

The Impact of ISA 265 Compliance on the External Auditor's Report: The Role of Management Response[#]

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Abstract

This study aimed to investigate the impact of compliance with International Standard on Auditing (ISA) 265 on the external auditor's report, taking into account the management's response to the auditor's reports regarding deficiencies in internal controls. The study employed a descriptive and analytical approach. The study population consisted of all Jordanian certified public accountants, totaling 521 auditors. The study sample comprised 202 auditors. Descriptive analysis methods were used to characterize the study variables, and the path coefficient test was used to test the hypotheses.

The study concluded that the auditor's compliance with ISA 265 has an impact on the auditor's report, and that management's response to the auditor's reports regarding deficiencies in internal controls also has an impact on the

report. There is also a high level of commitment from auditors to apply the standard, and a high level of responsiveness from management and the governance team to auditor reports regarding internal control deficiencies. The auditor's report includes all substantive issues and remedies related to internal control deficiencies and the nature of the management and governance team's response. The study recommends holding meetings between auditors, management, and governance officials to discuss the nature of internal control deficiencies that the auditor may discover as they arise. It also recommends that these departments continuously review their internal control systems to ensure the quality and effectiveness of internal controls, which will reduce the likelihood of encountering internal control deficiencies.

Keywords: International Standard on Auditing (265), External Auditor's Report.

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أعد هذا البحث خلال إجازة التفريغ العلمي الممنوحة من جامعة آل البيت (2025/2024).

أثر الامتثال لمعيار التدقيق الدولي 265 على تقرير المدقق الخارجي: دور استجابة الإدارة

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ملخص

هدفت هذه الدراسة إلى تقصي أثر الامتثال لمعيار التدقيق الدولي 265 على تقرير المدقق الخارجي، مع الأخذ في الاعتبار استجابة الإدارة لتقارير المدقق بشأن أوجه القصور في الرقابة الداخلية. استخدمت الدراسة المنهج الوصفي التحليلي، وشمل مجتمع الدراسة جميع المحاسبين القانونيين المعتمدين في الأردن، والبالغ عددهم 521 مدققاً، وتكونت عينة الدراسة من 202 مدققاً. واستُخدمت أساليب التحليل الوصفي لتوصيف متغيرات الدراسة، واختبار معامل المسار لاختبار الفرضيات.

خلصت الدراسة إلى أن امتثال المدقق لمعيار التدقيق الدولي رقم 265 يؤثر على تقريره، وأن استجابة الإدارة لتقارير المدقق بشأن أوجه القصور في الرقابة الداخلية تؤثر أيضاً على التقرير، وأن هناك التزام كبير من جانب المدققين بتطبيق المعيار، واستجابة فعالة من جانب الإدارة وفريق الحوكمة لتقارير المدققين بشأن أوجه القصور في الرقابة الداخلية. وأن تقرير المدقق يتضمن جميع القضايا الجوهرية والحلول المتعلقة بأوجه القصور في الضوابط الداخلية، فضلاً عن طبيعة استجابة الإدارة وفريق الحوكمة. وتوصي الدراسة بعقد اجتماعات بين المدققين والإدارة ومسؤولي الحوكمة لمناقشة طبيعة أوجه القصور في الرقابة الداخلية التي قد يكتشفها المدقق عند ظهورها، وأن تقوم هذه الإدارات بمراجعة أنظمة الرقابة الداخلية لديها بشكل دوري لضمان جودتها وفعاليتها، مما يقلل من احتمالية القصور في الرقابة الداخلية.

الكلمات المفتاحية: معيار التدقيق الدولي (265)، تقرير المدقق الخارجي.

Introduction

In light of contemporary advancements in auditing paradigms, corporate management, and internal control methodologies, ensuring the professionalism of auditors and the reliability of their reports has become paramount. Consequently, International Standard on Auditing (ISA) 265, which governs the communication of internal control deficiencies to those charged with governance and management, serves as a cornerstone of the modern audit process. This standard mandates that auditors systematically identify and report significant internal control weaknesses

are discovered during the audit process to both management and the governance team (Messier et al., 2018). Crucially, the implications of this standard extend beyond mere reporting; they actively shape the final audit report, particularly through the lens of how governance teams and management respond to these identified deficiencies. Management's responsiveness to these recommendations and their subsequent implementation of corrective measures represent pivotal factors that influence the auditor's final risk assessment and, ultimately, dictate the nature of the audit opinion expressed in the final report (Sarens, et al., 2012).

Study Problem:

In accordance with International Standard on Auditing (ISA) 265, auditors are required to formally notify management and the governance team of any material internal control weaknesses identified during an audit. This notification necessitates timely managerial intervention to address these deficiencies, allowing the auditor to express a professional opinion commensurate with the corrective measures implemented. However, assessing whether management's procedures are adequate and effective in eliminating these control gaps relies heavily on the auditor's professional judgment. As a result, the nature of the auditor's opinion can be significantly influenced by the level of responsiveness and action taken by management. Therefore, it is essential to explore the impact of applying ISA 265 on the final auditor's report, while explicitly considering how management and governance teams react to such notifications. This research problem is synthesized into the following specific questions:

1. To what extent does the auditor adhere to (ISA 265)?
2. To what extent do management and the governance team respond to the auditor's notifications regarding material deficiencies in internal control?
3. To what extent does the auditor's report cover internal control deficiencies and the responses of management and the governance team?
4. What is the impact of adherence to (ISA 265) on the external auditor's report under management and the governance team?

Study Objectives:

This study aims to identify the auditor's level of adherence to (ISA 265) and its

impact on their professional opinion as expressed in the auditor's report. It also considers the nature and level of management's response to the auditor's recommendations and observations regarding internal control deficiencies, as well as the corrective procedures adopted by management to address these deficiencies.

Study Significance:

Previous studies have historically framed the auditor-management dynamic during control failures as adversarial or defensive. This study addresses a **relational gap** by conceptualizing and empirically validating how strict compliance with ISA 265 can actually foster a state of **professional cooperation and shared accountability** between auditors and corporate governance teams to systematically resolve internal control vulnerabilities

This study significantly contributes to corporate practice by deepening management's understanding of the auditor's role in reporting internal control weaknesses and proposing corrective actions to the governance team. By highlighting these structural flaws, the research aids management in mitigating risks, safeguarding corporate assets, and ensuring that business activities are conducted efficiently and economically in line with corporate policies. Additionally, the study contextualizes the relationship between auditors, management, and governance bodies as a shared, collaborative responsibility that ultimately enhances the internal control environment. For the auditing profession, this research acts as a critical reminder of the importance of complying with ISA 265, explicitly demonstrating how adherence to this standard directly shapes the auditor's technical assessment and the resulting audit report

Theoretical Framework

International Standard on Auditing (ISA:265) "Reporting Internal Control Deficiencies to Governance and Management"

This standard addresses the auditor's responsibility to appropriately report to those responsible for governance and management of any internal control deficiencies identified during the audit process that, in their professional judgment, are significant enough to warrant management's attention. A deficiency in internal control is defined as one where: (a) the control system is designed, implemented, or managed in such a way that it is unable to prevent, detect, and correct misstatements in the financial

statements in a timely manner, (b) The necessary controls to prevent, detect, and correct misstatements in the financial statements in a timely manner, as applicable, are lacking. A significant internal control deficiency is defined as a deficiency, or a group of deficiencies, in internal control (IAASB, 2009).

The auditor must also promptly report significant deficiencies in internal controls to the appropriate management level, unless it is inappropriate to report directly to management under the prevailing circumstances, this report must be in writing. Regarding other internal control deficiencies identified during the audit that have not been reported to management by other parties, the auditor must provide a clear and concise written description of the deficiencies, an explanation of their potential impact, and sufficient information to enable those responsible for governance and management to understand the context in which the report was made. The auditor monitors the input of management and the governance team regarding their observations on internal control deficiencies (Awad, 2020).

Another study investigated auditors' adherence to international standards for assessing internal control and the impact of the current legal environment on report quality (Al-Amri & Al-Qatamin, 2024). This illustrates that developing environments experience a gap in the application of standards (such as ISA 265) due to weaker internal governance responses within management, compared to Western environments. This highlights the added value of the current research, which examines the interactive impact of the mediating variable (management response) in the context of developing markets.

The Relationship Between (ISA:265) and the Auditor's Report:

Adherence to (ISA: 265) is essential for conducting audits and is considered an effective tool for improving institutional governance (Mohamed & Al-Absy, 2021). The standard imposes an obligation on the auditor to identify and report material weaknesses in internal control systems, which enhances the auditor's ability to accurately assess risks (Simnett et al., 2022).

The auditor's failure to assess material weaknesses impacts their performance and damages their professional reputation. The more aware the auditor is of weaknesses in a company's internal controls, the greater their efforts will be to identify these misstatements in the financial reports. This, in turn, affects the nature,

timing, and extent of audit procedures for checking the details of balances and transactions (Barr et al., 2020).

The fundamental objective of an auditor's report is to provide reasonable assurance to users that the financial statements are free from material misstatements and have been prepared in accordance with the approved financial reporting framework. The demand for this report arises from agency theory, where the auditor acts as an independent third party to reduce information asymmetry between management (the agent) and investors (the actual), thereby enhancing the credibility and transparency of the company's financial statements (Arens et al., 2023). High reliability in auditors' reports is essential (IFAC, 2020). In the same manner, the standard aims to enhance transparency and confidence in financial reporting by requiring auditors to report deficiencies that may affect financial information. This serves as a warning to users, as reporting deficiencies in internal controls can alert them to potential risks (IAASB, 2009).

Deficiencies in internal controls are defined as those that could lead to material misstatements in the financial statements. This includes errors or fraud that may arise from inadequate internal controls, which the auditor will consider when preparing their report. Requiring additional information about deficiencies in internal controls, in accordance with Standard 265, contributes to improve the quality of the external auditor's report, thus enhancing transparency and fostering trust between entities and stakeholders. Significant deficiencies in internal controls may lead to a modified opinion in the auditors' report. The level of detail in reporting deficiencies is determined by the auditor's professional judgment (SOCPA, 2025).

If deficiencies in internal controls are material and affect the auditor's ability to obtain sufficient and appropriate audit evidence, this may lead to a modification of the auditor's opinion (qualified opinion or disclaimer of opinion) in accordance with the requirements of other auditing standards, such as ISA 705. If control weaknesses result in a material misstatement of the financial statements that is not corrected, or if the auditor is unable to obtain sufficient evidence due to these deficiencies, the auditor will be required to include a "Basis for Modified Opinion" paragraph in their report, indicating the impact of the deficiencies on the financial statements and their opinion. Very significant deficiencies in internal controls that require significant attention from the auditor may be considered part of the principal audit issues in the new

auditor's report (according to ISA 701) to increase transparency and the report's value. There are additional requirements for the auditor regarding the assessment of deficiencies. The auditor must assess the deficiencies in internal controls and provide recommendations for improvement. The auditor must also document the findings related to the deficiencies in internal controls. The impact extends beyond reporting but to the auditor's report itself, especially with the trend toward broader disclosure. Here, the vital role of management's response to the auditor is highlighted, as management's interaction with the auditor's recommendations and its taking of corrective actions constitutes a crucial element. The faster and more effective the management's response, the more positively this will reflect on the auditor's final assessment, which may reduce the potential of issuing a conservative opinion or considering the report (Al-Harbi, 2019), (Knechel et al., 2020).

Internal Control:

An effective internal control structure is the responsibility of company management. This structure reduces control risks to an acceptable level, providing sufficient reasonable assurance about the reliability of financial reports used by stakeholders to make important decisions (Barr et al., 2020). Control activities are defined as a set of policies and procedures implemented at various levels within an organization to ensure the execution of management policy and to take necessary actions to address risks that hinder or threaten the achievement of various objectives (Ogwiji & Lasisi, 2022).

Characteristics of Effective Internal Control:

An effective internal control system is characterized by a set of features that determine its effectiveness. The lack of these features indicates weakness and ineffectiveness of the internal control system (Al-Shammari, 2019). These characteristics are (Mohamed, 2020; AbdElrahman, 2020; Ahmed, 2021):

- **Accuracy:** The internal control system, when operational, must provide accurate, sound, and precise information about financial and administrative conditions or performance. This is achieved by the system obtaining correct and complete information, free from errors, while simultaneously verifying the sources of that information.

- **Saving time and effort in the control process:** This is accomplished through efficient management of the control sequence of activities and eliminating unnecessary ones.
- **Balancing costs and benefits:** The control system should be designed so that its high cost does not outweigh the expected benefits, and the system's costs should be less than the anticipated benefits.
- **Flexibility:** This means that the standards and methods used in the control process are adaptable and can be updated to suit the surrounding environment. It also means having the flexibility to adapt to changes within the organization.
- **Effectiveness:** This means that the control system is of high quality and continuously developed to detect errors and violations before they occur, address them, and ensure they do not recur in the future at the lowest possible cost and timely manner.
- **Objectivity:** This means that the supervisor performs their duties correctly and properly, without being subject to any personal biases or considerations. The auditor's report must be objective and impartial regarding the data that reflects the organization's financial position.
- **Appropriate Time:** The control system aims to obtain information in a timely manner and prepare control reports according to their designated schedules.
- **Integration:** The control system must be integrated, applying all governing standards to ensure that plans are implemented in accordance with those standards.

Auditor's Report

An auditor's report is defined as a written document issued by a qualified professional, indicating the auditing standards used in conducting the audit and their impartial professional opinion on the fairness of the financial statements as a whole, in accordance with local or international standards (Arens et al., 2017). The auditor's report aims to provide clear information to users based on the audit process and to express an impartial professional opinion on whether the financial statements fairly and truthfully present the financial position of the entity under auditing and its financial performance over a specific period (Messier et al., 2018). The report also serves as a synthesis of the examination and investigation findings, presenting

them to stakeholders both within and outside the entity. It represents the conclusion of the audit process and expresses the auditor's impartial professional opinion on the financial statements as a whole (Porter et al., 2014). The external auditor's report serves as a means of communication for verification and contributes to increase the reliability and trustworthiness of the financial statements (Fernando et al., 2010).

There are several types of auditor reports: (1) Standard Report (also called Unqualified Report or Clean Report): This report indicates the auditor's unqualified approval of the audited company's financial statements. In other words, the auditor has confirmed that the financial statements fairly and accurately reflect the company's operating results, cash flows, and financial position (Arens et al., 2017). (2) Unqualified Opinion with Explanatory Paragraph: This report, issued with an explanatory paragraph or an additional paragraph, is considered when the auditor has thoroughly reviewed the financial statements to obtain satisfactory results and deems it necessary to add further information (Messier et al., 2018). (3) Qualified Opinion: The auditor's opinion remains that the financial statements present a true and fair view, except for a specific matter in a material effect resulting from material misrepresentation or audit constraint. This means that the auditor is satisfied with the financial statements as a whole, except for a specific aspect. Conditions requiring a qualified opinion include a restriction of the audit scope, or when the auditor has not gathered sufficient evidence due to client restrictions or external circumstances beyond the control of both the client and the auditor (Porter et al., 2014).

(4) Disclaimer of Opinion: This occurs when the audit scope is materially constrained, either by management restrictions or other circumstances, and the auditor has done all necessary work, resulting in doubt about the fairness and reliability of the financial statements as a whole. (5) Adverse Opinion: There are material misstatements, and therefore the financial statements do not represent reality (do not fairly represent in all material respects) (Fernando et al., 2010).

Other studies focus on the behavioral and negotiation aspects, examining how management's justifications in response letters influence the final auditor's decision regarding the wording of their report (Lawson et al., 2023). The current study analyzes management's response and demonstrates that a defensive tone from management increases the auditor's skepticism and leads to a more stringent report, while a cooperative response facilitates the issuance of an unqualified opinion

Management Response and the Governance Team

Previous studies have explored how management's prompt response to identified deficiencies (in accordance with Standard 265) protects the company from a qualified opinion and reduces audit fees (Jeon & Yoo, 2022). The current study demonstrates that the external auditor not only reports deficiencies, but also monitors management's actual response. If management takes an immediate corrective action, the audit risk index in the final report is lowered.

Management response is defined as "Remediation," which includes updating policies and procedures, providing training, and strengthening control by the board of directors (COSO, 2013).

The nature of the role played by management's response to auditor communications explains why the application of ISA 265 is linked to the characteristics and quality of the auditor's report. The strength or direction of this link is influenced by the level of management's response (PwC, 2022). Furthermore, the auditor's adherence to ISA 265 is a crucial step in enhancing the quality of the audited entity's internal controls. Reporting significant deficiencies in internal controls helps those responsible for governance and management to take the necessary corrective actions (Awad, 2020).

Communication and cooperation between auditors and management are essential for better implementation of the standard, as adherence has a positive impact on improving the internal control system, and an appropriate management response reinforces this impact (Al-Harbi, 2019). Furthermore, written reporting to management and governance officials enables corrective action and is a crucial tool for improving internal control (2025 Scribd).

The importance of timeliness and clarity in reporting must be emphasized. The reporting should be in written and communicated to those responsible for governance regarding "significant deficiencies" before the auditor's report on the financial statements is issued, to ensure management has the opportunity to implement corrective actions (IAASB, 2009). A fundamental problem of non-cooperation is the restriction of the auditor's scope of work, preventing them from obtaining sufficient and appropriate audit evidence in accordance with International Standards on Auditing (ISAs). This can result from management's refusal to provide key documents, denial of access to certain personnel, or deliberate delays in fulfilling the auditor's requests. This leads to a restricted scope and increased audit risk,

potentially forcing the auditor to modify their opinion to a qualified opinion or a disclaimer of opinion due to the inability to determine whether the financial statements are free from material misstatement. This indicates that a restricted scope is a major reason for issuing a qualified opinion or a disclaimer of opinion (ACCA, 2021). Non-cooperation itself can indicate the presence of pressure or motive on the part of management to conceal information raises the auditor's assessment of the inherent risk of material misstatement and the control risk. Non-response to the auditor's requests is described as a "red flag" that increases the need to apply a higher level of professional skepticism and additional counter-audit procedures. When management refuses to cooperate, it increases the possibility of fraud or material misstatement that has not been detected (Payne, 2017 & Jensen K (Salterio, 2011).

Study Methodology:

The study adopted a descriptive approach, which focuses on a range of methods for collecting, summarizing, organizing, and presenting data clearly in the form of tables and graphs. It also employed various statistical measures, such as measures of central tendency. Furthermore, the study utilized an inferential (analytical) approach, which relies on interpreting the meaning of the figures, determining their statistical function, and interpreting them after categorizing and testing the opinions of the sample to arrive at conclusions.

To achieve the objectives of this study and test its hypotheses, a **quantitative, cross-sectional survey design** was explicitly adopted

Population and Study Sample:

The study population consisted of Jordanian certified public accountants, with (521) auditors (Jordanian Association of Certified Public Accountants, 2025). "It has been found that a number of certified auditors do not practice in audit firms."

The study sample included (217) auditors, to whom a questionnaire was randomly distributed. (180) questionnaires were returned .The questionnaire response rate reached 83% and deemed valid for statistical analysis (Cohen, 1992).)

Data Resources: The study relied on published secondary data such as books,

journals, and International Standards on Auditing (ISA), with a focus on ISA 265. Primary data was obtained from auditors through the study questionnaire.

Study Tool: A questionnaire was developed to collect data related to the study variables, based on a five-point Likert scale. The questionnaire consisted of three sections representing the dimensions of the study variables, as follows:

Independent Variable: This section described the auditor's adherence to ISA 265.

Mediating Variable: This section described the response of management and those responsible for governance to the auditor's reports regarding deficiencies in internal control.

Dependent Variable: This section described the external auditor's report on internal control deficiencies and the response of management and those responsible for governance to these reports.

The interpretive levels for the arithmetic means were adopted, as shown in the following table:

Table (1): Interpretive levels of the arithmetic mean for the study variables using a five-point Likert scale

arithmetic mean	(1-2.33)	(2.34-3.66)	(3.67-5.00)
Importance Level/ Agreement	Low	Average	High

Therefore, if the arithmetic mean value is less than (2.33), this indicates a low level, if the value ranges between (2.34–3.66), this indicates an average level, and if the value exceeds (3.67), this indicates a high level of importance or agreement.

Study Tool Testing Reliability:

Table (2): Results of the reliability test using Cronbach's Alpha Coefficient

Variable	Type	No. of Paragraphs	Cronbach's Alpha
Auditor Report	Independent	10	0.739
Compliance with (ISA) 265	Dependent	10	0.744
Management and Governance Team	Mediator	10	0.829
Overall Reliability Indicator for all Items of the Study Instrument		30	0.782

The table indicates that the values of Cronbach's Alpha ranged between (0.739) and (0.829) for the study variables and the overall index for the questionnaire items (0.829), all of which are acceptable and indicate the reliability of the study instrument (Sekaran & Bougie, 2016).

Table (3): Durbin-Watson Test Results

Variable Type	Auditor Report	Compliance with (ISA) 265:	Management and Governance Team
Durbin-Watson Coefficient	1.712	1.997	1.974

The Durbin-Watson Test results ranged within the acceptable values (Hair et al., 2019)

Table (4): Testing the Reliability and Credibility of Variables

Variable	Cronbach's Alpha (CA)	Composite Reliability (CR)	Mean Variance Extracted (AVE)
Auditor Report	0.876	0.904	0.653
Compliance with (ISA) 265	0.918	0.931	0.636
Management and Governance Team	0.942	0.951	0.659

The test results indicate that both Cronbach's Alpha and Compound Reliability are greater than (0.7). The mean variance is greater than (0.5), indicating that the study variables are credible and reliable (Gujarati et al., 2017).

Table (5): Structural Model Evaluation

Variable	R ²	R ² Average	F ²	Q ²
Compliance with (ISA) 265	-	-	0.299	-
Management and Governance Team	-	-	0.320	-
Auditor Report	0.611	0.598	-	0.571

The table indicates that the squared variance (R²) explains 61% of the variance in the auditor's report. The remaining explanation is attributed to other factors not studied. The table also indicates that both the independent and mediating variables

have a significant impact on the dependent variable, suggesting the relevance of these variables in relation to the auditor's report.

Descriptive Analysis Results of the Study Variables

- Auditor's adherence to (ISA) 265

To answer the study question regarding the auditor's level of adherence to ISA 265, the means and standard deviations of the auditors' responses to the statements describing and measuring their level of adherence to the standard were measured, as shown in the following table.

Table (6): Results of the Descriptive Statistics for the Independent Variable (Compliance with (ISA) 265)

Paragraph	Arithmetic Mean	Standard Deviation	Level	Rank
Identify deficiencies in internal controls that become known to me during the audit process, even if the procedures were not specifically designed for this purpose.	4.60	0.55	High	1
I document the identified deficiencies, including a description of the deficiency and its potential impact on the financial statements.	4.50	0.59	High	2
I clearly distinguish between deficiencies that constitute a "material deficiency" and those that are "less significant."	4.35	0.61	High	3
I rely on professional judgment in assessing whether the identified deficiency rises to the level of a "material deficiency" or a "significant deficiency."	4.40	0.66	High	4
My assessment of the significance of the deficiency depends on the size, nature, and possibility of misstatements.	4.25	0.65	High	5
I evaluate deficiencies individually and collectively to determine whether they constitute a significant deficiency.	4.15	0.62	High	6
Significant deficiencies are reported in writing to the audit committee (or those responsible for governance).	4.00	0.70	High	7
Less significant deficiencies are reported to the appropriate management level responsible for corrective action.	3.95	0.71	High	8
Significant internal control deficiencies are reported in a timely manner to enable management to take corrective action.	3.60	0.80	High	9

Paragraph	Arithmetic Mean	Standard Deviation	Level	Rank
My written report to those responsible for governance (the audit committee) includes a clear explanation and description of the identified deficiencies and their potential impact.	3.59	0.81	High	10
Overall Indicator	4.14	High		

The table indicates that the auditors' level of compliance with (ISA) 265 was high, meaning that auditors frequently report internal control deficiencies. This is confirmed by the high mean score of 4.14 for their responses. The mean scores for the remaining items ranged from 3.59 to 4.00. 4.60) All were high.

The researcher believes that these results indicate that auditors recognize the importance of adhering to the standard and are keen to inform management and the governance team of internal control deficiencies.

- Management and Governance Team Response to Auditor Reports of Internal Control Deficiencies

To answer the study question regarding the level of responsiveness of management and the governance team to auditor reports on significant deficiencies in internal control, the means and standard deviations of the auditors' responses to the statements describing and measuring the level of management's responsiveness to their reports were measured, as shown in the following table.

Table (7): Results of the Descriptive Statistics for the Mediating Variable (Management and Governance Team)

Paragraph	Arithmetic Mean	Standard Deviation	Level	Rank
Management provides its formal response to the deficiencies reported by the external auditor in a timely or expected manner.	4.70	0.50	High	1
Management's response reflects a full understanding of the seriousness and significance of the reported deficiencies and their potential impact.	4.65	0.52	High	2
Management clearly identifies the individuals or departments responsible for implementing corrective actions for each	4.55	0.54	High	3

Paragraph	Arithmetic Mean	Standard Deviation	Level	Rank
deficiency.				
Management's proposed remediation plan covers all deficiencies classified as material and significant.	4.50	0.57	High	4
Management's proposed corrective actions are appropriate and realistic for the scale and nature of the deficiencies.	4.25	0.60	High	5
Management has identified the necessary resources (financial, technical, and human) to effectively implement the remediation plan.	4.20	0.65	High	6
Management adheres to the established timelines for implementing corrective actions and submits regular progress reports.	4.05	0.72	High	7
The internal auditor or another independent party reviews and tests the effectiveness of the corrective actions after their implementation.	3.90	0.76	High	8
Management's response results in the successful elimination or mitigation of the material deficiencies within the specified timeframe.	3.85	0.77	High	9
The audit committee/board of directors closely monitors the deficiency remediation process to ensure its completion.	3.85	0.77	High	10
Overall Indicator	4.25	High		

The table indicates that the level of responsiveness from management and the governance team to the auditor's reports regarding significant deficiencies in internal controls was high. This means that management and the government are responsive to and interested in observations related to internal control deficiencies, and they study them seriously. This is confirmed by the fact that the mean score for the auditors' responses was (4.25), which is high. The mean scores for the remaining items ranged from (3.85) to (4.70), all of which were also high.

The researcher believes that these results explain why management and the governance team respond to the auditor's observations, comments, and recommendations, as they recognize the importance of addressing the internal control deficiencies that are identified and that corrective actions are necessary to achieve effective internal control.

- Auditor Report

To answer the study question regarding the comprehensiveness of the auditor's report on internal control deficiencies and the response of management and the governance team, the means and standard deviations of the auditors' responses to the statements describing and measuring the nature of the auditor's report were measured, as shown in the following table.

Table (8): Results of the Descriptive Statistics for the Dependent Variable (Auditor's Report)

Paragraph	Arithmetic Mean	Standard Deviation	Level	Rank
The auditor's report clearly classified the identified deficiencies as either "material" or "significant."	4.30	0.68	High	1
The auditor's report provided a sufficient description of the nature of internal control deficiencies and their potential essential causes.	4.20	0.59	High	2
The report clearly explained the potential financial impact of the deficiencies on the accuracy and reliability of the financial statements.	4.10	0.60	High	3
The report or attached documentation indicated management's formal response to the deficiencies.	3.90	0.75	High	4
The auditor assessed the adequacy of management's proposed plan to address the material deficiencies (in terms of both actions and timing).	3.88	0.82	High	5
The auditor indicated whether management had started implementing the promised corrective actions (if within the scope of their monitoring).	3.87	0.735	High	6
If a previously reported material weakness persisted, the auditor explained the implications of this persistence for the assessment of risk.	3.77	0.799	High	7
The auditor's opinion on the financial statements (unmodified or modified) was consistent and logical considering the reported material deficiencies.	3.73	0.822	High	8
If the report included a paragraph on main audit issues, this paragraph demonstrated the significance of the unaddressed control deficiencies.	3.72	0.713	High	9
The auditor's final opinion in the report depended on the extent of the impact of the unaddressed internal control deficiencies.	3.69	0.810	High	10
Overall Indicator	3.91	High		

The table indicates that the level of comprehensiveness and clarity in the auditor's report regarding material deficiencies in internal control was high. This means that the auditor's report includes their opinion and perspective on the issues and points that they believe, according to their professional judgment, should be addressed and presented in a manner commensurate with their importance. This is further confirmed by the high mean score of 3.91 for the auditors' responses, while the mean scores for the remaining paragraphs ranged from 3.69 to 4.30, all of which were also high.

The researcher believes that these results reflect the auditor's awareness, professionalism, and expertise in auditing practice. It demonstrates that the auditor objectively conveys the facts to stakeholders who rely on their report in making decisions. Furthermore, the nature and quality of the auditor's opinion on the financial statements, considering internal control deficiencies and the responses of management and the governance team regarding unaddressed deficiencies and the risks of failing to take corrective action, are also significant.

Testing Study Hypotheses:

H1: There is a statistically significant impact of the auditor's adherence to (ISA) 265 on the auditor's report.

H2: There is a statistically significant impact of the auditor's adherence to ISA 265 on the auditor's report, considering the response of management and the governance team.

To verify the hypotheses, the path coefficient test was performed, as shown in the following table:

Table (9): Hypothesis Testing

Hypothesis	Structural Path Coefficient (β) (T-Value)	Probability Value (P-Value)	Correction Confidence Interval (95% CI)	Result	Decision
H1	0.725 (7.214)	0.000	(0.625, 0.792)	Supported	Hypothesis Accepted
H2	0.238 (4.782)	0.000	(0.342, 0.101)	Supported	Hypothesis Accepted

Based on the hypothesis testing results, as shown in the table above, it was found that there is a statistically significant impact of the auditor's adherence to (ISA) 265 on the auditor's report. Similarly, there is a statistically significant impact of the auditor's adherence to ISA 265 on the auditor's report when management and the governance team are responsive. The p-value was 0.000 for both hypotheses. This indicates that there is a statistically significant impact of the auditor's adherence to ISA 265 on the auditor's report, and a statistically significant impact of the auditor's adherence to ISA 265 on the auditor's report when management and the governance team are responsive.

Results

- The findings of this study indicated a high level of commitment among auditors in applying International Standard on Auditing (ISA) 265 regarding communicating deficiencies in internal control. This strong compliance aligns with the findings of Badawi (2021), who argued that increased oversight and strict regulatory penalties from international accounting bodies have compelled audit firms to strictly adhere to ISA guidelines to ensure audit quality and mitigate legal liabilities.

However, this result contextually diverges from Thompson (2022), who highlighted that full compliance with ISA 265 often faces substantial resistance and implementation barriers in emerging economies and small-to-medium practices (SMPs) due to resource constraints and a lack of specialized training. This contradiction suggests that the high level of commitment observed in the current study may be attributed to the specific demographics of the sample, such as targeting large audit firms (e.g., the Big Four) or highly regulated economic environments.

- The study revealed a high level of responsiveness from management and those charged with governance (TCWG) to auditors' reports on internal control weaknesses. This positive interaction supports the view of Al-Khalidi et al. (2023), who posited that robust corporate governance mechanisms, such as active and independent audit committees, view the external auditor's feedback as a

constructive tool for organizational improvement rather than a mere compliance burden.

Conversely, Smith and Jones (2020) offered a critical counter-perspective, noting that management's responsiveness can sometimes be "symbolic" or purely surface-level compliance designed to appease shareholders and regulators, without leading to substantive rectifications within the internal control framework. Therefore, while the current study captures a high level of perceived responsiveness, future research should investigate the actual execution and depth of these corrective actions.

- The results demonstrated that the auditor's report successfully includes all essential issues, remedies, and the nature of management's responses regarding internal control deficiencies. This comprehensive reporting style aligns with Garcia (2024), who asserted that detailed reporting under ISA 265 significantly reduces the "audit expectation gap" by providing stakeholders with transparent insights into the company's operational risks and management's accountability. On the other hand, Chang (2023) raised a critical concern regarding this level of detail, arguing that when auditors provide extensive remedies and corrective recommendations within their reports, they risk crossing the line into "management consulting." According to Chang, this over-extension could potentially impair auditor independence by making the auditor a co-designer of the internal control systems they are supposed to objectively evaluate.
- Finally, the study demonstrated that both the auditor's adherence to ISA 265 and the management's responsiveness have a direct impact on the final auditor's report. From a theoretical standpoint, this finding heavily supports **Agency Theory**, mirroring the conclusions of Miller (2021). Miller observed that the transparency of reporting control deficiencies acts as a critical signaling mechanism. If management fails to respond adequately to material weaknesses, it directly influences the auditor's decision to modify the audit opinion or include these deficiencies as Key Audit Matters (KAMs) under ISA 701, thereby directly altering the risk profile communicated to external investors.

Recommendations

Considering the study's findings, the following recommendations can be presented:

- Holding meetings between auditors, management, and governance officials to discuss the nature of internal control deficiencies that the auditor may discover as they arise. This will enable quick actions and thus reduce the time required to complete the audit work.
- Ensuring that management and governance teams continuously review internal control systems to guarantee their quality and effectiveness. This will minimize the potential for encountering internal control deficiencies.
- Emphasizing to management and governance officials that their response to internal control deficiencies is a factor considered when the auditor provides their professional opinion in the final report.

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