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Financial Reporting Quality's Moderating Effects on The Relationship Between External Auditing Practices and Firm Performance During a Decline in Covid-19

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Abstract

This research article explores the moderating role of financial reporting quality in the relationship between external auditing practices and firm performance during a decline in the COVID-19 pandemic. Using 212 questionnaire responses from small to medium manufacturing companies situated in industrious locations in Erbil, Erbil Industrial Zone, Erbil Free Zone, Sheikh Choly Industrial Area, and Qushtapa Industrial Area of Kurdistan, a structural equation model was estimated. The study findings are threefold and have advanced empirical ideas by highlighting that (1) the adoption of external practices has a significant effect on financial reporting quality and an insignificant positive effect on firm performance, (2) the adoption of financial reporting quality has a significant positive effect on firm performance and (3) financial reporting quality has a moderating effect on the relationship between external auditing practices and firm performance during a decline in Covid-19. The findings contribute to the advancement of the Principal-Agent Theory by providing empirical evidence on how external auditing practices influence financial reporting quality, aligning with the expectations of agency theory. It enriches the

theoretical understanding of how monitoring mechanisms impact the agent's behavior in the principal-agent relationship. To enhance firm performance, the findings suggest that it is important for firms to recognize the link between financial reporting quality and firm performance and allocate resources and efforts to improve reporting practices accordingly.

Keywords: External Auditing Practices, Financial Reporting Quality, Firm Performance, Covid-19, Moderating.

1. Introduction

Financial reporting quality plays a pivotal role in ensuring the transparency, reliability, and accuracy of financial information disclosed by companies. The quality of financial reporting is not only a key determinant of a firm's credibility in the eyes of stakeholders but also influences its overall performance. In the realm of corporate governance and accountability, external auditing practices are fundamental in providing an independent assessment of a company's financial statements. This research delves into the intricate dynamics between external auditing practices, financial reporting quality, and firm performance. Covid-19 is undoubtedly one of the most catastrophic structural events that affected businesses worldwide. To highlight the adverse impact of the pandemic on businesses, effects such as a decline in productivity (Bloom et al., 2020), employee morale and motivation (Mani & Mishra, 2020), sales and profitability (Alsamhi et al., 2022) are connected to the pandemic. Other studies highlight that some companies under-scaled production while others closed operations (Pijpers & Luning, 2021). With the enactment of various measures, the pandemic slowed down and since then companies have been heading a recovery path. Among the enacted measures, the adoption of effective external auditing practices has not been given due consideration.

Meanwhile, studies supporting the adoption of external auditing practices, especially at a time when the pandemic has declined are limited. Hence, the study contributes to the existing literature by enhancing information and understanding about how companies can utilise external auditing practices to enhance their financial performance resilience and growth. The importance of such initiatives cannot be underestimated, especially when analysed within the context of manufacturing companies in Kurdistan. With the pandemic having crippled production and restricted both operational capacity (Pijpers & Luning, 2021) and firm performance (Alsamhi et al., 2022), manufacturing companies in Kurdistan were not spared from such adverse effects. These challenges were further compounded by financial quality reporting challenges, which most studies contend as restricting firm performance (Adams & Abhayawansa, 2022; Albitar et al., 2020). Hence, this supports the current study's attempt to examine financial reporting quality's moderating effects in the relationship between external auditing practices and firm performance during a decline in Covid-19.

Financial reporting quality serves an important role in ensuring that firms can make rational decisions that enhance efficiency in the allocation and use of resources leading to a reduction in costs and an increase in revenue inflow. Besides, Simpson, Aboagye-Otchere and Lovi (2016) opine that high-quality financial reporting enhances transparency and credibility, providing stakeholders and other investors with reliable information for decision-making. During the decline in COVID-19, firms with high-quality financial reporting are better equipped to communicate their financial position, cash flows, and operational performance accurately. This can lead to increased investor confidence, improved access to capital, and potentially better firm performance. Meanwhile, effective external auditing practices contribute to improved firm performance during the decline in COVID-19 by assuring the accuracy and reliability of financial information. External auditors aid in identifying internal controls' weaknesses, potential risks and areas for improvement. This enhances operational efficiency and reduces financial mismanagement. Consequently, this improves risk management and decision-making, which positively impacts firm performance. Nonetheless, the major problem is there is no integrative model that analyses the combined interactive effects of financial reporting quality and external auditing practices on firm performance during a decline in Covid-19. Additionally, no study has yet analysed financial reporting quality's moderating effects on the relationship between external auditing practices and firm performance, especially within the context of Kurdistan's manufacturing companies. Given such discoveries, the study aims to examine financial reporting quality's moderating effects on the relationship between external auditing practices and firm performance. The study's secondary objectives are as follows;

1) To examine the effect of external auditing practices on financial reporting quality during a decline in COVID-19.
2) To investigate the moderating effect of financial reporting quality in the relationship between external auditing practices and firm performance during a decline in COVID-19.
3) To provide insights into the implications of effective external auditing practices and financial reporting quality for firm performance during

The findings may encourage organizations to explore alternative assurance mechanisms or practices beyond external auditing to improve firm performance. The practical implication is that firms need to recognize the link between financial reporting quality and firm performance and allocate resources and efforts to improve reporting practices accordingly. The study confirms financial reporting quality's moderating effects on the relationship between external auditing practices and firm performance during a decline in COVID-19. Such findings have not been established in prior examinations and this, therefore, enhances the current study's contributions to existing literature, especially in the context of Kurdistan's manufacturing companies.

2. Literature review

2.1 Theoretical framework

The principal-agent theory is commonly used in analyzing various relationships within organizations, including the relationship between shareholders (principals) and managers (agents). In the context of financial reporting quality, external auditing practices, and firm performance, the principal-agent theory can provide a valuable framework for understanding the dynamics at play. The reasons are provided as follows:

Given the misalignment of interests between agents (managers) and principals (shareholders), Nwajei, Bølviken and Hellström (2022) hold that the principal-agent theory aids in examining how such interests can be aligned or misaligned. Hence, managers are delegated by shareholders with authority to make decisions including adopting financial reporting practices. Thus, through the principal-agent relationship, the study intends to evaluate how external auditing practices impact financial reporting quality and subsequently influence firm performance. Furthermore, the theory highlights the need for mechanisms to mitigate potential conflicts of interest between principals and agents (Nwajei, Bølviken & Hellström, 2022).

Financial reporting quality plays a crucial role in reducing information asymmetry between shareholders and managers. According to Bernhold and Wiesweg (2021), the principal-agent theory reckons the existence of information asymmetry. Shareholders rely on accurate and reliable financial information to make informed decisions. External auditing practices contribute to enhancing financial reporting quality by providing an independent assessment of the company's financial statements. By applying the principal-agent theory, we can analyze how external auditing practices influence the information flow between principals and agents and how this, in turn, affects firm performance.

The principal-agent theory is cognizant of agency costs, or the expenses incurred in resolving conflicts of interest between principals and agents (Amin et al., 2022). Poor reporting procedures or insufficient external audits can have an agency cost in the form of managers acting opportunistically, diminished shareholder confidence, and possibly negative consequences on corporate performance. Hence, the study enhances understanding of how external auditing procedures can reduce agency expenses and improve firm performance by examining the moderating function of financial reporting quality.

As noted by Jerrim and Sims (2021), the principal-agent theory demonstrates the need for efficient accountability and monitoring strategies matching the principals' and agents' interests. In that regard, external auditing acts as a vital monitoring procedure by offering an independent assessment of a company's financial statements. Therefore, external auditing aids in ensuring that managers are accountable for their actions and that shareholders receive trustworthy financial information. It is possible to gain insight into how external auditing techniques improve accountability and monitoring, which in turn affects business performance, through investigating the moderating function of financial reporting quality.

2.2 Related Studies and Hypotheses Development

Dobija (2015) provided oversights of financial reporting and external auditors in Poland. The results of the study indicate the existence of positive links between financial reporting and external auditing. The study's findings also shed light on how difficult and contradictory it can be to address governance issues in a setting with a lot of concentrated ownership. However, in this setting, the connecting threads between financial reporting, external auditors, and others were disregarded. The current study expands on these ideas to create an integrative SEM model that accounts for these structural relationships.

Meanwhile, the interaction connections linking external auditing practices with financial reporting are well documented in academic studies. For instance, Gras, Marín-Hernández and Lema (2012) outlined that greater involvement in audit reviewing financial reporting leads to improved financial quality reporting. Ewert and Wagenhofer (2019) uncovered that the scope of auditing relative to enforcement is to improve audit and Azizkhani (2020) unearthed that attempts to increase auditors' to issue unmodified audit opinions demand higher financial quality reporting and accounting comparability. Similarly, financial reporting quality's positive effects on firm performance have also accumulated a relatively similar coverage in academic studies. For instance, Al-Dmour, Abbod and Qadi (2018) disclosed that the components of the quality of financial reporting significantly influence non-financial business performance. Rathnayake et al. (2021) found positive effects spanning from financial reporting quality to firm performance

Alsmady (2022) conducted a study on the quality of financial reporting, external audit, and earnings power and companies' performance in Gulf Corporate Council Countries. The results of the study indicate that financial reporting quality, audit quality and earnings power positively affect the companies' performance. According to the agency theory, good financial reporting and auditing practices strengthen the accuracy of financial accounts and lessen information asymmetry. This bolsters the study's claims. Since this study is the first of its kind, there are nascent ideas about financial reporting quality's moderating effects on the relationship between external auditing practices and firm performance during a decline in Covid-19. Hence, hypotheses were proposed in this section with the aim of testing and validating them in the context of manufacturing companies in Kurdistan.

2.2.1 External Auditing Practices and Financial Reporting Quality

Given that external auditors provide an objective assessment and independent assurance of the company's financial results (Simpson, Aboagye-Otchere & Lovi, 2016), the credibility and reliability of such results tend to be high. Hence, at this stage, the study commences to argue that there is a positive interaction between external auditing practices and financial reporting quality. Furthermore, Breger, Edmonds and Ortegren (2020) outline that external auditing practices are essential for enhancing compliance with standards. Hence, improvements in financial reporting quality tend to garner much credence when compliance with standards such as the International Financial Reporting Standards (IFRS) and the Generally Accepted Accounting Principles (GAAP) are encouraged. Adding improvements concerning the detection of errors and fraud as well as improvements in internal control evaluation effects of external auditing (Alam, Mohammed & Khan, 2021), tends to boost financial reporting quality. Amid such observations, the following hypothesis was proposed:

- **Hypothesis 1:** The adoption of external auditing practices has a significant positive effect on financial reporting quality.

2.2.2 External Auditing Practices and Firm Performance

Foremost, by enhancing financial reporting quality the adoption of external auditing practices can boost firm performance. This is because the adoption of external auditing practices contributes to the reliability and accuracy of financial statements (Alam, Mohammed & Khan, 2021). As a result, managers and shareholders can make rational decisions that maximise the firm's performance. Other benefits such as building investor confidence, mitigating agency costs, facilitating regulatory compliance and strengthening governance and control systems are conceivable leading to improved firm performance (Kesimli, Kesimli, & Achauer, 2019). Hence, propositions were made that the adoption of external auditing practices has a significant positive impact on firm performance. Therefore, the following hypothesis was proposed:

- **Hypothesis 2:** The adoption of external auditing practices has a significant positive effect on firm performance.

2.2.3 Financial Reporting Quality as a Moderator

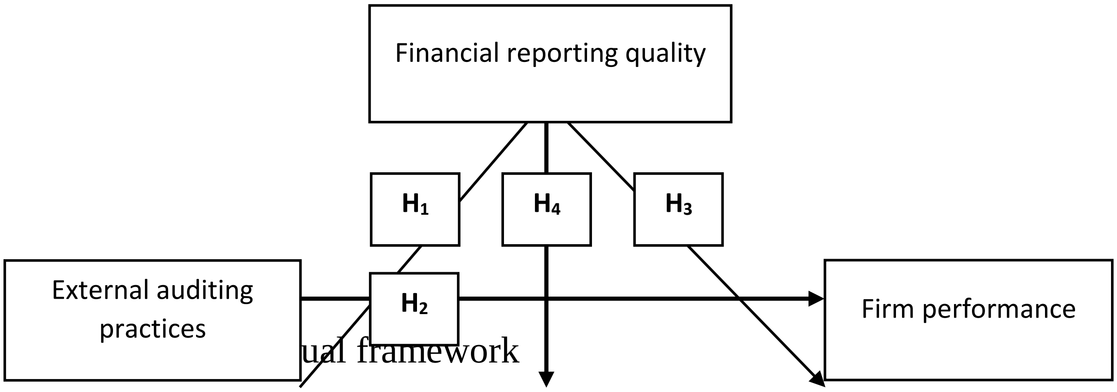
Bearing in mind that rational decisions can be made from high-quality financial information (Alam, Mohammed & Khan, 2021), the study upholds the existence of a positive interaction between financial reporting quality and firm performance. Furthermore, with the effective utilisation of resources and the controlling of costs (Manita et al., 2020), improvements in firm performance are highly achievable. Hence, the following hypothesis was proposed:

- **Hypothesis 3:** Financial reporting quality has a significant positive effect on firm performance.

One of the study's novelty is linked to attempts to test financial reporting quality's moderating effect on the relationship between external auditing practices and firm performance. Such propositions were yet to be tested. In argument, the study contends that financial reporting quality has a positive moderating effect on the relationship between external auditing practices and firm performance. As a result, this study intends to test the validity of such propositions by formulating the following hypotheses;

- **Hypothesis 4:** Financial reporting quality has a positive moderating effect on the relationship between external auditing practices and firm performance.

A conceptual framework provided in Figure 1 was developed to illustrate the connections linking the variables. Hence, an arrow emanating from external auditing to financial reporting quality represents external auditing practices' effects on financial reporting quality as denoted by hypothesis 1. Hypothesis 2 denotes external auditing practices' effects on firm performance, while hypothesis 3 represents financial reporting quality's effects on firm performance. The moderating effect of financial reporting quality on the relationship between external auditing practices and firm performance is represented by hypothesis 4.



ual framework

3. Research methodology

Studies on financial reporting quality, external auditing practices and firm performance are barely applied in the context of Kurdistan's manufacturing companies. This empirical void garners much weight when examinations during a decline in COVID-19 are brought into perspective. As such, evidence is highly restricted to countries like Jordan (Qawqzeh et al., 2019), Turkey (Suadiye, 2019) and the USA (Calvin & Holt, 2023). Furthermore, Furthermore, related studies sidelined the vitality of SEM as evidenced by the application of descriptive analysis (Alsmady, 2022), regression analysis (Calvin & Holt, 2023) and interviews (Dobija, 2015).

3.1 Method

The study applies a quantitative approach, which by definition involves numerical analysis where data is collected, classified and then computed for specific findings using a set of statistical methods applied to attain the stated study objective (Allwood, 2012). Following the distribution of questionnaires, their collection and the coding, a Structural Equation Modelling (SEM) approach was applied. It is from the related results that hypotheses were tested and research questions answered.

3.2 Population and sampling procedures

The study acknowledged that different cities may experience varying degrees of economic impact during a crisis. Thus, studying SMEs across different cities allowed for an examination of regional economic variances and their influence on financial reporting quality and auditing practices. In that regard, studying SMEs and considering their geographical locations provides a holistic perspective on the intricate relationship between financial reporting quality, external auditing practices, and firm performance during a decline in COVID-19. As a result, being industrious locations in Erbil, Erbil Industrial Zone, Erbil Free Zone, Sheikh Choly Industrial Area, and Qushtapa Industrial Area were of vital importance to the achievement of the study's goals. These advantages contribute to a more comprehensive understanding of the challenges and opportunities faced by smaller enterprises in diverse economic and regional contexts. The names of the companies were withheld for confidentiality reasons and this aligns with ethical research practices concerning the notion of data privacy and confidentiality (Patten, 2016).

The study population comprised key decision-makers within small to medium manufacturing companies like finance managers, CFOs, CEOs and auditors. This is because these study participants can provide valuable insights into the company's financial reporting practices, external auditing's effect on firm performance. Financial analysts specializing in financial analysis were also included as part of the study so that they could provide expert opinions on the effect of financial reporting quality on firm performance. Additionally, their inclusion in the study also helped to provide insights into the importance of reliable financial statements during economic downturns. For each company, junior and senior finance managers, CFOs, CEOs, auditors and financial analysts were taken as part of the study population. Thus, out of the selected convenience sample of 50 manufacturing companies with external auditing and financial reporting practices, the total population comprised 500 participants. To determine the sample size, the following formula was applied;

$$n= \frac{Population}{1+population\ (margin\ of\ error)^2} \qquad (1)$$

Where e = 0.05 margin of error. These values were inputted into expression (1) resulting in a total of 222.22. Therefore, 223 questionnaires were distributed to a cluster sample of manufacturing companies in Erbil, Kurdistan.

3.3 Data collection

A questionnaire was used in collecting data on external auditing practices, external auditing practices and firm performance during a decline in Covid-19. Related ideas and instruments available in previous studies were used in developing external auditing practices and financial reporting quality measures (Azzam et al., 2020). The balanced scorecard developed by (Hegazy, Hegazy & Eldeeb, 2022) was used in developing the firm performance variables. Both external auditing practices, external auditing practices and firm performance constructs comprised 12 items each that were measured using a 5-point Likert scale with values ranging from 1 (strongly disagree) to 5 (strongly agree).

Before distributing the questionnaires, a focus group of 1 auditor, 1 financial analyst and 1 CEO was used to evaluate the validity of the developed questionnaire. Subsequently, the questionnaires were distributed to the participants upon satisfactory responses and a few minor improvements. The questionnaire distribution and collection exercise was conducted 13th of March to the 22nd of April 2023.

3.4 Data analysis procedures

As a part of the data analysis procedures, an SEM approach was applied. By definition, SEM is a multivariate statistical analysis technique that is used to analyze structural relationships between observed and latent variables (Ringle et al., 2020). In defence of applying an SEM approach, Ringle et al. (2020) argue that SEM is essential for analysing mediating and moderating effects. Meanwhile, the collected data were recorded in Excel and coded using the Smart PLS program for further examination. Subsequently, factor analysis was applied to select valid variable constructs as suggested by their factor loadings of at least 0.60 (Yong & Pearce, 2013). The Average Variance Extracted (AVE) criterion, which requires AVE values to exceed 0.50 for convergent validity to be determined, was used to determine convergent validity (Ringle, Da Silva & Bido, 2015). The Fornell and Larcker method was used to determine discriminant validity (Ringle, Da Silva & Bido, 2015). Under the premise that variables with Cronbach's alpha and composite reliability values of at least 0.70 are reliable. Reliability tests were conducted using Cronbach's alpha test for internal consistency and the composite reliability test (HR & Aithal, 2022). The Standardized Root Mean Square Residual (SRMR), which represents the model's absolute measure of fit when SRMR values less than 0.08 are attained, was used to assess the model's fitness (Ringle, Da Silva & Bido, 2015).

4. Results

4.1 Demographic analysis

212 questionnaires were collected from junior and senior finance managers, CFOs, CEOs, auditors and financial analysts of manufacturing companies in Erbil, Kurdistan. The respondents comprised 130 male and 82 female respondents. The respondents' educational qualifications were characterised by 1.89% higher national diploma, 36.79% bachelor's degree, 68.38% master's degree and 0.94% PhD degree holders as shown in Table 1.

Table 1: Demographic analysis results

Variable	**Description**	**Frequency**	**Percentage**
Gender	Male	130	61.32
	Female	82	38.68
	Total	**212**	**100**
Academic qualification	Higher national diploma	4	1.89
	Bachelor's degree	78	36.79

	Master’s degree	128	68.38
	PhD degree	2	0.94
	Total	**212**	**100**
Level of experience	Less than 1 year	9	4.25
	1 – 5 years	38	17.92
	6 – 10 years	140	66.04
	11 years and above	25	11.79
	Total	**212**	**100**
Position	Finance managers	38	17.92
	CFOs	40	18.87
	CEOs	39	18.40
	Auditors	50	23.58
	Financial analysts	45	21.23
	Total	**212**	**100**

In terms of the level of experience, the findings indicated that the respondent employees were highly qualified to execute their auditing, financial statement analysis and management functions. This is vital for enhancing validity concerning the provided responses’ ability to enhance understanding of the moderating effects of financial reporting quality in the relationship between external auditing practices and firm performance during a decline in COVID-19. This can be evidenced by 4.25% of the respondents with less than 1 year of experience. 17.92% had 1-5 years of experience and those with 6-10 years constituted 66.04% of the respondents. 11.79% had the highest level of experience of at least 11 years. Among the respondents were 17.92% finance managers, 18.87% CFOs, 18.40% CEOs, 23.58% auditors and 21.23% financial analysts. After having analysed the respondents’ demographic information, the study proceeded to examine the variable responses’ factor loading using a factor analysis approach. Additionally, a reliability test was applied to ascertain the variables’ reliability.

4.2 Factor analysis and reliability tests

By applying a factor analysis approach, the study was able to determine the variable constructs that were relevant to the study and answer the proposed research questions. Following Yong and Pearce’s (2013) propositions, constructs with factor loadings of at least 0.60 were selected and considered valid for further examination. The selected constructs together with their factor loadings and reliability values are provided in Table 2. Noting that Cronbach’s alpha values are at least 0.70, the study upholds that the selected variables are highly reliable in providing insights into the moderating effects of financial reporting quality in the relationship between external auditing practices and firm performance during a decline in Covid-19. Subsequently, the selected constructs were used in determining the variables' descriptive measures as indicated in the next section.

Table 2. Factor analysis and reliability results

Construct	**Factor loadings**	**Cronbach's Alpha**
Financial reporting quality	0.645	0.724
The financial statements of our company are prepared in accordance with relevant accounting standards and regulations.	0.787	0.840
The financial statements of our company are audited by external auditors to provide independent assurance.	0.785	0.800
The financial statements of our company are useful for making informed decisions about investments or lending.	0.72	0.76
The financial statements of our company provide clear and comprehensive information about our financial position and performance.	0.741	0.70
The financial statements of our company are reliable and free from material misstatements.	0.70	0.71
The footnotes and disclosures accompanying our financial statements adequately explain significant accounting policies and other relevant information.	0.68	0.72
External auditing practices	0.70	0.72
The external auditors provide a thorough and comprehensive review of our financial statements.	0.71	0.74
The external auditors adhere to professional standards and ethical guidelines.	0.72	0.78
The external auditors identify and highlight potential risks and control weaknesses.	0.68	0.71
The external auditors demonstrate a deep understanding of our industry and business operations.	0.65	0.70
The external auditors effectively communicate their findings and recommendations.	0.74	0.82
The external auditors exhibit independence and objectivity in their assessments.	0.68	0.71
Firm performance	0.61	0.71
The firm has achieved its financial goals and targets.	0.68	0.76
The firm has consistently generated positive revenue growth.	0.64	0.74
The firm has successfully expanded its customer base.	0.70	0.83
The firm has effectively managed its costs and expenses.	0.69	0.81
The firm has maintained a strong market position compared to its competitors.	0.72	0.85
The firm has effectively adapted to changes in the business environment.	0.78	0.80
The firm has developed and launched innovative products/services.	0.70	0.83

4.3 Correlation and Descriptive Analysis

According to Table 3, the correlation coefficient between FRQ and EAP is 0.127*. This positive correlation suggests a weak positive relationship between financial reporting quality and external auditing practices. In practical terms, as the quality of financial reporting improves, there is a slight tendency for external auditing practices to also improve. The correlation coefficient between FRQ and FP is 0.069**. This positive correlation indicates a weak positive relationship between Financial Reporting Quality and Firm Performance. It suggests that, to some extent, higher financial reporting quality is associated with better firm performance. The significance level of ** denotes a stronger statistical confidence in this relationship. The correlation coefficient between EAP and FP is 0.217*. This positive correlation signifies a moderate positive relationship between External Auditing Practices and Firm Performance. The value of 0.217* suggests that as external auditing practices improve, there is a moderately stronger tendency for better firm performance.

Table 3: Correlation and descriptive analysis

	FRQ	**EAP**	**FP**	**MN**	**SD**
FRQ	**1**			4.193	1.088
EAP	0.127*	**1**		4.061	1.125
FP	0.069**	0.217*	**1**	4.288	1.407

FRQ=Financial reporting quality; EAP=External auditing practices; FP=Firm performance; MN=Mean and SD=Standard deviation

Based on the provided descriptive analysis results, financial reporting quality has a score of 4.193 and this indicates a relatively high level of quality. The standard deviation of 1.088 suggests some variation in the reported quality among the firms. Thus, Table 3 results imply that manufacturing companies in Erbil city on average, the firms have effective financial reporting practices in place. Therefore, their presented financial information is most likely to be accurate and reliable. The existence of a standard deviation, however, raises the possibility that there are some differences in the calibre of financial reporting between the organizations. This suggests that certain businesses may have room for enhancement to improve the general consistency and dependability of financial reporting methods. The standard deviation of 1.125 indicates that there is some variation in auditing practices within manufacturing companies. However, the presence of a standard deviation suggests that manufacturing companies might have different auditing practices. The mean score for external auditing practices is 4.061, suggesting a moderately high level of auditing standards adherence. This implies that external auditors are probably evaluating meticulously, delivering certainty on the reliability and accuracy of financial statements. The average score for manufacturing companies' performance, meanwhile, is 4.288, which indicates a high degree of performance. This suggests that some businesses might be operating better than others or having trouble reaching their target performance level. The standard deviation of 1.407 indicates that organizations' performance levels vary.

4.4 Validity results

The diagonal values of the Fornell and Larcker results presented in Table 4 are greater than their underlying values (Ringle, Da Silva & Bido, 2015). This entails that there is discriminant validity. Upon affirming the existence of discriminant validity, the study proceeded further to determine the variables' convergent validity.

Table 4: Fornell and Larcker's results

	Financial reporting quality	**External auditing practices**	**Firm performance**
Financial reporting quality	**0.727**		
External auditing practices	0.680	**0.629**	
Firm performance	0.654	0.568	**0.602**

The provided Table 5 AVE values are more than 0.50 and this indicates that convergent validity was established (Ringle, Da Silva & Bido, 2015). Drawing further, both Cronbach's Alpha, rho_A and rho_C values exceed 0.70 and this indicates that the variables are highly reliable (HR & Aithal, 2022). Therefore, the financial reporting quality, external auditing practices and firm performance variables are valid and reliable in explaining the research issues at hand. It is at this juncture that the study proceeded further to ascertain the fitness of the estimated model in assessing the moderating effects of financial reporting quality in the relationship between external auditing practices and firm performance during a decline in COVID-19.

Table 5: Convergent validity and reliability results

AVE	**Cronbach's Alpha**	**rho_A**	**rho_C**
Financial reporting quality	0.721	0.783	0.787
External auditing practices	0.715	0.856	0.874
Firm performance	0.709	0.822	0.818

4.5 Model fitness results

Concerning the model's fitness, an SRMR value of 0.062 which is less than 0.08 was reported and this indicates a good fit (Ringle, Da Silva & Bido, 2015). Additionally, the reported NFI value of 0.932 is more than 0.90, indicating an excellent fit. As per Table 6's findings, the chi-square value of 44.627 is significant at 1% while D_G and D_ULS are less than their confidence intervals. Therefore, the estimated model is fit for drawing inferences about the moderating effects of financial reporting quality in the relationship between external auditing practices and firm performance during a decline in Covid-19. It is at this change that the study proceeds to interpret the path analysis results.

Table 6: Model fitness results

	SRMR	**NFI**	**$\chi 2$**	**D_G**	**D_ULS**
Saturated Model	0.062	0.948	44.627	3.885	5.740
Estimated Model	0.062	0.948	44.627	3.885	5.740

4.5 Path analysis

SEM uses path analysis results to test the validity of the proposed hypotheses. Accordingly, a significant positive of 0.157 spanning from EAP (External Auditing Practices) to FRQ (Financial Reporting Quality) was observed in Table 6. As a result, hypothesis 1 was accepted implying that an improvement in EAP by 1 unit causes a significant increase in FRQ by 0.157 units. Given that EAP has an insignificant positive effect on FP of 0.079, the study rejected hypothesis 2. Hypothesis 3 was validated following the observed significantly positive effects of 0.272 spanning from FRQ to FP. Lastly, the findings show that FRQ's moderating effects on the relationship between EAP and FP were valid within the context of manufacturing companies in Erbil (β_4=0.704; p=0.000).

Table 6: Path analysis

Effect	**Coefficient**	**Prob.**	**Decision**
EAP --> FRQ	0.157	0.000	Accept H_1
EAP → FP	0.079	0.085	Reject H_2
FRQ → FP	0.272	0.000	Accept H_3
Moderating effect			
EAP → FRQ → FP	0.704	0.000	Accept H_4

FRQ: *Financial Reporting Quality,* ***EAP:*** *External Auditing Practices,* ***FP:*** *Firm Performance*

** Significant at 1%*

Discussions

The findings uphold the existence of positive significant interactions of 0.157 spanning from EAP (External Auditing Practices) to FRQ (Financial Reporting Quality). A significant positive effect spanning from external auditing practices to financial reporting quality, suggests a strong relationship between these two variables. The results are in support of the principal-agent theory, which suggests that external auditors, acting as independent agents, have a responsibility to ensure the accuracy and reliability of financial reports (Nwajei, Bølviken & Hellström, 2022). This possibly indicates that when external auditing practices are of high quality and rigour, it leads to improved financial reporting quality. Hence, hypothesis 1 was accepted. According to the agency theory, good auditing practices strengthen the accuracy of financial accounts and lessen information asymmetry (Jerrim & Sims, 2021). This bolsters the study's claims. Moreover, external auditing practices serve as a mechanism to mitigate information asymmetry between management and external stakeholders, aligning the interests of both parties. A significant positive effect of external auditing practices on financial reporting quality aligns with the principal-agent theory's expectations of improving information reliability.

In rejection of hypothesis 2, the findings denote that EAP has an insignificant positive effect on FP of 0.079. Though such findings contrast Alam, Mohammed and Khan's (2021) prior studies, improvements in firm performance were conceived. This is possible because the adoption of external auditing practices contributes to the reliability and accuracy of financial statements (Alam, Mohammed & Khan, 2021). To reinforce this notion, Kesimli, Kesimli and Achauer (2019) pinpointed other EAP benefits such as building investor confidence, mitigating agency costs, facilitating regulatory compliance and strengthening governance and control systems are conceivable leading to improved firm performance. Such was not the case with Alsmady (2022) findings on Gulf Corporate Council Countries, where significant positive effects were established. According to the principal-agent theory, external auditors are appointed to monitor and align the interests of the company's management with those of external stakeholders (Nwajei, Bølviken & Hellström, 2022). The insignificant positive effect on firm performance may suggest that while auditing practices contribute to information quality, their direct impact on overall firm performance might be more nuanced and influenced by other factors.

In support of hypothesis 3, the findings denote the existence of a positive interaction spanning from FRQ to FP. Such findings are higher than the positive effect established by Alsmady (2022) in Gulf Corporate Council Countries. This reinforces Alam, Mohammed and Khan's (2021) study suggestions denoting that high-quality financial information enables firms to make rational decisions. The findings also mirror Manita et al.'s (2020) establishments contending that with the effective utilisation of resources and the controlling of costs achieved through FRQ, firms can boost their performance. The positive interaction aligns with the principal-agent theory's expectation that transparent and high-quality reporting positively influences overall organizational outcomes. It is vital to note that higher financial reporting quality provides reliable information for decision-making by various stakeholders, potentially leading to improved firm performance. Additionally, this also because financial reporting quality, influenced by effective external auditing practices, enhances transparency and accountability. In the principal-agent relationship, this contributes to reducing agency costs and building trust between management and external stakeholders.

Where the FRQ's moderating effects were not tested in studies such as in descriptive analysis (Alsmady, 2022), regression analysis (Calvin & Holt, 2023) and interviews (Dobija, 2015), significant moderating effects of 0.704 were observed. This reinforces Manita et al.'s (2020) ideas about the effective utilisation of resources and the controlling of costs being in a position to boost firm performance. Along similar lines, Alam, Mohammed and Khan's (2021) propositions of making rational decisions capable of boosting firm performance were also supported. With the pandemic having caused a decline in productivity (Bloom et al., 2020), employee morale and motivation (Mani & Mishra, 2020) and sales and profitability (Alsamhi et al., 2022), the findings have important practical implications.

Conclusion

Overall, the significant positive effect between external auditing practices and financial reporting quality suggests that robust auditing practices contribute to reliable, transparent, and trustworthy financial reporting. This has far-reaching theoretical implications, impacting stakeholders, regulatory bodies, capital markets, and the overall functioning of the business environment. Thus, by identifying and addressing such issues, external auditing contributes to improving the overall quality of financial reporting. Furthermore, the practical implications of such findings denote that external auditing enhances the detection of errors and fraud and compliance with standards and regulations like GAAP, IFRS and specific regulations imposed by regulatory bodies. By enforcing compliance, external auditing practices enhance the transparency and comparability of financial information. The study findings are threefold and have advanced empirical ideas in the following manner:

1) The adoption of external practices has a significant effect on financial reporting quality and an insignificant positive effect on firm performance. As such, the findings direct attention to aspects such as limited assurance, inefficiencies, ineffective internal controls and poor strategic decision-making. Therefore, the findings suggest that firms may need to focus on other factors beyond external auditing to drive improvements in firm performance. This could include enhancing strategic decision-making, operational efficiency, innovation, or other aspects of business management that are more directly linked to performance outcomes. Furthermore, the findings may encourage organisations to explore alternative assurance mechanisms or practices beyond external auditing to improve firm performance.
2) The adoption of financial reporting quality has a significant positive effect on firm performance. The practical implication is that firms need to recognize the link between financial reporting quality and firm performance and allocate resources and efforts to improve reporting practices accordingly. Hence, continuous monitoring, evaluation, and improvement of financial reporting processes are crucial to sustaining the positive effects on firm performance.
3) Financial reporting quality has a moderating effect on the relationship between external auditing practices and firm performance during a decline in Covid-19. Such findings have not been established in prior examinations and this, therefore, enhances the current study's contributions to existing literature, especially in the context of Kurdistan's manufacturing companies.

The findings contribute to the advancement of the Principal-Agent Theory by providing empirical evidence on how external auditing practices influence financial reporting quality, aligning with the expectations of agency theory. It enriches the theoretical understanding of how monitoring mechanisms impact the agent's behavior in the principal-agent relationship. The study also adds to the theoretical understanding of how high-quality financial information, ensured through effective external auditing practices, can positively influence decision-making processes within organizations.

Study limitations and suggestions for future studies

Nonetheless, the study is not void of limitations. In particular, the findings are confined to the examination of manufacturing companies in Kurdistan. As a result, it is practically challenging to generalise the findings to other companies, sectors and governorates in Erbil as well as other countries. Therefore, to avoid clouding judgements, future studies can extend similar examinations to other companies and sectors.

ڕۆڵی نێوەندگیریی کوالێتیی ڕاپۆرتی دارایی لە پەیوەندیی نێوان کارەکانی وردبینی دەرەکی و ئەدای کۆمپانیاکان لە سەروبەندی پاشەکشێی کۆڤید-19دا

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پوختە

ئەم توێژینەوەیە لەوە دەکۆڵێتەوە؛ کە تاچەندە کوالێتیی ڕاپۆرتە داراییەکان ڕۆڵێکی میانڕەوانەی هەبووە لە پەیوەندیی نێوان کارەکانی وردبینیی دەرەکی و ئەدای کۆمپانیاکاندا لەکاتی بڵاوبوونەوەی پەتای کۆڤید-١٩دا. داتاکانی توێژینەوەکە لەڕێگەی فۆرمی ڕاوەرگرتنەوە وەرگیراوە و سامپڵی توێژینەوەکە بریتیبوون لە 212 کەس، کە لە کۆمپانیاکانی بەرهەمهێنانی بچووک تا مامناوەندی ناوچەی پیشەسازیی هەولێردابوون. ئەنجامەکانی توێژینەوەکە بەسەر سێ ئاراستەدا دابەشبوون: (1) پشتبەستن بە پراکتیکەکانی وردبینیی دەرەکی کاریگەرییەکی بەرچاوی لەسەر کوالێتیی ڕاپۆرتە داراییەکان هەیە و کاریگەرییەکی ئەرێنیی کەمی لەسەر ئەدای کۆمپانیاکان هەیە (2) پشتبەستن بە کوالێتیی ڕاپۆرتە داراییەکان کاریگەرییەکی بەرچاوی لەسەر ئەدای کۆمپانیاکە هەیە (3) پشتبەستن بە کوالێتیی ڕاپۆرتە داراییەکان کاریگەریی میانڕەوی لەسەر پەیوەندیی نێوان شێوازەکانی وردبینیی دەرەکی و ئەدای کۆمپانیا هەیە لەکاتی بڵاوبوونەوەی پەتای Covid-19دا. ئەنجامەکان بەشداریی دەکەن لە پێشخستنی تیۆری (بەڕێوەبەر-بریکار)دا، بە پێشکەشکردنی بەڵگەی ئەزموونی لەسەر ئەوەی کە چۆن پراکتیکەکانی وردبینیی دەرەکی کاریگەرییان لەسەر کوالێتیی ڕاپۆرتە داراییەکان هەیە، کە هاوتەریبە لەگەڵ چاوەڕوانییەکانی تیۆری بریکار(Agency theory). ئەمەش تێگەیشتنی تیۆری بۆ میکانیزمەکانی چاودێریکردن

دەوڵەمەندتر دەکات کە کاریگەرییان لەسەر هەڵسوکەوتی بریکار هەیە لە پەیوەندیی بەڕێوەبەر-بریکاردا. توێژەرەکان پێشنیاردەکەن لەپێناو بەرزکردنەوەیٔ ئەدای کۆمپانیاکاندا، پێویستە کۆمپانیاکان پەیوەندیی نێوان کوالیتیی ڕاپۆرتە داراییەکان و ئەدای کۆمپانیاکان بناسن و سەرچاوە و هەوڵەکان تەرخان بکەن بۆ باشترکردنی شێوازەکانی ڕاپۆرتکردن.

وشە سەرەکییەکان: کارەکانی وردبینیی دەرەکی، کوالیتیی ڕاپۆرتە داراییەکان، ئەدای کۆمپانیا، Covid-19، میانڕەویی.

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