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Rule of Law, Corruption Control, and External Audit Demand Across Countries

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ABSTRACT

This study examines the effects of Rule of Law and Control of Corruption on the demand for external audit services across countries, drawing jointly on institutional theory and agency theory. Using secondary data from the World Bank Enterprise Surveys and the Worldwide Governance Indicators for a purposive sample of 23 countries, the study applies multiple linear regression following classical assumption tests for normality, multicollinearity, heteroscedasticity, and autocorrelation. Rule of Law has a significant positive effect on external audit demand (B = 38.438, p = 0.021), supporting the view that stronger legal institutions encourage firms to adopt independent audits as a credible governance mechanism. Control of Corruption shows a negative but only marginally significant partial effect (B = -35.633, p = 0.067), attributable to the high correlation between the two governance indicators (r = 0.894) rather than the absence of a genuine relationship. Together, the two variables explain approximately 25 percent of the variation in audit demand, confirming institutional quality as an important, though partial, determinant of audit adoption. These findings extend institutional and agency theory by showing that legal enforcement exerts a stronger, more direct influence on audit demand than corruption control when both are modeled jointly, and they suggest that regulators and policymakers should prioritize legal enforcement infrastructure in weaker-governance countries. The novelty lies in integrating two World Bank databases rarely combined in accounting research and in transparently addressing the multicollinearity between the two governance indicators, an issue seldom discussed explicitly in prior cross-country governance studies.

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1. INTRODUCTION

External audit is widely recognized as one of the most important external governance mechanisms for reducing information asymmetry and enhancing the credibility of financial reporting. Agency theory explains the fundamental monitoring role of external audit: because managers and outside stakeholders have divergent interests and unequal access to information, an independent audit reduces agency costs by verifying the reliability of financial statements (Jensen & Meckling, 1976). Countries with stronger institutional quality generally exhibit higher corporate transparency, more reliable financial reporting, and greater demand for independent assurance services (Bayraktar et al., 2023; Qin & Ajide, 2026). This pattern is consistent with firm-level evidence that more extensive disclosure standards and auditing infrastructure are associated with lower bribery of public officials, and that firms whose financial statements are reviewed by an external auditor pay significantly lower bribes than firms without an audit (Khalil et al., 2015; Farooq & Shehata, 2018). Nevertheless, substantial differences remain across countries in the proportion of firms whose financial statements are reviewed by external auditors, suggesting that country-level governance factors may matter beyond firm-specific characteristics (World Bank Enterprise Surveys, 2024).

This study is grounded in institutional theory, which argues that organizational practices are shaped by the surrounding regulatory and institutional environment (DiMaggio & Powell, 1983; Meyer & Rowan, 1977). Organizations adopt institutionally legitimated practices, such as an independent audit, not merely for technical efficiency but to secure legitimacy and support from external constituents, a logic amplified when legal institutions credibly enforce compliance (Meyer & Rowan, 1977). In countries with stronger legal systems and more effective control of corruption, firms are expected to face stronger incentives to adopt external audits as a mechanism for enhancing legitimacy, accountability, and stakeholder confidence (Medioli et al., 2024; Qin & Ajide, 2026). Recent evidence from weak institutional settings shows that formal governance mechanisms can remain largely symbolic when legal enforcement is limited, whereas credible external audit acts as a substitute governance device that compensates for weaker domestic enforcement capacity (Angsoyiri et al., 2026). Auditing is also increasingly recognized as playing a dual preventive and detective role in curbing corruption directly, rather than merely responding passively to a country's existing level of corruption control (Jeppesen, 2019). Building on this reasoning, this study proposes that H1: Rule of Law has a positive effect on external audit demand across countries, and H2: Control of Corruption has a positive effect on external audit demand across countries.

Recent literature increasingly examines how institutional quality influences corporate governance practices, including audit demand, yet most studies focus on individual governance indicators or country-specific contexts (Ananda & Faisal, 2023; Ha & Nguyen, 2020; Qin & Ajide, 2026). Comparatively little attention has been given to the simultaneous effects of Rule of Law and Control of Corruption, despite both being key dimensions of institutional quality within the Worldwide Governance Indicators framework (World Bank, 2026). Indonesian accounting research shows a parallel pattern: recent studies in Jurnal ASET (Akuntansi Riset) examine audit fee determinants at state-owned enterprises (Widarsono & Natalia, 2024), internal control as a driver of government financial statement quality (Nurcahyono & Ifada, 2024), and the relative contribution of corporate governance and firm performance to social-responsibility disclosure (Handayani & Astutik, 2024), yet, consistent with the broader literature, these studies operate at

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the firm or organizational level rather than testing country-level institutional quality directly. Corruption research in accounting has also largely treated the corruption-transparency relationship as a one-directional outcome of reporting quality (Liu et al., 2021), building on earlier cross-country evidence that a more developed accounting and monitoring infrastructure is associated with lower perceived corruption (Kimbro, 2002), rather than as a joint institutional antecedent of audit demand alongside legal enforcement, creating an opportunity to examine the robustness of governance indicators in explaining external audit demand.

The novelty of this study lies in three aspects. First, it integrates two publicly available World Bank databases, the Enterprise Surveys and the Worldwide Governance Indicators, rarely combined in accounting research on external audit demand. Second, it explicitly reports the classical assumption tests required for ordinary least squares estimation using cross-country data, improving the transparency and reliability of the empirical analysis. Third, rather than ignoring the high correlation between governance indicators, the study openly evaluates and discusses the multicollinearity issue and its implications for interpreting the regression results, providing methodological insight for future governance research.

Based on these considerations, this study aims to examine the effects of Rule of Law and Control of Corruption on the demand for external audit services across countries using secondary data from the WBES and WGI. By investigating these relationships, the study seeks to extend institutional and agency theory in the context of audit adoption while providing empirical evidence that can assist regulators, professional accounting bodies, and policymakers in strengthening institutional environments that encourage greater adoption of external audit services.

2. METHODS

This study employed a quantitative explanatory research design to examine the effects of institutional quality on the demand for external audit services across countries. The unit of analysis was the country rather than the individual firm, and the study used secondary archival data in the form of a single cross-sectional dataset compiled from official World Bank databases, including the Enterprise Surveys collection made available through the World Bank Microdata Library (2024), investigating the influence of Rule of Law and Control of Corruption as independent variables on the country-level demand for external audit services.

The population consisted of all economies covered by the World Bank Enterprise Surveys and the Worldwide Governance Indicators. A purposive sampling technique selected countries that had publicly available Enterprise Surveys data for the indicator measuring whether firms' annual financial statements were reviewed by an external auditor, that reported valid percentages of "Yes" and "No" responses for that indicator, and for which Rule of Law and Control of Corruption data for 2023 were available from the Worldwide Governance Indicators database. Applying these criteria yielded 23 countries from Sub-Saharan Africa, the Middle East and North Africa, South and Southeast Asia, and Europe and Central Asia, with Enterprise Surveys years ranging from 2009 to 2019, representing the latest publicly available survey for each country. Although the survey years were not fully contemporaneous with the 2023 governance indicators, institutional quality indicators are generally considered relatively stable over time, making this approach acceptable for cross-country governance research while acknowledging it as a study limitation.

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The dependent variable, external audit demand (Y), was obtained from the World Bank Enterprise Surveys and measured as the percentage of formal-sector firms whose annual financial statements were reviewed by an external auditor, an operationalization consistent with prior firm-level audit-demand studies that use audit engagement as a binary or proportional outcome (Ha & Nguyen, 2020). The independent variables, Rule of Law (X1) and Control of Corruption (X2), were obtained from the Worldwide Governance Indicators database, which aggregates several hundred underlying variables from multiple survey and expert-assessment sources into a single standardized governance score for each country and year (World Bank, 2026; Kaufmann, Kraay, & Mastruzzi, 2011). No primary data collection, such as questionnaires or interviews, was conducted, and all country-level observations were compiled from publicly accessible archival datasets.

The data were analyzed using multiple linear regression to examine the effects of Rule of Law and Control of Corruption on the demand for external audit services. Prior to hypothesis testing, the regression model was evaluated using classical assumption tests consisting of normality, multicollinearity, heteroscedasticity, and autocorrelation tests to ensure compliance with the assumptions of ordinary least squares estimation. Given that Rule of Law and Control of Corruption are theoretically and empirically highly correlated components of the governance-indicator framework (Bayraktar et al., 2023), particular attention was paid to the variance inflation factor and to the pairwise correlation between X1 and X2. Descriptive statistics were also used to summarize the characteristics of the variables. Statistical significance was evaluated at the 5% level, and the coefficient of determination, F-test, and t-test were used to assess the explanatory power of the model and the significance of the individual and simultaneous effects of the independent variables.

3. RESULTS AND DISCUSSION

3.1 Descriptive Overview of the Research Sample

The final research sample comprises 23 countries with complete data on Y, X1, and X2, as presented in **Table 1**, sorted by the magnitude of external audit demand. The country with the highest demand for external audit in the sample is the Philippines (91.63%), followed by Malta (90.91%) and Egypt (86.91%), while the lowest demand is found in Somalia (17.20%), Russia (19.03%), and Kazakhstan (23.15%). Across the full sample, external audit demand averages 52.84% with a standard deviation of 25.52 percentage points, indicating wide dispersion in the share of firms that obtain an external audit even after the sample was restricted to countries with complete governance data.

A simple comparison between the eleven countries with the highest audit demand and the eleven countries with the lowest audit demand, calculated from **Table 1**, illustrates the pattern that motivates the regression analysis: the high-demand group has a mean Rule of Law score of -0.15 and a mean Control of Corruption score of -0.43, whereas the low-demand group has a mean Rule of Law score of -0.62 and a mean Control of Corruption score of -0.68. Both governance indicators are therefore, on average, less favorable in the low-audit-demand group, consistent with the hypothesized positive relationship between institutional quality and audit demand, although the gap is visibly wider for Rule of Law than for Control of Corruption. This raw descriptive pattern anticipates the regression results reported below, in which Rule of Law

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emerges as the stronger and statistically significant predictor once both governance indicators are entered jointly.

Table 1. Research sample: External audit demand, rule of law, and control of corruption by country

No	Country	Survey Year	N	Y (%)	X1	X2
1	Philippines	2009	1290	91.63	-0.42	-0.54
2	Malta	2019	242	90.91	0.70	0.11
3	Egypt	2016	1811	86.91	-0.18	-0.75
4	West Bank and Gaza	2019	360	86.11	-0.68	-0.68
5	India	2014	9146	83.21	0.19	-0.37
6	Lebanon	2019	531	80.98	-1.17	-1.23
7	Kenya	2018	995	79.90	-0.33	-0.77
8	Cyprus	2019	240	70.00	0.63	0.33
9	Zambia	2019	600	55.83	-0.53	-0.48
10	Serbia	2019	355	55.77	-0.07	-0.45
11	Jordan	2019	575	50.61	0.26	0.09
12	Rwanda	2019	359	46.24	0.21	0.67
13	Bangladesh	2013	1438	45.55	-0.50	-1.12
14	Mozambique	2018	601	44.09	-1.03	-0.83
15	Morocco	2019	972	37.96	-0.13	-0.54
16	Turkiye	2019	1633	33.99	-0.51	-0.50
17	Vietnam	2015	986	32.35	-0.09	-0.42
18	Ukraine	2019	1310	30.08	-0.89	-0.69
19	Slovenia	2019	408	29.90	1.04	0.78
20	Nigeria	2014	2571	23.92	-0.89	-1.04
21	Kazakhstan	2019	1417	23.15	-0.45	-0.27
22	Russia	2019	1293	19.03	-1.19	-1.10
23	Somalia	2019	250	17.20	-2.21	-1.73

Source: World Bank Enterprise Surveys (Y) and World Bank Worldwide Governance Indicators 2023 (X1, X2), processed by the author, 2026.

3.2 Classical Assumption Test Results

Before testing H1 and H2, the regression model was evaluated against the four classical assumptions required for ordinary least squares estimation. The Kolmogorov-Smirnov test on the standardized residuals yields a statistic of 0.114 ($p = 0.895$), and the Shapiro-Wilk test yields $W = 0.938$ ($p = 0.161$); both indicate that the residuals do not deviate significantly from a normal distribution, satisfying the normality assumption.

Multicollinearity was assessed using the variance inflation factor and tolerance statistics for Rule of Law and Control of Corruption. Both variables show a variance inflation factor of 4.97 and a tolerance of 0.201, below the conventional threshold of 10 (equivalently, above a tolerance of 0.10) commonly used to flag problematic collinearity in OLS regression, even though the pairwise correlation between the two indicators is high ($r = 0.894$). This result clarifies an important distinction developed further in Section 3.5: the variance inflation factor does not signal an estimation problem severe enough to invalidate the model, but the high pairwise correlation still complicates the precise separation of each variable's unique partial effect, which is a distinct concern from the variance-inflation-factor rule of thumb.

Heteroscedasticity was tested using the Breusch-Pagan test, which returns a Lagrange multiplier statistic of 0.610 ($p = 0.737$), indicating no evidence of heteroscedasticity in the residuals. Autocorrelation was assessed using the Durbin-Watson statistic, which equals 2.225, close to the benchmark value of 2 that indicates no first-order autocorrelation among the residuals. Taken together, the model satisfies all four classical assumptions of OLS estimation. The overall model is significant at the 10 percent level ($F = 3.340$, $p = 0.056$), though not at the conventional 5 percent threshold, and explains approximately 25 percent of the variation in external audit demand ($R^2 = 0.250$, Adjusted $R^2 = 0.175$).

3.3 Conceptual Framework

Figure 1 summarizes the conceptual framework that structures the empirical analysis. Institutional theory positions Rule of Law and Control of Corruption as two related, but conceptually distinct, dimensions of the regulatory and normative environment that confers legitimacy on firms adopting costly governance practices such as an external audit (DiMaggio & Powell, 1983; Meyer & Rowan, 1977). Agency theory complements this legitimacy-based logic by explaining why firms are willing to bear the cost of an audit: where legal enforcement is credible, an independent audit opinion carries real legal and economic weight, lowering the cost of monitoring for outside stakeholders and raising the private benefit of the audit for the firm (Jensen & Meckling, 1976).

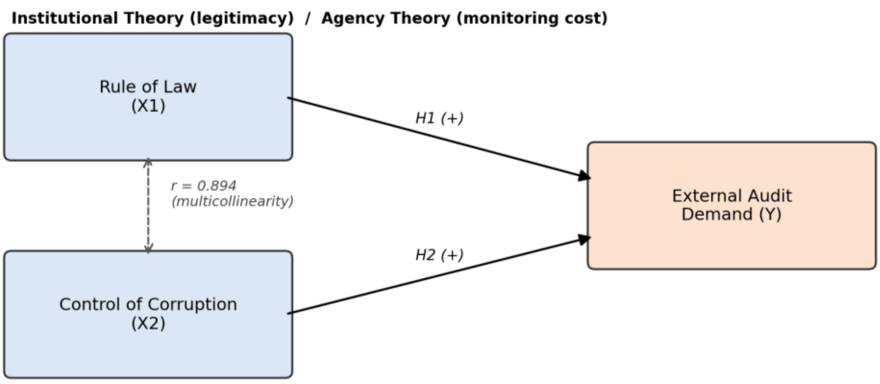

Figure 1. Conceptual Framework Linking Rule of Law, Control of Corruption, and External Audit Demand.

The framework depicts both Rule of Law (X1) and Control of Corruption (X2) as direct predictors of external audit demand (Y), consistent with hypotheses H1 and H2. The dashed double-headed arrow between X1 and X2 in **Figure 1** represents the high empirical correlation between the two indicators ($r = 0.894$) documented in this sample, which is central to interpreting the regression results in Sections 3.4 and 3.5: because the two governance dimensions move closely together across countries, their separate, partial effects on audit demand are harder to estimate precisely than their combined effect. This conceptual structure links directly to the classical assumption test results reported in Section 3.2, where the variance inflation factor of 4.97 associated with X1 and X2 is the empirical counterpart of the conceptual overlap depicted in the framework.

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3.4 The Effect of Rule of Law on External Audit Demand

The regression results show that Rule of Law has a positive and statistically significant effect on the demand for external audit (B = 38.438, p = 0.021), supporting H1. This finding is consistent with institutional theory, which predicts that firms operating in countries with strong legal institutions face stronger coercive and normative pressure to adopt credible governance mechanisms such as external audit (DiMaggio & Powell, 1983; Meyer & Rowan, 1977). Where courts, property rights, and contract enforcement function predictably, an external audit opinion carries greater legal and practical weight: creditors and investors can rely on audited financial statements with more confidence because misstatement carries real legal consequences for both management and the auditor. From an agency theory perspective, strong rule of law also lowers the cost of enforcing audit-related contracts between firms and their outside stakeholders, making the purchase of an external audit a more attractive monitoring investment (Jensen & Meckling, 1976).

The magnitude of the coefficient is also substantively meaningful. Because Rule of Law is measured on the standardized governance-indicator scale used in **Table 1**, a one-unit increase in the indicator (broadly, the empirical range between a weak and a strong legal system in this sample) is associated with an estimated 38.4 percentage-point increase in the share of firms obtaining an external audit, holding Control of Corruption constant. This is a large effect relative to the sample mean of 52.84%, and it is consistent with the descriptive pattern noted in Section 3.1, where the highest-audit-demand countries have markedly less negative Rule of Law scores than the lowest-audit-demand countries.

This result also resonates with recent evidence on institutional weakness and audit quality. Angsoyiri et al. (2026) find that in a weak institutional environment, formal governance structures such as board and audit-committee independence can function symbolically rather than substantively, while credible external auditing continues to operate as a monitoring mechanism that firms and their stakeholders can rely on even when domestic enforcement is uneven. Read together with the present finding, this suggests that Rule of Law does not merely coexist with audit demand as a background condition; it appears to be one of the institutional supports that allows external audit, specifically, to remain a credible and enforceable governance mechanism when other, more internally oriented, governance structures are weaker. This interpretation is consistent with the legitimacy logic of institutional theory: audit demand rises with Rule of Law not only because compliance is required, but because a functioning legal system makes the audit opinion meaningful in the first place.

3.5 The Effect of Control of Corruption on External Audit Demand

In contrast, Control of Corruption does not show a statistically significant positive partial effect at alpha = 0.05 (B = -35.633, p = 0.067, SE = 18.389), so H2 is not supported at the conventional significance level. This result is noteworthy because it appears, at first glance, to contradict recent large-sample evidence: using World Bank Enterprise Survey data across 128 countries, Qin and Ajide (2026) find a robust negative relationship between corruption and firms' adoption of external auditing, which, expressed in terms of Control of Corruption, implies a positive relationship between control of corruption and audit adoption, in the same direction hypothesized in H2. It also sits alongside earlier cross-country evidence from Medioli et al. (2024), who find that stronger regional governance and lower corruption reduce opportunistic governance practices in family firms.

Three complementary explanations are offered for this apparent divergence. First, and most likely, the high correlation between Rule of Law and Control of Corruption in this sample ($r = 0.894$) produces a classic multicollinearity and suppression pattern: although the simple, zero-order correlation between Y and X2 is positive and in the expected direction ($r = 0.128$), once Rule of Law is statistically controlled for, the remaining partial variation in Control of Corruption becomes negatively associated with Y. This is a well-documented statistical phenomenon when two conceptually overlapping regressors are entered jointly into a small-sample regression model, and it does not necessarily mean that corruption control is unimportant; rather, it means that the unique, independent contribution of Control of Corruption, net of Rule of Law, cannot be estimated with precision in this sample. In other words, the sample provides strong evidence that institutional quality as a whole (Rule of Law and Control of Corruption acting together) matters for audit demand, but it cannot cleanly separate which of the two closely related dimensions is doing the work.

Second, the modest sample size ($n = 23$) limits the statistical power available to detect a true but relatively small partial effect, particularly under conditions of moderate-to-high collinearity, which inflates the standard error of the X2 coefficient relative to what a larger sample would likely produce. Unlike Qin and Ajide (2026), who use a much larger, multi-year panel of 128 countries with fixed-effects and correlated random-effects estimators capable of separating persistent country-level corruption from Rule of Law, the present study relies on a single cross-section of 23 countries and a simple OLS estimator, which is inherently less able to isolate the unique effect of one governance dimension from a closely related one.

Third, the relationship between transparency and corruption may itself be more complex than a simple positive linear association. Liu et al. (2021) show that in weak-institution settings, the very act of producing audited financial statements can expose firms to greater corruption obstacles, because rent-seeking officials use credible financial disclosures to calibrate bribe demands. If a similar dynamic is present in some of the lower-Rule-of-Law countries in this sample, it would further dampen the estimated partial effect of Control of Corruption once Rule of Law is held constant, because the audit-demand-suppressing side of corruption would partly offset the audit-demand-encouraging side captured in the zero-order correlation.

Taken together, these three explanations point to the same substantive conclusion: the non-significant partial effect of Control of Corruption should not be read as evidence that anti-corruption efforts are irrelevant to audit adoption. Rather, it reflects the practical difficulty of separating two governance dimensions that move together so closely in this sample, combined with a genuinely more complex, and possibly bidirectional, relationship between corruption and financial-statement transparency in weaker-institution countries.

3.6 Theoretical and Practical Implications

Theoretically, these results extend institutional and agency theory by showing that, when Rule of Law and Control of Corruption are modeled jointly, legal enforcement exerts a stronger and more direct influence on external audit demand than corruption control. This refines the common assumption in the governance literature that "good institutions" act as a single, undifferentiated driver of audit adoption; the present findings suggest instead that the legal-

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enforcement dimension of institutional quality is doing most of the identifiable work in this sample, while the corruption-control dimension operates largely through its overlap with Rule of Law rather than as an independent channel. A key strength of this study is its transparent assessment of the multicollinearity issue between the two governance indicators, providing a methodological example that is rarely discussed explicitly in accounting research using the Worldwide Governance Indicators (Bayraktar et al., 2023).

Practically, the findings offer guidance for regulators, professional accounting bodies, and policymakers seeking to expand the adoption of external audit services, particularly in countries with weaker governance quality. Because Rule of Law shows the clearer and statistically robust association with audit demand, investment in legal enforcement infrastructure, such as courts, property-rights protection, and contract enforcement, is likely to be a more directly effective lever for expanding audit adoption than anti-corruption measures pursued in isolation. This does not imply that anti-corruption efforts are unimportant; rather, given the high correlation between the two governance dimensions, strengthening Rule of Law and controlling corruption are likely to be mutually reinforcing policy tracks rather than substitutes.

This implication is also consistent with evidence from Indonesian accounting research on the internal, organizational analogue of institutional quality. Nurcahyono and Ifada (2024), writing in Jurnal ASET (Akuntansi Riset), find that internal control directly affects the quality of local government financial reporting, while Widarsono and Natalia (2024), in the same journal, show that auditor reputation and organizational complexity, rather than size alone, shape the audit fees charged to Indonesian state-owned enterprises. Although these studies are conducted at the organizational rather than the country level, they reinforce the broader logic of the present study: credible oversight mechanisms, whether internal control within an organization or Rule of Law across a country, appear to be a more consistent driver of audit-related outcomes than governance dimensions that are conceptually adjacent but less directly enforceable. For accounting researchers publishing in Indonesian outlets such as Jurnal ASET, this suggests a natural extension: testing whether country-level Rule of Law moderates the firm-level relationships these studies document, for instance whether internal control matters more for financial reporting quality in jurisdictions where legal enforcement of accountability is already credible.

3.7 Comparison with Firm-Level Evidence on Voluntary Audit Demand

The country-level pattern documented here is broadly consistent with, and helps to contextualize, firm-level evidence on voluntary audit demand. Ha and Nguyen (2020) find that Vietnamese small and medium enterprises demand voluntary audit when directors perceive a net benefit and stakeholders explicitly recommend it. This firm-level mechanism operates within, and is conditioned by, the country-level institutional environment examined in this study: where Rule of Law is strong, the legal enforceability of audit-related contracts and creditor claims raises the private benefit of an audit for any individual firm, which in aggregate should raise country-level audit demand, the pattern observed for X1 in this study. Kim et al. (2019) add a complementary institutional-investor channel, showing that foreign investors are more likely to push firms toward higher-quality auditors precisely where domestic legal monitoring is weaker, suggesting that international capital flows may partially substitute for domestic institutional quality in some of the lower-Rule-of-Law countries in the sample.

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A related governance-quality channel emerges from Angsoyiri et al. (2026), whose Ghanaian evidence shows that institutional ownership significantly increases the likelihood that a firm engages a Big Four auditor, even when internal board mechanisms show little independent effect on audit quality. This is consistent with the interpretation offered above: where domestic institutional enforcement is uneven, external, market-based pressures, whether from foreign or institutional investors, can partially substitute for country-level Rule of Law in driving firms toward credible external audit. Taken together, the firm-level and country-level evidence reviewed here suggest that external audit demand is shaped jointly by the legal environment in which a firm operates and by the ownership and stakeholder pressures it faces directly, with the two channels reinforcing rather than substituting for each other in most institutional contexts. This layered picture also clarifies why a single country-level regression, however carefully specified, cannot fully explain audit demand: firm-level ownership structure and stakeholder composition remain relevant even after country-level Rule of Law is accounted for, and future research combining both levels of analysis, in the spirit of Ha and Nguyen (2020) and Kim et al. (2019), would be well positioned to disentangle their relative contributions.

4. CONCLUSION

This study concludes that institutional quality is an important determinant of external audit demand across countries. Rule of Law has a significant positive effect on the percentage of firms using external audit services, indicating that stronger legal institutions encourage the adoption of independent audits as a credible governance mechanism, consistent with both agency theory (Jensen & Meckling, 1976) and institutional theory (DiMaggio & Powell, 1983; Meyer & Rowan, 1977). Control of Corruption does not exhibit a statistically significant partial effect after controlling for Rule of Law, a result attributable to the high correlation between the two governance indicators rather than to the absence of a substantive relationship and further nuanced by evidence that the transparency-corruption relationship can run in more than one direction in weak-institution settings (Liu et al., 2021). Together, the two variables explain a meaningful proportion of the variation in external audit demand, indicating that institutional quality contributes to audit adoption alongside other firm-level, regulatory, and economic factors.

Compared with previous studies that primarily examine firm-level determinants of external audit demand (Ha & Nguyen, 2020) or investigate institutional quality using a single governance indicator (Medioli et al., 2024), this study demonstrates the value of simultaneously evaluating Rule of Law and Control of Corruption within a cross-country framework using publicly available World Bank datasets. For regulators, professional accounting bodies, and policymakers, the clearest actionable implication is that investment in legal enforcement infrastructure, courts, property-rights protection, and contract enforcement, is likely to be the more directly effective solution for expanding external audit adoption, and that this investment should proceed alongside, rather than instead of, broader anti-corruption efforts, given how closely the two governance dimensions move together across countries.

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