



THE MEDIATION EFFECT OF AUDIT QUALITY ON THE RELATIONSHIP BETWEEN AUDITOR-CLIENT CONTRACTING FEATURES AND THE RELIABILITY OF FINANCIAL REPORTS IN YEMEN

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ABSTRACT

The main purpose of this research is to investigate the direct and indirect association between the independent variables auditor-client contracting features (audit firm rotation and audit fees), the mediating variable which is an audit quality and dependent variable is the reliability of financial reports. The main data of this study is collected by survey method. The convenient sampling method is used to collect data. In addition, the respondents of this research are 285 of Yemeni Certified Public Accountants. For the purpose of analyzing, Structural Equation Modeling SEM has been employed through Smart PLS software and SPSS has been used to obtain the descriptive data. The findings of this research revealed that the relationship between the fees of audit and audit firm rotation with audit quality is positively significant. Meanwhile, indicated a positive significant association with the reliability of financial reports. Furthermore, the results disclose a positive significant relationship between the audit quality and the reliability of financial reports. Finally, the results have also confirmed that the audit quality has positively mediated relationship between the fees of audit firm, audit firm rotation; and the reliability of financial reports. The main contribution is a depth examination of the reliability of financial reports and providing an understanding of the role played by audit fees, auditor rotation on audit quality in Yemen.

1. Introduction

The auditing profession has faced a crisis of mistrust between the parties that depend on the external auditor's report on the validity, fairness, and reliability of the financial reports. In addition, in the early 21st-century global rise in accounting scandals pointed to weaknesses of the quality of financial reports. Some of these scandals include US corporate scandals (Enron, WorldCom, and Tyco) in the United Kingdom (Bank of Credit and Commerce International and Barings Bank) in Italy (Parmalat) and Australia (HIH). Hence, this explains the increased interest in the audit profession in the last decades.

It looks clear the concept of the quality of audit has become much more important as a rising need to warranty the accuracy and truth of data that contained in financial reports, ensuring quality of economic information by transferring trust to the markets and stakeholders who make decisions and rely on accounting records (Rija, 2018).

Here it should be noted that, due to its important effect on the reliability of financial reports, the quality of the audit becomes appealing among other audit issues. The audit quality is deemed as a vital aspect influencing the reliability of financial information (Thuy, 2017). Therefore, the importance of the reliability of financial reports is to satisfy the requirements of beneficiaries and users and to enhance confidence in financial markets and the overall economic system (Jana & Schmidt, 2017). Furthermore, inclusion of audit factors better represents comprehensive financial reporting quality (Tang, Chen, & Lin, 2012). So conducting such a study is to protect the interest of all the stakeholders has become even more important.

Yemen is ranked at top of the list of most corrupt countries during the last decades, where Yemen ranks 175th (Organization Transparency International, 2017). Corruption has affected most aspects of life, including the deterioration of the audit system and poor oversight, which has encouraged fraud and financial reports manipulation, which is a failure of the control and audit system (Moghram, 2007). The actual number of administrative fraud cases was generally much higher than reported by the Central Organization of Control and Accounting (COCA). The cost of administrative fraud in government agencies has been reported to exceed \$ 9 million annually (Moghram, 2007). Also, the bankruptcy of the National Bank for Trade and Investment (CBY, 2005).

In this environment, there are persistent attempts to catch up with the development of the auditing and accounting profession. However, no special standards that organized the profession have been issued, either accounting standards or auditing standards. Although, there are existing laws and procedures, but do not rise to be a substitute for standards to

regulate professional practice in Yemen, especially when the efficiency of these laws is compared with those in the rest of the world (Bamshous, 2003).

The incentive beyond this research is the indecisive results in the latest associated studies regarding the correlation between these variables. Unfortunately, the bulk of existing studies on these variables are predominantly fixated with the Western context where the legal process climate and the reputation of auditor are considered to be distinct from those existing in developing countries, thus limiting the generalizability of these prior findings to other countries. The association between these factors is rely on the agency theory (Jensen & Meckling, 1976). Basically, utilize of audit quality is considered as an instrument for decreasing the opportunism of management and conflicts of agency. It also protects the interests of shareholders by ensuring financial reports are relevant and reliable (Gana & Krichnen, 2013). Hence, the mechanism of external audit has been recognized to ensure financial reporting quality and which is consistent together with the agency theory proposition.

The purpose of this research is to examine the direct relationships between the client-auditor contracting features (audit firm rotation and audit firm fees), the audit quality and the reliability of financial reports. Moreover, to investigate the mediating effect of the quality of audit on the association between audit firm rotation and audit firm fees, and the reliability of financial reports in Yemen. The following sections in this research are designed as follows: Defines literature review of the variables which investigating in this research in section 2; Section 3 focuses on the conceptual model and hypotheses; Illustrates the methodology in section 4; Section 5 analyses data and the results; In section 6 explains discussion and implications, and Section 7 represents conclusion which includes future research suggestions.

2. Literature Review

2.1 Reliability of Financial Reports

The reliability of the financial reports is important to the users, including investors, lenders, contractors and competitors, employees, and especially to the main stakeholders: the companies' owners who are concerned in managing quality and efficiency.

Historically, the main user of the data derived from the reports of the company until the ownership was detached from the function of management; the owner who was also the director. Since these functions were separated, the financial reports have been the final outcome of accounting. At the same time, the process of accounting measurement affected by subjectivity because of its nature and remain under the impact of individual judgments (Hołda & Staszal, 2015). Hence the importance of the reliability of financial reports comes from to meet the needs of beneficiaries and users. Also to enhance confidence in financial markets and the overall economic system. Accounting and auditing standard setters defined provide of decision-useful information as the essential objective of financial reporting. Depend on the FASB's and IASB's theoretical frameworks, the usefulness of decision is based on two main primary qualitative characteristics which are reliability and relevance (Jana & Schmidt, 2017).

According to (Alrshah, Fadzil, & Alrshah, 2016) researchers like Schipper (2007) believed and argued that the extant literature do not generally agree on what constitute the term "reliability". Schipper in his explanation pointed at some scholarly work that defines reliability as the ability of financial information to be objectively confirmed by an authorized external source; while others strongly believes that the reliability of an audited financial statement can only be ascertained through high degree of consensus among the selected independent measures. An analyzed of reliability is based on the characteristics of the verifiable, neutral information, and faithful. (Cheung, Evans, & Wright, 2010). (Bernstein, 1992) point out that reliability is qualified as the most representative of the high financial reports quality, and more when it is related to relevance (Lee, H.-L. & Lee, 2013). Specifically, reliability confirms that there is no bias or material error, whether intentional or not (Hribar, Kravet, & Wilson, 2014; IASB, 2006)

The concept of the reliability as a qualitative characteristic of useful financial information is also highlighted and used by the FASB and IASB in setting standards for financial reporting. According to (Alrshah, 2015), the reliability dimension implies that users of accounting information can rely on the information included in financial statements with a degree of confidence.

2.2 Audit Quality

The audit quality is not simple to define due to many different factors effecting the quality (Hosseinniakani et al., 2014). There is no globally accepted definition by scholars who are far from establishing a single indicator framework that unambiguously determines whether the statutory auditor's activity was conducted in accordance with the guidelines set out in the applicable standards. Different definitions based on varying methods have been developed (Rija, 2018). The reason for the lack of consensus on the definition of the audit quality, as highlighted by Sutton (1993), is linked to the obvious conflicting roles of audit market participants. The major audit market participants can be categorized into three divisions: external users; the customer; and the auditors. However, the most widely definition of the quality of audit was achieved by DeAngelo, (1981), The audit quality is described as the market-assessed joint likelihood that the auditor will both (a) find a violation in the accounting system of the client and (b) report the violation.

It looks clear that the perception of the quality of audit has been, along the years, much more paramount as an increasing need to ensure the accuracy and truth of the information contained in the financial reports, ensuring the financial information quality by transferring trust to the business environment and stakeholders legitimately relying on accounting records when making decisions (Rija, 2018). In 2000, the (Public Oversight Board) noted that the auditing profession did

not interact consistently with rapid changes in the environment, continually review and consider the factors that impact the quality of audit when conducting audits.

The literature used a wide number of measurement proxies to evaluate the quality of audit, there is no unanimity on which one is best, and a few guidance on how to assess them. DeFond & Zhang, (2014) notice that the measurement proxies are divided into two different categories; audit process outputs, like auditors' views, and the audit process inputs, like audit firm size. Furthermore, categorize the output-based proxies to 4 groups which are essential misstatements, communication of auditor, quality of financial reporting, and perceptions; and the input-based proxies to 2 groups which are characteristics of auditor and client-auditor contracting features. However, quality of audit is complicated to measure due to the amount of assurance that auditors provide is unobservable. According to DeFond & Zhang, (2014) assess these dimensions, they determine that no one category set a whole picture of the quality of audit.

As mentioned earlier, auditor characteristics such as an ability to scrutinize, competence, knowledge, specialization, experience, technological proficiency, objectivity, independence, integrity, judgment, and due professional care, are generally regarded as key attributes in the external auditing process. There is no doubt, however, that all the above mentioned characteristics represent the absolute requirements that should be possessed by effective external auditors (auditor competence). Meanwhile, (Mat Daud, 2007) mentioned that the auditors must have a good educational background with sufficient expertise and knowledge to be considered as a competent.

The crisis of distrust in the outputs of the audit profession by users of financial reports and corporate breakdown scandals, although these companies are subject to audit by external auditors. All this continued to occur with the continued development of the audit profession, whether issuing laws, regulations and instructions from governments or standards of professional organizations, which absorbed the factors affecting the quality of audit. And with the continued need for access to the best practices in the performance of the audit profession in order to ensure that stakeholders obtain high-quality financial reports. Here, it should be noted that the quality of audit is becoming much more appealing among other audit topics because of its important effect on the reliability of the financial reports. The audit quality is regarded as an important factor influencing the reliability of financial data and information (Thuy, 2017). Furthermore, improving the trust of users of financial reports can be seen as an outcome of a high level of audit quality (Hosseinniakani et al., 2014). According to (Francis, Maydew, & Sparks, 1999) audit is the independent verification that enhances the reliability and usefulness of the financial reports (Herath & Albarqi, 2017). Notably, researchers like (Ismail et al., 2006) demonstrate that reliability is the most important attribute of the service quality yet to be fulfilled by the audit firms. Although many scholars in the field of accounting and auditing have separately studied the determinants of auditors, very few have studied reliability (Flaming, 2002).

2.3 Auditor-Client Contracting Features

As DeFond & Zhang, (2014) noted, the client-auditor contracting features are one of the substitutes which used to measure audit quality.

2.3.1 Audit Fees

Al-Khaddash et al., (2013) identified that audit fees as total costs beared by the customer for payment to the auditor for audit services given to the customers. The audit official task attracts audit service charge, the money that produces up this charge is named audit fee (Ilechukwu, 2017).

The audit fees are an important factor in audit quality, previous studies by several researchers have supported a positive relationship between audit fees and the audit quality (Ettredge et al., 2014; Hoitash et al., 2007; Kuntari et al., 2017; Simunic, 1980). This explains that the auditor's high fees stimulate him to perform the audit efficiently and with higher quality.

In contrast, scrutiny of the audit profession has been boosted due to the increasing levels of non-audit services fees received from audit customers and the potential unfavorable influence of these fees on auditor independence, and hence the audit quality (Holland & Lane, 2012). Equally, concerns have been raised on the threats of the independence of auditor posed by dependence of audit fee (Hope & Langli, 2010). There is no doubt that economic dependence is a recognizable threat to auditor independence. In fact, auditing professional bodies across the world are aware of the significant threat that arises when auditors become economically reliant or dependent on their audit clients (Hoitash et al., 2007; Holland & Lane, 2012; Hope & Langli, 2010; Ruiz-Barbadillo, Gómez-Aguilar, & Biedma-López, 2006). Similarly, (Al-Ajmi & Saudagaran, 2011) established that auditors' economic dependence on their clients which arises when the fee from the audit client is a sizable share of auditor's revenues is the most important auditor independence-threatening factors.

In essence, previous studies display mixed findings on the link between the audit fees and modified opinions of audit. Along with the previous studies arguments, it is detected that the extant relationships between the audit fees and the likelihood of auditors sacrificing their independence are too theoretically ambiguous. A major reason for the above is that external auditors and their firms are not only considering the benefits that are inherent in higher fees when issues of compromising their professional objectivity arises, but they also consider the expected costs implications that are attached to audit failures. Importantly, many researchers have argued that the costs implications that is related to the inherent loss of firms' reputations and litigation have reduced the incentives for any external auditors to settlement their objectivity and independence (Chung & Kallapur, 2003).

Numerous authors seem to recommend that audit fee impacts the quality of audit and therefore they head for to use the audit fee as a proxy for quality of audit (Ilechukwu, 2017). Nevertheless, auditors cannot charge extra fees from one side

for additional work except if there is increasing in customer demand for the extra effort. As a consequence, the audit fees are the result of both demand and supply factors of quality of audit. (DeFond & Zhang, 2014).

Briefly, fees of audit as a factor affecting quality of audit and reliability of financial reports have no consensus. Whereas a very good number of the researches posit a positive association, others support a negative relationship and whereas some found no relationship at all. So it is important to examine the link between audit fees and quality of audit and also deeply relationship on the reliability of financial reports.

2.3.2 Audit Firm Rotation

Due to the large Enron financial scandal and also other scandals along the last twenty years, the independence and trustworthiness of firms auditing are questioned (Daniels & Booker, 2011; Onwuchekwa, Erah, & Izedonmi, 2012). There is an important reduction of the market trust to the integrity of auditing firms. To reform and enhance the reputation of the audit function and restore the market confidence in audit firms, there are made some regulation development. The most important one of the regulations had developed is forced the audit firm to the rotation with all auditing firms. This rule limits the maximum number of years that the auditor can dedicate to the same customer. It was proposed so as to maintain the auditor independence and raise investor trust in the financial reports that issued and published by the corporation. (Rija, 2018).

The rotation of auditors is the practice of switches in auditors to maintain eyes on accounts and to avoid over-familiarity that drive to misrepresentation and misstatements in financial accounts. Onwuchekwa et al., (2012), defined that the rotation of auditor seeks to a specific restrict to the duration of an auditor to be allowed to implement services of audit for their customers. The firm of audit has to be changed after a specific period in order to assure the independence, trust of the quality of audit services.

The relationship between independence of audit and auditor rotation is a burning issue in the accounting literature. The debate is ostensibly shaped by two opposing views. Advocates for compulsory audit firm rotation emphasize the necessity to have a fresh look at intermittent intervals to guarantee client-auditor independence and auditor efficacy (Davis, Soo, & Trompeter, 2009; Rong, 2017), while those opposed to auditor rotation highlight the risk of lower audit quality and higher audit failures that can arise due to the loss in continuity and audit competence generated by compulsory auditor rotation (Cameran, Precipe, & Trombetta, 2016).

Auditor rotation is discussed as a possible way to increase audit quality—usually earning attention when users trust in the function of audit has been eroded by some events such as companies' scandals or failure of the audit. With a view to protect stockholders from such cases in future and to repair the whole confidence in financial reports, the US issued the Sarbanes-Oxley Act.

In overall, there are two major benefits of auditor rotation which are evident, namely, its contribution to auditor objectivity by not allowing the situation of the auditor becoming so familiar with a customer's system, and its contribution to control processes, and to the development of favorable impressions among users of audited financial reports (Brody & Moscové, 1998). However, academic studies have been unable to generate conclusive empirical evidence about the gains of rotating audit firms. Nonetheless, there is some empirical proof of the risks associated with audit firm rotation.

3. Research Model and Hypotheses

It looks clear that the conception of quality of audit has become, much more significant as a rising need was felt to warrant the accuracy and truth of the information contained in the financial reports, confirming the quality of financial data by transferring trust to the markets and stakeholders who in taking decisions depend on the financial reports (Rija, 2018). Audit quality is affected by various factors directly or indirectly (Hosseinniakani et al., 2014). Prior studies have dealt with the factors affecting the quality of audit from different dimensions and perspectives, and this study highlights the auditor-client contracting feature factors that have been discussed. This study examined a number of variables which are: (1) Client-Auditor contracting features namely, auditor rotation and audit fees (2) Audit quality (3) Reliability of financial reports. Hence, hypotheses proposed for this study result from the reviews of extant literature.

There is mix in empirical results on literature. A large number of researches posits a positive relationship between audit quality and audit fee. (Oladipupo & Monye-Emna, 2016; Onalapo et al., 2017; Rahmina & Agoes, 2014; Yuniart, 2011). Audit fee is a significant factor affecting audit quality (Ettredge et al., 2014; Hoitash et al., 2007; Kuntari et al., 2017; Simunic, 1980). So, the following hypothesis is derived:

H1: The audit fees is positively linked to the quality of audit in Yemen.

According to the literature, audit firm rotation, is one of the efforts to repair stakeholders' confidence regarding audit firm integrity, especially the quality of the audit outcome (Onwuchekwa et al., 2012). Audit rotation is capable to protect auditor independence, decrease the familiarity issues and boost the skepticism of professional judgments of auditors' (Davis et al., 2009; Khasharmeh & Said, 2014; Rong, 2017). Therefore, the hypothesis is formulated as follows:

H2: The audit firm rotation is positively linked to the quality of audit in Yemen.

According to (Herath & Albarqi, 2017) There is a positive significant impact on quality of financial reports based upon the fees paid to external auditors (GAJEVSZKY, 2015; Hashim, 2012). Also, the findings of (Kinney Jr et al., 2004) mention that there is a strong positive association between audit fees and financial reports. Furthermore, for a more overall investigation, additional audit hours and extra expert audit staff are demand; hence the higher fees of audit would be predictable (O'Sullivan & Diacon, 2002). Thus, it is predicted that high fees point out a higher audit quality, as

additional audit effort is required to warrant that the financial reports are free from misstatement of material. Therefore, the hypothesis is formulated as follow:

H3: The audit fees is positively linked to the reliability of financial reports in Yemen.

As discussed above, the majority of researches indicate that there is an association between auditor rotation and quality of audit; hence with the reliability of financial reports. (Salleh & Jasmani, 2014) performed a research to investigate the association of the reliability of financial reports and the audit firm rotation. The relationship between the reliability of audited financial statements and the rotation of mandatory audit partner significant. Thus, the hypothesis is formulated as follow:

H4: The audit firm rotation is positively related to the reliability of financial reports in Yemen.

Audit quality is considered as a fundamental factor impacting the reliability of financial reports (Thuy, 2017). Furthermore, improving the trust of users of financial reports can be seen as an outcome of higher quality of audit (Hosseinnakani et al., 2014). According to (Francis et al., 1999) audit is the independent verification that enhances the reliability and usefulness of the financial reports (Herath & Albarqi, 2017). There is no doubt that accounting literature shows that auditing has an influence on the integrity of financial information, since the greater of the level of audit, the greater it is likely that more accurate information will be presented (DeAngelo, 1981). (Monroe & Tan, 1997) concluded that audit quality can influence the reliability of audited financial reports. Hence, quality of audit is an integral part of the quality of financial reporting. (DeFond & Zhang, 2014). Specifically, reliability assures that there is no material error or bias, whether intentional or not (Hribar et al., 2014; IASB, 2006). So, the following hypothesis is made:

H5: The audit quality is positively related to the reliability of financial reports in Yemen.

The inclusion of audit factors better reflects comprehensive quality of financial reporting (Tang et al., 2012). So, the mediating hypotheses are made as follows:

H6: The audit quality is positively mediated the relationship between the audit fees and the reliability of financial reports in Yemen.

H7: The quality of external audit is positively mediated the relationship between the audit firm rotation and the reliability of financial reports in Yemen.

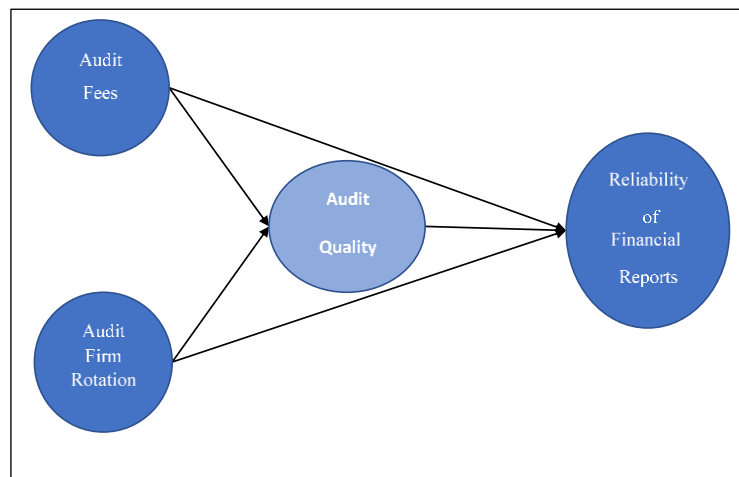


Fig. 1. Research conceptual model.

4. Research Methodology

This is a quantitative study as it was collected and analyze numerical data. Therefore, this research also used the deductive method as suggested by (Crowther & Lancaster, 2009). Also, primary data collected through self-administered questionnaires. Non-probability sampling has been employed especially the convenience method. Moreover, hypothesis testing is conducted to explain or predict the variance in the dependent variable in organizations (Sekaran & Bougie, 2016).

The population of this study is the 1,100 public accountants (external auditors) registered with YACPA. The sample size for this study is (285) respondents based on the sample size formula suggested by (Krejcie & Morgan, 1970). Thus a total of 400 questionnaires distributed to external auditors in Yemen through email, web survey.

Instruments for the questionnaire was adopted from past researches. The questionnaire divided into 4 sections. Section A of the questionnaire concentrate on the demographic information of the respondents. The dependent variable in section B, the reliability of financial reports in Yemen, and section C focuses on the mediating variable, the quality of audit. Lastly, section D focuses on the independent variables namely audit fees, audit firm rotation. Summary of the contents and their sequence of the instruments is captured in Table 1 below:

Table 1: Survey content

Section	Title	No Instruments	Scale	
A	Demographic Information	8		
B	Reliability of Financial Reports	7	5-point Likert scale	
C	Quality of External Auditor	7	5-point Likert scale	
D	Auditor-Client Contracting Features			
D	1	Audit Fees	8	5-point Likert scale
D	2	Audit Firm Rotation	8	5-point Likert scale

The data analysis in this study used the Statistical Package of Social Sciences (SPSS) version 23.0 and the Smart PLS3.0. The approaches of data analysis were designated based on the questions of research and the characteristics of the variables (Byrne, 2001; Kamariah, 2007). The aim of analysis is to accomplish reliability in data and hypothesis testing. Before going for inferential analyses, descriptive of respondents and data checking, such as missing data and multicollinearity test were done using SPSS. Moreover, reliability and validity measures, goodness, and SEM analysis carried out using Smart PLS.

5. Data Analysis and Results

This part shows the findings of data analysis such as descriptive statistics, measurement model, structural model, and hypotheses testing.

5.1 Descriptive Statistics

The respondents' demographic outcomes are shown in Table 2.

Table 2: Demographic results of the respondents

Gender	Frequency	Percent	Age	Frequency	Percent
Male	277.00	97.193	Under 30 years	6.00	2.105
Female	8.00	2.807	30 to 39 years	107.00	37.544
Total	285.00	100.00	40 to 49 years	138.00	48.421
			50 years and over	34.00	11.930
			Total	285.00	100.00
Academic Qualification	Frequency	Percent	Study Major	Frequency	Percent
PhD	6.00	2.105	Accounting	252.00	88.421
Master	53.00	18.596	Management	22.00	7.719
Bachelor	226.00	79.298	Economic & Finance	11.00	3.860
Total	285.00	100.00	Total	285.00	100.00
Occupation	Frequency	Percent	Experience	Frequency	Percent
A sole practitioner	95.00	33.333	< 5 years	18.00	6.316
Partner	13.00	4.561	5 to 10 years	42.00	14.737
Audit Manager	56.00	19.649	11 to 15 years	107.00	37.544
Member of Audit Team	81.00	28.421	> 15 years	118.00	41.404
Others	40.00	14.035	Total	285.00	100.00
Total	285.00	100.00	Professional Qualification	Frequency	Percent
Type of membership	Frequency	Percent	YACPA	277.00	97.193
A practicing member	119.00	41.754	ASCA	2.00	0.702
Non-practicing member	166.00	58.246	Others	6.00	2.105
Total	285.00	100.00	Total	285.00	100.00

5.2 Measurement Model

For evaluating the model, the first step is to assess the model where composite reliability and Cronbach's Alpha are tested for construct reliability, and convergent and discriminant were checked for composite reliability and discriminant validity. Table 3 showed that the composite reliability (CR) was greater than the cut-off of 0.70 (Nunnally and Bernstein, 1994), the Cronbach's α also was upper than the recommended rate of 0.6 (Cronbach, 1951).

For the present study, convergent validity was tested by utilizing the universally established technique Average Variance Extracted (AVE) (Hair et al., 2006; Henseler, 2009; Tabachnick & Fidell, 2007). Table 3 showed that Average Variance

Extracted (AVE) for every latent variable was upper than the suggested rate of 0.5 (50%) which indicated that every construct could show greater than half of variance to its measuring items in medium (Fornell & Larcker, 1981).

Table 3: Reliability of Construct and Validity

	Cronbach's α	(CR)	(AVE)
A.F.Rotation	0.899	0.918	0.583
Audit Fee	0.883	0.906	0.549
Audit Quality	0.883	0.909	0.590
R. F. Report	0.879	0.906	0.582

Discriminant validity reflects the actual distinctiveness of one construct from other constructs. There are various approaches to define discriminant validity such as Fornell Lacker and HTMT. As depicted in Table 4, the square roots of the AVE of all constructs are bigger than their corresponding inter-correlations. Therefore, the evaluation of validity and reliability advocates that the measurement model is acceptable.

Table 4: Discriminant Validity – Fornell and Lacker Criterion

	A.F.Rotation	Audit Fee	Audit Quality	R. F. Report
A.F.Rotation	0.764			
Audit Fee	0.401	0.741		
Audit Quality	0.362	0.349	0.768	
R. F. Report	0.389	0.371	0.604	0.763

The off-diagonal rates are the correlations among latent variables and the diagonal is the square root of AVE.

HTMT was the second approach for discriminant validity. This approach is seemed to be the better method as compared to Fornell larcker. Based on Henseler et al. (2015), the values of the HTMT must be lower than 0.90. For the present study, the upper threshold value is 0.680 (Table 5) that complies with the discriminant validity as the value is lower than 0.90.

Table 5: Results of Heterotrait-Monotrait Ratio (HTMT)

	A.F.Rotation	Audit Fee	Audit Quality	R. F. Report
A.F.Rotation				
Audit Fee	0.422			
Audit Quality	0.384	0.374		
R. F. Report	0.409	0.406	0.680	

5.3 Structural Model

To evaluate the structural model in this research, the essential criteria used were: path coefficient (β), effect size (f^2), coefficient of determination (R^2) for endogenous variable, prediction relevance (Q^2) and multicollinearity (inner VIF) (Henseler et al., 2009; Chin 2010; Tenenhaus et al., 2005; Gotz et al., 2010). The threshold value and description for each benchmark are shown in a stepwise test of the structural model underneath.

R^2 represent the variance illustrated by the endogenous construct. Table 6 presents the R^2 findings of this research where the R^2 value of Audit Quality is 0.180 and R. F. Report 0.419. This value of R^2 proves an acceptable prediction grade in empirical studies (Gaur & Gaur, 2006; Chin, 1998).

Table 6: R-square result

Endogenous Variables	R^2	R^2 Adjusted
Audit Quality	0.180	0.174
R. F. Report	0.413	0.406

The effect size was measured by using (f^2). The value between 0.00 to 0.15 point a small effect size, whilst the value between more than 0.15 to 0.35 shows medium effect, and values above 0.35 indicate large effects (Sarstedt et al., 2017). The results of the (f^2) has presented in Table 7 below.

Table 7: F-square result

Exogenous Variables	Audit Quality	R. F. Report
A.F.Rotation	0.072	0.031
Audit Fee	0.060	0.024
Audit Quality		0.351

Instead of the correlation coefficient for detecting collinearity problems, Variance Inflation Tolerance (VIF) can be applied. In the case of Smart-PLS, the value of VIF value must not be greater than five which indicates that the variables are free from collinearity issues in the model. The present study result confirms that there was no collinearity concern rising in the model. In the current study, there was no multicollinearity issue as the inner VIF values are less than 5. According to Pallant (2007), the VIF values higher than 10 and lower than 0.1 demonstrate the presence of multicollinearity. In the current study, the results presented in Table 8 reveal that the highest VIF rate was 1.277 and the lowest VIF rate was 1.191 which advocate the absence of multicollinearity within independent variables.

Table 8: Result of multicollinearity – Inner VIF values

Exogenous Variables	Audit Quality	R. F. Report
A.F.Rotation	1.191	1.277
Audit Fee	1.191	1.263
Audit Quality		1.220

The predictive relevance (Q^2) must be bigger than zero to validate the model's predictive relevance (Chin, 1998). A blindfolding test was conducted to calculate the value of Q^2 in order to obtain the model's predictive relevance. As a whole, the model determines an adequate appropriate and high predictive relevance as the Q^2 values are higher than zero which is presented in Table 9.

Table 9: Result of predictive relevance

Endogenous Variables	CCR	CCC
Audit Quality	0.097	0.447
R. F. Report	0.221	0.436

CCC=Construct Cross-validated Commuality, CCR=Construct Cross-validated Redundancy

All the hypothetical path in the model was tested through the regression coefficient (β). By using PLS Bootstrap technique the value of β was checked to observe the proposed hypotheses in the structural model. The path coefficient rate must be at least 0.1 to account for a particular effect in the model (Wetzels et al., 2009; Hair et al., 2011). Table 10 presented the path coefficient assessment result where 5 hypotheses were supported. The hypotheses supported are significant at least at 0.05, anticipated sign directions and consist of a path coefficient (β) ranging from 0.134 to 0.502. In Table 10 displayed that five direct relationships were significant as the p values are greater than 0.05

Table 11 Path coefficient results

Hypotheses	β	STDEV	T	P Values	Decision
H1: Audit Fee -> A. Quality	0.243	0.057	4.238	0.000	Supported
H2: A.F.Rotation -> A. Quality	0.265	0.063	4.183	0.000	Supported
H3: Audit Fee -> R. F. Report	0.134	0.054	2.474	0.014	Supported
H4: A.F.Rotation -> R. F. Report	0.153	0.053	2.868	0.004	Supported
H5: A. Quality -> R. F. Report	0.502	0.061	8.249	0.000	Supported

For the mediating analysis, the bootstrapping technique was applied for this research which was recommended by Hair et al. (2013). Table 12 illustrated the bootstrapping results for the indirect influence where the analysis of bootstrapping was managed to explain the indirect effect. The effect of factors of auditor-client contracting features (audit fee, audit firm rotation) on the reliability of financial report through audit quality where the corresponding β values are 0.122 and 0.133 respectively. The corresponding t-values are 3.646 and 3.596 respectively which are all significant since all the values are above 1.96 (Preacher & Hayes, 2004, 2008). Consequently, the mediation effects were confirmed to be statistically significant. The findings of the mediation are showed in Table 12 where two mediating hypotheses were supported.

Table 12: PLS-Multi-Group Analysis (Mediation) result

Hypotheses	β	ST DEV	T	P	Decision	Type of Mediation
H6: Audit Fee -> Audit Quality -> R. F. Report	0.122	0.033	3.646	0.000	Supported	Partial Mediation
H7: A.F.Rotation -> Audit Quality -> R. F. Report	0.133	0.037	3.596	0.000	Supported	Partial Mediation

6. Discussion and Implications

As illustrated in Table 11, the association between audit firm fees and the quality of audit was found to be significant and positive. This finding is in line with the result of the existing studies. A respectable number of studies posits a positive association between audit quality and audit fee. (OLADIPUPO & MONYE-EMINA, 2016; Onaolapo et al., 2017; Rahmina & Agoes, 2014; Yuniart, 2011). Moreover, scholars indicated that audit firm fees are an important factor in audit quality, (Hoitash et al. 2007; Ettredge et al., 2014;; Kuntari et al., 2017; Simunic, 1980). This explains that the auditor's high fees stimulate him to perform the audit efficiently and with higher quality. (Idawati, 2014) found that the audit fee is one of the elements affecting the audit quality. Also audit fees affect the decisions of audit planning and control decisions based clients.

As illustrated in Table 11, the association between audit firm rotation and audit quality was found to be significant and positive. Some scholars supported this results that auditor rotation as influential in audit outcomes (Dopuch, King, & Schwartz, 2003; Gates et al., 2006; Geiger & Raghunandan, 2002; Jackson et al., 2008; Manry, Mock, & Turner, 2008; Vanstraelen, 2000). Rely on the existing studies, audit firm rotation, as one of the effort to repair public confidence regarding auditor's integrity, specially the quality of audit outcome (Onwuchekwa et al., 2012). Mandatory audit switching supporters believe that long-term dealings between auditor and clients can drive to audit failure because of the high levels of knowledge that weaken auditors' professional skepticism and independence (Davis et al., 2009; Khasharmeh & Said, 2014; Gaviouis, 2007; Moore, Tetlock, Tanlu, & Bazerman, 2006; Rong, 2017). Opponents also debate that long-tenure relations between the auditor and the customer drive to high knowledge of customers and industry over time, leading to improved audit quality (AICPA, 1992; Aruñada, 2004; Seidman, 2003). More importantly, this finding give proof to the prevailing situation in auditing literature which is characterized by a lack of consensus on effect of audit rotation or its nemesis audit tenure on audit quality. In essence, existing literature shows conflicting evidence and lively debate in relation to the impact of the two competing processes.

As illustrated in Table 11, the association between audit firm fees and the reliability of the financial reports was found to be significant. This finding is in line with the finding of the existing studies. Previous studies indicated that the audit fees have a positive and a significant effect on the reliability of financial reports (Herath & Albarqi, 2017; GAJEVSZKY, 2015; Hashim, 2012). These study findings confirm the positive effect of this relationship. This finding is also consistent with some of the existing studies, for example, Willekens and Bruynseels (2009) who noted that an increase in abnormal fees decreases the amount of earnings management. Likewise, Geiger and Rama (2003) also found that higher audit firm fees increase the chance of a going-concern modification. Furthermore, Basioudis et al. (2008) in a study conducted in the UK established a positive relationship between audit fees paid and receiving a going-concern amended audit opinion. In addition, Alrashah, (2014) suggested that indirectly imply that there is a positive relationship between the two variables which are audit fees and reliability of financial reports.

As illustrated in Table 11, the relationship between auditor rotation and the reliability of financial reports was found to be significant. This result is in line with the finding of the existing researches (Davis et al., 2009; Mohammed, 2010; Mohammed & Habib, 2013; Alrashah, 2015). Undoubtedly, the associations between the auditors and their clients can evolve into a special bond that may negatively affecting the auditor independence and decrease the quality and the reliability of the audit in the long run. It has been observed that this form of close relationship has resulted in the external auditor's incapability to inspect transactions and in the process contributing to recent audit failures at a number of high-profile firms like Enron and World Com (Abu Bakar et al., 2005). In General, advocates of rotation view auditor tenure as negatively affecting audit quality by compromising auditor independence which may result in auditors becoming lax when performing auditing or financial reporting. These studies also show that auditor rotation adds a new impetus to the assessment of client's financial statements. Despite the benefits associated with long audit firm tenure, the overall long-term implications of audit tenure have been identified as posing potential threats to auditor independence and ultimately financial reporting quality (see Vanstraelen, 2000; Johnson et al., 2002).

As illustrated in the Table 11, the association between the audit quality and the reliability of the financial reports was found to be significant. This finding is in line with the finding of the existing studies. As confirmed by (DeFond & Zhang, 2014) define the higher quality of audit as better assurance of high quality of financial report. Audit quality is deemed as a major factor affecting the reliability of financial data (Thuy, 2017). Furthermore, enhancing the trust of users of financial reports can be seen as an outcome of higher audit quality (Hosseinniakani et al., 2014). According to (Francis, Maydew,

& Sparks, 1999) audit is the independent verification that enhances the reliability and usefulness of the financial reports (Herath & Albarqi, 2017).

As illustrated in Table 12, the mediating effect of the audit quality between audit firm fees and the reliability of financial reports was found to be significant. Also, the result showed the audit quality as a partial mediation in this relationship. As that there is a positive and a significant effect on the quality of financial reports based upon the size of fees paid to external auditors (GAJEVSZKY, 2015; Hashim, 2012). As well as (Kinney Jr et al., 2004) suggest that there is a strong positive association between audit fees, audit-related fees, and unspecified non-audit services fees and financial reports. Finally, as illustrated in Table (12), the mediating influence of the audit quality between audit firm rotation and the reliability of financial reports was found to be significant. This finding supported the hypothesis H7. Furthermore, the result showed the audit quality as a partial mediation in this relationship. This result is in line with the findings of the existing studies.

Totally, the results of this research are mostly in line with the agency theory, which states that the audit function as one of the core monitoring and controlling mechanisms to control conflicts of interest and reduce agency costs which devices that increase the auditor quality which in role helps to improve financial reporting quality. Nonetheless, an external auditor's failure to discover considerable misrepresentations in a firm's financial statements can result not only to losses by individual investors, but also to an overall degrading of trust or stakeholder confidence in organizations. An instructive example of this form of collusion is the Enron scandal in which Arthur Andersen (the Enron auditors) colluded with Enron's management at the expense of its principals.

According to the results of this research as mentioned above, the key findings of this study support the significant relationship between the auditor-client contracting features (audit firm fees, audit firm rotation) and the quality of audit. It was also found that there is a direct positive association between (audit firm fees and audit firm rotation) and the reliability of financial reports. As well as between audit quality and the reliability of financial reports. In case of the mediating effect, the results suggest that quality of audit partially mediates the association between (audit firm fees and audit firm rotation) and the reliability of financial reports.

7. Conclusion and Future Study

It's obvious that the audit quality has become, much more paramount as a growing necessity was felt to guarantee the accuracy and truth of the information contained in financial reports. Especially, along with the crisis of mistrust on the audit profession and scandals of companies failures such as Enron, WorldCom, and Tyco. Hence, audit quality is becoming more attractive among other audit topics because of its significant impact on the reliability of the financial reports.

In Yemen Corruption has affected most aspects of life, including the deterioration of the audit system and poor oversight, which has encouraged fraud and manipulate financial reports. Unfortunately, the bulk of existing studies on these variables are predominantly fixated with the Western context where the auditor reputation and the litigation environment are perceived to be different from those existing in developing countries, thus limiting the generalizability of these prior findings to other countries. This research aimed to examine the association between auditor-client contracting characteristics namely, audit firm fees and audit firm rotation; quality of audit and the reliability of financial reports. Specifically, this research is conducted on the perspective of Certified Public Accountants in Yemen (YCPA). This study confirmed that there is a significant relationship between the auditor-client contracting features (audit fees, audit firm rotation) and both audit quality, and the reliability of financial reports. In addition, between audit quality and the reliability of financial reports. The results also suggest that audit quality partially mediates the relationship between (audit fees and auditor rotation) and the reliability of financial reports.

This research provides opportunities for future research. First, this study collected data through a cross-sectional method at a point of time. However, the longitudinal research method could clarify the complex association over a long period and may better explain the development of the variables for the sake of detecting the changes in the association between variables. Secondly, the results of this research were based on the collected data from external auditors (YACPA) in Yemen. However, in future studies, these constructs could be evaluated by other respondents such as investors and creditors, tax officials, internal auditors, and financial managers. Thirdly, some other studies can be conducted in Yemen examining the same model in different sectors such as the banking sector. Furthermore, this model can be also examined empirically using data collected from other countries in the region that have strong and unique cultural practices. Finally, based on this study results, there are some other variables that may increasing the audit quality and reliability of financial reports which can be considered for future studies.

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