



The Materiality of Corporate Governance Report Disclosures: Investigating the Perceptions of External Auditors working in Egypt

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The Materiality of Corporate Governance Report Disclosures: Investigating the Perceptions of External Auditors working in Egypt

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Abstract

This study investigates the external auditors working in Egypt perceptions regarding the materiality of the corporate governance report (CGR) disclosures. All external auditors working in Egypt were surveyed to determine whether disclosures are materially important to this group while they are performing their audits. The final sample consists of 247 auditors who work in Big 4 auditing firm, private auditing firms affiliated to foreign auditing firms, private auditing firm not affiliated to foreign auditing firm and governmental auditors. Through hypotheses testing the main findings reveal that all external auditors perceive CGR disclosures as materially important. Moreover, there was significant difference in some of their perceptions, these differences were explained through psychological engagement (i.e., experience, educational level, and work exposure) throughout the analysis. The findings show that respondents consider information related to internal control, governance and compliance to laws and regulations to be significantly material in auditing decision. While information regarding transparency and disclosure were the less important when compared to other sections of the CGR. The current study extends and enriches the ongoing academic and practical debate on the usefulness of narrative disclosures. The study findings suggest that regulators should seek more communications to the current requirements as the results shows that direct knowledge of the auditors made a big difference in their perceptions. The current investigation touched a blind spot in the literature and provided evidence for the materiality level of CGR disclosure in auditing decision, as previous studies investigated how governance report affect the firm value.

Keywords Corporate Governance Report, Materiality, Emerging market, External Auditors, Narrative disclosure.

1. Introduction

This paper examines the materiality level of disclosures provided in Corporate Governance Report (hereafter CGR) for the external auditors working in Egypt when performing their auditing process. CGRs are reported as important complementary document to the financial reports in several studies in the literature (El-Deeb *et al.*, 2021; Gandía, 2008; Salvioni and Bosetti, 2006; Samaha *et al.*, 2012), their value were more strengthen as the role of non-financial information became more integral after corporate scandals (Bremer and Elias, 2007; Desoky and Mousa, 2012; Salvioni and Bosetti, 2006; Samaha *et al.*, 2012). Most of the academic studies that concentrate on CGR disclosure were concerned with how those voluntary disclosures will affect the firm value (Bhasin, 2010; Desoky and Mousa, 2012; El-Deeb *et al.*, 2021; Gandía, 2008; Salvioni and Bosetti, 2006; Samaha *et al.*, 2012).

Recently, on the 25th of December 2018 the Egyptian capital market authority issues a decree that made preparing a separate CGR a requirement for the registration and continuation of licensing in Egypt. Moreover, external, and governmental auditors are required to make a separate audit report on their opinion on the CGR, and no studies were found to study this important change in the Egyptian market. Hence, this plea for more investigation to this blind spot to extend and enrich the literature through concentrating on auditors' perception about CGR materiality in less developed countries (LDCs).

The scarcity of studies surrounding CGR in the Egyptian context, along with the lack of studies that concentrate on the materiality of CGR disclosure to auditors working in Egypt, guided the author to investigate the materiality of the CGR in auditing process.

Having said this, the two central research questions of this study can be formulated as follows: *Do external auditors' personal characteristics and workplace affect their perceptions regarding the materiality of CGR information? Do external auditors perceive all sections of CGR to have the same materiality level in their audit process?*

Hence, the current study surveyed the perceptions of external auditors registered and working in Egypt about the materiality of CGR disclosures in audit process and found that auditors perceive disclosures

in the CGR as important for their decision-making process. Moreover, the study found significant differences among those auditors' perceptions regarding the materiality of CGR sections. These differences were explained through the differences in the personal characteristics (i.e., experience, educational level, direct knowledge of the CGR) and audit firm size and type (Workplace) of the correspondents.

The paper is organized as follows. Section 2 presents the literature related to CGR disclosure materiality, auditors' perceptions psychological impulsion and develop the study hypothesis. Section 3 describes the Egyptian context, laws and regulations related to CGR. Section 4 explains the methodology and methods deployed in conducting the study. Section 5 presents results and discussion. Finally, section 6 presents the concluding remarks and research implication.

2. Literature Review

2.1 The Role of Auditors in Corporate Governance Disclosure

The rise of Corporate Governance (CG) and corporate governance disclosure were connected to the failure of high-profile corporations in the US during late 1990s and early 2000s. These scandals and others happening around the globe triggered a need for new regulations to protect the stakeholders from such failures (Bhasin, 2010). From an agency theory perspective CG emerged to reduce the irresponsible behavior of the management and protect the shareholders capital, as CG should reduce the agency effect/conflict between the controllers (management) and the capital owners (shareholders) (Fooladi and Farhadi, 2011). External Auditors represent an indispensable part of the CG structure and processes as they monitor the quality of the financial information reported by the management to the owners and other stakeholders. Auditors represent the gatekeepers for the financial reporting reliability and quality (Al-Ajmi, 2009).

The amount and quality of the information presented to the owners from the management side represent the existence or inexistence of information asymmetry. When the management make proper disclosures to the stakeholders this will reduce the information asymmetry problem and they will base their decisions on a correct and reliable information (Fooladi and Farhadi, 2011). To that end external auditors role entails

reducing information asymmetry through their independent and objective audit over the disclosed financial information by the management (Al-Ajmi, 2009; Fooladi and Farhadi, 2011). Having said this, audit quality is an integral part of the CG structure and processes and changes in CG codes and procedures directly affect the audit processes as auditors give a good consideration to the CG mechanisms and requirements while planning their audit (Cohen *et al.*, 2002).

Reviewing disclosure types, materiality, and usefulness studies revealed the scarcity of studies that concentrated on the materiality of CGRs (Metwally *et al.*, 2021; Mohamed *et al.*, 2019). Moreover, it revealed that in the last two decades corporate disclosure has changed drastically to satisfy the needs of information users. That is, the traditional financial statements as main source of information had massively changed, and many disclosures are needed (i.e., nonfinancial narrative disclosures). In this regard, there is a growing body of literature that regard narrative disclosure as a proper apparatus for these disclosures (Hüfner, 2007; Metwally *et al.*, 2021; Mohamed *et al.*, 2019). Hüfner (2007) suggested that management reports become important in investment decisions as it complement the financial reports and resolve some of its inherent weakness. Mohamed *et al.* (2019) proposed that management reports represent an integral piece of information in investment decisions for both financial analysts and investors in the Egyptian context. In addition, other studies concentrated on the decline of the usefulness of financial information, while users have a growing interest in non-financial information (Metwally *et al.*, 2021; Orens and Lybaert, 2007; Robb *et al.*, 2001).

Having said this, disclosure literature entails that currently disclosure includes financial and non-financial (narrative) disclosures that are communicated by the company management to the public, these disclosures includes the financial statements and any other voluntary communications like management forecasts, annual general meetings, press releases, information placed on corporate Websites and other corporate reports, such as, stand-alone environmental or social reports (Dawd *et al.*, 2018; El-Deeb *et al.*, 2021; Khalil and Ozkan, 2016; Metwally *et al.*, 2021; Mohamed *et al.*, 2019; Salvioni and Bosetti, 2006). In addition, some studies clarified that disclosures and specially

the voluntary ones (e.g., environmental and CSR) are used in some instances for impression management (Bhasin, 2010; El-Deeb *et al.*, 2021; Salvioni and Bosetti, 2006).

In the Egyptian context, there are economic reforms since early 1990s. These reforms including economic programs, capital market reforms, disclosure and transparency programs through better control and governance (Desoky and Mousa, 2012). Hence, the Egyptian code of CG was issued and amended considering the OECD guidance. Egyptian code of CG was enforced and affected mainly the transparency and disclosures of the firms working in Egypt (Bremer and Elias, 2007; Desoky and Mousa, 2012). The current study main concern is the latest amendment that was issued in 2018. In this amendment the Egyptian capital market authority issues a decree that made preparing a separate CGR a requirement for the registration and continuation of licensing in Egypt. Moreover, external, and governmental auditors are required to make a separate audit report on their opinion on the CGR. Most of the audit firms made a limited audit based on the Egyptian auditing standard 3000 and claimed that most of the information in the report are narrative in nature and no assurance can be guaranteed on many of the items in the report. Based on this change the current study will concentrate on this report and how the auditors see the materiality of the information inside it.

Having said this, the current study contributes to the disclosure, governance, and auditing literature in the Egyptian context. As most of the studies concentrated on the code of CG and how it is implemented, or how the disclosures were affected by the issuance and enforcement of CG code (Bremer and Elias, 2007; Dahawy, 2009; Desoky and Mousa, 2012; Hassan *et al.*, 2006; Samaha and Dahawy, 2010, 2011; Samaha *et al.*, 2012). While no studies were found to discuss these new regulation release.

It is apparent from the above review that there is a clear research gap in the CGR studies. This gap is in the scarcity of studies that concentrate on CGR studies in the Egyptian context. Moreover, the concentration in the literature was on the need for CG, its mechanisms, how governance affect disclosure and transparency and the usefulness to investors and stakeholders, while there is ignorance to the materiality of

CGRs' to external auditors and how their perceptions regarding CGRs may differ due to their personal characteristics and the workplace. To fill this gap the current study, concentrate on studying CGR materiality to external auditors. Next section will concentrate on auditors' perceptions and how it is affected by many factors then develop the study hypothesis.

2.2 External Auditors' Perceptions Regarding Disclosures

Auditing literature includes many studies that concentrated on the auditors' individual characteristics and how it significantly affects their decisions and judgments (Bonner and Lewis, 1990; Cheng *et al.*, 2009; Elder and Allen, 1998; Frederick and Libby, 1986; Libby and Frederick, 1990; Libby and Tan, 1995; Nelson and Tan, 2005; Nelson, 2009; Ye *et al.*, 2014). Based on the behavioral decision theory many studies clarified that performance is determined by an individual's experience, ability, and knowledge (Bonner and Lewis, 1990; Koh *et al.*, 2009; Libby and Frederick, 1990; Libby and Tan, 1995; Ye *et al.*, 2014). Adequacy of Knowledge and skills were connected to audit quality (Bonner and Lewis, 1990; Choo and Trotman, 1991; Frederick and Libby, 1986; Libby and Frederick, 1990; Moradi *et al.*, 2011; Tubbs, 1992). Adequate knowledge and skills are gained through practicing and experience, workshops, formal instructions through regulations and finally through education (Bonner and Lewis, 1990; Libby and Tan, 1995). Having said this, education, direct knowledge and experience directly impact the efficiency and effectiveness of auditors as well as their professional judgment and reduction of the possibility of audit failure (Koh *et al.*, 2009; Libby and Tan, 1995). Accordingly, this study argues that educational level and direct knowledge affect the auditors' perception regarding CG practices and disclosures.

Work and professional Experience were main theme in the auditors' perception and judgement literature (Davis, 1997; Kertarajasa *et al.*, 2019; Moradi *et al.*, 2011; Nehme *et al.*, 2019; Pflugrath *et al.*, 2007; Zahmatkesh and Rezazadeh, 2017). Psychologically, work, and professional experience shape personality, this in return makes the person wiser and more careful in acting. Studies in the literature also connected the auditors' experience with audit quality and those studies showed that work and professional experience has a positive effect on audit quality (Davis, 1997; Kertarajasa *et al.*, 2019; Moradi *et al.*, 2011; Nehme *et al.*,

2019; Pflugrath *et al.*, 2007; Zahmatkesh and Rezazadeh, 2017). Hence, the increase in the experience will increase the auditor's ability to perform better in terms of audit quality and judgement as the number of tasks performed over time will increase and more skills are gained. Moreover, the auditors' perceptions regarding different types of disclosures are expected to differ as not all disclosure have the same complexity and the messages underneath some statements especially in narrative disclosures (Azza, 2021; Choo and Trotman, 1991; Nehme *et al.*, 2019; Yuniati and Banjarnahor, 2019; Zahmatkesh and Rezazadeh, 2017).

In addition to, experience, knowledge and educational level, audit firm size was one of the main themes in the literature. Audit firm size and audit quality was widely studied in the literature and there were contradictory results regarding the relationship between audit firm size and audit quality (Abdallah, 2018; Abid *et al.*, 2018; Al-Ajmi, 2009; Beisland *et al.*, 2018; Dunne *et al.*, 2021; El-Dyasty and Elamer, 2021; Hachicha Elfouzi, 2010; Khurana and Raman, 2004; Plant *et al.*, 2017; Wang and Yang, 2012; Yasar, 2013; Zandi *et al.*, 2019). However, these differences in results were reported most of the studies has reported that Big 4 firms produce better quality audit for many reasons: they have adequate resources when compared to smaller audit firms (DeAngelo, 1981); better control systems (Al-Ajmi, 2009); more independence than smaller firms as there is much at stake if they lost their reputation (DeAngelo, 1981); they charge higher audit fees which allow them to spend more time and effort with each client (Al-Ajmi, 2009; Fuerman, 2004; Goodwin - Stewart and Kent, 2006). In contrast to the main strand some studies reported that Big 4 companies not all the time enforcing and implementing strict controls and produce higher quality and they argued that Big 4 audit firm implement different levels of strictness depending on the country they are located in and how much the country is protecting its investors (Beisland *et al.*, 2018; Francis and Wang, 2008; Khurana and Raman, 2004). Having these extensive studies that connected audit firm size with audit quality this study argues that due to the international exposure of the Big 4 and their resources and differences in training and qualifications it is expected that they will have different perceptions

regarding CGRs from the local and governmental auditors in the Egyptian context.

Based on the above discussion, the following hypothesis have been formulated:

H1 *“There are significant differences among auditor’s perceptions regarding the materiality of the CGR information due to demographic, workplace and actual performance of auditing to such reports”.*

As the personal and functional characteristics include several factors, the main hypothesis can be divided into five sub-hypotheses as follows:

H1.1 *“There are significant differences among auditor’s perceptions regarding the materiality of CGR information due to Educational level”.*

H1.2 *“There are significant differences among auditor’s perceptions regarding the materiality of CGR information due to the experience”.*

H1.3 *“There are significant differences among auditor’s perceptions regarding the materiality of CGR information due to previous exposure and direct work in a big four”.*

H1.4 *“There are significant differences among auditor’s perceptions regarding the materiality of CGR information due to the auditors’ current employment place”.*

H1.5 *“There are significant differences among auditor’s perceptions regarding the materiality of CGR information due to the auditors’ actual performance of auditing to the CGR”.*

3. Contextual Ramifications

The Capital Market in Egypt is one of the oldest established markets in the MENA region and Africa. However, like most of the emerging markets, this capital market is still inefficient and requires lots of enhancements (Allini *et al.*, 2018). Emerging markets like Egypt represent unique settings that has its economic and political volatility (Metwally *et al.*, 2021). This uniqueness requires proper attention and

increased amount of research to understand about the factors affecting those markets as well as the consequences of those changes.

Since early 2000s, Egyptian authorities has made massive regulation changes to reach better control and governance over the market and capital (Bremer and Elias, 2007; Dahawy, 2009; Desoky and Mousa, 2012; Samaha and Dahawy, 2011; Samaha *et al.*, 2012). The most important laws and standards are shown as follows:

- The Law no. 10 of 2009, which established The General Authority of Financial Control for overseeing any information disclosed by companies to affect the stock price (EFSA, 2009).
- Egyptian Standards on Auditing (ESA No. 3400) regarding the auditing of future information. According to this standard the external auditor should audit the forecasted information and provide a report including his/her opinion about the creditability of such information (FRA, 2008).
- In 2014, new rules regarding the necessity of including CGRs were issued by regulators. The new listing rules required more disclosure to satisfy the usefulness of the CGR for decision making (Mohamed *et al.*, 2019).
- The Egyptian Corporate Governance Code, in its third release in August 2016, provide more attention to disclosure and transparency by comprising complete chapter. Disclosure and transparency should include information regarding the expectations for future performance.
- Finally, in 2018 the Egyptian capital market authority issues a decree that made preparing a separate CGR a requirement for the registration and continuation of licensing in Egypt. Moreover, external and governmental auditors are required to make a separate audit report on their opinion on the CGR. Most of the audit firms made a limited audit based on the Egyptian auditing standard 3000 and claimed that most of the information in the report are narrative in nature and no assurance can be guaranteed on many of the items in the report. Based on this change the current study will

concentrate on this report and how the auditors see the materiality of the information inside it.

4. Methodology

4.1 The Sample Composition and Selection

According to the Egyptian Society of Accountants and Auditors (ESAA) the number of registered auditors in Egypt are 2069 members (ESAA, 2021). The study population includes all Auditors registered in the ESAA, hence the number of the study population was 2069. Krejcie and Morgan (1970) had set a table for determining the sample size depending on a given population. Consequently, the sample size was 327 items, A total of 327 questionnaires were distributed using electronic survey, and 259 questionnaires were retrieved, with a response rate of 79.2%, statistical analysis was conducted on 247 questionnaires after excluding incomplete ones. Table (1) below shows a descriptive statistic about the sample composition, and a low degree of convergence between the respondents' educational level, the bachelor represents 52.5 % which forms the largest portion in the qualification category, while holders of Advanced Diploma, M.Sc., and Doctorate, represent together 47.5%. Relating to experience, more than 56.6% of the sample size have experience that ranged from 5 to 20 years. In addition, 69.9% of the sample has not been exposed or worked directly for a BIG Four audit firm. Regarding the current workplace 56.2% of the sample are working currently in a private non-BIG Four auditing firm, 30.4% Governmental auditors (statutory auditor, called accountability state authority (ASA) (El-Dyasty and Elamer, 2021) and finally 13.4% are currently auditors in BIG Four auditing firm. Finally, regarding the actual and direct audit of the CGR 56.6% reported that they have made audit of those reports while the other 43.4% percentage of the sample size reported that they have not made an audit of CGR before.

Table (1): Sample composition

Characteristics	Category	Number	%
<i>Educational level</i>	Bachelor	129	52.2
	Advanced Diploma	32	12.9
	Master Degree	75	30.3
	PhD	11	4.45
<i>Total</i>		247	100%
<i>Years of Experience</i>	Less than 5 Y	41	16.6
	5-20 Y	140	56.6
	20 Y and above	66	26.7
<i>Total</i>		247	100%
<i>Exposure to working in a BIG Four</i>	I have worked in a BIG Four previously	75	30.3
	I have not worked in a BIG Four previously	172	69.6
<i>Total</i>		247	100%
<i>Current workplace</i>	BIG 4	33	13.4
	Private Non-BIG Four	139	56.2
	Governmental auditor	75	30.4
<i>Total</i>		247	100%
<i>CGR actual audit</i>	<i>I have audited the report before</i>	140	56.6
	<i>I have not audited the report before</i>	107	43.4
<i>Total</i>		247	100
<i>Total</i>		247	100%

4.2 Data Collection and Statistical Analysis

The researcher developed a pre-survey containing a list of possible CGR items. The list was selected according to the following criteria: the Egyptian enforced laws and regulations till December 2018 to include all CGR items. Revisions and changes were made to the initial list when the researcher made a review of the EFSA and capital market guidelines for companies on how to prepare the report. Finally, three academic professors and three auditors were contacted to review those items in order to make sure that the selected items are appropriately representing the content of the report. Subsequently, this list was distributed in a pilot survey to 15 of the targeted auditors, who were randomly selected to

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ensure correct presentation of the questions. This process allowed me to reduce the chance that unimportant or ambiguous questions would affect the understandability of the survey.

Number of Statistical analyses were used like descriptive statistics, T. test, Mann–Whitney, and Kruskal–Wallis test. Table (2) below shows various section of the CGR, and the number of mandatory and voluntary items for every section, moreover, the results of reliability and validity test were included.

Table (2): CGR items and reliability analysis

No.	The sections	Total	<i>Alpha coefficient</i>	<i>validity coefficient</i>
1	Information regarding the company and its management including its committees and shareholders rights	8	0.895	0.946
2	Information regarding the company controls including internal control system, internal audit department, compliance and governance	7	0.850	0.922
3	Information regarding transparency and disclosure	3	0.810	0.900
4	Information regarding code of conduct, policies and all operational procedures including Succession Planning and whistleblowing	5	0.886	0.941
Total		23	0.932	0.965

Table (2) above shows the number of the CGR disclosure items are 23. For every section of the CGR, a five-point Likert-scale is adopted, graded from 1, strongly disagree to 5, strongly agree. Hence, to ensure the internal consistency and the reliability of the study tool a Cronbach's Alpha was employed, the results indicate that there is a good internal consistency for all sections and for the overall items of the questionnaire, as the lowest recorded value greater than 80% and the overall Alpha coefficient was 0.932. Relating to the validity, the result refers that the overall validity was 0.965. Hence, reached results indicate an appropriate degree of internal consistency among the used items, and consequently, the questionnaire, logically and statistically, is valid for collecting field study data.

5. Results and Discussions

5.1 Initial indicators

In this part of the study the auditors' perceptions about the materiality of the CGR sections will be discussed and explained. Table 3 below shows the mean and standard deviation for the sample. And the significance of the differences between the overall means of the respondents' opinions about these items on one hand, and the default test value means on the other hand, which equal (3) as the middle of a five-points Likert scale itself equal this value.

The results included in table (3) below present the mean and standard deviation for the sample about the CGR sections and the T. test analysis.

Table (3): The Auditors' perceptions on the materiality of the CGR sections

No.	The CGR Items	Mean	STD.	The default means. (Test Value)	t. value	sig t.
1	Information regarding the company and its management including its committees and shareholders rights	4.353	0.685	3	28.383	0.000***
2	Information regarding the company controls including internal control system, internal audit department, compliance and governance	4.354	0.591		32.963	0.000***
3	Information regarding transparency and disclosure	4.058	0.862		17.645	0.000***
4	Information regarding code of conduct, policies and all operational procedures including Succession Planning and whistleblowing	4.121	0.725		22.235	0.000***

***p<0.001

The above table contains various sections of CGR. The current study wondered if these items are materially important to auditors while they are conducting their auditing procedures. T. test was used to verify if there were significant differences in the perception of the respondents about the importance of these items by measuring the significance of the differences between the overall means of the respondents' opinions, and the default means test value which equal (3) which represent the middle of a five- point Likert scale.

The results included in table (3) show that there are significant differences in the perceptions of respondents for the materiality of the main sections included in the CGR, as the means for all items ranged between (4.058) for transparency and disclosures, and (4.354) for control, compliance, and governance, at the same times all means are more than (3). Also, sig. T. indicates that all differences are significant at level $P < 0.001$. Hence, previous analysis ensure that the mentioned sections are materiality important for auditors.

5.2 Hypotheses Test

In this part of the study, the results of the main hypotheses testing will be presented through sub hypothesis testing as per of the following details:

5.2.1 The first sub-hypothesis:

The first sub-hypothesis states that: *H1.1: There are significant differences among auditor's perceptions regarding the materiality of CGR information due to educational level.* Kruskal–Wallis test was used to verify this sub-hypothesis; the following table shows the results of this test.

Table 4 below shows a descriptive statistics and results of the Kruskal–Wallis Test on the four subsections of the CGR information. Educational level was taken as a basis for this test. From the below table, it can be noted that there were significant differences in the materiality of the disclosure on all the report's four sections between the four groups that represent the educational level. These results ensure the presence of higher materiality of the disclosure on company and management information; and this perception was greater for PhD holders compared

to other groups, as the overall mean of this section was (5). Regarding the materiality of the disclosure on controls, compliance, and governance between the four groups, the results indicate that this importance was greater for PhD holders compared to other groups, as the overall mean of this section was (5). Moreover, the materiality of the disclosure on transparency and disclosures between the four groups, the results indicate that this importance was greater for PhD holders compared to other groups, as the overall mean of this section was (5). Finally, the materiality of the disclosure on code of conduct, policies, and procedures between the four groups, the results indicate that this importance was greater for PhD holders compared to other groups, as the overall mean of this section was (4.8), these results was significant at $P < 0.001$ with confidence equal 99%. Hence, this sub- hypothesis can be accepted for the materiality of all CGR sections due to the educational level.

From reading the mentioned results, it can be argue that there is a consistency with the results of the previous studies in this regard. As Bonner and Lewis (1990); and Libby and Tan (1995) stressed on the importance of education and training and how it affect the auditors' perceptions and judgement. In addition, Goll and Rasheed (2005), added that both level of education and educational background represent important variables that affect the perception regarding narrative disclosures. Moreover, PhD holders were more concerned with the items of the CGR as their intellectual property and critical engagement are higher than other groups which reflect that PhD holders are more

Table (4): The differences of materiality due to educational level

No.	The CGR Items	Bachelor		High Diploma		Master		PhD		Kruskal–Wallis	
		Mean	STD.	Mean	STD.	Mean	STD.	Mean	STD.	Chi-Square	Sig.
1	Information regarding the company and its management including its committees and shareholders rights	4.447	0.663	3.375	0.476	4.517	0.433	5	0	68.148	0.000***
2	Information regarding the company controls including internal control system, internal audit department, compliance, and governance	4.452	0.570	3.428	0.428	4.489	0.229	5	0	74.916	0.000***
3	Information regarding transparency and disclosure	4.277	0.624	3.666	0.733	3.714	1.084	5	0	32.330	0.000***
4	Information regarding code of conduct, policies and all operational procedures including Succession Planning and whistleblowing	4.66	0.869	3.733	0.480	4.285	0.429	4.800	0.001	23.149	0.000***

***p<0.001

comprehensive and holistic in their perspective as the CGR sections includes complex and intertwined information regarding the companies under audit.

5.2.2 The Second Sub-hypothesis:

The second sub-hypothesis states that *H1.2: There are significant differences among auditor’s perceptions regarding the materiality of CGR information due to the experience.* Kruskal–Wallis test was used to verify this hypothesis; the following table shows the results of this test.

Table 5 below shows the test on the four sections of the information included in CGR. The experience was taken as a basis for this test. From the table below, it can be noted that there was a significant difference in the importance and the materiality of the disclosure for three sections of

the report, namely company and management section; transparency and disclosure section; and code of conduct, policies, and procedures section. It worth mentioning that the experience category more than 20 years showed the most perception as the overall mean was (4.541), (4.277), and (4.266) respectively, with level of significance $p < 0.001$. Hence, this sub-hypothesis can be accepted for the materiality of company and management section; transparency and disclosure section; and code of conduct, policies, and procedures section only, but will be rejected for the second section of the CGR, namely Information regarding the company controls including internal control system internal audit department, compliance and governance as this section showed non-significant differences between subgroups.

Table (5): The differences in materiality due to the experience.

No.	The CGR Items	Less than 5 Y		5-20 Y		More than 20 y		Kruskal–Wallis	
		Mean	STD.	Mean	STD.	Mean	STD.	Chi-Square	Sig.
1	Information regarding the company and its management including its committees and shareholders rights	3.500	.931	4.528	0.482	4.541	0.383	34.616	0.000***
2	Information regarding the company controls including internal control system, internal audit department, compliance and governance	4.357	.440	3,318	0.684	4.428	0.440	0.786	0.675 NS
3	Information regarding transparency and disclosure	3.416	.649	4.153	.987	4.277	.359	29.711	0.000***
4	Information regarding code of conduct, policies and all operational procedures including Succession Planning and whistleblowing	3.650	0.720	4.200	.763	4.266	.489	20.841	0.000***

*** $p < 0.001$, NS Means that the differences are not significant

From reading the mentioned results, the researcher can ensure that these results agreed with the results of the previous studies in this regard. As work and professional experience were reported to affect the auditors' perception and judgement literature (Davis, 1997; Kertarajasa *et al.*, 2019; Moradi *et al.*, 2011; Nehme *et al.*, 2019; Pflugrath *et al.*, 2007; Zahmatkesh and Rezazadeh, 2017). It also confirms the claims in the literature that the increase in the experience will increase the auditor's ability to perform deeper judgements regarding complex information like the ones presented in the CGR (Azza, 2021; Choo and Trotman, 1991; Nehme *et al.*, 2019; Yuniati and Banjarnahor, 2019; Zahmatkesh and Rezazadeh, 2017). From the above results the author can infer that more the experience of the auditors makes them more sensitive to more complex issues than other groups. Based on this, it is suggested that HR department should retain those experienced members and to be cautious of losing them. Finally, it can be noted that information regarding control system, governance and compliance were materially important to all correspondents regardless of their experience and this is due to that every auditor must test the internal control system before commencing their audit.

5.2.3 The Third Sub-hypothesis:

The third sub-hypothesis states that *H1.3: There are significant differences among auditor's perceptions regarding the materiality of CGR information due to previous exposure and direct work in a big four.* Mann–Whitney (U. test) test was used to verify this hypothesis; table (6) below shows the results of this test. It presents descriptive statistics and results of U. Test on the four subsections of information included in the CGR. The results reveal that there is a significant difference between auditors who worked previously for a Big Four audit company and who have not been espoused to the Big Four environment for the materiality of section three and four of the report namely transparency and disclosure section, and code of conduct, policies, and procedures section.

Furthermore, Information regarding the company controls including internal control system, internal audit department, compliance and governance section gets the top ranking from both groups with a mean equal (4.546) for who previously worked for Big Four and (4.657) for who did not work for any Big Four, thus it considered that this section is perceived to be very materially important for them with its Z-score

mentioned that there is no significance differences between the two groups about mentioned section. Hence, this sub-hypothesis can be accepted for the materiality of transparency and disclosure section, and code of conduct, policies, and procedures section only, but will be rejected for the remaining sections of CGR.

Table (6): The differences in materiality due to exposure or direct work in BIG Four

No.	The CGR Items	I have worked in a BIG Four previously		I have not worked for a BIG Four previously		Mann–Whitney test	
		Mean	STD.	Mean	STD.	Z. Value	Sig. z
1	Information regarding the company and its management including its committees and shareholders rights	4.228	0.461	4.320	0.762	-0.206	0.864 NS
2	Information regarding the company controls including internal control system, internal audit department, compliance and governance	4.546	0.605	4.657	0.586	-0.207	0.612 NS
3	Information regarding transparency and disclosure	3.476	0.895	4.312	0.714	-6.679	0.000 ***
4	Information regarding code of conduct, policies and all operational procedures including Succession Planning and whistleblowing	3.971	0.641	4.185	0.725	-2.602	0.009 **

***p<0.001 **p<0.01 NS Means that the differences are not significant

From reading the previous results, it can be argued that there is partial consistency with the results of some studies in this regard. As they agree with results reached that Big 4 companies are different in their efficiency and effectiveness due to their international exposure and trainings (Beisland *et al.*, 2018; DeAngelo, 1981; Francis and Wang, 2008). Hence, the international exposure of the Big 4 and their resources and differences in training and qualifications made a difference in perceptions regarding transparency and code of conduct as the auditors who has not been exposed to the Big 4 culture and experience gave more importance to those items. Having said this, it can be suggested that workshops and training to the auditors who were not exposed to Big 4

environment is needed as they exaggerated the materiality of some information in the CGR while those items can be confirmed while making the regular audit of the annual reports.

5.2.4 The Fourth Sub-hypothesis:

The fourth sub-hypothesis states that *H1.4: There are significant differences among auditor's perceptions regarding the materiality of CGR information due to the auditors' current employment place.* Kruskal–Wallis test was used to verify this hypothesis; the following table shows the results of this test.

Table 7 below shows a descriptive statistics and results of the Kruskal–Wallis Test on the four subsections of the CGR information. Current workplace was taken as a basis for this test. From the below table, it can be noted that there were significant differences in the materiality of the disclosure on all the report's four sections between the three groups that represent the current workplace. These results ensure the presence of higher materiality of the disclosure on company and management information; and this perception was greater for governmental auditors compared to other groups, as the overall mean of this section was (4.5). Regarding the materiality of the disclosure on controls, compliance, and governance between the three groups, the results indicate that this importance was greater for Big Four auditors compared to other groups, as the overall mean of this section was (4.904). Moreover, the materiality of the disclosure on transparency and disclosures between the four groups, the results indicate that this importance was greater for governmental auditors compared to other groups, as the overall mean of this section was (4.285). Regarding, the materiality of the disclosure on code of conduct, policies and procedures between the three groups, the results indicate that this importance was greater for Big Four auditors compared to other groups, as the overall mean of this section was (4.400). Finally, the results also showed that the information regarding transparency and disclosure showed the least materiality to the Big 4 audit firms in all results of the study as the overall mean of this section was (2.777) while it was crucially important to the governmental auditors as the overall mean of this section was (4.285) this result will be discussed in greater details in practical implications of this study, the reached results were significant at $P < 0.001$ with confidence equal 99%. *Hence, this sub- hypothesis can be accepted for the materiality of all CGR sections.*

Table (7): The differences in materiality due to the current workplace

No.	The CGR Items	BIG Four		Private non-BIG Four		Governmental Auditor		Kruskal–Wallis	
		Mean	STD.	Mean	STD.	Mean	STD.	Chi-Square	Sig.
1	Information regarding the company and its management including its committees and shareholders rights	4.124	.360	4.326	0.818	4.5	0.456	15.680	0.000***
2	Information regarding the company controls including internal control system, internal audit department, compliance and governance	4.904	.654	4.560	0.479	4.163	0.588	38.873	0.000***
3	Information regarding transparency and disclosure	2.777	.974	4.230	.758	4.285	.418	43.072	0.000***
4	Information regarding code of conduct, policies and all operational procedures including Succession Planning and whistleblowing	4.400	0.600	4.292	.733	4.114	.558	38.804	0.000***

***p<0.001

From reading the mentioned results, we can it is observed that these results agreed with the results of the previous studies in this regard. As the Big 4 audit firms were different in their perceptions in all sections due to their size, training, international exposures, and resources than non-Big 4 auditors (Abid *et al.*, 2018; Dunne *et al.*, 2021; Francis and Wang, 2008; Yasar, 2013; Zandi *et al.*, 2019). Moreover, it is clear from the above results that governmental auditors were more concentrating on issues relating to compliance with laws like concentration of ownership, shareholders rights, and disclosure and transparency information while the Big 4 companies concentrated more on the internal control system and code of conduct sections and that non-Big 4 showed the least materiality level to all sections. Hence, more cautious should be taken in consideration when hiring a non-Big 4 auditor as they give the least materiality level to all sections of the CGR when compared to other groups.

5.2.5 The Fifth Sub-hypothesis:

The fifth sub-hypothesis states that *H1.5 There are significant differences among external auditor's perceptions regarding the materiality of CGR information due to the auditors' actual performance of auditing to the CGR.* Mann–Whitney (U. test) test was used to verify this hypothesis; table (8) below shows the results of this test. It presents descriptive statistics and results of U. Test on the four subsections of information included in the CGR. The results reveal that there is a significant difference between the two groups for the materiality of the first two section of the report namely company and management section, and controls, compliance, and governance section. Those two sections were with a greater materiality level for auditors who made an audit of CGR with scores of (4.596) with a level of significance $p < 0.001$, and (4.417) with a level of significance of $p < 0.1$ respectively. *Hence, this sub-hypothesis can be accepted for the materiality of the first two section of the report namely company and management section, and controls, compliance, and governance section only, but will be rejected for the remaining sections of CGR.*

Table (8): The differences in materiality due to direct knowledge and auditing of the report

No.	The CGR items	I have audited the report before		I have not audited the report before		Mann–Whitney test	
		Mean	STD.	Mean	STD.	Z. Value	Sig. z
1	Information regarding the company and its management including its committees and shareholders rights	4.596	0.429	4.037	0.818	-5.352	0.000* **
2	Information regarding the company controls including internal control system, internal audit department, compliance and governance	4.417	0.552	4.271	0.630	-1.926	0.054 *
3	Information regarding transparency and disclosure	4.051	0.917	4.066	0.790	-0.484	0.628 NS
4	Information regarding code of conduct, policies and all operational procedures including Succession Planning and whistleblowing	4.169	0.639	4.060	0.824	-0.580	0.562 NS

***p<0.001 *p<0.1 NS Means that the differences are not significant

From reading the previous results, it can be argued that there is partial consistency with the results of some studies in this regard. As they agree with results reached by many studies that auditors direct knowledge affect directly the auditors' perceptions and judgements (Bonner and Lewis, 1990; Koh *et al.*, 2009; Libby and Frederick, 1990; Libby and Tan, 1995; Moradi *et al.*, 2011; Soltani and Nassirzadeh, 2018; Ye *et al.*, 2014). Hence, it can be argued that regulators should make more workshops to increase the awareness of auditors working in Egypt regarding the CGR and what are information included inside it and why they are needed.

6. Conclusion & Implications

The aim of this study was to investigate the materiality of CGR's disclosures for auditors working in Egypt. Through surveying all the auditors register and working in Egypt, hypothesis testing revealed that CGR is perceived as materially important source of information, and that information on internal control, governance and compliance to laws and regulations to be significantly material in auditing decision. While Information regarding transparency and disclosure was the less important when compared to other sections of the CGR. Moreover, significant differences between the materiality levels were found between correspondents due to the workplace, and individual factors (e.g., educational level, experience, and direct knowledge).

From those results it can be concluded that PhD holders were more concerned with the complex items in the report which reflect that PhD holders are more comprehensive and holistic in their perspective. Moreover, experience was found to influence auditors' perceptions as more experienced managers were more sensitive to more complex issues than other groups in all sections of the CGR. Finally, Big 4 auditors and governmental auditors were found to be more conservative than non-Big 4 auditors working in Egypt as they gave greater materiality to the CGR sections. This implies that the regulators in Egypt should make extra training, and socialization to those auditors.

The current study contributes to the literature and practice in two main aspects. Firstly, the study adds a new insight to CGR disclosure studies namely concentrating on auditors' perceptions regarding to the materiality of CGRs. Early research focused on the usefulness of CGR from investors perspective in their investment decision only and how those voluntary disclosures will affect the firm value (Bhasin, 2010; Desoky and Mousa, 2012; El-Deeb *et al.*, 2021; Gandía, 2008; Salvioni and Bosetti, 2006; Samaha *et al.*, 2012). Secondly, concentration on the psychological counterpart of auditing process bring a new dimension of understanding auditors' perceptions as the present results clarified how demographic factors represent an important variable in changing the auditors' perceptions regarding narrative disclosures presented in the CGRs (Abdallah, 2018; Abid *et al.*, 2018; Bonner and Lewis, 1990; DeAngelo, 1981; El-Dyasty and Elamer, 2021; Frederick and Libby,

1986; Gaballa and Ning, 2011; Libby and Frederick, 1990; Libby and Tan, 1995; Moradi *et al.*, 2011; Wang and Yang, 2012; Yasar, 2013; Ye *et al.*, 2014; Zandi *et al.*, 2019).

In an attempt to enrich our understanding the current study suggests some practical and theoretical implications. These implications relate to the need for a thorough review of the current Egyptian disclosure regulations communication to satisfy the auditors' needs. As the study results suggests that non-Big 4 private auditors perceive all the disclosures in the CGR to be less materially important when compared with Big 4 and governmental auditors. This entails that the current CGR disclosure communications are not sufficient to satisfy all auditors needs and from this the author recommend that the Egyptian Society of Accountants and Auditors (ESAA) should make more workshops and knowledge sharing between auditors regarding CGRs as direct knowledge of the report shown significant differences in perceptions. In addition, as the CGR became compulsory in Egypt, having all auditors working in Egypt with almost the same materiality level should lead to more efficient and consistent review over those reports.

Finally, audit firms' HR managers and corporations that need a review over their CGRs should consider the educational background and level of education as important factors in their hiring process of auditors as those factors were found to have a significant effect on the auditors' perceptions of the narrative information provided in the CGRs. In addition, audit firm' HR departments should try to sustain experienced auditors as the current study results suggest that they were more sensitive to perceive the complex information as more useful in the auditing decision.

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**الأهمية النسبية للإفصاح الوارد بتقرير حوكمة الشركات:
فحص ادراكات مراجعي الحسابات العاملين بمصر**

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ملخص البحث

تبحث هذه الدراسة مدى إدراك مراجعي الحسابات العاملين في مصر للأهمية النسبية للإفصاح عن المعلومات الواردة بتقرير حوكمة الشركات والتي تقدمه الشركات لأصحاب المصالح. وقد تم استقصاء جميع مراجعي الحسابات العاملين في مصر لتحديد ما إذا كانت المعلومات الواردة بتقرير حوكمة الشركات مهمة بشكل جوهري لهذه الفئة أثناء قيامهم بإجراء عمليات المراجعة. وقد تمثلت عينة الدراسة النهائية من ٢٤٧ مراجع حسابات سواء كانوا يعملون في مكتب مراجعة من الأربع الكبرى او مكاتب مراجعة خاصة، او مراجعين حكوميين. ومن خلال اختبارات فروض الدراسة، أظهرت النتائج الرئيسية أن جميع مراجعي الحسابات يدركون الأهمية النسبية للإفصاحات الواردة بتقرير حوكمة الشركات. كما اشارت النتائج الي وجود اختلافات جوهريه حول إدراك مراجعي الحسابات للأهمية النسبية لبعض هذه المعلومات، وتعزى هذه الاختلافات الي بعض العوامل السيكولوجية والخصائص الفردية لمراجعي الحسابات مثل الخبرة، والمستوى التعليمي، وخلفية التعرض للعمل بمكاتب مراجعة من الاربع الكبار وكذا الي المعرفة المباشرة بعناصر تقرير الحوكمة والقيام بمراجعتة من عدمه.

وقد أظهرت النتائج أيضا أن بعض بنود تقرير حوكمة الشركات أكثر اهمية في قرارات مراجعي الحسابات عن غيرها، حيث إن مراجعي الحسابات يعتبرون المعلومات المتعلقة بالرقابة الداخلية والحوكمة والامتثال للقوانين واللوائح مهمة بشكل كبير في قرارات المراجعة. في حين أن المعلومات المتعلقة بالشفافية والإفصاح كانت أقل أهمية عند مقارنتها بأقسام أخرى من تقرير حوكمة الشركات. وتسهم الدراسة الحالية في توسيع وإثراء البحوث الأكاديمية والتطبيقية في مجال الإفصاح السردى. وقد أظهرت النتائج وجود فجوة بين واضعي قواعد الإفصاح ومراجعي الحسابات، وقد نوقشت هذه النتائج وتم استجلاء دالاتها النظرية والتطبيقية. وتوصي الدراسة بعمل حلقات نقاش ومزيد من التواصل مع مراجعي الحسابات حول هذه المتطلبات حيث تظهر النتائج أن المعرفة المباشرة لمراجعي الحسابات أحدثت فرقًا كبيرًا في ادراكهم لأهمية المعلومات. حيث تعد هذه الدراسة هي الاولى في هذا الصدد.

الكلمات المفتاحية: تقرير حوكمة الشركات، الأهمية النسبية، الأسواق الناشئة، مراجعي الحسابات، الإفصاح السردى.