

-RESEARCH ARTICLE-

THE IMPACT OF AGILE INTERNAL AUDIT, LEAN INTERNAL AUDIT, AND MANAGEMENT AUDIT, ON THE FINANCIAL REPORTING QUALITY IN THE IRAQI OIL COMPANIES

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—Abstract—

The importance of financial reporting quality (FRQ) cannot be overstated in the competitive landscape, making it a focal point for researchers. This article investigates the effects of agile internal audits, lean internal audits, and management audits on the FRQ of Iraqi oil companies. The article delves into the impact of corporate social responsibilities (CSR) on the internal audit, lean internal audit, management audit, and FRQ of Iraqi oil companies. The article obtains data through surveys conducted with internal auditors of oil companies. The article utilised the SPSS-AMOS software to analyse the data's reliability and the relationships between variables. The results showed that there is a positive relationship between internal audit, lean internal audit, management audit, and the FRQ of Iraqi oil companies. The findings of the study revealed that there is a significant moderation effect of CSR on the relationship between internal audit, lean internal audit, management audit, and FRQ in Iraqi oil companies. Policymakers can access guidelines on enhancing the FRQ through internal audits, lean internal audits, and management audits.

Keywords: Internal Audit, Lean Internal Audit, Management Audit, CSR, Quality of Financial Reporting.

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INTRODUCTION

Financial reporting is a management tool used to provide detailed information on the performance of important financial activities within a company. The FRQ refers to the level of information conveyed by the financial statements to individuals who are directly or indirectly connected to the company and whose behaviour can be influenced by this information (Peyravan, 2020). Efficient administration is essential for a business to thrive, as it ensures progress towards goals, the attainment of milestones, and informed decision-making for the future. Upon careful examination of the financial reports, the administrative staff of the company acquires a deep understanding of its financial stability, assesses the potential avenues for success, and promptly makes informed decisions when necessary. Through effective financial reporting, company management can inspire and motivate stakeholders to collaborate in achieving business objectives. By analysing accurate financial reports, businesses can effectively track past performance and make necessary adjustments to prevent future failures (Haarburger et al., 2020). In addition to the company itself, FRQ provides value to various stakeholders, such as employees, investors, shareholders, the government, creditors, and the public. Effective financial reporting provides shareholders, investors, and creditors with the necessary information to assess a company's ability to meet their investment expectations and make informed decisions. Additionally, it indicates that the public, government regulators, and customers are conducting business in accordance with established rules and regulations (Hu, Xue, & Liu, 2022).

Financial reporting plays a crucial role in a company's business plans, growth, and overall success. The careful selection of auditing techniques, such as agile internal audit, lean internal audit, and management audit, has a significant impact on the quality of financial reporting. Internal auditing involves assessing a company's internal controls, corporate practices, accounting processes, and compliance with regulations (Shakespeare, 2020). Agile auditing allows internal audit teams to conduct audits with flexibility and speed, enabling them to quickly respond to changing business requirements. This approach helps save time and accelerate the inspection of financial statements. Implementing an agile internal audit process enables prompt identification of errors and fraud, ensuring that they are detected as soon as business transactions are conducted and documented. Therefore, it enhances the financial statements and improves the quality of information by utilising financial data (Amin & Al-Shammari, 2023). Lean auditing involves a targeted approach where internal audit teams concentrate solely on specific audit processes to ensure increased value and efficiency in internal auditing. The enhancement in audit performance rectifies the financial statements, ensuring their completion. These financial statements are misleading or inaccurate. The FRQ is well executed and demonstrates proficiency (Hassan, Mohamad Zailani, & Hasan, 2020). A management audit is a specialised audit that focuses on monitoring and inspecting the performance of the management team. Its purpose is to

assess whether they are working in the best interests of employees, shareholders, company success, and business image. Due to the management audit, business accounts will be meticulously managed and prepared, ensuring that the financial reporting provides precise and dependable information (Hay & Cordery, 2021).

The study primarily examines the FRQ of companies operating in the oil industry in Iraq. Iraq is classified as an upper-middle-income economy that is currently experiencing growth and development. In 2023, the economy's nominal GDP will stand at \$297.695, with the oil sector emerging as the dominant force in the economy. In 2018, the estimated oil reserves in Iraq were 147.23 billion barrels. The country's reserves rank it 5th among all economies, with its reserves alone accounting for 8.8% of the world's total oil reserves (Semenova & Al-Dirawi, 2022). Based on statistical data from 2016, the daily oil consumption in Iraq amounts to 857,000 barrels. The country's daily oil consumption ranks 26th globally, accounting for 0.9% of the world's daily oil consumption, which amounts to 97,103,872 barrels. Iraq's annual oil production stands at 4,443,457.39 barrels, positioning it as the 6th largest producer globally. Iraq's yearly oil production accounts for a mere 1.3% of the global oil reserves (Ibrahim, Hami, & Abdulameer, 2020). Iraq exports most of its oil production, which amounted to 3,576,636 barrels per day in 2016, to various countries. In 2020–2021, Iraqi companies favoured Greece (\$6.62 billion), China (\$6.18 billion), and India (\$8.89 billion) as their top destinations for selling oil products. The overwhelming majority of foreign exchange earnings in modern history are derived solely from oil exports. According to the latest statistics for 2021, it is observed that Iraqi oil companies contribute significantly, accounting for 92% of the country's foreign exchange earnings (Aljamee, Naeem, & Bell, 2020).

The oil sector in Iraq serves as the primary financial backbone for the nation. However, the future of investment in this sector remains uncertain due to the involvement of foreign entities in the possession and management of rights. The FRQ enhances the connection between companies and stakeholders (Hashim et al., 2020). This study addresses the need by examining the impact of agile internal audit, lean internal audit, management audit, and FRQ. The objective is to analyse the role of CSR in relation to agile internal audit, lean internal audit, management audit, and FRQ.

This study goes beyond reiterating the perspectives of previous authors when addressing the proposed connection. Instead, it offers substantial contributions to the existing body of literature. The authors have provided a comprehensive analysis of the impact of audit performance on financial statements, specifically focusing on the FRQ. There is limited literature on various types of audits, such as agile internal audits, lean internal audits, and management audits, and their impact on the FRQ. This study contributes to the existing literature by examining the impact of agile internal audit, lean internal audit, and management audit on the FRQ. Additionally, previous studies have examined the correlation between the implementation of CSR and FRQ. Several authors have

examined the moderating role of CSR in agile internal audit, lean internal audit, management audit, and the FRQ. This study expands upon existing research by examining the impact of CSR on agile internal audit, lean internal audit, and management audit, as well as the FRQ. Additionally, the choice of Iraqi oil companies for analysing the effects of agile internal audit, lean internal audit, and management audit on the FRQ adds a unique aspect to the research.

This paper consists of five sections: The second part of the study formulates research hypotheses by examining the connection between agile internal audit, lean internal audit, management audit, CSR, and FRQ through a comprehensive literature review. In the third section, the methodology used to conduct the research and extract its findings is explained. Next, a thorough research analysis is performed, and the findings are substantiated by existing studies. In the final section, the study's implications, conclusions, and limitations are presented.

LITERATURE REVIEW

Various authors have examined the quality of agile internal audit, lean internal audit, management audit, CSR, and financial reporting in the existing literature, yielding varying analyses. There are varying perspectives on the interconnections between these factors. The hypotheses regarding the factors are established in the following paragraphs, considering previous literature.

Agile auditing emphasises the importance of time and prioritises responsiveness to business demands and stakeholders' requirements ([Rechtman, 2023](#)). The auditors perform thorough audits to assess the integrity of employees, the efficiency of business processes, and the accuracy of financial records, including the occurrence of business events or transactions. Efficiently recording and inspecting financial statements helps mitigate risks and minimise errors. When finances are publicly reported, they provide readers with valuable information about the financial value of the business ([Kola, 2020](#)). In their recent study, [Ahmed et al. \(2022\)](#) examine the impact of agile internal audit on auditors' competencies and FRQ. The study utilised primary data collection methods. Preliminary data was collected from members of internal audit teams in the German Volkswagen group of firms through a questionnaire survey. The study employed the PLS-SEM methodology to assess the consistency, accuracy, and relationships of the variables. The study suggests that incorporating agility into internal audit enhances auditors' skills and promotes high-quality financial reporting. So,

H1: *Agile internal audit has a positive association with the financial reporting quality.*

Lean internal auditing involves the evaluation of business practices and inspection of financial records to ensure they meet the satisfaction of customers and stakeholders. Here, unnecessary time-wasting and bothersome elements have been eliminated. Firms can

address the costs, enhance responsiveness, and enhance the accuracy, reliability, and positivity of the information derived from business financial statements. Therefore, a streamlined internal audit contributes to the quality of financial reporting (Chiarini et al., 2021). In their study, Alhosban & Alsharairi (2019) examine the correlation between lean internal audit, lean accounting, and the FRQ. The study utilised a combination of primary and secondary data sources. Data was collected through questionnaires from 69 internal auditors working in industrial companies listed on the Amman Stock Exchange. Data was gathered from pertinent publications and company documents. The study suggests that implementing streamlined internal audits for routine business inspections can lead to an improvement in the FRQ. According to Madawaki (2020), lean internal audits have been found to positively impact a company's FRQ, indicating improved performance.

H2: *Lean internal audit has a positive association with the financial reporting quality.*

The auditors on the management audit team oversee the holistic management of the business. They analyse the competencies and efficiency of their functions while also ensuring compliance with rules and regulations. It ensures efficient management of the accounting department as well as other areas of the business. When accountants operate with efficiency and adhere to appropriate guidance and governance, they are able to produce high-quality financial reports (Lastanti, 2020). In a recent study, Al-Shaer (2020) delves into the interplay between relationship management audits, sustainability reporting quality, and post-audit reporting quality in the UK. A sample of companies from the FTSE 350 that remained registered on the London Stock Exchange from 2007 to 2018 were selected for the study. The authors utilised Thomson Reuters Asset4 and DataStream to collect the necessary data. Analytical procedures included the use of descriptive statistics and regression analysis. The findings indicate that management audits contribute to the attainment of business sustainability objectives and their inclusion in the annual financial reports. Therefore, conducting a management audit enhances the quality of financial reporting. Thus,

H3: *Management audit has a positive association with the FRQ.*

CSR places a strong emphasis on the rights of stakeholders and provides clarity on the extent of a company's responsibility towards the various entities it interacts with. CSR promotes the company's ability to adapt and meet the demands of stakeholders and business objectives. In this scenario, agile internal audit has gained popularity due to its characteristics of flexibility, quickness, and responsiveness (Thuy et al., 2021). In addition, CSR encourages the company to cultivate transparent relationships with various stakeholders, including investors, shareholders, creditors, employees, customers, the public, and others, to gain their trust and foster positive business interactions. To achieve this objective, company administrators carefully oversee their accounting department to ensure that the accountants generate high-quality financial statements containing valuable business

information (Maso et al., 2020). In their study, Wang, Zhang, & Xu (2020) examine the correlation between CSR implementation, agile internal audit practices, and FRQ. The study provides an explanation of how companies that adhere to CSR regulations prioritise the well-being and emotional needs of their employees while also striving for profitability. The improved efficiency of employees in the accounting department enhances the performance of agile internal audits and contributes to the FRQ. So,

H4: *CSR is a significant moderator between agile internal audit and the financial reporting quality.*

When CSR is implemented in an organisation, there is comprehensive regulation of all business departments and diligent monitoring of employee activities. Like other departments, the internal audit team members are expected to focus solely on auditing activities that are directly relevant and contribute significantly to audit performance. Therefore, it is recommended to promote a streamlined internal audit process for the examination and assessment of financial affairs (Ryu, Chae, & Song, 2021). Integrating CSR fosters a heightened sense of responsibility towards stakeholders among company directors and management. A peaceful and supportive environment is created for employees while also considering the well-being of other stakeholders. The internal company administrators are responsible for ensuring the accuracy and integrity of the financial statements prepared by the accountants, so that the readers can rely on them without any concerns of errors, cheating, or fraud. Therefore, financial reporting provides information of superior quality (Chan et al., 2021). In their study, Qaderi, Alhmoud, & Ghaleb (2020) examine the correlation between CSR implementation, agile internal audit, and FRQ. The study suggests that companies operating under a CSR business model are able to streamline internal audits and enhance the FRQ.

H5: *CSR is a significant moderator between lean internal audit and the financial reporting quality.*

CSR fosters an atmosphere of employee responsibility and accountability. Within this context, a thorough management audit is conducted to ensure the maintenance of the FRQ (Dakhli, 2022). The interaction between CSR implementation, management audit, audit committee, audit quality, and FRQ is the subject of a study by Hasan, Kassim, & Hamid (2020). Data was collected from companies operating in Bursa Malaysia, ensuring that these companies had fully completed their financial statements from 2013 to 2018. A total of 814 companies were considered for data collection. Additional analysis and hypothesis testing were conducted using SSPS. The findings indicate that the integration of CSR practices facilitates the execution of management audits, leading to favourable audit outcomes. Consequently, this contributes to the fulfilment of the FRQ. Data collection involved considering a total of 814 companies. Further analysis and hypothesis testing were performed using SSPS. The research suggests that incorporating CSR practices can

enhance the effectiveness of management audits, resulting in positive audit results. As a result, this aids in the achievement of the FRQ. Thus,

H6: *CSR is a significant moderator between management audit and the financial reporting quality.*

RESEARCH METHODS

This article analyses the effects of agile internal audit, lean internal audit, and management audit on the FRQ. It also explores the moderating impact of CSR on internal audit, lean internal audit, management audit, and FRQ in Iraqi oil companies. The article obtains data through surveys conducted with internal auditors of oil companies. The variables are assessed using questions derived from previous studies. For instance, the agile internal audit construct is measured with five questions (Grima et al., 2023), the lean internal audit construct is measured with six questions (Chiarini et al., 2021), the management audit construct is measured with five questions (Safipour Afshar et al., 2019), the CSR construct is measured with seven questions (Latif et al., 2019), and the FRQ construct is measured with five questions (Dewi, Azam, & Yusoff, 2019).

In addition, the study chose internal auditors as participants and distributed surveys through in-person visits. The surveys were distributed using a method called simple random sampling. Out of the 446 surveys distributed, 301 were received, indicating a response rate of around 67.49 percent. In addition, the article utilised the SPSS-AMOS software to analyse the reliability of the data and explore the relationships between variables. This tool is highly effective for analysing primary data, even when researchers use complex models or large data sets (Hair et al., 2017). The study employed three predictors: agile internal audit (AIA), lean internal audit (LIA), and management audit (MA). The dependent variable used was quality of financial reporting (QFR), and the moderating variable was corporate social responsibilities (CSR). The variables are referenced in Figure 1.

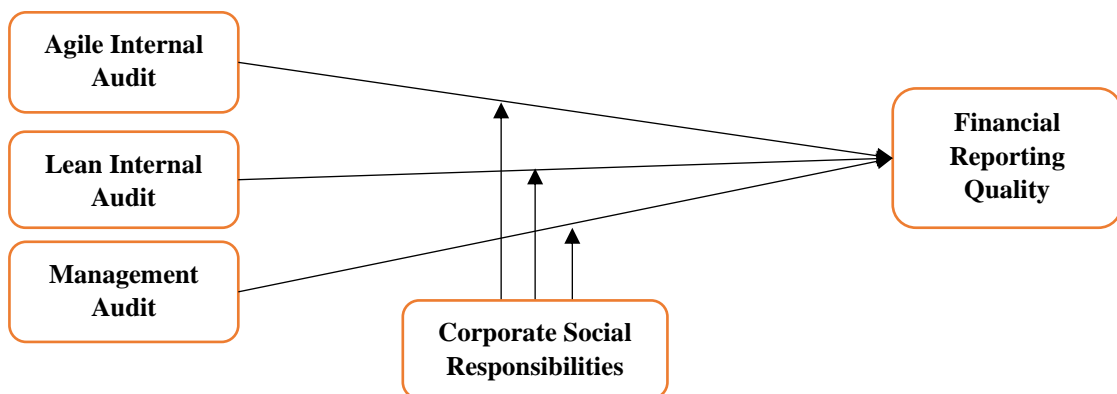


Figure 1: Theoretical Framework.

RESEARCH FINDINGS

The study examines the convergent validity by assessing composite reliability. The findings indicate values exceeding 0.70 for the outcomes. Furthermore, the reliability of the items was assessed by examining factor loadings and average variance extracted (AVE). The results indicate values exceeding 0.50. Finally, the investigation also includes the use of MSV and ASV, both of which yield values that are lower than the AVE values. The results indicate a strong correlation between the items. The values are presented in [Table 1](#).

Table 1: Convergent Validity.

Constructs	Items			Loadings	CR	AVE	MSV	ASV
Agile Internal Audit	AIA1	<---	AIA	0.989	0.916	0.691	0.420	0.137
	AIA2	<---	AIA	0.701				
	AIA3	<---	AIA	0.985				
	AIA4	<---	AIA	0.708				
	AIA5	<---	AIA	0.717				
Lean Internal Audit	LIA1	<---	LIA	0.830	0.904	0.612	0.551	0.312
	LIA2	<---	LIA	0.844				
	LIA3	<---	LIA	0.812				
	LIA4	<---	LIA	0.662				
	LIA5	<---	LIA	0.787				
	LIA6	<---	LIA	0.746				
Management Audit	MA1	<---	MA	0.996	0.936	0.754	0.681	0.257
	MA2	<---	MA	0.632				
	MA3	<---	MA	0.998				
	MA4	<---	MA	0.630				
	MA5	<---	MA	0.992				
Corporate Social Responsibilities	CSR1	<---	CSR	0.789	0.890	0.579	0.420	0.245
	CSR2	<---	CSR	0.854				
	CSR4	<---	CSR	0.791				
	CSR5	<---	CSR	0.803				
	CSR6	<---	CSR	0.767				
	CSR7	<---	CSR	0.514				
Quality of financial reporting	QFR1	<---	QFR	0.527	0.837	0.514	0.261	0.171
	QFR2	<---	QFR	0.812				
	QFR3	<---	QFR	0.605				
	QFR4	<---	QFR	0.802				
	QFR5	<---	QFR	0.789				

The study examines discriminant validity by applying the Fornell-Larcker criteria. The results reveal that the first value in the column is greater than the other values. The results indicate a weak correlation between the variables. The values can be found in [Table 2](#).

Table 2: Discriminant Validity.

	CSR	AIA	LIA	MA	QFR
CSR	0.761				
AIA	0.648	0.831			
LIA	0.481	0.277	0.983		
MA	0.364	0.140	0.825	0.868	
QFR	0.445	0.175	0.511	0.440	0.717

The study examines the model's fitness by utilising RMSEA, which indicates values below 0.05. Furthermore, the TLI and CFI values were both found to be greater than 0.90. The results indicate that the model is a suitable fit. The values can be found in [Table 3](#).

Table 3: Model Good Fitness.

Selected Indices	Result	Acceptable level of fit
TLI	0.987	TLI > 0.90
CFI	0.988	CFI > 0.90
RMSEA	0.004	RMSEA < 0.05 good; 0.05 to 0.10 acceptable

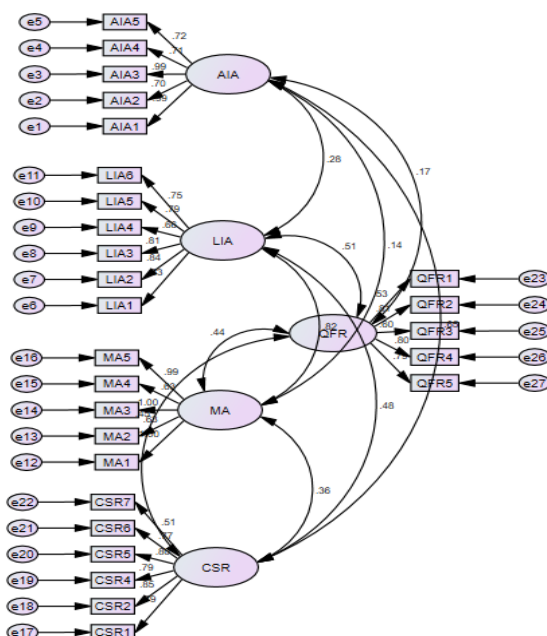


Figure 2: Measurement Model Assessment.

The results showed that there is a positive relationship between internal audits, lean internal audits, and management audits and the financial reporting quality of Iraqi oil companies. This supports the acceptance of hypotheses H1, H2, and H3. Furthermore, the findings revealed that CSR plays a significant moderating role in the relationship between the internal audit, lean internal audit, management audit, and FRQ of Iraqi oil companies. The study also confirmed the acceptance of hypotheses H4, H5, and H6. The values can be found in [Table 4](#).

Table 4: Path Analysis.

Relationships			Beta	S.E.	C.R.	P
Quality of financial reporting	<---	Agile Internal Audit	0.574	0.037	15.721	0.000
Quality of financial reporting	<---	Lean Internal Audit	0.032	0.014	2.286	0.011
Quality of financial reporting	<---	Management Audit	0.002	0.001	2.000	0.027
Quality of financial reporting	<---	Corporate Social Responsibilities	0.466	0.039	12.090	0.000
Quality of financial reporting	<---	LIA x CSR	0.050	0.007	6.995	0.000
Quality of financial reporting	<---	AIA x CSR	0.145	0.007	21.931	0.000
Quality of financial reporting	<---	MA x CSR	0.050	0.007	7.522	0.000

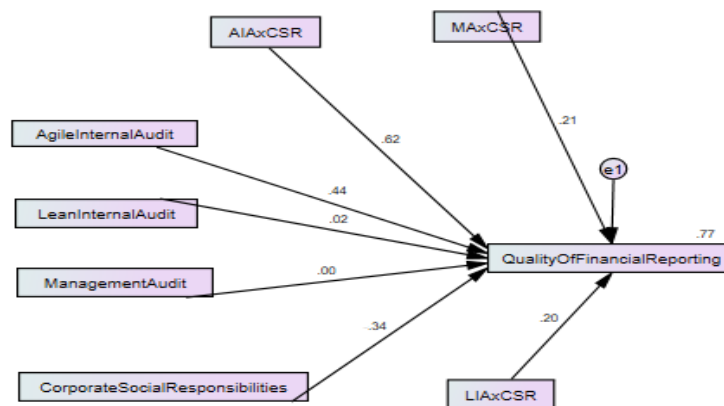


Figure 3: Structural Model Assessment.

DISCUSSIONS

The findings indicate a favourable correlation between agile internal audits and the FRQ. Joshi's (2021) research supports the findings. The study suggests that in an agile internal audit, auditors consistently engage in active performance and real-time assessment to address any uncertainties promptly. Bookkeeping and verification of financial records are conducted in conjunction with business operations. Therefore, implementing a streamlined internal audit process enhances the accuracy of financial reporting. These findings are consistent with the research by Lehmann & Thor (2020), which examines the effect of an agile internal audit on the caliber of financial statements. The study asserts that firms conducting agile internal audits provide accurate information about business potential and risks through their financial statements. The findings indicate a positive correlation between lean internal audit and the FRQ. The findings of Dobrowolski, Sułkowski, & Adamisin (2022) provide support for the impact of lean internal audit on FRQ. The study suggests that adopting lean internal audit practices can enhance the effectiveness of annual audits and contribute to the overall efficiency of the FRQ. The findings align with Christensen's (2022) research, emphasising the focus on essential verification and avoiding unnecessary examination of financial records in lean internal audit practices. In this scenario, the accountants diligently focus on all aspects of a transaction and meticulously document each transaction with precision. Therefore, the financial reporting offers comprehensive data for the company.

The findings suggest a positive correlation between the management audit and the FRQ. The research by Endrawes et al. (2020) supports the findings of this study. The study suggests that conducting a management audit can help enhance the performance of individuals involved in business management. By ensuring the accuracy of business operations, it can also contribute to improving the firm's financial results. These findings are consistent with research by Saputra et al. (2021), which contends that carrying out a management audit internally results in effective management of business accounts. It results in an enhancement of Free Response Questions (FRQs). The findings indicate that CSR plays a crucial role in moderating the relationship between agile internal audit and the FRQ. The findings of Pinnuck et al. (2021) support the notion that adopting CSR as a business strategy fosters an environment conducive to efficient internal audits and, consequently, enhances FRQ. The findings align with the research conducted by Uyar et al. (2023), which highlights the positive impact of CSR implementation on the efficiency of agile internal audit and the enhancement of financial reporting quality.

The findings indicate that CSR plays a crucial role as a moderator in the relationship between lean internal audits and the FRQ. The research by Bacha, Ajina, & Ben Saad

(2021) supports the findings of this study. Based on prior research, it has been found that implementing lean internal audits under CSR can effectively enhance the quality of information in financial reporting. The findings are consistent with the research by Handayati et al. (2022), which emphasizes the beneficial effects of CSR implementation on the efficiency of lean internal audit in financial reporting and its general quality.

The findings indicate that CSR plays a crucial role as a moderator in the relationship between the management audit and the FRQ. The findings of Garcia, de Villiers, & Li (2021) support the notion that incorporating CSR as a business strategy promotes agile internal auditing. The FRQ experiences improvement as a result. The results of this study support Nguyen and Trinh's (2020) research, which suggests that the implementation of CSR initiatives is related to the improvement and long-term maintenance of the FRQ.

IMPLICATIONS

This study holds great importance for developing economies such as Iraq, where international companies are conducting their operations and maintaining connections with foreign entities. The document provides guidance to company management on enhancing the quality of information in financial reporting for stakeholders. It is crucial for company management to prioritise organising efficient internal audits and effectively implementing their practices to enhance the accuracy and delivery of information to stakeholders. The study indicates that for effective improvement of the FRQ, it is crucial for company administrators to demonstrate positive behaviour and effectively implement lean internal management. This article emphasises the importance of implementing management audits effectively to enhance the FRQ. It has been suggested that company management should adhere to CSR principles to promote efficient internal audits and enhance FRQ. The study suggests that the thorough implementation of CSR is essential. Encouraging streamlined internal audits and demonstrating progress in FRQ would be beneficial. Furthermore, the study emphasises the importance of companies being accountable for their CSR responsibilities. Therefore, the implementation of management audits can contribute to FRQ. Policymakers can access guidelines on enhancing the FRQ through internal audits, lean internal audits, and management audits.

CONCLUSION

The study aims to investigate the impact of agile internal audit, lean internal audit, and management audit on the FRQ. The study aimed to examine the impact of different audit approaches, including agile internal audit, lean internal audit, management audit, and the FRQ, on CSR implementation. The research framework was tested using Iraqi oil companies as a context for analysis. Data collection was done through a

questionnaire survey. The research findings demonstrate a clear correlation between agile internal audit, lean internal audit, and management audit with the FRQ. The findings indicate that performing an agile internal audit to examine the books of accounts has the potential to enhance efficiency, expedite audit processes, and enhance the accuracy of financial records. Therefore, there is room for improvement in the FRQ. The findings indicate that the implementation of a lean internal audit leads to a decrease in errors or fraudulent activities during the recording of transactions in the books of accounts. Therefore, the FRQ has been enhanced. The findings also emphasised the role of management auditing in addressing issues at both the managerial and operational levels of the business. The books of accounts are prepared with precision and offer dependable information in this scenario. Based on the study findings, it is evident that CSR plays a crucial role in moderating the relationship between agile internal audit, lean internal audit, management audit, and FRQ. By implementing CSR practices, organisations can effectively conduct agile internal audits, lean internal audits, and management audits, leading to potential improvements in the FRQ.

LIMITATIONS

There are certain limitations in the current study. Future researchers will need to address these limitations through additional effort. The study framework lacks comprehensiveness as it only analyses a limited number of factors, such as agile internal audit, lean internal audit, and management audit, and their impact on the FRQ. Authors should consider expanding the range of factors that may impact financial reporting in the future. Furthermore, this study focuses exclusively on the relationship between agile internal audit, lean internal audit, and management audit, and their impact on the FRQ within the specific context of Iraqi oil companies.

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