

## The Effect of the Auditor's Confirmation of Firms' Disclosure of Political Instability Management on the Decision to Invest in Stocks

<https://www.doi.org/10.56830/IJAMS07202401>

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*Received: 15 May 2024. Accepted: 27 June 2024. Published: 31 July 2024*

### Abstract:

This study aims to investigate the impact of geopolitical, financial, and human factors on foreign direct investment flows. The results revealed that the reality of foreign direct investment explains the political, financial, and human factors, in varying proportions, with significant significance. The positive impact of each of them is on controlling corruption. Governments use foreign direct investment activity as a main tool for growth and development. State and local governments are often responsible for attracting foreign direct investment, and foreign investors prefer countries that enjoy stability and have predictable investment environments by providing clear standards for dealing and having predictable legislation and regulatory parties in which the negotiating parties are clear, and that The absence of clear parties for implementation regarding ownership, taxes, dispute settlement, and instructions, so the investor is afraid of interfering with burdensome administrative resources and unpredictable laws and instructions

**Keywords:** Auditor's Confirmation - Disclosure - Political Instability - investment Decision.

## 1. Introduction:

It is known that the traditional audit of financial statements is the traditional form of professional assurance, and its primary goal is to provide positive assurance about the truthfulness and fairness of the financial statements and their disclosure. The professional assurance service has become viewed as a service with a limited scope, and this has led to the difficulty of collecting evidence on the veracity of management's assurances about non-financial information through traditional auditing (Ramadan, 2021).

This study aims to investigate the impact of geopolitical, financial, and human factors on foreign direct investment flows. The results revealed that the reality of foreign direct investment explains the political, financial, and human factors, in varying proportions, with significant significance. The positive impact of each of them is on controlling corruption. Governments use foreign direct investment activity as a main tool for growth and development. State and local governments are often responsible for attracting foreign direct investment, and foreign investors prefer countries that enjoy stability and have predictable investment environments by providing clear standards for dealing and having predictable legislation and regulatory parties in which the negotiating parties are clear (Bushee, 2004; Havakhor et al., 2020), and that The absence of clear parties for implementation regarding ownership, taxes, dispute settlement, and instructions, so the investor is afraid of interfering with burdensome administrative resources and unpredictable laws and instructions (Asaad, 2020).

Reaching acceptable standards is an important aspect of disclosure and reporting on risk management a very complex process, due to the multiplicity of stakeholders, whose interests may be mutually exclusive. In addition, there could be a final number of elements and indicators of political instability management, and disclosure of the criteria and decision to invest in stocks if the stakeholders agree on them (Ali Al-Gohary, 2021).

## 2. Research Problem

There is no doubt that the auditor's confirmation service gives added value to the content of the company's risk management disclosure in an independent report, and this may reflect positively on the decision to invest in stocks as it is one of the most important decisions of stakeholders.

Therefore, the research problem can be formulated in the following questions:

- What is the importance and nature of the information content of the political instability management report that is disclosed from the perspective of the accounting profession?
- What are the requirements for the professional auditor's confirmation service on companies' disclosure of political instability management?
- What is the value of the auditor's confirmation service on firms' disclosure of risk management in an independent report?

### 3. Importance and motivations of the research:

The scientific and practical importance of the research takes a professional dimension through studying and testing the effect of the auditor's confirmation on the decision to invest in stocks. One of the most important motives for the research is the attempt to provide experimental evidence regarding the impact of this service on investment in stocks in the Egyptian business environment.

### 4. Research Objective:

The research aims to examine the impact of the auditor's assertion on the disclosure report on political instability management in the firm and the effect of the relationship on the decision to invest in stocks, in addition to investigating the impact of the factors of the decision to invest in stocks on the relationship between the auditor's assertion and the investment decision through an experimental study. The research also aims to study the problems associated with disclosure of political instability management and the extent to which share providers realize the value of the auditor's professional emphasis on this type of disclosure.

### 5. Research Hypotheses:

The first hypothesis: The auditor's confirmation of firms' disclosure of political instability management affects the decision to invest in stocks.

The second hypothesis: The type of auditor's opinion regarding disclosure of political instability management affects the decision to invest in stocks.

The third hypothesis: The effect of the auditor's confirmation of companies' disclosure of political instability management on the decision to invest in stocks varies according to the educational qualifications and experience of those who decide to invest in stocks.

### 6. Research Plan:

To achieve the goal of the research and considering the research limits, it is divided as follows:

- Disclosure of the auditor's confirmation service on firms' disclosure from a professional perspective
- Description of political instability management.
- Analysis of the relationship between the auditor's assertion and firms' disclosure of geopolitical risks to the decision to invest in stocks.

## Chapter One: Professional confirmation service for the auditor on companies' disclosure from a professional perspective

Many previous studies: (Akisik & Gal, 2019); Goicoechea et al., 2019; Liao, et al., 2018; Velte and Stawinoga, 2017b) sought to attempt to develop a professional description for the service of confirming corporate disclosure, as follows:

### The definition and importance of the auditor's professional emphasis on corporate disclosure:

Professional assurance services are defined as independent professional services to improve the quality and context of information to serve the purposes of decision-makers. This definition is comprehensive, as that information may be financial or non-financial, historical or future, direct or indirect, internal or external. (Blau et al., 2015; Che, 2018)

There are three areas of professional assurance for the auditor: (Arena et al., 2013; Campbell et al., 2017; Li et al., 2023)

- Information and data, for example, future forecasts and non-financial information.
- Systems and operations performance, for example, risk management and ISO certification.
- Compliance with rules, laws, and governance.

According to (Boiral, Heras- Saizarbortia, Brotherton, & Bernard, 2019); Velte and Stawinoga, 2017: and (Cho, Michelon, Patten, & Roberts, 2014) Professional assurance services have witnessed significant development in recent times and are no longer performed on an annual basis or focused on expressing an opinion on financial information.

International Standard (3000) (ISAE) defines professional assurance services as a professional service in which the auditor collects sufficient and appropriate evidence to evaluate and measure the scope of the engagement to conclude the scope of the engagement, as an interest in measuring and evaluating the scope of the engagement by appropriateness measurement standards.

### Objectives of the auditor's professional assurance:

- Obtaining reasonable assurance about information related to the scope of the assignment that is free of material misstatements.
- The conclusion shall be about the results, measurement, and evaluation of the assignment field.
- Measure limited suitability according to standards to improve the quality of information.

### The scope of the auditor's assurance:

Many researchers agreed (Maroun, 2018a; Miller, et al., 2017; Erguden et al., 2017) However, due to the nature of the information included in the integrated report, which is characterized by extreme diversity, such as historical and future-financial and non-financial, here the field of assignment has become more complex, and the information contained in the report is professional in the field of serving confirmation of the integrated report. (De Lange et al., 2006; Pouryousof et al., 2022)

Steps for the auditor to perform the professional assurance service in firms' disclosure:

- The stage of accepting the service assignment.
- Commissioning work planning stage.
- The stage of implementing the assurance engagement work.
- The stage of reporting the results of the assurance work.

**Chapter Two: Geopolitical Risks Management**

The definition and importance of political instability management:

The term geopolitics is defined as an analysis of the power and an assessment of the political weight of the state, with all that this means in terms of an analysis of its structure, composition, natural and human characteristics, resources and production, and its various problems, which affect its power and contribute to or limit its influence in the regional and global.

Adnan Al-Sayyid Hussein also defined it as the study of the political location of the state or regional area, and the extent of the influence of this location on healthy or war relations, while Alexandre Dufay defined it as a science that aims to study the interactions between geographical space and the situations of conflict between the power emerging in it (Hussein, 2023).

The importance of geopolitical risks:

The importance of geopolitical risks is highlighted in the possibility of providing useful information to government decision-makers and individual investors to know and better understand the political, financial, and human risks and to know the relationship of these risks with investment in developing countries.

Political instability objectives:

- Studying the interactions of space and exposure situations between the forces arising in it.
- Study its local and external relationships and analyze and explain the elements of its strength.
- The potential of its natural and human capabilities

Geopolitical, financial, and human factors:

- Political risks may affect the value of the investment, while geopolitical risks may affect the natural and peaceful course of international relations.
- Political risk is the uncertainty regarding the behavior of consumers and investors, the position of the government, and the impediment to the transfer of technology capital.
- Political instability is the risk that the return on investment will be harmed by political changes or instability.

Reasons for geopolitical risks:

- Its weakness in the balance of power compared to countries such as the Soviet Union and the American United Nations.
- The lack of self-motivation to lead the region and the decline in thinking about how to protect the state.

- The inability to create internal interactions that push towards exploiting geopolitical and geostrategic data.

### **Chapter Three: Analysis of the relationship between the auditor's emphasis on firms' disclosure of political instability management and the decision to invest in stocks.**

Although companies have expanded their disclosure of non-financial information to meet the needs of multiple stakeholders, the credibility of non-financial information remains in doubt until the auditor adds confidence to it through professional assurance practices, which justifies many researchers seeking to study and test the positive impact. To provide professional emphasis on the non-financial information that is disclosed in various separate reports on the value of the firm and the decisions of stakeholders, especially investors (Boiral, Heras- Saizarbtorria, Brotherton, & Bernard, 2019). Testing the effect of emphasizing the information contained in the sustainability report on measuring the firm's value and the decision to invest in stocks. The results indicate that emphasizing sustainability reports helps investors evaluate the negative effects resulting from the company's negative practices toward society and estimate the value of potential obligations. There is a positive, significant relationship between the emphasis on disclosing information about social responsibility and the value of the firm.

Some studies indicate that there is a positive relationship between the auditor's assurance, the value of the firm, and stock prices in the market by improving the predictive value of abnormal stock returns, providing information about establishing the future value of the firm, and It has a positive impact on the level of accounting conservatism and stock prices, and negatively on discretionary accruals, and the evaluative role of the information contained in the integrated business report increases with the provision of independent professional confirmation on it, which reflects positively on the firm's value.

Emphasizing firms' disclosure of non-financial information in integrated reports achieves dual benefits, as it reduces the cost of capital, increases the share price, and enhances the company's reputation and value on the one hand, and increases transparency and adds value to stakeholders, including management on the other hand.

### **7. Research Results:**

- The importance of the auditor's confirmation as a means of giving confidence to information other than what is included in the financial statements.
- The importance of managing geopolitical risks in the firm and the importance of management self-evaluating the risk management system to identify the fundamental weaknesses in this system and take the necessary measures to overcome the weaknesses.
- The importance of political instability management in the firm is that there is a demand from stakeholders, such as investment decisions, for disclosure information about political instability management to evaluate the quality and possibility of relying on the firm's reports, whether financial or non-financial, to determine risks.

### **8. Research Recommendations:**



The researcher recommends the following:

- The importance of increasing the awareness of auditors, firms, and related organizations through lectures, and conferences on the importance of disclosure about political instability management and preparing an emphasis on this type of disclosure due to its importance to stakeholders.
- The need to specify standards for the content of the auditor's assurance report on non-financial data.
- The necessity of disclosing political instability management and other optional disclosures and training auditors to prepare professional assurance reports on them.

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