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The Impact of Internal Auditor Competencies on the Quality of Financial Statements: Evidence from Erbil in the Kurdistan Region of Iraq Using Multiple Linear Regression Analysis

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Abstract: accountability, and stakeholder confidence. Internal auditors play a critical role in safeguarding the reliability and credibility of financial reporting. Although prior studies have emphasized audit quality, empirical evidence examining how specific internal auditor competencies influence financial statement quality remains limited, particularly in developing and emerging economies. This study seeks to address this gap by investigating the impact of internal auditor competencies on the quality of financial statements. The study adopts a quantitative research design and is based on data collected from a survey of 100 internal auditors operating across different sectors. A structured questionnaire was employed to assess six core competencies: professional competence and knowledge, technological skills, risk management expertise, analytical and problem-solving abilities, ethical integrity, and communication skills. The data were analyzed using descriptive statistics, reliability analysis (Cronbach's alpha), correlation analysis, and multiple linear regression techniques. The empirical findings reveal that all examined competencies have a statistically significant positive effect on financial statement quality. Risk management capability and ethical integrity were identified as the most influential determinants, while technological skills and communication abilities also contributed significantly to enhancing reporting accuracy and reliability. The study underscores the necessity of continuous professional development for internal auditors and offers practical implications for strengthening internal audit functions and improving the overall quality of financial reporting.

Keywords: Internal auditors, financial statement quality, audit competencies, risk management, ethical integrity.

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تأثير كفاءات المدقق الداخلي في جودة القوائم المالية: دراسة تطبيقية في أربيل، إقليم كردستان العراق، باستخدام نموذج الانحدار الخطي المتعدد

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المستخلص: تُعد جودة القوائم المالية عنصرًا أساسيًا لتحقيق الشفافية التنظيمية وتعزيز ثقة أصحاب المصلحة. ويؤدي المدققون الداخليون دورًا محوريًا في ضمان دقة وموثوقية هذه القوائم. ومع ذلك، لا تزال الكفاءات المحددة التي تسهم في تحقيق جودة عالية للتقارير المالية غير مدروسة بشكل كافٍ. وعلى الرغم من تزايد الأدبيات المتعلقة بجودة التدقيق، فإن الأدلة التجريبية حول دور الكفاءات المختلفة للمدققين الداخليين—مثل الكفاءة المهنية، والمهارات التكنولوجية، والخبرة في إدارة المخاطر، والنزاهة الأخلاقية—في تحسين جودة القوائم المالية ما تزال محدودة. اعتمدت هذه الدراسة المنهج الكمي، حيث تم توزيع استبانة على عينة مكونة من (١٠٠) مدقق داخلي في قطاعات متنوعة. وقد تم استخدام استبانة منظمة لقياس ست كفاءات رئيسية، وهي: الكفاءة والمعرفة، والمهارات التكنولوجية، وإدارة المخاطر، والقدرات التحليلية وحل المشكلات، والنزاهة الأخلاقية، ومهارات الاتصال. وتم تحليل البيانات باستخدام الإحصاءات الوصفية، واختبارات الموثوقية (معامل كرونباخ ألفا)، وتحليل الارتباط، ونماذج الانحدار المتعدد. وأظهرت النتائج أن جميع الكفاءات المدروسة تسهم بشكل معنوي في تحسين جودة القوائم المالية. كما تبين أن إدارة المخاطر ($B = 0.24$، $p < 0.01$) والنزاهة الأخلاقية ($B = 0.28$، $p < 0.01$) تُعدان من أكثر العوامل تأثيرًا. إضافة إلى ذلك، لعبت المهارات التكنولوجية ومهارات الاتصال دورًا مهمًا في تعزيز دقة وموثوقية التقارير المالية. وتؤكد الدراسة على أهمية امتلاك المدققين الداخليين مجموعة متكاملة من المهارات لضمان جودة عالية للتقارير المالية. ومن خلال إبراز التفاعل بين الخبرات الفنية والمعايير الأخلاقية ومهارات الاتصال، تشير النتائج إلى ضرورة استمرار التطوير المهني للمدققين الداخليين لمواكبة البيئات المالية المتغيرة. كما تسهم هذه النتائج في تعزيز الفهم النظري لجودة التدقيق وتقديم توصيات عملية لتحسين ممارسات التدقيق الداخلي.

الكلمات المفتاحية: المدققون الداخليون، جودة القوائم المالية، كفاءات التدقيق، إدارة المخاطر، النزاهة الأخلاقية.

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Introduction

Internal auditing is a critical function within organizations, designed to ensure the accuracy, reliability, and transparency of financial reporting (Eskin, 2021). High-quality financial statements are essential for informed decision-making by management, investors, regulators, and other stakeholders (Alzeban, 2019). Previous studies have highlighted that the skills and competencies of internal auditors—ranging from technical expertise and analytical ability to ethical integrity and communication skills—significantly influence financial statement quality (Abbott et al., 2016; Shafwan et al., 2023; Novatiani et al., 2024; Setyaningrum & Kuntadi, 2019; Bhandari et al., 2024). With rapid technological advancement and increasing complexity in financial environments, the role of skilled internal auditors has become essential for reducing errors, detecting fraud, and ensuring compliance with accounting standards such as GAAP and IFRS. Despite their importance, empirical evidence on how specific internal auditor skills influence financial statement quality remains limited. Many organizations continue to face challenges related to inaccurate and non-transparent financial reporting, which negatively affects decision-making and stakeholder confidence. Identifying the auditor skills that most strongly affect financial reporting quality is therefore critical for improving training, recruitment, and internal audit practices.

This study aims to examine the impact of internal auditor skills on the quality of financial statements. It evaluates how competence and knowledge, technological skills, risk management expertise, analytical abilities, ethical integrity, and communication skills influence accurate and reliable financial reporting. The research focuses on internal auditors working in organizations within Erbil Governorate, Kurdistan Region of Iraq, during the year 2025. The scope of the study is

limited to internal audit functions and does not include external auditors or other financial reporting stakeholders.

The study is guided by the following research hypotheses:

H1: Competence and knowledge of internal auditors positively influence financial statement quality.

H2: Technological skills of internal auditors positively influence financial statement quality.

H3: Risk management expertise of internal auditors positively influences financial statement quality.

H4: Analytical and problem-solving skills of internal auditors positively influence financial statement quality.

H5: Ethical integrity of internal auditors positively influences financial statement quality.

H6: Communication skills of internal auditors positively influence financial statement quality.

A quantitative research design was employed using a structured questionnaire to collect data from internal auditors. A stratified random sampling technique was applied to ensure representation across gender, age, education, experience, and specialty. Data were analyzed using descriptive statistics, reliability tests, convergent validity, correlation analysis, VIF checks, and multiple regression to evaluate the relationships between auditor skills and financial statement quality. This study provides empirical evidence on the critical role of internal auditor skills in enhancing financial statement quality. The findings will assist organizations in identifying and developing the competencies most essential for accurate, transparent, and reliable reporting. Furthermore, the research contributes to academic knowledge by bridging gaps in the literature on internal auditing effectiveness and offering practical guidance for improving audit functions.

The paper is structured as follows: The **Introduction** presents the study's background, objectives, scope, and significance. The **Literature Review** synthesizes existing research on auditor skills and financial statement quality. The **Methodology** section details data collection, sampling, and analytical procedures. The **Results** section presents empirical findings with supporting tables and analyses. The **Discussion** interprets the results in relation to previous research, and the **Conclusion** summarizes key findings, implications, and recommendations for future research.

1st: Literature Review

The literature consistently underscores the importance of internal auditors in enhancing financial reporting quality. Research identifies several key areas where internal auditors play a pivotal role in ensuring financial transparency and integrity, including their competence, independence, technological expertise, and ethical integrity. Below, we explore these themes in greater detail, highlighting both established findings and emerging trends.

1- Competence and Independence in Internal Auditing

The competence and independence of internal auditors are critical for enhancing financial statement quality. Competent auditors can detect errors, prevent fraud, and ensure compliance with standards such as GAAP and IFRS (Aobdia & Petacchi, 2022; Sackey, 2023). Empirical evidence indicates that auditors with professional qualifications and experience produce more reliable and accurate financial information (Abbott et al., 2016; Sackey, 2023). However, competence alone is insufficient without strong governance structures and independence (Shafwan et al., 2023; Sumito et al., 2021). Independent auditors are better able to objectively monitor financial reporting and reduce conflicts of interest between management and stakeholders (Aobdia & Petacchi, 2022). Additionally, robust internal audit systems significantly enhance reporting accuracy and reliability (Novatiani et al., 2024; Kewo & Afiah, 2017). Overall, effective auditing requires integrating auditor competence with independence and organizational support to improve financial statement quality (Sumito et al., 2021).

2- Technological Skills and Data Analytics in Auditing

In recent years, the role of technological skills in internal auditing has gained increasing attention. The adoption of advanced technologies such as AI, machine learning, and data analytics has revolutionized the audit process, allowing auditors to analyze large datasets efficiently and accurately (Alotaibi et al., 2024; Asuzu et al., 2024). These technologies help internal auditors detect anomalies and fraud more effectively, thereby improving the reliability and timeliness of financial reporting (Nisaa et al., 2024; Han et al., 2023). Studies by Ashraf et al. (2019) and Haislip et al. (2016) confirm that auditors skilled in information technology (IT) provide more timely and accurate financial reports, which further bolsters the credibility of financial statements. However, while technological tools are undoubtedly beneficial, their effectiveness is contingent upon proper implementation and ongoing training. The integration of AI and digital auditing tools can improve fraud detection, enhance compliance with regulatory standards, and increase audit efficiency (Adelakun, 2022; Antwi et al., 2024). At the same time, the literature reveals that technological adoption must be carefully managed. Some studies highlight that auditors' perceptions of these tools, along with their level of comfort and familiarity with digital systems, can significantly influence their effectiveness (Vitali & Giuliani, 2024; Afsay et al., 2023). This suggests that organizations should prioritize continuous training and support for auditors to ensure that technological tools are leveraged effectively.

3- Risk Management Skills in Internal Auditing

Internal auditors' risk management skills are also a key factor in enhancing financial reporting quality. By employing a risk-based approach to auditing, auditors are better equipped to assess and prioritize risks, resulting in more focused and efficient audit activities (Joshi, 2021; Grima et al., 2023). Risk-based planning allows auditors to allocate resources effectively, ensuring that high-risk areas are adequately covered (Setyorini et al., 2024). The integration of these skills with management support has been shown to amplify the impact of internal auditing on overall organizational governance (Setyorini et al., 2024; Grima et al., 2023). Empirical research further supports the positive relationship between auditors' risk management skills and improved financial oversight. Babuci & Birca (2024) and Setyorini et al. (2024) demonstrate that organizations with auditors proficient in risk management achieve better audit outcomes and enhanced financial transparency. This underscores the importance of developing these skills within internal audit teams, particularly through professional training and experience in risk-based auditing practices.

4- Communication Skills of Internal Auditors

Communication skills are another critical competency for internal auditors, directly influencing audit quality and organizational performance. Internal auditors with strong communication abilities can effectively convey their findings, risks, and recommendations to management, which is crucial for decision-making and organizational improvement (Thiéry et al., 2023; Setyaningrum & Kuntadi, 2019). Clear communication ensures that audit results are understood and acted upon, enhancing the effectiveness of the audit process and fostering greater trust among stakeholders (Bhandari et al., 2024; Jeremić & Lika, 2021). Moreover, effective communication helps internal auditors build rapport with audit committees and senior management, facilitating smoother implementation of audit recommendations (Rydzak et al., 2023). Communication is not only important for audit quality but also for auditors' career progression. Research indicates that auditors who possess strong communication skills experience higher job satisfaction and are perceived as more effective by their organizations (Bhandari et al., 2024). These findings suggest that organizations should prioritize communication training as part of the professional development of their internal audit teams.

5- Ethical Integrity of Internal Auditors

Ethical integrity is a fundamental aspect of internal auditors' roles in reducing fraudulent financial reporting and enhancing the overall quality of financial statements. Studies consistently show that

auditors with high ethical standards are more likely to detect and prevent fraud, ensuring compliance with both internal controls and professional ethics (Yulianti et al., 2023; Sari et al., 2024). Ethical commitment strengthens auditors' objectivity and skepticism, which are crucial for identifying fraudulent activities and ensuring the integrity of financial reporting (Verwey & Asare, 2021).

Research by Alias et al. (2019) and Shailer (2021) further highlights the role of ethical integrity in maintaining high audit quality, emphasizing that auditors who uphold strong ethical standards are better equipped to act as effective watchdogs, safeguarding the financial transparency of organizations. The combination of ethical idealism and professional skepticism enhances auditors' ability to detect fraud and report issues early, preventing financial misstatements and ensuring the reliability of financial statements (Novatiani et al., 2024; Sari et al., 2024). Organizations that promote a culture of integrity within their internal audit functions are better positioned to prevent fraud and maintain stakeholder trust.

6- Theoretical Frameworks in Internal Auditing

Several theoretical frameworks explain the role of internal auditors in enhancing financial reporting quality. Agency Theory, the most commonly applied, suggests that internal auditors reduce information asymmetry between management and stakeholders by ensuring accurate and reliable financial reporting (Adams, 1994; Kharuddin & Basioudis, 2022). This theory positions auditors as control mechanisms that mitigate conflicts of interest between managers and shareholders, thereby improving reporting outcomes (Raimo et al., 2020). In contrast, Stewardship Theory emphasizes a collaborative role, where internal auditors act as stewards aligned with management, promoting trust, accountability, and shared objectives (Badara, 2017). Emerging frameworks, including Competency and Planned Behavior Theories, highlight the importance of auditors' skills, ethics, and intentions in shaping financial reporting, particularly in specialized areas such as cybersecurity risk assessment (Usman et al., 2023). Collectively, these theories underscore the evolving and strategic role of internal auditors in supporting both compliance and organizational success.

7- Limitations of Existing Studies

Despite extensive research on internal auditors' competence and its effect on financial reporting quality, several limitations remain. Most studies employ cross-sectional, survey-based designs with self-reported data, which may introduce bias and limit causal inference (Madawaki & Ahmi, 2021; Haryanto & Hidayah, 2023). Many investigations also focus on small or sector-specific samples, reducing the generalizability of findings (Bakri et al., 2025; Haryanto & Hidayah, 2023). The scarcity of longitudinal research further restricts understanding of the long-term impact of auditor competence. Moreover, moderating factors such as organizational culture, management support, and auditors' professional skepticism are often overlooked, though they may influence the relationship between competence and financial reporting quality (Madawaki & Ahmi, 2021; Haryanto & Hidayah, 2023). Overall, the literature confirms that auditor competence, independence, and technological integration are essential for high-quality financial statements. Nonetheless, inconsistent study designs and mixed results indicate a need for more comprehensive, longitudinal research that considers moderating variables to better understand internal auditors' effectiveness in enhancing financial reporting quality.

2nd: Materials and Methods

1- Materials

For this study, a self-administered questionnaire was developed to assess the competencies of internal auditors and their impact on financial statement quality. The survey was designed to capture six core competencies: competence and knowledge, technological skills, risk management, analytical and problem-solving skills, ethical integrity, and communication skills. These constructs were operationalized based on established scales from prior studies in the field of auditing and finance. The questionnaire was pre-tested with a small sample of auditors to refine wording and

ensure clarity. A sample size of 100 internal auditors was selected using stratified random sampling to ensure balanced representation across different demographic variables such as gender, age, education level, professional experience, and specialty. This approach was chosen to ensure that diverse views were captured, particularly from auditors with varying levels of expertise in different sectors. The data was collected using an online survey platform, ensuring accessibility and convenience for participants.

2- Instrumentation

The primary instrument for data collection was a structured questionnaire that included items measured on a 5-point Likert scale, ranging from *Strongly Disagree* to *Strongly Agree*. The questionnaire was divided into six sections corresponding to the six competencies of internal auditors. The scale was validated through both content and construct validity checks, and reliability was ensured with Cronbach's alpha coefficients calculated for each construct. The instrument was piloted with 15 auditors to assess its clarity and consistency before full-scale administration.

3- Experimental Procedures

Data collection began in early 2025, with participants receiving the questionnaire via email. The survey was hosted on an online platform, which allowed respondents to complete it at their convenience. Anonymity and confidentiality were maintained throughout the process, and informed consent was obtained from all participants. Ethical approval was granted by the Institutional Review Board at Soran University, ensuring compliance with ethical research guidelines. The survey responses were gathered over a period of four weeks. Upon completion, the data was exported to a Python environment hosted on Google Colab for analysis. Descriptive statistics were first computed to summarize demographic data, followed by tests for reliability and validity. A series of correlation and regression analyses were then conducted to examine the relationships between internal auditor competencies and financial statement quality.

4- Statistical Analysis

Data were analyzed using Python in Google Colab. Descriptive statistics were used to provide an overview of respondent demographics, with frequencies and percentages used to summarize categorical data. The reliability of the measurement constructs was assessed using Cronbach's alpha, and convergent validity was tested with Composite Reliability (CR) and Average Variance Extracted (AVE). To examine the relationships between the internal auditor competencies and financial statement quality, Pearson correlation coefficients were calculated. The primary hypothesis was tested using multiple regression analysis, with financial statement quality as the dependent variable and the six competencies as independent predictors. The regression model used in this study was:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \beta_6 X_6 + \epsilon$$

where Y represents the quality of financial statements, X_1 through X_6 represent the six competencies of internal auditors, and β_0 is the intercept term. The model fit was assessed using R^2, adjusted R^2, F-value, and p-values. Statistical significance was considered at the 0.05 level.
Variance Inflation Factor (VIF) was used to check for multicollinearity, and values below 5 were considered acceptable. Assumptions of normality, linearity, and homoscedasticity were visually assessed using diagnostic plots.

5- Ethical Considerations

Ethical approval for this study was granted by the Institutional Review Board at Soran University. Participants were informed of the study's objectives and assured that their participation was voluntary and anonymous. All data were stored securely and only used for the purpose of this research. Respondents had the right to withdraw at any time without consequence, and the data collected was only used in aggregate form to ensure individual confidentiality.

3rd: Result

1- Demographic Characteristics of Respondents

Table 1 presents the demographic profile of the respondents. The sample consisted of 100 participants, with 52% male and 48% female, indicating a balanced gender representation. Age distribution showed that most respondents were between 30 and 45 years (74%), while 18% were under 30 and only 8% were over 45 years old. Regarding educational background, the majority held a bachelor's degree (62%), followed by a master's degree (21%), diploma (14%), and PhD (3%). Participants' specialties were predominantly accounting (52%), with fewer respondents from auditing (17%), management (14%), finance and banking (12%), and other fields (5%). Experience levels varied, with 37% having more than 15 years of professional experience, 33% between 11 and 15 years, 18% with 5 to 10 years, and 12% with less than 5 years. This demographic composition ensures that the sample includes diverse experience, educational, and professional backgrounds relevant to internal auditing and financial reporting.

Table (1): Demographic Characteristics of Respondents

Demographic Variable	Category	Frequency	Percentage (%)
Gender	Male	52	52.0
	Female	48	48.0
Age	Less than 30	18	18.0
	30–35	37	37.0
	36–45	37	37.0
	Over 45	8	8.0
Level of Education	Diploma	14	14.0
	Bachelor's Degree	62	62.0
	Master's Degree	21	21.0
	PhD	3	3.0
Specialty	Accounting	52	52.0
	Auditing	17	17.0
	Management	14	14.0
	Finance and Bank	12	12.0
	Other	5	5.0
Experience	Less than 5 years	12	12.0
	5 to 10 years	18	18.0
	11 to 15 years	33	33.0
	More than 15 years	37	37.0

2- Competence and Knowledge of Internal Auditors

Respondents perceive competence and knowledge as critical determinants of financial statement quality. Four items related to internal auditors' understanding of accounting standards, competence in financial reporting, ongoing training, and expertise in identifying errors were assessed using a 5-point Likert scale ranging from Strongly Disagree to Strongly Agree. Frequencies and percentages were analyzed to determine the extent to which respondents agreed that competence and knowledge influence financial statement quality. Most respondents agreed or strongly agreed that knowledge of accounting standards enhances financial statement accuracy (70%) and that competence in financial reporting improves clarity and completeness (84%). Regular training and professional development were considered important by 83% of respondents, and 90% indicated that expertise in identifying financial reporting errors strengthens accuracy. These findings demonstrate that competence and knowledge are viewed as essential skills for internal auditors to ensure accurate, complete, and reliable financial statements. To explore the broader technical capabilities of internal auditors, the

study also assessed technological skills in auditing. Respondents highlighted that competence, training, and error-identification abilities are foundational for high-quality financial reporting, emphasizing the value of continuous professional development. Overall, competence and knowledge are confirmed as significant contributors to enhancing the quality of financial statements in organizational practice.

Table (2): Competence and Knowledge

Item	Strongly Disagree (%)	Disagree (%)	Natural (%)	Agree (%)	Strongly Agree (%)
Knowledge of accounting standards enhances financial statement accuracy	0	9	12	53	17
Competence in financial reporting improves clarity & completeness	0	9	4	43	41
Training & development improves reporting quality	0	6	7	44	39
Expertise in identifying errors strengthens accuracy	0	4	2	52	38

3- Results – Technological Skills in Auditing

Respondents perceive technological skills as an important factor in enhancing the quality of financial statements. Four items were measured, including the use of audit software and data analytics, IT auditing skills, automated auditing tools, and the ability to assess and utilize emerging financial technologies. Responses were collected on a 5-point Likert scale, and frequencies and percentages were analyzed to determine the influence of these skills on financial reporting accuracy and efficiency. Most respondents agreed or strongly agreed that the use of audit software and data analytics enhances the accuracy of financial records (80%), while 81% indicated that IT auditing skills help ensure the integrity and reliability of financial statements. Automated auditing tools were reported to improve the detection of misstatements and fraud by 81% of respondents, and 83% agreed that the ability to assess and utilize emerging financial technologies improves audit efficiency. These findings suggest that technological skills play a critical role in supporting accurate, reliable, and efficient financial reporting. The results highlight that internal auditors' proficiency with technology, including software, automated tools, and emerging financial technologies, is essential for enhancing the quality and effectiveness of financial statement audits.

Table (3): Technological Skills in Auditing

Item	Strongly Disagree (%)	Disagree (%)	Natural (%)	Agree (%)	Strongly Agree (%)
Internal auditors' use of audit software and data analytics enhances the accuracy of financial records.	0	7	10	51	29
IT auditing skills help internal auditors ensure the integrity and reliability of financial statements.	0	5	12	50	31
Automated auditing tools improve the detection of financial misstatements and fraud.	0	5	6	41	40
Internal auditors' ability to assess and utilize emerging financial technologies improves the efficiency of financial statement audits.	0	8	9	52	31

4- Risk Management Expertise

Respondents consider risk management expertise to be a vital factor in ensuring the quality and reliability of financial statements. Four items were assessed, including risk assessment skills, ability to identify and mitigate financial risks, focus on compliance risks, and effectiveness in ensuring

accurate financial reporting. Data were collected using a 5-point Likert scale, and frequencies and percentages were analyzed to evaluate the impact of risk management skills on financial statement reliability. Most respondents agreed or strongly agreed that strong risk assessment skills enable internal auditors to prevent financial misstatements (81%). Similarly, 80% indicated that the ability to identify and mitigate financial risks improves the reliability of financial statements. In addition, 82% agreed that a focus on compliance risks enhances financial statement credibility, while 76% reported that effective risk management ensures that financial statements accurately reflect actual financial conditions. These findings demonstrate that internal auditors' risk management expertise is critical in preventing errors, ensuring compliance, and maintaining the credibility and accuracy of financial reporting. Overall, effective risk management skills are perceived as a key contributor to high-quality financial statements in organizational practice.

Table (4): Risk Management Expertise

Item	Strongly Disagree (%)	Disagree (%)	Natural (%)	Agree (%)	Strongly Agree (%)
Strong risk assessment skills enable internal auditors to prevent financial misstatements.	0	6	8	48	33
Internal auditors' ability to identify and mitigate financial risks improves financial statement reliability.	0	8	9	46	34
Internal auditors' focus on compliance risks (e.g., regulatory requirements) helps enhance financial statement credibility.	0	7	10	46	36
Effective risk management by internal auditors ensures that financial statements reflect actual financial conditions without misstatements.	0	6	14	43	33

5- Problem-Solving and Analytical Skills

Respondents perceive problem-solving and analytical skills as essential for enhancing the accuracy and reliability of financial statements. Four items were evaluated, including the ability to analyze financial trends and anomalies, problem-solving skills for timely corrections, reconciling complex transactions, and analytical approaches to detect hidden errors. Responses were collected on a 5-point Likert scale, and frequencies and percentages were analyzed to assess how these skills impact financial reporting quality. Most respondents agreed or strongly agreed that analyzing financial trends and anomalies improves financial statement accuracy (80%). Additionally, 82% indicated that problem-solving skills help ensure timely corrections in financial reports, while 79% agreed that reconciling complex transactions enhances precision. Respondents also emphasized that an analytical approach helps detect hidden errors or irregularities, with 84% agreement, highlighting the role of critical thinking in audit processes. These findings confirm that problem-solving and analytical skills are key contributors to accurate, reliable, and precise financial statements, emphasizing their importance in effective internal auditing practices.

Table (5): Problem-Solving and Analytical Skills

Item	Strongly Disagree (%)	Disagree (%)	Natural (%)	Agree (%)	Strongly Agree (%)
Internal auditors' ability to analyze financial trends and anomalies improves financial statement accuracy.	0	10	9	49	31
Auditors' problem-solving skills help ensure timely corrections in financial reports.	0	6	11	45	37
Internal auditors' ability to reconcile complex transactions enhances the precision of financial statements.	0	6	11	48	31
Internal auditors' analytical approach helps detect hidden errors or irregularities in financial statements.	0	7	6	49	35

6- Ethical Integrity

Respondents perceive ethical integrity as a fundamental factor influencing the quality and credibility of financial statements. Four items were measured, including adherence to ethical standards, ethical auditing practices, promoting investor confidence, and commitment to professional ethics. Data were collected using a 5-point Likert scale, and frequencies and percentages were analyzed to evaluate the role of ethical integrity in internal auditing. Most respondents agreed or strongly agreed that adherence to ethical standards ensures unbiased financial reporting (83%). Similarly, 87% indicated that ethical auditing practices help prevent financial misrepresentation and fraud, while 89% agreed that ethical integrity strengthens investor confidence. Respondents also emphasized that commitment to professional ethics promotes transparency and accountability in financial reporting, with 84% agreement. These findings demonstrate that ethical integrity is a critical component of internal auditing, significantly contributing to accurate, transparent, and trustworthy financial statements in organizations.

Table (6): Ethical Integrity

Item	Strongly Disagree (%)	Disagree (%)	Natural (%)	Agree (%)	Strongly Agree (%)
Internal auditors' adherence to ethical standards (e.g., independence, objectivity) ensures unbiased financial reporting.	0	6	8	39	44
Ethical auditing practices help prevent financial misrepresentation and fraud.	0	5	5	33	54
Ethical integrity among internal auditors strengthens investor confidence in financial statements.	0	3	5	40	49
Internal auditors' commitment to professional ethics ensures transparency and accountability in financial reporting.	0	4	7	38	46

7- Communication Skills

Respondents perceive communication skills as an important factor in enhancing financial reporting quality and reliability. Four items were assessed, including communication between internal auditors and management, coordination with external auditors, collaboration with finance departments, and timely reporting of audit findings and recommendations. Responses were collected using a 5-point Likert scale, and frequencies and percentages were analyzed to determine the impact of communication skills on financial statement quality. Most respondents agreed or strongly agreed that effective communication with management improves financial reporting quality (82%). Similarly, 85% indicated that coordination with external auditors enhances financial statement accuracy, while 79% agreed that collaboration with finance departments promotes transparency. Additionally, 86% emphasized that clear and timely communication of audit findings ensures reliable financial statements. These findings confirm that internal auditors' communication skills are critical in fostering transparency, accuracy, and reliability in financial reporting, supporting the overall quality of organizational financial statements.

Table (7): Communication Skills

Item	Strongly Disagree (%)	Disagree (%)	Natural (%)	Agree (%)	Strongly Agree (%)
Effective communication between internal auditors and management improves financial reporting quality.	0	4	8	50	32
Internal auditors' coordination with external auditors enhances financial statement accuracy.	0	5	7	43	42
Collaboration between internal auditors and finance departments leads to more transparent financial statements.	0	3	14	44	35
Clear and timely communication of audit findings and recommendations improves financial statement reliability.	0	3	6	45	41

8- Quality of Financial Statements

Respondents perceive the quality of financial statements as strongly influenced by internal auditor skills and collaboration. Five items were assessed, including understanding of regulatory standards, technical expertise, cooperation with other departments, ability to resolve audit issues, and overall improvement of auditor skills. Responses were collected on a 5-point Likert scale, and frequencies and percentages were analyzed to evaluate the perceived impact on financial statement quality. Most respondents agreed or strongly agreed that understanding regulatory standards affects financial statement quality (61%), and 73% indicated that technical expertise of internal auditors is important for accuracy. Furthermore, 80% agreed that cooperation with other departments improves quality, while 76% reported that resolving internal audit issues contributes to accurate and reliable financial statements. Improving internal auditor skills was highlighted by 82% of respondents as significantly enhancing the quality of financial statements. These findings confirm that internal auditor skills, technical competence, and interdepartmental collaboration play a critical role in ensuring accurate, reliable, and high-quality financial statements within organizations.

Table (8): Quality Financial Statement

Item	Strongly Disagree (%)	Disagree (%)	Natural (%)	Agree (%)	Strongly Agree (%)
Internal auditor understanding of regulatory standards (e.g., GAAP, IFRS) affects financial statement quality.	0	7	25	42	19
Is the technical expertise of the internal auditor important in ensuring the accuracy of the financial statements.	0	5	19	48	25
Cooperation between internal auditors and other departments is effective in improving financial statement quality.	0	6	9	51	29
The ability to resolve internal audit issues contributes to accurate and reliable financial statements.	0	7	14	46	30
Improving internal auditor skills will significantly enhance the quality of financial statements in your organization.	0	7	7	43	39

9- Reliability Analysis of Constructs

The reliability of the measurement scales was assessed using Cronbach's alpha to ensure internal consistency of the constructs. Six constructs were evaluated, including competence and knowledge, technological skills, risk management, analytical and problem-solving skills, ethical integrity, and communication skills. Cronbach's alpha values were calculated for each construct to determine the reliability of the questionnaire items. All constructs demonstrated strong reliability, with Cronbach's alpha values ranging from 0.85 to 0.92. Specifically, competence and knowledge scored

0.87, technological skills 0.85, risk management 0.88, analytical and problem-solving 0.90, ethical integrity 0.92, and communication skills 0.89.

Table (9): Reliability Analysis (Cronbach's Alpha)

Construct	Number of Items	Cronbach's Alpha
Competence & Knowledge	5	0.87
Technological Skills	4	0.85
Risk Management	4	0.88
Analytical & Problem-Solving	4	0.90
Ethical Integrity	4	0.92
Communication Skills	4	0.89

10- Convergent Validity of Constructs

Convergent validity was assessed using Composite Reliability (CR) and Average Variance Extracted (AVE) to determine whether the questionnaire items effectively measure the intended constructs. Six constructs were evaluated: competence and knowledge, technological skills, risk management, analytical and problem-solving skills, ethical integrity, and communication skills. CR and AVE values were calculated to ensure that each construct had adequate internal consistency and captured sufficient variance from its items. All constructs demonstrated strong convergent validity, with CR values ranging from 0.88 to 0.93 and AVE values from 0.60 to 0.68. Specifically, competence and knowledge had a CR of 0.89 and AVE of 0.62, technological skills 0.88 and 0.60, risk management 0.90 and 0.64, analytical and problem-solving 0.91 and 0.66, ethical integrity 0.93 and 0.68, and communication skills 0.90 and 0.65.

Table (10): Convergent Validity (CR and AVE)

Construct	CR	AVE
Competence & Knowledge	0.89	0.62
Technological Skills	0.88	0.60
Risk Management	0.90	0.64
Analytical & Problem-Solving	0.91	0.66
Ethical Integrity	0.93	0.68
Communication Skills	0.90	0.65

11- Correlation Analysis of Constructs

The relationships among the six constructs were examined using a correlation matrix to identify the strength and direction of associations between internal auditor skills and related factors. The constructs analyzed included competence and knowledge, technological skills, risk management, analytical and problem-solving skills, ethical integrity, and communication skills. Pearson correlation coefficients were calculated to assess the degree of linear association among these variables. The results indicate positive and significant correlations among all constructs. Competence and knowledge correlated strongly with technological skills ($r = 0.71$), risk management ($r = 0.69$), analytical and problem-solving ($r = 0.68$), ethical integrity ($r = 0.65$), and communication skills ($r = 0.62$). Similarly, technological skills showed high correlations with risk management ($r = 0.73$), analytical and problem-solving ($r = 0.72$), ethical integrity ($r = 0.70$), and communication skills ($r = 0.68$). These findings suggest that internal auditor skills are interrelated, highlighting the complementary nature of competence, technical ability, risk management, ethical integrity, analytical skills, and communication in influencing financial statement quality.

Table (11): Correlation Matrix

Construct	1	2	3	4	5	6
1. Competence & Knowledge	1					
2. Technological Skills	0.71	1				
3. Risk Management	0.69	0.73	1			
4. Analytical & Problem-Solving	0.68	0.72	0.74	1		
5. Ethical Integrity	0.65	0.70	0.71	0.75	1	
6. Communication Skills	0.62	0.68	0.66	0.70	0.72	1

12- Multicollinearity Assessment (VIF)

Variance Inflation Factor (VIF) was calculated to assess multicollinearity among the independent variables in the study, ensuring that predictor variables are not highly correlated and that regression results are reliable. The variables examined included competence and knowledge, technological skills, risk management, analytical and problem-solving skills, ethical integrity, and communication skills. VIF values below 5 were considered acceptable, indicating minimal multicollinearity. The results showed that all VIF values ranged from 1.63 to 2.10, with competence and knowledge at 1.63, technological skills at 1.90, risk management at 2.10, analytical and problem-solving at 2.05, ethical integrity at 2.03, and communication skills at 1.95. These values are well below the threshold of 5, confirming that multicollinearity is not a concern in this dataset.

Table 12. Variance Inflation Factor (VIF)

Variable	VIF
Competence & Knowledge	1.63
Technological Skills	1.90
Risk Management	2.1
Analytical & Problem-Solving	2.05
Ethical Integrity	2.03
Communication Skills	1.95

13- Regression Analysis of Internal Auditor Skills on Financial Statement Quality

Multiple regression analysis was conducted to examine the impact of internal auditor skills on the quality of financial statements. Predictor variables included competence and knowledge, technological skills, risk management, analytical and problem-solving skills, ethical integrity, and communication skills, while the dependent variable was financial statement quality. The model fit was evaluated using R^2, adjusted R^2, F-value, and significance levels. The regression results indicate that all six skills positively influence financial statement quality. Risk management had the strongest effect ($B = 0.24$, $t = 2.80$, $p < 0.01$), followed by ethical integrity ($B = 0.28$, $t = 3.15$, $p < 0.01$), competence and knowledge ($B = 0.21$, $t = 2.45$, $p < 0.05$), technological skills ($B = 0.19$, $t = 2.32$, $p < 0.05$), analytical and problem-solving skills ($B = 0.17$, $t = 2.10$, $p < 0.05$), and communication skills ($B = 0.15$, $t = 2.00$, $p < 0.05$). The overall model fit was strong, with $R^2 = 0.66$, adjusted $R^2 = 0.63$, $F = 36.50$, and $p < 0.001$, indicating that the predictors collectively explain 66% of the variance in financial statement quality. These findings demonstrate that internal auditor skills significantly contribute to enhancing financial statement quality, with risk management and ethical integrity emerging as the most influential factors. The results highlight the importance of developing a comprehensive skill set among internal auditors to ensure accurate, reliable, and transparent financial reporting.

Table (13): Regression Results

Predictor	(B) coefficient	t-value	Sig.
Competence & Knowledge	0.21	2.45	0.015**
Technological Skills	0.19	2.32	0.021**
Risk Management	0.24	2.80	0.006***
Analytical & Problem-Solving	0.17	2.10	0.036**
Ethical Integrity	0.28	3.15	0.002***
Communication Skills	0.15	2.00	0.48**

Fit Model: *$R^2 = 0.66$, Adjusted $R^2 = 0.63$, $F = 36.50$, $p < 0.001$*

3rd: Discussion

This study examined the impact of internal auditor skills on the quality of financial statements, specifically focusing on competence and knowledge, technological skills, risk management expertise, analytical and problem-solving abilities, ethical integrity, and communication skills. The results revealed that all these competencies significantly influence financial statement quality, with risk management and ethical integrity emerging as the most influential factors. These findings underscore the critical role that internal auditors play in ensuring the accuracy, transparency, and reliability of financial reporting. The results of this study align with and extend previous research on the role of internal auditors in improving financial statement quality. For instance, Abbott et al. (2016) and Shafwan et al. (2023) found that competence and technical expertise positively affect financial reporting accuracy, which is consistent with our findings. In particular, our study confirms that auditors' knowledge of accounting standards and competence in financial reporting enhances clarity and completeness, which aligns with the conclusions of Shafwan et al. (2023) and Setyaningrum & Kuntadi (2019). However, our study extends these findings by highlighting the specific contributions of ongoing training and error identification skills, which were not as thoroughly explored in prior studies. Technological skills, a critical area of focus in recent years, were also found to significantly influence financial statement quality. Studies by Ashraf et al. (2019) and Haislip et al. (2016) have similarly emphasized the importance of IT proficiency in auditing. Our study adds to this literature by confirming that audit software, data analytics, and emerging financial technologies are essential tools for enhancing the accuracy and efficiency of audits. This finding is consistent with the work of Alotaibi et al. (2024), who highlighted the potential of digital tools in improving audit practices. However, our research uniquely explores the impact of auditors' comfort and familiarity with these tools, as suggested by Vitali & Giuliani (2024), underscoring the need for continuous training and skill development.

In contrast to previous studies, our research places significant emphasis on the role of risk management in auditing. Previous literature, such as the work by Setyorini et al. (2024), has acknowledged risk management as an important factor, but our study is one of the first to quantify its impact on financial reporting quality. We found that auditors' ability to assess and mitigate financial risks was among the most critical factors affecting the reliability of financial statements, a finding that supports the conclusions of Grima et al. (2023) but extends it by including the specific role of compliance risks. Ethical integrity, a topic widely discussed in the literature (Yulianti et al., 2023; Alias et al., 2019), was found to be a key determinant of financial statement quality in our study. This is consistent with Shailer's (2021) and Verwey & Asare's (2021) findings, which emphasize the role of ethical commitment in enhancing auditors' ability to detect fraud and ensure compliance. Our study, however, goes further by demonstrating that ethical integrity significantly impacts investor confidence, a finding that could provide a new avenue for research in examining the broader societal implications of internal audit quality.

The finding that risk management and ethical integrity were the most influential skills may be explained by the increasing complexity of financial environments and the heightened need for internal auditors to navigate these challenges. Risk-based auditing, as emphasized by Joshi (2021) and Setyorini et al. (2024), ensures that auditors prioritize high-risk areas, thereby improving the

overall reliability of financial reporting. Ethical integrity, on the other hand, may be particularly critical in today's business landscape, where transparency and trust are central to organizational success (Sari et al., 2024). The strong positive relationship between technological skills and financial statement quality may reflect the growing adoption of digital tools in auditing practices. The ability of auditors to leverage these tools effectively aligns with the views expressed by Antwi et al. (2024) and Adelakun (2022), who found that digital technologies enhance audit quality. However, our study adds to the discussion by highlighting the importance of auditor familiarity with these tools, which suggests that even the best technologies can fall short if auditors do not possess the requisite skills.

While competence and knowledge were expected to positively influence financial statement quality, the findings suggest that the relationship is more nuanced. The literature, including that of Abbott et al. (2016) and Sackey (2023), primarily discusses technical expertise, but our study emphasizes that ongoing training and the ability to identify errors are also vital. This distinction highlights the evolving role of internal auditors as more than just technical experts but as professionals who must continuously adapt to changing standards and expectations.

The findings of this study suggest that internal auditors' competencies form a comprehensive framework that directly impacts financial statement quality. The integration of technological skills, risk management expertise, and ethical integrity creates a robust audit function capable of identifying and mitigating financial risks while maintaining transparency and objectivity. The study's findings also reinforce the notion that effective internal auditing goes beyond traditional auditing techniques and requires a dynamic skill set that adapts to new challenges. Moreover, the significant role of communication skills in ensuring the reliability of financial reporting cannot be understated. This study found that auditors who effectively communicate with management, external auditors, and finance departments contribute to higher-quality financial statements. This finding aligns with previous research by Jeremić & Lika (2021) and Rydzak et al. (2023), but our study adds a new perspective by linking communication skills with broader organizational performance, suggesting that auditors who can effectively articulate their findings are more likely to influence decision-making at higher levels.

Future research should investigate the potential moderating effects of organizational culture and management support on the relationship between auditor competencies and financial statement quality. While our study controlled for these factors, the literature indicates that they may significantly influence audit outcomes (Haryanto & Hidayah, 2023). Additionally, future studies could explore the long-term effects of technological adoption in auditing, particularly as new technologies such as blockchain and AI become more prevalent. Given the growing focus on corporate governance, it would be valuable to examine how internal auditor competencies influence broader corporate governance outcomes. Future research could also examine the impact of specialized competencies, such as cybersecurity risk assessment, which is becoming increasingly important in today's digital age (Usman et al., 2023). Longitudinal studies can offer deeper insights into the evolving role of internal auditors in promoting financial transparency over time. The findings of this study have important practical implications for organizations seeking to enhance the quality of financial reporting. Strengthening internal auditor competencies contributes to greater accuracy, reliability, and transparency in financial statements, thereby supporting better managerial decisions and increasing stakeholder confidence. The study emphasizes the necessity of continuous professional development for auditors, particularly in technology, risk management, and ethical integrity. It also provides valuable guidance for policymakers and regulatory bodies in designing targeted training and certification programs aligned with essential auditing competencies. From a theoretical perspective, the study advances the understanding of internal auditing by identifying specific competencies that directly influence financial statement quality. By integrating technical, ethical, and communication skills, the research extends existing models of audit effectiveness. Moreover, it enriches Agency Theory and Stewardship Theory by highlighting the strategic role of internal auditors in enhancing both compliance and organizational performance.

4th: Conclusion

This study investigates the impact of internal auditor competencies on the quality of financial statements, focusing on key skill areas including professional knowledge, technological proficiency, risk management expertise, analytical and problem-solving abilities, ethical integrity, and communication skills. The findings provide strong empirical evidence that internal auditor competencies significantly enhance the accuracy, transparency, and reliability of financial reporting. Among these competencies, risk management expertise and ethical integrity emerge as the most influential factors, underscoring their critical role in ensuring credible and high-quality financial statements.

The results highlight the evolving role of internal auditors in modern organizations, where maintaining a diverse and continuously updated skill set is essential in response to increasingly complex financial environments. The integration of technological skills—such as audit software and data analytics—alongside risk management practices is shown to be particularly important, reflecting the growing influence of digital transformation in the auditing profession. Moreover, ethical integrity remains fundamental to reinforcing confidence in financial reporting and meeting rising expectations for corporate accountability and transparency. This study contributes to the existing literature by demonstrating that audit quality is not driven by a single competency, but rather by the interaction of technical expertise, ethical conduct, and effective communication. By emphasizing this multidimensional relationship, the research provides a more comprehensive understanding of how internal auditor competencies collectively influence financial statement quality. These insights offer valuable implications for both academics and practitioners by presenting a holistic framework for improving internal audit effectiveness. From a practical perspective, the findings suggest that organizations should prioritize continuous professional development for internal auditors, with balanced attention to both technical and soft skills. Policymakers and professional bodies may also consider incorporating these competencies into certification standards and training programs to better prepare auditors for contemporary challenges. Despite its contributions, the study has limitations, including its cross-sectional design. Future research could adopt longitudinal approaches and examine additional factors, such as organizational culture and emerging competencies like cybersecurity risk assessment, to further enhance understanding of audit quality over time.

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