Identification and Modeling of Factors Affecting the Effectiveness of Internal Auditing and Its Impact on Financial Reporting Quality Considering the Role of Organizational Culture

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Abstract

The primary objective of this study is to identify and model the factors influencing the effectiveness of internal auditing and its impact on financial reporting quality, taking into account the role of organizational culture. This research is exploratory in nature and is classified as applied research in terms of its purpose. The statistical population consists of 179 managers from listed and over-the-counter (OTC) companies in Iran. Data collection was conducted using interviews and questionnaires, while hypothesis testing employed inferential statistics and structural equation modeling. The findings indicate that, in order of influence, organizational structure, risk management, audit committee, board of directors and executives, accounting information systems, working relationships (interactions) between internal and external auditors, independence, ethical courage, technological capabilities, professional commitment, auditor competence, and internal control have the most significant impact on the effectiveness of internal auditing. Moreover, the results demonstrate that both the effectiveness of internal auditing and organizational culture have a positive effect on financial reporting quality. Additional findings reveal that organizational culture does not have a moderating effect on the relationship between the effectiveness of internal auditing and financial reporting quality.

Keywords: *Internal auditing effectiveness, financial reporting quality, organizational culture.*

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1. Introduction

Internal auditing plays a crucial and vital role in corporate governance and organizational operations. When this unit functions effectively and serves the organization's operations and management, it can significantly contribute to achieving organizational objectives. In fact, internal auditing is one of the key links in the value creation chain of modern organizations, playing a significant role in sustainable corporate development within the framework of corporate governance systems [1]. The internal audit unit is expected to add value to the organization by providing a broad range of services, including assurance and operational auditing, as well as consulting management on various related issues. Therefore, for internal auditing to fulfill its primary goal of creating value for the organization, it must be effective [2]. The significance of the internal audit unit is underscored by the corporate governance model of the Institute of Internal Auditors, which identifies an effective internal audit unit as one of the four pillars of corporate governance, alongside the audit committee, executive management, and independent auditors [3].

During the twentieth century, there was a marked advancement in structural elements and professional attitudes within the internal auditing profession. However, uncertainties still exist regarding how to establish a distinct professional identity and define an ideal role. The pursuit of an appropriate and recognized role for internal auditors in recent years has been heavily influenced by the financial community's need for greater assurance regarding financial reporting quality. Since 2006, the New York Stock Exchange has mandated all member companies to establish an internal audit unit. The rationale behind this requirement is that an effective internal audit unit enables the audit committee and other financial report stakeholders to obtain information related to corporate risks, including financial reporting risks and internal controls [4]. Consequently, corporate governance advocates emphasize the role of internal auditing in enhancing financial reporting quality [5].

There is evidence suggesting that an effective internal audit function improves the overall control environment and enhances financial reporting quality by reducing reporting errors, preventing financial reporting violations, and increasing stakeholder confidence in the strength of the company’s control system and the fairness of financial information [6]. The role of internal auditing in improving financial reporting can be linked to the assumption that improvements in legal and accounting system infrastructure are fundamental factors in enhancing the reliability of financial reporting and governance processes [7]. Empirical findings indicate that internal auditors are more effective than independent auditors in detecting fraud and corruption [8]. Moreover, effective internal auditing adds value to an organization by assisting management and board members in evaluating and improving risk management efficiency, internal controls, and corporate governance processes [9-11]. Several studies have examined how internal audit quality attributes influence financial reporting, using various proxies [12, 13].

For example, Prawitt et al. (2009) developed a comprehensive firm-year index to measure internal audit quality and found that this quality index is negatively associated with earnings management [4]. Lin et al. (2011) expanded on Prawitt et al.’s study by examining the relationship between internal audit performance and financial reporting quality through the prevention and detection of weaknesses [14]. Jaggy et al. (2015) provided evidence that internal audit quality—defined in terms of competency and impartiality—is negatively associated with potential managerial misconduct [13]. Abbott et al. (2016) demonstrated that internal audit quality, measured through competency and independence, has a significant positive impact on financial reporting quality. However, limited studies have focused on the effectiveness of internal auditing and financial reporting quality [12]. Many researchers have concentrated on the relationship between internal auditing and financial reporting quality in various developed countries, and their findings vary [10, 15, 16].

In modern management research, organizational culture has gained significant attention as a crucial topic in organizational behavior studies, particularly for creating a competitive advantage [17]. Organizational culture serves as an element of trust, granting leaders significant authority and capabilities to ensure the well-being of employees and customers, facilitate faster decision-making, and enhance responsiveness to internal and external customers. Proper execution of tasks, compliance with regulations, and the presence of well-trained and competent employees contribute to a sense of security and confidence in decision-making processes. When an organization maintains its relationship with stakeholders through its organizational culture, conflicts or contradictions of interest within the organization are significantly reduced [18].

The literature on internal audit effectiveness, financial reporting quality, and the role of organizational culture highlights several key determinants and relationships within different industries and contexts. Khanam (2024) explored internal audit effectiveness in the banking sector of Bangladesh and found that internal auditors' independence and audit quality significantly enhance audit efficiency, whereas auditor competence and management support do not [19]. Similarly, En-nejjari et al. (2024) examined internal audit effectiveness in Moroccan local governments, revealing that auditor competence, organizational independence, and internal audit structure are crucial determinants, though internal evaluations and external auditor collaboration were less impactful [20]. The role of organizational culture has been emphasized in various studies, such as Nugroho et al. (2023), who identified it as a key factor in fraud prevention, alongside human resource competence and internal auditors' roles [6]. Jang and Cho (2022) examined how direct reporting lines between internal audit units and audit committees, as well as joint reviews, positively impact audit effectiveness [21], while administrative reporting lines have a negative effect. Alqaralleh et al. (2022) found that organizational culture mediates the relationship between IT effectiveness and internal audit success in Jordan's public sector [22]. The broader influence of corporate culture was also explored by Bhandari et al. (2022), who found that competitive cultures enhance financial reporting quality, while collaborative cultures tend to weaken it [23]. The link between internal audit and financial reporting quality was further reinforced by Madawaki et al. (2021), who demonstrated that internal audit performance, internal control activities, and coordination between internal and external auditors positively impact financial reporting quality, moderated by senior management support [15]. However, some studies, such as Hidayah (2019), found that while internal controls affect financial reporting quality, organizational culture does not, contradicting other findings [24]. Gamayuni (2018) also confirmed the positive impact of internal audit effectiveness on financial reporting quality but noted that adherence to accrual-based governmental accounting standards had no significant effect [25]. Studies specific to Iran, such as Bamri et al. (2024), found a significant negative impact of internal audit implementation on accrual-based earnings quality [5]. Ahmadi et al. (2023) identified financial managers' cultural intelligence as a driver of financial reporting quality [11]. Riahi Nejad and Tavangar (2022, 2021) examined organizational culture's effect on financial report readability and earnings management, highlighting the importance of values like future orientation and collectivism [26, 27]. Studies by Mohseni Nia and Babajani (2020) and Habibzadeh (2020) confirmed a positive and significant impact of internal auditing on financial reporting quality, with audit committees strengthening this effect [28]. Hajiha and Jafarpoor (2020) similarly found that internal audit quality enhances financial reporting quality, though its relationship with audit efficiency was insignificant [29]. Finally, Nakhaei and Heidari Nasab (2019) demonstrated that while internal auditors' performance directly impacts financial reporting quality, the size of the audit committee does not, though its independence plays a significant role [30]. Collectively, these studies reinforce the critical influence of internal audit effectiveness, organizational culture, and governance structures on financial reporting quality across different industries and regulatory environments.

The influence of organizational culture on companies and financial reporting is of great significance across different countries. A company's culture is a critical factor affecting its accounting and financial reporting systems [10, 23]. Additionally, the impact of culture on corporate decision-making has not been extensively studied. However, it appears that companies operating in different cultural environments exhibit distinct financial behaviors [31]. As a result, a new and evolving area of research in culture and financial economics is the effect of culture on intra-corporate decision-making. The fundamental questions that arise are: Does organizational culture influence financial reporting quality? And does organizational culture moderate the relationship between internal audit effectiveness and financial reporting quality?

Therefore, examining organizational culture, evaluating the effectiveness of internal auditing, and assessing their impact on the behavior of capital market participants is crucial. Such an investigation can lead to a deeper understanding of corporate behavior in the stock market, ultimately contributing to the growth and development of capital markets and national economic progress.

2. Methodology

The present study aims to identify and model the factors influencing the effectiveness of internal auditing and its impact on financial reporting quality while considering the role of organizational culture. Accordingly, this research proposes a new model. For this reason, it is classified as an exploratory study. Exploratory research is used to understand unfamiliar phenomena and expand knowledge through theorization. Since this study is exploratory in nature, qualitative methods such as observation and interviews are employed for data collection. Therefore, the research follows a qualitative approach initially, and in subsequent stages, it incorporates quantitative methods by identifying the factors influencing the effectiveness of internal auditing through literature review and then conducting quantitative studies on those factors. This combined use of qualitative and quantitative methods categorizes the study as mixed-methods research, specifically adopting an exploratory mixed-methods design.

Among the available mixed-methods research strategies, including the mixed-methods research strategy and action research strategy, the researcher has chosen the mixed-methods research strategy. This strategy is selected because it allows the researcher to collect both qualitative and quantitative data to explain, scrutinize, and understand a phenomenon comprehensively. The integration of these two data types provides a better understanding of the issue compared to focusing solely on one type of data. Mixed-methods strategies include explanatory, exploratory, embedded, and multiphase designs. In this study, the exploratory mixed-methods design has been employed, allowing the researcher to integrate qualitative exploratory data with quantitative data where necessary.

The statistical population consists of managers from listed and over-the-counter (OTC) companies in Iran. To determine the sample size, random sampling was employed, and Cochran’s formula was used for calculation. Ultimately, data from 179 individuals were analyzed. Data collection was conducted through interviews and questionnaires. Initially, interviews were used to identify and model the factors and components influencing the effectiveness of internal auditing. After identifying these factors and components, standard questionnaires were designed for each factor along with financial reporting quality and organizational culture variables. These questionnaires were developed using a five-point Likert scale, following consultations with the research advisor and other experts, ensuring alignment with the study’s main research questions.

To ensure content and face validity, the questionnaire was reviewed by several experts and the research advisor, who provided feedback and suggestions for revision. Reliability was assessed at the beginning of the research process through a pilot study, using Cronbach’s alpha statistical technique. The reliability coefficients for the research questionnaires were all above 0.7, indicating high accuracy of the measurement instruments used in this study.

This study is conducted in five stages as follows:

Stage 1: Extraction of Initial Indicators from Theoretical Foundations (Review of Written Sources)

In the first step, the researcher reviews all relevant literature, including articles, books, and dissertations, to achieve theoretical saturation on the research topic. All existing models related to the factors affecting the effectiveness of internal auditing are examined, and measurement indicators for this variable, as well as its influencing factors, are extracted from these sources.

Stage 2: Identification of Key Indicators Affecting Internal Audit Effectiveness Through Questionnaires, Categorization, and Model Component Identification

Since this research is conducted at the organizational level, experts are selected to complete the questionnaires. All responses from the experts are collected, and the Delphi technique is used to determine the weighting of the identified factors. At this stage, the conceptual model of the study is presented. The final conceptual model may incorporate components used in previous research.

Stage 3: Determining the Strength of Relationships Between Indicators and Model Components, and Ranking Factors Affecting Internal Audit Effectiveness Using Structural Equation Modeling

In this stage, the intensity of relationships between the model’s components and indicators is determined using the data obtained from the second stage and structural equation modeling concepts. The collected data are analyzed, and the results lead to the development of a model outlining the factors influencing internal audit effectiveness.

Stage 4: Determining the Impact of Internal Audit Effectiveness on Financial Reporting Quality

At this stage, after identifying the factors affecting internal audit effectiveness, a qualitative questionnaire is designed to assess the impact of internal audit effectiveness on financial reporting quality, considering the moderating effect of senior management support. Using structural equation modeling, the impact of each factor influencing internal audit effectiveness on financial reporting quality is analyzed. The extent to which each factor affects internal audit effectiveness and financial reporting quality is evaluated and analyzed. Additionally, regression analysis may be used to examine the relationship between internal audit effectiveness and financial reporting quality.

Stage 5: Determining the Moderating Effect of Organizational Culture on the Relationship Between Internal Audit Effectiveness and Financial Reporting Quality

In this stage, structural equation modeling is used to examine the moderating effect of organizational culture on the relationship between internal audit effectiveness and financial reporting quality. Additionally, regression analysis may be employed to assess the moderating effect of organizational culture on this relationship.

3. Findings and Results

In the present study, a review of the literature, including articles, books, and dissertations, was conducted to examine all existing models related to the factors affecting the effectiveness of internal auditing in listed and over-the-counter (OTC) companies. The measurement indicators for this variable and its influencing factors were extracted. Since this research was conducted at the organizational level, experts were selected for interviews. The snowball sampling method was used to identify experts for the interviews. According to this method, an initial selection was made of a manager with relevant expertise, education, and experience related to the subject. At the end of the interview, the participant was asked to introduce other knowledgeable individuals regarding the research topic. To enhance the research quality, interviews were conducted with individuals who had personally experienced the research subject and possessed extensive knowledge and experience. This process continued until theoretical saturation was reached, and after conducting interviews with seven participants, the data collection process was completed.

At the beginning of each interview, the research objective was explained, and participants were assured that the interviews would be used solely for research purposes and that their identities would remain confidential in all research reports and published articles. After conducting interviews with experts, the factors affecting the effectiveness of internal auditing were identified. The descriptive statistics of the research variables are presented below (Table 1):

Table 1. Mean and Standard Deviation of the Main Research Variables

Scale	Mean	Standard Deviation
Internal Audit Effectiveness	3.77	0.39
Organizational Culture	4.25	0.51
Financial Reporting Quality	3.69	0.50

To assess validity, construct validity (convergent and discriminant validity) was examined, while the reliability of research variables was evaluated using Cronbach’s alpha and composite reliability tests. The results of validity and reliability tests for the research variables are presented below:

Table 2. Cronbach’s Alpha, Composite Reliability, and Average Variance Extracted (AVE) for Research Variables

Construct	Cronbach’s Alpha	Composite Reliability	AVE	Approval/Rejection
Internal Audit Effectiveness	0.835	0.863	0.565	Approved
Organizational Culture	0.863	0.891	0.541	Approved
Financial Reporting Quality	0.873	0.914	0.726	Approved

According to Table 2, Cronbach’s alpha values for all constructs exceeded 0.70, which is the threshold for acceptable reliability, indicating the model's reliability. Furthermore, the composite reliability values exceeded 0.70 for each construct, confirming a satisfactory model fit. Additionally, the AVE values exceeded 0.50 for all constructs, indicating acceptable convergent validity.

Discriminant validity is the third criterion for evaluating model fit in the Partial Least Squares (PLS) method. Discriminant validity in PLS is assessed using two methods:

Table 3. Fornell and Larcker Criterion

Row	Variable	1	2	3
1	Internal Audit Effectiveness	0.604		
2	Organizational Culture	0.288	0.436	
3	Financial Reporting Quality	0.559	0.359	0.852

As shown in Table 3, which follows the Fornell and Larcker (1981) method, the square root of the AVE for each latent variable, displayed in the diagonal cells, is greater than the correlation values found in the off-diagonal cells. This indicates that the constructs in the model interact more with their own indicators than with other constructs, confirming acceptable discriminant validity.

The first factor in evaluating the model is ensuring the unidimensionality of the indicators, meaning that each indicator should load significantly onto only one latent variable. To meet this criterion, factor loadings must exceed 0.60. Factor loadings below 0.30 are considered low and must be removed from the model. This adjustment is performed manually by excluding indicators with factor loadings below 0.30. The factor loadings for the measurement model are presented in the following figure:

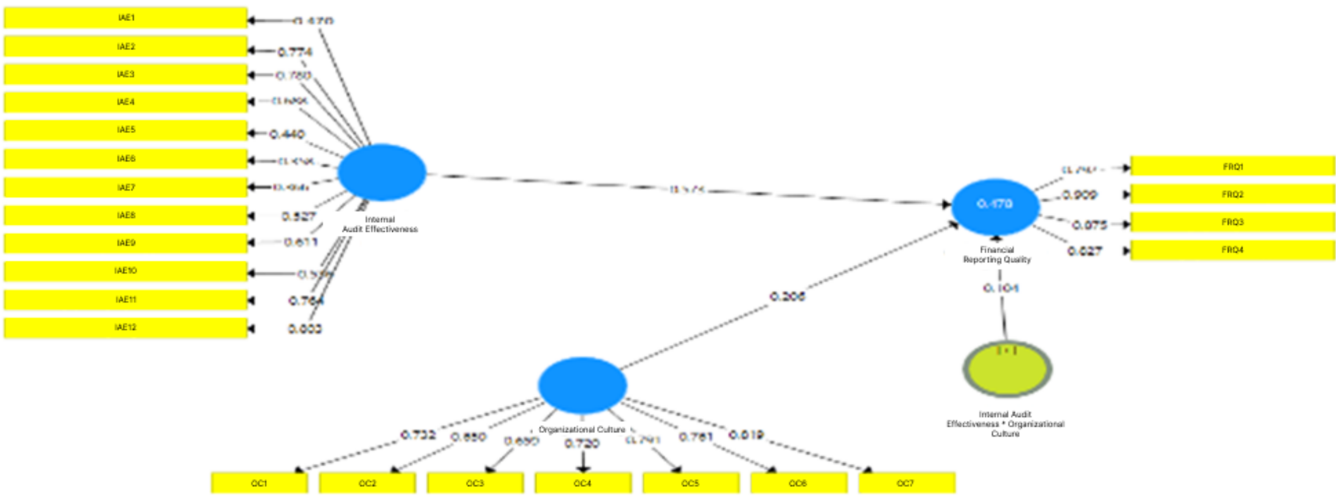

Figure 1. Factor Loadings Assessment (Measurement Model of the Study)

Since the primary objectives of this research are to identify the factors influencing internal audit effectiveness and to model these factors and components, the mere mention of the research objective suffices, and no hypotheses need to be formulated in this section. The findings related to the first and second research objectives are presented below.

As shown in Figure 1, the factor loadings for the variables must exceed 0.30 to remain in the model. In the current model, no variables were excluded. The research findings and expert interviews revealed that the factors affecting the effectiveness of internal auditing in listed and OTC companies include:

Technological capabilities

Professional commitment

Internal control

Auditor competence

Ethical courage

Working relationships between internal and external auditors

Independence

Board of directors and executives

Organizational structure

Audit committee

Risk management

Accounting information systems

According to the interviewees, these factors exert the most influence on internal audit effectiveness in listed and OTC companies.

The findings in Figure 1 indicate that the most significant factors influencing internal audit effectiveness, ranked by their respective path coefficients, are organizational structure (0.803), risk management (0.780), audit committee (0.774), board of directors and executives (0.764), accounting information systems (0.688), working relationships between internal and external auditors (0.611), independence (0.536), ethical courage (0.527), technological capabilities (0.470), professional commitment (0.440), auditor competence (0.366), and internal control (0.358).

This section examines the structural equation model of the study, beginning with an evaluation of model fit, followed by an assessment of the model using significance values (to confirm or reject hypotheses), and finally, an evaluation of path coefficients and determination coefficients.

The model fit assessment in PLS software is conducted using the Goodness-of-Fit (GOF) index, which allows researchers to assess the overall model fit after evaluating the measurement and structural model fit. Wetzels et al. (2009) proposed three GOF benchmark values: 0.01 (weak), 0.25 (moderate), and 0.36 (strong). The GOF value for the current model was calculated as 0.408. Since this value exceeds 0.36, the model fit is evaluated as strong.

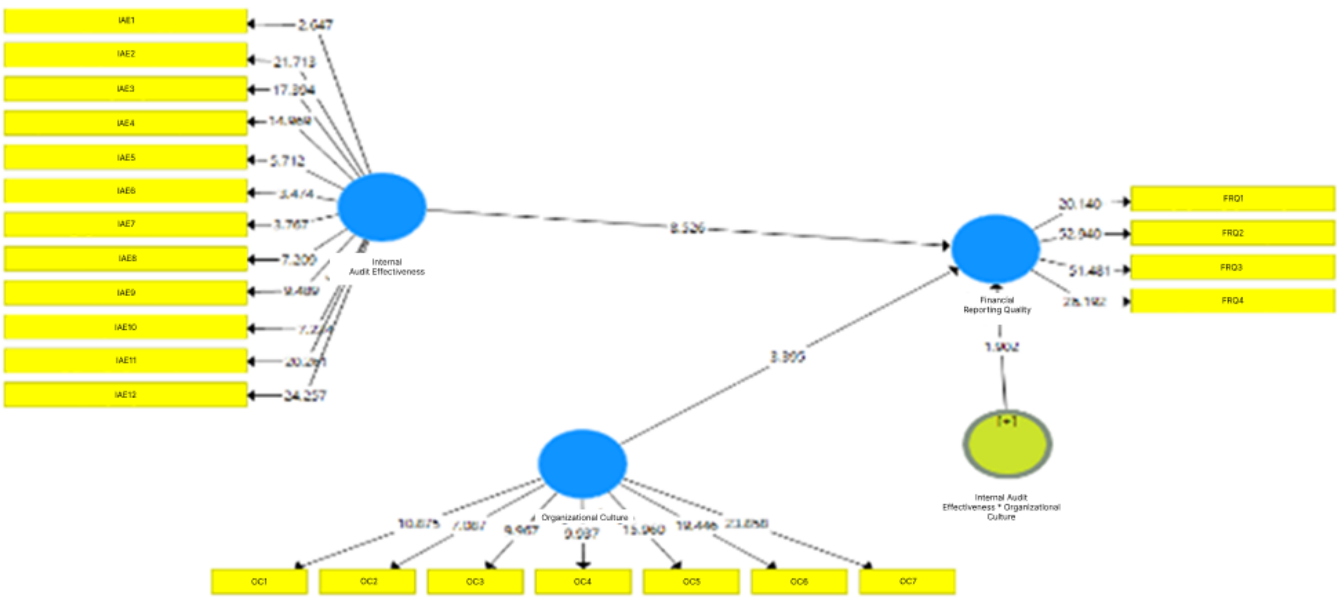

Figure 2. T-Statistics for the Effects of Internal Audit Effectiveness, Organizational Culture, and Financial Reporting Quality

Hypothesis 1: The effectiveness of internal auditing has a positive impact on financial reporting quality.

The results of testing the first hypothesis are presented in Table 4.

Table 4. First Hypothesis

Predictor Variable	Criterion Variable	Path Coefficient	Coefficient of Determination (R^2)	T-value	Significance Level	Result
Internal Audit Effectiveness	Financial Reporting Quality	0.573	0.328	8.526	0.001	Confirmed

The findings in Table 6 indicate that the correlation coefficient between internal audit effectiveness and financial reporting quality is statistically significant. Specifically, there is a significant relationship between internal audit effectiveness and financial reporting quality (r = 0.573). Based on the coefficient of determination (R^2), 32.8% of the variance in financial reporting quality is explained by internal audit effectiveness. Additionally, the obtained coefficient is positive. Therefore, the research hypothesis stating that internal audit effectiveness has a positive impact on financial reporting quality is confirmed.

Hypothesis 2: Organizational culture has a positive impact on financial reporting quality.

The results of testing the second hypothesis are presented in Table 5.

Table 5. Second Hypothesis

Predictor Variable	Criterion Variable	Path Coefficient	Coefficient of Determination (R^2)	T-value	Significance Level	Result
Organizational Culture	Financial Reporting Quality	0.206	0.042	3.395	0.012	Confirmed

The findings in Table 7 indicate that the correlation coefficient between organizational culture and financial reporting quality is statistically significant. Specifically, there is a significant relationship between organizational culture and financial reporting quality (r = 0.206). Based on the coefficient of determination (R^2), 4.2% of the variance in financial reporting quality is explained by organizational culture. Additionally, the obtained coefficient is positive. Therefore, the research hypothesis stating that organizational culture has a positive impact on financial reporting quality is confirmed.

Hypothesis 3: Organizational culture has a moderating effect on the relationship between internal audit effectiveness and financial reporting quality.

The results of testing the third hypothesis are presented in Table 6.

Table 6. Third Hypothesis

Predictor Variable	Criterion Variable	Path Coefficient	Coefficient of Determination (R^2)	T-value	Significance Level	Result
Internal Audit Effectiveness * Organizational Culture	Financial Reporting Quality	0.104	0.011	1.902	0.058	Not Confirmed

The findings in Table 8 indicate that the path coefficient for the impact of internal audit effectiveness on financial reporting quality, with organizational culture as a moderator, is not statistically significant. In other words, organizational culture does not serve as a moderating variable in the relationship between internal audit effectiveness and financial reporting quality (β = 0.104). Based on the coefficient of determination (R^2), only 1.1% of the variance in financial reporting quality is explained by internal audit effectiveness with organizational culture as a moderator. Therefore, the research hypothesis stating that organizational culture moderates the relationship between internal audit effectiveness and financial reporting quality is rejected.

4. Discussion and Conclusion

According to the results obtained from expert interviews, technological capabilities, professional commitment, internal control, auditor competence, ethical courage, working relationships between internal and external auditors, independence, board of directors and executives, organizational structure, audit committee, risk management, and accounting information systems were identified as factors influencing the effectiveness of internal auditing. These factors can also be considered as determinants of financial reporting quality. Additionally, based on the findings from objectives 1 and 2 of this research, the most influential factors on internal audit effectiveness were identified in the following order: organizational structure (0.803), risk management (0.780), audit committee (0.774), board of directors and executives (0.764), accounting information systems (0.688), working relationships between internal and external auditors (0.611), independence (0.536), ethical courage (0.527), technological capabilities (0.470), professional commitment (0.440), auditor competence (0.366), and internal control (0.358).

Internal auditing is an independent and objective assurance and consulting activity aimed at adding value and improving organizational performance. By adopting a systematic and structured approach, internal auditing helps organizations achieve their objectives by assessing and enhancing the effectiveness of risk management processes, controls, and governance. Given the significance of these objectives, internal auditors must possess professional qualities such as competence, courage, and independence and effectively fulfill their role in ensuring financial information reliability by providing consulting services on governance, risk management, and internal controls. Furthermore, due to their expertise in understanding organizational risks and internal controls for risk reduction, internal auditors assist management by offering recommendations for improvement.

Organizations lacking an internal audit function are not only deprived of professional internal auditing services but also face the risk of relying solely on management for risk control. In many cases, senior management lacks an impartial and independent perspective, as well as the necessary skills for risk control. A historical review of the internal auditing profession in Iran indicates that despite changes in the economic and professional accounting environment, fundamental transformations in this profession have not occurred due to the lack of support from senior managers and business unit employees, inadequate alignment between internal audit operations and management needs, and deficiencies in technological capabilities. Moreover, the lack of technical and professional knowledge among internal auditors and inspectors contributes to the ineffectiveness of their presence in any system, increasing the likelihood of problems, risks, and misconduct. This issue significantly impacts the occurrence of serious crises for business units.

The results of the first research hypothesis confirmed that internal audit effectiveness has a positive impact on financial reporting quality. The findings of this study are consistent with prior studies [5, 6, 15, 24, 25, 28-30, 32].

Internal auditing serves as a management oversight function that assists all levels of management in fulfilling their responsibilities by providing analysis, recommendations, and evaluations of company activities, while also measuring and improving control systems. According to attribution theory, the proper performance of an individual's role is a determinant of outcomes. High-quality audit results are associated with the role of a competent auditor. The auditor's role not only involves making recommendations but also includes actions that minimize planned manipulations. In relation to attribution theory, when an auditor effectively performs their role, they contribute to improving financial reporting quality and preventing fraud. Therefore, internal auditors are expected to continuously maintain integrity and enhance their competencies across various sectors.

The primary objective of internal auditing is to conduct an independent review function within an organization, verify and assess the actions taken by the company, and minimize the likelihood of unforeseen issues. Since internal auditing functions as an independent component responsible for inspection, mid-level control, and quality assurance, its effectiveness in improving financial reporting quality and company performance is essential. Internal audit effectiveness plays a crucial role in fraud prevention and detection, and its actions may have long-term implications for business objectives.

The results of the second hypothesis confirmed that organizational culture has a positive impact on financial reporting quality. The findings of this study are consistent with prior findings [6, 11, 22, 23, 26, 27]. Expanding on previous studies that have used textual analysis to examine the nature and impact of organizational culture, it can be expected that a business unit's organizational culture has implications for financial reporting quality. Organizations with a strong organizational culture encourage employees to voice their suggestions and report specific information regarding potential problems and errors. Employees bear significant responsibility for operational outcomes, leading to increased accountability. Consequently, such organizations are likely to have fewer internal control weaknesses, ultimately improving financial reporting quality.

A strong organizational culture reflects widely accepted values and norms among organizational members, facilitating social control. Specifically, companies that endorse values such as integrity, innovation, teamwork, respect, and quality exhibit a robust organizational culture. Conversely, companies with weak organizational cultures may incur higher costs in obtaining reliable information. In line with this perspective, weak organizational culture is associated with lower accuracy in analyst forecasts and a higher incidence of financial statement misstatements. In contrast, firms with strong cultures are less likely to engage in earnings management using discretionary accruals. Based on this reasoning, it is expected that companies with strong organizational cultures will exhibit fewer financial misstatements and achieve better financial reporting quality.

The results of the third hypothesis demonstrated that organizational culture does not moderate the relationship between internal audit effectiveness and financial reporting quality. The findings align with Hidayah (2019), who found that internal control implementation affects financial reporting quality, while organizational culture does not [24]. However, these results contradict the findings of Nugroho et al. (2023), who identified organizational culture, human resource competence, and the role of internal auditors as key factors in fraud prevention [6], as well as Alqaralleh et al. (2022), who emphasized the mediating role of organizational culture in the relationship between information technology and internal audit effectiveness [22].

Based on the theoretical foundations discussed in previous chapters, it was expected that organizational culture would moderate the relationship between internal audit effectiveness and financial reporting quality. However, the results of this study did not support this expectation. One possible interpretation is that, according to Argyris' maturity theory, listed companies in Iran operate as immature organizations that are bureaucratically managed due to high power distance within organizations. This unhealthy organizational culture, along with other contributing factors, results in low-quality financial information being reported by corporate financial managers. One potential reason for this is the lack of prioritization by senior company officials in providing transparent and high-quality information to stakeholders. For instance, some executives may prefer to disclose low-quality financial information to stakeholders—who lack necessary legal protections—to evade taxation and other regulatory obligations. If appropriate corrective measures are not implemented and protective mechanisms for information users are not established, public trust in the accounting profession in Iran may eventually deteriorate. Therefore, it is essential to develop and implement effective policies to address this issue.

The research findings indicate that among the factors influencing internal audit effectiveness, organizational structure has the greatest impact. As a result, internal auditing must be integrated within an appropriate organizational structure to perform its functions objectively, make independent decisions from management, and ensure access to necessary resources while preventing audit limitations within the organization through managerial support.

To enhance internal audit effectiveness, organizations should facilitate the recruitment of a sufficient number of experienced audit staff, allocate an adequate budget for internal audit functions (in terms of time and cost), and provide essential facilities and technologies, such as access to advanced tools and computer software. These measures will enable the timely issuance and delivery of audit reports to management for appropriate follow-up.

Given the research findings and the impact of organizational culture on financial reporting quality, investors and financial analysts are advised to consider a company's organizational culture when evaluating its financial reports.

Every scientific and practical research process is subject to conditions beyond the researcher's control. This study is no exception, and one of its main limitations is the measurement method of research variables. Since the variables were measured through participant responses to a questionnaire, there is a possibility that participants provided responses that differed from their actual opinions, which is a limitation of this research. Additionally, as this study was conducted in the field of social sciences, the influence of certain uncontrollable variables on research outcomes cannot be ruled out.

Authors' Contributions

Authors equally contributed to this article.

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Declaration of Interest

The authors report no conflict of interest.

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Ethical Considerations

All procedures performed in this study were under the ethical standards.

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