



## The Impact of the Professional Competence of the Internal Auditor in Improving the Quality of Accounting: Analytical Study

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### ABSTRACT

The aim of the research is to test the impact of the professional competence of the internal auditor in improving the quality of accounting information (QAI). The research community consists of a group of Iraqi private banks listed in the Iraqi Stock Exchange, and the research sample includes accountants, internal auditors and internal audit managers, and for the purpose of data collection, the researcher prepared a questionnaire form, as (52) forms were distributed to the individuals of the research sample and (49) forms were recovered from them, and the form valid for analysis reached (44) forms. The data of which were analyzed using the statistical package (SPSS). The research reached conclusions, including the existence of a correlation and moral effect between the variables of the research, and among the recommendations made by the research directing banks' attention to the need to continue holding conferences and seminars in coordination with the competent bodies and academics to develop the capabilities and capabilities of internal auditors in companies.

**KEYWORDS:** Professional competence, Quality of accounting information, Iraqi commercial banks.

## **INTRODUCTION**

Accounting information is important for all firms competing to acquire resources on financial markets. High quality financial reporting is well appreciated by market contributors as it decreases information asymmetries, rises overall transparency and provides a better device for contracting purposes (Watts & Zimmerman, 1986). The findings of this study will provide a new view on the quality of accounting information in interaction with professional competence, filling a gap in the literature and contributing to the more advanced international literature on the subject. The choice of accounting information significance and professional competence as proxies for the quality of accounting information is justified since these parameters are utilised internationally in studies examining the interaction among the professional competence of the internal auditor and the quality of accounting information.

Professional competence is the judicious and habitual utilise of communication, emotions, knowledge, clinical reasoning, values, technical skills, and reflection in daily practice for the benefit of the individual and society being served. Competence builds on a foundation of basic scientific knowledge, clinical skills, and moral development. It includes a cognitive function acquiring and utilising knowledge to solve.

This paper continues with Section 2 which presents the research problem. Section 3 presents the research objectives. Section 4 presents the importance of research. Section 5 hypothesis development. Section 6 which deliberates on the research methodology. Section 7 shows the theoretical framework, and lastly Section which presents the conclusions and recommendations.

## **RESEARCH PROBLEM**

The interest in the profession of internal auditing is due to the extent to which users of accounting information need, as the larger the size of companies, the greater the number of users of accounting information will increase, which increases the difficulties that fall upon the profession of internal audit in order to enable these users to obtain credible and reliable information, through the establishment of. The internal auditor controls the quality of financial statements and companies' work systems, and from the above, the main research problem is represented by the following questions:

A. Is there a significant relationship between the professional competence of the internal auditor and improving QAI?

B. Is there a statistically significant effect of the professional competence of the internal auditor in improving QAI?

### **RESEARCH OBJECTIVES**

The research aims to achieve the following objectives:

A. Introducing the professional competence of the internal auditor, the quality of the accounting information, and the qualities that must be available in the accounting information.

B. Test the impact of the professional competence of the internal auditor in improving the QAI.

### **IMPORTANCE OF RESEARCH**

The importance of the research comes from the importance of the role played by the professional competence of the internal auditor in raising the efficiency of his performance, as well as increasing confidence in the profession of internal audit, as it is based mainly on confidence in its objective assertion regarding risk management, control and governance.

### **RESEARCH HYPOTHESIS**

Based on the research problem and the questions posed, hypotheses can be formulated as follows:

1. There is a significant correlation between the professional competence of the internal auditor and the improvement of the quality of accounting information.

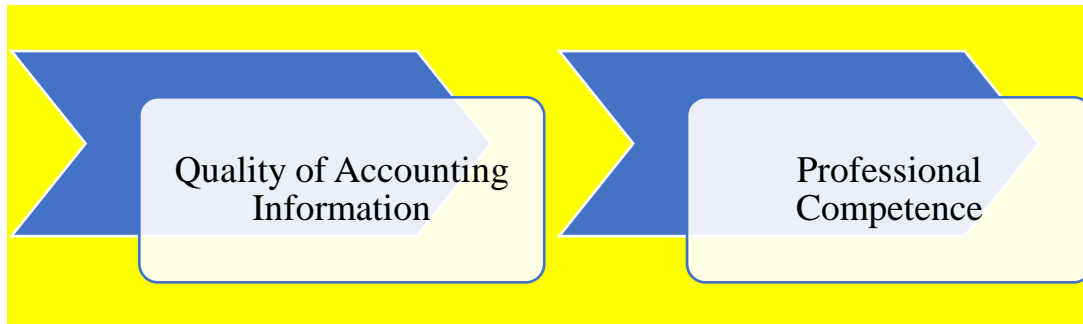
2. There is a statistically significant effect of the professional competence of the internal auditor in improving QAI.

### **RESEARCH METHODS**

To achieve the research objectives, the researcher relied on two scientific research methodologies, as follows:

A. Descriptive approach: The researcher relied on the literature related to research variables such as theses, theses and scientific periodicals, as well as books and websites.

B. Analytical method: The researcher prepared a questionnaire and distributed it to the individuals of the research sample and its data was analyzed using the statistical package (SPSS) program and other statistical methods for the purpose of reaching the results of the research hypotheses. The research also included two types of variables, the independent variable (the professional competence of the internal auditor), and the variable Certified QAI.



**Figure (1)** Research Variables Mode

**1. Discussion:** The aim of the research is to test the impact of professional competence and objectivity of the internal auditor and management support on the efficiency of the internal audit profession and their reflection on the quality of financial reports. The study dealt with a sample of (42) inspectors working in inspection agencies in the city of Java, Indonesia, as (42) forms were distributed A questionnaire on the study sample individuals, and its data was analyzed using various statistical methods through the statistical program (SPSS), the study concluded that there is a significant effect of the professional and objective competence of the internal auditor and management support in the efficiency of the internal audit profession, and therefore the efficiency and objectivity of the internal auditor affect Regarding the quality of financial reports, the study recommended a set of recommendations, including: holding seminars, holding training courses and workshops for internal control systems, accounting standards and accounting information system, which contributes to discovering errors and managing risks.

**2. Research:** (The contribution of the ethics of the internal audit profession in achieving the QAI- A case study of the active economic institutions in Tiaret state).

The aim of the research is to test the impact of the internal auditor's commitment to the ethics of the internal audit profession, which is represented by integrity, confidentiality, objectivity and professional competence in improving the quality of accounting information. 54) A questionnaire

form on the individuals of the study sample, and its data was analyzed using the statistical program (SPSS), and the study concluded that there is a statistically significant effect of the internal auditor's commitment to the ethics of the internal audit profession in improving the quality of accounting information. The study recommended a set of recommendations, including: The internal auditor adheres to the ethics of the internal audit profession because of its role in providing quality accounting information, as well as striving to develop and update these ethics from time to time to be in line with contemporary reality.

## **THEORETICAL FRAMEWORK**

### **First. The Professional Competence of the Internal Auditor**

The internal auditor must apply the knowledge, experience and skills required when performing the tasks of the internal audit. This principle includes a set of rules that he must abide by, as follows:

- A. He must give judgment in the activities in which he possesses the necessary experience, skills and knowledge.
- B. He shall perform internal audit functions in accordance with the International Standards for the Professional Practice of Internal Auditing.
- C. He must constantly improve his efficiency and improve the quality of the services he provides.

It is known that the qualified internal auditor can diagnose the shortcomings and weaknesses in the company's internal procedures and controls, and because he works in it, he is fully aware of the organizational structure and the accounting system followed, as the internal auditor who lacks experience and skills will face difficulties in identifying weaknesses and cases of manipulation that It occurs in the accounting information system, which leads to the production of misleading accounting information for its users.

### **Second. Quality of Accounting Information**

There are several definitions of the quality of accounting information (QAI), and those definitions differed with the different purpose of using that information, as well as the behavior and direction of the decision maker.

He defined it (Al-Abadi, 2019:75) as the credibility of the information, free from distortion, manipulation and misleading, and the benefit it achieves for users, and that it is prepared according to a set of standards, and in a way that helps achieve the goal intended to be used, and QAI is represented in the qualities that It must be available in the information so that it can meet the needs of the users. (Karagul & Özdemir, 2012:48).

The concept of information quality is directly related to how to help the decision maker achieve the goals of the company, and quality information can help individuals and companies to perform tasks more efficiently and effectively. (Fardinal, 2013:157) QAI plays a major role in reducing information asymmetry between management of the company and key stakeholders, as well as reducing information asymmetry between company management and external capital providers and increasing the efficiency of investments. (De Moura et al., 2017:323).

### **Third. Characteristics of the Quality of Accounting Information**

In order for the accounting information that is presented to users to be useful in the decision-making process, it must have a set of characteristics, and the characteristics of QAI are the important factor that makes the information useful for users, and therefore it represents the main purpose that the company seeks when designing the accounting information system she has.

(Mueedh & Suryawanshi, 2019:28).

#### **1. Convenience**

Relevancy is defined as one of the two basic characteristics that make accounting information useful in the decision-making process. Accounting information is appropriate when it has the ability to make a difference in decisions, meaning that information that does not have an impact on the decision-making process cannot be considered appropriateness information (Kieso et al., 2014). In order for the accounting information to be suitable for decision-making, it must have the following sub-characteristics: (Kieso et al., 2014:32).

A. Predictive value: This feature is intended to provide information about the company's ability to generate future cash flows, meaning that the accounting information must have the ability to use it as an input to the processes used by users to predict future results, where the predictive value is an important indicator of suitability in order to make useful decisions. (Mbobo & Ekpo, 2016:186).

B. Confirmative value: This characteristic means that the accounting information has the ability to provide feedback on previous valuations. (Al-Janabi & Ahmed, 2017: 336).

C. Relative importance: Accounting information has the ability to influence decisions taken by users when it is of relative importance, meaning that accounting information is important and that showing, omitting or misunderstanding it can affect those decisions that users make on the basis of the accounting information contained in the financial statements (Kieso et al., 2014:33).

## **2. Honest Representation**

In order for accounting information to be reliable, it must faithfully represent the economic processes and events that it is claimed or expected to represent. (Sarkar, 2018:53). The property of faithful representation is one of the basic characteristics of the QAI, which means that all accounting information contained in the financial statements must To represent it honestly and credibly, and in order to achieve this, this information must be complete and free from errors and biases (AL-Dmour et al., 2018:7). The sub-characteristics that must be provided in the honest representation feature in order to help users of accounting information in making decisions are as follows: (Hussain & Thiab, 2018: 55).

A. Completeness: It means that the accounting information must express all the information required for users to understand that information, as well as descriptive and explanatory information related to the operations being expressed. (Issa & Musa, 2018:297).

B. Neutrality: This characteristic means that there is no bias in the selection and presentation of accounting information, as the accounting information must be free from distortion and distortion, meaning that bias in the provision and selection of information may lead to the possibility of its acceptance or rejection by users, and therefore this does not mean Neutral information has no effect on the behavior and decisions of users. Appropriate information, by definition, has the ability to make a difference in the decisions made by users.

C. Freedom from errors: Error free does not mean accuracy in all aspects. Rather, it means that there are no errors or omissions in describing the phenomenon, and the process used to produce the reported information and its application was chosen without any errors in it. In other words, being free from errors does not mean that there is complete accuracy in all respects, for example, an estimate of a price or value cannot be determined and cannot be observed to be accurate or

inaccurate, however, a fair and honest representation of that estimate can be made if the amount is accurately described as an estimate, and if the nature of the estimate is also disclosed. and limitations of the estimation process. No errors were made in selecting and applying the appropriate process to determine the value or amount that was estimated.

## Empirical Perspective

### First. Community and Research Respondents

The research community is represented by the Iraqi private banks listed in the Iraq Stock Exchange, and the research sample was represented by the internal auditors, accountants and internal audit managers working in those banks, and in line with the research trends, a questionnaire form was distributed (52) forms, (49) of which were recovered While the number of forms subject to analysis (44) forms.

**Table 1:** Shows A Brief Description of The Research Sample Banks and a Brief description of the Research Sample Banks

Number of Employees	Capital (Billion Dinars)	Number of Branches			Bank Name	NO
		Total Branches	Branches			
			Provinces	Baghdad		
225	250	9	6	3	Ashur International Investment Bank	1
600	300	20	13	7	The United Investment Bank	2
231	250	9	3	6	Sumer Commercial Bank	3
640	250	18	12	6	Middle East Bank	4
302	300	19	14	5	Gulf Commercial Bank	5

Source: Prepared by the Researcher based on the Annual Reports of Banks 2019

### Second. Description of the Research Tool

The questionnaire form consists of two main axes, the first axis dealt with the personal and general information of the individuals in the research sample, which is (scientific qualification, specialization, years of experience, job title). Its paragraphs were prepared in agreement with the studies mentioned in the research methodology.



### Third. Resolution Stability Test

Stability means that the scale gives the same results if the questionnaire is applied more than once and under the same conditions. 70%) or more the scale is good, as the alpha coefficient was calculated for all paragraphs of the form. Table (2) shows Cronbach's alpha coefficient test.

**Table 2:** *Stability test for Alpha-Ker and Nebach coefficients*

Cronbach's alpha Coefficient	The number of Paragraphs of the Form
0,883	15

Source: Prepared by the Researcher based on the outputs of the SPSS

Fourthly, the demographic analysis of the research sample

**Table 3:** *Demographic Characteristics of the Research Sample Individuals*

Percentage	Repetition	Demographics
		Qualifications
%7	3	Technical Diploma
%72	32	Bachelor
%7	3	Higher Diploma
%14	6	M.A.
%0	0	Ph.D
%0	0	other
%100	44	Total
		Specialization
%38,5	17	Accounting
%34	15	Banking and Financial Sciences
%4,5	2	Economies
%7	3	Business Administration
%16	7	other
%100	44	Total

		Years of Experience
%19	9	5 years or less
%28	12	From 5 to 10 years
%25	11	11 to 15 years old
%14	6	16 to 20 years old
%14	6	21 years and over
%100	44	Total
		Career Title
%14	6	M. Accountant
29,5	13	Accountant
22,5	10	Internal Auditor
%9	4	Internal Audit Manager
%25	11	other
%100	44	Total

Source: Table Prepared by the Researcher

#### V. Descriptive analysis of research variables

The researcher conducted a descriptive analysis of the research variables in order to identify the arithmetic means, standard deviations and relative importance as in Table (4) Descriptive analysis of the independent variable (professional competence and the dependent variable QAI.

**Table 4:** *Descriptive Analysis of the Independent Variable (Professional Competence and the Dependent Variable (Quality of Accounting Information)*

Relative Importance	Standard Deviation	Arithmetic Mean	Variable
%83,636	0,54283	4,1818	Professionalism
81,528	0,45810	4,0764	The quality of Accounting Information

Source: The table was prepared by the researcher based on the outputs of the SPSS program.

From Table (4), it appears that the research sample has an awareness of the importance of the research variables, where the arithmetic means of the independent variable reached professional competence (4,1818), with a standard deviation of (0,54283), and with a relative importance higher than (80%), and this means that the research sample realize the importance of having the skills, experience and knowledge required for the internal auditor when performing his duties.

It is also noted that the research sample is aware of the importance of providing quality characteristics in the accounting information prepared by Iraqi banks, as the arithmetic mean of the dependent variable is QAI (4,0764), with a standard deviation of (0.45810) and a relative importance higher than (80%), and this explains that The research sample realizes the importance of the availability of quality characteristics in the accounting information prepared by banks, because it has an impact on the decisions of different users.

#### Sixthly, Hypothesis Testing

1. The first hypothesis: There is a significant correlation between the professional competence of the internal auditor and the improvement of QAI.

In order to verify the validity of the hypothesis, the researcher used the Pearson correlation coefficient, and Table (5) shows the value of the correlation coefficient between the professional competence of the internal auditor and the improvement of the QAI.

**Table 5:** *Correlation Coefficient between the Professional Competence of the Internal Auditor and Improving the QAI*

<b>Correlation Coefficient</b> (Pearson)	<b>The Quality of Accounting Information</b>	<b>Professionalism</b>
0,595**		

Source: The table prepared by the researcher based on the outputs of the statistical package (SPSS) program.

It is clear from Table (5) that there is a statistically significant correlation at a level of significance (0.01) between the professional competence of the internal auditor and the improvement of the

QAI, as the correlation coefficient reached (0.595), which means that the first hypothesis is accepted.

2. The second hypothesis: There is a statistically significant effect of the professional competence of the internal auditor in improving the quality of accounting information.

In order to verify the validity of the hypothesis, the researcher used the simple linear regression coefficient, as shown in Table (6).

**Table 6:** *The Impact of the Professional Competence of the Internal Auditor in Improving the QAI*

Sig	F	$\alpha$	$\beta$	R <sup>2</sup>	The Quality of Accounting Information	Professionalism
0.00	23,057	1,975	0,595	0,354		

Source: The table prepared by the researcher based on the outputs of the statistical package (SPSS) program.

From Table (6), it is clear that the calculated value of (F) amounted to (23,057) at a significant level (0.00), and the beta coefficient ( $\beta$ ) reached (0.595), which means that the increase by one unit in the independent variable results in an increase by (0.595) in the dependent variable, while the alpha coefficient ( $\alpha$ ) reached (1,975), and given the value of the coefficient of determination (R<sup>2</sup>) of (0.354), it appears that the professional competence of the internal auditor explains the percentage (0.354) of the changes that occur in the QAI.

## CONCLUSIONS AND RECOMMENDATIONS

### CONCLUSIONS

The research reached a set of conclusions:

1. The professional competence of the internal auditor has an important role in improving the QAI, which adds value to companies' financial reports.

2. Accounting information has a very important role in the decision-making process, and the availability of a high level of characteristics identified by the conceptual framework in that information will improve its quality.

3. The results of the research showed that there is a correlation and effect between the professional competence of the internal auditor and the improvement of the QAI.

## **RECOMMENDATIONS**

Among the recommendations made by the research are the following:

1. Companies must design an accounting information system and an internal control system that is compatible with the activities they practice and in a manner, that secures the correct application of all laws and regulations and enhances the role of audit committees and internal auditors in companies and proves their efficiency in addition to the accuracy of the accounting information produced by the accounting information system.

2. Organizing courses and holding seminars in coordination with the competent bodies concerned with international auditing standards, and encouraging employees in audit departments to follow up on changes to those standards.

3. Given the existence of a relationship and impact between the professional competence of the internal auditor and the improvement of the QAI, the research recommends the necessity of supporting the internal auditor to allow him to perform his duties without any pressures and with high professionalism.

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