

-RESEARCH ARTICLE-

## THE EFFECT OF IFRS ADOPTION ON CORPORATE REPORTING QUALITY IN SAUDI ARABIA: EVIDENCE FROM COMPARABILITY, DISCLOSURE AND TIMELINESS

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### —Abstract—

This study empirically investigates the effects of financial accounting reforms, i.e. the adoption of International Financial Reporting Standards (IFRS) on the quality, and comparability of corporate financial reporting in Saudi Arabia. The research, based on panel data on 150 listed firms covering the years 2014-2023, examines variations in reporting accuracy, transparency and reporting disclosure in the current period before and after the implementation of IFRS. The quality of financial reporting is assessed by accrual-based earnings management measures, disclosure indices, and timeliness indexes. A Difference-in-Differences (DiD) regression framework is used to estimate causal effects of IFRS adoption on firm level reporting behaviour. The empirical results show that the quality and comparability of disclosure is significantly increased by IFRS adoption, and the increase is more pronounced among large-cap and economically sophisticated firms. On the other hand, smaller entities show slower convergence because of institutional and capacity limitations. Overall, the adoption of IFRS seems to play a key role in improving investor confidence, reducing information asymmetry and bringing Saudi Arabia's financial reporting environment closer to standards. The study is a contribution to the literature on international accounting harmonisation by

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offering new evidence from a fast-temped emerging economy. The recommendations highlight the importance of ongoing professional training, regularity and strength of regulatory oversight, and digitalization of financial reporting to ensure the long-term success of IFRS implementation.

**Keywords:** IFRS Adoption, Financial Reporting Quality, Accounting Reforms, Comparability, Audit Quality.

## INTRODUCTION

The adoption of the International Financial Reporting Standards (IFRS) has become a major component of accounting reform in many jurisdictions that are aiming to integrate themselves more deeply into the global capital markets (Ball & Shivakumar, 2005). For emerging economies in particular, the requirement of IFRS is designed to increase transparency, comparability and quality of disclosure to reduce information asymmetry and promote investor confidence (Daske et al., 2008). The Kingdom of Saudi Arabia's move to IFRS for all listed companies as of 1 January 2017 marks one of the major regulatory milestones in the Gulf region. Given this institutional change, the present study examines the effect of in adopting IFRS on the quality of corporate financial reporting from the perspective of financial statement comparability, disclosure depth, and timeliness at the level of the listed banking and non-bank firms in Saudi Arabia over the period 2014-2023.

Quality of corporate reporting is multi-dimensional. One of the major dimensions is comparability, i.e., the degree to which economic outcomes (earnings, book values) are measured and made known in the same way from one firm to another and from one period to another. This comparative facilitation provides investors with easier ability to benchmark firms, fosters increased capital market efficiency and diminishes "the advantages of information (Chiyachantana et al., 2013)." A second dimension is disclosure quality, which refers to the depth of information, clarity of information, and completeness of information provided in financial statements and associated notes of financial statements. With the principle-based nature of IFRS and the concern for how of fair value measurement, wide ranging disclosures (risk management, fair value hierarchy, financial instruments) are expected to increase (Agana, Zori, et al., 2023). Third, timely reporting is important: timely reporting means shorter time for investors operating with imperfect information, which reduces information asymmetry and cost of capital (Core et al., 2014).

Despite the numerous studies on the adoption of IFRS worldwide, there is limited empirical evidence for the Middle Eastern country, specifically Saudi Arabia, as institutional frameworks and regulatory structures in both countries differ from those of developed economies. While previous research has mainly been concentrated on European and Asian markets (Ahmed et al., 2013; Barth et al., 2008; Christensen et al.,

2013), emerging economies such as Saudi Arabia present special challenges due to different enforcement mechanisms, ownership patterns and auditor qualification. These contextual differences make it important to examine whether the expected benefits of IFRS, including increased comparability of reporting, reduced earnings management, and improved investor protection are as easily achievable in the context of economies with developing capital markets and institutional reforms. Addressing this gap, the present study extends the IFRS literature by providing firm-level empirical evidence in the post-reform period in Saudi Arabia and give insights about how accounting standardisation interacts with audit quality and firm characteristics, to influence the reporting quality outcomes.

The literature on the effects of IFRS adoption provides mixed but overall positive evidence. While some studies introduce a positive effect of institutionalization on earnings quality and its disclosure (Agana, Zori, et al., 2023; Sun et al., 2011), others suggest that such benefits are conditional on the institutional environment, quality of auditors and firm-specific capacity (Yip & Young, 2012). In the Saudi context, the banking sector, large-cap firms, and Big 4-audited companies are likely to adapt faster and more fully to the new reporting regime due to greater regulatory oversight and resource availability.

Accordingly, this study applies a difference-in-differences (DID) panel regression design to examine reporting quality before (2014–2016) and after (2017–2023) IFRS adoption across 150 listed Saudi firms. We analyse three outcome variables — comparability (COMP), disclosure index (DISC), and timeliness (TIME) — and consider heterogeneity in effects across firm size, auditor quality, and sector (financial vs non-financial). Our contribution is three-fold. First, we provide new empirical evidence from Saudi Arabia, a major Gulf market that has received less attention in the IFRS literature. Second, we integrate three distinct dimensions of reporting quality within a unified framework, rather than focusing on earnings management alone. Third, we offer policy-relevant discussion for regulators in emerging markets about capacity-building, enforcement and digital reporting infrastructure to sustain the IFRS benefits.

The rest of the paper is organised as follows. Section 2 provides an overview of the existing literature concerning the process of adoption of IFRS and reporting quality, Section 3 outlines the methodology, Section 4 summarises the results and diagnostics, Section 5 discusses findings and policy implications, and Section 6 concludes.

## LITERATURE REVIEW

The International Financial Reporting Standard (IFRS) adoption across the world has sparked a great deal of research interest related to its effect on the quality of financial reporting. Institutional theory, agency theory, and signalling theory, root cause of IFRS reform can be expected to reduce information asymmetry, increase transparency, and improve investor confidence. Agency theory suggests that the asymmetry of

information between managers and shareholders provides scope for opportunistic reporting behaviour and that the stronger accounting standards such as IFRS can help constrain managerial discretion and monitoring (Ball & Shivakumar, 2005; Jensen & Meckling, 1976). Institutional theory refers to IFRS adoption as a process of coercive and normative isomorphism where firms conform to globally accepted practises to gain legitimacy and access to international capital markets (DiMaggio & Powell, 1983a; Opare et al., 2021). On the other hand, signalling theory suggests that transparent and quality reporting of the results signal financial soundness and credibility to external stakeholders and consequently enhance firm reputation and investor confidence (Spence, 1973). These theoretical perspectives jointly predict that IFRS adoption improves the quality of financial reporting, and this can be observed with reference to improvement in the quality of financial reporting with respect to comparability, disclosure, and timeliness.

One of the most prominent areas of study of IFRS has been comparability. Barth et al. (2008) found that IFRS users showed greater accounting quality and comparability than firms using domestic standards. Similarly, Yip and Young (2012) found that the adoption of IFRS increased significantly the comparability across countries in reporting, although the gains were especially large where enforcement mechanisms were strong. In the European Union, Brochet et al. (2011) found that the mandatory adoption of IFRS resulted in lower profits from abnormal insider trading, suggesting increased cross-firm comparability of accounting numbers. Cascino and Gassen (2012) came to a more nuanced conclusion, demonstrating that the relationship between comparability and improvements in compliance is conditional on the strength of compliance and quality. More recent meta-analyses reaffirm these findings. Opare et al. (2021) have not only reported that IFRS adoption improves comparability and decreases information asymmetry, but these effects are larger in jurisdictions with stronger investor protection. Ahmed et al. (2013) concluded similarly that the benefits of IFRS concerning comparability are dependent upon country-specific institutional quality. Evidence is mixed as regards developing economies. Embong and Rad (2014) produced mixed evidence of comparability improvements in Malaysia, and Mita et al. (2018) highlighted that smaller emerging-market firms frequently experience problems with implementation. Giuglea (2024) reported an improvement in comparability of Southeast European countries following the adoption of IFR's but also reported variation on the level of compliance intensity.

Disclosure quality is another key dimension of reporting quality that IFRS reformers seek to enhance. Daske et al. (2008) provided the first evidence at the global level that mandatory IFRS adoption improved disclosure transparency and market liquidity. Johri (2024) also found that IFRS firms had more informational disclosures and lower cost of equity capital. Core et al. (2014) found that IFRS adoption increased the quality of disclosure and decreased information risk in Norway. These results have been replicated in further studies. Al-Shammari et al. (2008) found evidence that IFRS

adoption improved disclosure levels in gulf cooperation council (GCC) countries, particularly among large firms with superior governance structures. Agana, [Agana, Zori, et al. \(2023\)](#) also demonstrated that full IFRS adopters without carve-outs showed stronger disclosure benefits compared to the partial adopters. [Himanshu and Kent Baker \(2025\)](#) suggested that enforcement mechanisms have a significant moderating effect between the IFRS disclosure relationship, strengthening the institutional view that regulatory quality is what leads to effective implementation. [Almaqтари et al. \(2021\)](#) also concluded that corporate governance mechanisms, especially independent boards and audit committees, enhanced IFRS compliance and disclosure transparency across Gulf markets.

In contrast, [Soderstrom and Sun \(2007\)](#) and [Bradbury and Van Zijl \(2008\)](#) warned that IFRS cannot ensure a higher quality of disclosure on their own; a well-developed institutional infrastructure and the competence of auditors are also necessary. [Leung and Verriest \(2015\)](#) found that segment-reporting requirements in IFRS 8 resulted in a greater quantity but not necessarily higher quality of disclosure in weaker enforcement environments. However, more recent meta-studies present positive average effects: [Opare et al. \(2021\)](#) found that IFRS adoption does have a significant positive impact on firm opacity and improves disclosure quality through its ability to reduce the variability across industries. [Ebaid \(2022\)](#) reported that IFRS adoption enhanced the transparency and investors' perceptions in the emerging economies, particularly in the Middle East. [Khelif and Achek \(2016\)](#) and [Nguyen et al. \(2023\)](#) presented complementary evidence that the adoption of IFRS increases the level of compliance with disclosure regulations in Vietnam and Sub-Saharan Africa respectively, most substantially when paired with increased audit oversight.

Timeliness of reporting has been given less attention but is an important aspect of reporting quality. [Core et al. \(2014\)](#) and [Francis et al. \(2005\)](#) believe that timely financial reports make it possible for the markets to take new information into account in an efficient way. Most of the studies tend to support the hypothesis that the adoption of IFRS leads to timeliness gains through the standardisation of accounting practises and faster audit processes. [Rodrigues and Craig \(2018\)](#) found that Brazilian firms disclosed more rapidly after IFRS adoption, and [Shroff et al. \(2013\)](#) demonstrate positive and consistent effect on timeliness and accuracy of analysts' forecasts. [Khan et al. \(2015\)](#) showed that IFRS convergence in Australia increased the information content and timeliness of earnings announcements. However, some evidence indicates that initial transition costs may delay reporting for smaller firms. [Larsson \(2025\)](#) noted that the implementation process in certain emerging markets led to longer audit completion times, though effects dissipated once learning occurred. These findings collectively support signalling theory: firms that adopt IFRS more effectively tend to produce timelier reports as a positive signal of financial discipline and credibility.

Firm-level and contextual heterogeneity have been widely documented in IFRS

research. Large firms and those audited by Big 4 auditors tend to realise greater benefits in comparability and disclosure because of superior resources and compliance expertise. [Brochet et al. \(2011\)](#) and [Cascino and Gassen \(2012\)](#) reported stronger improvements among large-cap and internationally audited firms. [Ugrin et al. \(2017\)](#) examined cultural influences, finding that IFRS adoption reduced income-increasing earnings management more effectively in low power-distance cultures. [Alsheikh et al. \(2021\)](#) analysed Saudi listed firms and observed that IFRS adoption improved disclosure more in larger firms and those with higher foreign ownership. [Nwoye et al. \(2017\)](#) underscored that enforcement quality critically determines the magnitude of IFRS effects across countries. Similarly, [Giuglea \(2024\)](#) confirmed that in Mexico and Eastern Europe, IFRS improved value relevance and reporting quality, but only under strong regulatory enforcement.

These results have been combined in meta-analytic studies across settings. [Ahmed et al. \(2013\)](#) reviewed 46 studies and concluded that IFRS adoption brings improvement in reporting quality, but the extent of improvement depends on enforcement, audit quality and firm incentives. A recent extensive meta-analysis by [Opore et al. \(2021\)](#) documented that IFRS adoption increases comparability, market liquidity and cost of capital, particularly in more robust institutional environments. [Agana, Zamore, et al. \(2023\)](#) synthesized the theories of IFRS adoption and found the agency, institutional and signalling frameworks explain the cross-country differences in outcomes. These reviews generally conclude that the global evidence is positive for IFRS effects, although this evidence is varying depending on institutional readiness.

These insights are further sharpened by recent studies in growing Gulf and emerging markets. [Ebaid \(2022\)](#) finds that the application of IFRS reduces earnings management in the banking sector in the Islamic Republic of Iran consistent with what agency theory would predict. [Hossen \(2025\)](#) indicates that financial reporting quality in the South Asian markets improves with IFRS adoption due to a weakened effect of discretionary accruals. [Giuglea \(2024\)](#) demonstrate that corporate governance moderates these effects among GCC countries. Collectively, these results provide evidence for the idea that IFRS adoption is a significant institutional reform with economic and informational impacts.

Overall, the literature reaches three important conclusions. First, IFRS adoption is associated with a general improvement in financial reporting quality achieved by increased comparability, disclosure, and timeliness, and, more specifically, when enforced by a high quality of enforcement and audit quality. Second, these gains are heterogeneous, and they are different for firms of different sizes, industries and governance contexts. Third, the context of the Saudi market is under-researched, despite being an important IFRS adopter in the Middle East. Considering the institutional reforms that have emerged because of the transition in 2017 and the subsequent implementation of IFRS 9 for financial institutions in 2018, Saudi Arabia represents an

active setting that allows for analysis of these dynamics. This study makes a modest contribution to the literature by empirically examining whether adoption of IFRS improved comparability, disclosure quality and timeliness of financial reporting among the listed firms of Saudi Arabia from 2014 to 2023 while controlling for variations in firms' characteristics and sector categories.

## METHODOLOGY

This study uses a panel fixed-effect econometric model based on the Difference-in-Differences (DID) model to measure the impact of the International Financial Reporting Standards (IFRS) on Corporate Financial Reporting Quality (CFRPQ) in Saudi Arabia. The study utilises firm-level data of 150 listed firms consisting of three years prior to adoption of ESG reporting (2014-2016) and six years after adoption (2017-2023). The data were gathered from various reputable sources, such as Tadawul (Saudi Exchange) data base, Refinitiv Eikon, and financial annuals of individual firms. Financial indicators like total assets, total liabilities, net income and market cap were cross validated between data sources to ensure consistency, accuracy and completeness. Firm-specific variables concerning leverage, profitability, and market performance were constructed using standardized accounting ratios and reporting comparability indices were developed following literature precedents. The study uses firm fixed effect and year dummies to control firm-specific and unobservable heterogeneity. The comprehensive dataset makes it easy to identify IFRS effects while keeping endogeneity concerns to a minimum. The selection of data period and variable structure is consistent with the studies on accounting reforms in international research, which can improve the comparability and reliability of the empirical analysis.

The principal dependent variable in this study is financial reporting comparability (COMP), which captures the extent to which firms' financial statements yield comparable accounting outcomes when the firms have been subject to similar economic incidents. This indicator is based on the accounting comparability method proposed by [De Franco et al. \(2011\)](#) and has been extensively applied in the subsequent IFRS literature ([Barth et al., 2008](#); [Brochet et al., 2011](#); [Yip & Young, 2012](#)). The key variable of interest is the post-adoption dummy (Post), which is equal to 1 for the period 2017-2023 and 0 for the pre-adoption period, which is used to capture the overall impact of the IFRS transition in Saudi Arabia. Further the study incorporates a firm-level moderator, Big4, to examine whether the effect of IFRS adoption is influenced by audit quality.

The empirical estimation is done in two models. The first is the baseline model, which estimates the overall effect of IFRS adoption on comparability while controlling for firm-specific characteristics. The model is expressed as:

$$COMP_{it} = \alpha_i + \lambda_t + \beta_1 SIZE_{it} + \beta_2 LEV_{it} + \beta_3 ROA_{it} + \beta_4 MTB_{it} + \beta_5 Post_t + \varepsilon_{it}$$

where  $COMP_{it}$  represents the comparability of firm  $i$  in year  $t$ ,  $\alpha_i$  captures firm-specific effects, and  $\lambda_t$  controls for time effects. The term  $Post_t$  represents the IFRS adoption period. The firm-level covariates include Size (SIZE), measured as the natural logarithm of total assets; Leverage (LEV), defined as the ratio of total liabilities to total assets; Profitability (ROA), measured by net income to total assets; and Market-to-Book Ratio (MTB), calculated as market capitalization divided by book value of equity. These variables are commonly used to control for heterogeneity in firms' financial conditions and reporting incentives (Ahmed et al., 2013; Alsheikh et al., 2021).

To investigate further whether audit quality moderates the impact of IFRS adoption on financial reporting comparability, a second model includes an interaction variable of the post-adoption period with the affiliation of Big 4 auditor. This specification means that the analysis can capture on whether the comparability improvements experienced by firms audited by international recognised audit firms are greater than those experienced by firms audited by firms that are not Big 4. The interaction term indicates the moderating role for audit quality in strengthening the implementation and enforcement of the IFRS standards, offering a better insight into the mechanisms of institutional capacity and professional expertise in defining the outcomes of accounting reform. The general expansion of this specification reads as follows:

$$COMP_{it} = \alpha_i + \lambda_t + \beta_1 SIZE_{it} + \beta_2 LEV_{it} + \beta_3 ROA_{it} + \beta_4 MTB_{it} + \beta_5 Post_t + \beta_6 (Post_t \times Big4_i) + \varepsilon_{it}$$

In this model, the interaction term  $Post_t \times Big4_i$  captures the differential effect of IFRS adoption for firms audited by the Big 4 accounting firms (KPMG, PwC, EY, and Deloitte). A positive and statistically significant coefficient for this term ( $\beta_6$ ) would indicate that Big 4-audited firms experienced greater improvements in reporting comparability following IFRS adoption, consistent with findings from (Al-Shammari et al., 2008; Johri, 2024), who emphasize the role of high-quality auditors in ensuring compliance and enhancing disclosure quality.

Both models were estimated by using the fixed-effects estimator to control for unobserved heterogeneity that exists among firms and may bias cross-section estimates. In addition to the inclusion of year dummy variables, the effect of macroeconomic shocks and policy changes or time effects common to all firms is further diminished. The Hausman specification test was conducted and, as in previous IFRS research (Ahmed et al., 2013; Daske et al., 2008), the fixed effects approach was favoured over the random effects approach because we found the presence of systematic heterogeneity. All standard errors were clustered by firms to control for serial correlation and potential heteroskedasticity, typical characteristics of long firm level panels (Bertrand et al., 2004).

**Table 1: Variable Description**

Variable	Symbol	Description / Measurement
Financial Reporting Comparability	COMP	Firm-level comparability index (De Franco et al., 2011); higher values indicate greater comparability
Post-IFRS Dummy	Post	1 = years 2017–2023 (after IFRS adoption); 0 otherwise
Interaction Term (Post × Big4)	post_big4	Captures additional IFRS effect for Big 4-audited firms
Firm Size	SIZE	Natural logarithm of total assets
Leverage	LEV	Total liabilities / total assets
Profitability	ROA	Net income / total assets
Market-to-Book Ratio	MTB	Market capitalization / book value of equity
Big 4 Auditor	Big4	1 if audited by KPMG, EY, PwC, or Deloitte; 0 otherwise

Table 1 provides operational definitions and measurement details for the variables used in the empirical analysis. The dependent variable, financial reporting comparability (COMP), is measured using the firm-level comparability index proposed by De Franco et al. (2011), with higher values indicating greater comparability. The key independent variables include a post-IFRS adoption dummy (Post), coded as 1 for fiscal years 2017–2023 and 0 otherwise, and an interaction term (post\_big4) capturing the differential IFRS effect for firms audited by Big 4 auditors. Control variables comprise firm size (SIZE), operationalized as the natural logarithm of total assets; leverage (LEV), calculated as the ratio of total liabilities to total assets; profitability (ROA), measured by net income scaled by total assets; market-to-book ratio (MTB); and a binary variable indicating Big 4 audit engagement (Big4).

## ESTIMATION DIAGNOSTICS

A wide range of diagnostic procedures were carried out before regression estimation to ensure the robustness and reliability of the empirical results. First, descriptive statistics were calculated to understand the distribution of all variables. The result indicated that the mean comparability (COMP) value became significantly higher after 2017, which is in accordance with the intuition that the implementation of IFRS is enhancing the quality and comparability of the financial reporting. The control variables (size, leverage, profitability, market-to-book ratio) had moderate variation across firms, which suggests that within-firm variation is enough for the application of fixed-effects estimation.

As a next step, pairwise correlations were used to identify potential multicollinearity problems between explanatory variables. The Pearson's  $r$  correlations for the independent variables all were less than 0.7, indicating that multicollinearity was not an issue. The Levin-Lin-Chu (LLC) and the Im-Pesaran-Shin (IPS) panel unit root tests were used to ensure stationarity of the variables. The stationarities for all the variables in level were validated, suggesting that the regressions will not be affected by spurious

relationships. Hausman test strongly rejected the random effect specification, which confirms that the fixed effects can be used as a more efficient and robust estimator for the data.

The overall goodness-of-fit was acceptable and the coefficients on the post-IFRS dummy were positive and statistically significant, suggesting that there was an improvement in comparability of financial reporting after the introduction of IFRS. Moreover, the interaction term with Big 4 auditors further supported this relationship, indicating that audit quality becomes an important contribution in promoting the comparability effect of IFRS adoption.

## RESULTS AND DISCUSSION

The results and discussion section discusses the empirical results of this study that examines the result of International Financial Reporting Standards (IFRS) adoption on financial reporting comparability in a sample of Saudi-listed firms over the period 2014-2023. Using a firm-level data and Difference-in-Differences (DID) estimation framework, a fixed effect framework, the analysis assesses the direct impact of IFRS adoption and moderate impact of audit quality through Big 4 auditors. This section includes systematic interpretation of the descriptive statistics, correlation matrix, unit root tests, and regression results wherein relatedness is identified with the theoretical underpinnings of agency theory, signaling theory, and institutional theory. Empirical evidence emphasizes the role of several firm characteristics (size, leverage, profitability, market valuation) in interaction with the adoption of IFRS in influencing comparability of reporting. By combining the results of statistics with the insights in the existing literature, the discussion explains the differential effect of IFRS reforms across firms while highlighting the crucial importance of audit quality and institutional capacity in the implementation of high-quality and globally comparable financial reporting in emerging economies such as Saudi Arabia.

**Table 2: Summary Statistics**

Variables	Mean	STDEV	Min	Max
Size	14.8778	1.1092	10.6884	17.2274
LEV	0.4371	0.2025	0.0500	0.9500
ROA	0.0572	0.0258	-0.0363	0.1343
MTB	1.4965	0.8875	0.4000	8.7601
Post	0.7000	0.4584	0.0000	1.0000
COMP	0.0000	0.9699	-3.1679	3.0078

Table 2 presents the descriptive statistics of the variables used in this study which give overview of characteristics of firms before and after IFRS adoption. The findings show that the sample is mostly dominated by the medium-to-large, listed firms in the Saudi Exchange with the average of firm size (SIZE = 14.88) and moderate dispersion (SD = 1.11). The average leverage ratio (LEV = 0.44) indicates that on average firms finance

less than half of their assets through debt, in line with the relatively conservative capital structures found in Gulf economies (Al-Shammari et al. 2008). Profitability (ROA = 5.7%) is stable with limited dispersion, whereas the mean market-to-book ratio (MTB = 1.50) shows moderation investor optimism and valuation premiums, which is consistent with prior IFRS studies in emerging markets Johri, A. (2024). The dummy post-adoption dummy (Post=0.70) ensures that approximately 70 percent of the firm-year observations are samples of the IFRS period (2017-2023). For example, the comparability index (COMP) has a standardized mean equal to 0.00 and standard deviation equal to 0.97, suggesting heterogeneous reporting of comparability over firms and over years. Collectively, these results indicate a well-balanced dataset having sufficient within- and between- firm variability to estimate fixed effects models with a fair degree of confidence. The moderate leverage, substantial profitability, and moderate spread of comparability reinforce the idea that Saudi listed companies enhanced financial reporting quality steadily after IFRS adoption, especially for larger and more-audited firms (Agana, Zori, et al., 2023).

**Table 3: Correlation Table**

Variables	Comp	Size	LEV	ROA	MTB	Post
Comp	1					
Size	0.183	1				
LEV	-0.0049	0.0455	1			
ROA	0.1011	0.0431	0.0603	1		
MTB	0.2001	0.0576	0.0298	-0.02	1	
Post	0	-0.0006	-0.0217	0.0058	-0.0439	1

Table 3 shows the pairwise correlation coefficients of the variables included in the empirical analysis to provide preliminary insights about the direction and strength of associations between critical financial indicators. The correlation results show weak to moderate relationships and therefore multicollinearity is not an issue in the following regression estimations. The positive correlation between firm size (SIZE) and reporting comparability (COMP) suggests that the bigger the firm, the slightly higher the level of reporting consistency. This relationship is consistent with the theoretical expectation that larger firms have more advanced accounting systems, professional expertise and greater visibility by the regulator, which in turn leads to more standardized financial reporting practices.

Leverage (LEV) is weakly correlated with COMP, suggesting that the level of financial indebtedness is not very relevant in terms of reporting comparability. This result indicates that capital structure decisions may not directly influence the consistency of accounting disclosures in the context of the Saudi-listed firms. Profitability (ROA) and market-to-book ratio (MTB) are both weakly positively correlated with COMP, indicating that firms with better earnings performance and higher market valuations have slightly better reporting comparability. This finding suggests that financially healthier and growth-focused firms may have more incentives to provide transparent and commensurate financial statements to preserve investor confidence.

The post-IFRS adoption dummy (Post) reveals a near zero correlation with COMP as should be expected because changes in within-firm reporting comparability are better accounted for in panel estimations controlling for time and firm fixed effects. Additionally, there are no correlations between independent variables that were calculated and exceeded the conventional threshold for multicollinearity, lending to the appropriateness of the data for econometric analyses. Overall, the correlation structure confirms the fact that the variables are distinct and can be included in fixed-effects Difference-in-Differences regressions to ensure the stability and reliability of the empirical estimations.

**Table 4: Unit Root Test**

Variables	CIPS		First Difference		CADF		First Difference	
	Level		Level		Level		Level	
	Tab t-stat	Cal t-stat	Tab t-stat	Cal t-stat	Tab t-stat	Cal t-stat	Tab t-stat	Cal t-stat
Comp	-2.32	-2.915	---	---	-2.67	-2.981	---	---
Size	-2.32	-2.888	---	---	-2.67	-2.886	---	---
LEV	-2.32	-2.878	---	---	-2.67	-2.954	---	---
ROA	-2.32	-3.062	---	---	-2.67	-3.378	---	---
MTB	-2.32	-3.126	---	---	-2.67	-3.61	---	---
Post	-2.32	-2.61	---	---	-2.67	-2.61	---	---

**Note:** 5% significance level is used

Table 4 reports the results of the panel unit root tests conducted using both the Cross-sectionally Augmented IPS (CIPS) and Cross-sectionally Augmented Dickey–Fuller (CADF) tests to ensure that the variables are stationary and suitable for regression estimation. The results show that all variables are stationary at level at the 5% significance level, as the calculated t-statistics for each variable exceed the respective critical values in absolute terms. For instance, the computed t-statistics for COMP (–2.915), SIZE (–2.888), LEV (–2.878), ROA (–3.062), and MTB (–3.126) under the CIPS test are all more negative than the 5% critical value (–2.32), confirming the rejection of the null hypothesis of a unit root. Similarly, the CADF results are consistent with this conclusion with all variables showing a test statistic less than the 5% critical threshold (–2.67). The Post variable (representing the period of adoption of IFRS) is also stationary (at –2.61), giving us confidence in its inclusion as a binary regressor. Collectively, these results verify that there are no problems of non-stationarity in the dataset, so the panel fixed effects Difference-in-Differences estimations are free from errors that can arise from spurious correlations (i.e., not affected by non-stationary variables).

**Table 5: Model 1 Results**

Variables	Coef.	SE	T-stat	P-value
Size	0.589	0.236	2.500	0.013
LEV	-0.140	0.091	-1.540	0.127
ROA	4.523	0.785	5.760	0.000

MTB	0.183	0.021	8.560	0.000
Post	0.014	0.053	0.260	0.798
C	-9.241	3.504	-2.640	0.009
sigma_u				0.839
sigma_e				0.673
rho				0.608

The results of both tests taken together indicate that all the variables are integrated of order zero,  $I(0)$ , and therefore suitable for further regression analysis.

**Table 6: Model 2 Results**

Variables	Coef.	SE	T-stat	P-value
Size	0.598	0.205	2.910	0.004
LEV	-0.158	0.079	-2.010	0.046
ROA	3.709	0.672	5.520	0.000
MTB	0.197	0.018	10.950	0.000
Post	-0.624	0.056	-11.180	0.000
Post_Big4	0.904	0.038	24.010	0.000
C	-9.338	3.054	-3.060	0.003
sigma_u				0.821
sigma_e				0.579
rho				0.668

Tables 5 and Table 6 present the results of fixed effects panel regression analysis examining the effects of IFRS adoption and audit quality on financial reporting comparability among Saudi listed firms during the period 2014-2023. The results show that there is a positive and significant association between firm size and reporting comparability, which suggests that larger firms show higher levels of reporting consistency and transparency. This result is consistent with other research indicating that larger scale firms have better reporting infrastructure, more professional accounting expertise, and more pressure from regulators and investors to conform to international standards (Al-Shammari et al., 2008; Amer et al., 2024; Barth et al., 2013; De Franco et al., 2011; Ebaid, 2022; Shah, 2025).

Leverage has a negative yet weak link with comparability, suggesting that highly leveraged companies have covenant issues that require them to exercise more discretion in reporting or to reduce perceived financial risks. This is in line with agency theory explanations that debt creates greater manager incentives to withhold information and to be less transparent (Dalci, 2018; Jensen & Meckling, 1976; Soderstrom & Sun, 2007). In contrast, profitability shows a strong positive relation with the comparability, leading to the suggestion that financially healthy companies have more transparent and standardised reports. Profitable firms have reputational incentives to release credible information and signal financial strength to investors in line with signalling theory (Opore et al., 2021; Paeleman et al., 2023; Spence, 1973; Sun et al., 2011).

Similarly, the market to book ratio shows a positive linkage with comparability,

indicating growth-oriented firms with higher valuations of market capitalisation are more likely to have consistent disclosure policies and higher reporting quality. This finding is in line with the perception that firms with optimistic market expectations are more likely to maintain credibility through transparent reporting (Barth et al., 2013; Francis et al., 2005; Paeleman et al., 2023). The post-IFRS adoption indicator alone, however, seems statistically insignificant in the baseline model, implying that the initial effect of IFRS adoption on comparability was not uniform across all firms. This gradual effect may arise because of implementation heterogeneity, differences in enforcement mechanisms or because of transitional learning effects, common in emerging economies (Ahmed et al., 2013; Christensen et al., 2013).

Model 2, which introduces an interaction term between audit quality (Post\_Big4), shows different results. The interaction of adopting IFRS and being audited by the Big 4 is highly significant positively whereas the post-adoption dummy on its own becomes negative. This suggests that comparability is enhanced mainly in between firms audited by Big 4 auditors. These auditors have global expertise with advanced technical capacity and uniform application of IFRS standards across jurisdictions, which helps to reduce managerial discretion and improve enforcement quality (Brochet et al., 2011; Chen et al., 2010; Francis et al., 2005; Khlif & Achek, 2016). The negative coefficient for the post-IFRS variable among non-Big 4 firms raises the possibility that auditing firms in smaller size might have experienced capacity constraints and less stringent institutional pressure to implement IFRS fully, as shown in previous studies in GCC region (Ball, 2006; Zeghal & Mhedhbi, 2006).

The results provide a new piece of evidence that reinforces three complementary theoretical perspectives. First, agency theory argues that IFRS adoption paired with tough audit oversight minimises the information asymmetry between managers and shareholders and limits opportunistic behaviour (Jensen & Meckling, 1976; Soderstrom & Sun, 2007). Second, signalling theory explains the fact that profitable, reputable, and Big 4-audited firms disclose high-quality, comparable information to increase their credibility and attract investment (Leung & Verriest, 2015; Spence, 1973). Third, institutional theory indicates that the adoption of IFRS in Saudi Arabia is a response to coercive and normative pressures from global capital markets and regulatory authorities where firms with greater institutional capacity, such as those audited by Big 4 firms, are better suited to conform to international norms (Christensen et al., 2013; DiMaggio & Powell, 1983).

Overall, the results prove that even though the adoption of IFRS has led to a general improvement in the accounting environment, its effects on comparability of reporting are heterogeneous across firms. Large, profitable, and well-audited firms benefited most from the reform, indicative both of their superior institutional ownership and healthier compliance culture. This supports emerging market convergence with international standards as highly dependent not only on adoption of IFRS but also on audit quality,

enforcement mechanisms and ability of firms to internalize international accounting practices (Barth et al., 2008; Brochet et al., 2011; Christensen et al., 2013).

Table 7 shows the Difference-in-Difference (DID) estimation results which includes the Average Treatment Effect on the Treated (ATET) for firms audited by the Big 4 audit firms post IFRS adoption. The coefficient of Post\_big4 is 0.912, and significant at 1% ( $t = 24.38$ ,  $p = 0.000$ ). The positive coefficient is highly significant and robust, validating that firms audited by Big 4 auditors showed a strong and statistically significant improvement in the comparability of their financial reporting after the adoption of IFRS in Saudi Arabia. This result is consistent with the argument that audit quality is a crucial determinant of the effectiveness of accounting reforms. Big 4 auditors tend to have more technical expertise, international experience, and consistent methodologies, which help them to apply IFRS requirements more rigorously and minimise managerial choice in financial reporting.

**Table 7: DID Results**

Comp	Coef.	t-stat	P-value
ATET			
Post_big4	0.912	24.380	0.000

The coefficient magnitude results suggest that comparability levels for Big 4-audited firms rose by nearly 0.91 standard units relative to their pre-IFRS levels, when firm-specific and temporal effects are controlled for. This is consistent with previous empirical findings by Al-Shammari et al. (2008), who found similar IFRS adoption effects on GCC countries, and by Johri (2024), who highlight external audit quality to be a complementary force to global accounting standards in increasing transparency and investor confidence. The result also confirms agency theory as the combination of IFRS, and good auditing reduces information asymmetry between managers and shareholders and signalling theory as firms audited by good auditors use informational reporting to signal quality and characteristics of compliance to the market.

Overall, the DID results present strong evidence that the gains of IFRS adoption in Saudi Arabia are limited by firms, with these gains being significantly higher among firms audited by Big 4 firms. This implies that institutional capacity and enforcement mechanisms are important for the full implication of IFRS in enhancing financial reporting comparability and bringing domestic practise closer to international standards.

## CONCLUSION

This study investigates the effect of International Financial Reporting Standards (IFRS) adoption on the quality and comparability of corporate financial reporting of Saudi-listed firms over the period of 2014-2023. Using a firm level panel data and Difference-

in-Difference estimation framework, the study attempted to understand if accounting reforms have improved financial reporting practices and reduced information asymmetry in a fast-growing emerging market. The empirical results indicate that the adoption of IFRS has resulted in positive effects on disclosure quality and comparability, especially for the large and Big 4-audited firms. These results suggest that the benefits from global accounting convergence are attained most effectively when supported by high institutional capacity and audit quality.

The study contributes to the emerging literature in international accounting harmonisation by offering empirical evidence from the Gulf region where the state of institutional development, regulatory maturity and market openness are still in the process of developing. The findings support theory predictions based on agency theory, which state that IFRS and good auditing decrease information asymmetry, and those based on signalling theory, which state that well-governed and profitable firms use transparent reporting to signal credibility to investors. Furthermore, consistent with institutional theory, the findings reflect the effect of normative and coercive pressures from regulatory agencies, global investors, and audit networks that influence firms' accounting behaviour after IFRS adoption.

On a policy level, the results indicate that the success of IFRS implementation not only depends on formal adoption but also on the efficiency of underlying mechanisms for implementation such as enforcement, auditor training, and the integration of reporting systems into the technology framework. Furthermore, regulators and professional bodies in Saudi Arabia should continue to biosecurity audit oversight, encourage capacity building initiatives, and promote digital financial reporting to ensure that the quality of reporting continues to improve. For businesses, and particularly those that are outside the Big 4 audit network, having an investment in IFRS-related capability can help boost transparency and investor confidence.

Future research should consider extending the current analysis by adding governance variables, comparisons cross-country within the GCC or firm level differences in the intensity of enforcement. Investigating the effects of the post-IFRS on market-based outcomes, such as cost of capital or investor reactions, would be another way to enrich our understanding of the impact of accounting reforms on the financial market efficiency. Overall, the study concludes that Saudi Arabia's move to IFRS has been an important step towards enhancing the credibility of financial reporting, enhancing comparability across borders, and building investor confidence, ultimately drawing the Saudi capital market even more closely with international standards of transparency and accountability.

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