



A STUDY ON THE NEXUS BETWEEN INTERNAL AUDIT CHARACTERISTICS AND QUALITY OF ACCOUNTING INFORMATION IN THE OMANI COMPANY

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KeyWords

Accounting Information, Financial Reports, Internal Auditing Characteristics, Internal Audit Quality , Audit Characteristics , Information Transparency

ABSTRACT

This study focuses on the relationship between the characteristics of internal auditing and the quality of accounting information in the Omani company and aims to discover the role played by the characteristics of internal auditing in the accuracy and reliability of financial reports. Thus, through a comprehensive search for the characteristics of internal auditing such as efficiency and objectivity, this study seeks to discover the impact of the characteristics of internal auditing on the quality and accuracy of accounting information in Omani companies. In addition, this study aims to discover the challenges of internal auditing and suggest some solutions that help enhance its effectiveness in companies. Also, through the conclusion of empirical evidence and analysis of the data that was reached, this study provides recommendations that help improve the characteristics of internal auditing and the quality of accounting information in companies. Thus, by clarifying the relationship between the characteristics of internal auditing and the quality of accounting information, this study contributes to improving corporate governance and transparency in Omani companies.

Introduction

With the dynamic changes that the corporate business environment has witnessed in the recent period, internal audit has become an important area in the quality of accounting information. Sinaga et al. (2022) believe that if there are no appropriate internal audit procedures in the company, the company will lack the poor quality of its accounting information. Profits in the company will decrease with the loss of customer trust. Many people in the current situation are scared of fraud attempts, as well as poor quality of Accounting Information Services. Therefore, this study will aim to find out the relationship between internal audit characteristics.

Aims and Objectives of the Study

Aims

This research aims to determine the impact of the relationship between the characteristics of internal auditing and the quality of accounting information in the selected Omani company.

Research Objectives

- To discuss the characteristics of internal audit in the company.
- To examine the effect of internal audit characteristics on the quality of accounting information.
- To investigate the challenge regarding the efficiency of the internal audit and solutions.
- To provide recommendations to improve internal audits in the company.

Research Questions

1. What are the characteristics of internal audit in a company?
2. What is the effect of internal audit characteristics on the quality of accounting information?
3. What are the challenges faced regarding the efficiency of the internal audit and solutions?
4. What can be recommended for a company for internal audits?

Literature Review

Internal audit in a company is a tool of great importance in the quality of accounting transactions and financial reporting. This study aims to analyse the relationship between the characteristics of internal audit and the quality of accounting information of the selected Omani company. This study focuses on finding out the importance of internal audit functions and their characteristics and their impact on the quality of Accounting information. The effectiveness of quality and its influence on

how to make investment decisions and analyse internal audit functions will also be analysed thoroughly. Internal audit is very important for all types of companies, especially for companies in the finance sector. Hermawan & Bustomi (2022) believes that companies that have proper quality over their accounting information are more profitable as they can gain their customer's trust more easily. The company needs to ensure that its internal audit procedure is right to bring the quality of the accounting information that is generated yearly. By studying the characteristics of the internal audit of the company like reliability, investigating actions, determinants, competencies, etc. the company can enhance the practices of the internal audit process and ensure the advancement of quality of accounting information in the company.

Internal auditing is an independent, objective activity that provides assurance and consulting services to improve the value of an organization and develop its business. This helps the company achieve its objectives by following a systematic, organized approach to improving the effectiveness of control and governance in addition to managing risks in the company (Cisa, 2022). The quality of accounting information in the company is of great importance in its role in making informed decisions among stakeholders enhancing financial transparency in the company and raising the level of confidence among customers in addition to improving risk management in the company (Thoa & Van Nhi, 2021).

Hypothesis

(H0): There is no relationship between the characteristics of internal audit in the company and the quality of financial reporting.

(H1): There is a relationship between the characteristics of internal audit in the company and the quality of financial reporting.

The studies reviewed in this paper have employed different techniques, namely different measures to appraise the quality of financial reporting. The most commonly used measure of managers' misconduct is earnings management which is usually analyzed by the means of discretionary accruals. The reason is that smaller accruals of operating expenditure are seen as indications of better earnings reporting and hence higher quality financial reporting.

Key works of other researchers inspect informativeness which is a function of the relationship between earnings and stock returns (Nelson & Devi, 2013). The rationale for these findings is that generally informative earnings

will exhibit the company's high reporting quality. The others had some external indicators of the reporting quality checking such as restatements, SEC comment letters, or accounting irregularities. The argument that is made is that the reduction in the number of the violated requirements by the auditors and regulators directly points to the high-quality standards. Studies have confirmed that the characteristics of the astute auditor are related to the quality of financial reporting (Hess, 2024).

Research into Internal Audit and Information Integrity.

(H0): There is a positive relationship between the characteristics of internal audit in a company and the quality of accounting information.

(H1): There is a negative relationship between the characteristics of internal audit in a company and the quality of accounting information.

The characteristics of the internal audit function in a company play a crucial role in ensuring the integrity and reliability of accounting information. Academic research has continuously explored this relationship, focusing on different aspects such as audit functions, internal control characteristics, and preventing earnings management. The importance of internal audit mechanisms in monitoring systems and deterring administrative manipulation or misrepresentation. In addition, another study highlights the importance of audit cadence and efficiency in mitigating inappropriate recognition of earnings and false financial reporting. Their findings indicate that larger audit departments leave less room for manipulation, emphasizing the importance of strong internal audit structures. Furthermore, another research emphasizes the role of independence and efficiency in internal audit in reducing income adjustment efforts, which contributes to increased transparency in financial reporting. Similarly, another research shows an inverse relationship between internal audit effectiveness, as measured by compliance with internal audit standards, and earnings management. Together, these findings underscore the critical role of internal audit characteristics in supporting information integrity and mitigating financial misconduct within organizations. Studies have confirmed that there is a close relationship between internal audit characteristics and the quality of accounting information (Adjei, 2024).

Effect of Internal Audit Quality and Financial Reporting Quality

(H0): There is no relationship between the characteristics of internal audit in a company and the quality of financial reports.

(H1): There is a relationship between the characteristics of internal audit in a company and the quality of financial reports.

Several studies have looked at factors, whether exclusionary or complementary, that can influence the strength of the link between internal audit quality and financial reporting quality. As an illustration, De Oliveira et al. (2011) proved that the internal audit quality is not only effective in mitigating the earnings management consequences, but the combination with strong information technology control is even more favorable. Therefore, an organization's best practices of internal auditing quality and IT controls are likely to take an additive role over each other.

The effects of internal audit quality are demonstrated as effective in companies that are active in a dynamic business environment with high-risk cases. It is internal control functions that are on the top of the value ladder under complex, dynamically changing business conditions, that highlight emerging risks.

Another study showed that internal audit has less influence on financial reporting quality in G-linked companies. The findings are rooted in the prevailing political interference and resource orientation of public companies. Though the conceptual role of capitalism within globalization has been somewhat explored, more studies are required to meet both sector's boundaries.

Research Design

The plan that guides the process of gathering, evaluating, and assessing data for research purposes as well as identifying the crucial steps that must be taken to accomplish the study's goals is referred to as research design. The current research is designed through the use of a mixed method. Therefore, the planned mixing of methods used in collecting and analysing data is important for mixed-methods research. Thus, the mixed-methods approach and the stage of linking information are of great importance to the researcher because they involve presenting many events. Through the use of research lenses, data is collected and analysed in mixed-methods research. It may be quantitative or qualitative. These methods can be used to open new areas of research that help provide participants with opportunities to talk and share experiences, as well as understand the participants in the study.

Discrete data and continuous data are the two primary categories of quantitative data. Descriptive data that cannot be expressed quantitatively are known as qualitative data. Both quantitative and qualitative analysis were used to conduct the research, quantitative analysis is the analysis of questionnaire data into a set of numbers used in the analysis and to find out the relationship between variables, hence quantitative and qualitative analysis were followed to ensure the validity and reliability of the research.

Result analysis

Do challenges related to the efficiency of internal audit affect the quality of accounting information?

1 % of survey participants strongly disagree, 1% disagree, 7 % are neutral, 69 % agree, and 22% strongly agree that internal audit efficiency challenges have an impact on the quality of accounting information in the company.

Does internal audit affect the accuracy of accounting information?

1% of the survey participants strongly disagree, 2 % disagree, 6% of the survey participants are neutral, 57% of the survey participants agree, and 34% of the survey participants strongly agree that internal audit has an impact on the accuracy of accounting information in the company. This indicates that most of the respondents believe that internal audit activities have an effective role in ensuring the accuracy of financial reports and statements.

Does internal audit affect the reliability of financial reports?

1.00% of the survey participants strongly disagree, 1.50% disagree, 6.20% of the survey participants are neutral, 62.90% of the survey participants agree, and 28.40% of the survey participants strongly agree that internal audit has an impact on the reliability of financial reports and its contribution to ensuring the accuracy and quality of financial reports within the company.

Conclusion

This study was conducted with the aim of identifying the relationship between the characteristics of internal auditing and the quality of accounting information in selected auditing firms in the Sultanate of Oman. To achieve the objective of this study, primary and secondary information was collected and the results were analysed in a manner that suits the requirements of the study.

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