation is theoretically important because it challenges the assumption that stronger capabilities are automatically beneficial. Internal capabilities and external capabilities may have different behavioral implications: internal capabilities can strengthen technical competence, organizational learning, and quality-control systems, whereas external capabilities can intensify client connectivity, market dependence, or relational embeddedness. The distinction is also consistent with research on non-audit

services and audit-report timing, which demonstrates that different types of external service relationships can generate differentiated spillover effects rather than a single uniform consequence [30]. Likewise, key audit matters have been associated with audit report lag, showing that characteristics of audit work and reporting obligations can affect the efficiency and timing of assurance outputs [31]. Thus, organizational capability should be examined in a differentiated rather than aggregate manner.

A further reason for distinguishing internal and external audit firm capabilities is that financial reporting quality is multidimensional. A high-quality reporting system should produce information that users can understand, relate to decision needs, compare across entities and periods, and regard as a faithful representation of underlying economic conditions. Social and organizational factors may affect these dimensions differently. Corporate social responsibility, for instance, has been examined in relation to comparability of accounting information, suggesting that socially oriented organizational practices can affect specific qualitative characteristics of reporting [3]. Similarly, social capital and corporate audit operations have been connected through corporate social responsibility disclosure, highlighting the interaction between reporting practices, assurance activities, and stakeholder-oriented conduct [2]. These findings reinforce the need to examine financial reporting quality as the outcome of interdependent social, organizational, and professional mechanisms rather than as a purely accounting-system attribute.

Despite the expanding literature on trust, social capital, auditing technology, audit culture, professional independence, and reporting quality, an important gap remains. Existing studies have generally examined social trust as a direct determinant of reporting behavior, audit demand, professional ethics, or financial reporting quality; alternatively, they have examined audit firm capabilities, technological sophistication, organizational culture, social connectedness, or auditor-client relationships as separate determinants of audit outcomes. Much less attention has been given to whether different categories of audit firm capability systematically alter the relationship between social trust and financial reporting quality. This gap is important because social trust may produce different consequences depending on whether an audit firm primarily possesses strong internal professional resources or strong external relational resources. Internal capabilities may allow trust to be converted into better communication, more effective information processing, stronger professional judgment, and higher-quality reporting. External capabilities, by contrast, may create competing effects: while they can improve access to information and contextual understanding, they can also intensify familiarity, dependence, and threats to independence. The literature on auditor connections, audit team relationships, audit firm culture, and capability spillovers indicates that these mechanisms deserve explicit empirical separation [17, 18, 26, 29].

The need for such analysis is particularly pronounced in professional environments where audit firms operate under significant regulatory, market, and relational pressures. In these contexts, social trust may serve as an important intangible resource, but its effectiveness is likely to depend on how audit organizations are structured and what capabilities they possess. Trust can encourage cooperation, ethical accountability, and information sharing, yet it may also become problematic if strong external relationships reduce professional distance. In contrast, internal capabilities may help firms preserve professional skepticism while using trust to improve engagement efficiency and reporting reliability. Integrating these perspectives can therefore contribute to both the social-trust literature and the audit-capability literature by clarifying why similar levels of trust may generate different financial reporting outcomes across audit firms.

Accordingly, the aim of this study is to examine the effect of social trust on financial reporting quality and to determine the differing moderating roles of audit firms' internal and external capabilities in this relationship.

2. Methods and Materials

The present study is applied in terms of purpose and descriptive-survey in terms of data collection method. The statistical population consisted of partners of audit firms accredited by the Securities and Exchange Organization (SEO). According to the Securities and Exchange Organization's report for the fiscal year ended March 19, 2024, 51 audit firms accredited by the SEO were identified, collectively comprising 305 partners. Given the size of the statistical population, the sample size was determined to be 170 participants based on the Krejcie and Morgan table. Considering the professional characteristics of the statistical population and limited access to some respondents, the questionnaires were distributed and collected both in person and electronically through email and social media. Ultimately, 159 complete and analyzable questionnaires were received and constituted the basis for the statistical analyses. Purposive sampling was employed, and respondents were selected based on their direct relevance to the research subject and accessibility within the statistical population. To measure the dependent variable, namely financial reporting quality, the questionnaire developed by Aldemore et al. (2018) was used. The questionnaire consists of 24 items and four dimensions: understandability, relevance and relatedness, comparability, and presentation with good faith and integrity. The independent variable of the study was social trust, which was measured using the questionnaire developed by Saffari Gerayli and Valian (2018). This questionnaire consists of 12 items and measures three dimensions: ethical accountability, legal accountability, and improvement of decision-making power. In the present study, these dimensions were considered formative dimensions of the social trust construct. Furthermore, given the primary objective of the study to examine differences in the roles of audit firm capabilities, these capabilities were investigated in two dimensions: internal capabilities and external capabilities. The classification of audit firm capabilities into these two dimensions was based on the framework proposed by Branco and Delgado (2012). In the research model, these two categories of capabilities were incorporated as moderating variables in the relationship between social trust and financial reporting quality. In other words, the study examined whether the magnitude and direction of the effect of social trust on financial reporting quality vary according to the levels of audit firms' internal and external capabilities. To analyze the data and test both the direct and moderating relationships among the research variables, structural equation modeling using the partial least squares approach (PLS-SEM) was employed through SmartPLS software. Accordingly, the measurement model was first evaluated in terms of construct reliability and validity, after which the structural model and the relationships among the variables were tested. In addition, to examine the moderating roles of audit firms' internal and external capabilities, the interaction effects associated with each of these two variables were assessed in the structural model.

3. Findings and Results

Table 1 presents the demographic characteristics of the respondents.

Table 1. Demographic Characteristics of the Respondents

Characteristic	Category	Frequency	Percentage
Gender	Male	148	93
	Female	11	7
Age	Up to 30 years	0	0
	30–40 years	5	3
	40–50 years	68	43
	Over 50 years	86	54

Education	Bachelor's degree	31	19.5
	Master's degree	104	65.5
	Doctoral degree	24	15
Field of Study	Accounting	119	74.8
	Auditing	23	14.5
	Other fields related to finance	17	10.7
Total	—	159	100

Based on the results presented in Table 1, of the 159 respondents, 93% were male and 7% were female. In terms of age, the largest proportion of respondents belonged to the over-50 age group, accounting for 54%, followed by the 40–50 age group at 43%, while only 3% of the respondents were between 30 and 40 years of age. Regarding educational attainment, the largest proportion consisted of respondents holding a master's degree, at 65.5%, followed by bachelor's and doctoral degree holders at 19.5% and 15%, respectively. In addition, 74.8% of respondents had studied accounting, 14.5% auditing, and 10.7% other finance-related disciplines. Overall, the composition of the respondents indicates that the majority of the sample consisted of individuals with specialized academic qualifications and professional backgrounds related to accounting and auditing.

Table 2 presents the descriptive statistics of the research variables.

Table 2. Descriptive Statistics

Variable/Dimension	Symbol	N	Mean	Standard Deviation	Kurtosis	Skewness
Social Trust		159				
Ethical Accountability	MA	159	3.311	0.957	-1.287	0.086
Legal Accountability	LA	159	2.648	1.080	-0.943	0.394
Improvement of Decision-Making Power	IDMP	159	2.461	0.996	-0.727	0.621
Audit Firm Capabilities		159				
External Capabilities of Audit Firms	ECE	159	2.233	0.930	0.163	0.978
Internal Capabilities of Audit Firms	ICE	159	2.607	0.797	0.563	0.798
Financial Reporting Quality		159				
Understandability	C	159	2.624	0.856	0.377	1.172
Relevance and Relatedness	CS	159	2.025	1.002	-1.057	0.354
Comparability	CO	159	2.705	1.170	-1.392	0.424
Good Faith and Integrity	GHF	159	2.873	1.085	-1.144	0.371

As shown in Table 2, descriptive statistics for the research variables are presented based on 159 analyzable questionnaires. Among the dimensions of social trust, ethical accountability had the highest mean, whereas improvement of decision-making power had the lowest mean. In addition, the mean score for audit firms' internal capabilities was higher than that for their external capabilities. Among the dimensions of financial reporting quality, good faith and integrity had the highest mean, while relevance and relatedness had the lowest mean. The skewness and kurtosis values of the variables were also within acceptable ranges, indicating that the distributions of the data did not exhibit severe deviations.

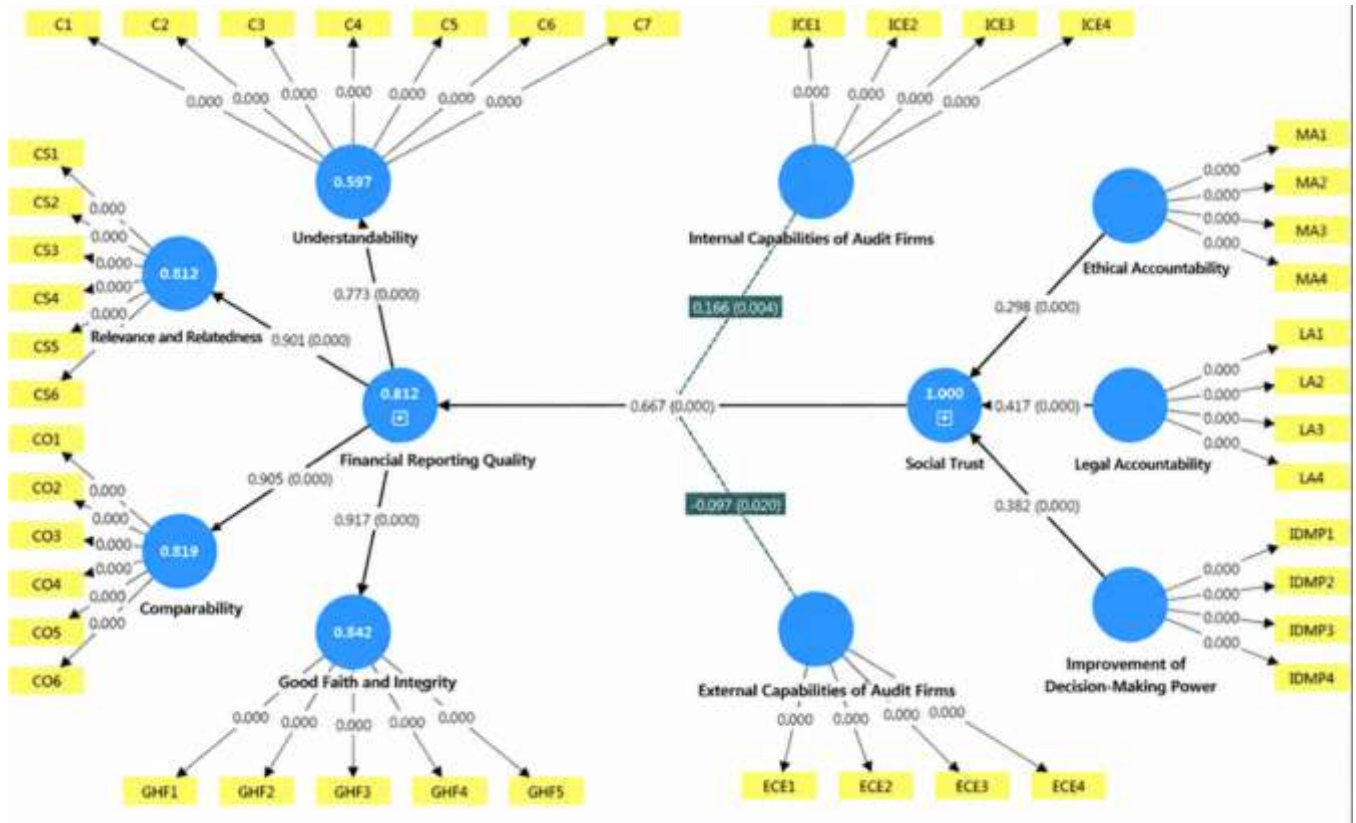


Figure 1. Structural Equation Model Based on Path Coefficients and t-Statistics

Table 3. Results of Hypothesis Testing and Structural Model Paths

Path	Path Coefficient (β)	Absolute t-Statistic	Significance Level
Improvement of Decision-Making Power → Relevance and Relatedness	0.230	9.586	0.000
Improvement of Decision-Making Power → Social Trust	0.382	22.901	0.000
Improvement of Decision-Making Power → Good Faith and Integrity	0.234	9.875	0.000
Improvement of Decision-Making Power → Understandability	0.197	10.943	0.000
Improvement of Decision-Making Power → Comparability	0.230	9.866	0.000
Improvement of Decision-Making Power → Financial Reporting Quality	0.255	9.669	0.000
Social Trust → Relevance and Relatedness	0.601	10.503	0.000
Social Trust → Good Faith and Integrity	0.612	11.026	0.000
Social Trust → Understandability	0.515	11.582	0.000
Social Trust → Comparability	0.603	10.983	0.000
Social Trust → Financial Reporting Quality	0.667	10.756	0.000
External Capabilities of Audit Firms → Relevance and Relatedness	-0.193	3.952	0.000
External Capabilities of Audit Firms → Good Faith and Integrity	-0.196	3.976	0.000
External Capabilities of Audit Firms → Understandability	-0.165	3.941	0.000
External Capabilities of Audit Firms → Comparability	-0.194	3.959	0.000
External Capabilities of Audit Firms → Financial Reporting Quality	-0.214	3.953	0.000
External Capabilities of Audit Firms × Social Trust → Relevance and Relatedness	-0.087	2.335	0.000
External Capabilities of Audit Firms × Social Trust → Good Faith and Integrity	-0.089	2.330	0.000
External Capabilities of Audit Firms × Social Trust → Understandability	-0.075	2.260	0.000
External Capabilities of Audit Firms × Social Trust → Comparability	-0.088	2.326	0.000
External Capabilities of Audit Firms × Social Trust → Financial Reporting Quality	-0.097	2.324	0.000

Internal Capabilities of Audit Firms → Relevance and Relatedness	0.405	8.186	0.000
Internal Capabilities of Audit Firms → Good Faith and Integrity	0.412	6.058	0.000
Internal Capabilities of Audit Firms → Understandability	0.347	6.347	0.000
Internal Capabilities of Audit Firms → Comparability	0.406	5.990	0.000
Internal Capabilities of Audit Firms → Financial Reporting Quality	0.449	6.181	0.000
Internal Capabilities of Audit Firms × Social Trust → Relevance and Relatedness	0.150	2.893	0.000
Internal Capabilities of Audit Firms × Social Trust → Good Faith and Integrity	0.153	2.880	0.000
Internal Capabilities of Audit Firms × Social Trust → Understandability	0.129	2.840	0.000
Internal Capabilities of Audit Firms × Social Trust → Comparability	0.150	2.884	0.000
Internal Capabilities of Audit Firms × Social Trust → Financial Reporting Quality	0.166	2.870	0.000
Ethical Accountability → Relevance and Relatedness	0.179	0.521	0.000
Ethical Accountability → Social Trust	0.298	18.439	0.000
Ethical Accountability → Good Faith and Integrity	0.182	8.912	0.000
Ethical Accountability → Understandability	0.154	9.103	0.000
Ethical Accountability → Comparability	0.180	8.831	0.000
Ethical Accountability → Financial Reporting Quality	0.199	8.717	0.000
Legal Accountability → Relevance and Relatedness	0.250	10.226	0.000
Legal Accountability → Social Trust	0.417	30.766	0.000
Legal Accountability → Good Faith and Integrity	0.255	10.842	0.000
Legal Accountability → Understandability	0.215	10.792	0.000
Legal Accountability → Comparability	0.251	10.843	0.000
Legal Accountability → Financial Reporting Quality	0.278	10.533	0.000
Financial Reporting Quality → Relevance and Relatedness	0.901	67.346	0.000
Financial Reporting Quality → Good Faith and Integrity	0.917	78.080	0.000
Financial Reporting Quality → Understandability	0.773	19.097	0.000
Financial Reporting Quality → Comparability	0.905	62.360	0.000

Based on the results presented in Table 3, the structural relationships among the research variables indicate that the majority of the paths examined in the model are statistically significant. At the level of social trust dimensions, both ethical accountability and legal accountability had positive and significant effects on the various dimensions of financial reporting quality. Improvement of decision-making power also demonstrated positive and significant relationships with the dimensions of financial reporting quality. Overall, these findings indicate that the various dimensions of social trust can contribute to enhancing the quality of reported financial information. At the level of the main construct, the results indicate that social trust has a positive and significant effect on financial reporting quality ($\beta = 0.667$, $t = 10.756$, $p < .001$). Therefore, as social trust increases, financial reporting quality also improves. This result supports the first research hypothesis and indicates that social trust can be considered one of the factors influencing the development and enhancement of financial reporting quality. The results concerning audit firms' internal capabilities also indicate that these capabilities have a positive and significant effect on financial reporting quality ($\beta = 0.449$, $t = 6.181$, $p < .001$). Furthermore, the interaction effect between audit firms' internal capabilities and social trust on financial reporting quality is positive and significant ($\beta = 0.166$, $t = 2.870$, $p < .001$). Therefore, audit firms' internal capabilities play a positive moderating role in the relationship between social trust and financial reporting quality; that is, stronger internal capabilities enhance the positive effect of social trust on financial reporting quality. In contrast, audit firms' external capabilities had a negative and significant direct effect on financial reporting quality ($\beta = -0.214$, $t = 3.953$, $p < .001$). Furthermore, the interaction effect between audit firms'

external capabilities and social trust on financial reporting quality was negative and significant ($\beta = -0.097$, $t = 2.324$, $p < .001$). Thus, unlike internal capabilities, audit firms' external capabilities play a negative moderating role in the relationship between social trust and financial reporting quality. This finding indicates that, within the research model, increases in external capabilities reduce the magnitude of the positive effect of social trust on financial reporting quality. Finally, comparison of the interaction-effect coefficients indicates that audit firms' internal and external capabilities do not play identical roles in the relationship between social trust and financial reporting quality. Internal capabilities, with a positive moderating coefficient of 0.166, strengthen this relationship, whereas external capabilities, with a coefficient of -0.097, weaken it. Accordingly, the principal finding of the model is the difference in the direction and nature of the moderating roles of audit firms' internal and external capabilities in the relationship between social trust and financial reporting quality.

Table 4. Results of the Research Hypotheses

Hypothesis	Path	Coefficient	Result
H1	Social Trust $\rightarrow$ Financial Reporting Quality	0.667	Supported
H2	Social Trust $\times$ Internal Capabilities $\rightarrow$ Financial Reporting Quality	0.166	Supported
H3	Social Trust $\times$ External Capabilities $\rightarrow$ Financial Reporting Quality	-0.097	Supported

Based on the results presented in the table, all three research hypotheses were supported. The results of testing the first hypothesis indicated that social trust has a positive and significant effect on financial reporting quality. The path coefficient for this relationship was 0.667, and the t-statistic was 10.756. Given that the t-statistic exceeded the critical value of 1.96 and the significance level was below .05, this relationship was statistically significant. Therefore, the first research hypothesis is supported. This finding indicates that an increase in social trust within the professional environment can be associated with improved financial reporting quality. The results concerning the second hypothesis indicated that audit firms' internal capabilities play a positive and significant moderating role in the relationship between social trust and financial reporting quality. The interaction-effect coefficient for internal capabilities and social trust was 0.166, and the t-statistic was 2.870, indicating that this effect was statistically significant. Therefore, the second hypothesis is supported. The positive interaction coefficient indicates that, as the level of audit firms' internal capabilities increases, the positive effect of social trust on financial reporting quality becomes stronger. Moreover, the direct effect of internal capabilities on financial reporting quality was also positive and significant ($\beta = 0.449$, $t = 6.181$), highlighting the importance of audit firms' internal capacities in enhancing financial reporting quality. Regarding the third hypothesis, the results indicated that audit firms' external capabilities play a negative and significant moderating role in the relationship between social trust and financial reporting quality. The interaction-effect coefficient for external capabilities and social trust was -0.097, and the t-statistic was 2.324, confirming the statistical significance of this effect. Accordingly, the third hypothesis is also supported. The negative interaction coefficient indicates that, within the framework of the research model, increases in audit firms' external capabilities reduce the magnitude of the positive effect of social trust on financial reporting quality. In addition, external capabilities also had a direct negative and significant relationship with financial reporting quality ($\beta = -0.214$, $t = 3.953$). Overall, the results of hypothesis testing indicate that social trust has a direct positive and significant effect on financial reporting quality; however, the magnitude of this effect is influenced by the type of capabilities possessed by audit firms. Internal capabilities strengthen this relationship through a positive moderating effect, whereas external capabilities weaken it through a negative moderating effect. Therefore, the most important finding of the research model is the significant difference in the direction of the moderating roles played by audit firms' internal and external capabilities.

4. Discussion and Conclusion

The present study examined the effect of social trust on financial reporting quality and investigated whether the internal and external capabilities of audit firms play different moderating roles in this relationship. The findings showed, first, that social trust has a positive and statistically significant effect on financial reporting quality ($\beta = 0.667$, $t = 10.756$, $p < .001$). Second, the internal capabilities of audit firms have a positive direct effect on financial reporting quality ($\beta = 0.449$, $t = 6.181$, $p < .001$) and positively moderate the relationship between social trust and financial reporting quality ($\beta = 0.166$, $t = 2.870$, $p < .001$). Third, the external capabilities of audit firms have a negative direct effect on financial reporting quality ($\beta = -0.214$, $t = 3.953$, $p < .001$) and negatively moderate the relationship between social trust and financial reporting quality ($\beta = -0.097$, $t = 2.324$, $p < .001$). Accordingly, the central contribution of the study lies in demonstrating that audit firm capabilities are not homogeneous in their consequences: internal capabilities reinforce the beneficial effect of social trust on financial reporting quality, whereas external capabilities weaken that effect.

The positive effect of social trust on financial reporting quality is consistent with the broader argument that trust improves the informational environment in which accounting and auditing processes take place. Social trust can facilitate communication, reduce opportunistic behavior, support professional cooperation, and increase the willingness of organizational actors to provide accurate and complete information. In such an environment, preparers, auditors, and other participants in the reporting process may be more likely to comply with professional expectations and exchange information in a timely and transparent manner. This interpretation is consistent with evidence that social trust is associated with stronger demand for audit quality and with organizational decisions to provide audited financial statements [6, 7]. It is also supported by findings showing that societal trust is related to information timeliness, suggesting that trust can contribute to a more efficient and reliable reporting environment [8]. Therefore, the significant positive relationship observed in the present study can be interpreted as evidence that trust acts as an institutional resource that enhances the credibility and usefulness of reported financial information.

This result is also aligned with prior research directly addressing social trust and reporting outcomes. Hojjati reported that social trust is associated with financial reporting quality, while Mohseni et al. examined social trust in conjunction with corporate social responsibility through a structural equation modeling framework [15, 16]. Similarly, research on social capital and accounting information has emphasized that relational and social resources can improve the quality of accounting information by strengthening accountability and information exchange [1]. The current findings extend this line of research by showing that social trust is not merely associated with general organizational behavior, but has a substantial direct relationship with financial reporting quality in a professional auditing context. The relatively large path coefficient of 0.667 also indicates that trust represents a meaningful explanatory factor in the model rather than a marginal contextual characteristic.

The positive effect of social trust can also be understood through its ethical and professional dimensions. Auditing is a profession in which credibility depends heavily on ethical responsibility, independence, integrity, and compliance with professional standards. Social trust may reinforce these qualities by increasing expectations of responsible conduct and by strengthening the perceived social costs of opportunism or misrepresentation. Previous studies have linked social trust to auditors' ethical responsibility, individual values, and professional behavior [10, 11]. Moreover, social trust and moral identity have been examined in relation to the commercialization of the auditing profession, suggesting that the social and ethical environment surrounding auditors can shape how they respond to professional and commercial pressures [12]. The present results are compatible with this

perspective because higher levels of trust may encourage auditors and reporting entities to behave in ways that enhance faithful representation, comparability, and transparency.

The findings regarding the internal capabilities of audit firms are equally important. The positive direct effect of internal capabilities on financial reporting quality suggests that firms possessing stronger internal resources are more capable of producing high-quality assurance outcomes. Internal capabilities can include professional expertise, staff competence, organizational learning, technological infrastructure, internal quality-control procedures, knowledge-sharing routines, and a strong professional culture. These resources can improve the capacity of auditors to identify material misstatements, evaluate complex transactions, process large volumes of information, and maintain professional skepticism. Prior research has emphasized the importance of audit firm culture in shaping audit quality and professional behavior [17]. Research on audit teams has also shown that internal coordination and team arrangements can affect audit-quality-threatening behavior, indicating that the organizational functioning of the audit firm matters for assurance outcomes [18]. Therefore, the positive direct effect found in this study is consistent with the view that stronger internal organizational capability enhances the reliability and quality of financial reporting.

The positive moderating effect of internal capabilities further indicates that social trust produces greater benefits when audit firms have the internal capacity to exploit that trust effectively. Trust alone may facilitate cooperation and information sharing, but without sufficient expertise, systems, and professional resources, the benefits of trust may not be fully converted into better reporting outcomes. When internal capabilities are strong, however, auditors can use more complete information, stronger client communication, and cooperative professional relationships to perform higher-quality analyses and judgments. This interpretation is consistent with technological research showing that artificial intelligence and advanced audit tools can improve accuracy, transparency, anomaly detection, and financial reporting quality when they are appropriately integrated into audit processes [20, 22, 23]. It is also consistent with evidence that auditor experience affects how technological capabilities influence financial reporting quality [25]. Therefore, the moderating effect suggests complementarity between social trust and internal capability: trust provides the relational conditions for effective cooperation, whereas internal capabilities provide the professional and technical means through which that cooperation is translated into higher-quality reporting.

The role of technology offers an especially relevant explanation for this interaction. Contemporary audit firms increasingly depend on artificial intelligence, automated analytical procedures, digital platforms, and advanced information systems. These tools can increase the scope and precision of audit procedures, but their effectiveness depends on the trust professionals place in the underlying systems and on their ability to interpret the results. Sheikh found that users' trust in accounting systems plays an important role in the relationship between artificial intelligence adoption and financial reporting quality [24]. Likewise, research on auditors' attitudes toward artificial intelligence indicates that technological adoption depends on professional acceptance and readiness [21]. This reinforces the present finding that internal capability and trust work jointly rather than independently. Strong internal capabilities create an environment in which trust can be operationalized through effective systems, expertise, and procedures.

In contrast, the negative direct effect of external capabilities on financial reporting quality suggests that external embeddedness may generate costs alongside potential benefits. External capabilities may include relationships with clients, professional networks, business communities, market connections, and access to external resources. Such connections can improve information access and contextual understanding, but they may also increase familiarity, dependence, and susceptibility to client influence. This interpretation is closely aligned with the competence-

independence trade-off identified in research on auditors' connections with members of clients' business communities [26]. External connections can increase auditors' knowledge of the client and its environment, but they may simultaneously weaken professional distance and independence. In this context, the negative direct effect observed in the study may reflect the possibility that extensive external relationships create pressures that offset some of the informational advantages generated by connectivity.

The negative moderating effect of external capabilities provides further evidence of this potential trade-off. The results indicate that as external capabilities increase, the positive effect of social trust on financial reporting quality becomes weaker. One explanation is that high social trust combined with strong external connectedness may lead to excessive familiarity or overreliance on relational assurance. In such circumstances, trust may cease to function primarily as a mechanism for facilitating cooperation and may instead reduce skepticism, monitoring intensity, or professional distance. Related evidence shows that social and linguistic connectedness between auditors and corporate executives can affect audit behavior and potentially facilitate strategic audit decisions [27]. Similarly, spatial and social proximity have been shown to influence audit quality and auditor independence, particularly in smaller and medium-sized entities where personal and professional ties may be especially important [28]. These findings support the view that external relational capability can alter the consequences of trust in ways that are not uniformly beneficial.

This explanation is also consistent with studies of organizational and professional culture. Lam et al. showed that secrecy culture and client importance can influence auditor reporting behavior, highlighting how external client-related pressures may alter professional judgments [19]. Likewise, research on social capital and auditor independence has emphasized that relational capital can have complex consequences for professional autonomy [14]. The current findings therefore suggest that social trust should not automatically be assumed to improve financial reporting under all organizational conditions. Where external capabilities are especially strong, trust may become intertwined with commercial dependence or network-based familiarity, potentially weakening the objectivity required for high-quality assurance.

The distinction between the effects of internal and external capabilities is also supported by the broader capability literature. Cheng et al. demonstrated that enhanced audit firm capabilities can create unintended spillover effects, indicating that stronger capability does not necessarily produce universally favorable outcomes [29]. This is directly relevant to the present study because the findings show that different types of capability lead to different moderation patterns. Internal capabilities strengthened the trust-reporting relationship, whereas external capabilities weakened it. Thus, capability should not be modeled as a single aggregate resource. Instead, researchers should distinguish between capabilities that improve internal competence and those that increase external embeddedness or dependence.

The findings also correspond with prior evidence on differentiated spillover effects in auditing. Lai showed that different categories of non-audit fees may generate different spillover effects on audit report lag [30], while Abdullatif et al. documented that key audit matters can affect audit report lag [31]. Although these studies focus on different outcomes, they support the general proposition that audit-related organizational characteristics and external engagements can produce heterogeneous rather than uniform consequences. The current study extends this reasoning by demonstrating heterogeneous effects in the domain of audit firm capabilities and financial reporting quality.

Another important implication concerns the multidimensional nature of financial reporting quality. The structural model showed positive relationships between social trust and the various dimensions of financial

reporting quality, including understandability, relevance and relatedness, comparability, and good faith and integrity. This pattern implies that social trust is not associated with only one narrow aspect of reporting but is related to the broader qualitative properties of financial information. Previous research has linked social responsibility and social capital to comparability and to the quality of accounting information [1, 3]. In addition, corporate social responsibility disclosure has been connected with audit operations, suggesting that social and reporting mechanisms are intertwined [2]. The current study therefore reinforces the broader idea that high-quality reporting reflects both technical accounting processes and the social and institutional environment in which those processes occur.

Overall, the results contribute to the literature by integrating social trust with a differentiated view of audit firm capability. Previous studies have generally examined social trust, audit firm culture, technology, social capital, auditor independence, and professional connectedness as separate determinants of audit or reporting outcomes. The present study connects these streams by showing that the impact of trust depends on the type of organizational capability surrounding it. Social trust appears to be most beneficial when supported by strong internal capabilities that improve competence, information processing, technological readiness, professional judgment, and quality control. By contrast, when external capabilities are stronger, the beneficial effect of trust may be partially offset by greater relational dependence and reduced professional distance. This dual pattern helps explain why trust may produce different outcomes across audit firms and why a simple assumption that “more trust” or “more capability” necessarily improves financial reporting may be inadequate.

The present study has several limitations that should be considered when interpreting the findings. First, the data were collected through a cross-sectional survey, which restricts the ability to draw strong causal conclusions regarding the direction of the observed relationships. Second, the study relied on self-reported perceptions of audit firm partners, and such responses may be affected by social desirability, professional self-presentation, or common-method bias. Third, the sample was limited to partners of audit firms accredited by the Securities and Exchange Organization, which may reduce the generalizability of the findings to other categories of auditors, internal auditors, non-accredited audit firms, or different institutional settings. Fourth, the constructs of internal and external capabilities were measured at an aggregate level, while each dimension may consist of several distinct sub-capabilities whose individual effects may differ. Finally, financial reporting quality was assessed through perceptual questionnaire measures rather than archival indicators such as discretionary accruals, restatements, reporting timeliness, or enforcement outcomes.

Future studies could extend the present model by using longitudinal or panel designs to examine whether changes in social trust and audit firm capabilities produce subsequent changes in financial reporting quality over time. Researchers could also combine survey data with archival financial reporting measures to reduce reliance on perceptual assessments and provide stronger evidence of behavioral and reporting outcomes. Further studies may disaggregate internal capabilities into dimensions such as technological capability, human capital, audit methodology, knowledge management, organizational culture, and quality-control systems, while external capabilities could be separated into client relationships, professional networks, regulatory relationships, market reputation, and interorganizational alliances. Comparative studies across countries, audit market segments, firm sizes, or regulatory environments may also reveal whether institutional context changes the direction or strength of the identified moderating effects. Finally, future research could investigate additional mediators and moderators, including auditor independence, professional skepticism, organizational commitment, ethical climate, artificial intelligence adoption, client importance, and competitive pressure.

The findings suggest that audit firms should prioritize the development of internal capabilities alongside efforts to strengthen professional trust. Investment in auditor training, technical expertise, advanced analytical systems, artificial intelligence, internal knowledge-sharing mechanisms, and robust quality-control procedures can help ensure that trust is converted into more reliable reporting outcomes. Audit firms should also carefully manage external relationships because extensive network ties and client familiarity may create pressures that weaken professional distance. Policies designed to preserve auditor independence, rotate key engagement personnel where appropriate, monitor client dependence, and strengthen internal review mechanisms may help reduce these risks. Regulators and professional associations can support this process by encouraging capability development while simultaneously reinforcing safeguards related to independence and objectivity. In practice, the most effective approach is therefore not merely to increase social trust or organizational capability independently, but to cultivate trust within an internal governance structure that supports competence, skepticism, accountability, and professional independence.

Authors' Contributions

Authors equally contributed to this article.

Ethical Considerations

All procedures performed in this study were under the ethical standards.

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Conflict of Interest

The authors report no conflict of interest.

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