New Materiality Concept towards enhanced Financial Reporting Quality (FRQ)

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Abstract: The purpose of this study is to ascertain the current application of the materiality concept across financial reports of firms listed on the Egyptian Stock market (EGX), as well as it aims to empirically examine the effects of the new materiality concept on financial reporting quality (FRQ). Data utilized within the current study comprises secondary data gathered from the Egyptian stock market and company's official website. Data collection method utilized within this study involved doing a content analysis of the yearly financial reports. The study population comprised 100 Companies that were listed on the Egyptian stock market (EGX 100 index) over two distinct time periods (period pre-application of new standards in 2018 and period post-application of new standards in 2021). The technique employed for data analysis was multiple linear regression analysis. Moreover, this study provides remarkable contributions to current literature body. Firstly, it provides a novel measure for the materiality concept. Furthermore, it provides new empirical evidence that materiality concept significantly impacts the financial reporting quality. The findings offer insights to the firms Listed on the Egyptian Stock Market regarding current practices of the materiality concept and how they can appropriately apply the new materiality concept across their financial reports.

Keywords: Materiality Concept, Financial Reporting Quality (FRQ), Egyptian Stock Exchange Market (EGX)

1. Introduction

One of the most Crucial concepts in financial reporting is Materiality. Decisions on how an entity should recognize, measure, present and disclose Particular transactions and information in financial statements or within related notes are impacted by its application.

In fact, the majority of definitions of the Key concepts of "true and fair" or "present fairly" rely on financial information being materially correct.

It is not possible to say that financial statements achieve a fair presentation or provide a truthful and fair picture when material information required by a financial reporting standard is omitted or misstated [1].

Financial reporting quality (FRQ) exposes to what extent financial reports of an entity offer clear and transparent information regarding its projected cash flows, financial position, and performance [2].

The International Accounting Standards Board (IASB) has determined that the application of the concept of materiality is not being effectively applied in practice. Some are of the view that this is the primary cause of disclosure issues, including that there is both the provision of excessive amount of irrelevant information as well as insufficient amounts of relevant information in financial statements [3].

Several factors have been identified for why materiality may not be applied well in practice. One of these is that the International financial reporting standards` (IFRS) guidance on materiality is ambiguous [3]. The lack of a professional guide who serves as a mentor for the preparers when issuing a professional judgment about what is important and what is not, the use of contradictory language within Standards, the usage of synonyms for the concept of materiality in IFRS and other relevant documents seems to be giving rise to ambiguity regarding distinct 'levels' or 'thresholds' of materiality such as Significant, Major, Key, fundamental, Primary, Essential, the ambiguity around what materiality means from a disclosure perspective, In addition, the wording employed in individual Standards seems to mandate disclosures through the use of phrases like 'shall disclose, as a minimum'. Such wording discourages companies from using their own circumstances as a basis for judgement.

[3-5].

In 2012, a survey on financial reporting disclosure was initiated by the staff of the IASB, the survey specifically targeted preparers and primary users and aided the IASB in obtaining a more precise understanding of the observed issue pertaining to disclosure. The materiality concept and its application emerged as a prominent concern throughout the survey. It was mentioned to have contributed to all facets of disclosure issue. A checklist approach was cited by Preparers and other respondents as a specific instance of how the notion of materiality was not being applied properly [6].

In 2013, Feedback Statement Discussion Forum – Financial Reporting Disclosure was issued by the IASB, which outlined the IASB's intention to take several initiatives into consideration, including short-term and research projects. One of these projects is a materiality project, which, with the assistance of an advisory group, aims to develop application guidance or educational material on materiality [6].

The board said that the materiality project`s goals would be to assist preparers, auditors, and regulators in exercising judgement when applying materiality notion to enhance the worth of financial reports. The project`s scope encompassed applying materiality throughout the financial statements; however, the emphasis was on the application of materiality concept to the notes [7].

In addition, Extensive research suggests the Importance of Materiality Concept application [8-17], However, Studies that specifically focus on the New Materiality concept application in relation to financial reporting quality are rare. Also, Studies that provide a Measure to the New Materiality concept are scarce.

In this paper, two research questions are tackled:

RQ1: What is the current application of the materiality concept across the financial reports of Egyptian Stock Market – listed firms?

RQ2: What is the influence of the new materiality Concept on the FRQ?

To answer RQ1, the researcher employs Content analysis to examine the financial reports of firms listed on the Egyptian Stock Market. The research uses regression models as a means of answering RQ2.

This study offers remarkable contributions to the current literature body. Firstly, it provides a new measure for materiality concept. Secondly, it provides new empirical evidence that Materiality Concept significantly impacts the financial reporting quality.

Our findings offer insights to the Firms Listed on the Egyptian Stock Market regarding current practices of materiality concept and how they can appropriately apply the new materiality concept across their financial reports.

2. Literature Review and Hypotheses Development

This section covers three main topics: Materiality concept, FRQ, The causal relationship between Materiality concept and FRQ.

2.1. Materiality Concept

The notion of materiality primarily pertains to the disclosure aspect within the financial statement preparation process. So, Financial statements should exclusively disclose material information, that refers to information that has the potential to impact users` decisions [16].

Accounting Principles, also pointed to as notions or assumptions, encompass guidelines for keeping accounting books and preparing financial statements that guarantee the information presented through accounting is reliable and useful.

One of these notions, materiality, aids in accomplishing this objective. Accounting, as an information system, is based on these notions which arise from efforts to meet the users` information needs of financial statements regarding the real economic and financial position of an entity [13].

Moreover, utility theory is concerned with individuals' preference and the underlying presumption that this preference will numerically bring usefulness to the person [18]. This theory is based on accounting notions including materiality, which seeks to generate useful information for all financial information users. In addition, Decision theory is an interdisciplinary approach to arrive at the decisions that are the most optimal given an uncertain decision-making environment.

Accounting information`s tremendous usefulness can facilitate and enhance more effective decision-making [19]. Also, signaling theory posits that in order to elicit investor willingness and interest in making investments that significantly influence the share price of a firm, managers must publish Sufficient information regarding firm's situation as managers are more cognizant of the firm's situations. Signal emitted by the firm may encompass information pertaining to its future performance, encompassing both positive (favorable) and negative (unfavorable) values. For interested parties, particularly investors, Information that can be a signal is annual reports related to financial statements and non-accounting information. This theory further demonstrates the significant influence and importance of comprehensive, precise, pertinent, and reliable information disseminated by companies on investors, as it plays a pivotal role in determining their investment decisions [20]. So, it is obvious that utility, decision & Signaling theory are based on the appropriate application of materiality concept within financial reporting.

Furthermore, in accounting, applying materiality principle permits for simplifications while preserving a truthful and fair image in accordance with the accepted accounting principles without diminishing the usefulness of information exhibited in the financial statements [13].

2.2. Financial Reporting Quality

FRQ is a debatable notion that reflects the extent to which financial information is devoid of manipulation and accurately represents the financial position and performance of a company [21].

In accounting literature, various measurement methods

have been employed for assessing financial reporting quality. Among the most popular are value relevance models (VRMs), accrual models (AM), research focusing on specified attributes approach (SAA), and methods operationalizing the qualitative characteristics (OQC) [22].

In AM, earnings management level functions as a measurement for FRQ, these models operate under the assumption that managers employ discretionary accruals, which are accruals that managers can exercise a certain degree of control over, to manage earnings [23-25]. Earnings management is postulated to adversely impact FRQ by diminishing its decision usefulness.

VRMs measure the FRQ by concentrating on the relationship between stock-market responses and accounting figures [26]. The SAA places emphasis on some particular financial and non-financial components within financial reports to assess the FRQ. It measures the impact on decisions made by users of the inclusion of particular information in the yearly report [24]. Fair value accounting, the report of the auditor, internal control quality and risk, loan loss provisions, and audit delay are some of the variables utilized in prior research [27-30].

The operationalization of the qualitative characteristics approach entails the comprehensive and simultaneous assessment of various information`s dimensions in accordance with qualitative characteristics that regulatory authorities, standard-setting bodies, relevant professional bodies, and other recognized authorities expect from financial reports [22]. Several studies have attempted to operationalize qualitative attributes of financial reports to assess FRQ. Notable contributions in this area include the studies conducted by [24, 31-34].

In the current paper, FRQ will be proxied by earnings management measured employing modified Jones model suggested by [23].

2.3. Causal Relationship Between Materiality Concept and FRQ

Grant et al. introduced a link between materiality notion application and earnings management, by elucidating the critical role that materiality undertakes in financial reporting process [35]. Abuses of earnings management frequently arise from misuse or misunderstanding of the appropriate application of the materiality notion.

As stated by International Accounting Standards Board, The primary aim of general-purpose financial reporting is to furnish financial information pertaining to the reporting entity that is deemed useful for both current and prospective investors, lenders, and other creditors in their decision making process regarding providing resources to the entity [36], the materiality notion when applied within the context of this objective, assists management in determining the inclusion, exclusion, or aggregation of information within the financial statements. The notion also aids management to decide how information should be presented in the financial statements to guarantee their clarity and comprehensibility.

H1. Materiality Concept has a significant influence on FRQ.

3. Research Methods

3.1. Sample and Data

Study population comprised 100 Firms listed on the Egyptian stock market (EGX 100 index) in two distinct periods: one prior to the application of new standards & the other following their application.

Criteria for exclusion applied to get the final sample. First, the exclusion of companies that do not apply New Egyptian Standards. Second, the exclusion of companies whose annual reports lack complete data. Third, Excluding firms in banks sector due to their special nature. Fourth, excluding the company which their accounting period did not end on 31 of December.

The final sample is composed of 40 companies which belong to 12 different industries representing 80 observations.

This research relies on secondary data from annual reports, as data was gathered from the Consolidated Yearly Financial Reports of these Companies.

The data collection method employed in the current study involved doing a content analysis of the yearly financial reports. This laborious method comprises an examination of approximately 6,227 pages out of eighty yearly reports, which yields a substantial amount of valuable information.

3.2. Research Variables & Measurements

3.2.1. The Independent Variable
Materiality Concept:

The IASB released Definition of Material (Amendments to IAS1 and IAS 8) in October 2018.

The modifications clarify and improve the definition of material in IAS1 "Presentation of Financial Statements" and ensure consistency in the definitions employed throughout IFRS Standards and other publications.

The modified material definition states:

"Information is material if omitting, misstating, or obscuring it could reasonably be expected to influence the decisions that the primary users of general-purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity" [37].

The researcher used 2 different proxies for materiality Concept

(i). The first Proxy: Materiality disclosure Index (MDI)

MDI comprises 4 variables identified below, that characterize disclosure of materiality [10]:

1) (di): No. of times materiality is mentioned in the yearly report.
2) (dj): materiality definition Disclosure
3) (dk): Quantification
4) (dl): Matrix

variables are not weighed in this index. It ranges from zero percent in the absence of any disclosure to one hundred percent.

The subsequent formula is used to determine MDI for every firm denoted as "m" [10]:

$$MDIm = (\sum_{ijkl=1}^{n}(\text{dim} + djm + dkm + dlm)) \div 4$$

In the case that the item di is disclosed, di=1; if not, di=0; m is equal to 1, 2,…,40.

(ii). The Second Proxy: Self-Constructed Index (Materiality Concept Application Index)

Index construction typically involves 3 steps [38]:

Picking Items/variables:

An obvious and precise definition of the construct itself ought to serve as a guide for picking variables [39].

Based on materiality concept construct definition, the researcher determined three potential Materiality Construct-related variables.

combining of these variables into an index:

A basic summation of variables can be used to construct a single composite index. In these instances, each variable score is given equal weight. (the 3 variables are equally important in contributing to the construct being measured)

validating the index:

The researcher will assess the validity of the index by comparing it with the existing measure (MDI)

The MCAI includes the following three variables, which deduced from the new 2018 definition of materiality:

$$\text{MCAI}_t = (\sum \text{MIOMT}_{it} + \text{MIOBS}_{it} + \text{MIMIS}_{it}) \div 3$$

MCAI_t: Materiality Concept application Index of ith firms,

MIOMT_{it}: No. of material Items omitted in yearly report of the firm i,

MIOBS_{it}: No. of material Items obscured in yearly report of the firm i,

MIMIS_{it}: No. of material Items misstated in yearly report of the firm i,

3.2.2. The Dependent Variable

Financial Reporting Quality

The dependent variable employed in the current study is FRQ. In this paper, The Modified Jones model suggested by [23] will be utilized to measure earnings management as a proxy for FRQ.

$$\frac{TACC\ t}{A\ t-1} = \alpha 1 \frac{1}{At-1} + \alpha 2 \frac{(\Delta REVt - \Delta RECt)}{At-1} + \alpha 3 \frac{PPEt}{At-1} + \mathcal{E}t$$

Where:

$TACC_t$ = total accruals for the year t / total assets for the year t-1,

A_{t-1} = Total assets for the year $t-1$,

ΔREV_t = Revenues for year t minus revenues for year $t-1$

ΔREC_t = Net receivables for year t minus net receivables for year $t-1$,

PPE_t = Gross property plant and equipment for year t

$\alpha 1$, $\alpha 2$, and $\alpha 3$ = Parameters that require estimation, namely alphas,

ε: Residuals for year t

In this formula, the residuals ε stand for discretionary accruals.

These discretionary accruals define the subject matter of this research, (financial reporting quality), representing high figure of discretionary accruals as low FRQ.

3.2.3. The Control Variables

The current study incorporates numerous variables typically employed in literature to control the influence of other factors on FRQ. some factors that fall within this category are profitability, financial leverage, Liquidity.

Previous studies indicate that neglecting to control for firm characteristics when examining the Causality between the Materiality Concept and FRQ may lead to issues of heteroscedasticity and misspecification in regression models.

i. Leverage

Leverage is a description of the extent a company is financed by debt [40]. Financial leverage (LEV) is commonly calculated by dividing total debt at the fiscal year end by total assets. [41, 42]

ii. Return On Assets

ROA is a ratio employed to show a firm's capability to make profit with the firm's total assets. Thus, ROA is determined by comparing net Income before tax to average total assets. This ratio attracts investors because investors can find out the effectiveness and efficiency of the asset's utilization carried out by company management [40].

ROA= Net Income before tax/ Average Total assets [21].

iii. Return On Equity = Net income / Total equity [43].

iv. Current Ratio: is typically calculated by dividing current assets by current Liabilities [44].

3.3. Data Analysis Method

3.3.1. Data Normality Test

The test utilized to test normality is 1- sample Kolmogorov-Smirnov Test. From the result of this statistical test, the researcher deduced that the residuals follow a normal distribution.

3.3.2. Multicollinearity Test

Multicollinearity has been tested by two diagnostic tests: VIF and Tolerance values. The test results were applied and the resulting value of variance Inflation factor (VIF) of all the variables is below 10 & Tolerance value exceeds 0.10 for each exogenous & Control variable. Thus, it can be deduced that multicollinearity is not an issue in the data.

3.3.3. Heteroscedasticity Test

To ascertain the presence or absence of Heteroscedasticity, the Breusch–Pagan//Cook-Weisberg test was employed. From the result of this statistical test, the researcher deduced that No heteroscedasticity is present.

3.3.4. Autocorrelation Test

To assess the existence or lack of autocorrelation, the Durbin Watson Test was conducted. The test results were applied, and Durbin Watson resulting value falls within the range of 1.5 and 2.5, so autocorrelation does not appear an issue.

3.4. Analysis Techniques and Hypothesis Testing

3.4.1. Multiple Linear Regression Analysis

This study employed multiple linear regression (MLR) equation to assess the effect of Materiality Concept (X) on the financial reporting quality (Y). Using the following equation formula for multiple linear regression analysis:

$$y = ß_o + ß_1x_1 + ß_2x_2 + ... ß_kx_k + e$$

3.4.2. Determination Analysis

The determinant coefficient (R^2) shows the degree to which sample regression line fits the data utilized to compute the magnitude of the impact. It`s value is expressed in the form of a percentage.

3.4.3. Hypothesis (significance) Testing

A method entails the determination of a provisional solution to an issue that is still a supposition since it must be demonstrated to be true.

By using the SPSS 25 & Stata 17 program then the test simultaneously or in its entirely as follows:

F Test (Simultaneous Test):

F- testing is utilized to assess the level of significance (Sig) of concurrent impact of (X) predictor variables on (Y) predicted variable.

F-value can be determined through an examination of data processing findings in the ANOVA section.

T Test (Partial Test)

T-Test is utilized to assess predictor variable's influence on the significance of the predicted variable. T-value can be observed within the results pertaining to the coefficients of data Processing.

4. Result and Discussion

Main Hypothesis:

Materiality concept has a Significant (Sig) Influence on FRQ.

This hypothesis was tested by the following 2 models:

4.1. First Model

In this model, materiality concept is measured by materiality disclosure index (MDI). Following is a proposed multiple linear regression model:

$$Y = β_0 + β_1 X_1 + β_2 C_1 + β_3 C_2 + β_4 C_3 + β_5 C_4 + e$$

Y: Discretionary Accruals (DACC)
X_1: is materiality disclosure index (MDI)
C1, C2, C3 &C4: are four control variables (ROE, leverage, ROA, and Current ratio, respectively)

4.1.1. Multiple Linear Regression (MLR) Analysis

Table 1. MLR Analysis's findings.

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	-.197	.060		-3.266	.002		
	MDI	.137	.061	.230	2.240	.028	.884	1.132
	ROE	-.051	.024	-.213	-2.097	.039	.898	1.114
	Leverage	.191	.070	.351	2.718	.008	.558	1.792
	ROA	.594	.128	.526	4.637	.000	.721	1.386
	current Ratio	.019	.017	.134	1.096	.277	.621	1.610
a. Dependent Variable: DACC								

The linear regression equation for the first model can be formulated as follows, in accordance with the findings shown in Table 1:

DACC= - 0.197 + 0.137 MDI -0.051 ROE + 0.191 LEV + 0.594 ROA + 0.019 Current ratio + e

In addition, these results indicate the following:
1) The (Intercept) unchanging value of - 0.197, when all predictor & control variables have a numerical value of 0, The Financial Reporting Quality Index (DACC) is - 0.197.
2) (β1) exhibits a positive value of 0.137. This indicates that for each instance when the MDI variable is utilized (X_1) is increased by one, the DACC (Y) rises by 0.137, assuming all other factors remain unchanged.
3) This finding is supported by the study of [35, 45, 46], As misusing the concept of materiality to record intentionally errors in a company's financial statements such that they improperly get labeled as immaterial, this

can allow a company to meet earnings projections.
4) (β2) exhibits a Negative value of 0.051, indicating that a one unit increase in (ROE) C1 variable, will lead to a reduction of 0.051 in the DACC (Y) variable, assuming all other factors remain unchanged. This result is corroborated by [47] study.
5) (β3) exhibits a Positive value of 0.191, indicating that for each unit rise in (LEV) C2, DACC (Y) variable will increase by 0.191, impairing the FRQ assuming all other factors remain unchanged, as companies close to violating their debt covenants and companies that are heavily leveraged may also have lower FRQ as a result of stronger incentives for earnings management. This conclusion reaffirms the research of [47-51].
6) (β4) shows a Positive value of 0.594, indicating that for each unit rise in (ROA) C3, DACC (Y) variable will increase by 0.594, assuming all other factors remain unchanged. This conclusion is corroborated by the study of [48-50, 52].

7) ($\beta 5$) has a Positive value of 0.019, but as it is obvious, p-value > 0.05 (insignificant), So Liquidity (current ratio) does not have a meaningful impact on FRQ (Y), This conclusion conforms to the study of [53-55].

4.1.2. Coefficient of Determination

The determinant coefficient value (R^2) is displayed in the model summary table below:

Table 2. Determinant coefficient results.

Model Summary					
Mode	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.560	.313	.267	.097396550274903	2.270

The determinant coefficient (R^2) is 0.313, as observed in the table mentioned above, which indicates that 31% of the variance in DACC is elucidated by variations in the independent and control variables. So, our Model is efficient.

4.1.3. Statistical Hypothesis Test

i. F- Significance Test (ANOVA)

The F- statistics Value is displayed in the subsequent ANOVA table:

Table 3. ANOVA Table Findings.

ANOVA						
Model		Sum of Squares	Df	Mean Square	F	Sig.
	Regression	.320	5	.064	6.752	.000
1	Residual	.702	74	.009		
	Total	1.022	79			

F-statistics value of 6.752 with a sig. level below 0.05, which is 0.000 indicating that the Materiality Concept & financial reporting quality model is fit (Adequate Model), and the independent & Control variables are suitably chosen.

ii. T – Significance test

On the basis of the t-test outcomes listed in Table 1 of the MLR Analysis, the following can be concluded:

1) There is statistically significant (Sig) causal relationship between the predictor variable (MDI) and the predicted variable (DACC), The result of T- test is significant (P-value < 0.05). Applying the T- test `s decision-making method for regression analysis, Materiality Concept application has a sig. influence on FRQ, therefore, the main hypothesis is supported by the data (accepted).

2) There is statistically sig. relationship between the Control variable (ROE) and the endogenous variable (DACC), The result of T- test is significant (P-value < 0.05).

3) There is statistically sig. association between the Control variable (Leverage) and the endogenous variable (DACC), The result of T- test is significant (P-value <

0.05).

4) There is statistically sig. correlation between the Control variable (ROA) and the endogenous variable (DACC), The result of T- test is significant (P-value < 0.05).

5) There is statistically insignificant correlation between the control variable (Current ratio) and the endogenous variable (DAAC) The finding of T- test is insignificant (P-value > 0.05).

4.2. Second Model

In this model, materiality concept is measured by materiality Concept Application index (MCAI). Following is a proposed multiple linear regression model:

$$Y= \beta_0 + \beta_1 X_1 + \beta_2 C_1 + \beta_3 C_2 + \beta_4 C_3 + \beta_5 C_4 + e$$

Y: Discretionary Accruals (DACC)
X_1: is materiality Concept Application index (MCAI)
C1, C2, C3 &C4: are four control variables (ROE, leverage, ROA, and Current ratio, respectively)

4.2.1. Multiple Linear Regression Analysis

Table 4. MLR Analysis's findings.

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
2	(Constant)	-.205	.061		-3.359	.001		
	MCAI	.002	.001	.211	2.156	.034	.974	1.027
	ROE	-.051	.024	-.212	-2.081	.041	.898	1.113
	Leverage	.220	.069	.404	3.184	.002	.581	1.722
	ROA	.603	.128	.534	4.706	.000	.725	1.379
	current Ratio	.013	.017	.092	.752	.454	.626	1.597
a. Dependent Variable: DACC								

The linear regression equation for the second model can be constructed as follows employing the findings displayed in Table 4 as a basis:

DACC= - 0.205 + 0.002 MCAI - 0.051 ROE + 0.220 LEV + 0.603 ROA + 0.013 Current ratio + e

In addition, these results indicate the following:

1) The (Intercept) unchanging value of - 0.205, when all exogenous & control variables have a numerical value of 0, The Financial Reporting Quality Index (DACC) 0.205.

2) (β1) exhibits a positive value of 0.002. This indicates that for each instance when the MCAI variable is utilized (X1) is increased by one, the DACC (Y) rises by 0.002, assuming all other factors remain unchanged.

3) (β2) exhibits a Negative value of 0.051, indicating that a one unit increase in (ROE) C1 variable, will lead to a reduction of 0.051 in the DACC (Y) variable, assuming all other factors remain unchanged.

4) (β3) exhibits a Positive value of 0.220, indicating that for each unit rise in (LEV) C2, DACC (Y) variable will increase by 0.220, assuming all other factors remain unchanged. As when a firm has increased its debt without sufficient growth in assets and earnings, a high possibility of manipulation in financial figures exists, primarily through managing discretionary accruals.

5) (β4) shows a Positive value of 0.603, indicating that for each unit rise in (ROA) C3, DACC (Y) variable will increase by 0.603, assuming all other factors remain unchanged.

6) (β5) has a Positive value of 0.013, but as it is obvious, p-value > 0.05 (insignificant), So current ratio does not have a meaningful impact on DACC (Y), So any observed relationship could be due to chance rather than a true causal relationship.

4.2.2. Coefficient of Determination

The determinant coefficient value (R^2) is displayed in the model summary table below:

***Table 5.** Coefficient of determination outcomes.*

Model Summary					
Mode	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.557[a]	.310	.263	.097625628824625	2.209

According to the preceding table, the determinant coefficient (R^2) is 0.310, meaning that variations in the exogenous and control variables account for 31% of the variation in DACC. So, our Model is efficient.

4.2.3. Statistical Hypothesis Test

i. Simultaneous Test (F- Test):

The F- statistics Value is displayed in the subsequent ANOVA table:

***Table 6.** ANOVA Test findings.*

ANOVA						
Model		Sum of Squares	Df	Mean Square	F	Sig.
2	Regression	.317	5	.063	6.651	.000
	Residual	.705	74	.010		
	Total	1.022	79			

F-statistics value of 6.651 with a sig. level below 0.05, which is 0.000 indicating that the Materiality Concept & FRQ is fit (Adequate Model), and the exogenous & Control variables are suitably chosen.

ii. Partial Test (t-Test)

On the basis of the t-test outcomes listed in Table 4 of the MLR Analysis, the following can be concluded:

1) There is statistically sig. causality between the exogenous variable (MCAI) and the endogenous variable (DACC), The result of T- test is significant (P-value < 0.05). Applying the T- test `s decision-making method for regression analysis, Materiality Concept application has a sig. effect on FRQ, therefore, main hypothesis is supported by the data (accepted).

2) There is statistically sig. correlation between the Control variable (ROE) and the endogenous variable (DACC), The result of T- test is significant (P-value < 0.05).

3) There is statistically sig. correlation between the Control variable (Leverage) and the endogenous variable (DACC), The result of T- test is significant (P-value < 0.05).

4) There is statistically sig. association between the Control variable (ROA) and the endogenous variable (DACC),

The result of T- test is significant (P-value < 0.05).

5) There is no statistically sig. correlation between the control variable (Current ratio) and the endogenous variable (DAAC), The finding of T- test is insignificant (P-value > 0.05).

5. Conclusion

The following are the research`s conclusion:

1) Materiality Concept has a sig. influence on the financial reporting quality.

2) Currently, there is an inappropriate application (misuse) of the materiality concept across the financial reports of the firms listed on the Egyptian stock market (EGX) that are being examined in this research.

3) Inappropriate application (misuse) of the materiality concept is reflected in the following:

a. Among the 80 annual reports of Egyptian stock market-listed firms analyzed in this research, no single firm provides a definition of materiality.

b. Only 43% of the 40 EGX -listed firms analyzed in this research provide quantifiable information regarding materiality; entities can quantify materiality as

percentage or as monetary units.

    c. Concerning materiality matrix, it functions as a visual representation of the topics that an entity has prioritized. It involves 2 axes: the x-axis indicates how material a topic is to the entity and the y-axis indicates how material a topic is to decisions of stakeholders. Among the 80 annual reports of EGX-listed firms examined in this research, no company presents a Materiality matrix.

4) The proper application of the materiality concept requires:

    a. a precise understanding, differentiation, and application of the three main constructs (omission, misstatement & obscurement) across the financial reports of the Companies.

    b. When assessing materiality, qualitative factors should be taken into account alongside quantitative factors.

    c. Accountants and auditors should exercise professional judgment informed by their knowledge and expertise.

    d. Considering the fact that regulatory or industry standard alterations may cause materiality thresholds to change over time.

    e. Effective communication with management, auditors, and other stakeholders regarding the determination of materiality and its effect on FRQ is crucial.

    f. Documenting the rationale behind materiality decisions to provide transparency and support for those decisions.

ORICD

0009-0006-9531-8039

Conflicts of Interest

The author declares no conflicts of interest.

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