Pakistan Journal of Life and Social Sciences

RESEARCH ARTICLE

The Impact of Internal Audit Characteristics on External Auditors' Reliance on Internal Audit Function

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ARTICLE INFO	ABSTRACT
  *Corresponding Author: alfaisalthamer@yahoo.com	The aim is to improve the audit practice within Saudi Arabian context. Specifically, this study investigates the effect of internal audit function's (IAF) characteristics (objectivity, competence, work performance, internal control system effectiveness, and corporate governance quality) on external auditors' (EAs) reliance on the IAF. Drawing upon the Resource-Based Theory (RBT), the research underscores the strategic significance of leveraging internal resources. RBT can provide deeper insights into how IAF characteristics shape EAs' reliance decisions. The study adopts a positivist paradigm with a deductive approach to test predictions derived from RBT. A quantitative approach is used to examine causal relationships between key IAF's characteristics and EAs' reliance. Primary data was collected using a structured, closed-ended questionnaire developed from previously well- established scales. Surveys were distributed via email to audit managers in Saudi Certified Public Accountants firms. A census approach targeting all 376 audit firms was adopted to ensure representativeness and generalizability. Reliance is driven by tangible factors like work performance, internal controls, and governance, while intangible characteristics as objectivity and competence have unpronounced roles. H1 is rejected as Objectivity has No significant effect on reliance. It is considered a baseline characteristic rather than a determinant in the Saudi context. H2 is also rejected as competence has negative significant effect. Highly competent internal auditors may assert independence, leading to less alignment with external auditors and reduced reliance. H3 is accepted as work performance has a positive significant effect. High performance aligns with external auditors' expectations, making it a key driver of reliance. Similarly, H4 is accepted as Internal Control System Effectiveness has a Positive significant effect. Effective controls indicate a robust audit environment, enhancing trust and reliance. Furthermore, H5 is accepted as Corporate Governance Quality has a positive significant effect. Strong governance fosters transparency and accountability, encouraging external auditors to rely more on internal audit work. The findings contribute to the theoretical understanding of the interplay between internal audit characteristics and external audit practices while offering practical recommendations for improving audit processes and for policymakers to strengthen internal controls, enhance corporate governance, and invest in professional development for internal auditors to foster high-quality reporting and external auditors' trust. The rejection of some hypotheses (e.g., objectivity and competence) indicates the need for further exploration of contextual factors that may diminish their impact. This study adds original value by providing empirical insights into the Saudi Arabian context, addressing a gap in the literature on the role of five IAF' characteristics in EAs' reliance decision.

1. INTRODUCTION

External Auditors (EAs) often assess the quality and reliability of an organization's IAF to determine the extent of reliance on its work. This reliance can lead to increased audit efficiency and cost-effectiveness (GrantThornton, 2023). The Internal Audit Function (IAF) plays a critical role in ensuring organizational accountability and enhancing the quality of financial reporting and internal controls (GrantThornton, 2023). As organizations increasingly face complex regulatory, operational, and financial environments, the interdependence and collaboration between internal and external auditing has grown significantly (IAASB, 2013). Reliance refers to the utilization of internal auditors' work by external auditors in the standards, that is "employing the work of internal audit" (Al-Sukker et al., 2018; VanStaden, 2020). Reliance as a type of Coordination and cooperation between the two parties may yield higher quality audits and economic benefits (Quick & Henrizi, 2019). In Saudi Arabia, where governance frameworks and corporate accountability have become focal points in recent years (Aviaan Accounting, 2023; Hamdallah, 2020; Kateb & Belgacem, 2023; Mati & Rehman, 2022), understanding the dynamics of this relationship is particularly vital. However, the decision to rely on the IAF is not made lightly and depends on several critical characteristics of the internal audit, including objectivity (OBJ), competence (COMP), and work performance (WP) (IAASB, 2019, 2021), internal control system effectiveness (Vamela & Setiyawati, 2021) and corporate governance quality (Afridi, 2020; Kaawaase et al., 2021).

This paper is organized in sections Section 2 represents the problem statement and objectives, Section 3 introduces the research variables and Section 4 includes justification for the proposed hypotheses, followed be the methodology in Section 5 and Results and discussion in Section 6. Section 7 is dedicated to research limitations and finally the conclusion and recommendations in Section 8.

2. Problem statement and objectives

The Kingdom of Saudi Arabia (KSA) is emerging as a global hub for businesses of all sizes. As part of Vision 2030, transformative changes have reshaped auditing practices to align with international standards, promoting economic diversification and foreign investment (Wafeq, 2023). These changes have expanded the role of EAs from traditional financial verification to a more consultative function, necessitating closer collaboration with Internal Auditors (IAs) (Wafeq, 2023). While EAs focus on risk control evaluation and audit sample identification, IAs emphasize improving internal control systems. Their overlapping objectives underscore the need for cooperation, with reliance on the IAF as a key aspect of collaboration (Montero & Le Blanc, 2019). Moreover, despite significant advancements in organizing the auditing profession in Saudi Arabia, the external audit profession still struggles to fully comply with regulations and new responsibilities (Al-Angari, 2021), supporting the idea of collaboration between internal and external auditors. International and national standards recommend EAs' reliance on the IAF and its reports (Alzeban, 2019; IAASB, 2013, 2019). Since the Sarbanes-Oxley Act of 2002, EAs globally, including in Saudi Arabia, have shifted toward a reliance approach, emphasizing the importance of internal control systems and robust IAFs (Breger et al., 2020). In Saudi Arabia, increasing reliance on IAs could help address challenges like regulatory non-compliance and low audit fees (Al-Angari, 2021).

However, EAs' reliance is conditioned with the availability of several characteristics, including, IAF's objectivity (Siregar et al., 2021; Suh et al., 2021), competence (Vamela & Setiyawati, 2021), work performance (IAASB, 2019), internal control system effectiveness (Vamela & Setiyawati, 2021), and corporate governance quality (Afridi, 2020; Kaawaase et al., 2021). Despite their importance, little is known about which characteristics most influence EAs' reliance in the Saudi context. Existing studies are limited, often outdated, and fail to comprehensively address these factors (e.g., Altwaijry, 2003, 2017; Alzeban & Sawan, 2013), leaving a gap in understanding the unique regulatory, cultural, and corporate governance frameworks of the Saudi business environment.

To address these gaps and to ultimately improve the audit practice within Saudi Arabian context by drawing attention to specific IAF' characteristics, the objectives of the current research are:

1. To assess the impact of Objectivity (OBJ) on External auditors' reliance on internal audit function in KSA.
2. To assess the impact of Competence (COMP) on External auditors' reliance on internal audit function in KSA.

3. To assess the impact of work Performance (WP) on External auditors' reliance on internal audit function in KSA.
4. To assess the impact of Internal Control System Effectiveness (ICSE) on External auditors' reliance on internal audit function in KSA.
5. To assess the impact of Corporate Governance Quality (CGQ) on External auditors' reliance on internal audit function in KSA.

The findings of this study have the potential to advance theoretical understanding and offer practical insights for fostering a more collaborative and efficient auditing ecosystem in Saudi Arabia**.**

3. Research variables

For the current research purpose, the independent variables (IDVs) are objectivity, competence, work-performance, internal control system effectiveness, and corporate governance quality. The dependent variable (DV) is the external auditors' reliance on internal audit function.

3.1 Objectivity

Objectivity is a fundamental characteristic of the IAF that significantly influences its outputs, such as financial reports. It refers to the ability to make decisions based on observable facts and evidence, free from personal biases, conflicts of interest, or undue influence from others (Kaur & Singh, 2019; Sinaga et al., 2024). In the audit context, objectivity ensures that goals are achieved without bias, and all information is disclosed truthfully and fairly (Zakwan et al., 2024). As an independent variable in this research, objectivity represents a core attribute of the IAF, providing consulting services to the firm. It is essential for ensuring EAs can rely on the IAF for assistance, as heightened objectivity improves trust in audit outcomes and enhances the overall quality of internal audits (Siregar et al., 2021; Wati et al., 2024). Objectivity is strengthened when IAs adhere to professional standards set by the Institute of Internal Auditors (IIA) and avoid competing duties in other areas of the organization (Breger et al., 2020). Empirical studies confirm its critical role in audit quality and effectiveness. For instance, higher objectivity improves internal audits (Sunnari et al., 2021), aids in fraud prevention (Sinaga et al., 2024), and positively impacts audit quality (Wati et al., 2024)

3.2 Competence

Competence is a critical attribute in the auditing landscape, influencing the procedural methodologies of the IAF and its outputs, such as financial reports. Competence refers to the combination of individual and external resources that enable individuals to meet job requirements and contribute to organizational goals (Gaudens et al., 2023). It encompasses knowledge, abilities, and behaviors that internal auditors must possess to achieve IAF objectives effectively. Competence involves critical thinking, non-routine task execution, and the consistent application of knowledge, skills, and attitudes (Redjeki et al., 2021; Siregar et al., 2021). This concept has Cognitive as well as Social. The earlier refers to the integration of knowledge, practical expertise, and interpersonal skills. The latter refers to the synthesis of knowledge, skills, and attitudes applied professionally in diverse situations (Gaudens et al., 2023). Competence ensures IAF effectiveness if tasks are performed diligently and in accordance with professional standards (ACCA Global, 2023). By focusing on both the cognitive and social aspects of competence and ensuring robust evaluation processes, organizations can enhance the performance and reliability of the IAF.

3.3 Work performance

Work performance is a pivotal concept in auditing, significantly shaping the procedural stage of IAF and influencing its outputs, such as financial reports. In this research, work performance is an independent variable and a key area of focus. Work performance is defined as the effective fulfillment of duties and obligations to achieve corporate objectives (Fitriati, 2020). It reflects the quality and quantity of an employee's output relative to specified standards (Diem et al., 2023). It encompasses task accomplishment, job-related goals, and overall productivity at both individual and team levels (Noor et al., 2024)). Poor work quality often signals unsatisfactory performance (Fitriati, 2020). Performance also involves behaviors and outcomes aligned with organizational goals (Diem et al., 2023). By fostering supportive environments, equipping IAs with advanced tools, and addressing ethical challenges, organizations can enhance IA work performance, ultimately improving IAF effectiveness and external audit reliability.

3.4 Internal control system effectiveness

ICSE is a pivotal concept in auditing, influencing the procedural stages of the IAF and its outputs, such as financial reports. In this research, ICSE is an independent variable and a focal point of study. Effectiveness refers to achieving outcomes that align with organizational goals (Abdulai et al., 2021). The Committee of Sponsoring Organizations of the Treadway Commission (COSO) defines an internal control system as a framework designed to ensure organizational objectives are met, compliance with laws and regulations, and the safeguarding of assets (Fourie & Ackermann, 2013). The COSO framework identifies five core components critical to internal controls (Vu et al., 2020): Control Environment that establishes the organizational culture and ethical standards that guide operations. Risk Assessment to identify and evaluate risks affecting objectives. Control Activities that include Manual or automated mechanisms to mitigate risks. Information and Communication to Ensure timely and accurate information flow within and outside the organization. Finally, monitoring to evaluate the ongoing effectiveness of internal controls. Efficient ICSE enhances financial reporting reliability, prevents asset misuse, ensures regulatory compliance, and supports organizational objectives. Corporate governance scandals often stem from ICSE failures, highlighting the need for robust internal controls (Idowu et al., 2022). Effective ICSE is achieved through practices such as segregation of duties, monitoring, asset protection, and staff training (ZenGRC, 2024).

3.5 Corporate governance quality

In auditing, CGQ plays a pivotal role in shaping the internal audit process and influencing outputs such as financial reports. In this research, CGQ is a focal point of analysis as an independent variable. Corporate Governance refers to the systems and processes by which companies are directed and controlled. It defines accountability, decision-making structures, and stakeholder relationships. CG is integral for addressing challenges, ensuring balanced decisions, and fostering sustainable businesses. It combines legal, regulatory, and voluntary practices tailored to a firm's market and cultural contexts (CGIUKI, 2024; OECD, 2023). Key CG mechanisms include the audit committee (AC), internal and external audits, ownership structures, shareholders' rights, and risk committees (Elzahaby, 2021). By aligning corporate objectives with global standards like the International Financial Reporting Standards (IFRS) and the International Standards for the Professional Practice of Internal Auditing (ISPPIA), CG enhances transparency and ensures consistent financial reporting (Alzeban, 2019; Gardi et al., 2023). High-quality corporate governance supports firm effectiveness, risk mitigation, and investor confidence. CGQ strengthens financial performance, reduces corruption, and protects against mismanagement (Akinto, 2021). For instance, strong governance is fostered by close interactions between the Internal Audit Function (IAF) and the AC, which bolster auditor independence and objectivity (Quick & Henrizi, 2019). CGQ is informed by theories such as agency theory and stakeholder theory, emphasizing accountability, trust, and transparency. It resolves conflicts between principals (shareholders) and agents (management), balancing economic and social goals (Salehi et al., 2023). Effective boards, characterized by ethical behavior, long-term thinking, and strong communication skills, are fundamental to quality governance (CGI, 2024). Corporate governance quality is essential for optimizing resource allocation, enhancing transparency, and driving economic growth. By implementing robust governance practices, organizations can foster accountability, improve financial disclosures, and build stakeholder confidence, ensuring long-term success in a competitive global market.

4. Hypothesis development

Figure 1 shows the proposed relationships. Based on the Resource-Based Theory (RBT) and the empirical findings from previous studies. RBT places on leveraging an organization's existing capabilities and resources to achieve objectives (Barney, 1991). When organizations sufficiently develop the IAF's human resources (e.g., Objectivity, competence, work performance, effectiveness Internal control system, and quality corporate governance), they enable an effective internal auditing process, leading to a unique capability that further facilitate another unique capability: earning the REA of EAs, which becomes a core advantage for the organization. From the empirical perspective, the research hypotheses can be developed as follows:

Figure 1: Theoretical framework

4.1 Objectivity, competence, work performance, and external auditors' reliance

Standards such as ISA 610, AICPA, and PCAOB consistently emphasize objectivity, competence, and work performance as critical factors influencing external auditors' reliance on the internal audit function. These standards highlight the importance of these attributes in ensuring the credibility and effectiveness of the IAF.

Objectivity is pivotal for REA, as supported by studies showing that adherence to standards and the absence of conflicting duties increase reliance (Ashfaq et al., 2023; Breger et al., 2020). Empirical evidence, including findings from Pakistan (Hanif, 2020), confirms that external auditors are more likely to trust and rely on IAF reports when objectivity is evident. However, there is a need for more evidence from Saudi Arabian entities to validate this relationship. Accordingly, we hypothesis that:

H1: Objectivity has a direct positive effect on external auditors' reliance on the internal audit function in KSA.

Competence, highlighted in both international standards and empirical research, is another key determinant of REA (Bissol & Oliveira, 2022; Breger et al., 2020). Studies often find a positive relationship between IAF competence and REA (Ashfaq et al., 2023; Bazhair, 2022), although some evidence, such as Hanif's (2020) findings in Pakistan, suggests no influence. Further evidence from Saudi Arabia is needed to confirm the generalizability of these findings. Accordingly, we hypothesis that:

H2: Competence has a direct positive effect on external auditors' reliance on the internal audit function in KSA.

Work performance, emphasized by ISA 610 and corroborated by empirical studies, plays a critical role in REA (Breger et al., 2020; Ashfaq et al., 2023). Effective WP contributes to audit quality and financial performance, as demonstrated in studies across different countries (Hanif, 2020; Kateb & Belgacem, 2023). However, additional research is required to confirm this relationship within the Saudi Arabian context.

H3: Work performance has a direct positive effect on external auditors' reliance on the internal audit function in KSA.

4.2 Internal control system effectiveness, corporate governance quality, and external auditors' reliance

Standards such as ISA 315 (updated) and ISA 610 (revised) emphasize the importance of internal control system effectiveness (ICSE) and corporate governance quality (CGQ) in fostering external auditors' reliance. These elements are critical to identifying and mitigating risks, ensuring transparency, and promoting confidence in financial reporting processes.

ICSE plays a crucial role in enabling external auditors to identify risks of material misstatement and adjust their audit procedures accordingly (ISA 315). The COSO Framework highlights that establishing clear objectives within ICSE mitigates risks and fosters trust (Idowu et al., 2022; Quick & Henrizi, 2019). Empirical evidence suggests that a strong ICSE enhances cooperation between

internal and external auditors, reducing control risks and increasing REA (Quick & Henrizi, 2019). However, conflicting findings exist, as some studies (e.g., Ashfaq et al., 2023; Siahaya & Sandanafu, 2022) suggest ICSE may not directly influence REA or financial statement quality. Accordingly, we hypothesis that:

H4: *Internal Control System Effectiveness has a direct positive effect on external auditors' reliance on the internal audit function in KSA.*

Effective corporate governance mechanisms are essential for enhancing financial reporting quality and boosting external auditors' confidence (Levit, 2020). Empirical studies demonstrate that adherence to good governance principles and standards like IFRS positively impacts financial reporting quality, thereby influencing REA (Setiyawati et al., 2020; Breger et al., 2020). Additionally, CGQ mitigates risks of fraudulent reporting and ensures accountability, transparency, and ethical practices (Alzeban, 2019; Gardi et al., 2023). While its impact on reliance is widely supported, further evidence from Saudi Arabia is required. Accordingly, we hypothesis that:

H5: *Corporate Governance Quality has a direct positive effect on external auditors' reliance on the internal audit function in KSA.*

5. METHODOLOGY

The study follows a positivist paradigm, focusing on objective reality and empirical observation. Positivism is well-suited for this research as it aims to test hypotheses and validate theories regarding the reliance of EAs on IAF. A deductive approach, consistent with positivism (Saunders et al., 2019), is applied to test predictions derived from RBT and Stakeholder Theory. A quantitative methodology is utilized to systematically collect and analyze numerical data, aligning with the study's aim of exploring causal relationships among key variables: objectivity (OBJ), competence (COMP), work performance (WP), internal control system effectiveness (ICSE), corporate governance quality (CGQ), and External Auditors' (EAs) reliance (REA). Primary data is used to ensure context-specific insights into the Saudi context. Data was collected using a structured, closed-ended questionnaire. This instrument was developed based on established scales: OBJ, COMP, and WP(Suwaidan & Qasim, 2010); ICSE (Vu et al., 2020); CGQ (Elzahaby, 2021); IRQ (Kaawaase et al., 2021); and REA (Azad, 2017). A multi-item approach was adopted for each construct, following Iacobucci and Churchill (2010) recommendations. The questionnaires were distributed via email to audit managers in Saudi Certified Public Accountant (CPA) firms, with follow-up phone calls to enhance response rates. A census approach was employed, targeting all 376 audit firms in Saudi Arabia to ensure comprehensive coverage and generalizability. This approach aligns with Structural Equation Modeling (SEM) guidelines, which recommend at least 10 responses per indicator (Hair Jr et al., 2021). With 37 questionnaire items, a minimum sample size of 370 participants is required. The study adopts a cross-sectional survey design, collecting quantitative data at a single point in time. This design is well-suited for hypothesis testing and for examining the mediating role of IRQ in EAs' REA.

6. RESULTS AND DISCUSSION

Table 1. provides valuable insights into the characteristics of the sample and contextualizes the findings. The predominance of experienced and educated respondents adds credibility to the findings. These demographics enable further exploration of how factors like education, experience, and certification influence the study's core variables.

Table 1: Demographic analysis

Category	Subcategory	Frequency	Percent (%)
Gender	Male	224	64.0
	Female	122	34.9
	Missing	4	1.1
Age	Under 30	42	12.0
	30+	134	38.3
	40+	132	37.7
	50+	42	12.0

Education	Master's/PhD	158	45.1
	Bachelor/Coll	180	51.4
	High	12	3.4
Experience	Less than 5	72	20.6
	5 years or	94	26.9
	10 years or	184	52.6
Certification	Certified	136	38.9
	Non-Certified	214	61.1

6.1 Measurement model

Reliability tests: Table 2 shows that all composite reliability exceeded the threshold level. Remarkably, all the constructs show high levels of internal consistency and reliability, with values range between 0.782 and 0.931.

Table 2: Reliability and validity tests

Construct	No of Indicators	Cronbach's alpha	Composite reliability	AVE
CG	5	0.894	0.895	0.702
COMP	6	0.931	0.970	0.740
ICSE	5	0.919	0.920	0.754
OBJ	7	0.912	0.955	0.648
REA	5	0.879	0.881	0.674
WP	5 (4)	0.782	0.856	0.578/0.717

Convergent validity tests: Table 2 reveals Average Variance Extracted (AVE) values ranging from 0.648 to 0.754, all exceeding the minimum required threshold. These values suggest that all the constructs exhibit strong convergent validity, with all the indicators effectively capturing the corresponding concept. Additionally, Table 3 shows the results of the outer loadings for all the indicators. All the values are between 0.750 and 0.888, except WP1 (0.236), which demonstrate acceptable convergent validity for all indicators except WP1. Accordingly, WP1 was deleted. Remarkably, removing WP1 was a good decision as the AVE of WP has increased from 0.578 to 0.717, as shown in Table 2.

Table 03: Outer loadings

Indicator	Outer Loadings	Indicator	Outer Loadings
CGQ1	0.804	IRQ1	0.800
CGQ2	0.852	IRQ2	0.782
CGQ3	0.843	IRQ3	0.835
CGC4	0.879	IRQ4	0.842
CGQ5	0.809	IRQ5	0.844
COMP1	0.854	OBJ1	0.830
COMP2	0.888	OBJ2	0.761
COMP3	0.894	OBJ3	0.882
COMP4	0.859	OBJ4	0.846
COMP5	0.862	OBJ5	0.801
COMP6	0.801	OBJ6	0.757
ICSE1	0.847	OBJ7	0.750
ICSE2	0.872	WP1	0.236
ICSE3	0.867	WP2	0.855
ICSE4	0.877	WP3	0.873
ICSE5	0.879	WP4	0.843
		WP5	0.795

Discriminant validity test: The Fornell-Larcker criterion as a widely used method for assessing discriminant validity was employed. The test depends on comparing each construct's square root of the Average Variance Extracted (AVE) to its highest correlation with any other construct. The square root of a construct's AVE must be greater than its correlations with all other constructs for discriminant validity to be established. This ensures that the construct shares more variance with its own indicators than with indicators of other constructs, confirming its distinctiveness. The Fornell-Larcker criterion confirms discriminant validity for all constructs because each construct's diagonal value (square root of AVE) is larger than its correlations with other constructs, as shown in Table 4. This indicates that the constructs are empirically distinct.

Table 0: Fornell–Larcker criterion

	CG	COMP	ICSE	OBJ	REA	WP
CG	**0.838**					
COMP	-0.041	**0.860**				
ICSE	0.801	0.016	**0.868**			
OBJ	0.160	0.532	0.185	**0.805**		
REA	0.677	-0.113	0.701	0.079	**0.821**	
WP	0.724	-0.058	0.731	0.083	0.690	**0.846**

Constructs' collinearity: The Variance Inflation Factor (VIF) values, Table 5, help assess multicollinearity among predictor variables in a regression model. When two or more predictor (independent) variables are greatly correlated to each other, multicollinearity in regression analysis takes place. The issue is that collinear variables do not show unique or independent information in the regression model. High degree of correlation between variables results in problems when fitting and interpreting the regression model. The VIF is employed to test multicollinearity by detecting the correlation and the strength between the predictor variables in regression models. VIF values above one indicates the existence of some levels of multicollinearity, with higher values indicating a stronger correlation between the variables. However, in general, a VIF value above 5 suggests significant multicollinearity, while values below 5 are usually acceptable. The aim of the proposed model is to perform a structural equation modelling where OBJ, COMP, WP, CGQ, ICSE are predictors of REA. It is essential to ensure that all the predictors can be included in the model without significant multicollinearity concerns about distorting the results. Table 5 illustrates that all the VIF values are well below the threshold of 5, suggesting acceptable multicollinearity levels. The multicollinearity among the predictor variables, namely OBJ, COMP, WP, CGQ, ICSE and REA is not a significant issue in the model.

Table 5: Collinearity for all constructs

Variables	VIF
OBJ -> REA	1.473
COMP -> REA	1.431
WP -> REA	2.451
CGQ -> REA	3.197
ICSE -> REA	3.276

The next step is to conduct the structural equation model.

6.2 Structural equation model

The structural modelling was employed, Figure 2, on SmartPLS 4 to test the proposed hypothesis after making sure of the reliability and validity of the measurement model as well as the absence of multicollinearity issues in the variables, The structural research model assigns connections among research constructs.
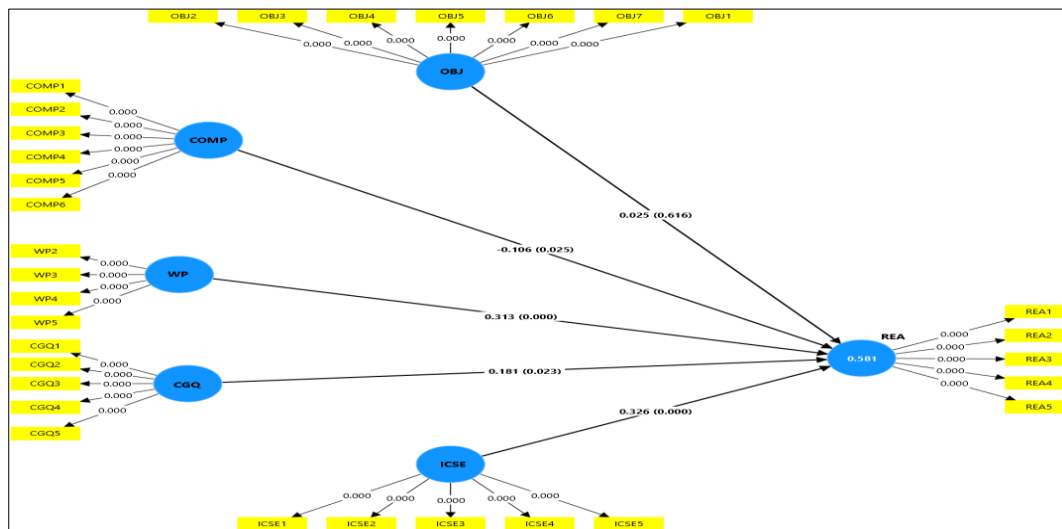
Figure 2: Path coefficients and significance values

A path coefficient in SEM is a standardized coefficient that indicates the strength and direction of the relationship between two constructs in the model. It quantifies the direct effect of OBJ, COMP, WP, ICSE, CGQ on REL, indicating how much REA is expected to change when a specific independent construct changes by one unit. They range from -1 to 1. Standardized Path coefficients are used to represent the relationship in terms of standard deviations for the comparison of the relative impact of different predictors (Hair et al., 2021). According to Hair et al. (2021), 0.10 corresponds to small effect, 0.30 corresponds to medium effect, 0.50 and above corresponds to large effect. Ssignificance is typically associated with path coefficients with values of 0.20 or higher, while values below 0.10 are generally deemed insignificant. The standardized path coefficient is always presented along with its standard error, t-value, and p-value. Bootstrapping procedure with 5,000 interactions was used to assess the significant level of the relationship in the structural model (Hair et al., 2021). According to Figure 2, CGQ has a small positive effect on Reliance (0.181). Governance practices improve reliance slightly. COMP has a small negative effect on Reliance (-0.106), indicating possible conflicts or on competent auditors' outputs. ICSE has a moderate positive effect on Reliance (0.326), underscoring its critical role in fostering reliance. OBJ has no meaningful impact on Reliance (0.025). Its influence is negligible and not statistically significant. Work Performance (WP) has a moderate positive effect on REA, highlighting its critical contribution to reliance.

The Coefficient of Determination (R^2) reflects the proportion of variance in the dependent constructs explained by the independent constructs in the proposed model. It serves as an indicator of model fit. In PLS-SEM, however, the focus shifts toward the model's predictive relevance rather than solely on the explanation of variance. Consequently, while R^2 values offer insight into the model's explanatory power, they are not the primary measure for evaluating performance. Instead, metrics such as Q^2 or Stone-Geisser's Q^2 are often utilized alongside R^2 to assess the model's predictive accuracy and generalizability. Since the R^2 only indicates the model's in-sample explanatory, it is not correct to use as a model's predictive power. "In sample" refers to the data that the researcher has, and "out of sample" refers to the data that not yet exist, but want to be forecasted or estimated. The predictive power is also referred to as out-of-sample predictive power, which indicates a model's ability to predict new or future observations. According to Hair et al. (2021) R^2 values of 0.75 are substantial; values of 0.50 are moderate; and values of 0.25 are weak. Q^2 evaluates the model's predictive accuracy. It determines how well observed values are reconstructed by the model and its predictive power. Q^2 Value Interpretation: values greater than 0 show that the model has predictive relevance. Q^2 values of 0.02 are weak predictive relevance; 0.15 are moderate predictive relevance; and 0.35 represent strong power.

As displayed in Table 6, the model explains **58.1%** of the variance in **REA**. This is a **moderately strong value**, indicating that the independent variables, namely, CGQ, COMP, ICSE, WP, and OBJ, collectively have a substantial influence on REA. After adjusting for the number of predictors. The adjusted R^2 (57.5%) supports the robustness of the model and indicates a robust model with minimal overfitting. Practically, this suggests that the independent variables (OBJ, COMP, WP, CGQ, and ICSE)

included in the model are highly relevant and effective in explaining reliance. Further efforts could focus on identifying any additional predictors to capture the remaining unexplained variance (~42%).

Table 6: Explanatory predictive power

Outcome		Interpretation
R^2	0.581	Indicates that 58.1% of the variance in REA is explained by the independent variables in the model.
R^2 adjusted	0.575	Adjusted for the number of predictors and their contribution. Slightly lower than R^2 due to diminishing returns from additional predictors.
Q^2predict	0.554	Reflects the model's predictive relevance using the blindfolding procedure. A value > 0 confirms meaningful predictive capability

The f^2 effect size represents the portion of variance in the dependent variable explained by the predictor, while accounting for the effects of other variables in the model. It measures how much the R^2 value of the dependent variable changes when a particular predictor is included compared to when it is excluded. This measure is particularly valuable for understanding the practical impact of predictors, beyond their statistical significance. It provides insights into the strength and relevance of the relationships in the model. It ranges from 0 to infinity. Values of f^2 of 0.02 indicate small effect, 0.15 medium effect, 0.35 or higher large effect.

Negligible and no contribution are remarkably appeared in competence and objectivity. COMP → REA (0.019) indicates that the impact of competence is minimal, implying it is less critical for explaining REA. Similarly, OBJ → REA (0.001) shows no meaningful effect, suggesting this factor does not significantly influence Reliance in the current model. The Contextual Reason may imply that in Saudi Arabia, the professionalization of IAF is still in progress. While competence is important, external auditors may prioritize other factors, such as organizational controls or work performance, or report quality over individual competence levels. In Saudi Arabia, objectivity might be seen as an inherent characteristic of auditing, and therefore, external auditors may not differentiate significantly between organizations on this criterion. Other variables, such as performance and report quality might overshadow the role of objectivity.

Minor Contributors are demonstrated in corporate governance quality. CGQ → REA has an effect size of (0.024). The small yet noticeable effect, emphasizing its indirect role in shaping REA. That is, CGQ has a minor influence on the reliance of external auditors in Saudi Arabia. In the context of Saudi Arabia, corporate governance practices are improving due to regulatory reforms processes (Kateb & Belgacem, 2023), but their influence on auditor reliance might still be emerging. This could be because some organizations are yet to fully integrate advanced governance practices that significantly impact auditing processes.

Small to Moderate Contributors are presented in work performance and internal control system effectiveness. Both effects suggest these constructs are essential in influencing the external auditor's reliance. WP → REA shows effect size of (0.095), and thus exhibits the strongest effect among the predictors. In addition to, ICSE → REA (0.077), shows that that Internal Control System Effectiveness also plays a notable role in explaining variance in Reliance. In Saudi Arabia, High-quality performance ensures accurate and reliable data, which external auditors may heavily depend on. Therefore, the effectiveness and efficiency of internal audit functions likely play a prominent role in gaining external auditors' trust.

Table 7: f2 value

Relationship	f^2	interpretation
OBJ -> REA	0.001	No effect: OBJ does not have a meaningful impact on REA.
COMP -> REA	0.019	Negligible effect: COMP shows a minimal contribution to explaining variance in REA.

Relationship	*f²*	*interpretation*
WP -> REA	0.095	Small to moderate effect: Work Performance (WP) is a key factor in predicting REA.
ICSE -> REA	0.077	Small to moderate effect: ICSE significantly influences REA
CGQ -> REA	0.024	Small effect: CGQ has a minor but significant influence on Reliance (REA).

6.3 Hypotheses testing

H1: Objectivity (OBJ) and External Auditors' Reliance (REA)

The PLS-SEM analysis reveals that the direct relationship between OBJ and REA is statistically insignificant (β=0.015, p=0.739). Consequently, H1 is rejected. This may be attributed to: the Intangible Nature of Objectivity, which reflects qualities like impartiality, fairness, and independence, which are inferred rather than directly observed (Kaur & Singh, 2019). Objectivity may also be considered a baseline expectation for the IAF, leading EAs to focus on other tangible factors like work performance or internal control system effectiveness. Additionally, in Saudi Arabia, hierarchical relationships and familial ties may limit the observable impact of objectivity on reliance (Ajao & Ejokehuma, 2021; Bazhair & Alshareef, 2022). Such dynamics could overshadow the role of objectivity as a distinct determinant of reliance. However, studies in Pakistan and China (e.g., Hanif, 2020; Ashfaq et al., 2023) demonstrate a significant positive relationship between objectivity on reliance, highlighting contextual differences. While **OBJ** is critical in theory and encouraged by standards such as ISA 610, the AICPA, and PCAOB (Breger et al., 2020), its operationalization in Saudi Arabia may not adequately reflect its significance. EAs might prioritize measurable outcomes over abstract assurances of objectivity due to cultural and organizational norms. Organizations should better integrate **OBJ** into processes and foster cultures emphasizing impartiality and alignment with EAs' expectations to enhance its perceived value.

H2: Competence (COMP) and External Auditors' Reliance (REA)

The PLS-SEM analysis indicates a statistically significant but negative relationship between Competence and Reliance (β=-0.107, p=0.015), leading to the rejection of H2, which hypothesized a positive effect. This unexpected negative relationship suggests that higher competence in internal auditors may reduce reliance by external auditors in the Saudi Arabian context. Competent internal auditors might assert greater independence, potentially challenging external auditors' preferred approaches. This divergence could reduce reliance, as external auditors may prioritize alignment over competence. Additionally, high competence may lead external auditors to perceive the IAF's work as requiring greater scrutiny, ironically reducing reliance by increasing validation efforts. However, Ashfaq et al. (2023) reported a positive relationship between Competence and Reliance in Pakistan. Zakwan et al. (2024) claimed that auditor competence positively impacts internal audit effectiveness. Wati et al. (2024) shows that auditor competence enhances audit quality. While Hanif (2020) found no significant impact in the same context. External auditors might view highly competent internal auditors as competitors rather than collaborators, especially in environments with immature governance frameworks (Beyond Governance, 2023). A negative relationship between COMP and REA might seem counterintuitive. However, it could happen due to several contextual, organizational, or psychological factors. Competent internal auditors might assert more independence in their judgments, potentially challenging or diverging from the external auditors' preferred methodologies. This divergence could reduce reliance, as external auditors may favor alignment over competence. When internal auditors are highly competent, external auditors may assume that their work requires more detailed scrutiny. They might see this as an obligation to validate the high standards of the internal audit work, ironically leading to reduced reliance.

The rejection of H2 suggests that competence alone may not ensure reliance. Cultural and organizational factors, such as perceived independence or alignment with management, might overshadow competence's value. To address this, organizations should foster collaboration and role clarity between internal and external auditors while aligning their practices with international standards like ISA 610, AICPA, and PCAOB (Breger et al., 2020).

Notable, the rejection of H1 and H2 contradicts the RBT. Objectivity and Competence are still valuable human capital resources (Barney, 1991), however, their translation into reliance might be influenced

by governance, culture, and institutional dynamics. In practice, their influence may be undervalued compared to more tangible factors like WP.

H3: Work Performance (WP) and External Auditors' Reliance (REA)

The PLS-SEM analysis shows a significant positive relationship between **work Performance** and **reliance** (β=0.148, p=0.021), leading to the acceptance of **H3**. This finding highlights the importance of high-quality internal audit execution in fostering trust and collaboration between internal and external auditors.

WP represents the quality and quantity of job-related accomplishments, including the precision of audit procedures, consistency in documentation, and depth of analysis (Diem et al., 2023; Noor et al., 2024). Effective performance by internal auditors enhances external auditors' confidence in the IAF's ability to meet professional standards. In Saudi Arabia, external auditors value demonstrable WP, perceiving it as a direct indicator of quality and reliability, unlike intangible characteristics such as objectivity, which showed no significant effect. Studies in Pakistan (Ashfaq et al., 2021; Hanif, 2020) UAE (Hamdallah, 2020) and Tanzania (Mapuli, 2023) confirm the positive influence of WP on external auditors' reliance. Audit quality, a measure of WP, is also linked to improved financial performance in Saudi Arabia (Kateb & Belgacem, 2023).

H4: Internal Control System Effectiveness (ICSE) and External Auditors' Reliance (REA)

The PLS-SEM analysis reveals a significant positive relationship between **ICSE** and **REA** (β=0.188, p=0.019), leading to the acceptance of **H4**. This underscores the critical role of robust internal controls in fostering collaboration and trust between internal and external auditors. ICSE reflects the practical capacity of an Internal Control System (ICS) to achieve objectives and ensure compliance (Abdulai et al., 2021; Fourie & Ackermann, 2013). Effective internal controls enhance the accuracy, reliability, and transparency of financial data, reducing risks and strengthening the IAF's credibility. Increasing regulatory scrutiny and corporate governance initiatives make **ICSE** a vital indicator of organizational commitment to compliance and professionalism, further encouraging external auditors' reliance. Similar to current results, studies in Germany (Quick & Henrizi, 2019) affirm the positive influence of **ICSE** on EAs' confidence. Contrastingly, Ashfaq et al. (2023) and Vamela & Setiyawati (2021) found no significant relationship in other contexts, attributing this to undefined rules and unreliable ICS.

H5: Corporate Governance Quality (CGQ) and External Auditors' Reliance (REA)

The PLS-SEM analysis indicates a significant positive relationship between Corporate Governance Quality and Reliance (β=0.129, p=0.081, at 0.1 significance level), leading to the acceptance of H5. This finding underscores the role of robust corporate governance in fostering external auditors' confidence and reliance on the IAF. Remarkably, although CGQ positively and significantly influences external auditors' reliance, the effect size ($f^2 = 0.024$) indicates a small impact. The small f^2 indicates that while CGQ has a role, other factors may account for a larger share of the variance in REA. This reflects that, in practical terms, CGQ alone may not be a significant determinant of REA despite its statistical significance. Therefore, organizations should consider enhancing CGQ in conjunction with other factors, such as strengthening internal controls and improving audit quality, to maximize its impact on external auditors' reliance.

Corporate Governance Quality reflects practices that ensure accountability, transparency, and ethical decision-making (Akinto, 2021). High-quality governance reduces risks of bias and inefficiency, enhancing the IAF's perceived integrity and reliability. In Saudi Arabia, Vision 2030 emphasizes corporate governance as a pillar for economic reform, market transparency, and regulatory compliance, further boosting the credibility of organizations with superior governance practices (Wafeq, 2023). Organizations adhering to high governance standards provide external auditors with confidence in the IAF's independence and professionalism, which positively influences reliance. Studies like Quick & Henrizi (2019) confirm the positive influence of CGQ on external auditors' confidence in Germany. Kateb & Belgacem (2023) highlight the impact of board characteristics—a key element of corporate governance—on organizational performance in Saudi Arabia.

Notable, the acceptance of H3, H4, and H5 supports the RBT, work performance, ICSE, CGQ are valuable organizational resource (Barney, 1991), enhancing the IAF's strategic role and making it asset external auditors are willing to leverage.

7. RESEARCH LIMITATIONS

The study's design has limitations that should be acknowledged. While the methodology is robust, reliance on closed-ended questionnaires may introduce biases and limit scope. The sample size, though adequate, may not represent the diversity of Saudi organizations and restricts generalizability beyond Saudi Arabia's unique context. The cross-sectional design limits insights into longitudinal changes. The study focuses on five key IAF characteristics—objectivity, competence, work performance, internal control effectiveness, and corporate governance quality—without addressing factors like technology, ethics, or external influences. Additionally, it does not explore variables that could strengthen or weaken the IAF-REA relationship. Future research could broaden scope by including additional variables, regional comparisons, longitudinal designs, and complex mediating or moderating dynamics to deepen understanding of IAF and external auditor reliance.

8. CONCLUSION AND RECOMMENDATIONS

The results identified Internal control system effectiveness and work performance as critical determinants of external auditors' reliance, demonstrating strong direct effects. Corporate Governance also positively influenced external auditors' reliance. However, Competence and Objectivity showed no significant impact on reliance, suggesting that other variables play a more influential role in the Saudi Arabian context. These results underscore the importance of robust internal controls, high work performance, and strong corporate governance in fostering external auditors' reliance. The findings offer actionable insights for organizations seeking to strengthen their internal audit functions and improve overall audit effectiveness. Organizations should invest in strengthening internal control systems to produce high-quality audit reports and gain external auditors' trust, supported by regular training and updates on internal controls. Internal audit departments should enhance auditor performance through continuous professional development, performance evaluations, and feedback, with tools like COBIT improving audit quality (Noor et al., 2024). Companies should improve corporate governance practices to ensure transparency, accountability, and ethical behavior. Policymakers should develop and enforce robust regulatory frameworks to set high standards for internal audit practices, including guidelines on internal control systems, audit report quality, and corporate governance.

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