

## The Impact of Digital Transformation on the Internal Audit Quality and its Reflection on Enhancing the Quality of Financial Reporting

"An Empirical Study"

تأثير التحول الرقمي علي جودة المراجعة الداخلية وإنعكاسه علي

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### Abstract

There have been many developments in the internal audit over time in terms of standards, organizational dependency, independence, the emergence of digital transformation and its relationship to improving the quality of internal auditing and its role in assessing risks and improving the quality of financial reporting. Internal audit is fundamental in maintaining transparency in the dissemination of information about a company's financial position and performance. In this respect, the quality of internal audit is essential for improving the quality of financial reporting.

**Purpose**–This study aims to examine the association between digital transformation, internal audit quality and its influence on financial reporting quality.

**The study hypothesis states that:** - the first hypothesis there is no statistically significant relationship between the mechanisms of digital transformation and the quality of internal auditing; the second hypothesis: - there is no statistically significant relationship between the mechanisms of digital transformation and the quality of financial reporting.

the third hypothesis: - There is no statistically significant relationship between the quality of internal auditing and the quality of financial reports in light of the digital transformation

**Design/methodology/approach**–The methodology adopted was survey method to collect primary data using a structured questionnaire. A total of 112 copies of questionnaire were distributed with 79 answered correctly and fully retrieved. Data was analyzed using statistical package for social science (SPSS) was used to measure the influence of digital transformation on internal audit quality and its influence on the financial reporting quality at 95% confidence level.

**The study results and statistical show that** digital transformation has positive relationship with internal audit quality and enhancing the quality of financial reporting. The Study recommended that the importance of publishing new regulations and law to govern using the digital transformation on internal audit to secure and protect users. The study also recommended that using digital transformation in all corporate activities for reducing the costs. Finally, the profession of audit should leverage their strategic ways and methods of work to be adapted for the new generation of technology otherwise they face a problem of how to justify their costs.

**Key Words:** Internal Audit Quality, internal audit function, Internal Audit Attributes, Financial Reporting Quality

## 1. Introduction

Financial statements are the final product of the accounting process through which users can evaluate the performance, financial position, cash flows sources and change in the capital of an entity to help them in making rational decisions.(Mohamed.2018)

Many corporate failures have occurred over the years as a result of poor financial reporting. This resulted from the lack of internal control, the failure to use digital transformation and delaying in issuing the financial reports that misled investors and other consumers of financial information in making their decisions. (Abdulai, I& Nassè,2021)

A company's digital capability is fundamental to remain competitive in today's marketplace. Digital technologies are rapidly changing and evolving, which in turn

increases competition and the need for companies to innovate quickly. For businesses, neglecting the importance of digital technologies has never been more dangerous. Digital technology refers to a collection and paradigm of diverse intelligent and innovative technologies in business environments such as the Internet of Things, Big Data, data analytics, artificial intelligence and cloud computing (Ritter & Pedersen, 2020). It is evident that in this new world, technology is not a choice, but a fundamental business strategy that must be incorporated into every part of an organization. Transformation can enable better collaboration within and across organizations, more personalized ways of engaging with customers, greater employee innovation and productivity, and more accurate insights from data that help a business grow and give it a better chance of success.

Internal auditors and internal audit organizations are expected to understand and use the technology. According to IIA Standard 1210.A3, "Internal auditors must have a working knowledge of key IT risks and controls and available technology-based auditing techniques to perform their assigned work." In addition to the standard, the IIA's Internal Audit Competency Framework establishes several computer-based competencies required for planning and performing internal audit tasks, including applied expert-level knowledge and competencies related to computer tools and techniques to support audits and data analysis procedures (Lake Mary, 2021)

The internal audit function is a pillar in the corporate governance framework (Hazaea, Tabash, Khatib, Zhu, & Al-Kuhali, 2020). It has been considered as an essential function that plays a pioneering role in the governance process (Vadasi, Bekiaris and Andrikopoulos, 2019). Its function is to provide control and consulting services that help companies achieve their objectives (IIA, 2017). The effectiveness of the internal audit function is considered a valuable feature of the evolution of the modern governance system that plays a critical role in determining the added value of the entire control system (Bruwer, Smit, Roux, and Siwangaza, 2020). Corporate governance reforms in several countries increasingly emphasize the effectiveness of the internal audit function in increasing the relevance and fair representation of financial reporting (Kotb, Elbardan, and Halabi, 2020).

There is evidence that an effective internal audit function improves the overall control climate and improves the quality of financial reporting in terms of reducing reporting errors, preventing financial reporting breaches, and increasing stakeholder confidence. on the strength of the company's control system and fairness in financial information (Eulerich & Eulerich, 2020). The position of the internal audit function on improving financial reporting can be linked to the assumption that improvements in the infrastructure of legal and accounting systems are essential factors that improve the reliability of financial reporting, in particular, and governance processes (AlbawwatL, I. E., AL-hajaia, M. E., & AL frijat, Y. S, 2021)

## 2. Literature Review

### Studies related to digital transformation, internal audit and financial reporting quality

**Study of Aditya B et al. (2018)** aimed to study the role of IT audit in the era of digital transformation the study found that digital transformation influence on IT audit. The study can contribute to the field of modern IT auditing by presenting practical guidance on determining the role of IT auditing in the age of digital transformation.

**Study of Mohamed Mousa (2020)** intended to measure the impact of activating the internal audit activities for digital transformation mechanisms to enhance accountability, transparency and improve the governmental performance: "With empirical evidence from the Egyptian environment". The study found that the comprehensive risk-based internal audit plan should include procedures and strategies for reviewing the DT strategy and to review the speed of technological development and digital technologies used in government institutions and their various applications; and the adoption of a variety of ideas and experiences to evaluate the risks associated with the implementation of these technologies through digital platforms and websites, and the internal audit plays an effective advisory role in increasing the digital value by For the organization specific risks identified and strategic advice and services offered. Finally, The study have shown that there are significant relationships between the following factors: (nature and scope of internal audit activities and examinations that can be carried out to review the efficiency and efficacy of the implementation of the DT's strategies, and the components of the activation These activities with regard to the requirements of the prevailing professional standards and publications and the nature of the challenges and risks associated with the implementation of DT strategies in the Egyptian environment) and between the tasks of the internal audit function in the field of digital transformation.

**Study of Yousef Shahwan.et al., (2021)** aimed to measure the effect of extensible business reporting language on the performance of the internal audit". A questionnaire was used to collect the data of 115 of the top managers of companies and internal examiners. Several regression methods were used by SPSS software to test the hypotheses. The study concluded that the pressure of the external unit, the user-friendliness of the system and cost-benefit overload are positive influence on the performance of the internal audit and the training of employees and the successful implementation of the model did not impact the implementation of internal audit.

**Study of Nathanaël Betti.et al., (2021)** seeks to understanding the internal audit function in a digitalized business environment. The study reveals that a digitized business environment affects the internal audit function in three aspects. First of all, it affects its scope. The agility of internal audit planning and the

necessary awareness is expected to increase and information technology (IT) risks are expected to gain prominence, especially cybersecurity threats. Secondly, the demand for consulting activities carried out by internal auditors is greater and, thirdly, digitization modifies the work practices of internal auditors in their daily tasks.

The study recommended that the internal audit function needs to integrate IT skills and data analysis. In addition, the internal audit function must develop consulting activities to help organizations address the digitization of the business environment.

**Study of Tangut, B. (2021)** aimed to examine the use of cloud technologies and big data in the public sector. . The results show that cloud technology and big data are used to provide a variety of services in the public sector. As technological progress continues, the use of cloud technology and big data in the public sector is expected to increase. In addition, there are expectations that the use of cloud technology and big data in the public sector will increase due to the advantages in cost, efficiency and speed. The study made recommendations for greater use of cloud technologies and big data in the public sector.

**Albawwat & AlhajaiaL, et al. (2021)** examine the relationship between internal auditors' personality traits, internal audit effectiveness, and financial reporting quality: empirical evidence from Jordan. The results also show that personality traits have an indirect impact on the quality of financial reporting through the effectiveness of the internal audit function. The study found that internal auditors with high ratings for openness to experience, emotional stability, and conscientiousness traits may be among the most important factors in the effectiveness of the internal audit function. The study recommended that internal auditors' personality traits can be viewed as an intangible resource that increases effectiveness. The results of the study could be of interest to a wide variety of parties interested in improving the effectiveness of the internal audit function and improving the quality of financial reporting, such as external and internal auditors, audited entities, human resources departments, and heads of internal audit.

**After reviewing all previous studies, researcher concluded that:-**

- They are related to the research topic including digital transformation, internal audit and financial reporting quality in different countries. This study is one of the first studies that addressed The Impact of Digital Transformation on the Internal Audit Quality and its Reflection on Enhancing the Quality of Financial Reporting
- The scarcity of researches conducted in developing countries regarding The Impact of Digital Transformation on the Internal Audit Quality and its Reflection on Enhancing the Quality of Financial Reporting
- Through The previous studies the researcher concluded there are deficiencies in the quality of financial reporting resulting from the weakness of internal audit and the failure to use digital transformation and delaying in issuing the financial reports

that misled investors and other consumers of financial information in making their decisions.

### 3. Study problems

The world has been swept by many crises and collapses in East Asia, Latin America and Russia, and a large number of giant companies have defaulted, such as the energy company Enron and the telecommunications company World Com, and the reason behind this has been attributed to the involvement of external auditors in these scandals and collapses, and to opportunistic behavior It includes the management of companies, and due to the weakness of accounting policies and control over financial activities, which opened the way for the internal audit function, the internal audit is the main pillar of internal control and an effective means to support the administration as it provides it with the necessary information, especially with regard to the efficiency and effectiveness of the internal control system in the company. The study (Guanming, 2019& Sury, 2019 & Ibrahim, 2020) indicates that there are deficiencies in the quality of financial reporting resulting from the emergence of fraud cases in many establishments, which led to a decrease in public confidence in financial reporting in general, which in turn affected investors' investment in the securities market, studying the extent of deficiencies in the role that the internal audit plays in limiting the management of profits through financial reports. It is considered an important matter for the growth of its role in corporate governance and its essential role in supporting internal control activities, which was one of the main causes of financial collapse in international companies.

#### **From the above discussion, the main problem can be formulated as follows:**

There are deficiencies in the quality of financial reporting resulting from the weakness of internal audit and the failure to use digital transformation and delaying in issuing the financial reports that misled investors and other consumers of financial information in making their decisions. **The research problem can be summarized on the following questions: -**

Does the mechanisms of digital transformation effect on the quality of internal auditing?

Does the mechanisms of digital transformation effect on the quality of financial reporting?

Is there a relationship between the quality of internal auditing and the quality of financial reporting in light of the digital transformation?

### 4. Hypotheses

To achieve the goals of this study the following hypotheses will be tested:

**The first hypothesis:-**there is no statistically significant relationship between the mechanisms of digital transformation and the quality of internal auditing.

**The second hypothesis:** - there is no statistically significant relationship between the mechanisms of digital transformation and the quality of financial reporting.

**The third hypothesis:** - There is no statistically significant relationship between the quality of internal auditing and the quality of financial reports in light of the digital transformation

## 5. Study Objectives

The main objective of this research is to examine the association between digital transformation, internal audit quality and its influence on financial reporting quality.

## 6. Methodology

**An Analytical Study:** -through the analysis of what was mentioned in books and periodicals, which deals with measures are analytical and that helps for obtaining information and evidence sufficient to enable him to carry out an analytical study for digital transformation , the quality of internal auditing and the quality of financial reporting?

**An Empirical study:** - adopted was survey method to collect primary data using a structured questionnaire. A total of 112 copies of questionnaire were distributed with 79 answered correctly and fully retrieved. Data was analyzed using percentage, tables and spearman rank order correlation techniques and with statistical package for social science (SPSS) was used to test the regression analysis was employed to measure the influence of digital transformation on internal audit quality and its influence on the financial reporting quality at 95% confidence level.

## 7. Research Structure:

**Introductory section:** introduce introduction, the literature review the study problem, the study objectives, the hypotheses, , methodology and the research structure.

**The first section** deals with the Theoretical background

**The second section** deals with the empirical study.

**The third section** deals with conclusions, findings, recommendations and future studies

## The first section:-Theoretical background

### 1.1 Digital Transformation

Today's world is moving rapidly towards digital transformation, which makes it necessary for professional fields such as accounting and auditing, as well as internal auditing, so that the profession should be developed with the progress of the surrounding environment.

Digital transformation is the process of using digital technologies to create new or existing business processes, organizational cultures and customer experiences to meet changing business and market needs. This realignment of business in the digital age is digital transformation (Peter et al., 2020).

Digital transformation is about becoming a digital company, an organization that uses technology to continuously evolve all aspects of its business model (what it offers, how it interacts with customers, and how it works). While each digital transformation initiative has its own specific goals, the main purpose of any digital transformation is to improve the current processes. Digital transformation is important as companies need to evolve to remain competitive in their industry (Vial, 2019).

Digital transformation is not just about disruption or technology, it is about value, people, optimization and the ability to adapt quickly when needed through intelligent use of technology and information (Phornla , K., et al., 2021).

Digital transformation is the profound transformation of entrepreneurial and organizational activities, processes, competencies and models in order to strategically and prioritize, the changes and opportunities that a mix of digital technologies and their accelerated impact on society offer, in order to represent and to present future changes (Garzoni et al., 2020).

Institutions have become heavily dependent on information technology to support the distribution of personalized materials, digital content, interactive courses and others. These institutions are gradually transitioning to cloud computing technology (Radwan, H., Zeidan, A.et.al 2021) As a result, the Egyptian government during these days is investing a lot of effort, time and money to move to e-government, including internal audit services.

Digital transformation is the process of using digital technologies to create or modify new or existing business processes, culture, and customer experience to meet changing business and market demands. Digital transformation marks an overhaul of the way an organization uses technology, people and processes in pursuit of new business models and revenue streams, driven by changing customer expectations in with regard to products and services (Peter et al., 2020). It is the ability of companies to create and reinforce disruptions in society and industry. For

companies, a digital business strategy is seen as a way to transform their business, streamline their processes, and use technology to improve their interaction with customers and employees while providing an excellent customer experience.

Organizations must evolve to adapt to the changing business landscape. Digital transformation can be defined as the acceleration of business activities, processes, skills and models to take full advantage of the changes and opportunities of digital technologies and their impact in a strategic and prioritized manner (Phornla, K., et al, 2021).

Digitization refers to the technical process of converting analog signals into a digital form and ultimately into binary digits, it is the process of introducing digital technologies, essentially dealing with changes brought about by information technologies (Bettim Nathanaël and Gerrit Sarens, 2021) , As a result, digital transformation can be defined as the use of new digital technologies (social media, mobile, analytics or embedded devices) to enable important business improvements (e.g. improving customer experience, streamlining operations or creating new business models). Innovation is about combinations of information, computing, communication and connectivity technologies. The process of digital transformation goes hand in hand with the use of information systems. Next: The focus is on the strategy and not just the technology. (Radwan, H., Zeidan, A.et.al 2021).

The study by (Nambisana S., et.al. 2019) has mentioned that the introduction of digitization has also forced government agencies and other public institutions to reconsider the laws, regulations and policies related to a variety of issues including data protection and Security of intellectual property rights, consumer rights, worker skills and education, business finance and securities, incubator/accelerator programs and regional/local economic development.

Researcher suggests that digital transformation will allow the audit to evolve towards a real-time audit and towards the validation of the forecast data, further limiting the risk of embezzlement and the opportunistic behavior of managers. The further development of auditing through digitization will also improve the transparency of the annual financial statements and enable the board of directors to make the right decisions. Finally, the technological evolution of this audit could also allow the Audit Committee to improve the internal systems and processes to produce accounting information based on the auditors' recommendations. This would also limit the risk of earning management by directors and improve corporate governance.

### **The disadvantages of using digital transformation are driven by five main trends:**

**1. Digital Disruption:** Technologies such as mobile platforms, data analytics, social media, cloud and the Internet of Things have revolutionized business models across industries.

2. **Business and technology transformation:** The development of business models, the consumption of IT and the massive transformation of applications and infrastructure have put some companies on an unfamiliar basis.

3. **Big Data:** The huge increase in transaction volume, data volume and data quality has increased the need for better data governance and management.

4. **Cyber Security and Privacy Risks:** Cyber risks, including theft of customer data and intellectual property, denial of service attacks and cyber espionage, have become evident and pose a threat to the global business ecosystem.

5. **Regulatory Pressures:** An emerging web of global regulation focused on privacy, cyber security, resilience and critical technology platforms is increasing complexity for businesses across all industries.

Researcher see that shifting towards digital information as the norm, many companies may be thinking that this regulation is a long way off and that it is now too early to act. That may be a viable strategy for some organizations, but for most companies that want to make better use of the financial data at their disposal, moving to XBRL reporting now will see immediate rewards and provide many advantages for the business.

**The advantages of using digital transformation are: - reducing costs and save time** Digital transformation helps reduce costs by using cloud computing, i.e. the process of maintaining, storing, managing, processing, analyzing and securing data by leveraging a network of Internet servers. Data is not saved on physical devices, but in the cloud, helping companies better manage administration, streamline processes, improve productivity, optimize costs, and improve the digital customer experience IDC (2018).

Researcher suggests that the audit will become more relevant and add value to the client, digitization will save auditor time on boring and repetitive tasks, which is consistent with previous studies on robotic process automation, researchers also see that digitization could help audit firms optimize operational flow by reducing the timing of data collection and providing advanced prognosis solutions, optimizing and automating processes, improving productivity and efficiency. In addition, digitization will transform current audit practices from a sampling approach (risk approach) to one that uses data completeness.

## 1.2 Digital Transformation and Internal Audit Quality

Today, audit firms are digitizing, developing their internal processes and exploring how to leverage big data and new digital tools to add value to their clients. This digitization can improve audit quality and better satisfy shareholders and other stakeholders by making the audit more relevant. First, with digital tools like big data analytics, the auditor can assess all the data of the audited company and stop using the sampling method. Indeed, the digitization of audit processes allows it to improve risk assessment and the quality of judgments by identifying all anomalies

and proposing solutions to the problems highlighted. Finally, the audit could also focus on current data, and not only historical information, in order to give a forward-looking view of the sustainability of the audited company by assessing the current level of sales, the planned booking of orders, etc. . (Manita, R., et.al. 2020).

The digital transformation helps a company to keep up with the emerging customer requirements and thus to exist in the future. It enables companies to better assert themselves in an economic environment that is constantly changing due to technological developments. Digital transformation presents a valuable opportunity for core business functions like finance, internal audit department and HR to move away from manual processes and automate key areas like payroll, allowing executives to focus on broader business opportunities (Hilali et al., 2020).

The role of internal audit in achieving organizational objectives has been recognized (Roussy et al., 2020; Turetken et al., 2019) and has called for research on the effectiveness of internal audit departments. By evaluating internal audit departments, organizations can identify and adopt new best practices and benchmark their performance against that of their peer group (Mahyoro, A.K. et al., 2021).

The Institute of Internal Auditors (IIA) defined the internal audit function as "an independent, objective assurance and advisory activity designed to add value and improve the operations of an organization. It helps an organization achieve its objectives by it introduces a systematic, disciplined approach to assessing and improving the effectiveness of risk management, control and governance processes" (IIV, 2017).

The Internal Audit function deals with issues of utmost importance to the sustainability and success of companies; she sheds light on deals and risks for broader issues including, for example, company reputation, development, environmental impact, and how she manages her people (Erasmus & Coetzee, 2018; Albawwat, IE, AL-hajaia, ME, et. al. 2021).

Internal Audit is an independent management function that includes continuous and critical assessment of the functioning of a company in order to propose improvements and improve and strengthen the company's overall management mechanism; including the company's strategic risk management and internal control systems (Nwaobia, A.N., 2016)

Manita, R., et.al. (2020) defines audit quality as the likelihood that an auditor will identify discrepancies in the financial statements and disclose them to stakeholders. High-quality auditing improves the quality of financial information and promotes better control by managers and better decision-making by investors. Several previous studies have shown the increased demand for quality audits to reduce information asymmetry and yield management. For example, (Manita, R., et.al. 2020) has shown that yield management is negatively related to audit quality.

Additionally, other studies note that investors, particularly international ones, need superior audit quality and improved governance to invest in companies.

In order to improve audit quality, several frameworks have been proposed, emphasizing the importance of three elements: audit professionals, audit process and audit results, while several performance indicators audit quality was also proposed. With respect to measuring audit professionals, proposed quality indicators include technical competence, professional care, ineffective engagement quality reviews, people with specialized skills and knowledge, audit staff in industry, experience of audit staff, and interpretation or application of legal requirements and standards (Petridis et al., 2019)

Internal audit quality refers to how internal auditors conduct their activities and evaluate processes in accordance with procedures and standards (Mahyoro, A. K. et al., 2021). Audit quality depends on the level of expertise of staff, the scope of services provided and the extent to which audits are properly planned, executed and communicated (Mansor, 2018).

Internal audit quality minimizes risk, improves control, reduces external oversight costs, and mitigates fraud and other opportunistic behaviors within an organization (Mahyoro, A. K. et al., 2021). Audit quality relates to the scope of audit services, effective audit planning, fieldwork, and effective monitoring and communication. (Tarmidi et al., 2019) found a positive relationship between internal audit quality and effectiveness.

Companies become successful by following the internal audit approach by assessing risks through the establishment of controls. Internal audit is also defined by (Kumuthidevi, 2016) as an independent assessment body that employs dedicated staff to review the operations and controls in place to improve management decision-making and prevent fraud and risk. However, internal audit plays an important role in monitoring internal control systems. They perform auditable activities by reviewing the work of management in assessing risk and compliance, thereby providing stakeholders with appropriate assurance (Loum, H., & Biçer, AA, 2021) .

Changes in the socio-economic and technological spheres underscore the need to adapt skills. These trends underline the importance of competence (Kabuye et al. 2017), IT skills and communication skills in the various organizational processes, including auditing (Petridis et al., 2019). Auditors need to be communicative in all situations they encounter, improve their interpersonal skills and be aware of the impact their mannerisms have on the organization (Petridis et al., 2019). Likewise, low quality of internal controls resulting from a lack of skills (IT expertise) can have a negative impact on the organization's performance (Haislip et al. 2016).

Competence means having the intelligence, education and training to add value to the organization through performance (Chambers, 2014). Internal audit competency stems from long and intense preparation, including training in the

underlying knowledge, skills and methods, as well as scientific principles and a commitment to further study (IIA, 2013a, 2013b).

Pointed out that certification is perceived by internal auditors as a signal of the significant competence and importance for further development within internal audit departments (Kabuye et al. 2017).

The attributes that organizations should look for when hiring internal auditors relate to education, experience and professional certification, in addition to computer and communication skills (Kabuye et al. 2017) suggests the basic skills internal auditors should possess, and these include technical, analytical, appreciative, interpersonal and organizational skills. The level of experience and qualifications of the internal auditors thus shows the quality of their audits.

Oladejo, M., Minus, et al( 2021) focus on the factors contributing to the effectiveness of internal audit in the public sector after conducting a cross-sector survey to explore the variables of internal audit competence to analyze, the independence of the internal audit and the support of the management have forged a positive and significant relationship. They found that internal audit effectiveness can be achieved by strengthening internal audit competence, independence, and the close relationship between the internal and external auditor.

Although understanding the determinants of higher quality reporting is an important goal for financial accounting auditing and research (Gaynor et al., 2016,), there is limited research on the factors that simultaneously affect the quality of financial reporting and auditing. In their review of current literature (Shuraki, MG, et al, 2021: Bratten et al., 2020,) audit quality as a surrogate determinant of financial reporting quality. However, they noted that while higher quality of auditing is associated with higher quality of financial reporting, it is not always clear whether higher quality of financial reporting is attributable to higher quality of auditing. In other words, client characteristics, such as the quality of financial reports, can affect the quality of audits. In addition, they considered the quality of financial reporting and the quality of audits (Shuraki, M. G., et al, 2021).

According to PwC (2018), the internal audit function should be developed by integrating new technologies and digital knowledge to solve new problems and risks that arise in the process of digital processing. In recent decades, the internal audit function has evolved to meet the demands of a changing business environment. During the 1990s, internal audit functions began to expand beyond financial and accounting activities, performing organizational control audits during this period, and internal auditors also began to take on an advisory role and began to perform more management consulting activities (Betty, N. , & Sarens, G., 2020).

Having the capabilities of the IT auditor allows you to effectively use resources, there is potential for creating results. Cognitive and technical skills of auditors are an important opportunity that affects the implementation and effectiveness of internal control (Petridis et al., 2019)

Researcher believes that the auditors could use big data to perform continuous auditing on a total population of documents instead of using a sampling method. Second, audit firms could extend their offer by offering new services such as real-time verification, exhaustive data analysis of certain systems and processes, validation of forecast data, etc. Digitization is indeed a considerable opportunity for audit firms to improve their offer and their image with the various stakeholders who perceive the audit as a cost without much added value. Third, digitization will improve audit quality. New digital tools, comprehensive data processing and coverage of all customer data will allow a more relevant analysis of the different customer processes and detect most errors; this is in line with work on big data, which shows that moving to the full use of data could improve the quality of financial statements.

Implications of IT for internal audit functions and analyzed the benefits of internal audit in organizational governance. The authors also concluded that IT assets such as automating work paper files has disadvantages such as network breakdown and data loss, the use of Computer Assisted Audit Tools (CAAT) increased internal audit effectiveness (Aikins , S. K, 2020)

The auditing profession will be transformed by data analytics technologies and artificial intelligence (AI). They predict that new technologies will have a huge impact on the auditing profession through automation, a broader audit scope, reduced processing times and, consequently, improved audit quality. These new technologies are also used to react to changes that companies have made in their business processes. These modified business processes generate large amounts of data that make some manual audit methods obsolete, or even impossible. This makes auditing an ideal domain for AI with all the big four accounting firms investing in it and already using some AI capabilities for external audit (Nonnenmacher, J. et al, 2021)

Through digital transformation, the business has to keep up with the rapid changes that are happening. It causes IT audit to become more and more involved and become a mainstay of business in IT assessment. In other words, digital transformation has opened up new opportunities for IT audit to play a bigger role in contributing positively to the business. This is certainly a good opportunity for the IT audit to change the negative perceptions of IT audit practices that have been perceived by the audited entity. However, digital transformation not only opens opportunities for the existence of IT auditing, but also poses challenges for IT auditing practices, particularly with regard to the efficiency and effectiveness of IT auditing. TI (Aditya, B. et al., 2018).

Indeed, new technologies are evolving and enabling comprehensive data analysis, the applicable legislation on data transfer and security and privacy rules, as well as auditing standards need to be updated as digital business advances

rapidly. Several auditing standards need to evolve through the integration of new technologies, mainly all the standards related to risk approach

In general, IT verification raises at least three challenges due to digital transformation (Dzurainin, AC, et al., 2016, Aditya, B. et al., 2018):

- The increased volume of data available.

Data integrity, reliability, completeness and security are issues arising from the increase in the volume of available data. This means that the IT audit will face data-related issues, especially regarding the use of data during the IT audit process and especially when drawing IT audit conclusions.

- The emergence of new technologies.

The emergence of new technologies brings new benefits and new risks to the business, which means that IT audit, will face new risks. New technology is like hyper connectivity, new payment methods, big data, BYOT, and others.

- Reform requirements and regulations.

There has been an increase in requirement and regulation reforms around the world. This means IT audit faces issues related to regulatory changes, especially when balancing the rapid changes in IT-related regulations and other compliance requirements. The agility and digital knowledge now required by the IAF reflect the dynamic skills approach, which emphasizes the importance of being able to adapt managerial and organizational processes to changes in regimes of rapid technological change (Betti, N., & Sarens, G., 2020).

Internal auditors need to implement agile planning and improve their understanding of the digital environment to face the emerging challenges of digitization.

In addition, the digital transformation also influences the increasing need for qualified IT auditors. The company needs to start by preparing the IT auditor well to follow the various changes that exist. In order to properly assess risks, the IT auditor must have extensive knowledge and experience not only in relation to the subject and related regulations, but also extensive knowledge of information and communication technology, as well as the modern trends in the field (Drljača, D., et al, 2016). IT auditors also require special skills and knowledge related to security aspects. In addition, the widely used frameworks in IT audit practices such as ISO 27002, COSO and COBIT are also issues. The framework is still too large to manage and is believed to be unable to support the effectiveness of IT audit practices in today's business environment

The Institute of Internal Auditors (2013) argues that the IT audit universe can be defined in terms of four aspects as follows Institute of Internal Auditors (2013)

- IT management, a set of people, policies, procedures and processes that govern the IT environment, such as software development life cycle, system

monitoring, IT planning, change, vendor management, IT project management, disaster recovery, service management, security management and IT governance

- Technical infrastructure, the underlying technology supporting major business applications, such as operating systems, database management systems, networks, data centers and security infrastructures.

- Applications, computer programs that perform specific tasks related to business operations of the company and that are an integral part of business processes, such as transactional applications and support applications.

- External connections, an external network connected to an operational network. The operational network will not work if it is not connected to the external network, such as the Internet, cloud computing and software as a service provider.

Aditya, B. et al., (2018) provided an example of defining an IT audit universe that can be used in the era of digital transformation. The definition of the IT audit universe is conceptualized in three different levels, namely the basic level, the advanced level and the emergent level.

Researcher suggests that mechanisms of digital transformation help the internal audit to provide advisory and assurance services to help management achieve the company's goals, the application of digital technologies in operational audit activities contributes to providing information to decision makers within the company, the use of digital technologies in internal audit activities works to support the independence of the internal auditor, the use of digital technology within the scope of the management of internal audit activities works to protect information and keep backup copies for use when needed, applying digital transformation mechanisms to internal audit activities that improve communication and oversight by providing written channels, consistent plans and structured procedures and digital transformation mechanisms have channels of communication between the internal audit, the board of directors and stakeholders to coordinate work between them and examine internal and external communication protocols.

### 1.3 Digital Transformation and Financial Reporting Quality

Reporting Quality provides actionable information that is relevant and fairly reflects the economic reality of the company's operations during the reporting period and the company's financial position at the end of the reporting period (Shuraki et al., 2021). The quality of financial reporting improves transparency by enhancing global comparability and quality of financial information; enhances accountability by reducing the information gap between shareholders and management; minimizes information asymmetry and information uncertainty between companies and external providers of capital and contributes to economic efficiency by helping investors to identify risks and opportunities around the world. It also strengthens the monitoring of companies' performance to reduce their opportunistic behaviors (Rahman & Masum, 2021). Accounting-grade companies

can minimize revenue management, increase information transparency, and streamline decision-making. In addition, the quality of financial reporting refers to the extent to which the financial statements provide truthful information about the company's underlying performance, financial health and position (Arthur et al., 2019). As already mentioned, the quality of financial reporting is an essential result of digital accounting. At the same time, it influences the strategic decision-making effectiveness of companies. Accordingly, the quality of financial reporting is proposed to convey the digital accounting strategic decision effectiveness relationships.

Researcher believes that there is a good reason for this corporate information cannot remain paper-based in a digital age. Annual reports are a key part of any company's understanding of its financial situation. That moving all business information to a standardized digital format will improve transparency and make annual financial statements easier to analyze, compare and make accessible to internal and external stakeholders of the general public. Regulators have recognized this shift to digital and are doing what they can to embrace it.

The digital reporting format will lead to better data governance. The adoption of XBRL as a corporate reporting language eliminates the often arduous and occasionally error-ridden process of manually analyzing large amounts of corporate financial information.

Financial reporting is concerned with presenting financial statements in a form understandable by users of financial information (Nwanyanwu, 2013, 79-81). It is essentially a process of communicating financial information and also constitutes an instrument of identifiable management (Oladejo, M., Minus, et al, 2021, pp 410-428). In another dimension, financial reporting is the medium of communicating information about the financial affairs of profit and non-profit organizations and represents an important service, so special that the accounting profession extends to societies' economic and social systems.

Any entity's published financial information is expected to be credible and guide the users who rely on it in their economic decisions. Literatures (Oladejo, M., Minus, et al, 2021, pp 410-428: Oladejo, Yinus and Olwookere, 2020,) showed that, because of their value as sources of information about performance, financial condition and the management of their resources, users request information. Consequently, auditors lend credibility to corporate financial reports by expressing an opinion as to the true and fair representation; only then will the addressees of the financial statements recognize that the opinion is valuable. Users of internal financial information such as management, audit committees and boards of directors have an interest in quality reviews to reduce the cost of capital. The attributes of audit practice underpin confidence in the credibility and integrity of financial information, which are essential for well-functioning organization and improved financial performance (Oladejo, M., Minus, et al., 2021, pp 410-428).

Key features of internal audit practices and the impact on confidence in the reliability of financial information based on the quality of financial reporting.

The quality of financial reporting refers to reports that are more complete, unbiased, and free from error and that provide more useful predictive or confirmatory information about companies' underlying economic position, events, and performance (Shuraki et al. , 2021). It is important to provide high quality financial intelligence because it will positively influence providers of capital and other stakeholders in their investment, credit and similar resource allocation decisions, thereby improving the overall effectiveness of the Market.

The quality of financial reporting refers to the quality of the information contained in the financial reports, including the disclosure of notes. High-quality reports provide relevant and decision-useful information that confidently represents the economic reality of a company's activities during the reporting period as well as the company's financial position at the end of the period of declaration. Reported earnings quality or earnings quality relates to the profits and cash generated from the actual economic activities of a company and the resulting financial condition. High-quality profits result from activities that a company is likely to be able to sustain in the future and provide an adequate return on the company's investment (Phornla, K., et al, 2021)

A company's digital capability is critical to remaining competitive in today's marketplace. Digital technologies are changing rapidly, increasing competition and the need for businesses to innovate quickly. It has never been more dangerous for companies to overlook the importance of digital technologies. Digital technology refers to a collection and paradigm of various intelligent and innovative technologies in business environments, such as the Internet of Things, big data, data analytics, artificial intelligence and cloud computing (Ritter and Pedersen, 2020)

Researcher believe that the application of digital transformation mechanisms in the operational audit works to increase the efficiency and effectiveness of operations within the company, The quality of internal auditing in light of the digital transformation contributes to creating value for the company and providing suggestions, advice and advice to make continuous improvements in governance systems, which improves the quality of financial reporting, The focus of the internal audit function in light of the use of digital technologies on verifying compliance with the governing rules and policies improves the quality of financial reporting, The internal audit function in light of the digital transformation environment plays a key role in helping departments to carry out their responsibilities related to governance, which improves the quality of financial reports, The application of digital transformation mechanisms helps to increase the predictive ability of economic events for users of financial reporting, The application of digital transformation mechanisms in internal audit helps to take appropriate analysis and logical interpretation of the collected data, which leads to

improving the quality of financial reporting and The use of digital technologies leads to the completeness of information in financial reports and its presentation in an orderly and adequate manner.

## The second section:-An Empirical Study

The previous sections dealt with the theoretical background of the study by referring to the various literatures. This section covers the empirical study, which includes a description of the study methodology and the study population and sample, as well as the study used the methods of preparation and the validity and reliability tool. This section includes a description of the procedures carried out by a researcher at the codifying of the study, implementing, and finally statistical treatments adopted by the researcher in analysis the field study and Showing the results.

### 2.1 Objectives of the empirical study

This study aims to examine the association between digital transformation, internal audit quality and its influence on financial reporting.

### 2.2 Study Hypotheses

The hypotheses are based on the theoretical part of the study as follows:

**The first hypothesis:** there is no statistically significant relationship between the mechanisms of digital transformation and the quality of internal auditing.

**The second hypothesis:** there is no statistically significant relationship between the mechanisms of digital transformation and the quality of financial reporting

**The third hypothesis:** There is no statistically significant relationship between the quality of internal auditing and the quality of financial reporting in light of the digital transformation.

### 2.3 Study Population and Determination of Sample Size

The type of data used in this study is the primary data source; the technique of collecting data is by distributing a questionnaire statement and received responses. In this study, the questionnaire was filled with: internal auditors, external auditors, accountants, university professors and financial manager.

#### Determine The Population size & selecting the sampling

The difficulty countless study sample either: internal auditors, external auditors, accountants, university professors and financial manager, so it was determined the sample number as one hundred respondents were used the following formula used to calculate the sample size to get proper estimates and to estimate the allowable error, namely

$$n = \frac{z^2(p(1-p))}{e^2} = \frac{(1.96)^2(0.50)(0.50)}{e^2} = \frac{(1.96)^2(0.50)(0.50)}{(0.01)} = 100$$

Whereas:

N: Refers to The sample size;

E: Refers to The amount of allowable error;

Z: Refers to Standard degree with 95% Confidence;

P: Refers to Availability Population assumes that 50% of the community.

It is the formula the researcher finds that the size of the sample that was used, one hundred respondents lead to get the correct estimates are consistent with rates in the community 95% confidence level with a margin of error in the range of 10%.

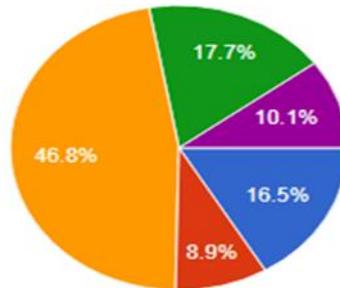
## 2.4 Analyzing Characteristics of the Sample

It can clarify the classification of the sample in the light of the valid responses for statistical analysis, which has been obtained; the researcher has the characterization of the sample which is to Job title variables, the number of years of experience, and educational level. This is also evident from the following figures and tables as following:-

**2.4.1 Distribution of sample items by Career are illustrated by the following table (1)**

Statement	Number of Distributed and valid questionnaires	Percentage of Number of valid Questionnaires
Internal auditors	13	16.5%
External auditors	7	8.9%
Accountants	14	17.7 %
University Professors	37	46.8%
Financial managers	3	10.1%
<b>The Total</b>	<b>79</b>	<b>100%</b>

Source: Prepared by the researcher.



**Figure (1)**

Source: Prepared by the researcher Source: relying on SPSS program outputs.

Through the above figure is study sample consisted of 112 respondents that which represents the questionnaires that have been distributed to the study sample; but what has been recovered from these questionnaires is 79 questionnaires which represent almost 70% of the number of questionnaires, it has been discussing what was in it from Information about the study sample were processed and analyzed and enter data into the statistical program in order to complete the study, and in the

light of the above table also shows that good lists rate for statistical analysis of each category of the study groups is the appropriate rate, which can be relied upon to test the research hypotheses

#### 2.4.2 Distribution of sample items by The Scientific Qualification

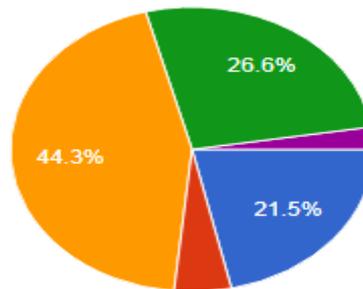


Figure (2)

Source: prepared by the researcher relying on SPSS program outputs.

Distributed sample study on the respondents in terms of professional qualification where the researcher finds that the largest proportion recorded was Obtaining from master degree and their number were 35 respondents, equivalent to the proportion of 44.3%, and followed by doctorate with a total 21 per person equivalent to the proportion of 26.6%, followed by bachelor total number of members of the 17 respondents the equivalent ratio of 21.5%, followed by diploma total number of members of the 4 respondents the equivalent ratio of 5.1%, and finally professional certifications, which represented the number of 2 respondents, equivalent to 2.5%, due this difference to the diversity found in the sample of the study in terms of academic certificates.

#### 2.4.3 Distribution of sample items by Years of experience

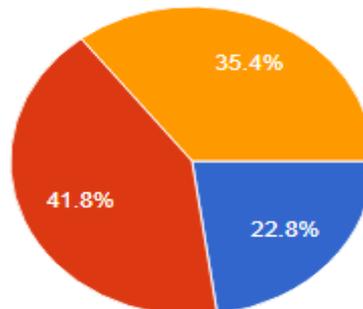


Figure (3)

Source: prepared by the researcher by relying on SPSS program outputs.

The study sample and the degree of experience of the sample have differed as shown in the previous figure, which shows that the largest proportion of experienced registered for the class ranging experience from 5 to 10 years, the equivalent ratio of 41.8%, and then followed by the category experience more than 10 years 35.4%, then followed by a category ranging experience less than 5 years and represents a 22.8% ratio.

**After reviewing the survey forms, the data encoding, and enter their answers on a computer using Statistical Package for Social Sciences program Version23 (SPSS). In order to make a statistical analysis of the field study data, and it was also rely on the Excel program. The researcher used the following statistical methods:**

### **2.5 Statistics Reliability:**

It is the methods that are interested in the extent of the reliability of the results of the survey based data analysis, in the sense of how homogeneous the respondents answers between them and the possibility of circulating the results to the community, through the reliability coefficient tests and coefficient of honesty. It was relying on the Cronbach's alpha coefficient (Cronbach Alpha) and the more factories increased from 0.5 indicates that the stability of coefficient in the community and the possibility of circulating the results to the community.

### **Validity**

In order to verify the Validity of the apparent scale submitting it to the research supervisor intent to modify or cancel some paragraphs within the questionnaire, making the questionnaire more accurate and objectively measurement.

### **Stability**

In order to make sure of the reliability of study tool, Cronbach's alpha test (Reliability Analysis) was used.

The researcher based on Cronbach's alpha coefficient, one of the reliability Statistics methods that are interested in the extent of the reliability of the results list data survey analysis of the sense of the extent of the homogeneity of the answers between the respondents of them and the possibility of circulating the results to the community, through consistency and Validity coefficient tests.

The results of coefficient as follows:

**table (2):-Summary results of Cronbach's coefficient alpha for study sample**

Dimensions	Number of Questions	Cronbach's Alpha
The first dimension, which includes statements about the impact of digital transformation on the quality of the internal audit	12	.922
The second dimension includes statements about the impact of digital transformation on the quality of financial reporting	12	.934
The third dimension includes phrases related to the impact of the quality of internal auditing on the quality of financial reports in light of the digital transformation	11	.947
<b>The Total</b>	<b>35</b>	<b>.969</b>

**Source:** prepared by the researcher by relying on SPSS program outputs.

Consequently, the researcher finds that the average results of about (.969) the increase of up to about (.947) in some hypotheses which indicates the relative validity of most of the answers to the hypothesis of the laboratory use.

**The following is a presentation of the results of the descriptive statistical analysis of the data, which is the value of the arithmetic means, the standard deviations, the arithmetic relative importance of all dimensions of the study and the paragraphs constituting each dimension, taking into account that the scale used in the study should be included as follows:-table (3)**

Strongly Agree	Agree	Neutral	dis Agree	Strongly dis Agree
5	4	3	2	1

**Based on this, the values of the arithmetic averages reached by the study will be dealt with to interpret the data as follows:- table (4)**

High	Medium	Low
More than 3.5	2.5 - 3.49	1- 2.49

Accordingly, if the arithmetic mean value of the items is greater than 3.5, then the level of perceptions is high, and this means that the sample members agree on the item. But if the value of the arithmetic mean is 2.5-3.49, then the level of perceptions is medium, and if the arithmetic mean is less than 2.49, then the level perceptions is low (Hawamdeh 2006)

## 2.6 Analysis and testing of data related to the first hypothesis

Ho: there is no statistically significant relationship between the mechanisms of digital transformation and the quality of internal auditing.

H1: there is statistically significant relationship between the mechanisms of digital transformation and the quality of internal auditing.

To accept the null Hypothesis or alternative Hypothesis, the researcher used to means, standard deviations, and the importance of the paragraph, as shown in the table (3/2/11/1).

**Table (5):-**The first dimension: includes statements about the impact of digital transformation on the quality of the internal audit

Serial	The first dimension: includes statements about the impact of digital transformation on the quality of the internal audit	Mean	Std. Deviation	Arranging Materiality of Paragraph	Materiality
1	The mechanisms of digital transformation help the internal audit to provide advisory and assurance services to help management achieve the company's goals	4.34	.74	5	High
2	The application of digital technologies in operational audit activities contributes to providing information to decision makers within the company	4.45	.61	1	High
3	Digital security contributes to the implementation of control measures related to internal audit activities to protect information and the confidentiality of its circulation, as well as to prevent intrusion and unauthorized access	4.37	.77	3	High

4	The use of digital technology within the scope of the management of internal audit activities works to protect information and keep backup copies for use when needed.	4.44	.76	2	High
5	Continuous monitoring of the newly developed technology systems contributes to expanding the scope of application of the regulatory audit to include the changes that have occurred in the control environment of the facility.	4.31	.74	6	High
6	Digital transformation mechanisms have channels of communication between the internal audit, the board of directors and stakeholders to coordinate work between them and examine internal and external communication protocols.	4.16	.83	9	High
7	The use of digital technologies in internal audit activities works to support the independence of the internal auditor	4.07	.88	10	High
8	The use of digital technology in internal audit requires periodic training for internal auditors, which affects their professional competence and experience	4.36	.85	4	High
9	The application of digital transformation mechanisms in the operational audit works to increase the efficiency and effectiveness of operations within the company	4.30	.72	7	High
10	Apply digital transformation mechanisms to internal audit activities that improve communication and oversight by providing written channels, consistent plans and structured procedures	4.31	.68	6	High
11	The use of digital transformation mechanisms in internal audit activities works to support the professional competence of the internal auditor, through the speed of addressing problems by revealing new ways to search, analyze problems and propose solutions	4.31	.68	6	High

12	The application of digital transformation mechanisms efficiently and effectively helps the internal auditor to conduct a financial audit, link multiple data sources, and provide a unified and integrated view of the company's business.	4.29	.78	8	High
the mean of the arithmetic mean of the total questions		3.94			

Source: prepared by the researcher by relying on SPSS program outputs.

The table (5) The first dimension: includes statements about the impact of digital transformation on the quality of the internal audit, ranging averages between it (4.07-4.45), compared to The arithmetic mean of all questions Where it reached (3.94), where paragraph which states” **The application of digital technologies in operational audit activities contributes to providing information to decision makers within the company**” came in first place with a mean (4.45) and a standard deviation was (.61) compared with the overall general average mean and general standard deviation. While paragraph “**The use of digital technologies in internal audit activities works to support the independence of the internal auditor**” got on final place with a mean (4.07) and a standard deviation was (.88) compared with the overall general average mean and general standard deviation.

The researcher finds that this is a clear indication of the respondents through sample survey responses that there is Agreement between the respondents in the questionnaire that digital transformation improves the quality of the internal audit, because the arithmetic mean of the questionnaire questions in the first dimension is greater than 4, and also that the mean of the arithmetic mean of the total questions of the first dimension is equal to 3.94 is high so **The researcher accepted the alternative Hypothesis that there is statistically significant relationship between the mechanisms of digital transformation and the quality of internal auditing** and Rejected the null Hypothesis .

## 2.7 Analysis and testing of data related to the second hypothesis

H<sub>0</sub>: there is no statistically significant relationship between the mechanisms of digital transformation and the quality of financial reporting.

H<sub>1</sub>: there is statistically significant relationship between the mechanisms of digital transformation and the quality of financial reporting.

To accept the null Hypothesis or alternative Hypothesis, the researcher used to means, standard deviations, and the importance of the paragraph, as shown in the table (6).

**Table (6)** the second dimension: includes statements about the impact of digital transformation on the quality of financial reporting

Serial	The second dimension: includes statements about the impact of digital transformation on the quality of financial reporting	Mean	Std. Deviation	Arranging Paragraph	Materiality
13	The digital transformation contributes to evaluating the ability of the digital institutional unit to provide periodic, continuous and instant reports to senior management, which affects the quality of financial reports	4.41	.69	2	High
14	The use of digital transformation mechanisms helps the internal auditor to conduct a comprehensive evaluation and prepare periodic reports that include the most important observations, discuss them with the Board of Directors, and provide recommendations and appropriate corrective actions to improve the quality of financial reporting.	4.43	.65	1	High
15	The use of digital technologies in accounting treatments works to make financial reports free of distortion and misrepresentation	4.13	.84	9	High
16	The use of XBRL, the Extensible Business Reporting Language, increases users' confidence in the quality of financial reporting	4.15	.81	8	High
17	The use of digital technology supports improving the quality of financial reports, because they were prepared in light of a set of legal, regulatory and professional standards.	4.27	.74	4	High

18	The use of digital technologies leads to the completeness of information in financial reports and its presentation in an orderly and adequate manner	4.24	.75	5	High
19	The use of XBRL Extensible Business Reporting Language results in impartiality and impartiality in the information contained in financial reporting	4.07	.82	10	High
20	The application of digital transformation mechanisms helps to increase the predictive ability of economic events for users of financial reporting	4.21	.84	6	High
21	The application of digital transformation mechanisms helps to deliver information in a timely manner to make economic decisions for users of financial reports	4.30	.72	3	High
22	The application of digital transformation mechanisms helps to suit the decision-making of users of financial reporting	4.18	.78	8	High
23	The digital institutional architecture helps measure the financial and non-financial impact of digital transformation and provide digital services that contribute to increasing confidence in financial reporting	4.24	.78	5	High
24	The application of digital transformation mechanisms helps to clarify the accuracy and accuracy of the information contained in the financial reporting	4.20	.88	7	High
the mean of the arithmetic mean of the total questions		4.23			

Source: prepared by the researcher by relying on SPSS program outputs.

The table (6) The second dimension: includes statements about the impact of digital transformation on the quality of financial reporting, ranging averages between it (4.07-4.43), compared to The arithmetic mean of all questions Where it reached (4.23), where paragraph which states” **The use of digital transformation mechanisms helps the internal auditor to conduct a**

**comprehensive evaluation and prepare periodic reports that include the most important observations, discuss them with the Board of Directors, and provide recommendations and appropriate corrective actions to improve the quality of financial reporting”** came in first place with a mean (4.43) and a standard deviation was (.65) compared with the overall general average mean and general standard deviation. While paragraph **“The use of XBRL Extensible Business Reporting Language results in impartiality and impartiality in the information contained in financial reporting”** got on final place with a mean (4.07) and a standard deviation was (.82) compared with the overall general average mean and general standard deviation.

The researcher finds that this is a clear indication of the respondents through sample survey responses that there is Agreement between the respondents in the questionnaire that digital transformation improves the quality of financial reporting, because the arithmetic mean of the questionnaire questions in the first dimension is greater than 4, and also that the mean of the arithmetic mean of the total questions of the first dimension is equal to 4.23 is high so **The researcher accepted the alternative Hypothesis that there is statistically significant relationship between the mechanisms of digital transformation and the quality of financial reporting** and Rejected the null Hypothesis .

## **2.8 Analysis and testing of data related to the third hypothesis**

Ho: There is no statistically significant relationship between the quality of internal auditing and the quality of financial reporting in light of the digital transformation.

H1: There is statistically significant relationship between the quality of internal auditing and the quality of financial reporting in light of the digital transformation.

To accept the null Hypothesis or alternative Hypothesis, the researcher used to means, standard deviations, and the importance of the paragraph, as shown in the table (7).

**Table (7):-**The third dimension: includes the phrases related to the positive feedback on the quality of internal auditing in light of the digital transformation on the quality of financial reporting

Serial	The third dimension: includes the phrases related to the positive feedback on the quality of internal auditing in light of the digital transformation on the quality of financial reporting	Mean	Std. Deviation	Arranging Materiality of Paragraph	Materiality
25	The application of digital transformation mechanisms in internal audit helps to take appropriate analysis and logical interpretation of the collected data, which leads to improving the quality of financial reporting	4.32	.72	2	High
26	The effectiveness of the application of digital transformation mechanisms affects the operational audit activities, which affects the efficiency and effectiveness of operations, and this leads to improving the quality of financial reporting	4.17	.90	7	High
27	The quality of the internal audit under XBRL systems leads to comparability with the financial reports of other companies	4.02	.72	11	High
28	The quality of internal auditing in light of the digital transformation environment leads to the communication of audit results, follow-up of results, and implementation of recommendations in financial reporting	4.27	.73	4	High
29	The quality of the internal audit in light of the digital transformation leads to the financial reports being credible and without errors	4.05	.91	10	High

30	The internal audit in light of the digital transformation leads to verifying the availability of the means of control, the protection of information and the confidentiality of its circulation, which affects the quality of financial reporting	4.16	.85	8	High
31	The internal audit function in light of the digital transformation environment plays a key role in helping departments to carry out their responsibilities related to governance,	4.29	.78	3	High
32	The focus of the internal audit function on sustainability reporting and creating added value for the digital organization improves the quality of financial reporting	4.22	.73	5	High
33	The focus of the internal audit function in light of the use of digital technologies on verifying compliance with the governing rules and policies improves the quality of financial reporting	4.21	.67	6	High
34	The use of big data and big data analytics in internal audit contributes to narrowing the expectations gap, which affects the quality of financial reports	4.07	.85	9	High
35	The quality of internal auditing in light of the digital transformation contributes to creating value for the company and providing suggestions, advice and advice to make continuous improvements in governance systems, which improves the quality of financial reporting	4.37	.68	1	High
the mean of the arithmetic mean of the total questions		4.19			

Source: prepared by the researcher by relying on SPSS program outputs.

The table (7) The third dimension: includes the phrases related to the positive feedback on the quality of internal auditing in light of the digital transformation on the quality of financial reporting, ranging averages between it (4.02-4.37), compared to The arithmetic mean of all questions Where it reached (4.19), where paragraph which states” **The quality of internal auditing**

**in light of the digital transformation contributes to creating value for the company and providing suggestions, advice and advice to make continuous improvements in governance systems, which improves the quality of financial reporting**” came in first place with a mean (4.37) and a standard deviation was (.68) compared with the overall general average mean and general standard deviation. While paragraph **“The quality of the internal audit under XBRL systems leads to comparability with the financial reports of other companies”** got on final place with a mean (4.02) and a standard deviation was (.72) compared with the overall general average mean and general standard deviation.

The researcher finds that this is a clear indication of the respondents through sample survey responses that there is agreement between the respondents in the questionnaire that there is direct relationship between the quality of internal auditing and the quality of financial reporting in light of the digital transformation because the arithmetic mean of the questionnaire questions in the first dimension is greater than 4, and also that the mean of the arithmetic mean of the total questions of the first dimension is equal to 4.19 is high so **The researcher accepted the alternative Hypothesis that There is statistically significant relationship between the quality of internal auditing and the quality of financial reporting in light of the digital transformation and Rejected the null Hypothesis .**

## 2.9 Summary of Hypothesis Tests:

- Accepting the alternative hypothesis of the first hypothesis" there is statistically significant relationship between the mechanisms of digital transformation and the quality of internal auditing."
- Rejecting the null hypothesis of the first hypothesis “there is no statistically significant relationship between the mechanisms of digital transformation and the quality of internal auditing”
- Accepting alternative hypothesis of the second hypothesis "there is statistically significant relationship between the mechanisms of digital transformation and the quality of financial reporting."
- Rejecting the null hypothesis of the second hypothesis “there is no statistically significant relationship between the mechanisms of digital transformation and the quality of financial reporting."
- Accepting the alternative hypothesis of the third hypothesis “There is statistically significant relationship between the quality of internal auditing and the quality of financial reporting in light of the digital transformation."

- Rejecting the null hypothesis of the third hypothesis "There is no statistically significant relationship between the quality of internal auditing and the quality of financial reporting in light of the digital transformation"

### **The third section deals with conclusions, findings, recommendations and future studies.**

After presenting the theoretical side of the study and according to the data collected through the previously analyzed questionnaire and after testing the hypotheses of the study, the researcher will present this section through the following point's conclusions, findings, recommendations and future studies.

### **Conclusions**

The Empirical study and its conclusions are consistent with the theoretical study that the mechanisms of digital transformation improve quality of internal auditing and enhancing the quality of financial reporting agreed with the study of (Loum, H. and Biçer, A. A, 2021) which found that "the existence of an effective internal audit department improves organizational efficiency and effectiveness and ensures the reliability of reports. And also agreed with the study of (Radwan, H., Zeidan, A.et.al 2021) which concludes the following:1- New regulations and laws are needed to govern digital transformation to secure and protect users.2- Digital transformation is having a big impact on internal audit .3- The Digital Transformation is reducing the cost Finally, the profession should leverage their strategic ways and methods of work to be adapted for the new generation of technology otherwise they face a problem of how to justify their cost and also agree with the study of (Oladejo, M., Minus, et al, 2021), concluded that the identified internal quality characteristics such as the remuneration of the internal audit staff, the technical knowledge of the internal auditors and the company size were related to the internal Audit practices are of significant importance and positively influence the quality and performance of financial reporting. And also agreed with the study of (Phornla, K., et al, 2021) which showed that digital accounting has a significant impact on the quality of financial reporting, the usefulness of accounting and the effectiveness of strategic decisions. In addition, the quality of financial reporting significantly affects both the usefulness of accounting information and the effectiveness of strategic decisions, while the usefulness of accounting information has a significant impact on the effectiveness of strategic decisions. In the light of the previous analysis the alternative hypothesis is accepted in all three hypotheses: - Accepting the alternative hypothesis of the first hypothesis" there is statistically significant relationship between the mechanisms of digital transformation and the quality of internal auditing.

- Accepting alternative hypothesis of the second hypothesis "there is statistically significant relationship between the mechanisms of digital transformation and the quality of financial reporting."
- Accepting the alternative hypothesis of the third hypothesis "There is statistically significant relationship between the quality of internal auditing and the quality of financial reporting in light of the digital transformation."

## Findings

After discussion of the theoretical and empirical aspects in this research, the researcher reached to important findings for both theoretical and practical fields as follows:-

- 1- The traditional manual systems used for internal audit not consistent with the continuous economic development in business environment; it must be based on digital transformation.
- 2- The application of digital technologies in operational audit activities contributes to providing information to decision makers within the company.
- 3- Using of digital transformation mechanisms helps the internal auditor to conduct a comprehensive evaluation and prepare periodic reports that include the most important observations, discuss them with the Board of Directors, and provide recommendations and appropriate corrective actions to improve the quality of financial reporting.
- 4- The quality of internal auditing in light of the digital transformation contributes to creating value for the company and providing suggestions, advice and advice to make continuous improvements in governance systems, which improves the quality of financial reporting.
- 5- The mechanisms of digital transformation improving the quality of internal auditing.
- 6- The mechanisms of digital transformation enhancing the quality of financial reporting."

## Recommendations

Based on the results of the study, the researcher suggests the following recommendations:-

- 1- Using digital transformation mechanics in remote audit, where its measure works for providing additional information to users of financial statements, reducing costs and save time.
- 2- Conducting more academic research on the quality of financial reporting through studying different aspects for it, evaluating different methods for measuring it and trying to reach for other indexes for measuring it.
- 3- Conducting more academic research on the digital transformation mechanics and its effect on financial reports user's decisions.

- 4- Continuous revision of Mechanisms of digital transformation and their use in remote internal auditing in light of epidemics.
- 5- Developing different digital transformation and internal audit courses to include all items studied and discussed in this study.
- 6- Training programs should to design and implemented to qualify accountants on applying the digital transformation mechanisms and to keep up to deal with new developments.
- 7- Publishing new regulations and law to govern using the digital transformation on internal audit to secure and protect users.
- 8- Using digital transformation in all corporate activities for reducing the costs.
- 9- The profession of audit should leverage their strategic ways and methods of work to be adapted for the new generation of technology otherwise they face a problem of how to justify their costs.

### **Research Orientations and Future Studies**

Based on the results and recommendations of this study, the researcher suggests the following future studies:-

- 1- The effect of digital transformation on external audit and its impact on corporate Governance.
- 2- The effect of digital transformation on remote audit in the era of epidemics.
- 3- A Comparative study between external audit and internal audit in the light of digital transformation
- 4- The effect of big data on internal audit to enhance the quality of financial reporting.
- 5- Developing auditing standards for internal audit to enhance the quality of financial reporting.

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