

# THE EFFECT OF INTERNAL AUDIT ON ENHANCING THE QUALITY OF FINANCIAL REPORTS IN THE GOVERNMENT INSTITUTIONS: MEDIATING ROLE OF RISK MANAGEMENT

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## Abstract

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Internal audit is a critical pillar for an organization's survival and development (Kai et al., 2022; Dellai & Omri, 2015). This study aimed to identify the effect of internal audit on enhancing the quality of financial reports in the government institutions of Saudi Arabia and the mediating role of risk management. The study population comprised all employees and administrators working in government institutions in Saudi Arabia, and the study sample included 369 members. The study adopted a descriptive-analytical approach and employed a questionnaire as a research tool, and used linear regression to analyse the data. The findings showed that internal audit can be considered a supporting tool for risk management, which in turn is the most influential factor in ensuring the quality of financial reporting in government institutions. The outcomes of this study are beneficial to other countries, especially those in the Middle East or the Gulf Cooperation Council.

**Keywords:** Saudi Arabia, Government Institutions, Internal Audit, Risk Management, Financial Reporting

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## 1. INTRODUCTION

This study determines the effect of internal audit on enhancing financial reporting quality through testing the mediating role of risk management. Internal audit is a critical pillar for an organization's survival and development through adding value and improving organizational operations (Kai et al., 2022; Dellai & Omri, 2015). It is a critical activity within organizations that helps to maintain legal and regulatory compliance, uncover potential risks, and increase organizational efficiency (Shaban & Barakat,

2023). Internal auditing is critical for increasing the public sector's proficiency and efficiency (El-Tahan, 2016; Aikins et al., 2021). Therefore, internal auditing forms an important part of the financial system of the government. It assists in evaluating and improving internal control systems, provides independent evaluations of the senior management, and, in general, promotes accountability and value in the government operations (Kamara, 2023; Al-Matari et al., 2022).

Financial reporting's ultimate goal is to disseminate financial data that assists in making

economic decisions (Ebaid, 2022). Accordingly, it is an important aspect of earning trust and confidence (Dwamena & Ofori, 2021). Worthy to mention is that poor financial reporting practices can lead to numerous firm failures over time (Abdulai et al., 2021). It is crucial to comprehend the value of the internal auditing role and how it might improve the integrity of financial reporting (Laković et al., 2016). By promoting greater governance in the handling of public funds, audit services can assist in improving financial management in public service (Menza et al., 2019). In addition, Alzeban (2019) has confirmed that better financial reporting is usually generated by organizations that have greater internal audit compliance with standards.

Given the uncertainty of today's business world, risk management is critical for all firms (Ninson & Tetteh, 2022). Financial executives consider risk management to be one of their most critical endeavours. By combining a systematic and procedural method of examining and optimizing risk management, control, and governance systems within an organization, the ability to generate value and realize objectives is realized (Dellai & Omri, 2015). As a result, a diverse body of risk management literature has emerged. Internal audit is critical in monitoring a company's risk profile and identifying areas for enhancing risk management practices in this volatile business environment (Tamimi, 2021). Internal audit has been developed as a critical technique in risk management in developing countries (Weekes-Marshall, 2020).

Although much research on the efficiency of internal audit has been carried out in developed and developing countries, research dedicated to this issue in Saudi Arabia is relatively scarce (Almahuzi, 2020). Although Saudi Arabia was among the first to provide internal auditing activities in the public sector (Al-Rbai, 2020), many internal audit departments in various Saudi government institutions are inactive (Kassab, 2020). Consistent with what has been mentioned above, Almahuzi (2020) has shown that many Saudi government organizations do not have audit committees. That is to say, the lack of sufficient research that specifically addresses the issue of audit functions and their effects on organizations in Saudi Arabia highlights the importance of increased engagement and contributions in this field (Omer et al., 2020). The authors Al Orf and Elnafabi (2022) have noted that the internal auditor plays an important role in reducing the risks and improving the process of risk management. Al Sharawi (2022) has confirmed that an efficient audit committee can contribute to the quality of financial reporting in Saudi Arabia. Anto and Yusran (2023) have revealed that there is a research gap in the relationship between the function of internal auditors and the quality of financial reports in the public sector. Based on what has been mentioned above, the researcher sees the statement of the problem as revolving around identifying the role of internal audit in enhancing the quality of financial reports through the mediating role of improving risk management.

The structure of this paper is as follows. Section 2 reviews the relevant literature. Section 3 analyses the methodology that has been used to conduct empirical research. Section 4 deals with data analysis and the extraction of results. Section 5 provides the discussion of results. Section 6 ends the paper with conclusions and recommendations.

## 2. LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

### 2.1. Internal audit

Internal audit has certain activities that include auditing, reviewing, evaluating, monitoring, and other types of supervision of how tasks and organizational functions are carried out to provide sufficient assurance in realizing good governance (Sumito et al., 2021). In this related sense, Suleiman (2023) mentioned internal audit dimensions as follows:

- **Independence and objectivity:** It is the act of releasing oneself from reliance on another person, group, or government, as well as from their influence or control.

- **Efficiency and technical qualifications:** It denotes that the employee is intelligent, educated, and trained to contribute something of value to the task at hand. Efficiency results from extensive and rigorous preparation, studying the scientific concepts, procedures, and principles upon which such concepts, procedures, and methods are founded, as well as ongoing research.

- **Professional interest:** The nature of professional services and how they are delivered must be taken into consideration when providing professional activities. When accessible, it is crucial that the services offered are appropriate for the job and carried out in line with professional and behavioral norms, i.e., with the care and expertise anticipated by an experienced and capable internal auditor.

### 2.2. Risk management

Risk management are actions made of identifying, assessing, analysing, monitoring, and controlling potential risks to meet its goals or objectives (Fonseca, 2022). The dimensions of risk management are illustrated in the following:

- **Risk response planning:** Muhammad and Adel (2021) referred to risk response planning as assigning a person to be in charge of each agreed-upon and funded risk response. Risk response planning prioritizes risks and tackles them, adding resources and activities as necessary to the budget, timeline, and project management plan.

- **Risk analysis:** North (2020) showed that risk analysis involves risk assessment, a process of synthesizing relevant scientific knowledge to inform judgments, and risk management, a process of making informed decisions, typically involving numerous stakeholders.

- **Risk identification:** Hamir and Sum (2021) defined the process of risk identification as the provision of a thorough explanation of such risks, including their sources, potential outcomes, and likelihood. The goal is to determine the best risk treatment for the risk factor.

- **Risk response monitoring and controlling:** Muhammad and Adel (2021) mentioned that identifying, analyzing, and planning for newly emerging risks are all parts of the process of risk monitoring and control. Other steps include keeping track of identified risks and those on a watch list, reanalyzing existing risks, keeping an eye on the triggers for backup plans, considering residual risks, and reviewing the implementation of risk

controls while assessing their efficacy. Risk management techniques may include selecting alternate tactics, carrying out a backup plan, responding with a corrective action, and adjusting the project management schedule.

The internal audit process on the management of organizational risks is one issue that has been a point of interest to many researchers in different studies. This is confirmed by the study by Tamimi (2021), which indicated that the efficacy of the risk manager is the main rationale in risk management, and internal auditing revolves around evaluating the risk management unit and ensuring the efficacy of the risk management approaches to dealing with any risks. The internal audit department participates in providing the risk management department with recommendations, guidance, and proposals. In order to achieve the best results, the management considers the risk management department and further enhances the coordination between risk management and internal auditing.

These commitments are also confirmed by Ismajli et al. (2017), who stated that the three main purposes of the internal audit are: carrying out evaluation of the risk management and its improvement, auditing of the company's internal control system, and evaluation of governance procedures. Some of these components include policies and procedures that will ensure proper risk assessment and compliance with laws and regulations. The main role of risk management that an internal audit undertakes is to review and monitor the risks that the company faces and suggest effective risk-mitigation approaches.

An internal audit is primarily concerned with evaluating the accounting and financial functions of the business, specifically in terms of risk and control systems, which enhance governance, meet the company's objectives, and are achieved through the internal control systems. Internal audits can contribute to advances in management and supervisory procedures that are approved accurately, ensuring that the data used by the administration in the company's policy advice is accurate, and protecting the company's money and management plans in place (Sovaniski, 2020). Fulfilling organizational objectives is achieved through an internal audit's assistance in systematically assessing and refining the company's risk management policies, control systems, and management processes (Ferati & Sallai, 2021). Accordingly, the researcher assumes the following hypothesis:

*H1: There is a statistically significant positive effect at the significance level (0.05) of internal auditing practices on risk management in government institutions in Saudi Arabia.*

## 2.3. Financial reporting quality

The financial reporting quality is vital in a varied organization. This is illustrated in Rathnayake et al. (2021), who demonstrated that financial reporting quality is determined by how accurately the information is conveyed through the process. The quality of the information is essential for people who use financial data. One of an organization's primary responsibilities is financial reporting, which provides readers of financial statements with crucial information about the company's current state, past trends, and strategies. The essence of a financial

report should take precedence over its form, impartiality, caution, completeness, comparability, and timing. Additional criteria for achieving the quality of financial reporting include understandability, relevance, reliability, and honest depiction (Vadasi et al., 2021; Metlej et al., 2021).

In a related context, Dalam and Wardhani (2023) stated that strategic quality is a component of financial audit quality, meaning that the evaluation's findings can promptly tell linked parties about the audit's findings. Technical quality refers to the presentation of results, suggestions for improvement, and errors found in figures and reports. The presentation must be objective, clear, consistent, and simple to understand. Process quality comprises goals relating to the inspection process itself, and the evaluation procedure must be thorough, effective, and measurable by third parties to receive formal quality assurance.

The results of research by Sulo et al. (2022) indicate that the variable of internal audit has a significantly positive influence on the accuracy of the financial statements. Consequently, improving the level of internal audit will lead to a better financial statement. Further, Hasiara et al. (2022) stated that the competency, independence, standard operating procedures, information technology, and accounting standards would further contribute to the quality of financial reporting. The following five principles can be used to increase the quality of financial statements. This is also evidenced by Hama et al. (2022), who cited the internal audit in the management and preparation of financial reports.

Kaawaase et al. (2021) contributed to the considerable positive correlation between the quality of internal auditing and the quality of financial reporting. The institution's internal audit staff has prior accounting experience and professional qualifications in accounting and has participated in programs for ongoing professional development. Therefore, management must guarantee that when financial statements are prepared, emphasis is placed on making sure that the information reported in such financial statements is pertinent, faithfully represented, timely, comparable, and verifiable. Therefore, the researcher assumes that:

*H2: There is a statistically significant positive effect at a significance level of 0.05 of internal auditing practices on the quality of financial reports in government institutions in Saudi Arabia.*

### 2.3.1. Risk management and financial reporting quality

As the demand for trustworthy and dependable financial data has grown, incorporating efficient risk management techniques into corporate reporting has emerged as a top priority. It is recommended that significant consideration be given to improving the caliber of financial data when choosing board members for the risk management committee (Bsou et al., 2025). Kanakriyah et al. (2024) state that the risk management practices represented in setting goals, event identification, risk assessment, risk response, supervisory activities, and the evaluation of the financial reporting system have influential impacts on financial reporting quality. Numerous studies still yield varying results because of methodological, industry, and geographic limitations. This gap in the literature highlights

the need for more research on the effects of risk management mechanisms on financial disclosures' accuracy, dependability, and transparency (Bsoul et al., 2025). On this basis, the following hypothesis will be tested:

*H3: There is a statistically significant positive effect at the significance level (0.05) of risk management on the quality of financial reports in government institutions in Saudi Arabia.*

### 2.3.2. Internal audit, risk management, and financial reporting quality

To guarantee efficient business operations and stop wasteful resource use, internal auditing is essential. The objective is to make suggestions for ways to strengthen internal control and risk management. Neutrality and impartiality are essential for reliable reporting and authentic results (Motunrayo et al., 2023). The role of internal audit in improving risk management is essential for risk assessment and mitigation, compliance with regulations and standards, fraud detection and prevention, monitoring and reporting, and continuous improvement (Al-Aamri et al., 2021). According to Weekes-Marshall (2020), it enhances the quality of financial reports by reviewing and assessing financial processes, internal controls, and independent assurance. Thus, the researcher assumes that:

*H4: There is a statistically significant effect at a significance level of 0.05 of risk management as a mediating variable on the relationship between internal auditing and the quality of financial reports in government institutions in Saudi Arabia.*

## 3. RESEARCH METHODOLOGY

### 3.1. Approach

The research relied on the descriptive analytical approach, which seeks to describe the phenomenon or a group of phenomena that are related to the subject of study, and then analyzes it. In order to further understand, clarify, and interpret it, it can be done through mental analysis or by using statistical methods and processes. This research study used a questionnaire survey to collect data (see Appendix). The research community consisted of all employees and administrators working in the government institutions of Saudi Arabia. Respondents included 369 employees and administrators. The distributed number of questionnaires was 384, and the returned and error-free questionnaires were 369, individually represents by 96% questionnaires distributed.

### 3.2. Demographic profile of the respondents

The table below presents the demographics of the participants. It shows that the majority of respondents by gender were male (71.8%), while female respondents accounted for 28.2%. Regarding job position, the highest proportion was employees (56.9%), compared to administrative staff (43.1%). In terms of years of experience, the largest group of respondents had 5-10 years of experience (45.2%), followed by those with 10 years or more (29.3%), while the smallest group reported less than 5 years of experience (25.5%).

**Table 1.** Distribution of respondents according to their characteristics

| Characteristic             | F   | Percentage (%) |
|----------------------------|-----|----------------|
| <b>Gender</b>              |     |                |
| Male                       | 265 | 71.8%          |
| Female                     | 104 | 28.2%          |
| Total                      | 369 | 100%           |
| <b>Job</b>                 |     |                |
| Employee                   | 210 | 56.9%          |
| Administrative             | 159 | 43.1%          |
| Total                      | 369 | 100v           |
| <b>Years of experience</b> |     |                |
| Less than 5 years          | 94  | 25.5%          |
| From 5 to 10 years         | 167 | 45.2%          |
| 10 years and above         | 108 | 29.3%          |
| Total                      | 369 | 100%           |

Source: Author's elaboration.

### 3.3. The research instrument

The researcher constructed a questionnaire to investigate the role of internal audit in enhancing risk management and improving the quality of financial reports in the government institutions of Saudi Arabia. The validity and reliability of the questionnaire were confirmed through the use of various methods, such as arbitrators' validation, as the questionnaire was sent to experts to assess its linguistic clarity, coherence, and the relevance of its statements to the questionnaire. Some statements in the questionnaire were deleted or rephrased as agreed upon by 80% of the arbitrators. Thus, the questionnaire took its final form after the validation process, comprising 55 statements distributed across three axes.

The validity of the internal consistency of the questionnaire was justified using a pilot test on a sample of 30 participants. Pearson correlation coefficients were also computed between each item and the total score of the axis to which they belong, all correlations were established to be significant at  $p = 0.01$ . Moreover, the construct validity of the questionnaire was determined by the investigation of correlation coefficients of each axis and the overall questionnaire score. These coefficients were also large, as they ranged between 0.984 and 0.995 and were significant at the 0.01 level.

A five-point Likert scale was employed in the research tool, ranging from "Strongly disagree" (1) to "Strongly agree" (5). The Cronbach's alpha reliability coefficients for the questionnaire axes ranged from 0.979 to 0.988, while the overall reliability coefficient was 0.989, confirming both the validity and reliability of the instrument. These high reliability values demonstrate the applicability of the questionnaire and the consistency of its results.

### 3.4. Statistical methods

The researcher utilized the Statistical Package for the Social Sciences (SPSS) to analyse the data, employing various statistical methods, including Pearson correlation coefficient, Cronbach's alpha reliability coefficient, frequencies, percentages, and linear regression analysis.

## 4. RESULTS

### 4.1. Exploratory factor analysis

The exploratory factor analysis (EFA), which relied on the principal components analysis and varimax rotation, demonstrated the questionnaire's data validity for analysis. The Kaiser-Meyer-Olkin (KMO) indicator scored a value of 0.87, exceeding the minimum limit of acceptance, which is determined at 0.60. Furthermore, the Bartlett test of sphericity showed a statistical significance ( $\chi^2 = 1560.23$ , degrees of freedom = 325,  $p < 0.001$ ), indicating that the correlation matrix suits the drawing out of factors.

The analysis resulted in drawing out five principal factors representing the variant dimensions of the study, which collectively construed 71.4% of the total variance, indicating

the strength of the model. Furthermore, the factor loadings for all questionnaire phrases exceeded the 0.60 threshold, enhancing the strength of the relationship between the phrases and the drawn-out dimensions.

Having presented the results of the exploratory data analysis process, which reflected the validity of the phrases and the accuracy of the dimensions studied variables, the issue of multicollinearity among the independent variables had to be checked, as strong correlations may distort the results of the regression models further applied. Therefore, the variance inflation factor (VIF) was estimated for each independent variable separately. Values less than 10 indicate the absence of significant multicollinearity. The following table shows the results of the VIF test for the variables under analysis.

**Table 2.** Variance inflation factor for independent variables

| <i>Independent variables</i>                         | <i>VIF</i> | <i>Tolerance (= 1 / VIF)</i> | <i>Interpretation</i> |
|------------------------------------------------------|------------|------------------------------|-----------------------|
| The first dimension: <i>Relevance</i>                | 1.85       | 0.54                         | No multicollinearity  |
| The second dimension: <i>Faithful representation</i> | 2.10       | 0.48                         | No multicollinearity  |
| The third dimension: <i>Understandability</i>        | 1.95       | 0.51                         | No multicollinearity  |
| The fourth dimension: <i>Comparability</i>           | 2.30       | 0.43                         | No multicollinearity  |
| The fifth dimension: <i>Timeliness</i>               | 1.70       | 0.59                         | No multicollinearity  |

Source: Author's elaboration.

### 4.2. Presentment and discussion of results

For the validity verification of *H2*, simple linear regression analysis was employed.

The precedent data demonstrates a statistically significant impact of *Internal audit practices* on

*Financial reports quality*, with the R-value reaching 0.489 at a significance level of 0.000b. *Internal audit practices* also account for 24.8% of the variance in *Financial reports quality*, as per the  $R^2$  value.

**Table 3.** Internal audit practices' impact on Financial reports quality

| <i>Variable</i>                                       | <i>B</i> | <i>Beta</i> | <i>R</i> | <i>R<sup>2</sup></i> | <i>T-value</i> | <i>Sig. T</i> |
|-------------------------------------------------------|----------|-------------|----------|----------------------|----------------|---------------|
| <i>Independent variable: Internal audit practices</i> | 0.306    | 0.498       | 0.498    | 0.248                | 11.010         | 0.000         |
| <i>Dependent variable: Financial reports quality</i>  |          |             |          |                      |                |               |
| Intercept (Constant)                                  |          |             |          | 2.098                |                |               |
| Adj. $R^2$                                            |          |             |          | 0.246                |                |               |
| F-value                                               |          |             |          | 121.218              |                |               |
| Sig. F                                                |          |             |          | 0.000                |                |               |

Source: Author's elaboration.

For the validity verification of *H1*, the precedent data demonstrates a statistically significant impact of *Internal audit practices* on *Risk management*, with the R-value reaching 0.688 at a significance level

of 0.000. *Internal audit practices* also account for 47.4% of the variance in *Risk management*, as per the  $R^2$  value.

**Table 4.** Internal audit practices' impact on Risk management

| <i>Variable</i>                                       | <i>B</i> | <i>Beta</i> | <i>R</i> | <i>R<sup>2</sup></i> | <i>T-value</i> | <i>Sig. T</i> |
|-------------------------------------------------------|----------|-------------|----------|----------------------|----------------|---------------|
| <i>Independent variable: Internal audit practices</i> | 0.715    | 0.688       | 0.688    | 0.474                | 18.171         | 0.000         |
| <i>Dependent variable: Risk management</i>            |          |             |          |                      |                |               |
| Intercept (Constant)                                  |          |             |          | 0.991                |                |               |
| Adj. $R^2$                                            |          |             |          | 0.472                |                |               |
| F-value                                               |          |             |          | 330.191              |                |               |
| Sig. F                                                |          |             |          | 0.000                |                |               |

Source: Author's elaboration.

For the validity verification of *H3*, the precedent data confirms a statistically significant impact of *Risk management* on *Financial reports quality*, with the R-value reaching 0.670 at a significance level

of 0.000. *Risk management* also construes 44.9% of the variance in *Financial reports quality*, as per the  $R^2$  value.

**Table 5.** Risk management impact on Financial reports quality

| Variable                                      | B     | Beta  | R     | R <sup>2</sup> | T-value | Sig. T <sup>ns</sup> |
|-----------------------------------------------|-------|-------|-------|----------------|---------|----------------------|
| Independent variable: Risk management         | 0.396 | 0.670 | 0.670 | 0.449          | 17.296  | 0.000                |
| Dependent variable: Financial reports quality |       |       |       |                |         |                      |
| Intercept (Constant)                          |       |       |       | 1.773          |         |                      |
| Adj R <sup>2</sup>                            |       |       |       | 0.448          |         |                      |
| F-value                                       |       |       |       | 299.143        |         |                      |
| Sig. F                                        |       |       |       | 0.000          |         |                      |

Source: Author's elaboration.

To verify hypothesis H4, the mediation model was successfully implemented (Model 4) through PROCESS v4.2 of SPSS, after determining:

- Independent variable (X): *Internal audit practices* (B);
- Moderating variable (M): *Risk management* (A);

• Dependent variable (Y): *Financial reports quality* (C).

The 5,000 bootstrap replications were used, with 95% confidence intervals. This analysis aimed to explore whether *Risk management* plays a mediating role in the relationship between *Internal audit practices* and *Financial reports quality*.

**Table 6.** First path analysis ( $B \rightarrow A$ ) of *Internal audit practices*' impact on *Risk management*

| Independent variable            | Symbol | (B) impact | Std. err. | t     | Sig. (p) | Confidence limits 95% (LLCI – ULCI) | Significance |
|---------------------------------|--------|------------|-----------|-------|----------|-------------------------------------|--------------|
| <i>Internal audit practices</i> | B      | 0.7150     | 0.0394    | 18.17 | 0.000    | [0.6377-0.7924]                     | 0.01 level   |

Note: LLCI – lower level confidence interval, ULCI – upper level confidence interval.

Source: Author's elaboration.

The aforementioned data unveils that there is a statistically significant direct relationship between *Internal audit practices* and *Risk management*,

meaning that developing internal audit mechanisms significantly enhances the effectiveness of *Risk management* in government institutions.

**Table 7.** Second path analysis ( $B + A \rightarrow C$ ) of *Internal audit practices* and *Risk management* impact on *Financial reports quality*

| Independent variable            | Symbol | (B) impact | Std. err. | t     | Sig. (p) | Confidence limits 95% (LLCI – ULCI) | Significance |
|---------------------------------|--------|------------|-----------|-------|----------|-------------------------------------|--------------|
| <i>Internal audit practices</i> | B      | 0.0433     | 0.0327    | 1.32  | 0.187    | -0.0211                             | 0.01 level   |
| <i>Risk management</i>          | A      | 0.3671     | 0.0315    | 11.65 | 0.0000   | 0.3051                              | 0.01 level   |

Source: Author's elaboration.

The former data unveils that there is a change in the relationship between *Internal audit practices* and *Financial reports quality* after inputting *Risk management* as a mediating variable. The direct relationship between *Internal audit practices* and

reporting quality is no longer statistically significant. Conversely, *Risk management* maintains its importance and significant influence on the quality of these reports. This transformation strongly suggests a potential mediating role.

**Table 8.** Indirect effect (mediation) analysis using bootstrap

| Path                            | Effect | Boot SE | Boot LLCI | Boot ULCI | Significance                |
|---------------------------------|--------|---------|-----------|-----------|-----------------------------|
| $B \rightarrow A \rightarrow C$ | 0.2625 | 0.0300  | 0.2052    | 0.3243    | Significant                 |
| Standardized path               |        |         |           |           |                             |
| Stand YX indirect effect        | 0.4278 | 0.0426  | 0.3458    | 0.5139    | Significant: Full mediation |

Source: Author's elaboration.

The former table clearly demonstrates that the indirect effect has a statistical significance, because the confidence intervals estimated through bootstrap software do not include zero value, which confirms the full mediation role of *Risk management*.

As for the aforementioned, the indirect statistically significant relationship between *Internal audit practices* and *Financial reports quality* was confirmed through the mediating role of *Risk management*. This model was verified using Mediation Analysis by applying Model 4 through PROCESS v4.2, prepared by Andrew Hayes, in addition to relying on 5,000 bootstrap replications with 95% confidence intervals.

The results clearly prove that there is a statistically significant relationship between the *Internal audit practices* and the *Risk management* ( $B = 0.7150$ ,  $p < 0.001$ ), that is,

the improvement of the internal audit activities, including internal controls examination, and compliance with the regulatory standards influence the effectiveness of *Risk management*; similarly, the results justify the hypothesis that the consolidated system of *Risk management* crucially influences the quality and transparency of the financial reports in the governmental institutions.

As per the direct relationship between *Internal audit practices* and *Financial reports quality* after inputting *Risk management* as a mediating variable, it was found that it is no longer statistically significant ( $B = 0.0433$ ,  $p = 0.187$ ), which indicates the existence of full mediation, this result was confirmed through the indirect effect of  $B = 0.2625$ , which has a strong statistical significance, since the confidence limits (0.2052-0.3242) didn't include zero value.

## 5. DISCUSSION

The research results demonstrated strong statistical support for the first three hypotheses. First, as per the *H2*, the internal audit was found to have a direct and prominent effect on the financial report quality, which aligns with the previous studies that asserted that the effectiveness of internal audit activities, such as compliance with professional criteria, using the independent examination mechanisms, and reviewing the internal controls, improves the accuracy and reliability of financial information. Accordingly, we can argue that government institutions that implement effective internal audit practices are better able to issue high-quality financial reports, which enhances confidence among regulatory authorities and the public.

As per the *H1*, the results indicate that internal audit has a strong and positive statistically significant effect on risk management. This result aligns with the modern trends, which perceive that internal audit goes beyond detecting errors or assessing the compliance level, rendering it an integral part of the institutional risk management system. Through the regulatory and analytical tasks performed by internal auditors, senior management is provided with valuable information about the sources of risk and how to address them, enhancing the early prevention abilities of the organization, in addition to enhancing its ability to mitigate threats that could affect its financial and administrative stability.

In relation to the *H3*, the results reveal a direct and significant effect of risk management on the quality of financial reports. This result is logical, as the presence of an integrated risk management system helps improve the reliability of financial operations by identifying and addressing weaknesses and reducing errors and deviations that may affect the credibility of reports. Consequently, financial reports reflect a more stable and disciplined institutional reality, which enhances users' confidence in financial statements as a decision-making tool.

In terms of the *H4*, which tested the mediating role of risk management, it indicated that the direct relationship between internal audit and financial report quality is no longer significant after inputting the risk management as a mediating variable, meanwhile, the impact of risk management on financial reporting quality remained strong and significant, this suggests that risk management is the primary link through which the impact of internal audit on financial reporting quality is transmitted, revealing a full mediation.

This demonstrates that the value of internal audit is not directly reflected in improving the quality of reporting; rather, its importance lies in enabling risk management to perform its role more efficiently, which ultimately results in increased transparency and credibility in financial reporting. Accordingly, internal audit can be considered a supporting tool for risk management, which in turn is the most influential factor in ensuring the quality of financial reporting in government institutions.

These results align with the modern trends in governance and institutional control, confirming a full integration between internal audit functions and risk management as principal tools for achieving transparency and enhancing trust. These

results also support previous studies that have indicated that internal audit, when operating in a risk-management-focused environment, has a multiplier effect, leading to higher-quality financial reports. Accordingly, the study highlights the importance of reconsidering the role of internal audit in government institutions, not only as an examination and regulatory tool, but also as a strategic approach to support risk management systems, which represent the primary guarantee for the issuance of reliable and transparent financial reports.

## 6. CONCLUSION

It is revealed that internal audit and risk management are two interconnected elements in improving the quality of financial reports in government institutions in Saudi Arabia, as internal audit contributes to establishing the bases of compliance and transparency, and its most profound impact is evident through its support for the risk management process, which in turn is the primary axis influencing the credibility of financial reports. This means that improving the quality of financial reporting is not merely a result of internal audit work, but rather a comprehensive institutional process that requires internal audit and risk management to exert harmonized efforts. These results emphasize that the transition towards sound governance and greater transparency, as sought by the Kingdom's Vision 2030, will only be achieved by integrating internal audit into the risk management framework as a strategic unit that enhances confidence in the financial performance of government institutions among regulatory bodies and the public.

In view of the study results, the study recommends reinforcing the independence of internal audit departments and providing them with the expertise and resources required to ensure the quality of financial reports. This process necessitates implementing globally recognized professional standards in auditing processes. Furthermore, risk management mechanisms in government institutions should be developed and closely linked to financial reporting procedures, as well as communication channels between internal auditors, senior management, and audit committees should also be enhanced to increase transparency and accountability. Finally, the study emphasizes the need to provide constant training programs for auditing personnel, focusing on governance and risk management to improve the efficiency of internal audit and its ability to effectively and efficiently support the quality of financial reports.

This study was limited to government institutions in Saudi Arabia, which may reduce the generalizability of the findings to other sectors or countries. Additionally, the use of a descriptive-analytical method and the reliance on self-reported questionnaire data may have introduced response bias. To build on these findings, future research could broaden the scope by including private and non-governmental organisations, allowing for comparisons across different institutional settings. Employing mixed-method approaches or conducting qualitative interviews could also enrich the data and provide deeper insights into the perspectives of auditors and financial managers.

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## APPENDIX

**Part 1: Demographic variables**

Gender:

- ☐ Male  
☐ Female

Job position:

- ☐ Employee  
☐ Administrator

Years of experience:

- ☐ Less than 5 years  
☐ From 5 to less than 10 years  
☐ 10 years and above

**Part 2: Axes and dimensions of the questionnaire**

Table A.1. Questionnaire (Part 1)

| No.                                                | Statements                                                                                                                  | Response       |       |         |          |                   |
|----------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------|----------------|-------|---------|----------|-------------------|
|                                                    |                                                                                                                             | Strongly agree | Agree | Neutral | Disagree | Strongly disagree |
| The first axis: Internal audit                     |                                                                                                                             |                |       |         |          |                   |
| The first dimension: Internal audit independence   |                                                                                                                             |                |       |         |          |                   |
| 1                                                  | The internal audit department objectively carries out its duties.                                                           |                |       |         |          |                   |
| 2                                                  | The internal audit department has full access to all information pertinent to fulfilling its job requirements.              |                |       |         |          |                   |
| 3                                                  | No conflict of interest is noticed between the internal audit functions and the institutional policies.                     |                |       |         |          |                   |
| 4                                                  | The internal audit department provides regular reports for the senior management.                                           |                |       |         |          |                   |
| 5                                                  | No interference by the senior management in the practices of the internal audit.                                            |                |       |         |          |                   |
| The second dimension: Internal audit competence    |                                                                                                                             |                |       |         |          |                   |
| 6                                                  | Internal auditors have the required skills to carry out their professional responsibilities.                                |                |       |         |          |                   |
| 7                                                  | There are specialized training programs for internal auditors to enhance their job-related competency.                      |                |       |         |          |                   |
| 8                                                  | The internal auditing department has certified auditors.                                                                    |                |       |         |          |                   |
| 9                                                  | Internal auditors have the required experience related to the nature of the institution's operations.                       |                |       |         |          |                   |
| 10                                                 | Internal auditors can detect fraud or deviations in performance.                                                            |                |       |         |          |                   |
| The third dimension: Internal audit communication  |                                                                                                                             |                |       |         |          |                   |
| 11                                                 | The internal audit conveys the objectives and recommendations of the auditing reports.                                      |                |       |         |          |                   |
| 12                                                 | The internal audit recommends improvement to correct irregularities.                                                        |                |       |         |          |                   |
| 13                                                 | Internal auditors participate in the board of directors' meetings.                                                          |                |       |         |          |                   |
| 14                                                 | The reports of the internal audit department are used by other departments for informed decisions.                          |                |       |         |          |                   |
| 15                                                 | The reports of the internal audit department are used to decrease the potential risks.                                      |                |       |         |          |                   |
| The second axis: Risk management                   |                                                                                                                             |                |       |         |          |                   |
| The first dimension: Risk identification           |                                                                                                                             |                |       |         |          |                   |
| 16                                                 | The institution has a well-defined plan for prioritising risk areas.                                                        |                |       |         |          |                   |
| 17                                                 | The institution employs systematic procedures for risk identification.                                                      |                |       |         |          |                   |
| 18                                                 | The risk identification team generates a comprehensive list of potential and confirmed risks.                               |                |       |         |          |                   |
| 19                                                 | The risk management team has the skills and competencies to identify possible risks.                                        |                |       |         |          |                   |
| 20                                                 | The risk management team has a report that specifies the strengths and weaknesses of performance.                           |                |       |         |          |                   |
| The second dimension: Risk analysis and evaluation |                                                                                                                             |                |       |         |          |                   |
| 21                                                 | Risks should be analysed and evaluated after the risk identification process.                                               |                |       |         |          |                   |
| 22                                                 | Risk analysis involves the likelihood of the occurrence of an adverse event.                                                |                |       |         |          |                   |
| 23                                                 | Risks are categorized as either catastrophic, serious, marginal, or negligible.                                             |                |       |         |          |                   |
| 24                                                 | A risk rating matrix for frequent, occasional, or remote risks is used.                                                     |                |       |         |          |                   |
| 25                                                 | Cost-benefit analysis is usually conducted to evaluate the impact of risks on the institution.                              |                |       |         |          |                   |
| The third dimension: Risk monitoring               |                                                                                                                             |                |       |         |          |                   |
| 26                                                 | There is an effective reporting process within the institution to handle risks.                                             |                |       |         |          |                   |
| 27                                                 | Response to risk includes action plans for mitigating their effects.                                                        |                |       |         |          |                   |
| 28                                                 | Techniques need to be developed to track the achieved progress and monitor the deviation from the normal mode of operation. |                |       |         |          |                   |
| 29                                                 | Effective feedback on risk management strategies should be provided on a timely basis.                                      |                |       |         |          |                   |
| 30                                                 | The policies of the institution encourage training programs in risk management and mitigation.                              |                |       |         |          |                   |

Table A.1. Questionnaire (Part 2)

| No.                                           | Statements                                                                                                                               | Response       |       |         |          |                   |
|-----------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------|----------------|-------|---------|----------|-------------------|
|                                               |                                                                                                                                          | Strongly agree | Agree | Neutral | Disagree | Strongly disagree |
| The third axis: Quality of financial reports  |                                                                                                                                          |                |       |         |          |                   |
| The first dimension: Relevance                |                                                                                                                                          |                |       |         |          |                   |
| 31                                            | The annual reports provide forward-looking information.                                                                                  |                |       |         |          |                   |
| 32                                            | The financial statement information allows the institution to correct its deviation.                                                     |                |       |         |          |                   |
| 33                                            | The annual financial report provides information that involves both opportunities and risks.                                             |                |       |         |          |                   |
| 34                                            | The financial statements provide feedback on the effect of various transactions on the institution.                                      |                |       |         |          |                   |
| 35                                            | Financial reports enhance the predictive power of the institution, used to set plans and future policies.                                |                |       |         |          |                   |
| The second dimension: Faithful representation |                                                                                                                                          |                |       |         |          |                   |
| 36                                            | The financial statement genuinely reflects the estimations of different operations.                                                      |                |       |         |          |                   |
| 37                                            | The financial statement provides a balanced viewpoint regarding the positive and negative determinants of performance.                   |                |       |         |          |                   |
| 38                                            | Data provided through financial statements is clear enough to prevent any confusion in the decision-making process.                      |                |       |         |          |                   |
| 39                                            | Clear representation is used to overcome any misleading information.                                                                     |                |       |         |          |                   |
| 40                                            | Financial reports contain truthful and credible information.                                                                             |                |       |         |          |                   |
| The third dimension: Understandability        |                                                                                                                                          |                |       |         |          |                   |
| 41                                            | The financial statement is well-organized.                                                                                               |                |       |         |          |                   |
| 42                                            | Financial statements employ tables and graphs to facilitate the process of data display.                                                 |                |       |         |          |                   |
| 43                                            | A glossary of terms is provided in financial annual reports.                                                                             |                |       |         |          |                   |
| 44                                            | The financial statement provides valid arguments to be taken into consideration for accounting policies.                                 |                |       |         |          |                   |
| 45                                            | The information ensures transparency and understandability.                                                                              |                |       |         |          |                   |
| The fourth dimension: Comparability           |                                                                                                                                          |                |       |         |          |                   |
| 46                                            | The annual report can be compared to reports provided for previous years to track the level of progress.                                 |                |       |         |          |                   |
| 47                                            | The financial statement is provided with ratios to ease the process of comparison.                                                       |                |       |         |          |                   |
| 48                                            | Financial reports offer comparable information for analysis and informative decision-making.                                             |                |       |         |          |                   |
| 49                                            | The structure of the annual report eases the process of performance comparison with other institutions.                                  |                |       |         |          |                   |
| 50                                            | The information provided in the financial statement enables stakeholders to identify areas of similarity and differences in performance. |                |       |         |          |                   |
| The fifth dimension: Timeliness               |                                                                                                                                          |                |       |         |          |                   |
| 51                                            | Disclosure timeliness is critical for the financial report's usefulness.                                                                 |                |       |         |          |                   |
| 52                                            | Reporting delays can negatively affect the decision-making process.                                                                      |                |       |         |          |                   |
| 53                                            | Financial reports must be available on time to inform policymakers of any change in work strategies.                                     |                |       |         |          |                   |
| 54                                            | Financial reports must be directly published after the end of the accounting period.                                                     |                |       |         |          |                   |
| 55                                            | Undue delay in publishing financial statements increases doubt and uncertainty.                                                          |                |       |         |          |                   |