

# Assessing The Impact of Internal Audit Characteristics on The Internal Audit Reporting Quality: Evidence from Saudi Arabia

Thamer M. Al-Wadai <sup>1\*</sup>, Ahmed Alsenosy <sup>1</sup>, Aza Azlina Md Kassim <sup>2</sup>

<sup>1</sup> Graduate School of Management, Post Graduate Centre, Management and Science University (MSU), University Drive, Off Persiaran Olahraga, Section 13, 40100, Selangor, Malaysia

<sup>2</sup> Associate Professor at Management and Science University. Management and Science University Universiti Utara Malaysia. Shah Alam, Section 13, 40100, Selangor, Malaysia

\*Corresponding author E-mail: [alfaisalthamer@yahoo.com](mailto:alfaisalthamer@yahoo.com)

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## Abstract

This study examines how specific internal audit characteristics influence the quality of internal audit reports in Saudi Arabia. The research is grounded in the resource-based view. It focuses basically on five key characteristics of the IAF. They are competence, objectivity, work performance, corporate governance quality, and internal control system effectiveness. These characteristics represent valuable human and organizational resources. A 5-point Likert scale questionnaire was developed to collect primary data that was analyzed using Partial Least Squares Structural Equation Modeling (PLS-SEM). The findings reveal that work performance, as a human-based characteristic, as well as corporate governance and internal control systems, as environmental characteristics, significantly influence the quality of internal audit reports. The results provide theoretical implications as they confirm the view of internal audit capabilities as valuable, rare, inimitable, and non-substitutable (VRIN) resources that can enhance organizational audit quality. By framing internal audit characteristics and IRQ as strategic resources, the study demonstrates how strengthening internal audit functions can lead to greater audit outputs in terms of higher quality reports. These results provide practical implications for audit committees, internal auditors, and regulatory bodies seeking to strengthen the effectiveness of internal auditing and enhance internal audit outputs in the Saudi context.

**Keywords:** Internal control system, corporate governance, Internal audit reports, Competence, Objectivity, Work Performance.

## 1. Introduction

High-quality reporting faithfully represents a company's economic activities and financial condition throughout the reporting period. (CFA, 2024). Financial reporting quality concerns the accuracy and usefulness of information in financial reports. That is, the precision, reliability, and relevance of financial data. Report quality shows how accurately financial statements reflect the organization's economic reality. (Abed et al., 2022). Stakeholders need accurate financial information to make informed decisions (Gardi et al., 2023). Therefore, financial reports should be of high quality and free of fraud—any dishonesty conducted intentionally to seize the rights or ownership of another person or party. (Vamela & Setiyawati, 2021). In Audit, fraud implies intentional misstatement of the financial statements. (Vamela & Setiyawati, 2021).

Internal auditing is an ongoing and effective methodical procedure that involves examining and reporting accounting practices of a firm. Internal auditing is usually carried out by workers working in the company. Internal audit aims to conduct a comprehensive evaluation of the business's financial information and accounting records; and to ensure compliance with executive management legislation, adherence to government requirements, and consistency with professional standards. (Ganda Saputra & Yusuf, 2019). IA encompasses an "independent, objective consulting and assurance effort & activity intended to add value and enhance a corporation's processes /operations" (IIA, 2020b). Organizations opt for in-house activities or outsourcing to run internal audits (Ashfaq et al., 2023).

Internal Audit Function (IAF) refers to professionals, often employed internally within an organization within the accounting or finance departments. Their role involves controlling and assessing financial records to enhance internal processes (e.g., risk management, operations, governance, and internal reports) (Hamdallah, 2020). In addition to the traditional settings of conducting compliance audits (Vadasi et al., 2020), the Internal Audit Function has been shifted to assist organizations in accurately predicting, assessing, reporting and responding to opportunities and threats (IIA, 2020a). After the 2007 financial crisis and the Sarbanes-Oxley Act, internal auditors became more critical in ensuring accurate reporting and strong governance (Ashfaq et al., 2023). Internal auditing will continue to evolve and will remain a key driver of organizational success and sustainability. (Ashfaq et al., 2023).

The objectivity, competence of internal auditing function, whether in-house or outsourced, is essential for its effectiveness (Ashfaq et al., 2023). The effectiveness of internal control systems and quality of corporate governance are among other environmental characteristics that may exert influence on the effectiveness of IAF and their reports and work outputs (Ashfaq et al., 2023; Siahaya & Sandanafu, 2022). The current paper examines the relationship between internal audit function characteristics and the quality of internal audit reports, particularly in the Saudi Arabian context. The paper has eight sections: introduction, problem statement, hypotheses, methodology, results, discussion, recommendations, and conclusions.

## 2. Problem statement

The Kingdom of Saudi Arabia (KSA) is one of the fastest-growing regions globally and is about to become a center for businesses of all kinds and sizes. Saudi Arabia's Vision 2030 fundamentally focuses on diversifying the Kingdom's economy and attract foreign investments. Vision 2030 seeks to transform the Kingdom into a center of global investment (Vision 2030, 2025).

Accordingly, the government regularly introduces new financial transparency laws and stricter regulations (Wafeq, 2023). Businesses in KSA, in turn, need to adhere to government guidelines, laws, and international standards, especially international auditing standards. (Avia-an Accounting, 2023; Mati & Rehman, 2022). Adhering to International standards allow the Kingdom to boost the quality and reliability of financial reporting and thus guarantee a continuous evolution (Wafeq, 2023).

In particular, the kingdom applies the international Financial Reporting Standards (IFRS). Such a comprehensive set of regulations and guidelines formulated by IASB. Several nations employ the IFRS as their principal accounting standard (Abed et al., 2022). IFRS Implementation improves transparency and quality of reporting and at the same time covers constitutional and regulatory requirements (Kateb & Belgacem, 2023; Nurunnabi et al., 2022).

Despite implementing international standards and the critical role of internal audit functions in organizational governance and accountability, many organizations continue to face issues related to the professionalism of IAF and hence the quality and reliability of internal audit reports. A major challenge of IAF remains attracting highly skilled professionals (Bissol & Oliveira, 2022).

The quality of internal audit reports may be influenced by several internal audit characteristics such as objectivity, auditor competence, work performance (IIA, 2020b), the effectiveness of internal control systems, and the quality of corporate governance (Albawwat et al., 2021; Azzam et al., 2020). However, empirical evidence is lacking, there is a lack of an in-depth understanding, especially in the context of Saudi Arabia, on how these IAF's characteristics impact the overall quality of internal audit reports.

An empirical- knowledge gap is also apparent in prior research. The existing literature lacks a focused investigation into how resource dependencies shape the relationships between internal auditing function and producing quality reports.

Most of the available studies in the context of KSA scratch the surface and are old. (e.g., Altwaijry, 2017; Al-Twaijry et al., 2003; Al-Twaijry et al., 2004; Alzeban & Sawan, 2013). Even new studies are scarce; if they exist, they only pay attention to a very narrow perspective and consider a limited number of factors (Al Fayi, 2022; Azzam et al. 2020).

Various characteristics of the IAF play a role in the quality of internal audit reports. High-quality reports can reflect many aspects. The unbiased and impartial nature of the internal audit process reflects what is meant by objectivity. (Siregar et al., 2021). The well-supported analyses and recommendations reflect competency. (Redjeki et al., 2021). The detailed, accurate, and timely reports reflect performance. (Fitriati, 2020). Strict compliance to guidelines and instructions, inherently reflects the internal control system's effectiveness (Idowu et al., 2022) and the strong governance practices in the organization (Akinto, 2021). However, the influence of these characteristics on internal audit reports have not been adequately discussed or investigated in the literature, especially in the context of Saudi Arabia.

Prior research investigation reveals an additional gap related to the foundational theories. While most internal auditing studies utilized the agency theory (Abdulai et al., 2021; Ashfaq et al., 2023; Vamela & Setiyawati, 2021), the Resource-based Theory (RBT) was not examined sufficiently. This deficiency is particularly conspicuous when exploring the determinants influencing internal audit reporting quality. (Ahmad & others, 2015; Alqudah et al., 2019). Therefore, the provision of both human-based resources, in particular, objectivity, competence, and work performance, and organizational resources, such as corporate governance quality and internal control system effectiveness, need to be examined in the context of RBT to gain more in-depth insights into the relationships between the characteristics that shape the reporting quality.

To bridge these gaps, there is a need for rigorous research that examines different internal auditing characteristics and their influences on internal auditing reporting quality in the context of Saudi. The objectives of this research are as follows:

1. To assess the impact of IAF human-based characteristics, in particular, Objectivity, Competence, and work Performance,
2. To assess the impact of IAF organizational-based characteristics, in particular, Internal Control System Effectiveness, and Corporate Governance Quality) on the Quality of Internal Audit Reports.

## 3. Hypotheses Development

Having a hypothesis is necessary when starting any type of scientific analysis. Clearly stated hypotheses give meaning to the analysis and keep the study focus. Having hypotheses helps in transferring theoretical ideas to testable statements. They help researchers set the connections between various variables. The hypotheses in this study are illustrated in Figure 1. They are formed using relevant literature and are consistent with the Resource-Based Theory (RBT). The aim is to test how the nature of internal audit teams can impact on the quality of their reports.

### 3.1 Competence and internal auditing reporting quality

Competence reflects the meaning of experience, education, training, and certifications (Vadasi et al., 2020). As well, competence indicates technical skills, leadership ability, years of experience, and familiarity with organizational processes (Sales Marques Bissol & Oliveira, 2022). In auditing, competence can additionally describe internal audit knowledge, professional development, and professional qualifications such as CPA, CMA, CIA (Suwaidan & Qasim, 2010). IAFs following IIA standards are seen as more competent (Breger et al., 2020), here strict adherence to these standards is viewed as a signal of capability. This shows that competent internal auditors possess technical expertise, professional certifications, experience, and familiarity with organizational processes, support the generation of high-quality audit outcomes.

Competence represents a human-based characteristic, and it is a foundational attribute for IAF to be effective. Auditing standards, to name some, AICPA, ISA 610, and PCAOB emphasize that reliance on the reports produced (implicitly mean high quality reports are produced)

by IAF is conditional upon key characteristics. Competence is one of the most critical characteristics (Breger et al., 2020; Bissol & Oliveira, 2022).

Empirical evidence reinforces this view that relates the competency of internal auditors to the IAF outcomes. Ashfaq et al. (2023) reported a positive relationship between the competence of the IAF and reliance on their reports. Similarly, Kaawaase et al. (2021) found that competence is an attribute that significantly influences internal audit quality, particularly in terms of its impact on financial reporting. Breger et al. (2020) also observed that when the IAF fully complies with IIA standards, perceptions of its competence improve, leading to increased reliance on their report.

Additional studies underlined competence as a driver of producing accurate reports. Abdulai et al. (2021) concluded that without staff experience and knowledge, adherence to reporting standards may not be possible. Alzeban (2019) and Setiyawati et al. (2020) emphasized that competent internal auditors preserve a critical role in enhancing the financial reporting quality through their expertise and ability to comply with accounting guidelines and standards. However, Hanif (2020) reported no significant effect of competence on reliance on IAF reports in Pakistan. This result implies a need for further contextual research. Similarly, Ainun and Djamil (2024) observed that auditor competence has no effect on audit quality.

From a close RBT perspective, competence is a strategic internal resource (Barney, 1991). It enables organizations to perform effective internal audits, which leads, in all likelihood, to the creation of high-quality audit reports. These reports become valuable assets that promote transparency, build trust, and enhance decision-making process. As a result, competence contributes to the firm's competitive advantage through improved audit work and thus stakeholder confidence.

H1: Competence has a positive influence on Internal Audit Reporting Quality.

### 3.2 Objectivity and internal auditing reporting quality

Objectivity means making decisions in the light of facts and observable data; away from personal opinions or biases (Kaur & Singh, 2019). As a key aspect, Objectivity shapes the overall internal audit process. Basically, it refers to making fair and unbiased decisions using concrete evidence. This principle demands full, honest, and accurate disclosure of all relevant information. (Zakwan et al., 2024). Auditors who are characterized by objectivity avoid bias, personal interest, or external pressure to affect their professional judgment. (Sinaga et al., 2024). According to Resource-Based Theory (RBT), objectivity can be perceived as a technical human resource that helps organizations gain a competitive edge (Barney, 1991). It is seen as an internal capability that supports performance improvement.

The objectivity of IAF staff is a vital factor in producing credible and reliable audit outcomes, particularly, as financial reports (Kaur & Singh, 2019). Auditing standards, to name some, ISA 610, AICPA, and PCAOB allow external auditors to rely on the reports produced by the IAF. Objectivity means that internal auditors stay independent from management. It also means they avoid conflicts of interest. In turn, the IAF's work is strengthened in terms of fairness and integrity (Breger et al., 2020).

Prior research supports the important role and the impact of objectivity on audit results. As Ashfaq et al. (2023) found, a strong link between objectivity and external auditors' willingness to rely on internal audit work was underlined. Kaawaase et al. (2021) also found that internal auditor autonomy (a part of objectivity) relates to higher-quality financial reporting. Breger et al. (2020) and Hanif (2020) noted that following professional standards and having internal auditors with no conflicting tasks, makes the IAF work outcomes more reliable. However, Ainun and Djamil (2024) observed that auditor independence has no effect on audit quality.

From the point of view of RBT, objectivity is more than just a control feature. It is a valuable internal capability. (Barney, 1991). Organizations that build and are known for their strong internal audit objectivity can create better-quality audit reports. These reports improve decisions and increase trust from stakeholders. As a result, objectivity becomes a strategic asset. It not only improves audit processes but also helps the organization build core strengths.

Accordingly, it can be hypothesized that:

H2: Objectivity has a positive influence on Internal Audit Reporting Quality.

### 3.3 Work performance and internal auditing reporting quality

Work performance is a key player in internal audit effectiveness and plays a pivotal role in shaping the quality of internal audit reports. It reflects the degree to which internal auditors fulfill their assigned duties according to established standards and expectations (Diem et al., 2023; Fitriati, 2020).

The effectiveness of the internal audit and the quality of audit reports largely depend on employees' work performance. From this perspective, work performance shows how well internal auditors complete their responsibilities based on the agreed rules and requirements. (Diem et al., 2023; Fitriati, 2020). Consequently, IAF's excellent performance in producing quality and quantity outputs, helps the audit outcomes become reliable and beneficial. (Noor et al., 2024). Effective

audit committee performance was found to improve financial reporting outcomes (Babalola et al., 2025).

From the theoretical perspective, in particular, Resource-Based Theory, work performance represents a valuable human resource that can help organizations gain a competitive edge through the production of reliable audit reports (Barney, 1991). Recent studies affirm that effective performance by internal auditors enhances the overall output of internal audit and increases reliance on their reports (Ashfaq et al., 2023). Therefore, maintaining strong work performance within the IAF is essential for ensuring high-quality reporting and reinforcing trust among stakeholders.

Different standards such as ISA 610, The AICPA and PCAOB underlined the role of work performance as a factor in relying on IAF financial reports ((Bissol & Oliveira, 2022; Breger et al., 2020). Empirically, various researchers found that reliance on IAF's reports are very dependent on work performance, among other factors. For example, Hanif (2020) and Ashfaq et al. (2023) Work-performed possess significant impact on whether external auditors rely on IAF's report. Kateb and Belgacem (2023) and Ullah et al. (2022) argue that excellent audit quality, combined with the adoption of IFRS (an aspect of high work performance), could potentially assist manufacturing businesses in improving their financial performance.

According to Abdulai et al. (2021), strong staff integrity (which means good work performance) helps improve financial reporting proficiency. Having integrity among staff means they can complete the audit well and apply all financial reporting rules, leading to good quality reports. . Kaawaase et al. (2021) Found that better internal audit leads to better financial reporting. According to (Mapuli, 2023), the IAF's strong performance has encouraged business in Tanzania to trust their financial statements.

From the very basic RBT perspective, there is an emphasis on the strategic significance if evidence of utilizing the capabilities and resources already exists within an organization. The current study uses the resources and capabilities of the IAF to improve the quality and reliability

of internal audit reports. This means when organizations sufficiently have IAF's human resources (such as work-performance), they can perform an effective internal auditing process, which helps them gain a unique capability (producing quality internal audit reports).

H3: Work performance has a positive influence on Internal Audit Reporting Quality.

### 3.4 Corporate Governance Quality and Internal Auditing Reporting Quality

When outstanding corporate governance is implemented by the boards of directors, the quality of financial reporting is expected to be enriched (Levit, 2020). The careful and effective orchestration of corporate governance mechanisms, when synchronized with the adoption of International Financial Reporting Standards (IFRS), stands as a strong catalyst of the inherent capability to significantly push and augment the financial performance of manufacturing enterprises (Kateb & Belgacem, 2023; Ullah et al., 2022). The empirical foundation for this academic assertion is underpinned by a growing body of scholarly evidence. The empirical evidence reinforces the discussion and claims that the strategic fusion of governance expertise and adherence to IFRS can serve as a pivotal driver for elevating the financial standing of manufacturing businesses in today's dynamic economic setting. This implicitly indicates that the principles of good governance and the application of accrual-based government accounting standards have a positive effect on the quality of financial reporting.

According to Setiyawati et al. (2020), reliance on accrual account standards and strong governance policies has a remarkable effect on how well financial reports are written. It was found by Breger et al. (2020) that IAF's reports are important in corporate governance because auditors can easily review them when IAF fulfills the standards set by IIA. According to Alzeban (2019), fraudulent financial reporting can be avoided if companies enforce strong corporate governance and Internal Audit is key to this goal. Gardi et al. (2023) found that CG exerts a positive impact on the IFRS adoption, which in turn affects positively the financial reporting quality of private banks in Iraq. Siahaya and Sandanafu (2022) found a positive influence of good governance on the quality of financial reports. Al-Qublan et al. (2020) elucidated that the audit committee chair's accounting competence intricately ameliorated the audit reporting lag. Kaawaase et al. (2021) indicated that board expertise and board role performance are significantly associated with financial reporting quality. Erin (2025) indicated that the integrated reporting practices of the selected South African companies are strongly influenced by the combined effect of assurance and corporate governance variables. From the RBT perspective organization can make use of the available resources and capabilities in order to improve the quality and reliability of internal audit reports, which in turn makes it easier for EAs to make judgments regarding their reliance on the reports. This means when organizations sufficiently have environmental resources (such as quality corporate governance), they can perform an effective internal auditing process, which helps them gain a unique capability (producing quality internal audit reports) that in turn helps them in acquiring a further unique capability (receiving trust from the EAs in the shape of reliance) that represents a core competency of the company. Additionally, introducing quality reports represents a capability that encourages the reuse of these reports, ultimately saving money and time.

H4: Corporate Governance has a positive influence on Internal Audit Reporting Quality

### 3.5 Internal Control System Effectiveness and Internal Auditing Reporting Quality

Internal Control System (ICS) is part of the accounting system. Compliance and the production of solid financial statements are greatly supported by it (Siahaya & Sandanafu, 2022). Assessing Internal Control System Effectiveness (ICSE) forms a main part of auditing. A lot of research has been done on it, and it is seen to greatly affect the success of an internal audit (Ashfaq et al., 2023), as well as the clarity of financial reports (Kaawaase et al., 2021).

In auditing, effectiveness means achieving audit goals accurately and consistently (Abdulai et al., 2021). Audit effectiveness is linked to the "three Es": effectiveness, efficiency, and economy. These three together define successful audit performance (Alqudah et al., 2019).

COSO sees internal controls as actions created by management and employees. They help companies reach their objectives and obey the law (Fourie & Ackermann, 2013). Internal controls are detailed sets of rules that help protect the company's assets, make the business run smoothly and ensure honest records (Idowu et al., 2022).

Internal controls come in many forms. These include physical safeguards, access controls, reconciliations, management reviews, and employee training (ZenGRC, 2024). When effective, the internal control system improves the quality of internal audit reports and strengthens the reliance on the IAF reports.

As a result, ICSE supports the creation of reliable and dependable reports by organizations (Siahaya & Sandanafu, 2022). Organizations use different controls inside the organization to minimize risks. (Idowu et al., 2022; Quick & Henrizi, 2019). When there is no clear guidance, important stakeholders might feel suspicious of each other (Ashfaq et al., 2023). Overall, a good internal control system helps make decisions about which procedures to use and when to carry them out (ISA 610, revised) (IAASB, 2013).

Accordingly, ICSE plays a vital role in ensuring accurate and trustworthy organizational reporting. (Siahaya & Sandanafu, 2022). Organizational management employ targeted internal controls to mitigate risks. (Idowu et al., 2022; Quick & Henrizi, 2019). The lack of clear rules can foster distrust among key relevant stakeholders (Ashfaq et al., 2023). Ultimately, a well-functioning/performing internal control system allows for adjustments in the nature and timing of audit procedures (ISA 610, revised) (IAASB, 2013).

Empirically, Quick and Henrizi (2019) confirmed that a higher degree of cooperation between internal and external auditors is achievable with a strong internal control system. A strong internal control system results in lower control risk risks (Idowu et al., 2022; Quick & Henrizi, 2019). In turn, confidence in internal auditing is likely to grow. Ashfaq et al. (2023) ensure that the assessment of internal control systems has a significant association with the effectiveness of internal audit functions. At the same time, it showed that the ICSE had no significant effect on the quality of financial statements. Similarly, Vamela and Setiyawati (2021) assure us that the ICSE has no significant effect on the tendency for accounting fraud.

According to Resource-Based Theory, ICSE is an organizational and environmental resource. It helps firms gain a competitive advantage by supporting reliable and compliant reporting (Barney, 1991). This means when organizations sufficiently have environmental resources (such as effective ICS), they can perform an effective internal auditing process, which helps them gain a unique capability in terms of producing quality internal audit reports that represents a core competency of the company.

H5: Internal Control System Effectiveness has a positive influence on Internal Audit Reporting Quality.

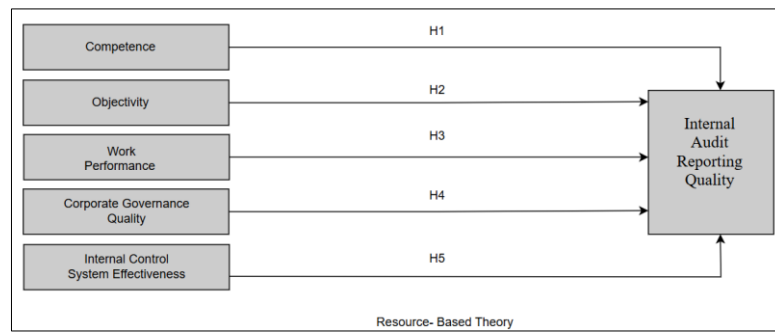


Fig. 1: Research Proposed Model

## 4. Methodology

The current study is grounded in scientific principles. It follows the positivist paradigm and uses a deductive approach to uncover the truth. The aim is to examine the correlations between variables based on Resource-Based Theory. These theories help explain the causal links between internal audit characteristics, in particular, objectivity, competence, work performance, internal control system effectiveness, and corporate governance—and their influence on internal auditing reporting quality. A quantitative approach was used to analyze numerical data and identify relationships between variables. A structured, closed-ended questionnaire was developed to reflect the Saudi business context. The questionnaire included items based on validated scales: internal audit report quality from (Kaawaase et al., 2021); work performance, competence, and objectivity from (Suwaidan & Qasim, 2010); internal control system effectiveness from (Vu et al., 2020); corporate governance from (Elzahaby, 2021). The survey was distributed by email to Saudi CPA (Certified Public Accountants) audit managers. Follow-up phone calls were made to improve response rates. This multi-contact strategy aimed to enhance participation and reduce nonresponse bias. A census approach was adopted, targeting all 376 audit-related firms in Saudi Arabia. The approach guarantees that the results apply to a wider population. Following the rules from Hair et al. (2021), the aim is for 10 or more answers for each question and a total of at least 370 responses. Because the data was collected just once, hypothesis testing became possible. Solid use of sampling and careful collection of data make the findings trustworthy and applicable generally. The findings improve our knowledge of how audits are conducted in Saudi Arabia's business and legal environment.

## 5. Results

The researcher collected 350 valid responses. The demographic analysis, Table 1, shows that most respondents were male (64.0%), while females made up 34.9%. A small percentage (1.1%) did not report gender. In terms of age, the largest groups were those aged 30+ (38.3%) and 40+ (37.7%). Both the under-30 and 50+ groups represented 12.0% each. Most participants held a bachelor's degree (51.4%), followed by master's or higher degrees (45.1%), with only 3.4% holding a diploma or equivalent. Over half of the respondents (52.6%) had more than 10 years of experience, while 26.9% had 5–10 years and 20.6% had less than 5 years. Regarding certification, 38.9% were certified and 61.1% were not. This indicates a sample of mostly experienced and well-educated professionals, with varying levels of certification.

Table 1: Sample Demographic Analysis

Category	Subcategory	Frequency	Percent (%)
Age	Under 30	42	12.0
	30+	134	38.3
	40+	132	37.7
	50+	42	12.0
Gender	Male	224	64.0
	Female	122	34.9
	Missing	4	1.1
Education	Master's/PhD/Higher	158	45.1
	Bachelor/College	180	51.4
	High School/Diploma/Equivalent	12	3.4
Experience	Less than 5 years	72	20.6
	5 years or more	94	26.9
	10 years or more	184	52.6
Certification	Certified	136	38.9
	Non-Certified	214	61.1

These demographic results add strength to the current study. Most respondents are highly educated. Many hold a bachelor's degree or higher. This shows they are likely to understand internal audit practices. Over half have more than 10 years of experience. This makes their answers more reliable. Their experience helps when evaluating objectivity, competence, and work performance. About 39% are certified, which adds credibility. The mix of experience and education brings depth to the data. The range in age and gender improves generalizability. This makes the findings more relevant to the Saudi audit environment. Overall, the demographic profile supports the study's focus on how IAF characteristics affect report quality.

At the outset, it is essential to make sure that the measurement model is solid. This is important to make sure that the study is based on accurate measurement of objectivity, competence, work performance, and other IAF features. Valid and reliable data help ensure that conclusions about their effect on reporting quality are trustworthy.

**Table 2:** Composite reliability and Validity tests

Variable	No Indicators	Composite reliability	AVE	CGQ	COMP	ICSE	WP	OBJ	IRQ
CGQ	5	0.90	0.70	0.838					
COMP	6	0.97	0.74	-0.041	0.860				
ICSE	5	0.92	0.75	0.801	0.016	0.868			
WP	4	0.86	0.72	0.160	0.532	0.185	0.805		
OBJ	7	0.96	0.65	0.724	-0.058	0.731	0.083	0.846	
IRQ	5	0.92	0.75	0.747	-0.009	0.795	0.141	0.804	0.866

The results show strong reliability and validity potentials (Table 2). In terms of reliability, all composite reliability (CR) values are above 0.86, which is well above the acceptable level of 0.70. This means the items for each variable are consistent. It adds confidence that the data are strong, coherent, and can be accurately relied upon. Additionally, the Average Variance Extracted (AVE) values (measure of validity) are also strong. All values are above 0.50, which confirms convergent validity. This means each set of items measures what it is supposed to. For example, IRQ, COMP, and ICSE have AVEs above 0.74, showing excellent validity. Even Work Performance (WP), after removing one item, still shows acceptable CR and AVE. This means the construct remains valid and useful for the model. The Fornell–Larcker criterion confirms acceptable discriminant validity. As displayed in Table 2, each construct's square root of AVE (diagonal values) is higher than its correlations with other constructs (off-diagonal values). For example, CG = 0.838 is greater than its correlations with ICSE (0.801) and IRQ (0.747). Similarly, COMP = 0.860 is higher than its correlation with OBJ (0.532). This means that each construction is distinct from the others. It proves that variables like competence, objectivity, work performance, and others do not measure the same thing. This is crucial for the study because it confirms that IAF characteristics and reporting quality are separate but related factors. With good reliability and validity measures, it is ensured that the model can accurately test relationships between variables. It strengthens the reliability of results when analyzing how IAF traits affect internal audit report quality and external auditor reliance.

**Table 3:** Multicollinearity test (VIF)

Variables	VIF
COMP -> IRQ	1.43
OBJ -> IRQ	1.47
WP -> IRQ	2.45
CGQ -> IRQ	3.20
ICSE -> IRQ	3.28

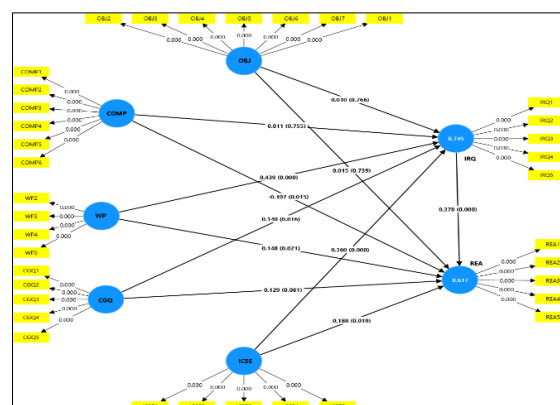
Before running the structural model, running a multicollinearity test, Table 3, is essential. Such a test is important to confirm that the independent variables (competence, objectivity, and work performance, Corporate Governance quality, Internal Control System Effectiveness) are not too closely related. When multicollinearity is low, each variable's unique effect on the dependent variable (IRQ) can be measured accurately. The VIF values for all variables are below 5, which indicates no multicollinearity issue. For example, ICSE = 3.276 and CGQ = 3.197 are the highest, but still within the accepted range. The lowest is COMP = 1.43. In this study, the results show that all IAF characteristics are suitable to include in the structural model. The findings will be more stable, valid, and interpretable.

To test the proposed hypotheses, a structural model was run on SmartPLS and displayed in Figure 2. The structure model illustrates the direct relationships between COMP, OBJ, WP, CGQ, ICSE, and IRQ. It displays the path coefficients' values along with the significance level. The path coefficients help identify which IAF traits truly improve audit report quality. Path coefficient values, Table 4, show how each independent variable affects Internal Auditing Reporting Quality (IRQ). Hypotheses are tested by looking at the T-statistics and p-values. A bootstrapping procedure with 5,000 interactions was used to assess the significance level of various relationships. (Hair et al., 2021).

Competence (COMP) and objectivity (OBJ) have very low impacts. Their p-values are 0.755 and 0.766, which are not significant. So, the hypotheses related to COMP and OBJ are rejected. Work performance (WP) has a strong effect with a coefficient of 0.438 and a p-value of 0.000. This is highly significant. Corporate governance quality (CGQ) has a small but still significant effect (0.144,  $p = 0.016$ ). Internal control system effectiveness (ICSE) also shows a strong and significant impact (0.355,  $p = 0.000$ ). These findings mean the hypotheses for WP, ICSE, and CGQ are accepted.

**Table 4:** Path Coefficients and Strength of Direct Relationships

	Sample means (M)	Standard deviation (STDEV)	T statistics	P-values
COMP -> IRQ	0.011	0.036	0.312	0.755
OBJ -> IRQ	0.016	0.033	0.297	0.766
WP -> IRQ	0.438	0.058	7.575	0.000**
CGQ -> IRQ	0.144	0.058	2.405	0.016**
ICSE -> IRQ	0.355	0.064	5.599	0.000**

**Fig. 2:** The research structural model.

## 6. Discussion

The PLS-SEM results show no significant relationship between competence (COMP) and internal audit report quality (IRQ). The path coefficient is 0.011, and the p-value is 0.755. Therefore, H1 is rejected. Competence refers to the skills, knowledge, and expertise of internal auditors. It is essential for effective auditing (Almahuzi, 2020; Ashfaq et al., 2023). However, in this study, competence does not directly improve report quality. One reason may be the focus on procedures. Competence helps auditors follow standards. But by itself, it may not raise perception of report quality. It might need to be combined with other elements like governance, objectivity, or work performance. Cultural and organizational factors in Saudi Arabia may restrict how competence is applied, as hierarchical and bureaucratic systems can weaken its impact on IRQ. (Ajao & Ejokehuma, 2021; Bazhair & Alshareef, 2022)

In line with the current results, Ainun and Djamil (2024) observed that Auditor competence does not affect audit quality. Other studies have found different results. In some countries, higher auditor competence is linked to better audit reports and stronger audit functions (Hermawan & Bustomi, 2022; Novranggi, 2019). Competence was found to improve the quality of financial reporting (Albawwat et al., 2021; Azzam et al., 2020; Setiyawati et al., 2020; Kaawaase et al., 2021). From a Resource-Based Theory (RBT) perspective, competence is a valuable resource, but it offers limited strategic advantage on its own. Its impact increases when combined with other resources, as competence can enhance task performance, which in turn may improve report quality.

The PLS-SEM results show that the link between objectivity (OBJ) and internal audit report quality (IRQ) is not significant. The path coefficient is very low (0.010) with a p-value of 0.766. Therefore, H2 is rejected. Objectivity may be a basic requirement for internal auditing. However, by itself, it may not improve report quality. It likely needs to be combined with strong audit procedures and adequate resources. In some cases, being objective does not directly lead to better reports. Other factors like work performance or internal control effectiveness may matter more. In Saudi Arabia, cultural and organizational factors could affect this relationship. Hierarchies and family ties may make it hard for internal auditors to stay fully independent. This can weaken the impact of objectivity on report quality (Ajao & Ejokehuma, 2021; Bazhair & Alshareef, 2022). Also, stakeholders may care more about technical skills or control systems than objectivity. In line with the current results, Ainun and Djamil (2024) observed that Auditor independence has no effect on audit quality. Though empirical findings from other countries disagree with this result. Past research shows that more objectivity leads to better audit reports and stronger audit functions (Hermawan & Bustomi, 2022; Novranggi, 2019). Studies also link personality traits like objectivity and competence with better financial reporting (Albawwat et al., 2021; Azzam et al., 2020). Internal auditor autonomy also improves report quality (Kaawaase et al., 2021). From a Resource-Based Theory (RBT) view, objectivity is a useful resource. But it may not give a competitive edge alone. It likely needs to work with other strengths, like expertise or good governance, to affect IRQ. In some cases, other resources may play a bigger role than objectivity.

The PLS-SEM has shown a significant relationship between work performance (WP) and internal audit report quality (IRQ). Thus, H3 is accepted due to the significant positive relationship (path coefficient = 0.439,  $p=0.000$ ). In this way, the critical role of high-quality internal audit execution in providing high-quality reports is underscored. Performance is the outcome of work or job productivity, about quality and quantity, accomplished by an individual or work team (Diem et al., 2023). Productivity reveals both the amount and the quality of a worker's duties (Noor et al., 2024). WP reflects the consistency, accuracy, and thoroughness of internal auditors' work and documentation, relying heavily on operational quality. This research reveals that effective internal auditors produce audits that are accurate, detailed, and ready on time. Research shows that strong work performance significantly enhances audit value (Ashfaq et al., 2023; Hamdallah, 2020; Hanif, 2020). In Saudi Arabia, audit quality, a measure of work performance, was identified as a precursor of financial performance, as empirically observed by Kateb and Belgacem (2023). Even with limited research, researchers from various nations have reported that WP helps improve IRQ. Kaawaase et al. (2021) highlighted that internal audit quality helps predict better financial reporting by Ugandan financial institutions.

From an RBT perspective, work performance is a key human resource, reflecting auditors' ability to perform tasks efficiently, accurately, and consistently (Barney, 1991). A good relationship between WP and IRQ demonstrates that internal audit teams with strong performance make more outstanding reports. Reliable, timely, and insightful reports improve decision-making and build organizational trust. Having WP that is strong over time means it becomes a main ability that makes the organization unique. Audit results improve due to higher work performance, which supports the firm's focus on operations and transparency. Hence, according to RBT, WP is not only an operational variable but also a key strategic asset. Properly using it leads to the production of reliable internal audit reports.

The PLS-SEM results show a significant positive relationship between Corporate Governance (CGQ) and IRQ. The path coefficient is 0.140, and the p-value is 0.016. This means H4 is accepted. Organizations with better, high-quality governance produce higher-quality internal audit reports. Corporate governance conceptually indicates systems and practices that guide company management. As a system of rules, corporate governance ensures that firms operate ethically, transparently, and in line with stakeholder interests. Strong governance grants the Internal audit function the support and structure needed to produce accurate, timely, and reliable reports. It improves oversight, role clarity, and resource allocation (Salehi et al., 2023). It also reduces bias and increases internal auditors' independence (Akinto, 2021; Zhou et al., 2021). High CGQ promotes an ethical culture. It supports transparency and accountability. This allows internal auditors to perform objective evaluations. In Saudi Arabia, Vision 2030 places corporate governance at the heart of financial reform (Wafeq, 2023). Companies with strong governance align better with this vision and are more likely to produce trusted audit reports.

Empirical studies support this result. Afridi (2020) found a positive link between governance and financial reporting quality in Pakistan. Kaawaase et al. (2021) confirmed this in Ugandan institutions, especially when board expertise was strong. Setiyawati et al. (2020) also showed that governance principles, paired with accounting standards, improve financial report quality. In South African companies, Erin (2025) indicated that the reporting practices are strongly influenced by corporate governance.

Resource-Based Theory views CGQ as primarily a strategic and organizational resource (Barney, 1991). By doing this, companies can make their systems better and stand out with better accountability and transparency. When supported by resources like work performance and control systems, CGQ strengthens the audit function and enables credible reporting. It supports the creation of solid and credible audit reports for organizations.

The PLS-SEM shows a significant positive relationship between Internal Control System effectiveness (ICSE) and IRQ. The path coefficient is 0.360, and the p-value is 0.000. This means H5 is accepted. The result confirms the important role of internal control system effectiveness in producing high-quality reports. Effectiveness means achieving goals accurately and consistently (Abdulai et al., 2021). ICSE refers to the ability of the internal control system to help the organization meet its objectives. It includes procedures and rules set by management and the board to ensure control and compliance (Fourie & Ackermann, 2013). The acceptance of H5 can be explained in many ways. Strong internal controls reduce errors, ensure accurate reporting, and align audit work with organizational goals. In the evolving Saudi Arabian regulatory system, the push for stronger governance and reporting makes ICS even more effective and important (Governance, 2023).

Other studies support this finding. Researchers in Germany and Pakistan also found that ICSE improves audit outcomes (Quick & Henrizi, 2019; Ashfaq et al., 2023). ICSE ensures compliance with laws, which helps improve report quality (Kaawaase et al., 2021; Setyahuni et al., 2022). However, Vamela and Setiyawati (2021) Found no link between ICSE and fraud prevention. This may be due to unclear rules that weaken the control system. From the Resource-Based Theory view, ICSE is a valuable organizational resource. It helps ensure reliable reporting and strong audit outputs. Organizations with effective control systems are more competitive. ICSE becomes a source of trust, accuracy, and strategic advantage.

Overall, work performance and internal control system effectiveness factors provide clear evidence of audit quality. Objectivity and competence do not significantly influence the internal report quality. Although objectivity and competence are theoretically important, they may be undervalued in practice. This could be due to cultural norms that emphasize authority and formal compliance. Saudi Arabia's hierarchical and relationship-driven culture shapes audit practices. Wasta (personal connections) and respect for authority can limit internal auditors' independence. This reduces the role of objectivity in external auditors' reliance (Ajao & Ejokehuma, 2021; Bazhair & Alshareef, 2022). The country's high power distance promotes centralized decision-making. This makes it difficult for internal auditors to report unfavorable findings. These cultural factors may explain why objectivity and competence were insignificant. External auditors appear to value work execution and strong internal controls more than theoretical independence.

## 7. Implications and Recommendations

The findings of this study provide significant insights for professionals, regulators, and organizational leaders.

First, the results confirm that internal auditors' work performance is a critical determinant of audit report quality. High-quality, timely execution by auditors leads to more reliable and accurate reports. This highlights the need for organizations to equip auditors with the right tools, training, and work environment to sustain high performance. Practical measures could include AI-driven audit analytics to automate routine checks, reduce human error, and allow auditors to focus on higher-value tasks. Additionally, regular performance-based workshops and continuous professional development programs can strengthen technical and operational efficiency.

Second, the effectiveness of internal control systems emerged as a strong driver of report quality. Internal controls should not be static checklists; instead, they must be dynamic frameworks that evolve with organizational risks and regulatory requirements. Companies should invest in automated control monitoring systems and risk assessment dashboards, which can help identify weaknesses in real time and ensure compliance without slowing down processes.

Third, the positive association between corporate governance quality and internal audit reporting reinforces the importance of strong governance structures in supporting audit effectiveness. Boards and audit committees must go beyond oversight by actively promoting independence, providing resources, and fostering a culture of accountability. Tools like governance scorecards, ethics hotlines, and whistleblower protection systems can further enhance transparency.

Interestingly, objectivity and competence did not show a direct impact on report quality. This does not diminish their importance; rather, it suggests that these traits may only translate into higher quality when supported by effective performance management systems and organizational culture. To bridge this gap, organizations can convert competence into action through scenario-based training, simulation exercises, and mentorship programs that link technical knowledge to real-world challenges. Similarly, objectivity should be protected through robust ethical policies, conflict-of-interest declarations, and automated reporting workflows that reduce undue influence.

From a broader perspective, these findings have implications for other emerging markets with similar cultural and regulatory environments. Countries with hierarchical corporate structures and developing governance systems—such as those in the Middle East, Asia, and Africa—may face comparable challenges. In such contexts, integrating technology-driven audit solutions (e.g., AI-powered risk detection, blockchain for transaction transparency) and regional training initiatives supported by professional bodies can enhance both audit quality and governance standards.

Finally, for Saudi Arabia, aligning internal auditing practices with Vision 2030 goals remains essential. Stronger institutions require internal audit functions that are strategic, tech-enabled, and performance-driven. Organizations that adopt digital auditing platforms, invest in auditor capacity-building, and institutionalize governance best practices will not only meet national reforms but also gain a competitive advantage in an increasingly globalized economy.

## 8. Conclusion

The current study explores how key characteristics of the Internal Audit Function influence the quality of internal audit reports in the context of Saudi Arabia. Drawing on the Resource-Based Theory, the research aimed to understand whether internal capabilities, in particular objectivity, competence, and work performance, translate into better internal audit outcomes in terms of higher quality internal audit reports.

The findings revealed that work performance as a human-based aspect, internal control system effectiveness, and corporate governance quality as environmental-based aspects have a significant and positive impact on the quality of internal audit reports. These results highlight the importance of practical execution, strong organizational systems, and sound governance structures in enhancing the quality, depth, and usefulness of audit outputs. In contrast, objectivity and competence, still essential qualities, did not show a direct statistical impact on reporting quality. This suggests that while these traits are foundational to the internal audit profession, they may require support from organizational systems and environments to fully influence audit outcomes.

These insights carry both theoretical and practical value. Theoretically, the results contribute to the growing literature on internal auditing in emerging markets by providing empirical evidence from Saudi Arabia—a context where regulatory reform and economic transformation are actively shaping organizational practices. Under the practical tenet, the findings offer actionable recommendations for strengthening internal audit functions. That can be exemplified by investing in auditor performance by implementing new technological tools, reinforcing internal controls, and promoting high-quality governance structures. Such structures are better if aligned with national initiatives like Vision 2030.

That is internal audit quality is not achieved through technical skills alone. The quality of internal audit outputs is a result of a broader ecosystem where personal capabilities, organizational resources, and governance structures integrate. By recognizing and investing in such a dynamic interplay, organizations ensure that their internal audit functions meet regulatory requirements and, at the same time, add real value through trusted, high-quality reports.

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