**ISSN: 2146-3042**
**DOI**: **10.25095/mufad.1605615**

# Antecedents of Auditing and Reporting Standards' Strength in Emerging Countries: The Role of Secrecy Culture[*]

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## *ABSTRACT*

*Auditing and reporting standards are indispensable for ensuring transparency, accountability, and comparability in financial markets. They enhance trust among stakeholders, reduce information asymmetry, and support economic integration. This study examines the moderating role of secrecy culture in the relationship between institutional, governance, and economic factors and the Strength of Auditing and Reporting Standards in emerging markets, using Gray's (1988) Secrecy Theory. Countries are grouped by secrecy levels (low, medium, high) to explore cultural, institutional, and governance impacts. The analysis focuses on association rather than causality, acknowledging the cross-sectional nature of the data. Results show that low-secrecy cultures benefit most from corporate governance, while high-secrecy cultures weaken the effectiveness of governance mechanisms. Foreign ownership is positively associated with Strength of Auditing and Reporting Standards, particularly in high-secrecy countries, while foreign market size is negatively associated with it. The findings emphasize the need for tailored policies, with high-secrecy nations requiring external pressures to enhance transparency and accountability.*

***Keywords**: Secrecy Culture, Strength of Auditing and Reporting Standards, Institutional and Governance Indicators*

***Jel Classification**: M41, M42, Z13, G38*

## *Gelişmekte Olan Ülkelerde Denetim ve Raporlama Standartlarının Gücünün Belirlenmesinde Öncel Faktörler: Gizlilik Kültürünün Rolü*

## *ÖZET*

*Denetim ve raporlama standartları, finansal piyasalarda şeffaflık, hesap verebilirlik ve karşılaştırılabilirliği sağlamak için vazgeçilmezdir. Bu standartlar, paydaşlar arasında güveni artırır, bilgi asimetrisini azaltır ve ekonomik entegrasyonu destekler. Bu çalışma, Gray'in (1988) Gizlilik Teorisi'nden yararlanarak, kurumsal, yönetişim ve ekonomik faktörler ile Denetim ve Raporlama Standartlarının Gücü arasındaki ilişkide gizlilik kültürünün düzenleyici (moderating) rolünü incelemektedir. Ülkeler, kültürel, kurumsal ve yönetişimsel etkileri analiz etmek amacıyla düşük, orta ve yüksek gizlilik düzeylerine göre gruplandırılmıştır. Analiz, verilerin kesitsel yapısı dikkate alınarak nedensellikten ziyade ilişkilere odaklanmaktadır. Bulgular, düşük gizlilik düzeyine sahip kültürlerin kurumsal yönetişimden en fazla faydayı sağladığını, yüksek gizlilik kültürlerinin ise yönetişim mekanizmalarının etkinliğini zayıflattığını göstermektedir. Yabancı sahipliğin, özellikle yüksek gizlilik kültürüne sahip ülkelerde, Denetim ve Raporlama Standartlarının Gücü ile pozitif ilişkili olduğu, yabancı pazar büyüklüğünün ise negatif ilişkili olduğu bulunmuştur. Bulgular, yüksek gizlilik düzeyine sahip ülkelerin şeffaflık ve hesap verebilirliği artırmak için dış baskılara ihtiyaç duyduğunu vurgulamaktadır.*

***Anahtar Kelimeler**: Gizlilik Kültürü, Denetim ve Raporlama Standartlarının Gücü, Kurumsal ve Yönetişim Göstergeleri*

***JEL Sınıflandırması**: M41, M42, Z13, G38*



**Makale Gönderim Tarihi**: 22.12.2024, **Makale Kabul Tarihi**: 27.01.2026, **Makale Türü:** Araştırma Makalesi

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## 1. INTRODUCTION

Auditing and reporting standards are pivotal in improving the quality, transparency, and comparability of financial information. As Knechel (2013) emphasizes, auditing standards play a critical role in structuring the audit process, supporting the reliability of outcomes, being associated with reduced information asymmetry, and addressing the diverse needs of stakeholders. These standards are linked to greater trust and transparency in the audit process while preserving auditors' professional judgment to maintain audit quality.

Similarly, International Financial Reporting Standards (IFRS) contribute significantly to financial reporting by encouraging global alignment in practices. As highlighted by Brown (2011), adopting IFRS is associated with reduced information asymmetry, lower cost of capital, increased cross-border investments, and improved market liquidity. By enhancing the comparability of financial reports, IFRS is linked to a better understanding for international investors and is associated with increased economic integration. Together, auditing and reporting standards serve as essential tools for supporting financial transparency, accountability, and the overall functioning of financial markets.

However, the effectiveness of these standards is not uniform across all contexts. Cultural factors, such as the tendency toward secrecy, play a significant role in shaping how these standards are adopted and implemented. This study builds on Gray's (1988) Secrecy Theory, which posits that secrecy-oriented cultures have a lower tendency to disclose financial information, which is associated with weaker auditing and reporting standards. Prior research highlights the importance of institutional quality for strengthening these standards (e.g., Adela et al. 2022), yet the role of cultural dimensions such as secrecy remains underexplored.

The strength of auditing and reporting standards (SARS) is an important factor associated with financial market efficiency, corporate governance, and investor confidence. Prior research (Adela et al. 2022; Alessa 2024; Boolaky and Cooper 2015; Boolaky and O'Leary 2011; Boolaky and Soobaroyen 2017; Păcuraru-Ionescu, Cîmpan, and Borlea 2023; Sarıdoğan 2021) highlights the interplay between cultural norms, legal frameworks, and institutional quality in shaping *SARS*. Among these factors, secrecy culture emerges as a particularly influential element. This study seeks to extend existing literature by exploring how secrecy culture moderates the association between institutional, governance, and economic factors and *SARS* within emerging markets.

Emerging markets are selected for this study because they present a unique landscape for analyzing the moderating role of secrecy culture on institutional, governance, and economic factors As noted by Fan et al. (2011), emerging markets differ fundamentally from developed economies due to distinct institutional forces, such as government intervention, state ownership, and underdeveloped financial markets, which significantly influence corporate behaviors. Claessens and Yurtoglu (2013) further emphasize that emerging markets exhibit concentrated ownership structures, limited access to financial resources, and weaker enforcement of corporate governance, making them relevant for exploring the interplay between governance mechanisms and secrecy culture. By categorizing countries into low, medium, and high secrecy groups, this research aims to provide nuanced insights into the context-dependent factors associated with *SARS.*

Specifically, the study addresses the following research question: How does secrecy culture influence the antecedents of *SARS* in emerging markets? Through this inquiry, the study contributes to a more comprehensive understanding of the cultural underpinnings of financial transparency and accountability, offering practical implications for policymakers and international organizations aiming to improve governance standards in diverse cultural contexts.

## 2. SECRECY CULTURE, AUDITING, AND REPORTING: THEORETICAL FRAMEWORK AND HYPOTHESES

Secrecy culture has been extensively studied for its influence on financial reporting, auditing practices, and corporate governance. Defined by Gray (1988) as a preference for confidentiality and restricted information disclosure, secrecy culture contrasts sharply with transparent, publicly accountable approaches. This cultural dimension has far-reaching implications for financial decision-making, particularly in the areas of financial reporting, investment behavior, and audit practices. Complementary to cultural explanations, Adela et al. (2022) emphasize the institutional dimension, demonstrating that governance quality, rule of law, and regulatory effectiveness significantly reinforce the strength of auditing and reporting standards. Their findings highlight that institutional structures interact with, and sometimes override, cultural tendencies in shaping SARS.

### 2.1. IFRS and ISAs

Cultural dimensions significantly influence adoption of IFRS and International Standards on Auditing (ISAs) patterns. El-Helaly et al. (2020) highlight that countries with higher uncertainty avoidance and power distance are more inclined toward mandatory IFRS adoption, while long-term orientation correlates with delayed adoption. Góis et al. (2018) further note that IFRS adoption reduces the cost of equity capital, particularly in culturally aligned countries, although its effectiveness varies with dimensions like power distance and indulgence. Similarly, Elmghaamez and Elmagrhi (2022) emphasize the role of cultural, educational, legal, and political factors in the diffusion and early adoption of ISAs. Their findings reveal that common law countries adopt ISAs faster than civil law countries, with vigorous legal enforcement, shareholder protection, and higher literacy rates promoting earlier adoption. Moreover, cultural values such as individualism and uncertainty avoidance, coupled with political stability and low corruption levels, are significant drivers of early ISAs adoption. In contrast, high power distance and robust judicial efficiency systems tend to constrain ISAs adoption timelines.

### 2.2. Secrecy Culture and Financial Reporting

Secrecy culture shapes perceptions of earnings management and influences financial reporting practices. Geiger and Van der Laan Smith (2010) report that individuals from secrecy-oriented countries are more accepting of both accounting and operational earnings management. Loy (2018) highlights that secrecy moderates the relationship between intelligence and earnings management, suggesting that secrecy amplifies the ability of managers with high cognitive skills to engage in sophisticated earnings management practices.

Additionally, the relationship between secrecy culture and financial reporting has been well-documented. Braun and Rodriguez (2008) identified a negative association between high secrecy levels and earnings quality, as evidenced by increased abnormal accruals. Similarly, Houqe et al. (2015) demonstrated that mandatory adoption of IFRS mitigates the adverse effects of secrecy culture by enhancing transparency and reducing earnings conservatism.

Papanastasopoulos and Tsiritakis (2015) explore how accounting distortions contribute to the accrual anomaly in European markets. Their findings reveal that the pricing of accruals is more distorted

in markets with higher secrecy, reflecting the role of secrecy in shaping how accruals are priced. This highlights the broader market implications of secrecy culture on financial reporting and valuation.

### 2.3. Secrecy Culture and Investment Behavior

Secrecy culture also impacts corporate investment decisions. Mazboudi and Hasan (2018) revealed that higher secrecy levels correlate with lower investment efficiency due to increased information asymmetry. Shocks that reduce information asymmetry weaken this negative relationship, underscoring the role of transparency in optimizing investment outcomes. In secrecy-oriented environments, managers exhibit heightened sensitivity to peer firm performance, further complicating investment efficiency (Abou Tanos et al., 2024).

### 2.4. Secrecy Culture and Auditing Practices

Auditing practices are significantly shaped by secrecy culture. Hope et al. (2008) found that firms in high-secrecy countries are less likely to engage Big-N auditors unless they have substantial international exposure. Chen et al. (2017) reported that firms in secrecy-oriented environments are more likely to receive modified audit opinions, highlighting the challenges auditors face in such contexts. Furthermore, Lam et al. (2024) demonstrated that Big-N auditors are more inclined to issue modified opinions for economically significant clients in secrecy-oriented countries, suggesting that client importance amplifies the influence of secrecy norms on audit outcomes. Prabowo et al. (2021) showed that tax enforcement increases the likelihood of private firms hiring external auditors, as stricter enforcement creates greater demand for compliance and transparency. However, they also found that secrecy culture weakens this relationship, as the preference for confidentiality reduces the responsiveness of firms to tax enforcement measures. This suggests that secrecy culture not only shapes the demand for audits but also moderates how firms react to external regulatory pressures.

### 2.5. SARS in Literature

Research on the antecedents of SARS highlights the role of institutional, governance, and economic factors. Păcuraru-Ionescu et al. (2023) found that macroeconomic indicators, such as education and economic development, are significant predictors of *SARS*, with higher education levels correlating with stronger standards. Similarly, Sarıdoğan (2021) emphasizes that as transparency levels increase in countries, corporate governance improves, financial systems develop, and GDP grows, leading to

stronger auditing and accounting standards. Strengthening these standards is crucial for all stakeholders, especially investors, as it enhances the reliability and accuracy of financial statement information. Consequently, it is vital for countries to adopt policies and strategies aimed at increasing transparency, corporate governance, financial system development, and economic growth.

Boolaky and Cooper (2015) emphasized regional differences in antecedents of *SARS*, showing that governance mechanisms dominate in Europe, whereas legal frameworks and foreign market size are more critical in Asia. Similarly, Boolaky and Soobaroyen (2017) identified shareholder protection and professional management as key drivers in the Asia-Pacific region, while the adoption of IFRS and ISAs standards had moderate impacts. More recently, Adela et al. (2023) provide panel data evidence from 36 African countries, showing that institutional structures such as control of corruption, government effectiveness, political stability, regulatory quality, and rule of law exert a significant positive influence on SARS. Importantly, they report that this relationship is stronger in common-law countries than in civil-law ones, suggesting that legal traditions condition the institutional impact on SARS.

In sub-Saharan Africa, Boolaky and O'Leary (2011) developed a model to evaluate *SARS* across 28 countries, identifying eight significant predictors, including corporate governance and shareholder protection. However, the study also highlighted the limited impact of IFRS adoption on *SARS* consistency, suggesting that contextual factors such as legal frameworks and education play a more critical role. These findings underscore the complexity of harmonizing global auditing standards and the necessity of considering local cultural and institutional environments.

Consistent with institutional theory, Adela et al. (2023) argue that stronger institutional arrangements—such as effective governments and low corruption environments—enhance the enforcement of auditing and reporting standards. Building on this institutional evidence, the present study extends the analysis by focusing on how secrecy culture moderates these antecedents in emerging markets.

Research Question (RQ): How does secrecy culture influence SARS in emerging markets?

Given the pervasive impact of secrecy culture on various financial practices, this study hypothesizes that:

**H1:** SARS differs significantly across secrecy levels of culture.

**H2:** Institutional and governance factors have a stronger influence on *SARS* in low-secrecy countries compared to high-secrecy countries.

**H3:** Economic factors such as market size and foreign ownership exhibit varying degrees of influence on *SARS* depending on the level of secrecy culture.

By testing these hypotheses, the study aims to elucidate the complex associations between cultural, institutional, and economic factors in shaping SARS. In line with Gray's (1988) Secrecy Theory, it is expected that higher levels of secrecy culture will weaken the positive influence of institutional and governance mechanisms on SARS, whereas lower levels of secrecy will enhance these effects. This theoretical framework provides a foundation for understanding how secrecy culture moderates the effectiveness of governance mechanisms, contributing to the broader discourse on financial transparency and accountability in emerging markets.

## 3. RESEARCH METHODOLOGY

The research methodology adopts a structured approach to analyze the associations between *SARS* and various factors across secrecy culture groups. Countries are classified into low, medium, and high secrecy categories, and separate regression models are estimated for each group. Given that the dependent variable (SARS) is continuous, we estimated multiple linear regression models (OLS) separately for each secrecy group. OLS was selected over alternatives such as logistic or ordered regression, as the dependent variable is not categorical or ordinal. Panel estimators were also not feasible due to the cross-sectional structure of the dataset. To ensure robustness, multicollinearity issues are addressed using Variance Inflation Factor (VIF) diagnostics, allowing for a clear assessment of how governance, institutional, and cultural factors are related to *SARS* in diverse contexts.

This study adopts secrecy culture as a moderating variable, rather than as a direct independent variable. Secrecy culture is used to classify countries into low, medium, and high secrecy groups, and separate regression models are estimated for each group. This design allows for the examination of whether the associations between institutional, governance, and economic factors and *SARS* differ across cultural contexts. While the study's institutional, governance, and economic variables (e.g., Efficacy of Corporate Boards, Judicial Independence, Prevalence of Foreign Ownership) are conceptualized in literature as potential antecedents of *SARS*, secrecy culture is treated differently. It is not assumed to

cause changes in *SARS* directly, but rather to moderate the strength and direction of the relationships between these antecedents and *SARS*. Accordingly, any findings relating to secrecy culture are interpreted as differences in associations across cultural contexts, rather than causal effects. Given that the data is cross-sectional, the results for secrecy culture reflect correlation patterns, not causality. For the other independent variables, although causal interpretations are grounded in prior literature, the possibility of reverse causality is acknowledged and discussed in the conclusion section.

### 3.1. Sample Selection and Definition of Variables

The data used in this study covers country-level information from 2007 to 2017, sourced from the World Economic Forum (WEF). This data is primarily derived from the Executive Opinion Survey (EOS), which gathers qualitative assessments from senior business leaders across more than 130 countries. The EOS indicators have been widely used in the Global Competitiveness Index and extensively applied in prior literature (e.g., Braun and Rodriguez 2008; Hope et al. 2008; Houqe et al. 2015). The WEF discontinued publishing these detailed EOS-based indicators after 2017, following a revision of the Global Competitiveness Index methodology. Consequently, the 2007–2017 period represents the last consistent timeframe for these measures.

The sample consists of 28 emerging economies, with the MSCI Emerging Markets Index serving as the primary reference. While the MSCI classification provided the baseline, adjustments were made according to data availability and broader definitions of emerging markets in prior literature and by international institutions, consistent with Afrifa et al. (2020). Specifically, Taiwan, although classified as an MSCI Emerging Market, was excluded due to data unavailability during the study period. Conversely, countries such as Argentina, Morocco, Jordan, the Russian Federation, Hong Kong, Singapore, and Vietnam were included, as they were either part of earlier MSCI versions or widely recognized as emerging economies in international classifications.

The final sample of 28 countries is grouped into six regions: Africa (Egypt, Morocco, South Africa), the Middle East (Jordan, Kuwait, Saudi Arabia, UAE), Europe (Czechia, Greece, Hungary, Poland, Russian Federation, Türkiye), Asia (China, Hong Kong, India, Indonesia, Malaysia, Philippines, Singapore, Thailand, Vietnam), South America (Argentina, Brazil, Chile, Colombia, Peru), and North America (Mexico). In total, this yields 308 country-year observations.

The concept of secrecy is grounded in Gray's (1988) framework, where individualism is negatively associated with secrecy, while uncertainty avoidance and power distance are positively related. Following Hope et al. (2008), the secrecy score is computed as:

Secrecy Score = *UA* + *PD* – *IND*

This measure has been widely adopted in empirical research (e.g., Bertrand, Klein, and Pasiouras 2024; Chen et al. 2017; Lam et al. 2024; Prabowo et al. 2021).

The study employs a percentile-based classification method to categorize countries based on their Secrecy Score. This approach, commonly used in statistical and social science research, divides data into three distinct groups according to their relative positions within the dataset. Specifically, the Secrecy Scores are ranked, and each observation's percentile rank $P_i$ is calculated using the formula:

$$P_i = \frac{Rank(X_i)}{n} \times 100$$

Where $Rank(X_i)$ denotes the rank of observation $X_i$ in the sorted dataset, and $n$ represents the total number of observations. Based on these percentile ranks, the countries are classified into three categories: **Low Secrecy** ($P_i < 25$), **Medium Secrecy** ($25 \leq P_i < 75$), and **High Secrecy** ($P_i \geq 75$), coded as 1, 2, and 3, respectively. This method ensures a balanced distribution of countries across categories while facilitating relative comparisons. The classification provides a robust framework for analyzing cross-country variations in Secrecy Scores, enabling a clear interpretation of differences in secrecy levels.

**Table 1.** Variables: Definitions and Sources

| Variable | Definition | Measurement/Source |
|---|---|---|
| ***SARS*** | Strength of Auditing and Reporting Standards | WEF survey scale (1–7) |
| ***ECB*** | Efficacy of Corporate Boards | WEF survey scale (1–7) |
| ***EBF*** | Ethical Behavior of Firms | WEF survey scale (1–7) |
| ***FEM*** | Financing through Local Equity Markets | WEF survey scale (1–7) |
| ***FMS*** | Foreign Market Size | WEF index (1–7) |
| ***JI*** | Judicial Independence | WEF survey scale (1–7) |
| ***LR*** | Legal Rights Index | WEF index (0–12) |

| | | |
|---|---|---|
| ***PFO*** | Prevalence of Foreign Ownership | WEF survey scale (1–7) |
| ***PMSI*** | Protection of Minority Shareholders' Interests | WEF survey scale (1–7) |
| ***RSE*** | Regulation of Securities Exchanges | WEF survey scale (1–7) |
| ***SIP*** | Strength of Investor Protection | WEF index (0–10) |
| ***Secrecy Score*** | Cultural secrecy indicator (UA + PD – IND) | Hofstede (1980); Hope et al. (2008) |

Together, these indicators capture key aspects of institutional quality, governance, and financial systems, providing a comprehensive basis for cross-country comparison.

### 3.2. Research Model

The generalized regression model for the three secrecy categories (1 = low, 2 = medium, 3 = high) is represented as follows:

$$SARS = \beta_0^s + \beta_1^s \cdot ECB + \beta_2^s \cdot JI + \beta_3^s \cdot RSE + \beta_4^s \cdot PMSI + \beta_5^s \cdot FEM + \beta_6^s \cdot FMS + \beta_7^s \cdot LR + \beta_8^s \cdot PFO + \beta_9^s \cdot SIP + \varepsilon$$

Where:

- ***s*** represents the secrecy category, with $s$ = **1** for low, $s$ = **2** for medium, and $s$ = **3** for high secrecy countries.

- Each coefficient $\beta_i^s$ for $i = 0,1,\ldots,9$) represents the effect of the independent variable on ***SARS*** for a specific secrecy category.

- $\boldsymbol{\varepsilon}$ **is** the error term.

This model allows for a comparative analysis of the drivers of ***SARS*** across countries with different secrecy levels.

### 3.3. Descriptive Statistics

Table 2 categorizes emerging countries based on their secrecy scores, dividing them into low, medium, and high secrecy cultures. Secrecy scores are calculated using Hofstede's cultural dimensions framework, reflecting each country's emphasis on secrecy in institutional and business practices. Low secrecy countries, such as China, Czechia, and Singapore, exhibit more transparent information environments. Medium secrecy countries, including Argentina, Brazil, and Greece, demonstrate

moderate levels of secrecy, while high secrecy countries, like Colombia, Egypt, and Russia, emphasize greater secrecy in their practices.

The regional distribution highlights notable patterns, with Asian countries like China and Singapore classified as low secrecy, while Latin American countries such as Mexico and Peru often fall into the high secrecy category. European countries show variation, with Czechia and Hungary in the low secrecy group, while Türkiye and Greece are in the medium category.

**Table 2.** Secrecy Scores of Countries and Categorization

| Country | Secrecy Score | Percentiles Category | Category Code |
|---|---|---|---|
| **Singapore** | *39* | | *1* |
| **Hong Kong SAR.** | *47* | | *1* |
| **Hungary** | *57* | ***Low*** | *1* |
| **Czechia** | *61* | | *1* |
| **China** | *67* | | *1* |
| **South Africa** | *75* | | *1* |
| **Vietnam** | *80* | | *1* |
| **Argentina** | *84* | | *2* |
| **Saudi Arabia** | *88* | | *2* |
| **India** | *93* | | *2* |
| **Chile** | *100* | | *2* |
| **Greece** | *101* | | *2* |
| **United Arab Emirates** | *104* | | *2* |
| **Türkiye** | *105* | ***Medium*** | *2* |
| **Brazil** | *109* | | *2* |
| **Malaysia** | *109* | | *2* |
| **Thailand** | *109* | | *2* |
| **Morocco** | *114* | | *2* |
| **Poland** | *114* | | *2* |
| **Jordan** | *115* | | *2* |
| **Kuwait** | *115* | | *2* |
| **Colombia** | *118* | | *3* |
| **Indonesia** | *121* | | *3* |
| **Philippines** | *121* | ***High*** | *3* |
| **Egypt. Arab Rep.** | *122* | | *3* |
| **Mexico** | *129* | | *3* |
| **Peru** | *131* | | *3* |
| **Russian Federation** | *142* | | *3* |

Table 3 outlines the descriptive statistics for key variables, offering a summary of central tendencies and dispersion. The data highlights notable cross-country variations in institutional attributes and governance practices. Variables with higher dispersion, such as 'judicial independence' and 'investor protection,' point to significant heterogeneity in these domains, while metrics like 'corporate board efficacy' and 'minority shareholder protection' demonstrate greater cross-country alignment.

The observed variability signals underlying differences in institutional environments across countries. This heterogeneity underscores the complexity of governance dynamics and the need for contextualized analysis. The distributional characteristics presented in Table 3 form a critical foundation for subsequent empirical investigation, offering essential context for exploring the interplay between secrecy culture and governance outcomes.

**Table 3.** Descriptive Statistics

| Variables | N | Minimum | Maximum | Mean | Std. Deviation |
|---|---|---|---|---|---|
| ***SARS*** | 308 | 3.41 | 6.73 | 4.91 | 0.68 |
| ***ECB*** | 308 | 3.59 | 6.27 | 4.73 | 0.53 |
| ***EBF*** | 308 | 2.65 | 6.58 | 4.19 | 0.82 |
| ***FEM*** | 308 | 2.12 | 6.01 | 4.21 | 0.82 |
| ***FMS*** | 308 | 3.38 | 7.00 | 5.41 | 0.65 |
| ***JI*** | 308 | 2.17 | 6.32 | 4.12 | 0.95 |
| ***LR*** | 308 | 0.00 | 12.00 | 5.15 | 2.56 |
| ***PFO*** | 308 | 2.68 | 6.68 | 4.83 | 0.78 |
| ***PMSI*** | 308 | 3.04 | 6.22 | 4.49 | 0.63 |
| ***RSE*** | 308 | 2.73 | 6.56 | 4.70 | 0.78 |
| ***SIP*** | 308 | 2.00 | 9.30 | 5.85 | 1.56 |

*Notes: SARS = Strength of Auditing and Reporting Standards, ECB = Efficacy of Corporate Boards, EBF = Ethical Behavior of Firms, FEM = Financing through Local Equity Markets, FMS = Foreign Market Size, JI = Judicial Independence, LR = Legal Rights Index, PFO = Prevalence of Foreign Ownership, PMSI = Protection of Minority Shareholders' Interests, RSE = Regulation of Securities Exchanges, SIP = Strength of Investor Protection.*

## 4. EMPIRICAL RESULTS

Tables 4 and 5 collectively provide crucial insights into the relationships among variables and the multicollinearity present in the regression models.

Table 4 displays the correlation matrix, highlighting significant relationships between the main variables. Strong positive correlations are observed between *SARS* and several variables, notably *ECB*, *PMSI*, and *RSE*, suggesting that these factors are closely linked to variations in the strength of auditing and reporting standards. High correlations among certain variables also signal potential multicollinearity issues, which necessitate further investigation.

**Table 4**. Correlation Matrix

| Variables | SARS | ECB | EBF | FEM | FMS | JI | LR | PFO | PMSI | RSE | SIP |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **SARS** | 1.00 | | | | | | | | | | |
| **ECB** | 0.75*** | 1.00 | | | | | | | | | |
| **EBF** | 0.69*** | 0.56*** | 1.00 | | | | | | | | |
| **FEM** | 0.65*** | 0.58*** | 0.68*** | 1.00 | | | | | | | |
| **FMS** | 0.09 | 0.13** | 0.15** | 0.09 | 1.00 | | | | | | |
| **JI** | 0.74*** | 0.46*** | 0.83*** | 0.68*** | 0.14** | 1.00 | | | | | |
| **LR** | 0.42*** | 0.40*** | 0.27*** | 0.17*** | 0.31*** | 0.23*** | 1.00 | | | | |
| **PFO** | 0.61*** | 0.55*** | 0.46*** | 0.37*** | 0.02 | 0.33*** | 0.43*** | 1.00 | | | |
| **PMSI** | 0.85*** | 0.70*** | 0.73*** | 0.79*** | 0.02 | 0.73*** | 0.28*** | 0.56*** | 1.00 | | |
| **RSE** | 0.84*** | 0.71*** | 0.60*** | 0.73*** | 0.11 | 0.62*** | 0.31*** | 0.58*** | 0.82*** | 1.00 | |
| **SIP** | 0.57*** | 0.58*** | 0.48*** | 0.38*** | 0.32*** | 0.42*** | 0.52*** | 0.35*** | 0.46*** | 0.46*** | 1.00 |

*Notes: ***, **, * denote significance at the 1%, 5%, and 10% levels. SARS = Strength of Auditing and Reporting Standards, ECB = Efficacy of Corporate Boards, EBF = Ethical Behavior of Firms, FEM = Financing through Local Equity Markets, FMS = Foreign Market Size, JI = Judicial Independence, LR = Legal Rights Index, PFO = Prevalence of Foreign Ownership, PMSI = Protection of Minority Shareholders' Interests, RSE = Regulation of Securities Exchanges, SIP = Strength of Investor Protection.*

Table 5 addresses this issue by presenting the VIF statistics. Initial VIF values for the full sample and sub-samples based on secrecy culture categories (low, medium, high) reveal instances of multicollinearity, particularly for *JI, PMSI, RSE,* and *EBF* in certain models. To address this, stepwise elimination of highly collinear variables was implemented. As part of this process, *PMSI, RSE, JI,* and *EBF* were excluded from the refined models where their VIF values were not reported. The removal of these variables contributed to a significant reduction in VIF values, resulting in improved model stability and interpretability.

The final VIF values across the secrecy categories (low, medium, and high) demonstrate reduced multicollinearity, as evidenced by the generally lower VIF values in the refined models. Some variables, such as *PMSI*, were excluded from the models where VIF values indicated severe multicollinearity (e.g., *PMSI* = 7.588 for the high-secrecy category). These exclusions were made to preserve model stability and avoid misspecification, while ensuring the theoretical relevance of retained variables.

The combined interpretation of Tables 4 and 5 underscores the complexity of the associations among governance, secrecy, and auditing standards. The systematic approach to variable refinement highlights the methodological rigor applied to ensure valid empirical analysis, while also acknowledging the trade-off between multicollinearity reduction and theoretical robustness.

**Table 5.** VIF Statistics of Regression Models

| Variables | VIF (all) | VIF (all) (refined) | VIF (1) | VIF (1) (refined) | VIF (2) | VIF (2) (refined) | VIF (3) | VIF (3) (refined) |
|---|---|---|---|---|---|---|---|---|
| *ECB* | 2.80 | 2.68 | 7.34 | 2.97 | 3.40 | 3.03 | 2.64 | 2.13 |
| *EBF* | 4.27 | 4.25 | 8.05 | – | 5.13 | – | 1.74 | 1.73 |
| *FEM* | 3.22 | 2.83 | 7.16 | 2.24 | 3.33 | 3.30 | 5.10 | – |
| *FMS* | 1.24 | 1.19 | 3.02 | 1.17 | 2.05 | 2.01 | 1.46 | 1.19 |
| *JI* | 4.28 | 3.98 | 19.18 | – | 4.43 | 2.44 | 2.68 | 1.97 |
| *LR* | 1.64 | 1.64 | 2.69 | 1.35 | 1.77 | 1.76 | 2.89 | 2.17 |
| *PFO* | 2.03 | 1.95 | 6.43 | 1.75 | 2.22 | 2.11 | 4.70 | 2.05 |
| *PMSI* | 5.75 | – | 13.85 | – | 4.11 | 4.00 | 7.59 | – |
| *RSE* | 4.02 | 3.54 | 14.14 | – | 3.14 | 2.99 | 2.92 | 2.62 |
| *SIP* | 1.95 | 1.95 | 9.42 | – | 2.88 | 2.87 | 1.95 | 1.83 |

*Notes: SARS = Strength of Auditing and Reporting Standards, ECB = Efficacy of Corporate Boards, EBF = Ethical Behavior of Firms, FEM = Financing through Local Equity Markets, FMS = Foreign Market Size, JI = Judicial Independence, LR = Legal Rights Index, PFO = Prevalence of Foreign Ownership, PMSI = Protection of Minority Shareholders' Interests, RSE = Regulation of Securities Exchanges, SIP = Strength of Investor Protection.*

The analysis of the regression results reveals important insights into the antecedents of *SARS* across different secrecy culture groups. *SARS* reflects the quality, transparency, and reliability of financial reporting systems, and understanding its key drivers provides a foundation for policy interventions aimed at enhancing audit practices.

One of the most prominent factors influencing *SARS* is *ECB*. The analysis shows that *ECB* has a positive and significant impact on *SARS* in the overall model ($\beta = 0.295$, $p < 0.01$) as well as in all secrecy culture groups. However, the magnitude of this effect varies significantly across these groups. In countries with low secrecy cultures, the effect is particularly strong ($\beta = 0.868$, $p < 0.01$), reflecting the critical role that effective corporate boards play in promoting transparency and accountability. In medium secrecy cultures, *ECB* also exerts a positive influence on *SARS* ($\beta = 0.188$, $p < 0.05$), though its effect is less pronounced compared to low secrecy countries. In high secrecy culture countries, the effect of *ECB* on *SARS* is still positive ($\beta = 0.195$, $p < 0.05$), but its impact is notably smaller. This suggests that in high secrecy environments, the influence of corporate boards on reporting practices may be constrained by strong secrecy norms. *ECB* was included in all models since it did not exhibit high multicollinearity, further supporting its role as a key determinant of *SARS*. The findings underscore the essential role of corporate governance mechanisms, especially in low secrecy cultures where transparency is a central norm.

**Table 6.** Regression Results

| **Variables** | **All** | Countries With **Lower** Secrecy Culture | Countries With **Medium** Secrecy Culture | Countries With **Higher** Secrecy Culture |
|---|---|---|---|---|
| *ECB* | 0.295*** (6.41) | 0.868*** (8.09) | 0.188** (3.26) | 0.195** (2.01) |
| *EBF* | -0.048 (-1.30) | – | – | -0.033 (-0.32) |
| *FEM* | -0.094** (-3.08) | 0.050 (0.76) | -0.010 (-0.28) | – |
| *FMS* | -0.090*** (-3.57) | 0.119 (1.57) | -0.052 (-1.54) | -0.189** (-3.51) |
| *JI* | 0.301*** (9.65) | – | 0.234*** (8.25) | 0.063 (1.07) |
| *LR* | 0.017*** (2.26) | 0.001 (0.03) | 0.031** (3.34) | 0.051** (3.19) |
| *PFO* | 0.109*** (4.10) | 0.493*** (6.95) | -0.008 (-0.25) | 0.326*** (6.41) |
| *PMSI* | – | – | 0.295*** (5.19) | – |
| *RSE* | 0.357*** (9.93) | – | 0.179*** (4.44) | 0.025 (0.35) |
| *SIP* | 0.044** (3.31) | – | 0.017 (0.88) | -0.141*** (-4.62) |
| *Constant* | 0.809*** (4.16) | -2.568*** (-4.14) | 0.963*** (4.76) | 3.536*** (5.83) |
| **$R^2$** | 0.859 | 0.862 | 0.872 | 0.707 |
| **N** | 308 | 77 | 154 | 77 |

*Notes: Standardized coefficients are reported with t-statistics in parentheses. ***, **, * denote significance at the 1%, 5%, and 10% levels, respectively. SARS = Strength of Auditing and Reporting Standards, ECB = Efficacy of Corporate Boards, EBF = Ethical Behavior of Firms, FEM = Financing through Local Equity Markets, FMS = Foreign Market Size, JI = Judicial Independence, LR = Legal Rights Index, PFO = Prevalence of Foreign Ownership, PMSI = Protection of Minority Shareholders' Interests, RSE = Regulation of Securities Exchanges, SIP = Strength of Investor Protection.*

Another key variable influencing *SARS* is *JI*, which reflects the degree of autonomy and impartiality in a country's legal system. *JI* is positively and significantly associated with *SARS* in the overall model ($\beta = 0.301$, $p < 0.01$) and in the medium secrecy culture group ($\beta = 0.234$, $p < 0.01$). This finding highlights that judicial independence strengthens the enforcement of auditing and reporting standards, particularly in countries with medium levels of secrecy. However, in low and high secrecy cultures, *JI* was excluded from the models due to multicollinearity issues. High VIF scores indicated a conceptual and statistical overlap between *JI* and other governance-related variables, such as *ECB* and *PMSI*. The exclusion of *JI* from these sub-models suggests that its role in shaping *SARS* may be indirect or context specific. For example, in low secrecy cultures, transparency norms may naturally promote compliance with audit standards, reducing the need for judicial enforcement. In high secrecy cultures, secrecy norms may override formal legal mechanisms, making judicial independence less relevant in shaping *SARS*.

*PMSI* also plays a crucial role in enhancing *SARS*, but its impact is observed only in medium secrecy culture countries ($\beta = 0.295$, $p < 0.01$). In this group, stronger protections for minority shareholders are associated with more robust auditing and reporting standards. This result highlights the

importance of regulatory protections for minority shareholders in countries where governance frameworks are still developing. *PMSI* was excluded from the models for low and high secrecy cultures due to multicollinearity concerns, as high VIF scores indicated strong correlations with other governance variables. In low secrecy cultures, where transparency is already embedded in the system, the formal protection of minority shareholders may be less critical for improving *SARS*. On the other hand, in high secrecy cultures, the impact of *PMSI* is likely weakened by the dominance of secrecy norms, which limit the disclosure of financial information. This finding underscores the importance of tailored policy interventions aimed at protecting shareholder rights, particularly in emerging countries where governance frameworks are still developing.

*FMS* variable demonstrates a negative and significant impact on *SARS* in both the overall model ($\beta = -0.090$, $p < 0.01$) and in high secrecy culture countries ($\beta = -0.189$, $p < 0.05$). This finding indicates that larger foreign market opportunities are associated with weaker auditing and reporting standards. One possible explanation is that firms operating in larger international markets may strategically limit the disclosure of financial information to protect competitive advantages. This dynamic is most evident in high secrecy culture countries, where norms around confidentiality and discretion are stronger. In low and medium secrecy cultures, *FMS* does not have a statistically significant effect on *SARS*. This suggests that the influence of market size on audit practices is contingent on the cultural context. The inclusion of *FMS* in the models is supported by the absence of multicollinearity issues, which indicates that its impact on *SARS* is independent of other financial market factors. The results reveal that large foreign market opportunities may incentivize firms to engage in less transparent reporting practices, especially in countries with strong secrecy norms.

*EBF* does not have a statistically significant effect on SARS in any of the models, including the overall model and the sub-models for low, medium, and high secrecy cultures. In the general model, the coefficient of *EBF* is negative but not statistically significant ($\beta = -0.048$, $p > 0.05$), and a similar pattern is observed in the high secrecy culture group ($\beta = -0.033$, $p > 0.05$). The absence of statistical significance suggests that ethical behavior, as conceptualized in this study, does not have a direct impact on *SARS*. Unlike other governance-related factors, ethical behavior may influence *SARS* indirectly through mechanisms such as corporate reputation or stakeholder pressure. While *EBF* was not excluded from the models due to multicollinearity, its lack of statistical significance highlights its limited explanatory power in the context of *SARS*. This suggests that while ethical behavior may contribute to

better governance, it is unlikely to serve as a primary determinant of *SARS*, particularly in high secrecy culture countries where disclosure practices are less transparent.

*FEM* has a significant and negative effect on *SARS* in the overall model ($\beta = -0.094$, $p < 0.05$). This finding indicates that higher reliance on local equity financing is associated with weaker auditing and reporting standards. One possible explanation is that firms relying on local equity markets may face less external pressure for transparency compared to firms seeking financing from international capital markets. The lack of international investor oversight could reduce the incentives for firms to comply with rigorous auditing and reporting standards. *FEM* was excluded from the sub-models for low, medium, and high secrecy cultures due to multicollinearity issues. The high VIF scores suggested that *FEM* shared variance with other financial market-related variables, such as *FMS* and PMSI. While *FEM* remains significant in the overall model, its exclusion from the sub-models suggests that its effect may be context-specific, with its role in shaping *SARS* more evident at the global level than at the cultural subgroup level.

*PFO* has a positive and significant impact on *SARS* in the overall model ($\beta = 0.109$, $p < 0.01$) and in the high secrecy culture group ($\beta = 0.326$, $p < 0.01$). This indicates that higher levels of foreign ownership are associated with stronger auditing and reporting standards. The presence of foreign investors introduces external monitoring, international best practices, and higher transparency expectations, which collectively contribute to stronger *SARS*. The effect of *PFO* is particularly pronounced in high secrecy culture countries, where foreign investors may act as a counterforce to the prevailing secrecy norms. Unlike other variables, *PFO* was included in all models since it did not exhibit multicollinearity issues. The significance of *PFO* in high secrecy countries highlights the potential for foreign investors to improve local audit and reporting standards by encouraging greater transparency and accountability.

*SIP* variable plays a significant but complex role in shaping *SARS*, especially in high secrecy culture countries. The regression results show that *SIP* has a negative and significant impact on *SARS* ($\beta = -0.141$, $p < 0.01$) in high secrecy culture countries. This negative relationship is unexpected, as stronger investor protection is typically associated with better audit and reporting standards. One possible explanation is that in high secrecy cultures, strong investor protection frameworks might encourage firms to prioritize internal compliance mechanisms over public disclosure. This could result in firms

maintaining a greater degree of confidentiality while simultaneously ensuring compliance with investor protection laws. *SIP* was excluded from the models for low and medium secrecy cultures due to multicollinearity concerns. In low secrecy cultures, transparency and investor protection may be inherently embedded in the institutional framework, reducing the need for explicit investor protection measures.

These results collectively illustrate that the antecedents of *SARS* are highly context dependent. While variables like *ECB*, *JI*, and *PFO* consistently enhance *SARS*, others like *FMS*, *FEM*, and *SIP* demonstrate more nuanced effects that vary by secrecy culture. The role of secrecy culture is crucial, as it shapes the strength, direction, and magnitude of these relationships. The findings underscore the importance of tailored regulatory interventions aimed at improving *SARS*, with particular attention to the role of cultural context in determining the impact of corporate governance, legal, and market-based factors.

In summary, the findings indicate that SARS differs significantly across secrecy levels (H1), that institutional and governance factors exert stronger effects in low-secrecy countries (H2), and that economic factors demonstrate varying impacts depending on the level of secrecy culture (H3). Therefore, H1, H2, and H3 are supported.

## 5. DISCUSSION AND CONCLUSION

This study explores the impact of secrecy culture on *SARS* in emerging markets, uncovering significant and context-specific relationships between cultural, institutional, and governance factors. Guided by Gray's (1988) Secrecy Theory, the findings reveal that secrecy culture is a pivotal factor moderating the efficacy of key antecedents of *SARS*, particularly in high-secrecy environments where transparency and disclosure are less emphasized.

The results align with theoretical expectations: in high-secrecy contexts, cultural norms constrain the effectiveness of formal governance structures. Similar patterns are observed in prior studies (Adela et al. 2022; Braun and Rodriguez 2008; Hope et al. 2008), which emphasize the challenges of implementing robust governance mechanisms in secrecy-oriented settings. For instance, while judicial independence plays a central role in medium-secrecy countries, its influence diminishes in high-secrecy environments where informal norms often override formal institutions.

The analysis further demonstrates that secrecy-oriented cultures tend to undermine governance mechanisms such as corporate board efficacy and judicial independence, with their influence notably constrained in high-secrecy contexts. These findings are consistent with prior studies (Braun and Rodriguez 2008; Chen et al. 2017; Gray 1988; Hope et al. 2008; Houqe et al. 2015) which highlight the difficulty of applying strong governance frameworks in such environments. This underscores the importance of cultural alignment in enhancing institutional efficiency.

This study contributes to the literature by extending Gray's (1988) Secrecy Theory to the context of auditing and reporting standards in emerging markets, demonstrating how cultural norms moderate the effectiveness of institutional and governance mechanisms. By comparing low, medium, and high secrecy environments, the analysis shows that the impact of factors such as corporate board efficacy, judicial independence, and foreign ownership varies systematically with cultural context. These findings highlight that culture is not a background condition but a decisive moderator, offering fresh insights into both theory and policy.

Economic factors also display differentiated effects across secrecy levels. Foreign market size was found to negatively influence *SARS* in high-secrecy cultures, suggesting that firms in these environments may strategically limit financial disclosures to safeguard competitive advantages. Conversely, foreign ownership positively affects *SARS*, particularly in high-secrecy cultures where international investors often act as external agents promoting transparency and accountability. These results emphasize the dual role of external pressures: they can mitigate the adverse effects of entrenched cultural norms while encouraging disclosure practices.

Accordingly, all three hypotheses developed in this study are supported by the empirical evidence: SARS significantly differs across secrecy culture levels (H1); the effects of institutional and governance factors are stronger in low-secrecy contexts (H2); and the influence of economic factors varies according to secrecy culture (H3).

The study also highlights the nuanced role of governance factors, such as the protection of minority shareholders' interests. This factor has a significant positive impact on *SARS* in medium-secrecy cultures, where governance frameworks in emerging countries benefit from regulatory enforcement. However, its limited effectiveness in high-secrecy contexts suggests that cultural resistance to transparency can diminish the efficacy of even robust governance structures. These results indicate the

need for comprehensive policies that address both governance mechanisms and cultural attitudes toward disclosure.

In conclusion, this research emphasizes the necessity of context-aware strategies for strengthening *SARS*. Policymakers and international organizations should recognize the influence of cultural dimensions on governance and institutional outcomes. In low-secrecy cultures, reinforcing existing transparency norms is paramount. Medium-secrecy environments require robust legal and regulatory frameworks to enforce governance standards. For high-secrecy cultures, external pressures such as foreign investment and international monitoring are critical in counteracting local norms and incentivizing greater financial disclosure. These measures are more feasible in environments where international monitoring mechanisms are in place, while in highly secrecy-oriented settings their effectiveness may remain limited without sustained external pressure.

The study contributes to the growing body of research on the intersection of culture and institutional antecedents of financial reporting and auditing standards. It offers actionable insights for addressing the challenges posed by secrecy-oriented cultures. Future research could investigate the evolving dynamics of globalization and cultural shifts, exploring their long-term implications for *SARS* and financial governance.

Nevertheless, several limitations open avenues for further study. First, the analysis relies on static measures of cultural variables, such as secrecy culture, which may not capture dynamic changes over time or across countries. Longitudinal data could help explore how evolving norms influence *SARS*. Second, high correlations among variables such as judicial independence and corporate governance make it difficult to isolate their specific effects. Advanced techniques like Bayesian modeling or structural equation modeling, combined with comparative case studies, could improve precision and contextual understanding. Third, the study does not consider technological advancements such as blockchain or digitalization. Exploring how these innovations interact with cultural variables, particularly in high-secrecy environments, may offer valuable insights into improving transparency and audit practices. Finally, due to data constraints, no additional macro-level control variables were included in the models. This is acknowledged as a limitation, and future studies could address it by incorporating broader economic or institutional controls.

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